HM Revenue & Customs

Annual Report and Accounts 2010-11

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HM Revenue & Customs
Annual Report and Accounts 2010-11

(For the year ended 31 March 2011)

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

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Any enquiries regarding this document/publication should be sent to us at HMRC Finance, Room C4, South Block, Barrington Road, Worthing BN12 4XH.

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Chief Executive's foreword

Last year marked five years since the creation of HM Revenue & Customs (HMRC). In that time HMRC has become increasingly effective; almost doubling compliance yields to £13.9 billion and making significant efficiency savings of £1.4 billion.

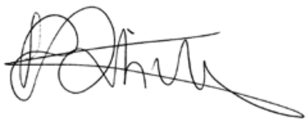
In 2010-11 alone HMRC had a number of notable successes. I am pleased to report we collected over £468 billion in revenue and paid out more than £40 billion in benefits and payments. HMRC also prevented more than £1 billion in benefits and credits payments being lost to error and fraud; we continued to close the net on offshore tax evaders and organised criminals; and record numbers of almost seven million people filed their Self Assessment returns online.

However 2010-11 was undoubtedly challenging and we did not give the service we wanted to for our PAYE customers. The reconciliation of two tax years at the same time following the introduction of the National Insurance and PAYE Service, led to unexpected tax bills and the issue of a large number of incorrect tax codes. This was stressful for customers and our people. But we are making real improvements. PAYE is working more accurately than it has been for 10 years and we are improving services to customers.

Looking ahead, I fully expect that HMRC will continue to face significant challenges. We are transforming HMRC to deliver our Spending Review 2010 (SR10) commitments. We will make further savings of 25 per cent, reinvest £917 million of those savings into our work against evasion, avoidance and criminal attacks, and deliver £20 billion additional revenues a year by 2014-15. We will stabilise and further improve the new PAYE system and are on track to clear backlogs of work from the old system by 2013. We are also set to deliver Real Time Information to support the introduction of the Universal Credit.

Our people are key to our success in responding to these challenges. We will take further steps to engage our people, including by investing in skills and opening up opportunities for careers within HMRC, and by completing work that is underway to ensure HMRC is organised and led in a way which ensures success.

We have an extremely challenging year ahead, but I am confident that we are building strong foundations that will enable us to deliver better services to the public and to increase revenues at a sustainably low cost.



Lesley Strathie
Chief Executive and Permanent Secretary

What we are aiming to achieve

HMRC Purpose, Vision and Way

Our Purpose

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

Our Vision

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

Our Way

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

Section 1: What we collected and paid out in 2010-11

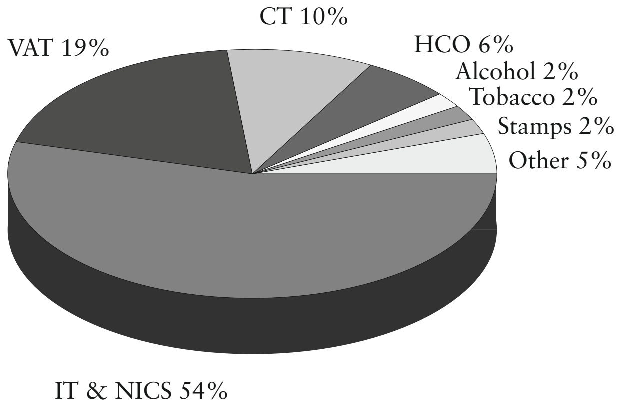
Collecting revenue

We collected £468.9 billion in 2010-11

Revenue collected (£bn)

Income Tax	157.2
National Insurance Contributions	96.9
VAT	90.3
Corporation Tax	45.9
Hydrocarbon Oils	27.2
Alcohols	9.5
Tobacco	9.3
Stamp Taxes	9.0
Other taxes & duties	23.6

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



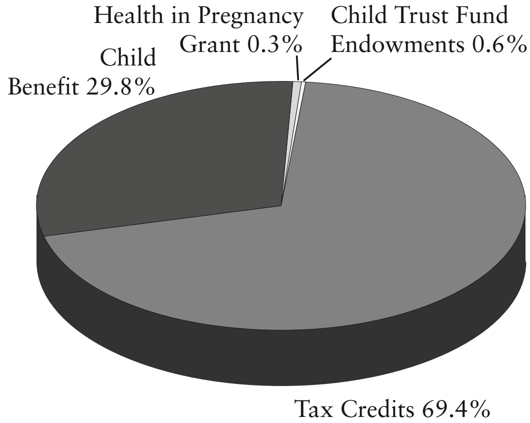
Paying entitlements

We paid out over £40 billion in 2010-11.

Entitlements paid 2010-11 (£m)

Tax Credits	28,091.3
Child Benefit	12,048.4
Child Trust Fund Endowments	226.7
Health in Pregnancy Grant	104.3

Entitlements as a (rounded) percentage of Total Entitlements



For further information please refer to the Resource Accounts and Trust Statement

Section 2: Highlights of 2010-11

Improving compliance yield

Between 2005 and 2011 we have almost doubled compliance yields. Last year the total yield from all our compliance activities was a record £13.9 billion an increase of over £1 billion on 2009-10.

Our disclosure regime, which requires promoters of avoidance schemes to tell us so that we can respond to threats quickly, was extended and strengthened in January 2011, including higher penalties for failure to disclose.

We also won a number of key legal cases. These included a Supreme Court ruling on 15 December 2010 in our favour that will prevent us from having to make repayments of up to £70 million in Corporation Tax. The case against DCC Holdings concerned repos (sale and re-purchase of securities) financial transactions.

Stabilising and improving customer service

We improved the rate of accuracy for annual PAYE coding from 80 per cent to 99 per cent. In addition, 98.5 per cent of end of year reconciliation was completed for 2008-09 and 2009-10 cases where we had all the information we needed.

Online services are also helping customers to get things right and reducing the cost of unnecessary contact for HMRC and the customer. A record 6,907,410 people filed their Self Assessment returns online by the 31 January deadline, up more than 7 per cent on last year's figure. 78 per cent of customers filed online and at its peak we handled 14 submissions every second.

By the end of 2010 more than three quarters of VAT registered businesses had registered for online filing which is simpler and cheaper for HMRC and customers.

We also extended our relationship-management approach to large business, introducing customer coordinators to act as the single point of contact for the 8,400 large business customers who do not have a customer relationship manager.

Tax Credit error and fraud

Each year we lose money due to error and fraud in the tax credits system. In 2009-10, annual revenue losses due to error and fraud were estimated to be £1.95 billion or 7.4 per cent of the entitlement, down from 8.9 per cent in 2008-09. Of this, £1.57 billion was estimated to be down to customer error and £0.38 billion as a result of fraud.

At the end of March 2011, we announced that we had exceeded our target by around 5 per cent identifying and preventing total losses of £1.054 billion, undertaking nearly 1.8 million interventions compared to just over 1 million in 2009-10. Given that as recently as 2008-09 we identified additional yield of only £253 million, this means we have seen an increase in excess of 300 per cent in the two years of the strategy.

Dealing with fraud

Two members of a 21 strong criminal gang were ordered to repay over £92 million to HMRC after being convicted of Missing Trader Intra-Community (MTIC) fraud, the biggest ever confiscation orders awarded to the Department.

Improving the collection of debt

Debt levels have decreased steadily over the past three years from £25.6 billion in March 2009, £22.1 billion in March 2010, to £18.6 billion in 2011. This reduction has been achieved through improved operational performance but also as a result of work to clean up our debt book and improve its accuracy.

During 2010-11 we collected over £400 million more VAT debt compared to the previous year. We continued to assist taxpayers by providing faster access to time to pay decisions and through our Business Payment Support Service we agreed over 428,000 time to pay arrangements valued at approximately £7.37 billion.

We have increased the use of campaigns, where taxpayers are segmented according to previous behaviour, likely ability to pay and the size of the debt. Individually designed collection strategies are applied to those debts.

We upgraded our telephone equipment to enable us to handle more calls and we are continuing to invest in our people through professional operational development.

We also expect our performance to be improved through increased analytical capability. This will help us understand our customers better and tailor our approaches more accurately.

Reducing costs

During the year we reduced the size of our workforce from 69,300 to 66,900 and reduced the cost of running our property estate by giving up over 73,000 square metres.

Improving professionalism

We developed our Foundation Level Tax Professional Qualifications, which cover key skills and knowledge that the majority of our 17,000 tax professionals need, and launched three externally accredited foundation level tax qualification awards: Core Award; Certificate; and Diploma.

Our people were among the first civil servants to start working towards a new operational delivery qualification recognised across government and registered by the Qualification and Credit Framework, the new name for NVQs.

New Information Technology system success

We successfully launched the 'Connect' IT system which joins a billion pieces of data from across our tax regimes to help identify fraud. A total of 99 per cent of our 200 plus IT projects were delivered to time, cost and quality performance measures.

Corporate responsibilities recognition

HMRC won the More for Less Award and the Sustainability Award at the Civil Service Awards 2010 which celebrate excellence in public service. The awards were presented by Her Majesty the Queen at Buckingham Palace.

HMRC was also placed in the top 10 on the Workplace Equality Index of Stonewall, the organisation that promotes equality for lesbians, gay men and bisexual people. Last year HMRC was 45th. Our first place in the Civil Service Trans Equality Index recognises the advances we have made in embedding trans equality in our polices and processes.

We introduced a power saving capability to almost all our workstations which automatically puts desktops into an energy saving 'sleep mode'. This has saved nearly £0.5 million a year in electricity costs and reduced emissions by almost 3,000 carbon tonnes.

Section 3: Who we are and how we are organised

HM Revenue and Customs (HMRC) was formed on 18 April 2005, following the merger of the Inland Revenue and HM Customs and Excise.

We collect and administer:

Direct taxes:

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

Indirect taxes:

- Customs duties
- Excise duties
- Insurance Premium Tax
- Petroleum Revenue Tax
- Stamp Duty
- Stamp Duty Land Tax
- Stamp Duty Reserve Tax
- VAT

We pay and administer:

- Child Benefit
- Child Trust Fund Endowment payments (for children born up to 2 January 2011)
- Health in Pregnancy Grant (ceased 1 December 2010)
- Tax Credits

Other responsibilities:

- Bank Payroll Tax/Bank Levy
- Environmental taxes
- Money Laundering Regulations
- National Minimum Wage
- Recovery of Student Loans

Border responsibilities

During 2009, the UK Border Agency took responsibility for protecting the United Kingdom's borders against illicit and harmful trade, including illegal import or export of drugs, counterfeit or illicit alcohol, tobacco and other illicit goods.

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

How we are organised

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act 2005. Mike Clasper is the non-executive Chairman and Lesley Strathie is the Chief Executive. As part of the senior team Dave Hartnett is Permanent Secretary for Tax.

- Strategic direction and standards lie with the non-executive Chairman, who with the Board (attended by HMRC's non-executive Directors) is responsible for effective governance of HMRC.
- Delivery and expenditure lie with the Chief Executive, who with her Executive Committee (ExCom) of senior leaders is responsible for running HMRC.
- The Permanent Secretary for Tax is the senior tax professional in HMRC and Deputy Chief Executive.

Both the Board and ExCom are supported by a number of sub-committees charged with specific responsibilities. For further information please see the Department's Corporate Governance Report at page 59.

Section 4: Customer Strategy

Customer Strategy

Our customer strategy is centred on understanding and segmenting our customers so that we design and deliver our services and interventions in a way that meets their needs but also influences their future behaviours.

This strategy formed the basis of our discussions with Ministers during our 2010 Spending Review settlement, enabling us to reinvest £917 million to transform our compliance activities. It underpins our priorities for the Review period:

- maximise additional revenues to the Exchequer: £20 billion a year by 2014-15;
- stabilise and improve our customers' experience of dealing with us;
- create sustainable net cost reductions of 15 per cent by 2014-15;
- stabilise National Insurance and PAYE service; and
- reduce fraud and error in the tax credit system by £2 billion per year by 2014-15.

Improving our on-line customer services and reducing unnecessary contact with HMRC will create the right experience at the right cost for most of our customers, and will enable us to refocus our resources to those who still need our help or who choose not to comply.

Section 5: How we performed

Introduction

This section sets out an annualised summary of our performance based on HMRC's published Business Plan (http://www.number10.gov.uk/wp-content/uploads/HMRC -Business-Plan1.pdf).

Since many of the indicators in the Business Plan are new from 2011-12, the amount of information in this transitional year is restricted to the following items:

- progress against HMRC's Structural Reform Plan;
- input and impact indicators where possible to report including:
  - unit costs;
  - the additional liabilities from tackling non-compliance, though this measure will change in 2011-12 to report additional revenues collected;
  - the revenue losses prevented by successfully tackling criminal attacks;
  - the level of tax credit error and fraud based on the latest published statistics for 2009-10; and
- other relevant information that demonstrates a fuller picture of HMRC's performance.

Structural Reform Plans

Priority	# of actions	# met on time	# missed by <1 month	# missed by <2 months	# missed by >3 months
Delivering a more focused and effective tax administration	5	4	1[1]	0	0
Total	5	4	1	0	0

Input indicators

	2009-10	2010-11
Unit costs of: (£)[2]		
Collecting Income Tax (Self Assessment and Pay As You Earn)	1.13	0.96
Collecting Corporation Tax	0.98	0.72
Collecting National Insurance Contributions	0.35	0.31
Collecting VAT	0.79	0.70
Administering Tax Credits	2.10	1.76
Administering Child Benefit	0.83	0.68

1 Although HMRC developed high level Real-Time Information (RTI) specification for software developers to the deadline of the end of November 2010, it was published on 3 December 2010 alongside the consultation documents.
2 Unit cost represents the cost (in pence) per £1 of tax collected or benefit paid. It is the total administration costs including depreciation net of Appropriations in Aid. The calculation includes expenditure extracted from HMRC Resource Accounts (plus adjustments) which is then divided by receipts collected or payments made, as published in the HMRC Trust Statement.

Impact indicators

	2009-10	2010-11
Additional liability assessed from work tackling non-compliance (£bn)	12.6[3]	13.9[4]
Revenue protected through tackling organised criminal attacks (£bn)	2.35[5]	2.52[6]

	2008-09	2009-10
Tax Credits: Estimated error and fraud as a percentage of finalised entitlement	8.9%	7.4%

Other relevant information

	2009-10	2010-11
Revenue losses prevented through refusal of repayments[7] (£bn)	4.02	3.06
Debt balance[8] (£bn)	22.1	18.6
Proportion of individuals and businesses that pay their tax due in 2010-11	51.6%[9]	52%[9]
Customer experience[10]	76.0[11]	71.6[12]
Admin burden reductions cumulative totals (£m per annum):	564	584
Customer contact – percentage of calls answered	75.8%	48.0%
Online take-up rates: % of returns received/filed online		
SA	74%	78%
PAYE employer annual return P35s	84%	88%
VAT	20%	67%
Corporation Tax	27%	42%

3 The 2009-10 figure includes exceptional items of £1.5 billion from environmental taxes that will not recur in the future.
4 The figure is a provisional figure and is subject to audit. Finalised figures are intended to be published in the autumn. The figure includes exceptional items of £504 million relating to VAT repayment claims for gaming machines and £170 million yield relating to VAT treatment of pension funds that will not recur in the future.
5 The figure includes £1.22 billion for MTIC. It includes exceptional items of £0.6 billion that are not expected to recur in the future.
6 The figure includes £1.23 billion for MTIC. It includes exceptional items of £0.66 billion that are not expected to recur in the future.
7 These figures relate to refused repayment claims under 'Fleming' and are not expected to recur in the future. These are claims for under-deducted or overpaid VAT, potentially going back as far as the inception of VAT in 1973.
8 Debt balance is an internal management figure (not audited by the NAO) which represents the total of amounts overdue for payment and which are collectible now. It is a more accurate indication of the value of debt that we have available to collect (it includes sums in 'Time to Pay' arrangements). The debt balance is heavily influenced by the amount of new debt we receive so it is not a performance measure; however it is useful in terms of understanding outstanding and collectible debt. NOTE: The receivables figures, as reported in the Trust Statement, represent all liabilities from taxpayers or traders that have been established irrespective of whether due or overdue, for which payments have not been received, such as VAT returns received at the end of the financial year but not due until early April.
9 Margins of error +/-1.6%. The proportion of UK taxpayers who are willing and able to pay their taxes at the right time has increased from the 2008 baseline of 49.1 per cent to 52 per cent as at the latest measurement point in March 2011. This means there are approximately 1.4 million more people willing and able to pay their taxes at the right time than three years ago.
10 These indicators are measured by large scale quarterly HMRC customer surveys of individuals, SME businesses and agents. The scores shown are for the six months to the year end. It is a composite score made up of 12 separate survey results (four results each for individuals, SME businesses and agents). The scores shown are for six months to the year end. For further information about the composition of the customer experience score see http://www.hmrc.gov.uk/research/customerexperience.
11 Margins of error +/-1.9%
12 Margin of error +/- 2.3%

Section 6: Other data and core tables

Better Regulation reporting

Since 2006, we have implemented measures which have delivered savings for business of £584 million per annum (up from £564 million in 2010). Contributory measures include new online services for Corporation Tax, Self Assessment (SA) and VAT and improvements to the Excise Movement and Control System.

Following extensive engagement and consultation we have introduced a new approach to tax policy making, together with the Treasury. This improves the way we make tax policy, focusing on predictability, stability and simplicity in the tax system with consultation on policy design and scrutiny of draft legislation as the cornerstones.

This approach is underpinned by a new Tax Consultation Framework and a tailored impact assessment process for tax policy changes. Impacts are summarised in Tax Information and Impact Notes (TIINs) published alongside the Budget and draft Finance Bill that clearly set out the policy rationale and relevant impacts.

We are also working closely with the Office of Tax Simplification (OTS) to identify simplifications to the tax system, particularly in relation to small business taxation.

Sustainability

HMRC is working hard to meet the Government environmental targets. We are well positioned to achieve the milestones set for energy usage, recycling, waste and travel, as well as the target to reduce carbon emissions from our estate by 10 per cent. As the Department responsible for administering environmental taxes, we have a direct role to play in combating climate change and protecting the environment. We have extended this role into our day-to-day operations by:

- reducing our paper usage through the provision of online filing for tax returns and encouraging customers to take the paperless route when seeking information;
- introducing recycling arrangements for office waste;
- promoting telephone and video conferencing as alternatives to business travel;
- implementing a range of measures to make our IT 'greener'; and
- reducing carbon emissions through better management of our large estate.

We have also developed a 'Carbon Calculator' that encourages our employees to work in an environmentally responsible way by enabling them to calculate the environmental impact of different travel options, paper consumption, stationery and the use of office equipment.

Against our own target to reduce carbon emissions from air travel by 20 per cent and road travel by 10 per cent, we achieved reductions for 2010-11 of 38.80 per cent and 25.59 per cent respectively.

We have continued to develop more sophisticated environmental management systems to increase the accuracy of our energy consumption. Energy from IT equipment has been reduced through the introduction of new software to put machines into low power mode overnight. We also want to be sure that the carbon emissions in our supply chain are kept to a minimum. Our work piloting the online tool CAESER (Corporate Assessment of Environment, Social and Economic Responsibility), which assesses the environmental commitment of our supply chain, was recognised by our success in the 2010 Civil Service Sustainability Awards.

Our employees play an active role in achieving these targets through the creation of green teams at many of our sites and by the support and encouragement provided by our Executive Committee Environment Champion. These 450 'green volunteers' are actively engaged in promoting initiatives such as our '10 steps' campaign, which encourages people to take small steps to reduce their personal carbon footprint, for example by cutting down on travel, energy use and printing.

Valuation Office Agency

The Valuation Office Agency (VOA) is an Executive Agency of HMRC. Over the last year it has developed a new strategy to underpin our work over the next four years and beyond. In doing so, the VOA has established and set out its core purpose. It is 'to provide the valuations and property advice required to support taxation and benefits.'

This core purpose led to the development of four strategic objectives which are:

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

In 2010-11 the VOA started to change how it operates, including how it is structured, to enable it to better meet its strategic objectives and core purpose. At the same time, the VOA has maintained a strong focus on continuing to deliver its operational business targets. The results below show an overview of their performance against key operational performance indicators.

Results against Key Performance Indicators 2010-11	**Results**	
To achieve overall customer satisfaction of 90 per cent	90%	Met
Contain reductions in the 2005 rating lists to a maximum of 4.2 per cent of the total compiled list rateable value, over the entire life of the list	3.5%	Met
Contain reductions in the 2010 rating lists to a maximum of 4.2 per cent of the total compiled list rateable value, over the entire life of the list	0.0%	On Course
Ensure that 96 per cent of new council tax bandings are right first time	98%	Met
To improve overall value for money on Local Taxation by 3 per cent	7.3%	Met
Determine 95 per cent of Housing Benefit claims (not requiring an inspection) within three working days	100%	Met
To complete the review of Broad Rental Market Areas in England	100%	Met
Enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases for Inheritance and Capital Gains Taxes within an average of five days	3 days	Met
Recover full costs on HMRC (reflecting a 5 per cent budget reduction)	Fully Recovered	Met
Achieve at least £19 million non-statutory services income	£16.6 million	Not Met
Have no security incidents reportable to the Information Commissioner	Nil	Met

Committee of Public Accounts (PAC) recommendations

HMRC has accepted many PAC recommendations that have now been fully implemented. Below are details of PAC recommendations that we have accepted but are still to be finalised.

Name of Report: 2009-10 2nd Report (HC 97): Improving the Processing and Collection of Tax: Income Tax, Corporation Tax, Stamp Duty Land Tax and Tax Credits published on 10 December 2009. Treasury Minute 11 March 2010.

Recommendation:	HMRC Action:
At March 2009 large Corporation Tax assessments amounting to over £10 billion, and in some cases over 16 years old, were 'postponed' awaiting resolution. Cases can be complex and difficult to resolve and the Department is reviewing how it handles them. As part of this work, the Department should analyse and prioritise postponements to establish a clear action plan to resolve them. The action plan should include targets to allow monitoring of progress in managing high value cases and reducing the existing volume of lower value cases.	An annual review of large Corporation Tax postponements has been established to provide assurance of the amounts shown in the Trust Statement. This covers aggregate amounts of over £25 million per company in the Large Business Service and over £10 million elsewhere. Implementation of a process for all new postponements, including smaller cases, will begin in the autumn of 2011 and will be completed at the latest by March 2012. The responsible officer for each new case will be identified and all outstanding cases will be reviewed by that officer at least every six months, with a manager's review at 18 and 48 months.
The Department has already written off £1.3 billion in Tax Credit debt where it believes there is no possibility of recovery. As a priority, the Department should identify all debt that is either uncollectable or not cost-effective to collect and decide by March 2010 what should be written-off. It should ensure that all Tax Credit debt remaining on its books at 31 March 2010 is being actively pursued.	In 2010-11 we recorded losses of £0.625 billion in Tax Credit debt that was either uncollectible or did not offer value for money to collect. At the end of March 2011, the Tax Credit debt balance was £4.7 billion, with £2.7 billion available for direct recovery. During February/March 2011 we identified 2,400 cases to test how successful we might be in pursuing inactive Tax Credit debts and we are considering the results. Debt Management and Banking began a trial of the collection of Tax Credit debts in February 2011 using a number of Debt Collection Agencies (DCAs) that we have used previously. An evaluation of the pilot will commence in August 2011. We will also be discussing with Treasury officials what options could be pursued to facilitate a much larger proportion of Tax Credit debts being passed to DCAs, should the pilot prove successful.

Name of Report: 2009-10 32nd Report (HC 312): HM Revenue and Customs' estate private finance deal eight years on published 08 April 2010. Treasury Minute 15 July 2010.

Recommendation:	HMRC Action:
Even though the Committee highlighted in 2005 the need to establish an effective partnership, the Department and Mapeley have not achieved this. The Department must establish an effective partnership with Mapeley.	Steps have been made towards this, including Board to Board and joint management meetings but establishing a strategic working partnership with Mapeley was hampered by delay in providing financial transparency. Full transparency has since been provided and Mapeley have committed to its ongoing provision. HMRC and Mapeley, have made significant progress towards resolving the outstanding commercial negotiations, reaffirming their commitment to work together, including developing a joint estate strategy.

Name of Report: 2009-10 24th Report (HC 389): Handling Telephone Enquiries published 25 March 2010. Treasury Minute 15 July 2010.

Recommendation:	HMRC Action:
The Department could make more efficient use of contact centre staff time and thereby improve the service it provides. The Department should match staffing levels more closely to the fluctuating levels of demand throughout the year.	We improved efficiency in 2010-11 by significantly increasing the percentage of time advisers actually spend handling calls. We have also made good progress in better matching resources to demand. As part of this we will employ 1,000 additional contact centre advisers between April and September 2011, which is a particularly busy period.
The Department uses 139 telephone numbers. It plans to reduce these, but it could do more by reducing the costs of contacting the Department by telephone. It should review and rationalise its helplines, textphone and orderline numbers and decide which helplines should be free to call. It should also move new and existing services to price-capped '03' numbers unless there is an overriding case for not doing so.	As a result of the introduction of the new NPS PAYE computer system, we were able to reduce 61 separate customer facing 0845 helplines that deal with PAYE tax queries to just one. The reduction in telephone numbers represents a real improvement in customer service as the majority of PAYE customers and agents will only need to locate and use a single number to contact us. We recognise that the cost of calling our 0845 lines can be an issue for some customers and we are reviewing our numbering strategy. However, following the launch of a public consultation by OfCom 'Simplifying Non-Geographic Numbers' we have decided to await OfCom's findings before concluding our review.
The Department does not know how often it gives correct advice by telephone. The Department should reduce the number of calls that fail its accuracy standards. It should also identify how often incorrect advice is actually given, its consequences and how to prevent this happening.	We are currently revising the quality assurance process which highlights failure to follow departmental guidance or procedures and failure to provide correct advice. It is hoped a new process will be fully implemented by April 2012.

Name of Report: 2009-10 33rd Report (HC 520): Review of errors in Guaranteed Minimum Pension Payments published 06 April 2010. Treasury Minute 17 June 2010.

Recommendation:	HMRC Action:
There is a risk that pension schemes may be underpaying members who left contracted out employment early but who have deferred claiming state pension. The pension schemes should confirm whether members in this category are in receipt of state pension, and take action to both correct any underpayments that have arisen and to address the risk of underpayments in the future.	A process has been agreed with representatives of public service schemes that will involve the pension schemes proactively checking their systems to identify members who, based on their records, have reached State Pension age with gaps in the amount of Guaranteed Minimum Pension (GMP) they hold. They will then work with HMRC and DWP to ensure complete alignment of records. The process has been in place since April 2011 and will be trialled for six months to ensure it works successfully.
HMRC should identify how it can provide greater assurance about the completeness of the outputs from the National Insurance Recording System. The pension schemes should implement procedures to identify members who have reached, or are soon to reach, state pension age, but for whom they do not have GMP information recorded on their systems.	There are a number of long-standing free services already in place to enable public service pension schemes to obtain GMP information prior to individuals attaining State Pension age. The principal service available is HMRC's Accrued GMP Liability Service. A process has also been agreed that will involve the pension schemes proactively checking their systems to identify members who, based on their records, have reached state pension age with apparent gaps in the amount of GMP they hold. They will then work collaboratively with HMRC and DWP to ensure alignment of records. This process has been in place since April 2011 and will be trialled for six months to ensure it works successfully.
At the earliest opportunity, pension schemes should amend contracts to make explicit the extent of their contractors' obligations for securing complete details of GMP entitlements, and should subsequently monitor the performance of contractors in this regard.	A process has been agreed that will involve the pension schemes proactively checking their systems to identify members who, based on their records, have reached state pension age with apparent gaps in the amount of GMP information they hold. Pension schemes will then work collaboratively with HMRC and DWP to ensure complete alignment of records. The process has been agreed by representatives on the Joint GMP Advisory Group who have consulted their pension administrators/system contractors.

Pension schemes, HMRC and the Pension, Disability and Carers Service should agree and document their specific responsibilities, including service standards for the provision of timely and complete GMP information.	HMRC will use the Joint GMP Advisory Group to discuss, determine and document agreed specific responsibilities and associated standards for providing GMP information in a timely fashion. The monthly process agreed to address other recommendations and should provide further statistical evidence as to where the existing arrangements may be lacking. This information will be used to inform the debate as to what additional steps may be necessary to bring about improvements. It is intended to review the new process after six months of operation to confirm that it meets requirements and more than that, provides further insight into how we can all work in a better informed manner, fully understanding and documenting respective roles, responsibilities and timescales for action by the end of 2011.
Guaranteed Minimum Pensions were earned between 1978 and 1997 and are no longer accruing, meaning that the existence of entitlements is known and will not change. While the base for GMP is re-valued each year up to state pension age, pension schemes could annotate members' records with GMP information in advance of reaching state pension age, rather than waiting for HMRC to provide notifications. Pension schemes and their administration and payment contractors should assess whether prior annotation offers a cost-effective way of reducing the risks associated with administering GMP.	There are a number of long-standing free services already in place to enable public service pension schemes to obtain GMP information prior to individuals attaining state pension age. The principal service available is HMRC's Accrued GMP Liability Service which a number of public service schemes are now using and are finding it beneficial. A process has also been agreed that will involve the pension schemes proactively checking their systems to identify members who, based on their records, have reached State Pension Age with apparent gaps in the amount of GMP they hold. They will then work collaboratively with HMRC and DWP to ensure alignment of records. This process has been in place since April 2011 and will be trialled for six months to ensure it works successfully.
The complexity of the existing GMP system increases the risk of error and makes it costly to administer. A fundamental review should be commissioned to consider whether, within the existing legislation, there are opportunities to reform and simplify the administrative system designed to implement the legislation.	HMRC and DWP (with the knowledge of the pension scheme representatives on the joint GMP Advisory Group) have met to consider the existing legislative requirements and to confirm that there is a fully shared understanding of both their content and intent.

Name of Report: 2010-11 18th Report (HC 502): HM Revenue and Customs 2009-10 Accounts published 01 February 2011. Treasury Minute 24 March 2011

Recommendation:	HMRC Action:
There were problems in delivering the new National Insurance and PAYE Service (NPS), and the Department failed to tackle processing backlogs going back to 2004-05 and ran out of time to collect tax due before April 2007. In addition it has yet to repay millions of taxpayers who paid too much PAYE in these years. As a result, it has failed to collect tax that is properly due, caused uncertainty to taxpayers and treated them inequitably.	We have reviewed 430,000 underpayments for 2007-08, with 416,000 being worked to a conclusion. Work is ongoing with Aspire to enable the remaining cases to be reviewed and cleared before the end of 2012 using an automated solution, backed by further manual work.
The Department knew in December 2009 that up to seven million people had over or underpaid tax in 2008-09, but it did not take steps to inform the individuals involved until September 2010. In January 2010, it began issuing 25 million coding notices, without firstly establishing why the number of codes issued was in excess of its forecast and contained errors. The Department must ensure that coding notices are subject to proper quality assurance before issue and taxpayers are told of their under or over payments as soon as practical.	The Department successfully completed the 2011-12 annual coding exercise and issued 99.4 per cent of coding notices by the start of the new tax year. There has been a substantial improvement in the accuracy of the 2011-12 annual coding notices. Customer contact was lower than forecast and we have received positive feedback from employers about the accuracy of the codes.
The Department plans to have stabilised the NPS and PAYE processing by 2012 and to have completed the 2008-09 and 2009-10 reconciliations by January 2011. We look to the Department to be able to clearly demonstrate that it has resolved systemic data quality issues by the end of 2011 and that NPS is delivering the benefits it was intended to bring.	Approximately 99 per cent of the 2008-09 and 2009-10 reconciliations for cases where we had all the information were completed by the end of March 2011. The small number of those remaining are subject to manual work and are expected to be cleared by the end of the summer. A successful end-of-year reconciliation exercise for 2010-11, which began in June 2011, will demonstrate that NPS is delivering its intended benefits.
The Department should make succession plans for replacement of senior staff well in advance of their departure dates.	Last autumn, the Department's Executive Committee confirmed a new operating model to support the Department's customer-centric business strategy. The initial phase of populating the Department's new operating model started at Director General level and is now complete. The second and third phases covering all director and deputy roles is well advanced and on schedule for full completion by August 2011.

It is unacceptable that so many people have had to wait so long for their tax affairs to be resolved. If the Department had processed PAYE promptly it should have been able to collect nearly all of the estimated £650 million underpaid tax for 2004-05 to 2006-07. The Department should now set a clear operational standard to process all PAYE cases within 12 months of the end of the tax year.	The Department has reallocated resources within its settlement plans to clear the outstanding backlogs. The Department is on course to review automatically or manually all legacy open cases by the end of 2012.
The Department was aware that the change in the deadline would prevent it collecting underpaid tax for 2004-05 and 2005-06. However it failed to appreciate the deadline on the 1.9 million underpayments in 2006-07. The Department should ensure that it does not miss the deadline for collecting revenue for 2007-08 and that its assessments of future legislative changes take full account of operational impact.	Following the review of 430,000 underpayments for 2007-08 carried out in the period to 1 April 2011, £228 million of underpayments have been identified.
We are not convinced by the Department's explanation of how it decides to allocate resources to maximise the collection of PAYE. The Department should assess the return on investment of having additional staff collecting PAYE and structure its staffing to maximise the net revenue collected.	The Department has implemented a more accurate approach to recording unit costs from 1 April 2011 and has developed a plan to tackle current backlogs.

Spending on consultancy and temporary staff

We engage professional service providers for consultancy, contingent labour, learning, legal advice, translation, interpretation and research.

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

We are supporting the Cabinet Office 'Centralised Category Procurement' programme taking place across central government. This programme, along with demand management in line with austerity measures since May 2010, has seen a significant reduction in spend on consultancy. Spend on consultancy reduced in 2010-11 to £10.1 million from £46.5 million in 2009-10.

Publicity and advertising

Following the formation of the coalition government, changes in policy meant that certain campaigns such as Child Trust Fund were cancelled, budgets were reduced and some campaigns such as Working Tax Credits were put on hold while a new approval process was introduced by the Efficiency and Reform Group (ERG).

The net effect was that expenditure on paid-for marketing campaigns dropped to under £4 million and campaign activity was focused on prompting tax credits renewals, promoting the Self Assessment deadline, a Risk and Intelligence Services (RIS) campaign targeting plumbers and some communications promoting tax for business help.

Complaints to the Ombudsman in 2009-10

Number of HMRC cases received by the Ombudsman	1,896
Number of HMRC complaints accepted for investigation	8
Number of investigations reported on	26
Number of cases upheld in full	14 (54%)
Number of cases upheld in part	7 (27%)
Number of cases not upheld	5 (19%)
Number of Ombudsman recommendations complied with	44
Number of Ombudsman recommendations not complied with	0

Most complaints are dealt with by HMRC, with a small proportion being referred via MPs to the Parliamentary & Health Service Ombudsman (PHSO). In 2009-10, we received 73,455 complaints compared to 79,274 in 2010-11. (Figures include VOA complaints of 2,049 and 2,553 respectively)

The PHSO will normally only look at a complaint once it has been considered by the Adjudicator. The Adjudicator acts as a fair and unbiased referee looking into complaints about HMRC. In 2009-10, the Adjudicator took on 1,820 cases for investigation. 1,743 investigations were completed of which 46 per cent were upheld either wholly or in part. (The Adjudicator will publish her 2011 Annual Report including complaints made in 2010-11 in July 2011)

Details of complaints made to the Ombudsman in 2010-11 will be included in the Ombudsman's Annual Report to be published in July 2011.

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

Grade	Numbers at 1 April 2011	Difference from 2010	Percentage change	Notes
Out on secondment	15	0	no change	These 15 are not included in the total
SCS1	272	–18	6.2% decrease	7 are Fixed Term Appointments (FTA), 9 are on Temporary Promotion (TP) from G6
SCS1A	46	–13	22.0% decrease	1 is a Temporary FTA
SCS2	38	4	11.8% increase	2 are FTAs, 3 are on TP from SCS1A
SCS3	8	0	no change	3 are FTAs, 1 is on TP from SCS2
Permanent Secretary	2	0	no change	
Total	366	–27	6.9% decrease	

The number of SCS posts in HMRC has reduced by 6.9 per cent (27 posts) over the last 12 months.

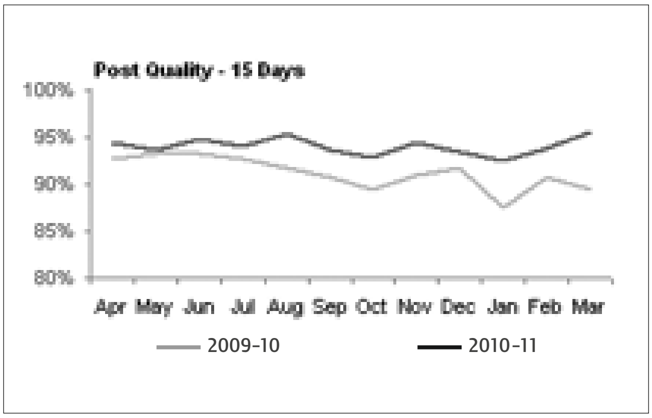
During 2010-11 we developed a new operating model to support our customer-centric business strategy. The associated organisational design of roles in our top three leadership tiers, through to director level, was substantially complete by the end of 2010-11. Further post reductions are anticipated with design completion of the remainder of SCS roles.

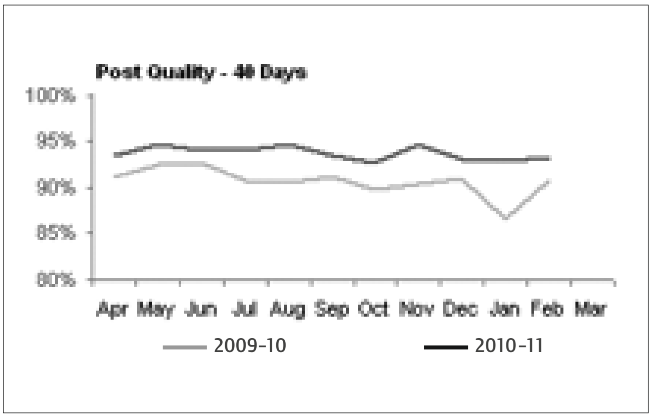
The overall total of 366 SCS includes 11 posts in the Valuation Office Agency (two at SCS2 and nine at SCS1).

Performance in responding to correspondence from public

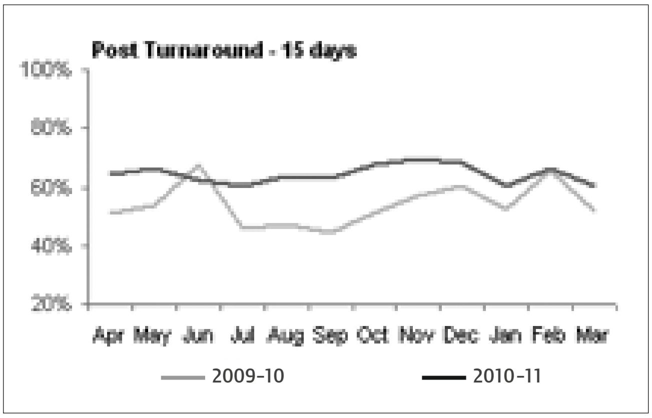
Performance

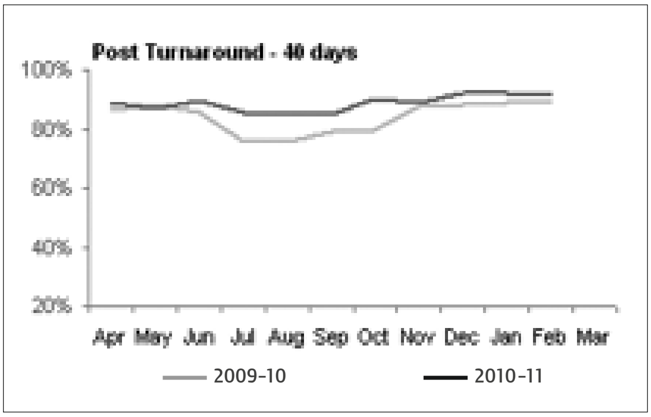
Our monthly performance in dealing with post was better in each month this year compared to the same period in the previous year.





Post turnaround was better in 10 out of 12 months this year compared to the same period in the previous year.





Definitions

Post Turnaround measures the proportion of post processed within 15 and 40 working days.

Post Quality is the proportion of post (processed within 15 and 40 working days) that meets our quality standards.

Recruitment practice

To support the cross-government recruitment freeze we implemented a robust approvals process which resulted in a significant reduction in external recruitment activity.

There were six external campaigns, successfully filling 68 generalist and specialist posts, compared with 32 campaigns in 2009-10 filling 241 posts. No SCS recruitment activity has taken place.

The annual departmental audit of the recruitment activity demonstrates good compliance with the Civil Service Commission recruitment principles.

Redeployment activity

New measures in place across HMRC identify potentially surplus staff who can be redeployed into priority work. Effective redeployment of internal resources, and minimal recruitment, has helped us to exceed efficiency targets, reducing the workforce from around 106,000 in 2006 to around 74,300 (66,900 full time equivalents) at 31 March 2011.

Approval for external recruitment, both permanent and fixed term, is given only where necessary to support business performance. The Department seeks to achieve the right balance between internal deployment and external recruitment to meet business resource needs and efficiency targets. We will continue this approach, bringing in the resource and skills critical to business restructuring and efficient delivery of business objectives.

Health and Safety reporting

The HMRC Board has continued its commitment to giving a high profile to Health & Safety (H&S). Close management of our incident reporting system produced a marked improvement in statutory compliance. Our Accident Incidence Rate compares favourably against other public sector organisations.

We achieved a significant improvement in uptake of H&S training by our people at all levels.

We have found stress and mental wellbeing are the major causes of ill-health and have increased the capability and awareness of our people to deal with these issues. We are also working to improve our management of occupational health and wellbeing. Health and Safety standards at our offices have advanced through boosting technical competence and an assurance process of certification by senior responsible managers.

H&S Accident, Ill-Health & Violence Statistics

RIDDOR*

Fatal injuries	0
Major injuries	24
Dangerous Occurrences	0
Over 3 day injuries	100
Diseases (e.g. RSI**)	17
TOTAL	141

Non – RIDDOR

ULD**	220
Stress	549
Slips/trips/falls	635
Violence and verbal abuse	370
Other	1,897
TOTAL	3,671

* Incidents reportable to the Health and Safety Executive under RIDDOR – Reporting of injuries, diseases and dangerous occurrences Regulations 1995

** Repetitive Strain Injury/Upper Limb Disorder

Accident Incidence Rate (HSE reportable Incidents/Av. no of employees x 100,000):

HMRC 2010-11	**188**
Standard Industrial Classification (SIC) 7511 – 'General public service activities' (latest available data)	**749**
AIR in SIC 7513 – 'Regulation: more efficient business' (latest available data)	**281**

Sickness Absences

Commentary regarding Sickness Absences in HMRC can be found in the Statement on Internal Control at Page 46.

Tables 1 to 8 are not subject to audit.

Table 1: Total departmental spending (£'000)

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated outturn	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans
Resource DEL										
Section A: HMRC Administration	3,716,673	3,848,234	3,669,504	3,709,865	3,596,631	3,345,192	3,313,769	3,230,470	3,242,309	3,122,127
Section B: Departmental Unallocated Provision	–	–	–	–	–	–	38,191	37,038	36,887	35,445
Section C: VOA Administration	–17,881	–5,464	–5,636	–7,972	–5,699	–21,816	7,000	2,000	–	1
Section E: National Insurance Fund	394,487	400,081	374,271	413,760	433,818	411,362	399,466	380,141	362,989	346,711
Section D: Utilised Provisions	40,829	61,646	72,928	58,704	60,626	71,495	58,251	52,371	44,858	38,697
Total Resource DEL	**4,134,108**	**4,304,497**	**4,111,067**	**4,174,357**	**4,085,376**	**3,806,233**	**3,816,677**	**3,702,020**	**3,687,043**	**3,542,981**
Of which:										
Pay	2,547,740	2,703,840	2,653,772	2,609,514	2,507,232	2,428,613	2,373,278	2,279,222	2,287,998	2,142,904
Net current procurement[1]	1,407,738	1,450,678	1,304,446	1,332,974	1,353,704	1,104,240	1,174,314	1,158,866	1,123,264	1,123,264
Current grants and subsidies to the private sector and abroad	–	6,762	468	18,845	9,199	41,222	8,137	28,537	15,337	2,337
Current grants to local government	–	–	–	–	–	–	–	–	–	–
Depreciation[2]	159,290	186,487	177,178	201,731	203,386	215,373	231,000	227,000	239,000	252,000
Other	19,340	–43,270	–24,797	11,293	11,855	16,785	29,948	8,395	21,444	22,476
Resource AME										
Section F: Social Benefits and Grants	9,768,928	10,218,885	10,731,599	11,310,962	12,179,253	12,259,046	12,255,000	11,685,000	9,940,000	10,160,000
Section G: Providing payments in lieu of tax relief to certain bodies	79,322	80,457	83,655	121,057	154,513	176,852	103,485	74,019	60,601	63,225
Section H: e–filing incentive payments	225,164	278,284	126,084	181,470	100,069	–	231	58	42	41
Section I: HMRC Administration	76,629	91,888	100,754	82,384	106,926	64,776	30,001	30,001	30,001	30,001
Section J: VOA – payments of rates to LAs on behalf of certain bodies	29,265	29,190	29,700	29,083	32,049	39,603	44,600	50,600	58,200	69,800
Section K: VOA Administration	17,324	4,904	5,026	7,486	5,416	5,126	1	1	1	1
Section M: New Tax Credits	17,332,000	18,684,483	20,030,879	24,097,719	27,600,898	28,870,775	30,045,197	31,326,748	31,649,408	31,778,259
Section N: Other reliefs and allowances	268,298	263,326	394,953	411,514	416,046	492,718	455,474	520,910	561,605	572,840
Section L: Utilised Provisions	–249,950	–141,631	–117,067	–166,843	–141,317	–185,491	–58,251	–52,371	–44,858	–38,697

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated outturn	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans
Total Resource AME	**27,546,980**	**29,509,786**	**31,385,583**	**36,074,832**	**40,453,853**	**41,723,405**	**42,875,738**	**43,634,966**	**42,255,000**	**42,635,470**
Of which:										
Pay	–	–	–	–	–	–	–	–	–	–
Net current procurement[1]	29,265	45,968	40,876	35,102	46,172	49,995	44,600	50,600	58,200	69,800
Current grants and subsidies to the private sector and abroad	23,103,787	24,748,084	26,494,108	30,302,497	34,609,424	35,965,199	38,014,207	39,111,003	37,728,974	38,100,611
Current grants to local government	–	–	–	–	–	–	–	–	–	–
Net public service pensions[3]	–	–	–	–	–	–	–	–	–	–
Take up of provisions	90,338	155,740	156,115	167,082	234,910	136,108	30,000	30,000	30,000	30,000
Release of provisions	–249,950	–141,631	–117,067	–167,252	–175,507	–196,050	–58,251	–52,371	–44,858	–38,697
Depreciation[2]	–	–	16,765	16,177	–3,034	40,054	2	2	2	2
Other	4,573,540	4,701,625	4,794,786	5,721,226	5,741,888	5,728,099	4,845,180	4,495,732	4,482,682	4,473,754
Total Resource Budget	**31,681,088**	**33,814,283**	**35,496,650**	**40,249,189**	**44,539,229**	**45,529,638**	**46,692,415**	**47,336,986**	**45,942,043**	**46,178,451**
Of which:										
Depreciation[2]	159,290	186,487	193,943	217,908	200,352	255,427	231,002	227,002	239,002	252,002
Capital DEL										
Section A: HMRC Administration	340,664	286,996	233,966	271,151	214,312	161,073	277,973	134,995	113,666	120,296
Section B: Departmental Unallocated Provision	–	–	–	–	–	–	2,868	1,443	1,222	1,286
Section C: VOA Administration	12,994	12,316	9,955	7,314	14,432	7,334	5,959	7,862	7,312	7,018
Total Capital DEL	**353,658**	**299,312**	**243,921**	**278,465**	**228,744**	**168,407**	**286,800**	**144,300**	**122,200**	**128,600**
Of which:										
Net capital procurement[4]	353,658	297,769	243,922	278,465	228,744	168,407	283,932	142,857	120,978	127,314
Capital grants to the private sector and abroad	–	1,543	–1	–	–	–	–	–	–	–
Capital support for local government	–	–	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	2,868	1,443	1,222	1,286
Capital AME										
Section F: Social Benefits and Grants	234,797	176,422	167,746	188,259	306,302	226,677	–	–	–	–
Section L: Utilised Provisions	209,121	79,985	44,139	108,139	80,691	113,996	–	–	–	–
Total Capital AME	**443,918**	**256,407**	**211,885**	**296,398**	**386,993**	**340,673**	**–**	**–**	**–**	**–**
Of which:										
Capital grants to the private sector and abroad	443,918	256,407	211,885	296,398	386,993	340,673	–	–	–	–

	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated outturn	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans
Net lending to the private sector and abroad	–	–	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total Capital Budget	**797,576**	**555,719**	**455,806**	**574,863**	**615,737**	**509,080**	**286,800**	**144,300**	**122,200**	**128,600**
Total departmental spending[5]	**32,319,374**	**34,183,515**	**35,758,513**	**40,606,144**	**44,954,614**	**45,783,291**	**46,748,213**	**47,254,284**	**45,825,241**	**46,055,049**
of which:										
Total DEL	4,328,476	4,417,322	4,177,810	4,251,091	4,110,734	3,759,267	3,872,477	3,619,320	3,570,243	3,419,581
Total AME	27,990,898	29,766,193	31,580,703	36,355,053	40,843,880	42,024,024	42,875,736	43,634,964	42,254,998	42,635,468

1 Net of income from sales of goods and services.

2 Includes impairments.

3 Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.

4 Expenditure on tangible and intangible fixed assets net of sales.

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

Note: Figures are on a post Clear Line of Sight (CLoS) basis and therefore do not reconcile with all data in the Resource Account. This is due to changes in the way National Insurance Fund financing, utilised provisions, tax credits, and certain IFRS items are accounted for under CLoS.

Table 2: Public spending control (£'000)

	2010-11 Original Provision	2010-11 Supplementary Estimates	2010-11 Final Provision	2010-11 Estimated Outturn
HM Revenue and Customs				
RfR 1: Administering the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	3,391,286	119,834	3,511,120	3,416,562
RfR 2: Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.	1	5,046	5,047	–
RfR 3: Providing payments in lieu of tax relief to certain bodies	180,000	–	180,000	176,852
RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies	40,300	1,000	41,300	39,668
RfR 5: Payments of Child Benefit, Child Trust Fund endowments, Health in Pregnancy Grant and Saving Gateway	12,520,001	215,000	12,735,001	12,485,723
Totals	**16,131,588**	**340,880**	**16,472,468**	**16,118,805**

Core Tables 1 and 2 are not on the same basis. Table 1 shows the outturn on the current budgeting basis, while Table 2 is on a backwards basis showing the 2010-11 outturn on the original basis as first set out in 2010-11 main estimate.

Table 3: Capital employed (£million)

	2006-07 Outturn (UK GAAP)	2007-08[1] Outturn (IFRS)	2008-09[1] Outturn (IFRS)	2009-10 Outturn (IFRS)	2010-11 Outturn (IFRS)	2011-12 Plans (IFRS)	2012-13 Plans (IFRS)	2013-14 Plans (IFRS)	2014-15 Plans (IFRS)
Assets and liabilities in the Statement of Financial Position at year end									
Assets									
Non-current assets	1,305	1,830	1,861	1,840	1,787	1,849	1,765	1,660	1,561
Property, Plant and Equipment	1,297	780	709	640	581	542	507	479	452
of which:									
Land	91	27	23	24	24	25	26	27	28
Buildings	–	487	400	360	328	310	290	269	247
Accommodation Refurbishments	82	55	57	74	70	67	63	60	58
Office & Computer Equipment	77	137	130	98	85	72	65	61	60
Vehicles	9	4	6	6	5	4	3	2	2
Furniture & Fittings	56	35	35	36	35	31	28	25	23
Assets under Construction	225	32	54	38	31	32	31	32	33
Scientific Aids	21	3	4	4	3	2	2	1	1
Vessels[3]	19	–	–	–	–	–	–	–	–
Developed Computer Software[2]	717	–	–	–	–	–	–	–	–
Intangible	8	1,050	1,152	1,200	1,206	1,307	1,258	1,181	1,109
of which:									
Software Licences	8	8	15	14	13	12	12	12	12
Developed Computer Software[2]	–	869	900	1,003	1,058	1,129	1,126	1,078	1,014
Assets under Construction	–	173	237	183	136	166	120	92	83
Receivables falling due >1 year	180	1	–	–	–	–	–	–	–
Current Assets[4]	538	553	748	287	261	271	281	292	303
Liabilities									
Current Liabilities[4]	(1,132)	(1,266)	(1,503)	(1,100)	(978)	(1,016)	(1,056)	(1,097)	(1,140)
Non-current liabilities	(189)	(492)	(499)	(482)	(430)	(436)	(453)	(471)	(490)
Provisions	(258)	(296)	(296)	(356)	(296)	(144)	(124)	(114)	(109)
Capital employed within Department	444	330	311	189	344	524	413	270	125

1 Certain figures have been restated for Machinery of Government changes.
2 Developed Computer Software has been reclassified as intangible assets under IFRS.
3 A Machinery of Government change resulted in all vessels being transferred to the UK Border Agency (UKBA).
4 The figures for years prior to 2009-10 include values for those penalties that have now transferred to the Trust Statement under Clear Line of Sight.

Note: These figures agree to those included in the relevant audited published Resource Accounts except where restated for Machinery of Government changes.

Table 4: Administration budget (£'000)

	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Estimated outturn	2011-12 Plans	2012-13 Plans	2013-14 Plans	2014-15 Plans
Section A: HMRC Administration	3,798,451	3,601,084	3,587,581	3,483,369	3,215,887	783,692	725,734	680,829	640,347
Section B: Departmental Unallocated Provision	–	–	–	–	–	38,191	37,038	36,887	35,445
Section E: National Insurance Fund	–	–	–	–	–	139,839	133,073	127,069	121,370
Section D: Utilised Provisions	61,646	72,928	58,704	60,626	71,236	38,251	32,371	24,858	18,697
Section C: VOA Administration	–5,548	–6,530	–9,604	–6,343	–22,482	–	–	–	–
Total administration budget	**3,854,549**	**3,667,482**	**3,636,681**	**3,537,652**	**3,264,641**	**999,973**	**928,216**	**869,643**	**815,859**
Of which:									
Paybill	2,703,788	2,653,772	2,609,514	2,507,232	2,423,695	619,936	594,855	584,944	565,156
Expenditure	1,418,796	1,341,088	1,428,714	1,409,391	1,191,991	485,137	436,661	384,399	347,103
Income	–268,035	–327,378	–401,547	–378,971	–351,045	–105,100	–103,300	–99,700	–96,400

Note: Figures are on a post Clear Line of Sight (CLoS) basis and therefore do not reconcile with all data in the Resource Account. This is due to changes in the way National Insurance Fund financing, utilised provisions and certain IFRS items are accounted for under CLoS.

Note: Administration costs reduce significantly from 2011-12. This is as a result of a reclassification of HMRC's spend agreed during the Spending Review 2010 to better reflect the front line nature of HMRC's work.

Table 5: Staff Numbers

Core Department	**2008-09[1] Outturn**	**2009-10 Outturn**	**2010-11 Outturn**
Permanent Staff	77162	72,953	67,553
Others		742	195
Total	77,162	73,695	67,748
Valuation Office Agency			
Permanent Staff	4,236	4,034	3,758
Others		29	62
Total	4,236	4,063	3,820

1. These figures have been restated in respect of staff transferred under Machinery of Government changes. The resulting figures agree the comparatives included in the published Resource Accounts for the following year.

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

Country and regional analysis

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

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

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

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

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

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

Table 6: Total identifiable expenditure on services by country and region, 2005-06 to 2010-11 (£million)

	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 plans
North East	1,124	1,183	1,342	1,544	1,598
North West	3,074	3,281	3,726	4,286	4,436
Yorkshire and the Humber	2,280	2,396	2,744	3,159	3,269
East Midlands	1,830	1,912	2,189	2,515	2,599
West Midlands	2,400	2,551	2,926	3,367	3,483
East	2,120	2,220	2,537	2,902	2,991
London	3,087	3,474	4,001	4,622	4,768
South East	2,979	3,104	3,520	4,017	4,133
South West	1,957	2,030	2,312	2,649	2,735
Total England	20,850	22,150	25,298	29,061	30,012
Scotland	2,022	2,120	2,396	2,732	2,815
Wales	1,275	1,353	1,535	1,764	1,826
Northern Ireland	824	885	1,012	1,163	1,203
UK identifiable expenditure	24,972	26,508	30,241	34,720	35,855
Outside UK	62	30	49	63	65
Total identifiable expenditure	25,034	26,538	30,290	34,783	35,920
Non-identifiable expenditure	4,398	4,225	4,247	4,106	3,763
Total expenditure on services	29,432	30,763	34,537	38,889	39,683

Table 7: Total identifiable expenditure on services by country and region, per head 2005-06 to 2010-11 (£ per head)

	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 plans
North East	440	461	521	597	617
North West	449	478	542	621	641
Yorkshire and the Humber	443	463	526	601	616
East Midlands	419	435	494	565	577
West Midlands	447	474	541	620	638
East	378	392	443	503	513
London	411	460	525	596	611
South East	362	374	420	476	486
South West	382	392	444	506	516
England	**411**	**434**	**492**	**561**	**575**
Scotland	395	413	464	526	540
Wales	430	454	513	588	607
Northern Ireland	473	503	570	650	667
UK identifiable expenditure	**412**	**435**	**493**	**562**	**576**

Table 8: Total identifiable expenditure on services by function, country and region, for 2009-10

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East
General public services								
Executive and legislative organs, financial and fiscal, external affairs	3.1	9.1	6.7	6.0	7.0	9.1	18.2	15.0
General services	3.0	9.1	7.1	5.1	10.1	8.1	25.3	15.2
Total general public services	**6.1**	**18.1**	**13.8**	**11.1**	**17.1**	**17.2**	**43.5**	**30.2**
Economic affairs								
Mining, manufacturing and construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D economic affairs	5.8	17.1	12.7	11.3	13.3	17.0	34.2	27.5
Total economic affairs	**5.8**	**17.1**	**12.7**	**11.3**	**13.3**	**17.0**	**34.2**	**27.5**
Environment protection								
Environment protection n.c.e[1]	0.3	0.8	0.6	0.5	0.6	0.8	1.5	1.2
Total environment protection	**0.3**	**0.8**	**0.6**	**0.5**	**0.6**	**0.8**	**1.5**	**1.2**
Social protection								
Old Age	1.7	4.7	3.7	3.5	4.0	4.5	5.2	6.8
of which: pensions	1.7	4.7	3.7	3.5	4.0	4.5	5.2	6.8
Family and children	507.3	1,429.9	1,053.7	891.3	1,148.4	1,157.4	1,650.7	1,682.0
of which: family benefits, income support and tax credits	507.3	1,429.9	1,053.7	891.3	1,148.4	1,157.4	1,650.7	1,682.0
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Social exclusion n.c.e.[1]	1,022.5	2,814.9	2,074.3	1,597.0	2,183.2	1,704.6	2,886.1	2,268.0
of which: family benefits, income support and tax credits	1,022.5	2,814.9	2,074.3	1,597.0	2,183.2	1,704.6	2,886.1	2,268.0
Social protection n.c.e.[1]	0.2	0.5	0.4	0.3	0.4	0.5	1.0	0.8
Total social protection	**1,531.7**	**4,250.1**	**3,132.2**	**2,492.1**	**3,336.0**	**2,867.0**	**4,543.1**	**3,957.6**
TOTAL HM REVENUE & CUSTOMS	**1,543.9**	**4,286.1**	**3,159.2**	**2,514.9**	**3,367.1**	**2,901.9**	**4,622.3**	**4,016.5**

[1]Not classified elsewhere.

South West	England	Scotland	Wales	Northern Ireland	UK Identifiable expenditure	Outside UK	Total Identifiable expenditure	Not Identifiable	Totals
7.5	81.7	7.9	3.3	2.3	95.2	0.0	95.2	4,106.1	4,201.3
10.1	93.0	6.1	4.0	1.0	104.1	0.0	104.1	0.0	104.1
17.6	**174.6**	**14.0**	**7.4**	**3.3**	**199.3**	**0.0**	**199.3**	**4,106.1**	**4,305.3**
0.0	0.0	7.3	0.0	0.0	7.3	0.0	7.3	0.0	7.3
13.8	152.7	14.5	6.5	4.1	177.8	0.0	177.8	0.0	177.8
13.8	**152.7**	**21.8**	**6.5**	**4.1**	**185.1**	**0.0**	**185.1**	**0.0**	**185.1**
0.6	6.8	0.6	0.3	0.2	7.9	0.0	7.9	0.0	7.9
0.6	**6.8**	**0.6**	**0.3**	**0.2**	**7.9**	**0.0**	**7.9**	**0.0**	**7.9**
4.1	38.3	3.6	1.9	1.0	44.8	0.2	45.0	0.0	45.0
4.1	*38.3*	3.6	1.9	1.0	*44.8*	0.2	*45.0*	0.0	*45.0*
986.4	10,507.2	963.3	594.5	400.9	12,465.9	18.6	12,484.4	0.0	12,484.4
986.4	*10,507.2*	963.3	*594.5*	400.9	*12,465.9*	18.6	*12,484.4*	0.0	*12,484.4*
0.0	0.3	0.0	0.0	0.0	0.4	0.0	0.4	0.0	0.4
1,626.0	18,176.6	1,728.4	1,153.7	753.1	21,811.8	44.5	21,856.3	0.0	21,856.3
1,626.0	*18,176.6*	1,728.4	1,153.7	753.1	*21,811.8*	44.5	*21,856.3*	0.0	*21,856.3*
0.4	4.4	0.4	0.2	0.1	5.1	0.0	5.1	0.0	5.1
2,617.0	**28,726.7**	**2,695.7**	**1,750.3**	**1,155.1**	**34,327.9**	**63.3**	**34,391.2**	**0.0**	**34,391.2**
2,648.9	**29,060.9**	**2,732.1**	**1,764.5**	**1,162.7**	**34,720.1**	**63.3**	**34,783.4**	**4,106.1**	**38,889.5**

1. Scope of responsibility

1.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Revenue & Customs (HMRC) policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

1.2 As Chief Executive of HMRC I am accountable to the Chancellor and to the Exchequer Secretary to the Treasury, to whom the Chancellor has delegated responsibility for the day to day oversight of the Department. The Exchequer Secretary is kept informed of progress and significant issues facing the Department in the course of regular bilateral meetings that he has with me and the other Board members.

1.3 As Principal Accounting Officer for HMRC, I have been supported over the period covered by this statement by a number of Additional Accounting Officers. Each of these has clearly defined responsibilities outlined in their appointment letters. Their relationship with me is also clearly set out in separate Memoranda of Understanding.

1.4 The Valuation Office Agency (VOA) is an Executive Agency of HMRC. The Chief Executive of the VOA is an Additional Accounting Officer for the resources authorised by Parliament in relation to the VOA. The relationship between the VOA and HMRC is set out in the VOA's Framework Document, and in a separate Memorandum of Understanding between the VOA's Chief Executive and myself.

2. The purpose of the system of internal control

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in HMRC for the year ended 31 March 2011 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Governance

3.1 A detailed description of HMRC's high-level governance, including its senior committee and business structure, can be found in the Corporate Governance Report, published as a separate section in the Accounts.

4. Risk Management

Capacity to handle risk

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

4.2 Each business area of the Department has a Lead Risk Champion, who works with the relevant senior management team to lead the approach, and a Business Risk Partner, who oversees risk management activities. These stakeholders come together on a regular basis to make sure the approach is implemented consistently across the Department, learn from good practice and support the Executive Committee in effectively identifying and managing risk. A professional Corporate Risk Management function provides central support to help staff understand their respective roles and responsibilities for risk management, acting as a challenge function to ensure risk processes are working consistently across business areas.

4.3 The National Audit Office has recently issued a report on risk management in the 16 largest government departments, which includes examples of best practice from HMRC. The implementation of the Department's approach to risk management is the subject of periodic review by Internal Audit.

The risk and control framework

4.4 HMRC's approach to risk management is set out in the Corporate Risk Management Strategy, which has been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy have been integrated into governance arrangements across the organisation, improving its risk management capability and bringing it in line with industry good practice.

4.5 HMRC applies a structured framework for identifying, assessing, communicating, escalating and managing risk consistent with the Committee of Sponsoring Organisations (COSO) framework – an established methodology for assessing risk and evaluating controls used in both the public and private sectors. It is also consistent with the guidance on risk management set out in HM Treasury's Orange Book.

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

4.7 The framework is also fully integrated into how HMRC manages change. HMRC's Change Programme (see paragraph 5.2) has implemented risk governance that is consistent with the framework, and enables a clear line of sight between the various projects and programmes and core business. The framework has also been built into the organisational design work that is shaping how HMRC will operate in future.

Risk appetite

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

Information Risk

4.9 In September 2010, the Information Commissioner lifted, nine months early, the Enforcement Notice placed upon HMRC following the Child Benefit data loss incident. This recognised the commitment made to meet the terms of the notice, and also required HMRC to continue to implement the recommendations contained in the Poynter Report.

4.10 The expansion of the Department's Secure Electronic Transfer (SET) service has continued, providing enhanced security for high volume electronic data transfers. HMRC has met its target of 80 per cent of outbound file transfers, via SET.

4.11 Governance and assurance activities continue to improve and particular focus has recently been given to the Cyber risks facing HMRC. The Senior Information Risk Owner (SIRO) has sponsored a Cyber Oversight Group and Cyber Working Group, to ensure cross Department stakeholders remain engaged, and investment funding focuses on areas of greatest value.

4.12 HMRC has developed and piloted an enhanced security incident capture tool for phased roll out in 2011-12. It will ensure root causes and trends can be assessed and the probability of repeat incidents reduced.

4.13 Engagement with targeted areas of the business, Delivery Partners and third party suppliers as part of HMRC's Security Risk Management Overview for the Cabinet Office, has enabled the Department to better inform its information risk tolerance. It has also helped achieve improvements in a number of areas, including ownership and accreditation of HMRC's legacy information systems; testing of end-to-end process continuity requirements; ongoing recertification of user access entitlements; and managing risks to information stored and processed in our customer facing on-line systems.

4.14 Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective, and HMRC has been pleased by the independent recognition of the progress it has made by The National Archives in their recent Information Management Assessment. It praises senior management's commitment to information management and describes HMRC's approach to information security as best practice saying, "HMRC should be proud of its achievements in raising levels of understanding, awareness and compliance in relation to information security and assurance."

4.15 Plans also exist to build on progress to date, to drive both immediate improvements and longer term change, particularly in the areas of data quality; longer term digital continuity, where storage requirements and technologies are continually evolving; and a more consistent approach to identifying records that no longer need to be kept.

4.16 We will continue to take a risk based approach to defining our Security Direction of Travel and addressing areas of non-compliance with relevant laws and regulations. Such additional measures are reflected in planned investments over the remainder of the Spending Review period 2011-15.

5. Control

5.1 Key developments during the year included:

HMRC Change Programme

5.2 Over the next four years, we will make overall savings of 15 per cent by identifying and making savings of 25 per cent and then reinvesting £917 million of these savings to bring in additional revenues of £7 billion a year by 2014-15. This is on top of the £13 billion of additional revenues to which we are already committed. Taking this reinvestment into account (and extra funding for other initiatives such as Real Time Information) our overall budget will reduce by 15 per cent between 2011 and 2015. We will also stabilise the new National Insurance and PAYE Service (NPS) and continue to reform the PAYE system by collecting tax and earnings information from employers more frequently to support the Government's welfare reform agenda; and reduce fraud and error in the tax credits system by £2 billion per year by 2014-15. We have put in place a major Change Programme to make sure the Department meets these commitments. I am the Senior Responsible Owner for the Programme and have appointed a Director General to ensure its successful delivery with the Executive Committee.

5.3 The design of the Change Programme is very deliberate, marking a new approach. We will manage all change in HMRC through one plan, centrally managed but locally delivered. The model and governance of the Programme will enable an integrated and coherent approach to managing change and people in operational areas will be ready for it. All the changes HMRC is making to the way it operates are aligned to our Customer-Centric Business Strategy.

Criminal Attacks against our systems

5.4 In the last year organised criminals have continued to probe and test our defences and look for opportunities to attack HMRC regimes, primarily with the aim of evading duties or fraudulently claiming repayments. We have seen an increasing threat from criminals using cyberspace as an enabler to attempt industrial scale fraud, for example through the use of phishing e-mails and sophisticated software to try to steal data from customers.

5.5 HMRC estimates losses in the region of £5-6 billion a year as a result of organised criminal attacks against our systems. Our latest estimates of losses published in our Tax Gap 2010 paper set out a range of losses from organised crime and show mid point losses of:

- £1.5 billion for Missing Trader Intra-Community (MTIC) VAT fraud
- £2.2 billion for Tobacco
- £600 million for Alcohol
- £800 million for Oils

5.6 We have had considerable success in recent years in tackling organised criminals through tailored responses to specific threats. In particular HMRC has driven down losses from MTIC fraud by deploying a range of targeted interventions. Working with our partners in the United Kingdom Border Agency (UKBA) our regularly refreshed Tobacco strategy has cut the size of the illicit cigarette market by almost half since 2000 with more than 20 billion cigarettes and over 2,700 tonnes of hand-rolling tobacco seized and has also resulted in over 3,300 criminal prosecutions for tobacco offences.

5.7 HMRC will be able to re-invest £917 million from the savings it makes over the Spending Review period to tackle avoidance, evasion and criminal attacks. One element of this will be to put in place a dedicated Cyber Crime Team. This team will provide a centre of expertise for HMRC and take the fight to organised criminals, disrupting their activities and making HMRC an unattractive target.

5.8 HMRC uses a range of established verification and investigation interventions to tackle repayment and payment threats. It also prioritises prevention strategies wherever possible. One example in the last year concerns HMRC intelligence and operational activity which identified a high risk of the UK becoming a target for MTIC fraud in connection with the wholesale trading of gas and power.

5.9 Early HMRC engagement with genuine businesses in the energy sector and other agencies enabled swift action to prevent, detect and disrupt the fraud. As a result fraudsters are finding it difficult to penetrate the energy sector and the threat level has consequently been downgraded. This is the first time a serious MTIC threat in a specific sector has been prevented in this way. HMRC is now using this model of working to disrupt attempted MTIC fraud in other commodities.

Internal Fraud and Corruption

5.10 HMRC has continued to work on a range of measures intended to embed an anti fraud culture amongst staff and managers. We have improved our knowledge of key risks by:

- Collating data on gross misconduct, grievance and security incidents into a comprehensive picture of wrongdoing, risks and incidents across the Department.
- Undertaking case reviews on criminal cases involving internal fraud and corruption to identify and address risks and weaknesses in HMRC's procedures, processes and guidance.

5.11 We work with all HMRC business areas to make sure appropriate prevention plans are in place to address internal fraud and corruption risks and we intend to refresh the 2007 Strategic Risk Assessment of internal fraud and corruption to ensure increased relevance to managers.

5.12 Internal Audit reviews the way the Department manages both internal and external fraud risks and conducted an Internal Fraud Thematic review in 2010-11. It has introduced a structured approach to identifying and reporting its coverage of fraud risks which informs the Director of Internal Audit's annual assurance opinion.

5.13 We monitor the majority of HMRC business systems for instances of irregular user activity which may indicate internal and collusive fraud. HMRC remains unique among central government departments in its approach to proactively detecting internal fraud.

Debt

5.14 I reported last year on the fundamental changes to our strategic approach to debt management and enforcement. That work has continued and been successfully consolidated in 2010-11. All the internal indicators show that we are collecting debt faster and more efficiently than in previous years and the amount of debt on our books is continuing to fall. Once again this represents a considerable achievement when set against continuing difficult economic circumstances and has been achieved alongside significant efficiency savings. These improvements mean that we are well positioned to deliver our Spending Review commitments.

5.15 The Trust Statement shows a receivables figure of £29.5 billion. This figure is higher than that reported last year mainly due to the addition of a higher number of PAYE underpayment cases, relating to prior years, being reconciled during 2010-11; the impacts of extended payment dates for VAT online filing; and the inclusion of new penalties. Whilst we need to operate across different systems, we are continuing to improve both the accuracy of our internal reporting of debt (overdue payments being managed in our debt management systems) and, separately, our ability to reconcile that with information on our accounting systems.

5.16 It was announced as part of the 23 March 2011 Budget that HMRC will continue, through its Business

Payment Support Service (BPSS), to provide advice and time to pay to viable businesses experiencing temporary financial difficulty. The service was launched in 2008 and is available for all HMRC taxes.

Employee Engagement

5.17 I reported last year on the risk that HMRC's ability to deliver its Purpose and Vision will be seriously affected by the low engagement of its workforce. This is caused by a number of factors including uncertainty about job security; lack of confidence in senior leadership and their management of change; and not feeling sufficiently challenged and motivated or involved in the decisions that affect their work. The HMRC Employee Engagement Index Score is 34 per cent which has reduced from the 36 per cent achieved in the 2009 autumn survey. Although this is disappointing it is representative of some of the other large government departments whose Engagement Index scores have also reduced (the Civil Service benchmark has fallen by two percentage points).

5.18 HMRC clearly has to improve its employee engagement. Every member of the Executive Committee is taking this seriously and is determined to improve leadership and the way change is managed. Building on work started last year we are introducing a number of initiatives to combat this, including:

- A set of new Leadership Behaviours has been developed and from April 2011 people have been assessed against them. In addition to this, we are currently assessing the skills and qualities of our most senior people through a rigorous selection process.
- All corporate change communications will be co-ordinated under one plan and wherever possible, communications will explain how change relates to the HMRC Customer-Centric Business Strategy. This approach will be supported by clearly established communication channels with senior leaders and interactive websites to ensure that everyone in HMRC is kept up-to-date with progress.
- Colleague insight research will help leaders and managers improve their understanding of the People Survey results and what motivates their people. Leaders will use the colleague insight research when considering how to engage, communicate and involve their people.

5.19 HMRC is also setting out what employees can reasonably expect from the Department as an employer and what, in turn, is expected from them. Front line and back office people took part in focus groups to define what staff can expect from HMRC as an employer, with the active involvement of the trade unions. The resulting guiding principles are helping to reshape HMRC's relationship with its people. Additionally, Pathfinders across the lines of business are leading activity which will illustrate these key principles.

Estates Strategy and Contract Management

5.20 Last year I reported on the Department's response to the National Audit Office (NAO) report 'HMRC's estate private finance initiative deal eight years on' and the subsequent Public Accounts Committee hearing which concluded that HMRC had not taken full advantage of all the vacation allowances available to it. Following last year's office closure programme and development of an estate strategy HMRC will have utilised all the previously unused flexibility in its PFI contract by the end of 2011-2012 and will be using all future flexibility at the earliest opportunity. Following the provision of appropriate financial information HMRC and Mapeley have recently agreed in principle the settlement of commercial issues that were outstanding and a new framework for developing a strategic partnership.

6. Review of effectiveness

6.1 As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by NAO in management letters and other reports.

6.2 I discuss significant control issues with my executive team as they arise at our regular Executive Committee and Performance Committee meetings.

Executive Committee meetings are informed by an assessment of our current exposure to strategic risk. Performance Committee meetings are further informed by monthly reports on performance. The focus of these is the progress being made to deliver our key targets and objectives and the issues and risks that could prevent this.

6.3 To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides me with an annual opinion, a summary of the findings from every internal audit review, and he alerts me to significant control issues as they arise. The Chairman of the Audit and Risk Committee, who is a non-executive Board member, provides the Board with a written report after each Audit and Risk Committee meeting.

6.4 A number of specific sources inform and contribute towards my review including:

- Individual statements from each member of the Executive Committee outlining the governance, risk and control arrangements in their business areas.
- The Statement on Internal Control provided by the Chief Executive of the VOA and the review that underpins this.
- The review that underpins the production of the National Insurance Fund Statements on Internal Control, which I sign separately.
- NAO Reports and the Report by the Comptroller and Auditor General.
- The Director of Internal Audit's Annual opinion to me as Principal Accounting Officer.
- External reports on HMRC produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners.
- Formal assurance I receive from the SIRO that Information Risk has been appropriately managed in the conduct of HMRC business.

6.5 Taking these statements into account, and observations from the Director of Internal Audit, the Audit and Risk Committee and from NAO, I recognise that there are a number of material control weaknesses. Of those I have identified the most significant are detailed below. I am giving priority to the plans that we have put in place to address these weaknesses and to improve the overall control environment.

Data Quality and its impact on our readiness to change

National Insurance and PAYE Service (NPS)

6.6 I reported a significant control issue in last year's SIC following the implementation of the National Insurance and PAYE Service (NPS) in July 2009. Although data was successfully migrated from the old system, the quality of pre-NPS data and the strengthened validation on NPS combined to create more exceptions and identify more data anomalies than were forecast.

6.7 As a result, the number of taxpayer Annual Notices of Coding (P2s) generated by the system almost doubled in January 2010 from the predicted 13 million. Data inconsistencies and other factors meant that a proportion of P2s were incorrect.

6.8 A recovery programme was instigated that addressed the shortcomings by manual data cleansing, scanning data, isolating cases that carried a high risk of error, and testing all outputs. As a result HMRC is making good progress in stabilising NPS.

6.9 The new computer system is already demonstrating that it is more accurate and can process bigger volumes than before. The rate of accuracy for annual coding has improved - from around 80 per cent last year (caused by multiple old records in the old systems not matching up, and missing data) to over 98 per cent this year. Some large employers tell us that these are the most accurate codes for many years. HMRC estimates it needs to send around 16-18 million annual coding notices each year.

6.10 In addition, the end of year reconciliation is now 98.5 per cent complete for 2008-09 and 2009-10 cases where HMRC has all the information it needs. For the year 2009-10 this represents the best completion rate in 13 years, meaning more people's tax affairs are up to date much sooner than before.

PAYE Open Cases

6.11 I reported last year that there were 18.2 million PAYE customer reviews (open cases generated before NPS was implemented) outstanding at the end of 2009-10. We had planned to process priority cases manually during 2010-11, focusing on 2007-08 under-payments and overpayments for low income customers. However, once resource was diverted to NPS stabilisation and recovery we were unable to keep to plan or to develop a technical solution sufficiently quickly.

6.12 2006-07 under-payments were lost to time limitation in April 2011, but HMRC committed to recovering the maximum possible revenue from 2007-08 cases. We have reviewed 400,000 2007-08 cases, which comprised all of the cases that we could identify with the data available to us, during the final quarter of 2010-11 in order to collect as many underpayments as possible through 2011-12 codes, before the cases are lost to time limitation in April 2012.

6.13 We will use NPS functionality to clear automatically approximately 60 per cent of the remaining 16.8 million open cases. Those which do not clear will be worked manually and we plan to work all outstanding overpayment cases by December 2012.

Non-Matching National Insurance (NI) Contribution Items

6.14 The end of year information we receive from employers can include NI contributions that cannot be matched to the relevant employee record because some employers have provided insufficient personal details about their employees. Where items cannot be matched, they are kept on a non-matched suspense file until they can be matched to the correct NI account. Over the period from 2003-04 to 2008-09 the proportion that could not be matched fell from 5 per cent to 2.6 per cent. There are approximately 119 million non-matching items held in the suspense file.

6.15 For 2008-09, the most recent tax year for which detailed information is held, some 1.5 million new items were added to the suspense file bringing the overall total held since 1975 to 119 million. Indications are that around 86 per cent of non-matching items are below the relevant earnings threshold, meaning that individually and without being added to contributions or credits from another source, they cannot affect contributor benefits. Information for 2009-10 will not be available until July 2011 when the relevant NPS scan is scheduled to provide the core data. This scan is scheduled to run approximately 15 months after the relevant tax year as this provides time for the employer to file their returns and for HMRC to attempt to trace and correct those returns that cannot be matched at the first attempt. The consistent timing also allows for accurate comparisons in performance across years.

6.16 Recommendations from an Internal Audit review of non-matching items that concluded this year are being taken forward and the focus of the Data Improvement Project within the Real Time Information (RTI) Programme is to address data quality issues that, if not resolved, will negatively impact the successful delivery of RTI. A key element of the project will be to ensure that RTI submissions are matched to the correct individual and employment record. The interventions that will be delivered are expected to increase the match rates to individual NI accounts to 98 per cent.

Our service to our customers

6.17 As a result of the control issues outlined in the sections above, HMRC's service for many individuals has not been good during 2010-11 and that is reflected in a drop in levels of customer satisfaction after an increasing trend in preceding years.

6.18 Some taxpayers received inaccurate coding notices in 2010 when NPS was switched on and the first annual coding routine was run. The process of rectifying the underlying data quality issue and dealing with the additional contact impacted on our ability to manage subsequent peaks of work, such as tax credit renewals.

6.19 The late introduction of NPS also created work backlogs because we were unable to tackle backlogs of legacy open cases during the switchover to NPS, and correspondence backlogs were created when resources were shifted to recovery work. Diverting resources to deal with backlogs and the inaccurate data led to increased contact. With the added impact of the tax credit peak, callers found it hard to get through. As a result, in 2010-11 the percentage of call attempts answered fell to 48 per cent, from 76 per cent in 2009-10. All of this damaged taxpayers' trust in the system.

6.20 Such drops in accuracy, service and performance are clearly not acceptable and, as a priority, HMRC now rigorously tests a significant number of live outputs to check their accuracy before any outputs are sent to customers. We are also clearing the backlogs to get PAYE back on track but accept that customer service standards will not be recovered until these are addressed.

6.21 This will not be an overnight change, but HMRC has plans to clear all old open cases by the end of 2012, and be fully back on track by the end of 2013. Funding has been directed to clearing backlogs and the introduction of the new system will make customer records more accurate and remove the need for customers to call us. HMRC will move as quickly as possible to an operational standard that processes all PAYE cases within 12 months of the end of the tax year.

Sickness Absence

6.22 Sickness absence remains high in HMRC and is a concern both for our reputation and for its impact on delivery objectives. I acknowledge the link to staff engagement as both a cause and an impact. Disengaged people are more likely to report sick and people become disengaged when sickness absence is not properly managed.

6.23 In 2010-11 the average working days lost (AWDL) was 9.65 per full time employee (equivalent), a reduction of 8.01 per cent from the 2009-10 AWDL of 10.49, but 7.2 per cent above our target of 9 AWDL. Action to address this has been continuous throughout the year. From October, an Attendance and Wellbeing Project has been in place aimed at improving attendance both in the short term, through some quick wins, and longer term, by developing sustainable practices which are adopted across the whole Department. This work has led to the following activities being introduced:

- New sickness absence process and guidance has been published.
- Functionality has been developed to provide managers with Day 1 recording, alerts and improved reporting.
- E-learning products have been developed to support managers.
- Emphasis has been placed on the management of work-related stress, including the rollout of a 'stress tool'.
- A single governance structure has been developed featuring Attendance Management Working Groups and Attendance and Wellbeing Champions.
- We are using employee segmentation to explore the links to engagement and provide more insight into how to target intervention.

6.24 Work to improve management data has also continued in 2010-11, including:

- A new data-pack introduced in April 2011 allowing late recording to be captured so improving data accuracy.
- Improved on-line guidance for managers on sick absence reporting and master-classes for the Manager's Advice Service.

Tax Credit Error and Fraud

6.25 The Comptroller and Auditor General has again qualified his opinion on the regularity of the expenditure reported in the Trust Statement in respect of tax credits error and fraud.

6.26 HMRC implemented its revised Error and Fraud Strategy in April 2009, aiming to reduce error and fraud to no more than five per cent by March 2011. We will not know whether we have achieved this until July 2012 but the latest figures show a reduction in the error and fraud rate favouring the claimant, from 8.9 per cent in 2008-09 to 7.4 per cent (£1.95 billion) in 2009-10.

6.27 As the 2008-09 estimates pre-dated the introduction of the revised tax credit error and fraud strategy, these latest figures are the best indicator yet of our progress towards five per cent. Since the introduction of the revised strategy we have significantly increased the number of interventions as well as increasing the focus on preventing error and fraud from entering the Tax Credit system in the first place. We are really encouraged by a reduction of 1.5 percentage points. It shows we have taken the right path in our approach, that our activity since 2009-10 has paid real dividends and that our approach is working.

6.28 As the measurement of tax credit error and fraud is retrospective, based on assessing the compliance of finalised tax credit cases, we have put in place a series of proxy losses prevented targets (calculating incorrect payments identified or prevented, as a result of each intervention) to assess our progress towards reducing overall levels to no more than five per cent by March 2011. In 2009-10 we achieved the proxy yield targets of £650 million by 31 March and £750 million by 31 July. For 2010-11 HMRC set a target of £1 billion yield by March 2011 and £1.4 billion by the end of July 2011. At the end of March 2011, we had exceeded our target by around five per cent, identifying and preventing total losses of £1.05 billion, undertaking nearly 1.8 million interventions compared to just over 1 million in 2009-10. Given that as recently as 2008-09 we identified additional yield of only £253 million, this means we have seen an increase in excess of 300 per cent in the first years of the strategy.

6.29 Our strategy is based upon four strands:

- Support – helping customers get it right first time.
- Identifying and tackling non-compliance.
- Prevention.
- Professionalism – getting the right people with the right skills in the right place.

6.30 As part of the prevention strand of the revised strategy introduced in 2009, HMRC introduced a different approach to the three areas where we believe error and fraud enters the tax credit system. During 2009-10, and into 2010-11, we have seen a significant cultural shift from the process-driven "Pay Now, Check Later" to the principle of "Check First, Then Pay". This new approach is based on the principle of checking and verifying information before claims are put into payment or changes are made to claims. The new interventions mean that genuine customers are not getting money in error which they later have to repay and fraudsters are being blocked at the earliest opportunity. This is a positive step not only for the customer but also the Exchequer and is at the heart of our Strategy.

Dame Lesley Strathie DCB
Principal Accounting Officer
6 July 2011

Consolidated Resource Accounts for the year ended 31 March 2011

Contents

The Annual Report

Introduction

1. These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2011 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts (HC 1156), which is available from The Stationery Office and which can be viewed at www.voa.gov.uk.

2. HMRC is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of tax credits, Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grants. HMRC is also responsible for collecting repayments of student loans, enforcing payment of the national minimum wage and for providing the Government business link portal.

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

4. Receipts and payments of direct and indirect taxes, National Insurance Contributions and payments of tax credits are accounted for in the Trust Statement which is on pages 125-161 of this publication.

5. Pension benefits are provided through the Civil Service pension arrangement (see note 1.13.1 and the Remuneration Report). Pension benefits are also provided through the Local Government Pension Scheme for a number of staff that are employed by the VOA (see note 1.13.2).

Departmental reporting cycle

6. In recent years the Department has produced regular reports on its performance as part of the Departmental and Autumn Performance Reports, the latest being the Departmental Report 2009 (Cm 7591) in July 2009 and the Autumn Performance Report 2009 (Cm 7774) in December 2009. No Departmental Report or Autumn Performance Report were published in 2010. For 2011 a combined Annual Report and Accounts has been produced and details of the Department's performance can be found on pages 6-37 of this publication. These reports are available from The Stationery Office and the HMRC Internet site (www.hmrc.gov.uk).

Management Commentary

Clear line of sight

7. The HM Treasury Clear Line of Sight project has been established to align budgets, Estimates and accounts. As a result there has been an impact on accounts from 1 April 2010 with further changes to be implemented in 2011-12. More detail on the impact in 2010-11 is set out at note 1.28. Further details of the project are available on the HM Treasury Internet site at www.hm-treasury.gov.uk.

Estate Management Strategy

8. The Department has developed an estate strategy to reduce the number of buildings it occupies in line with future operational requirements and civil estate benchmarks. The strategy will help HMRC obtain best value for money from the STEPS contract (see paragraph 18) which covers 70 per cent of the portfolio by floor area and ensure that investment funding to improve sustainability, workplace and IT infrastructures is targeted at those

locations with a long term business presence. The strategy will also address changes to the nature of the office holding as more processes are automated and working practices evolve and become more flexible.

Personal data related incidents

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

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation. There were no such disclosures excluded in 2010-11.

No data losses were formally reported by HMRC to the Information Commissioner's Office in 2010-11.

SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2010-11

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures. Figures for 2009-10 are shown in brackets.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	2 (18)
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	28 (40)
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	– (–)
IV	Unauthorised disclosure.	46 (29)
V	Other.	– (1)

Statement on information risk

In September 2010, the Information Commissioner lifted, nine months early, the Enforcement Notice placed upon HMRC following the Child Benefit data loss incident. This recognised the commitment made to meet the terms of the notice, and also required HMRC to continue to implement the recommendations contained in the Poynter Report.

The expansion of the Department's Secure Electronic Transfer (SET) service has continued, providing enhanced security for high volume electronic data transfers. HMRC has met its target of 80 per cent of outbound file transfers, via SET.

Governance and assurance activities continue to improve and particular focus has recently been given to the Cyber risks facing HMRC. The Senior Information Risk Owner (SIRO) has sponsored a Cyber Oversight Group and Cyber Working Group, to ensure cross department stakeholders remain engaged, and investment funding focuses on areas of greatest value.

Engagement with targeted areas of the business, as part of HMRC's Security Risk Management Overview for the Cabinet Office, has enabled the Department to better inform its information risk tolerance. It has also helped achieve improvements in a number of areas, including ownership and accreditation of HMRC's legacy information systems; testing of end-to-end process continuity requirements; ongoing recertification of user access entitlements; and managing risks to information stored and processed in our customer facing on-line systems.

Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective, and HMRC has been pleased by the independent recognition of the progress it has made by The National Archives in their recent Information Management Assessment. It praises senior management's commitment to information management and describes HMRC's approach to information security as best practice saying, "HMRC should be proud of its achievements in raising levels of understanding, awareness and compliance in relation to information security and assurance."

Plans also exist to build on progress to date, to drive both immediate improvements and longer term change, particularly in the areas of data quality; longer term digital continuity where storage requirements and technologies are continually evolving, and identifying a more consistent approach to identifying records that no longer need to be kept.

Further action on information risk

We will continue to take a risk based approach to defining our Security Direction of Travel and addressing areas of non-compliance with relevant laws and regulations. Such additional measures are reflected in planned investments over the remainder of the spending review period 2011-14. HMRC has developed and piloted an enhanced security incident capture tool for phased roll out in 2011-12. It will ensure root causes and trends can be assessed and the probability of repeat incidents reduced.

Financial position and results for the year

Supply Procedure

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

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

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

Comparison Outturn against Estimate

11. Expenditure outturn for the year was £16,118.8m, £353.7m (2.1 per cent) below the Estimate. The variances which exceed 10 per cent are explained below as required by the *Government Financial Reporting Manual (FReM)*. An explanation has also been provided for a variance that is close to 10 per cent.

- Request for resources 1B (RfR 1B), Other administration costs in Annually Managed Expenditure (AME), was underspent by £24.6m (27.5 per cent). This is due to the Estimate value having been originally agreed at Spending Review 2007;
- Request for resources 1D (RfR 1D), IFRS items outside Budget was underspent by £10.3m (16.2 per cent) against the Spring Supplementary Estimate of £63.5m and outturn was £53.2m. The Estimate was prepared in accordance with IAS 17 and IFRIC 12 and based on existing and historic property depreciation figures. HMRC has seen a greater than anticipated reduction in the size of its property estate which means that, where assets have been disposed of, the estimated depreciation values associated with that property have been overstated. This will no longer be an issue for 2011-12 onwards as these assets will not be reported on the Statement of Financial Position for Estimate purposes;
- Request for resources 5B (RfR 5B), Child Trust Fund endowments was overspent by £27.9m (9.1 per cent). The overspend is mainly due to claims relating to the years 2008 to 2010 that had not previously been identified and also the introduction of payments to claimants of Disability Living Allowance. There will be a virement between RfR 5B and RfR 5A, Children's benefits, which is underspent by £251.5m (2.0 per cent);
- Request for resources 5C (RfR 5C), Health in Pregnancy Grant was underspent by £25.7m (19.8 per cent). This was due to a lower than expected uptake of claims in the last few weeks of entitlement before the benefit ceased on 31 December 2010.

Consolidated Statement of Financial Position

12. Details of the Department's assets and liabilities are reported upon in the Consolidated Statement of Financial Position (see page 80).

13. Significant assets and liabilities include:

- property, plant and equipment £580.6m (note 13);
- intangible assets £1,207.2m (note 14);
- receivables £230.6m (falling due within one year) of which £72.3m relates to penalties (note 18);
- payables (amounts falling due within one year) of £978.3m (note 21);
- payables (amounts falling due over one year) of £418.7m (note 21);
- provisions of £296.0m mainly relating to early departure costs and Child Trust Fund liabilities (note 22).

Cash flow

14. The net cash outflow for the year was £10.6m as detailed in the Consolidated Statement of Cash Flows (see page 81).

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	2010-11 £m	2009-10 £m
Net Resource Outturn (Estimates)	**16,118.8**	**16,494.8**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in the Statement of Comprehensive Net Expenditure	2.0	1.9
Consolidated Fund Extra Receipts in the Statement of Comprehensive Net Expenditure	(17.0)	(3.9)
Other adjustments	–	–
Net Operating Cost (Accounts)	**16,103.8**	**16,492.8**
Adjustments to remove:		
Capital grants	(226.7)	(306.3)
European Union income and related adjustments	–	–
Voted expenditure outside the budget	(53.2)	(71.7)
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	0.3	0.5
Resource consumption of non-departmental public bodies	–	–
Unallocated resource provision	–	–
Other adjustments[1]	23,978.9	22,435.6
Resource Budget Outturn (Budget)	**39,803.1**	**38,550.8**
of which		
Departmental Expenditure Limits (DEL)	3,730.1	4,151.9
Annually Managed Expenditure (AME)	36,073.0	34,398.9

[1] The figure of £23,978.9m (2009-10: £22,435.6m) relates to the estimated Annually Managed Expenditure that is classified as non-voted by HM Treasury and which is accounted for in the Trust Statement. Tax credits make up the majority of this adjustment £23,331.1m (2009-10: £21,856.3m).

15. The Department was allocated a pay settlement worth 2.4 per cent per annum for 2008, 2009 and 2010 and offers were agreed with its trade unions. The Department paid the 2010 award in June 2010. The 2011 pay award will need to be consistent with the outcome of the Spending Review and the Government's pay freeze policy, which comes into effect for HMRC in 2011. The award will need to be agreed with the trade unions.

16. Child Benefit, Child Trust Fund and Health in Pregnancy Grant (HiPG) are accounted for within programme costs (see note 11) and the Consolidated Statement of Comprehensive Net Expenditure (see page 79).

The Government announced on 24 May 2010 that it intended to scale back and then stop Child Trust Fund payments. Details are reported at note 1.22 (see page 89).

The Government also announced on 22 June 2010 that HiPG would be abolished and that the Grant would not be paid to women who reach the twenty-fifth week of pregnancy after 31 December 2010. Accordingly, HiPG expenditure reduced in the final quarter of 2010-11, with any final residual expenditure to be reported in 2011-12.

The Government also announced in its Emergency Budget on 20 October 2010 that from 2012-13 a household which receives Child Benefit and where at least one partner is a higher rate taxpayer, will no longer be entitled to receive Child Benefit.

17. Details of the Department's significant provisions are reported in note 22 (see page 110).

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

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

19. In addition, the Department has a significant IT contract (non PFI), which is included within these Resource Accounts. Called "ASPIRE" the contract is to deliver a significant proportion of HMRC's and VOA's IT infrastructure with Capgemini as the prime contractor and other outsourcing partners including Fujitsu. Under the contract, Capgemini provides user services for desktop, business applications management, enhancements and development, and projects as well as integration services for new projects (including the testing of applications and infrastructure). Fujitsu covers data centre operations, desktop installation and support, Input/Output services (i.e. scanning & processing, printing & distribution) and disaster recovery. Other suppliers included in the contract include Accenture and British Telecom. However, Fujitsu, British Telecom, and Accenture perform their roles as subcontractors to Capgemini, who as the prime contractor is always accountable for the services performed under the contract.

Government Banking Service

20. The Government Banking Service (GBS) is part of HMRC and is responsible for holding balances and providing banking transaction services to around 900 public sector customers. It also works with HM Treasury to minimise the cost of government borrowing and supports Treasury cash management. Its creation was a result of the recommendations of the Chancellor's 2004 Departments Banking Review and The Bank of England's decision to withdraw from the provision of retail banking and clearing services. In 2006 both the Office of the Paymaster General (OPG) and the Government Banking Programme (GBP) were transferred to HMRC. The transition from OPG to the new Government Banking Service (Government Banking Programme) was completed in 2010-11 and the OPG banking services closed.

Under GBS's agreement with RBS and Citi, balances are swept from the commercial banks to the Bank of England and transferred to the Consolidated Fund. GBS customer balances are not included in HMRC's Statement of Financial Position on page 80, but are included in the accounts of the relevant government entities.

Management

Ministers and senior managers

21. The Corporate Governance Report (see page 59) identifies those senior managers who are members of the Board.

Register of interests

22. 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 31 to the accounts confirms that no member of the Board, including non-executives, have any related-party interests.

Internal Communications

23. The Department has a policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Hot Seat – an opportunity to send questions and feedback to the senior managers, staff telephone conferences with top managers, email alerts, intranet news pages, team briefings, newsletters, staff surveys, a staff magazine, communication events with senior managers, and regular meetings and discussions with trade union representatives.

Public Sector Information Holders

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

Public Interest Matters

Diversity and equality

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

26. Through promoting key messages in our Gender, Race and Disability Equality Schemes and progressing our Diversity Delivery Plan, we are addressing equality issues in the workplace. 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.

27. Our progress on diversity issues has been recognised in a number of ways: we gained first place in the 'a:gender' public sector Index of organisations committed to transgender equality; we came joint eighth in the Stonewall Index of gay friendly employers, and we are in the top 30 employers for Working Families Index. Our Senior Women's Network has won an Opportunity Now award and our Black and Minority Ethnic Women's network has been highly commended. In addition, our Lesbian, Gay, Bisexual and Transgender champion was shortlisted for the Civil Service Diversity Awards in recognition of his leadership.

28. Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have recently completed a review of our reasonable adjustment processes. We are implementing a series of recommendations that will enable us to provide appropriate adjustments quickly and cost-effectively. We have also reviewed management practices in respect of mental health issues to ensure that sufficient support mechanisms are in place for managers and staff.

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

Employee Engagement

30. HMRC's 2009 and 2010 people surveys indicated that the Department's biggest engagement challenges are leadership and the management of change (see section 5.17 of the Statement on Internal Control).

31. To address these challenges HMRC has established an Employment Engagement Champions Group (EECG) chaired by a member of the Executive Committee. The EECG promotes the strategy for and the programme of activity aimed at improving employee engagement. Its employee engagement intranet site provides help and advice on motivating and engaging with teams and sharing best practice, at present the main focus being on leadership, expectations and the work.

Social and community issues

32. HMRC is the only government department to feature in Business in the Community's Corporate Responsibility Index. Our platinum status in the Index puts us on a par with many of the top FTSE 100 organisations.

33. We invest approximately £2 million a year in partnerships with voluntary sector organisations which provide advice and support for disadvantaged communities. This year we gave 3,804 days of employee time for work in the community with voluntary organisations and participating in civic duties such as being magistrates and school governors, and on outreach programmes aimed at making contact with those people who need our help most but are reluctant to make contact with us. We work with UK and International agencies to develop and support effective civil governments overseas.

Payment of suppliers

34. The Department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 99 per cent (2009-10: 99 per cent) of supplier invoices within 30 days.

35. From 1 May 2010, in line with guidance from the Department for Business, Innovation & Skills, the Department has aimed to pay invoices within 5 days of receipt of goods and valid invoice. The Department paid 94 per cent of supplier invoices within 5 days. The legal requirement remains at 30 days.

Auditors

36. The Comptroller and Auditor General audits these Resource Accounts in accordance with the Government Resources and Accounts Act 2000. The notional charge for these audit services as disclosed in these accounts is £0.7m (2009-10: £0.8m). In addition the Comptroller and Auditor General audits the Trust Statement and it has been agreed that it is also appropriate to reflect the cost of this audit in these Resource Accounts. For 2010-11 the cost of the audit of the Trust Statement amounted to £1.2m (2009-10: £1.2m). PricewaterhouseCoopers undertake certain audit services on behalf of the Auditors. In 2009-10 the total audit fee also included an additional audit cost of £0.1m for work that was undertaken relating to the implementation of IFRS. The total audit fee reported in these Resource Accounts is £1.9m (2009-10: £2.1m).

37. In 2010-11 the VOA engaged PricewaterhouseCoopers through an open commercial tendering process to review the VOA's compliance with the Data Protection Act in respect of its Council Tax work. The cost of this work is reflected in the financial statements and was £0.2m.

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

Dame Lesley Strathie DCB
Principal Accounting Officer

6 July 2011

Corporate Governance Report

Period of Report

1. This report covers the period from 1 April 2010 to 31 March 2011.

Code of Good Practice on Corporate Governance in Central Government Departments

2. The governance arrangements set out in this report are compliant with the provisions of HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments published in July 2005.

Ministerial arrangements

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

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

How we run HMRC

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

Chairman

6. Mike Clasper is the non-executive Chairman and leads the HMRC Board. The Board provides strategic leadership, approves business plans, monitors performance and ensures the highest standards of corporate governance (see paragraph 13).

Chief Executive

7. Lesley Strathie is the Chief Executive and Permanent Secretary of HMRC. She is responsible for providing leadership and direction to the Department. She runs all aspects of HMRC's business, ensuring delivery of the Department's objectives and driving continuous improvement. She is the Principal Accounting Officer (PAO) and is accountable to Parliament for the Department's expenditure and performance.

Permanent Secretary for Tax

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

The Commissioners

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

10. The Commissioners are directly accountable to HM Treasury Ministers and Parliament and are required by the CRCA to comply with any directions of a general nature given to them by HM Treasury. In 2010-11 these were principally the Public Service Agreement targets and Annual Remit.

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

	(Period – if not full year)
Dame Lesley Strathie DCB	
Dave Hartnett CB	
Melanie Dawes	
Mike Eland CB	
Bernadette Kenny	to 15 November 2010
Steve Lamey	

The Department's Senior Governance Structure

The Board

12. The Board is made up of members of the Executive Committee (see paragraphs 16 to 19) and the non-executive Board members (see paragraphs 20 to 24). It comprised the following membership during this period:

		(Period – if not full year)
Mike Clasper CBE	Non-executive Chairman	
Dame Lesley Strathie DCB	Chief Executive and Permanent Secretary	
Dave Hartnett CB	Permanent Secretary for Tax	
Simon Bowles	Chief Finance Officer	
Colin Cobain	Non-executive	
Melanie Dawes	Director General Business Tax	
Mike Eland CB	Director General Enforcement and Compliance	
Mike Falvey	Chief People Officer	
Mark Haysom CBE	Non-executive	
Philippa Hird	Non-executive	
Phil Hodkinson	Non-executive	
Anthony Inglese CB	General Counsel and Solicitor	
Bernadette Kenny	Director General Personal Tax	to 5 November 2010
Steve Lamey	Director General Benefits and Credits	
Phil Pavitt	Chief Information Officer	
John Spence OBE	Non-executive	
Dame Sue Street DCB	Non-executive	to 31 December 2010

13. The responsibilities of the Board include:

- development and final approval of the overall strategy of HMRC;
- development and final approval of the HMRC Communications Strategy and sign off significant HMRC communications identified within the Communications Strategy;
- development and final approval of the culture and values objectives and strategies;
- approval of final sub-strategies of Lines of Business and Functions;
- approval of final business plans (including the annual financial plan);
- advice to the Chief Executive on the appointment of senior executives; and
- ensuring the strength of the top team by participating in the appointment of and advising on the ongoing competence of Board members, ExCom members and other key appointments.

14. This year an evaluation of the performance of the Board formed part of an independent review of HMRC's high level governance arrangements (see paragraph 19). The non-Executive Chairman also holds reviews with non-executive Board members on individual performance. Every two years, the Board considers its remit, constitution and operating procedures.

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

Executive Committee

16. The following people comprised the Executive Committee during this period:

		(Period – if not full year)
Dame Lesley Strathie DCB	Commissioner Chief Executive and Permanent Secretary	
Dave Hartnett CB	Commissioner Permanent Secretary for Tax	
Stephen Banyard	Acting Director General Personal Tax	from 8 November 2010
Simon Bowles	Chief Finance Officer	
Melanie Dawes	Commissioner Director General Business Tax	
Mike Eland CB	Commissioner Director General Enforcement and Compliance	
Mike Falvey	Chief People Officer	
Anthony Inglese CB	General Counsel and Solicitor	
Bernadette Kenny	Commissioner Director General Personal Tax	to 5 November 2010
Steve Lamey	Commissioner Director General Benefits and Credits	
Phil Pavitt	Chief Information Officer	

17. The Executive Committee oversees the breadth of HMRC's work and is responsible for implementing performance improvement and change agendas. Its members have portfolios of responsibility that span each line of HMRC business and corporate service function.

18. The Executive Committee meets once a month. Terms of reference and summary minutes are published on the HMRC Internet site.

19. The Committee reviews its own effectiveness on a regular basis as part of the arrangements for each meeting and periodically by other means, for instance coaching, workshops, external scrutiny and formal review. An independent formal review of HMRC's high level governance arrangements was conducted during the year. It made a number of recommendations to enhance the governance arrangements which will be implemented during 2011-12.

Non-Executive Board Members

20. The non-executive Board members during the period were as follows:

	(Period – if not full year)
Mike Clasper CBE	
Colin Cobain	
Mark Haysom CBE	
Philippa Hird	
Phil Hodkinson	
John Spence OBE	
Dame Sue Street DCB	to 31 December 2010

21. The non-executives were all appointed following recruitment exercises held in accordance with Cabinet Office guidance. On appointment, new non-executives undertake a structured induction process to provide an overview of Government and Whitehall as well as the organisation, responsibilities and strategic priority objectives of HMRC.

22. All of the non-executive Board members are considered to be independent of HMRC, being neither Commissioners nor officers of HMRC. Arrangements are in place to safeguard taxpayer confidentiality by ensuring that they do not participate in decisions involving specific tax matters.

23. The non-executive Board members contribute to Board decisions and provide guidance and advice to the Executive team, support and challenge management about the Department's strategic direction and monitor and review progress. They do this primarily through their attendance at Board and sub-committee meetings but also through visits and meetings with staff.

24. The Chairman held meetings periodically with the non-executive Board members, as a group and individually, without the executives present.

Board Sub-Committees

25. The Board has three sub-committees; Audit and Risk; People; and Ethics and Responsibilities. The Board agrees the terms of reference of the sub-committees and periodically reviews their work.

Audit and Risk Committee

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

27. In fulfilling this role, the Audit and Risk Committee reviews significant issues identified by the Board, Executive Committee, Internal Audit and the National Audit Office (NAO), acting on behalf of the Comptroller and Auditor General as the appointed independent external auditor, and invites executive managers to attend and provide an account of action being taken to address these issues.

28. Specific areas that come within the remit of the Audit and Risk Committee include the provision of assurance to the Board and Principal Accounting Officer as to the veracity of the financial statements, the efficacy of risk management and the strength and appropriateness of control processes across HMRC.

29. During the reporting period the members of the Audit and Risk Committee were John Spence OBE, Mark Haysom CBE and Dame Sue Street DCB (to 31 December 2010).

30. During the year a number of standing invitees also attended Audit and Risk Committee meetings. These included the Chief Executive, Chief Finance Officer, Financial Controller, the Head of Corporate Risk Management, Director Internal Audit and representatives from NAO.

31. The Audit and Risk Committee Chairman evaluates the performance of the committee in regular meetings with Audit and Risk Committee members and reports on performance to the HMRC Chairman.

32. The Audit and Risk Committee met nine times during the reporting period and the Chair provided a written report to the Board after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

People Committee

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

34. During the reporting period the members of the People Committee were Mike Clasper, Colin Cobain and Gary Kildare, an externally appointed independent advisor. Standing invitees were the Chief People Officer, General Counsel and Solicitor, Director Local Compliance and Director Customer Operations.

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

Ethics and Responsibilities Committee

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

37. During the reporting period the members of the Ethics and Responsibilities Committee were Philippa Hird, Phil Hodkinson and Chris Pond, an externally appointed independent advisor. Standing invitees were the Director General Benefits and Credits, Director Knowledge, Analysis and Information, Director Corporate Responsibility and Diversity and Director Individuals Customer Directorate.

38. The Ethics and Responsibilities Committee met four times during the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Executive Committee Sub-Committees

39. The Executive Committee is supported by five sub-committees; Performance, Tax, Investment, Change Delivery and People Matters.

Performance Committee

40. The Performance Committee has oversight of the Department's performance, both in terms of immediate and future objectives. It also acts as the steering group and substantive delivery board across the Department's strategic objectives. It interrogates HMRC performance against targets; identifies exceptions; and looks at ways to improve performance in all areas including both customer service and value for money. Discussions are informed by a set of performance indicators agreed by the Committee.

41. During the reporting period, membership of the Performance Committee comprised every member of the Executive Committee (see paragraph 16). It was chaired by Lesley Strathie, Chief Executive.

42. The Performance Committee met monthly throughout the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Tax Committee

43. The Tax Committee supports the Executive Committee by pro-actively co-ordinating tax issues within HMRC across its lines of business. "Tax" for this purpose includes all tax, duties, credits, benefits and related matters dealt with by HMRC.

44. The Committee is chaired by the Permanent Secretary for Tax. Membership of the Committee consists of Director-level representatives of Executive Committee members.

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

Investment Committee

46. The Investment Committee makes investment decisions on behalf of the Executive Committee for all Departmental change initiatives. It decides on the appropriateness of all investments within HMRC that affect the Department's customers, lines of business, people, and IT systems. It has responsibility for investment decisions on whether to proceed with change initiatives and on the necessary release or withdrawal of funds. It determines the most appropriate portfolio of investments that will deliver against the strategic direction and priorities set by the Executive Committee.

47. The Committee is chaired by the Chief Finance Officer. Membership of the Committee consists of Director-level representatives of Executive Committee members.

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

Change Delivery Committee

49. The Change Delivery Committee is responsible for ensuring the HMRC portfolio of investment programmes delivers the changes and benefits identified at their outset. It has responsibility for assuring delivery of the agreed portfolio of HMRC investment programmes on behalf of the Executive Committee, through its monitoring and management of the portfolio; and identifies issues arising from this monitoring and assurance work.

50. The Committee is chaired by the Chief Information Officer. Membership of the Committee consists of Director-level representatives of Executive Committee members.

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

People Matters Committee

52. The People Matters Committee oversees the development and delivery of the Executive Committee's People Strategy and supports the Chief People Officer in designing and implementing HMRC's people processes. It has responsibility for refreshing and updating existing HR practices. It develops, challenges and proposes solutions for the Executive Committee where new initiatives are being developed. It agrees the priority and work plan for the HMRC people policy remit.

53. The Committee is chaired by the General Counsel and Solicitor. Membership of the Committee consists of Director-level representatives of Executive Committee members.

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

Structure of the Department

55. The organisational structure of HMRC is based around four operational groups, each led by a Director General. These are:

- **Benefits and Credits.** Responsible for helping families and individuals with targeted financial support, ensuring customers get it right first time and that losses from claimant error and fraud are reduced;
- **Business Tax.** Responsible for ensuring businesses pay the right amount of tax while improving our customers' experience and the overall UK business environment;
- **Enforcement and Compliance.** Responsible for ensuring that HMRC successfully collects the full and correct amount of money due from UK taxpayers. It is also responsible for investigating offences against the tax and duty system;
- **Personal Tax.** Responsible for helping some 60 million individual customers across the UK to fulfil their tax obligations.

56. These are supported by the following cross-cutting functions:

- **Finance**
- **Information**
- **Legal**

- **People**
- **Permanent Secretary for Tax Group**

Relationships with Arm's Length Bodies

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

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

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

Service Contracts

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

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

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

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

There have been no amounts payable to third parties for services of a senior manager in 2010-11.

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

Remuneration:

Senior Officials

	2010–11			2009–10		
	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)
Mike Clasper CBE[1]	105–110	–	100	150–155	–	300
Dame Lesley Strathie DCB	170–175	–[6]	200	170–175	–[6]	700
Dave Hartnett CB	160–165	–[6]	100	160–165	–[6]	400
Melanie Dawes	120–125	5–10	100	120–125	10–15	500
Mike Eland CB	145–150	5–10	100	145–150	5–10	600
Bernadette Kenny[2] (to 5 November 2010)	75–80 (130–135 full year equivalent)	5–10	100	130–135	5–10	800
Steve Lamey	205–210	5–10	100	205–210	10–15	300
Stephen Banyard (from 8 November 2010)	50–55 (130–135 full year equivalent)	–	–	–	–	–
Simon Bowles[3]	180–185	5–10	100	180–185	–	500
Mike Falvey[4]	180–185	5–10	100	10–15 (170–175 full year equivalent)	–	–
Anthony Inglese CB	135–140	15–20	100	135–140	10–15	500
Phil Pavitt[5]	175–180	10–15	100	100–105 (175–180 full year equivalent)	–	1,500

1 Mike Clasper was appointed on a three-year contract commencing on 1 August 2008. His contract was varied in May 2010 to reduce his working time commitment and his salary has been disclosed accordingly.

2 Bernadette Kenny stood down from the Board of HMRC on 5 November 2010 and left on 31 January 2011. Under the relevant Civil Service contractual terms she received a lump sum payment at date of leaving of £151,480 and monthly payments totalling £50,493 per annum until attaining the age of 60 on 10 December 2016.

3 Simon Bowles was appointed on a three-year contract commencing on 17 March 2009.

4 Mike Falvey was appointed on a three-year contract commencing on 15 February 2010. His salary for 2010-11 includes a one-off payment of £7,292 relating to an annual leave adjustment. His bonus includes £9,321 in respect of work performed for the Department for Communities and Local Government prior to his appointment with HMRC.

5 Phil Pavitt was appointed on a three-year contract commencing on 2 September 2009.

6 Permanent Secretaries decided not to accept individual non-consolidated performance related pay awards (bonuses) in relation to the 2008-09 and the 2009-10 performance years.

Salary

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

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2010-11 are based on 2009-10 performance and bonuses paid in 2009-10 are based on 2008-09 performance. This report is based on payments made by the Department and thus recorded in these accounts.

Non-Executive Board Members

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

	2010–11		2009–10	
	Fees £000	Benefits in kind (to the nearest £100)	Fees £000	Benefits in kind (to the nearest £100)
Colin Cobain	25–30	–	30–35	200
Mark Haysom CBE	25–30	100	30–35	200
Philippa Hird	30–35	100	25–30	200
Phil Hodkinson	35–40	100	35–40	200
John Spence OBE	30–35	100	35–40	200
Dame Sue Street DCB (to 31 December 2010)	20–25 (25–30 full year equivalent)	100	25–30	200

Fees

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue & Customs as a taxable emolument. The Senior Officials detailed in this report, with the exception of Mike Clasper, each had benefits in kind in 2010-11 relating to hospitality provided at external development events. Mike Clasper, Lesley Strathie and each of the non-executive Board members, with the exception of Colin Cobain, all had a benefit in kind relating to a non-executive Board dinner.

Pension Benefits

	Accrued pension at pension age as at 31 March 2011 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2011 (to the nearest £000)	CETV at 31 March 2010[6] (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Mike Clasper CBE[1]	–	–	–	–	–	–
Dame Lesley Strathie DCB[2]	80–85 (Plus 250–255 lump sum)	–[7] –[7]	1,655	1,542	–[7]	–
Dave Hartnett CB[3]	75–80 (Plus 160–165 lump sum)	0–2.5 –[7]	1,699	1,607	–[7]	–
Melanie Dawes[2]	30–35 (Plus 95–100 lump sum)	0–2.5 (Plus 0–2.5 lump sum)	442	400	6	–
Mike Eland CB[2]	65–70 (Plus 195–200 lump sum)	–[7] –[7]	1,456	1,356	–[7]	–
Bernadette Kenny[2] (to 5 November 2010)	50–55 (Plus 150–155 lump sum)	0–2.5 (Plus 0–2.5 lump sum)	913[8]	886	–	–
Steve Lamey[4]	15–20	0–2.5	251	203	13	–
Stephen Banyard[3] (from 8 November 2010)	60–65 (Plus 125–130 lump sum)	0–2.5 (Plus 2.5–5.0 lump sum)	1,293	1,254[9]	39	–
Simon Bowles[5]	10–15	5.0–7.5	130	50	48	–
Mike Falvey[5]	10–15	2.5–5.0	122	80	33	–
Anthony Inglese CB[2]	60–65 (Plus 185–190 lump sum)	–[7] –[7]	1,415	1,315	–[7]	–
Phil Pavitt[1]	–	–	–	–	–	–

[1] Officer is not contributing towards the Civil Service pension scheme.

[2] Member of the Classic Scheme.

[3] Member of the Classic Plus Scheme.

[4] Member of the Premium Scheme, lump sum not applicable.

[5] Member of the Nuvos Scheme, lump sum not applicable.

[6] The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31 March 2010 and 31 March 2011 have both been calculated using the new factors, for consistency. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

[7] Real increase is negative due to the rise in pensionable pay being less than inflation.

[8] CETV at 5 November 2010.

[9] CETV at 7 November 2010.

Civil Service Pensions

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

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

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

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

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

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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.

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

Dame Lesley Strathie DCB
Principal Accounting Officer

6 July 2011

Statement of Accounting Officer's Responsibilities

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

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

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

HM Treasury has appointed the Permanent Head of the Department as Principal Accounting Officer of the Department. In addition, HM Treasury has appointed Additional Accounting Officers to be accountable for those parts of the Department's accounts relating to specified requests for resources and the associated assets, liabilities and cash flows. These appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the Department's accounts.

For 2010-11 the Principal Accounting Officer was Lesley Strathie.

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

- Mike Eland, in respect of

Request for resources 1:

Administering the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements;

Request for resources 5:

Payments of Child Benefit, Child Trust Fund endowments, Health in Pregnancy Grant and Saving Gateway.

- Dave Hartnett, in respect of

Request for resources 3:

Providing payments in lieu of tax relief to certain bodies i.e. transitional payments to charities, personal pensions, life assurance premium relief and residual payments for mortgage interest relief, and associated non-cash items.

- Penny Ciniewicz, Chief Executive of the Valuation Office Agency, in respect of

Request for resources 2:

Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved i.e. administration and the associated non-cash items incurred in the provision of valuation and other services for government departments and other public bodies by the Valuation Office Agency.

Request for resources 4:

Making payments of rates to Local Authorities on behalf of certain bodies i.e. rates paid by HM Revenue & Customs in respect of non-domestic property occupied by accredited representatives of Commonwealth and foreign countries and certain international organisations; and associated non-cash items.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in chapter 3 of *Managing Public Money* published by HM Treasury.

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 39 to 47.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue & Customs for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, Statement of Comprehensive Net Expenditure and the Statement of Financial Position, the Statement of Cashflows, the Statement of 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 information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Sustainability section within the Departmental Report, Annual Report and Corporate Governance 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
6 July 2011

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2010-11

								2010-11 £m	2009-10 £m
		Estimate			Outturn			Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Request for Resources	**Note**	**Gross Expenditure**	**A in A**	**Net Total**	**Gross Expenditure**	**A in A**	**Net Total**		**Net Total**
RfR 1: Administration	2	4,039.7	(528.5)	3,511.2	3,929.4	(512.9)	3,416.5	94.7	3,849.9
RfR 2: Valuation Office Agency	2	224.3	(219.3)	5.0	193.0	(193.0)	–	5.0	–
RfR 3: Payments in lieu of tax relief	2	180.0	–	180.0	176.9	–	176.9	3.1	154.5
RfR 4: Payments of Local Authority Rates	2	43.6	(2.3)	41.3	42.0	(2.3)	39.7	1.6	32.0
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	2	12,735.0	–	12,735.0	12,485.7	–	12,485.7	249.3	12,458.4
Total resources	3	**17,222.6**	(750.1)	**16,472.5**	**16,827.0**	(708.2)	**16,118.8**	**353.7**	**16,494.8**
Non-operating cost A in A				**3.8**			**0.3**	**3.5**	**0.5**

Net cash requirement 2010-11

				2010-11 £m Net Total outturn compared with Estimate: saving/ (excess)	2009-10 £m
	Note	**Estimate**	**Outturn**		**Outturn**
Net cash requirement	4	**16,628.9**	**16,163.7**	**465.2**	**16,369.6**

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (*cash receipts being shown in italics*).

		2010-11 £m Forecast		2010-11 £m Outturn	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
Total	5	–	–	(17.0)	*(17.0)*

Explanations of variances between Estimate and outturn are given in note 2 and in the Management Commentary.

The notes on pages 83 to 123 form part of these accounts.

Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

								Restated*	
							2010-11 £m		2009-10 £m
				Core Department			Consolidated	Core Department	Consolidated
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
Administration Costs:									
Request for resources 1 & 2–									
Staff costs	9	2,221.7			2,360.1			2,306.9	2,453.4
Other administration costs	10		1,447.6			1,479.5		1,650.9	1,711.9
Operating income	12			(498.8)			(690.9)	(531.4)	(745.7)
Programme Costs:									
Request for resources 1 & 2–									
Staff costs	9	–			–			–	–
Programme costs	11		260.0			265.2		414.9	420.3
Income	12			(14.3)			(14.3)	(26.0)	(26.0)
Request for resources 3–									
Payments in lieu of tax relief:									
Staff costs	9	–			–			–	–
Programme costs	11		176.9			176.9		154.5	154.5
Income	12			–			–	–	–
Request for resources 4 –									
Payments of Local Authority Rates:									
Staff costs	9	–			–			–	–
Programme costs	11		–			42.0		–	34.2
Income	12			–			(2.4)	–	(2.2)
Request for resources 5 –									
Child Benefit, Child Trust Fund and Health in Pregnancy Grant:									
Staff costs	9	–			–			–	–
Programme costs	11		12,487.7			12,487.7		12,487.5	12,487.5
Income	12			–			–	–	–
Totals		**2,221.7**	**14,372.2**	**(513.1)**	**2,360.1**	**14,451.3**	**(707.6)**		
Net Operating Cost for the year end 31 March 2011	3			**16,080.8**			**16,103.8**	**16,457.3**	**16,487.9**
Other Comprehensive Expenditure									
Net (gain)/loss on revaluation of property, plant and equipment				(4.0)			(4.1)	(7.6)	(8.3)
Net (gain)/loss on revaluation of intangible assets				(65.2)			(65.2)	(1.3)	(1.4)
Net (gain)/loss on impairments of non–current assets				–			–	–	–
Net (gain)/loss on revaluation of investments				–			–	–	–
Total Other Comprehensive Expenditure				**(69.2)**			**(69.3)**	**(8.9)**	**(9.7)**
Total Comprehensive Net Expenditure for the year end 31 March 2011				**16,011.6**			**16,034.5**	**16,448.4**	**16,478.2**

* *Certain prior year figures have been restated as per note 1.27 and note 1.28.*

The notes on pages 83 to 123 form part of these accounts.

Consolidated Statement of Financial Position as at 31 March 2011

	Note	2011 £m Core Department	2011 £m Consolidated	Restated* 2010 £m Core Department	Restated* 2010 £m Consolidated	Restated* 2009 £m Core Department	Restated* 2009 £m Consolidated
Non-current assets:							
Property, plant and equipment	13	568.4	580.6	629.8	640.5	702.0	709.5
Intangible assets	14	1,177.7	1,207.2	1,167.4	1,199.3	1,118.5	1,151.8
Financial assets	15	–	–	–	–	–	–
Receivables	18	–	–	–	–	–	–
Total non-current assets		1,746.1	1,787.8	1,797.2	1,839.8	1,820.5	1,861.3
Current assets:							
Inventories	17	–	2.6	2.7	5.4	3.3	7.5
Trade and other receivables	18	224.5	230.6	234.3	241.2	235.9	246.1
Other current assets		–	–	–	–	–	–
Financial assets	15	–	–	–	–	–	–
Cash and cash equivalents	19	17.8	27.9	26.5	38.5	48.6	51.3
Total current assets		242.3	261.1	263.5	285.1	287.8	304.9
Total assets		1,988.4	2,048.9	2,060.7	2,124.9	2,108.3	2,166.2
Current liabilities:							
Trade and other payables	21	(949.7)	(978.3)	(1,064.0)	(1,098.5)	(1,034.3)	(1,060.3)
Other liabilities		–	–	–	–	–	–
Total current liabilities		(949.7)	(978.3)	(1,064.0)	(1,098.5)	(1,034.3)	(1,060.3)
Non-current assets plus/ less net current assets/ liabilities		1,038.7	1,070.6	996.7	1,026.4	1,074.0	1,105.9
Non-current liabilities:							
Provisions	22	(282.0)	(296.0)	(340.6)	(355.9)	(281.1)	(296.1)
Pension liability	23	–	(11.9)	–	(33.3)	–	(16.9)
Other payables	21	(418.2)	(418.7)	(447.3)	(447.9)	(481.1)	(481.7)
Financial liabilities	15	–	–	–	–	–	–
Total non-current liabilities		(700.2)	(726.6)	(787.9)	(837.1)	(762.2)	(794.7)
Assets less liabilities		338.5	344.0	208.8	189.3	311.8	311.2
Taxpayers' equity:							
General fund		145.9	161.4	16.2	27.8	114.0	125.3
Revaluation reserve		192.6	194.5	192.6	194.8	197.8	202.8
Pension reserve		–	(11.9)	–	(33.3)	–	(16.9)
Total taxpayers' equity		338.5	344.0	208.8	189.3	311.8	311.2

* *Certain prior year figures have been restated as per note 1.28.*

Dame Lesley Strathie DCB
Principal Accounting Officer

6 July 2011

The notes on pages 83 to 123 form part of these accounts.

Consolidated Statement of Cash Flows for the year ended 31 March 2011

	Note	2010-11 £m	Restated* 2009-10 £m
Cash flows from operating activities			
Net operating cost		(16,103.8)	(16,487.9)
Adjustments for non-cash transactions	10,11	439.9	518.4
(Increase)/Decrease in trade and other receivables		10.6	4.9
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		–	–
(Increase)/Decrease in inventories		2.8	2.1
Increase/(Decrease) in trade payables		(149.4)	4.4
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		50.0	51.4
Use of provisions	22	(196.1)	(175.5)
Net cash outflow from operating activities		**(15,946.0)**	**(16,082.2)**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(8.0)	(27.1)
Purchase of intangible assets	14	(164.7)	(205.8)
Proceeds of disposal of property, plant and equipment		0.3	0.5
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		**(172.4)**	**(232.4)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		16,164.2	16,354.6
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the National Insurance Fund		2.0	1.9
Payments to the National Insurance Fund		–	–
Advances from the Contingencies Fund		–	–
Repayments to the Contingencies Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(41.5)	(52.9)
Net financing		**16,124.7**	**16,303.6**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**6.3**	**(11.0)**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		–	–
Payments of amounts due to the Consolidated Fund		(16.9)	(1.8)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(10.6)**	**(12.8)**
Cash and cash equivalents at the beginning of the period	19	**38.5**	**51.3**
Cash and cash equivalents at the end of the period	19	**27.9**	**38.5**

**Certain prior year figures have been restated as per note 1.27 and note 1.28.*

The notes on pages 83 to 123 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

		Core Department				Consolidated			
	Note	General Fund £m	Revaluation Reserve[1] £m	Pension Reserve £m	Total Reserves £m	General Fund £m	Revaluation Reserve[2] £m	Pension Reserve £m	Total Reserves £m
Balance at 31 March 2009		114.0	197.8	–	311.8	125.3	202.8	(16.9)	311.2
Changes in accounting policy		–	–	–	–	–	–	–	–
Balance at 1 April 2009		**114.0**	**197.8**	**–**	**311.8**	**125.3**	**202.8**	**(16.9)**	**311.2**
Net Parliamentary Funding – drawn down		16,319.0	–	–	16,319.0	16,354.6	–	–	16,354.6
Net Parliamentary Funding – deemed		36.6	–	–	36.6	36.8	–	–	36.8
National Insurance Fund		1.9	–	–	1.9	1.9	–	–	1.9
Supply payable/(receivable) adjustment		(13.5)	–	–	(13.5)	(21.8)	–	–	(21.8)
CFERs payable to the Consolidated Fund	5	(0.6)	–	–	(0.6)	(3.9)	–	–	(3.9)
Comprehensive Net Expenditure for the Year*		(16,457.3)	–	–	(16,457.3)	(16,487.9)	–	–	(16,487.9)
Non-cash Adjustments									
Non-cash charges – auditor's remuneration	10	2.0	–	–	2.0	2.1	–	–	2.1
Movements in Reserves									
Recognised in Statement of Comprehensive Expenditure		–	8.9	–	8.9	–	9.7	–	9.7
Transfer between reserves*		14.1	(14.1)	–	–	20.7	(17.7)	(3.0)	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	(14.4)	(14.4)
Contributions to LGPS pension fund by DWP	23	–	–	–	–	–	–	1.0	1.0
Balance at 31 March 2010		**16.2**	**192.6**	**–**	**208.8**	**27.8**	**194.8**	**(33.3)**	**189.3**
Net Parliamentary Funding – drawn down		16,123.9	–	–	16,123.9	16,164.2	–	–	16,164.2
Net Parliamentary Funding – deemed		13.5	–	–	13.5	21.8	–	–	21.8
Liabilities in respect of assets brought onto the Consolidated Statement of Financial Position IAS17[3]		18.0	–	–	18.0	18.0	–	–	18.0
National Insurance Fund		2.0	–	–	2.0	2.0	–	–	2.0
Supply payable/(receivable) adjustment		(17.7)	–	–	(17.7)	(22.3)	–	–	(22.3)
CFERs payable to the Consolidated Fund	5	(0.3)	–	–	(0.3)	(5.8)	–	–	(5.8)
Comprehensive Net Expenditure for the Year		(16,080.8)	–	–	(16,080.8)	(16,103.8)	–	–	(16,103.8)
Non-cash Adjustments									
Non-cash charges – auditor's remuneration	10	1.9	–	–	1.9	1.9	–	–	1.9
Movements in Reserves									
Recognised in Statement of Comprehensive Expenditure		–	69.2	–	69.2	–	69.3	–	69.3
Transfer between reserves		69.2	(69.2)	–	–	57.6	(69.6)	12.0	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	9.4	9.4
Contributions to LGPS pension fund by DWP	23	–	–	–	–	–	–	–	–
Balance at 31 March 2011		**145.9**	**192.6**	**–**	**338.5**	**161.4**	**194.5**	**(11.9)**	**344.0**

[1] The 31 March 2011 Core Department Revaluation Reserve Balance comprised £76.5m in relation to Intangible Assets (31 March 2010 £73.2m, 1 April 2009 £78.5m).

[2] The 31 March 2011 Consolidated Revaluation Reserve Balance comprised £77.8m in relation to Intangible Assets (31 March 2010 £74.8m, 1 April 2009 £82.0m).

[3] Whilst adjustments were reported in the 2010-11 account to move to reporting in accordance with International Accounting Standards a residual adjustment has been made to align the liability for 100 Parliament Street removing contingent rent that remained reported in the liability.

* *Certain prior year figures have been restated as per note 1.27*

The notes on pages 83 to 123 form part of these accounts.

Notes to the Departmental Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2010-11 *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.

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

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

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (the Core Department) and those entities which fall within the Departmental boundary as defined in the *FReM*. Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the Departmental boundary is given at note 33.

1.3 Financial Instruments

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

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

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

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

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

1.4 Property, plant and equipment

1.4.1 General

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

1.4.2 Property assets

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

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

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor Departments by Mapeley STEPS Contractor Ltd in March 2001 under a twenty-year PFI contract (see note 27.2). 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 its seven other PFI property interests as finance leases being service concession arrangements under IFRIC 12, with the exception of Benton Park View, of which only 75 per cent has been capitalised as the Department for Work and Pensions is the joint tenant for the remainder of the property. The Department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

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

Accommodation refurbishments at note 13 reports expenditure in respect of major capital refurbishments and improvements of properties occupied but not owned. HMRC policy from April 2005 is to capitalise refurbishments when the project costs exceed £150,000.

1.4.3 IT assets

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

1.4.4 Furniture

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

1.4.5 Assets under construction

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

1.5 Depreciation

Property, plant and equipment is depreciated at rates calculated to write them down to estimated residual values on a straight-line basis over their estimated useful lives. Asset lives are normally in the following ranges:

Asset category	Estimated useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Period of the lease
Office equipment	5 to 20 years
Computer equipment	3 to 7 years
Vehicles	3 to 7 years
Furniture & fittings	15 years
Developed computer software	10 years unless known to be otherwise, remaining economic life is reviewed annually.
Scientific aids	3 to 12 years

1.6 Intangible assets

1.6.1 Licences

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

1.6.2 Developed computer software

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

1.6.3 Intangible assets under construction

Intangible assets under construction are separately reported in note 14. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and amortisation commences.

1.7 Impairments of non-financial assets

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

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

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

1.8 Inventories

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

1.9 Operating income

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

1.10 Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs as agreed with HM Treasury.

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

Programme costs reflect non-administration costs, including Child Benefit, Child Trust Fund and Health in Pregnancy Grant payments and other disbursements by the Department.

1.11 Cash and cash equivalents

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

1.12 Foreign exchange

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

1.13 Pensions

1.13.1 Principal Civil Service Pension Scheme (PCSPS)

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

1.13.2 Local Government Pension Scheme (LGPS)

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the LGPS. The fund is administered by London Pension Fund Authority and the Mayor of London appoints its trustees. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Agency. The LGPS is accounted for as a defined benefit scheme.

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

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

A formal valuation of the scheme's assets and liabilities for the purpose of setting employers' contributions is carried out every three years. The last formal valuation was as at 31 March 2010. The current employer contribution rate is 18.8 per cent of pensionable pay (2009-10: 18.8 per cent).

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

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

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

1.14 Operating Leases

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

1.15 Employee Benefits

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

1.16 Provisions

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

1.17 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department makes provision in full for this cost when the early retirement is binding on the Department. The estimated risk-adjusted cash flows are discounted at 2.9 per cent as set by HM Treasury (2009-10: 1.8 per cent).

1.18 Provision for doubtful debt

Under IAS 39 a specific provision for doubtful debt is made in respect of legal costs that have been awarded to the Department. These costs arise as a result of legal proceedings against taxpayers for the recovery of outstanding tax liabilities. A further provision is made in respect of penalty receivables (note 1.20) to allow for the remission of uncollectable penalties and in respect of Child Benefit receivables (note 1.21) to allow for potentially irrecoverable amounts. All these provisions have been estimated having regard to the level of debts not recovered.

1.19 Value Added Tax

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

1.20 Tax penalty income

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

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

1.21 Child Benefit

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

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

1.22 Child Trust Fund

Child Trust Fund (CTF) endowments provided assistance with the funding of long-term individual savings and investment accounts provided by approved financial institutions. Eligibility for an endowment arose when a claim for Child Benefit was approved. All eligible children born on or after 1 September 2002 up to and including 2 January 2011 were entitled to an initial endowment. However, the entitlement for children born in the 5 months up to 2 January 2011 was awarded at a lower initial endowment rate. In addition to the initial endowment, children in families where the family income is below the income threshold for Child Tax Credit purposes in the tax year of birth will also qualify for a supplementary endowment. Final payments of this supplementary endowment will be made in 2011-12.

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

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

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

1.23 Health in Pregnancy Grant

Health in Pregnancy Grant provided financial assistance to women to help meet the additional costs encountered during pregnancy. Eligibility for the grant arose when a woman was certified by a health professional as having reached at least her twenty-fifth week of pregnancy on or before 31 December 2010. Payments due, where they remain unpaid, are recognised as payables (amounts falling due within one year).

1.24 Third-party assets

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

Details of these assets are reported in note 32.

1.25 Contingent liabilities

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

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

1.26 Parliamentary Estimates included in the accounts not restated

In line with HM Treasury advice, Prior Period Adjustments arising from the removal of the cost of capital charge and the *FReM* adaptation of IAS 36, Impairment of assets were not included in Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the Prior Period Adjustment numbers could have been misleading. The impact of these accounting policy changes on the Statement of Comprehensive Net Expenditure in respect of 2009-10 are shown in 1.27. Prior Period Adjustments arising from an error in previous recording or any other change in accounting policy were included in the Estimates in line with conventional arrangements.

1.27 Impact of removal of cost of capital charge and change in impairment policy on Net Resource Outturn

The removal of the cost of capital charge and the adaptation of IAS 36, Impairment of assets has the following effect on Resource Outturn in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

	2009-10 £m
Net Resource Outturn (Statement of Parliamentary Supply)	16,494.8
Removal of cost of capital charge	(7.0)
Adaptation of IAS 36, Impairment of assets	2.2
Adjusted Net Resource Outturn	16,490.0

1.28 Newly applied and future accounting policy changes

Adopted in these Financial Statements

The *FReM* typically applies the standards and interpretations that are effective for the accounting period to which it refers.

An amendment to the *FReM*, effective from 1 April 2010 which has been applied in these accounts includes IAS 36 referred to in note 1.7. This amendment requires impairments of property, plant and equipment that arise from a clear consumption of economic benefits to be taken direct to the Consolidated Statement of Comprehensive Net Expenditure. A Prior Period Adjustment relating to impairments has been recorded in the 2009-10 comparatives. The impact is recorded in note 1.27.

The HM Treasury Clear Line of Sight Policy aims to align budgets, Estimates and accounts. As a result there has been an impact on accounts from 1 April 2010 in respect of cost of capital charges being removed in line with corresponding changes to budget and estimates. A Prior Period Adjustment to remove the cost of capital charge relating to the 2009-10 Financial Year has been recorded and the impact is shown in note 1.27. In addition to the adjustments referred to in note 1.27, the Clear Line of Sight Policy has also resulted in the following comparative figures being restated:

- The charges for all Provisions are now shown in note 11 – Programme Costs. Previously, certain provisions (and where relevant the unwinding of the discount) were treated as Administration Costs in note 10. The comparative values have been restated accordingly;
- Certain Consolidated Fund Extra Receipts (CFERs) are now reported in the Department's Trust Statement. Values have been restated as necessary.

To comply with IFRS 8 Operating Segments, notes 24.1 and 24.2 Segment Information have now been included in these accounts following HM Treasury guidance.

Effective for future Financial Years

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

- IFRS 9 Financial Instruments: Classification and Measurement (effective 1 January 2013) – IFRS 9 is a replacement of IAS 39 and simplifies the classification and measurement of financial assets;
- In 2011-12, the accounting for tax credits is to be recorded in the Consolidated Statement of Comprehensive Net Expenditure of the Resource Accounts rather than the Trust Statement. The use of tax revenues to fund tax credits is recorded in the Trust Statement as a disbursement. Funding from the Trust Statement for tax credits will be recorded in the Resource Accounts as financing;
- In 2011-12, as a result of the Spending Review 2010 discussions with HM Treasury, the Department is realigning its expenditure profile between administration and programme costs.

1.29 Critical accounting judgements and key sources of estimation

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant estimates and areas of management judgement made in the accounts relate to:

- the revaluation of assets in accordance with Modified Historic Cost Accounting Principles (see note 1.1);
- the valuation of furniture (see note 1.4.4);
- the employee leave accrual (see note 1.15);
- provisions for legal claims, early departure costs, Child Trust Fund, Health in Pregnancy Grant and accommodation costs (see note 22);
- the contingent liabilities disclosure (see note 29).

2. Analysis of net resource outturn by section

							2010-11 £m		Restated* 2009-10 £m
	Outturn						Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior-year outturn
Request for resources 1:									
A. Administration	3,669.4	141.5	0.6	3,811.5	(512.9)	3,298.6	3,358.4	59.8	3,537.1
B. Other administration costs in AME	–	64.7	–	64.7	–	64.7	89.3	24.6	107.0
e-filing incentive payments	–	–	–	–	–	–	–	–	100.1
C. Operational local clearance procedures	–	–	–	–	–	–	–	–	–
D. IFRS items outside Budget	–	53.2	–	53.2	–	53.2	63.5	10.3	71.7
Total	3,669.4	259.4	0.6	3,929.4	(512.9)	3,416.5	3,511.2	94.7	3,815.9
Request for resources 2:									
A. VOA Administration	187.8	–	–	187.8	(193.0)	(5.2)	(0.1)	5.1	1.8
B. VOA Other administration costs in AME	–	5.1	–	5.1	–	5.1	5.0	(0.1)	–
C. IFRS items outside Budget	–	0.1	–	0.1	–	0.1	0.1	–	0.1
Total	187.8	5.2	–	193.0	(193.0)	–	5.0	5.0	1.9
Request for resources 3:									
A. Payments in lieu of tax relief	–	–	176.9	176.9	–	176.9	180.0	3.1	154.5
Request for resources 4:									
A. Payments of Local Authority Rates	–	42.0	–	42.0	(2.3)	39.7	41.3	1.6	32.1
Request for resources 5:									
A. Children's benefits	–	–	12,048.5	12,048.5	–	12,048.5	12,300.0	251.5	11,927.5
B. Child Trust Fund endowments	–	–	332.9	332.9	–	332.9	305.0	(27.9)	420.3
C. Health in Pregnancy Grant	–	–	104.3	104.3	–	104.3	130.0	25.7	137.8
D. Saving Gateway	–	–	–	–	–	–	–	–	–
Total	–	–	12,485.7	12,485.7	–	12,485.7	12,735.0	249.3	12,485.6
Resource Outturn	**3,857.2**	**306.6**	**12,663.2**	**16,827.0**	**(708.2)**	**16,118.8**	**16,472.5**	**353.7**	**16,490.0**

** Certain prior year figures have been restated as per note 1.27 and note 1.28.*

Explanation of the variances between Estimate and outturn for Request for Resources

The outturn for RfR1 was £94.7m (2.7 per cent) less than the Estimate. Within this:

- Request for resources 1B (RfR 1B), Other administration costs in AME, was underspent by £24.6m (27.5 per cent). This is due to the Estimate value having been originally agreed at Spending Review 2007;
- Request for resources 1D (RfR 1D), IFRS items outside Budget was underspent by £10.3m (16.2 per cent) against the Spring Supplementary Estimate of £63.5m and outturn was £53.2m. The Estimate was prepared in accordance with IAS 17 and IFRIC 12 and based on existing and historic property depreciation figures. HMRC has seen a greater than anticipated reduction in the size of its property estate which means that, where assets have been disposed of, the estimated depreciation values associated with that property have been overstated. This will no longer be an issue for 2011-12 onwards as these assets will not be reported on the Statement of Financial Position for Estimate purposes.

The outturn for RfR5 was £249.3m (2.0 per cent) less than the Estimate. Within this:

- Request for resources 5B (RfR 5B), Child Trust Fund endowments was overspent by £27.9m (9.1 per cent). The overspend is mainly due to claims relating to the years 2008 to 2010 that had not previously been identified and also the introduction of payments to claimants of Disability Living Allowance. There will be a virement between RfR 5A and RfR 5B, Children's benefits, which is underspent by £251.5m (2.0 per cent);
- Request for resources 5C (RfR 5C), Health in Pregnancy Grant was underspent by £25.7m (19.8 per cent). This was due to a lower than expected uptake of claims in the last few weeks of entitlement before the benefit ceased on 31 December 2010.

Detailed explanations of the variances are given in the Management Commentary.

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

3.1 Reconciliation of net resource outturn to net operating cost

	Note	Outturn	Supply Estimate	2010-11 £m Outturn compared with Estimate	Restated* 2009-10 £m Outturn
Net Resource Outturn	2	16,118.8	16,472.5	(353.7)	16,490.0
Non-supply income (CFERs)	5	(17.0)	–	(17.0)	(4.0)
Non-supply expenditure		2.0	–	2.0	1.9
Net operating cost		**16,103.8**	**16,472.5**	**(368.7)**	**16,487.9**

** Certain prior year figures have been restated as per note 1.27.*

3.2 Outturn against final Administration Budget

	2010-11 £m Budget	2010-11 £m Outturn	2009-10 £m Outturn
Gross Administration Budget	3,985.0	3,857.2	4,315.7
Income allowable against the Administration Budget	(353.5)	(327.3)	(375.5)
Net outturn against final Administration Budget	**3,631.5**	**3,529.9**	**3,940.2**

4. Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £m	Outturn £m	Net total outturn compared with Estimate: saving/(excess) £m
Resource Outturn	2	16,472.5	16,118.8	353.7
Capital				
Acquisition of non-current assets		221.9	200.7	21.2
Financial Assets		–	–	–
Non-operating A in A				
Proceeds of asset disposals		(3.8)	(0.3)	(3.5)
Accruals adjustments				
Non-cash items	10,11	(492.6)	(439.9)	(52.7)
Changes in working capital other than cash		267.2	77.6	189.6
Changes in payables falling due after more than one year	21	–	10.7	(10.7)
Use of provisions	22	163.7	196.1	(32.4)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	–	–
Net cash requirement		**16,628.9**	**16,163.7**	**465.2**

Explanation of the variances between Estimate and cash requirement

- The proceeds of asset disposals varied by £3.5m (92.1 per cent) from the Estimate. This is due to a significant receipt in 2006-07 for the sale of a property being rolled over into the 2010-11 Estimate from Spending Review 07 (SR07);
- Changes in working capital other than cash varied by £189.6m (71.0 per cent) from the Estimate. The Estimate included an element for changes in payables falling due after more than one year. The majority of the remaining variance resulted from accruals assumptions that were based on 2009-10 trends;
- Changes in payables falling due after more than one year varied by £10.7m. The Estimate for this item was included in the changes in working capital category;
- Use of provisions varied by £32.4m (19.8 per cent) from the Estimate. Early release schemes run in recent years, together with legal cases and other provisions arising, have resulted in utilised provisions being greater than the funding of £34.1m set at SR07.

5. Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund *(cash receipts being shown in italics)*.

	Note	Forecast 2010-11 £m Income	Forecast 2010-11 £m *Receipts*	Outturn 2010-11 £m Income	Outturn 2010-11 £m *Receipts*
Operating income and receipts – excess A in A[1]		–	–	(16.7)	*(16.7)*
Other operating income and receipts not classified as A in A		–	–	(0.3)	*(0.3)*
		–	–	(17.0)	*(17.0)*
Non-operating income and receipts – excess A in A	8	–	–	–	–
Amounts collected on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund	4	–	–	–	–
Total income payable to the Consolidated Fund		–	–	**(17.0)**	***(17.0)***

[1] This includes £11.2m relating to changes to pension scheme benefits shown as 'Past Service Gains' in note 23. With the agreement of HM Treasury this non-cash item does not need to be paid to the Consolidated Fund.

6. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11 £m	2009-10 £m
Operating income	12	(707.6)	(773.9)
Adjustments for transactions between RfRs		(17.6)	(16.8)
Gross income		(725.2)	(790.7)
Income authorised to be appropriated in aid		(708.2)	(786.8)
Operating income payable to the Consolidated Fund	5	**(17.0)**	**(3.9)**

7. Consolidated Fund Income

Consolidated Fund income shown in note 6 above does not include any amounts collected by HMRC 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 which is on pages 125-161 of this publication.

8. Non-operating income – Excess Appropriations in Aid

The Department has no non-operating income – Excess A in A.

9. Staff numbers and related costs

Staff costs comprise:

	2010-11 £m			2009-10 £m
	Total[1]	Permanently employed staff	Others	Total
Wages and salaries	1,883.9	1,877.7	6.2	1,960.3
Social security costs	133.0	132.5	0.5	138.7
Other pension costs	343.2	342.4	0.8	355.5
Sub Total	**2,360.1**	**2,352.6**	**7.5**	**2,454.5**
Less recoveries in respect of outward secondments	(3.0)	(3.0)	–	(3.4)
Total net costs[2]	**2,357.1**	**2,349.6**	**7.5**	**2,451.1**
Of which: **Core Department**	**2,218.7**	**2,212.9**	**5.8**	**2,304.6**

[1] Staff consist entirely of officials.
[2] In 2009-10 £1.1m was charged to capital – there was no charge to capital in 2010-11.

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

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

For 2010-11, employers' contributions of £340,094,640 were payable to the PCSPS (2009-10: £353,665,000) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £626,477 (2009-10: £730,117) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £44,811, 0.8 per cent of pensionable pay (2009-10: £52,783, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

Contributions due to the **partnership** pension providers at the reporting period date were nil. Contributions prepaid at that date were nil.

131 persons (2009-10: 125 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £203,661 (2009-10: £186,239).

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Details of this scheme can be found in note 1.13.2 and note 23.

Average number of persons employed

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

			2010-11 Number	**2009-10 Number**
	Total	**Permanently employed staff**	**Others**	**Total**
RfR 1: Administration	66,241	66,046	195	72,146
RfR 2: Valuation Office Agency	3,817	3,755	62	4,060
RfR 3: Payments in lieu of tax relief	2	2	0	2
RfR 4: Payments of Local Authority Rates	3	3	0	3
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	1,505	1,505	0	1,522
Staff engaged on capital projects	0	0	0	25
Total	**71,568**	**71,311**	**257**	**77,758**
Of which:				
Core Department	**67,748**	**67,553**	**195**	**73,695**

9.1 Reporting of Civil Service and other compensation schemes – exit packages

Comparative data shown in brackets for previous year.

1	**Exit package cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
2	<£10,000	5 (–)	48 (177)	53 (177)
3	£10,000 – £25,000	8 (–)	230 (496)	238 (496)
4	£25,000 – £50,000	1 (–)	140 (746)	141 (746)
5	£50,000 – £100,000	1 (–)	86 (980)	87 (980)
6	£100,000 – £150,000	– (–)	19 (206)	19 (206)
7	£150,000 – £200,000	– (–)	2 (95)	2 (95)
8	£200,000+	– (–)	3 (34)	3 (34)
9	Total number of exit packages by type	15 (–)	528 (2,734)	543 (2,734)
10	Total resource cost	£268,041 (–)	£18,603,327 (£157,561,867)	£18,871,368 (£157,561,867)

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

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

10. Other Administration Costs

		2010-11 £m				Restated* 2009-10 £m			
	Note	Core Department		Consolidated		Core Department		Consolidated	
Rentals under operating leases									
Hire of plant and machinery		1.4		1.4		1.8		1.8	
Other operating leases		21.4		21.8		23.3		23.5	
			22.8		23.2		25.1		25.3
Interest charges									
Finance lease contracts		59.2		59.2		58.8		58.8	
			59.2		59.2		58.8		58.8
PPP & PFI service charges									
IT Service PPP contract payments		473.9		484.1		461.3		470.1	
Accommodation PFI contract payments[1]		176.4		186.9		202.6		216.1	
Indexation of liability on PFI deals		6.8		6.8		2.3		2.3	
			657.1		677.8		666.2		688.5
Non-cash items									
Depreciation		31.4		34.4		43.3		46.2	
Amortisation		174.8		178.8		146.7		151.0	
Profit on disposal of property, plant and equipment		(0.2)		(0.2)		(0.4)		(0.4)	
Loss on disposal of property, plant and equipment		4.1		4.2		3.5		4.1	
Net revaluation loss		–		–		–		–	
Net loss on impairment of non-current assets		–		1.2		–		6.6	
Auditor's remuneration and expenses		1.9		1.9		2.0		2.1	
Other Pension Finance Costs	23	–		(12.0)		–		3.0	
			212.0		208.3		195.1		212.6
Other expenditure									
Travel, subsistence and hospitality		45.7		50.3		70.0		75.6	
Accommodation expenses		113.0		123.1		133.4		143.0	
Administrative staff related costs		0.5		1.3		0.7		1.9	
Printing, postage, stationery and office supplies		76.3		77.6		103.3		104.9	
Telephone expenses		50.7		51.2		58.5		58.9	
IT services and consumables		29.7		30.8		52.3		54.1	
Legal costs		–		0.3		–		(0.1)	
Consultancy[2]		8.9		10.1		45.2		46.5	
Contracted out services		32.7		32.9		34.0		34.5	
Publicity		4.0		6.0		14.9		17.5	
Post Office services		14.8		14.8		21.4		21.4	
Bank charges[3]		21.2		21.2		13.4		13.4	
Other miscellaneous expenditure		99.0		91.4		158.6		155.1	
			496.5		511.0		705.7		726.7
Total			**1,447.6**		**1,479.5**		**1,650.9**		**1,711.9**

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

[2] In 2009-10 Consultancy costs amounting to £1.0m were capitalised as part of the cost of developing non-current assets - there was no capitalisation of Consultancy costs in 2010-11. The total amount of consultancy expenditure for 2010-11 was £10.1m (2009-10: £47.5m).

[3] Prior to 2010-11 certain bank charges represented a programme cost (see note 11).

** Certain prior year figures have been restated as per note 1.27 and note 1.28.*

11. Programme Costs

									Restated*
					2010-11 £m				2009-10 £m
	Note	Core Department		Consolidated		Core Department		Consolidated	
Child Benefit, Child Trust Fund and Health in Pregnancy Grant									
Child Benefit		12,048.5		12,048.5		11,927.5		11,927.5	
Guardians Allowance (Funded from NIF)		2.0		2.0		1.9		1.9	
Child Trust Fund Endowments		226.6		226.6		306.3		306.3	
Health in Pregnancy Grant		104.3		104.3		133.6		133.6	
			12,381.4		12,381.4		12,369.3		12,369.3
Payments in lieu of tax relief									
Life Assurance Premium Relief, MIRAS		3.7		3.7		5.4		5.4	
Transitional payments to charities		123.2		123.2		104.1		104.1	
Stakeholder pensions		50.0		50.0		45.0		45.0	
			176.9		176.9		154.5		154.5
Payments of Local Authority Rates									
Payments of Local Authority Rates (POLAR)		–		42.0		–		34.2	
Less programme income		–		(2.4)		–		(2.2)	
			–		39.6		–		32.0
Other Programme Costs									
Incentive Payments		–		–		98.7		98.7	
Legal and Investigation		42.1		42.1		56.6		56.6	
Shipbuilders' Relief		40.6		40.6		8.5		8.5	
Enforcement Costs		19.5		19.5		18.6		18.6	
Business Link Payments		37.1		37.1		35.9		35.9	
Bank charges via OPG[1]		–		–		6.8		6.8	
Bank charges via GBS[1]		–		–		4.4		4.4	
Other programme expenditure		0.6		0.6		3.5		3.5	
Less programme income		(14.3)		(14.3)		(26.0)		(26.0)	
			125.6		125.6		207.0		207.0
Non-cash items									
Depreciation		57.4		57.4		64.3		64.3	
Amortisation		0.4		0.4		0.8		0.8	
Net revaluation loss/(gain)		–		–		(3.0)		(3.0)	
Net loss/(profit) on impairment of non-current assets		40.0		40.0		–		–	
(Profit)/Loss on disposal of property, plant and equipment		(2.4)		(2.4)		8.5		8.5	
Amounts provided for liabilities and charges	22								
Child Trust Fund		106.3		106.3		114.0		114.0	
Health in Pregnancy Grant		–		–		4.2		4.2	
Amounts provided for early departure costs		(3.2)		1.9		94.3		100.9	
Unwinding of discount on provisions		2.2		2.2		4.8		5.0	
Other programme provisions		25.7		25.8		12.2		10.9	
			226.4		231.6		300.1		305.6
Total			**12,910.3**		**12,955.1**		**13,030.9**		**13,068.4**

[1] From 2010-11 these represent an administrative cost (see note 10).

Child Trust Fund Endowments and Health in Pregnancy Grant

Due to changes in legislation, entitlement to Child Trust Fund endowments ceased in 2010-11 although the additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

** Certain prior year figures have been restated as per note 1.27 and note 1.28.*

12. Income

Core Department	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	2010-11 £m Total	2009-10 £m Total
Administration Services	(41.2)	–	–	–	–	(41.2)	(51.6)
Banking Services	(14.4)	–	–	–	–	(14.4)	(17.3)
Other Income Types	(17.8)	–	–	–	–	(17.8)	(7.7)
Penalties	(54.6)	–	–	–	–	(54.6)	(62.7)
Administration Charges to the National Insurance Fund	(354.1)	–	–	–	–	(354.1)	(376.2)
Subscriptions and Fees	(17.6)	–	–	–	–	(17.6)	(25.0)
IT and Telephony Charges	(13.4)	–	–	–	–	(13.4)	(16.9)
VOA Services	–	–	–	–	–	–	–
	(513.1)	**–**	**–**	**–**	**–**	**(513.1)**	**(557.4)**

Consolidated	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	Total	Total
Administration Services	(38.4)	–	–	–	–	(38.4)	(47.9)
Banking Services	(14.4)	–	–	–	–	(14.4)	(17.3)
Other Income Types	(15.3)	(0.1)	–	(2.4)	–	(17.8)	(9.9)
Penalties	(54.6)	–	–	–	–	(54.6)	(62.7)
Administration Charges to the National Insurance Fund	(354.1)	–	–	–	–	(354.1)	(376.2)
Subscriptions and Fees	(17.6)	–	–	–	–	(17.6)	(25.0)
IT and Telephony Charges	(13.4)	–	–	–	–	(13.4)	(15.5)
VOA Services	–	(197.3)	–	–	–	(197.3)	(219.4)
	(507.8)	**(197.4)**	**–**	**(2.4)**	**–**	**(707.6)**	**(773.9)**

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

	2010-11 Income	2010-11 Full Cost	2010-11 £m Surplus/ (Deficit)	2009-10 Income	2009-10 Full Cost	2009-10 £m Surplus/ (Deficit)
Fees and Charges raised by the Valuation Office Agency (VOA)						
Rating & Council Tax	(160.8)	156.6	4.2	(174.4)	171.8	2.6
National & Central Services	(12.8)	12.7	0.1	(12.9)	12.7	0.2
Commercial Services	(16.6)	16.6	–	(19.6)	18.7	0.9
Local Housing Allowances & Fair Rents	(19.4)	7.2	12.2	(24.2)	24.4	(0.2)
Fees and Charges raised by the Core Department						
International Assistance[1]	(1.0)	2.6	(1.6)	(1.4)	3.0	(1.6)
Money Laundering Regime	(7.6)	7.5	0.1	(6.6)	6.7	(0.1)
Bank charges via OPG[2]	–	–	–	(6.9)	6.8	0.1
Bank charges via GBS	(14.2)	15.5	(1.3)	(5.0)	6.6	(1.6)
National Minimum Wage	(7.8)	7.6	0.2	(7.7)	7.7	–
Collection of Student Loans	(5.0)	5.1	(0.1)	(5.0)	5.0	–
DWP Welfare Reform Agenda	(3.1)	3.1	–	(2.9)	2.9	–
DWP Pensions Reform Delivery Programme	(5.0)	5.0	–	(12.9)	12.9	–
Services provided to the Valuation Office Agency	(6.3)	6.3	–	(5.1)	5.1	–
Charges to the National Insurance Fund	(354.1)	305.0	49.1	(376.2)	345.6	30.6
Method of Payment Reform Programme	(1.2)	1.2	–	(2.1)	2.1	–
Valuation of Household Income	(0.8)	0.8	–	(2.0)	2.1	(0.1)
UK Border Agency	(16.6)	16.6	–	(19.2)	19.2	–
Child Maintenance and Enforcement Commission	(5.0)	5.0	–	(1.6)	1.5	0.1
DWP Recruitment Service[3]	–	–	–	(1.3)	1.4	(0.1)
Additional Statutory Paternity Pay	(1.6)	1.6	–	–	–	–
Total	**(638.9)**	**576.0**	**62.9**	**(687.0)**	**656.2**	**30.8**

[1] For this service it is not the financial objective to recover the full costs.
[2] Service now provided by GBS.
[3] One-off service provided in 2009-10.

13. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation Refurbishments[1] £m	Office & Computer Equipment £m	Vehicles £m	Furniture & Fittings[2] £m	Assets under Construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2010	24.0	605.6	145.0	399.4	17.7	66.8	38.2	8.5	1,305.2
Additions	–	–	0.1	30.8	0.1	1.6	2.9	0.1	35.6
Disposals	–	(9.1)	(6.7)	(75.0)	(2.0)	(13.7)	–	(2.6)	(109.1)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	(0.3)	6.8	1.3	–	4.0	(10.5)	0.7	2.0
Revaluation[4]	–	–	0.2	3.1	1.0	(0.3)	–	–	4.0
At 31 March 2011	**24.0**	**596.2**	**145.4**	**359.6**	**16.8**	**58.4**	**30.6**	**6.7**	**1,237.7**
Depreciation									
At 1 April 2010	–	(246.1)	(70.8)	(301.7)	(11.5)	(30.5)	–	(4.1)	(664.7)
Charged in year	–	(25.8)	(10.4)	(47.2)	(2.3)	(3.9)	–	(2.2)	(91.8)
Disposals	–	4.3	5.9	74.2	1.8	10.7	–	2.5	99.4
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	(0.2)	0.2	–	–	–	–	–	–
Revaluation[4]	–	–	–	(0.2)	–	0.2	–	–	–
At 31 March 2011	**–**	**(267.8)**	**(75.1)**	**(274.9)**	**(12.0)**	**(23.5)**	**–**	**(3.8)**	**(657.1)**
Net book value at 31 March 2010	**24.0**	**359.5**	**74.2**	**97.7**	**6.2**	**36.3**	**38.2**	**4.4**	**640.5**
Net book value at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**
Asset financing:									
Owned	24.0	–	70.3	21.7	4.8	34.9	30.6	2.9	189.2
Finance leased	–	70.5	–	63.0	–	–	–	–	133.5
On-Statement of Financial Position PFI contracts	–	257.9	–	–	–	–	–	–	257.9
Net book value at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**
Cost or valuation									
At 1 April 2009	23.5	634.3	117.6	401.3	19.2	72.4	53.8	11.6	1,333.7
Additions	–	–	0.5	28.2	1.1	1.8	18.0	0.4	50.0
Disposals	–	(30.5)	(0.2)	(35.8)	(4.8)	(12.0)	–	(5.3)	(88.6)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	0.3	26.9	–	–	4.6	(33.6)	1.8	–
Revaluation[4]	0.5	1.5	0.2	5.7	2.2	–	–	–	10.1
At 31 March 2010	**24.0**	**605.6**	**145.0**	**399.4**	**17.7**	**66.8**	**38.2**	**8.5**	**1,305.2**
Depreciation									
At 1 April 2009	–	(233.9)	(60.5)	(271.6)	(13.6)	(37.0)	–	(7.6)	(624.2)
Charged in year	–	(27.4)	(10.3)	(65.2)	(2.2)	(3.6)	–	(1.8)	(110.5)
Disposals	–	13.6	–	35.3	4.3	10.1	–	5.3	68.6
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	–	–	–	–	–	–	–	–
Revaluation[4]	–	1.6	–	(0.2)	–	–	–	–	1.4
At 31 March 2010	**–**	**(246.1)**	**(70.8)**	**(301.7)**	**(11.5)**	**(30.5)**	**–**	**(4.1)**	**(664.7)**
Net book value at 31 March 2009	**23.5**	**400.4**	**57.1**	**129.7**	**5.6**	**35.4**	**53.8**	**4.0**	**709.5**
Net book value at 31 March 2010	**24.0**	**359.5**	**74.2**	**97.7**	**6.2**	**36.3**	**38.2**	**4.4**	**640.5**

13. Property, plant and equipment (continued)

	Land[1] £m	Buildings[1] £m	Accommodation Refurbishments[1] £m	Office & Computer Equipment £m	Vehicles £m	Furniture & Fittings[2] £m	Assets under Construction £m	Scientific Aids £m	Total £m
Asset financing:									
Owned	24.0	–	74.2	29.3	6.2	36.3	38.2	4.4	212.6
Finance leased	–	–	–	68.4	–	–	–	–	68.4
On-Statement of Financial Position PFI contracts	–	359.5	–	–	–	–	–	–	359.5
Net book value at 31 March 2010	**24.0**	**359.5**	**74.2**	**97.7**	**6.2**	**36.3**	**38.2**	**4.4**	**640.5**
Analysis of property, plant and equipment									
The net book value of property, plant and equipment comprises:									
Core Department at 31 March 2011	24.0	327.7	67.3	80.5	4.8	32.6	28.6	2.9	568.4
Valuation Office Agency at 31 March 2011	–	0.7	3.0	4.2	–	2.3	2.0	–	12.2
Core Department at 31 March 2010	24.0	358.7	71.0	95.2	6.2	34.2	36.1	4.4	629.8
Valuation Office Agency at 31 March 2010	–	0.8	3.2	2.5	–	2.1	2.1	–	10.7
Core Department at 31 March 2009	23.5	399.5	56.2	127.6	5.6	33.6	52.0	4.0	702.0
Valuation Office Agency at 31 March 2009	–	0.9	0.9	2.1	–	1.8	1.8	–	7.5

[1] See note 1.4.2 for the accounting policy for property assets.

[2] See note 1.4.4 for the accounting policy for furniture.

[3] See note 14.

[4] See notes 1.1 and 1.4 for the accounting policy regarding revaluation of property, plant and equipment.

Freehold Land and Buildings 100 Parliament Street

A full valuation, undertaken in March 2010 on the basis of existing use, established the value as being £96.1m, with the last interim valuations having been carried out in March 2009 and January 2008, respectively. Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue & Customs, whose services include providing valuation and estate surveying services to government departments.

Leased Land and Buildings

The accounting treatment adopted by HM Revenue & Customs accords with International Accounting Standards. Leased buildings have been brought onto the Department's Consolidated Statement of Financial Position where applicable, whilst leased land remains as an operating lease. The buildings have been valued by the Valuation Office Agency, an executive agency of HM Revenue & Customs, whose services include providing valuation and estate surveying services to government departments. The valuations were provided as at three dates; the commencement of the lease, March 2008 and March 2009.

14. Intangible assets

	Licences £m	Software[1] £m	Assets under Construction £m	Total £m
Cost or valuation				
At 1 April 2010	37.6	1,920.7	182.7	2,141.0
Additions	3.7	0.5	160.9	165.1
Disposals	(5.5)	(59.0)	–	(64.5)
Impairments	–	(56.1)	–	(56.1)
Reclassifications[2]	–	206.0	(208.0)	(2.0)
Revaluation[3]	–	124.9	–	124.9
At 31 March 2011	**35.8**	**2,137.0**	**135.6**	**2,308.4**
Amortisation				
At 1 April 2010	(24.1)	(917.6)	–	(941.7)
Charged in year	(3.6)	(175.6)	–	(179.2)
Disposals	5.5	59.0	–	64.5
Impairments	–	14.9	–	14.9
Reclassifications[2]	–	–	–	–
Revaluation[3]	–	(59.7)	–	(59.7)
At 31 March 2011	**(22.2)**	**(1,079.0)**	**–**	**(1,101.2)**
Net book value at 31 March 2010	**13.5**	**1,003.1**	**182.7**	**1,199.3**
Net book value at 31 March 2011	**13.6**	**1,058.0**	**135.6**	**1,207.2**
Cost or valuation				
At 1 April 2009	38.3	1,697.9	237.4	1,973.6
Additions	2.0	2.6	201.2	205.8
Disposals	(2.7)	(24.0)	–	(26.7)
Impairments	–	(13.1)	–	(13.1)
Reclassifications[2]	–	255.9	(255.9)	–
Revaluation[3]	–	1.4	–	1.4
At 31 March 2010	**37.6**	**1,920.7**	**182.7**	**2,141.0**
Amortisation				
At 1 April 2009	(23.4)	(798.4)	–	(821.8)
Charged in year	(3.4)	(148.4)	–	(151.8)
Disposals	2.7	22.7	–	25.4
Impairments	–	6.5	–	6.5
Reclassifications[2]	–	–	–	–
Revaluation[3]	–	–	–	–
At 31 March 2010	**(24.1)**	**(917.6)**	**–**	(941.7)
Net book value at 31 March 2009	**14.9**	**899.5**	**237.4**	**1,151.8**
Net book value at 31 March 2010	**13.5**	**1,003.1**	**182.7**	**1,199.3**
Analysis of intangible assets				
The net book value of intangible assets comprises:				
Core Department at 31 March 2011	13.6	1,031.7	132.4	1,177.7
Valuation Office Agency at 31 March 2011	–	26.3	3.2	29.5
Core Department at 31 March 2010	13.5	981.7	172.2	1,167.4
Valuation Office Agency at 31 March 2010	–	21.4	10.5	31.9
Core Department at 31 March 2009	14.9	870.7	232.9	1,118.5
Valuation Office Agency at 31 March 2009	–	28.8	4.5	33.3

[1] Website development costs have been included with the cost of related software assets and as a consequence are not available for separate reporting.

[2] See note 13.

[3] See notes 1.1 and 1.6 for the accounting policy regarding revaluation of intangible assets.

15. Financial Instruments

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

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

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

15.a Credit Risk

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

Due to the nature and immaterial value of trade and other receivables, the Department views the credit risk associated with these receivables as negligible. No provision for doubtful debt is made in respect of other Government departments.

15.b Collateral and other credit enhancements obtained

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

15.c Market risk

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

15.d Embedded Derivatives

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

15.e Fair Value

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value.

15.f Capital disclosures

This section is not applicable to the Department.

15.1 Investments in other public sector bodies

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

16. Impairments

The Department conducts an annual impairment review. In 2010-11 the IT software supporting the terminated Child Trust Fund, Health in Pregnancy Grant and Saving Gateway schemes was impaired. The Valuation Office Agency had an impairment relating to developed software designed to assist with the valuation of property for local taxes.

		Impairment taken through the Revaluation Reserve £m		Impairment charged to the Consolidated Statement of Comprehensive Net Expenditure £m	
	Note	Core Department	Consolidated	Core Department	Consolidated
Property, plant and equipment	13	–	–	–	–
Intangible assets	14	–	–	40.0	41.2
Impairment charged for the year ended 31 March 2011		**–**	**–**	**40.0**	**41.2**

		£m		£m	
	Note	Core Department	Consolidated	Core Department	Consolidated
Property, plant and equipment	13	–	–	–	–
Intangible assets	14	–	–	–	6.6
Impairment charged for the year ended 31 March 2010*		**–**	**–**	**–**	**6.6**

* *Certain prior year figures have been restated as per note 1.27.*

17. Inventories

	2010-11 £m		2009-10 £m		2008-09 £m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Inventories	–	2.6	2.7	5.4	3.3	7.5
	–	**2.6**	**2.7**	**5.4**	**3.3**	**7.5**

18. Trade receivables and other current assets

	2010-11 £m		Restated* 2009-10 £m		Restated* 2008-09 £m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:						
Trade receivables	–	4.7	–	7.5	–	9.0
Deposits and advances	25.5	25.4	44.2	42.4	24.7	24.1
Value added tax	18.9	18.9	16.1	16.1	17.5	17.1
Other receivables – excluding Child Benefit, CTF and HiPG[1]	10.9	11.5	11.9	12.2	23.3	24.9
Other receivables – Child Benefit, CTF and HiPG	27.1	27.1	10.7	10.7	16.7	16.7
Prepayments and accrued income – excluding Child Benefit and CTF	27.9	28.8	19.5	20.4	13.8	14.4
Prepayments and accrued income – Child Benefit and CTF	41.9	41.9	54.8	54.8	67.1	67.1
Penalties[2]	72.3	72.3	77.1	77.1	72.8	72.8
Amounts due from the Consolidated Fund in respect of Supply	–	–	–	–	–	–
	224.5	**230.6**	**234.3**	**241.2**	**235.9**	**246.1**
Amounts falling due after more than one year:						
Other receivables	–	–	–	–	–	–
	–	–	–	–	–	–

[1] This figure is net of provision for impairment amounting to Core: £20.5m, Consolidated: £21.1m (2009–10: Core: £21.1m, Consolidated £21.8m; 2008–09: Core: £33.0m, Consolidated £33.5m).

[2] This figure is net of provision for impairment amounting to Core: £132.6m (2009–10: Core: £101.6m; 2008–09: Core: £47.2m).

Child Trust Fund Endowments and Health in Pregnancy Grant

Due to changes in legislation, entitlement to Child Trust Fund endowments ceased in 2010-11 although the additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

18.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2010-11 £m	Restated* 2009-10 £m	Restated* 2008-09 £m	2010-11 £m	2009-10 £m	2008-09 £m
Balances with other central government bodies	41.5	53.7	34.1	–	–	–
Balances with local authorities	1.6	2.6	2.4	–	–	–
Balances with NHS bodies	5.7	7.0	2.9	–	–	–
Balances with public corporations and trading funds	0.1	1.6	0.1	–	–	–
Subtotal: intra-government balances	48.9	64.9	39.5	–	–	–
Balances with bodies external to government	181.7	176.3	206.6	–	–	–
Total debtors at 31 March	**230.6**	**241.2**	**246.1**	**–**	**–**	**–**

** Certain prior year figures have been restated as per note 1.28.*

19. Cash and cash equivalents

	2010-11 £m		Restated* 2009-10 £m		Restated* 2008-09 £m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Balance 1 April	26.5	38.5	48.6	51.3	57.2	68.0
Net change in cash and cash equivalent balances	(8.7)	(10.6)	(22.1)	(12.8)	(8.6)	(16.7)
Balance at 31 March	**17.8**	**27.9**	**26.5**	**38.5**	**48.6**	**51.3**
The following balances at 31 March were held at:						
Office of HM Paymaster General	–	–	33.1	45.1	33.0	35.7
Government Banking Service	16.1	26.2	0.2	0.2	–	–
Commercial banks and cash in hand	1.7	1.7	(6.8)	(6.8)	15.6	15.6
Balance at 31 March	**17.8**	**27.9**	**26.5**	**38.5**	**48.6**	**51.3**

** Certain prior year figures have been restated as per note 1.28.*

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

	Note	2010-11 £m	Restated* 2009-10 £m
Net cash requirement	4	(16,163.7)	(16,369.6)
From the Consolidated Fund (Supply) – current year		16,164.2	16,354.6
From the Consolidated Fund (Supply) – prior year		–	–
Amounts due to the Consolidated Fund received in a prior year & paid over		(16.7)	(14.5)
Amounts due to the Consolidated Fund received & not paid over		5.6	16.7
Increase/(decrease) in cash		**(10.6)**	**(12.8)**

** Certain prior year figures have been restated as per note 1.28.*

21. Trade payables and other current liabilities

	2010-11 £m		Restated* 2009-10 £m		Restated* 2008-09 £m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:						
Other taxation and social security	(44.6)	(44.6)	(48.6)	(48.6)	(51.9)	(51.9)
Trade payables	(109.7)	(110.1)	(120.0)	(123.5)	(149.8)	(154.5)
Other payables – excluding Child Benefit, CTF and HiPG	(30.1)	(30.3)	(2.2)	(3.0)	(1.0)	(2.0)
Other payables - Child Benefit, CTF and HiPG	(116.4)	(116.4)	(189.1)	(189.1)	(173.9)	(173.9)
Accruals and deferred income – excluding Child Benefit and CTF	(357.2)	(375.1)	(358.7)	(377.0)	(393.0)	(410.6)
Accruals and deferred income – Child Benefit, CTF and HiPG	(231.0)	(231.0)	(272.4)	(272.4)	(167.1)	(167.1)
Current part of finance leases	(40.5)	(40.5)	(43.8)	(43.8)	(45.9)	(45.9)
Current part of imputed finance leases	(2.4)	(2.4)	(2.6)	(2.6)	(3.1)	(3.1)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(17.7)	(22.3)	(13.5)	(21.8)	(36.6)	(36.8)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund						
received	(0.1)	(5.6)	(13.1)	(16.7)	(12.0)	(14.5)
receivable	–	–	–	–	–	–
	(949.7)	**(978.3)**	**(1,064.0)**	**(1,098.5)**	**(1,034.3)**	**(1,060.3)**
Amounts falling due after more than one year:						
Finance leases	(216.8)	(217.3)	(250.7)	(251.3)	(284.8)	(285.4)
Imputed Finance Leases	(201.4)	(201.4)	(196.6)	(196.6)	(196.3)	(196.3)
	(418.2)	**(418.7)**	**(447.3)**	**(447.9)**	**(481.1)**	**(481.7)**

Child Trust Fund Endowments and Health in Pregnancy Grant

Due to changes in legislation, entitlement to Child Trust Fund endowments ceased in 2010-11 although the additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

21.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2010-11 £m	Restated* 2009-10 £m	Restated* 2008-09 £m	2010-11 £m	2009-10 £m	2008-09 £m
Balances with other central government bodies	(123.4)	(141.7)	(146.6)	–	–	–
Balances with local authorities	(0.3)	(0.2)	(0.8)	–	–	–
Balances with NHS bodies	–	–	(0.1)	–	–	–
Balances with public corporations and trading funds	(4.2)	(7.2)	–	–	–	–
Subtotal: intra-government balances	(127.9)	(149.1)	(147.5)	–	–	–
Balances with bodies external to government	(850.4)	(949.4)	(912.8)	(418.7)	(447.9)	(481.7)
Total creditors at 31 March	**(978.3)**	**(1,098.5)**	**(1,060.3)**	**(418.7)**	**(447.9)**	**(481.7)**

** Certain prior year figures have been restated as per note 1.28.*

22. Provisions for liabilities and charges

Core Department	Early departure costs £m	Child Trust Fund £m	Health in Pregnancy Grant £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Balance at 1 April 2009	**(127.2)**	**(80.7)**	**(40.6)**	**(20.8)**	**(7.2)**	**(4.6)**	**(281.1)**
Provided in the year	(94.3)	(114.0)	(10.6)	(18.3)	(0.6)	(2.2)	(240.0)
Provisions not required written back	–	–	6.4	4.9	2.5	1.1	14.9
Provisions utilised in the year	46.6	80.7	34.2	5.8	1.6	1.5	170.4
Unwinding of discount	(4.8)	–	–	–	–	–	(4.8)
Balance at 1 April 2010	**(179.7)**	**(114.0)**	**(10.6)**	**(28.4)**	**(3.7)**	**(4.2)**	**(340.6)**
Provided in the year	(3.1)	(106.3)	–	(21.8)	(9.8)	(2.9)	(143.9)
Provisions not required written back	6.3	–	–	8.2	0.5	0.1	15.1
Provisions utilised in the year	55.1	114.0	10.6	5.8	2.0	2.1	189.6
Unwinding of discount	(2.2)	–	–	–	–	–	(2.2)
Balance at 31 March 2011	**(123.6)**	**(106.3)**	**–**	**(36.2)**	**(11.0)**	**(4.9)**	**(282.0)**
Consolidated	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Balance at 1 April 2009	**(137.9)**	**(80.7)**	**(40.6)**	**(25.1)**	**(7.2)**	**(4.6)**	**(296.1)**
Provided in the year	(100.9)	(114.0)	(10.6)	(19.6)	(0.6)	(2.2)	(247.9)
Provisions not required written back	–	–	6.4	7.6	2.5	1.1	17.6
Provisions utilised in the year	51.1	80.7	34.2	6.4	1.6	1.5	175.5
Unwinding of discount	(5.0)	–	–	–	–	–	(5.0)
Balance at 1 April 2010	**(192.7)**	**(114.0)**	**(10.6)**	**(30.7)**	**(3.7)**	**(4.2)**	**(355.9)**
Provided in the year	(9.0)	(106.3)	–	(22.4)	(10.1)	(2.9)	(150.7)
Provisions not required written back	7.1	–	–	9.0	0.5	0.1	16.7
Provisions utilised in the year	60.6	114.0	10.6	6.8	2.0	2.1	196.1
Unwinding of discount	(2.2)	–	–	–	–	–	(2.2)
Balance at 31 March 2011	**(136.2)**	**(106.3)**	**–**	**(37.3)**	**(11.3)**	**(4.9)**	**(296.0)**

Analysis of expected timing of discounted flows

Core Department	£m	£m	£m	£m	£m	£m	£m
Not later than one year	(38.0)	(104.3)	–	(35.4)	(11.0)	(4.6)	(193.3)
Later than one year and not later than five years	(74.2)	(2.0)	–	(0.8)	–	(0.3)	(77.3)
Later than five years	(11.4)	–	–	–	–	–	(11.4)
Balance at 31 March 2011	**(123.6)**	**(106.3)**	**–**	**(36.2)**	**(11.0)**	**(4.9)**	**(282.0)**
Consolidated	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Not later than one year	(46.7)	(104.3)	–	(36.0)	(11.3)	(4.6)	(202.9)
Later than one year and not later than five years	(77.7)	(2.0)	–	(1.3)	–	(0.3)	(81.3)
Later than five years	(11.8)	–	–	–	–	–	(11.8)
Balance at 31 March 2011	**(136.2)**	**(106.3)**	**–**	**(37.3)**	**(11.3)**	**(4.9)**	**(296.0)**

22.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between the early departure date and when the employee reaches age 60. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by HM Treasury discount rate of 2.9 per cent in real terms.

22.2 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 03 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £106.3m (2009-10: £114.0m) has been made for amounts that will become payable in respect of children qualifying for CTF endowments. The provision mainly comprises initial and supplementary endowments for children born to 31 December 2010 of £67.4m (2009-10: £71.2m) and those who attained the age of seven by 31 July 2010 of £23.0m (2009-10: £35.6m), along with additional endowments due to children in receipt of Disability Living Allowance of £15.9m.

22.3 Health in Pregnancy Grant

The Health and Social Care Act (2008) established entitlement to Health in Pregnancy Grant which provided financial assistance to women to meet the additional costs encountered during pregnancy. This grant was available to women who reached their twenty-fifth week of pregnancy by 31 December 2010. Accordingly, no provision has been made in 2010-11 (2009-10: £10.6m).

22.4 Legal claims

A provision of £37.3m (2009-10: £30.7m) has been made for costs relating to various legal claims against the Department. The provision reflects all known claims where legal advice indicates that it is probable that the claim will be successful 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 29.

22.5 Accommodation costs

A provision of £11.3m has been made (2009-10: £3.7m) mainly for buildings-related claims giving rise to probable liabilities under tenancy agreements where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 29.

22.6 Other

Provisions relating to various other claims against the Department amount to £4.9m (2009-10: £4.2m).

23. Pension liability

This pension liability, part of the Local Government Pension Scheme (LGPS), is in respect of staff previously employed by The Rent Service (TRS) but now employed by the Valuation Office Agency (VOA). For the purposes of International Accounting Standard 19, the VOA commissioned a qualified independent actuary to carry out an assessment of the TRS pension fund as at 31 March 2011. The results of the actuarial assessment are shown below.

Financial Assumptions	**31 March 2011 % per annum**	**31 March 2010 % per annum**
RPI Increases	3.5%	3.9%
CPI Increases	2.7%	–
Salary Increase Rate	4.5%	5.4%
Expected Return on Assets	6.7%	6.8%
Discount rate	5.5%	5.5%

Demographic and Statistical Assumptions

Life expectancy from age 65 (years)	**31 March**	**31 March**
Retiring today:		
Males	21.3	19.6
Females	23.8	22.5
Retiring in 20 years:		
Males	23.3	20.7
Females	25.7	23.6

Assets	**Expected Return on Assets**	**Fund value at 31 March 2011 £m**	**Expected Return on Assets**	**Fund value at 31 March 2010 £m**
Equities	7.4%	62.9	7.5%	63.0
Target Return Funds	4.5%	11.0	4.5%	9.0
Alternative Assets	6.4%	12.8	6.5%	12.6
Cash	3.0%	2.7	3.0%	4.5
Corporate Bonds	5.5%	1.8	5.5%	0.9
Total		**91.2**		**90.0**

Net Pensions Deficit as at	**31 March 2011 £m**	**31 March 2010 £m**
Fair Value of Employer Assets	91.2	90.0
Present Value of Scheme Liabilities	102.8	123.0
Present Value of Unfunded Liabilities	0.3	0.3
Total value of Liabilities	103.1	123.3
Net Pension Deficit	**(11.9)**	**(33.3)**

Recognised in the Consolidated Statement of Comprehensive Net Expenditure	31 March 2011 £m	% of pay	31 March 2010 £m	% of pay
Current Service Cost	1.3	27.7%	0.8	13.6%
Interest Cost	6.6	142.6%	5.9	101.0%
Expected Return on Employer Assets	(5.8)	–125.9%	(4.5)	–76.5%
Past Service Cost/(Gain)	(11.2)	–240.3%	–	0.0%
Losses/(Gains) on Curtailments and settlements	0.4	8.5%	1.9	32.1%
Total	**(8.7)**	**–187.3%**	**4.1**	**70.2%**
Actual Return on Plan Assets	**6.1**		**20.6**	

Recognised in Statement of Changes in Taxpayers' Equity	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Actuarial Gains /(Losses)	9.4	(14.4)	(16.4)	3.1	3.7
Increase/(Decrease) in Irrecoverable Surplus from Membership	–	–	–	–	–
Actuarial Gains/(Losses) recognised in Statement of Changes in Taxpayer's Equity	9.4	(14.4)	(16.4)	3.1	3.7
Cumulative Actuarial Gains and Losses	**(21.9)**	**(31.3)**	**(16.9)**	**(0.5)**	**(3.6)**

Statement of Financial Position	31 March 2011 £m	31 March 2010 £m
Fair Value of Employer Assets	**91.2**	**90.0**
Present Value of Funded Liabilities	(102.8)	(123.0)
Net (Under)/Overfunding in Funded Plans	(11.6)	(33.0)
Present Value of Unfunded Liabilities	(0.3)	(0.3)
Unrecognised past service cost	–	–
Net Asset/(Liability)	**(11.9)**	**(33.3)**
Amount in the Statement of Financial Position		
Liabilities	11.9	33.3
Assets	–	–
Net Asset/(Liability)	**11.9**	**33.3**

Reconciliation of Defined Benefit Obligation	31 March 2011 £m	31 March 2010 £m
Opening Defined Benefit Obligation	**123.3**	**87.4**
Current Service Cost	1.3	0.8
Interest Cost	6.6	5.9
Contributions by Members	0.3	0.4
Actuarial Losses/(Gains)	(12.1)	30.4
Past Service Costs/(Gains)[1]	(11.2)	–
Losses/(Gains) on Curtailments	0.4	1.9
Liabilities Extinguished on Settlements	–	–
Liabilities Assumed in a Business Combination	–	–
Exchange Differences	–	–
Estimated Unfunded Benefits Paid	–	–
Estimated Benefits Paid	(5.5)	(3.5)
Closing Defined Benefit Obligation	**103.1**	**123.3**

Reconciliation of Fair Value of Employer Assets	31 March 2011 £m	31 March 2010 £m
Opening Fair Value of Employer Assets	**90.0**	**70.5**
Expected Return on Assets	5.9	4.5
Contributions by Members	0.3	0.4
Contributions by the Employer[2]	3.3	2.1
Contributions in respect of Unfunded Benefits	–	–
Actuarial Gains/(Losses)	(2.7)	16.0
Assets Distributed on Settlements	–	–
Assets Acquired in a Business Combination	–	–
Exchange Differences	–	–
Unfunded Benefits Paid	–	–
Benefits Paid	(5.6)	(3.5)
Closing Fair Value of Employer Assets	**91.2**	**90.0**

Amounts for the Current and Previous Accounting Periods	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Fair Value of Employer Assets	91.2	90.0	70.5	83.9	51.4
Present Value of Defined Benefit Obligation	(103.1)	(123.3)	(87.4)	(85.1)	(55.7)
Surplus/(Deficit)	(11.9)	(33.3)	(16.9)	(1.2)	(4.3)
Experience Gains/(Losses) on Assets	(2.7)	16.0	(24.6)	27.7	0.4
Experience Gains/(Losses) on Liabilities	11.1	14.8	–	(35.9)	(0.1)

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

2 Contributions by the Employer for 2010-11 includes £7,000 of contributions made to the scheme by the Department for Work and Pensions (DWP) regarding additional pension costs for employees of TRS who took early retirement in the year before that agency merged with the VOA.

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

24. Segment information

24.1 Reporting Segments as determined by IFRS 8

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

The reportable segments are the lines of business that are reported to the Chief Executive and the Board as detailed in paragraphs 55 and 56 of the Corporate Governance report (see page 65). These segments are the strands of activity in the management information reviewed by the Board and used by them to make decisions, presented as the Management Accounts and reported here in the same format. As the spirit of IFRS 8 requires presentation of information of a comparable format to that used by the Board to make business decisions, the information is more meaningful when presented with the overheads shown separately as they make up 41.3 per cent of net expenditure in 2009-10 and 44.6 per cent of net expenditure in 2010-11.

Other Segments comprise – Chief Executive, Performance and Improvement, Permanent Secretary for Tax and Other. Income reported in Other Segments consists mainly of Administration Charges to the National Insurance Fund as reported in note 12.

Management Accounts are prepared for RfR 1A only.

Information on all other RfRs is included in note 24.2. This information is reported to the Board, however as it is Annually Managed Expenditure (AME) it is centrally managed and is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to actual spend at the segment level.

AME segments are demand led, and are therefore not subject to firm multi-year limits in the same way as Departmental Expenditure Limits (DEL).

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

	Gross Expenditure £m	Income £m	2009-10 Net Expenditure £m
Reportable Segment			
Benefits and Credits	168.6	–	168.6
Business Tax	234.6	(12.3)	222.3
Enforcement and Compliance	1,062.5	(29.1)	1,033.4
Personal Tax	837.4	(74.8)	762.6
Finance and Estates	765.0	(16.2)	748.8
Information Technology	1,067.2	(34.4)	1,032.8
Legal	68.9	(4.4)	64.5
People Function	224.0	(4.8)	219.2
Other Segments[1]	73.0	(378.0)	(305.0)
Total	**4,501.2**	**(554.0)**	**3,947.2**

[1] Income reported in Other Segments consists mainly of Administration Charges to the National Insurance Fund.

24.2 Reconciliation between Segment Information and Net Operating Cost in the Consolidated Statement of Comprehensive Net Expenditure

	2010-11 £m	2009-10 £m
Total net expenditure reported by segment	**3,574.9**	**3,947.2**
Carter incentive payments (RfR 1B)[1]	–	98.7
Valuation Office Agency (RfR 2)[2]	(16.6)	(3.4)
Payments in lieu of tax relief (RfR 3)[2]	176.9	154.5
Payments of Local Authority Rates (RfR 4)[2]	39.6	32.0
Child Benefit, Child Trust Fund and Health in Pregnancy Grant (RfR 5)[2]	12,487.7	12,460.3
IFRS elements not included in Management Accounts	15.8	23.0
New provisions and adjustments to previous provisions	–	1.4
Exclusion of capital expenditure reported in Management Accounts	(165.3)	(218.0)
Centrally managed expenditure	–	(3.0)
Clear Line of Sight (CLoS)*	–	(4.9)
Remaining reconciling items	(9.2)	0.1
Net Operating Cost per Statement of Comprehensive Net Expenditure	**16,103.8**	**16,487.9**

[1] 2009-10.

[2] AME.

** Certain prior year figures have been restated as per note 1.27 and note 1.28.*

Explanation of the significant variances between 2010-11 and 2009-10 Management Accounts.

The net spend of the Department overall as shown in the Management Accounts has decreased from £3,947.2m to £3,574.9m.

- Business Tax – the increase in gross expenditure relates to Shipbuilders' Relief, an increase of £29.4m (12.5 per cent). This is due to the relief becoming due on completion of vessels;
- Personal Tax – decrease in expenditure of £89.7m (10.7 per cent). This is primarily due to a reduction in paybill;
- Finance and Estates – decrease in expenditure of £136.1m (17.8 per cent). Estates rationalisation is reducing the estate related costs;
- People Function – decrease in expenditure of £150.3m (67.1 per cent). This is due to the utilisation of early departure provisions, see note 22.1;
- Legal – decrease in expenditure of £11.1m (16.1 per cent). This is primarily due to a reduction the utilisation of provisions;
- Business Tax – increase in income of £3.3m (26.8 per cent). This is primarily due to an increase in Shipbuilders' Relief recovered;
- Enforcement and Compliance – decrease in income of £5.8m (19.9 per cent). This is primarily due to a decrease in income from Other Government Departments;
- Personal Tax – decrease in income of £9.3m (12.4 per cent). This is due to a reduction in penalty charges and a reduction in income from Other Government Departments;
- Finance and Estates – increase in income of £3.5m (21.6 per cent). This is primarily due to an increase in GBS Tariff;
- Information Technology – decrease in income of £6.4m (18.6 per cent). This is primarily due to a decrease in income from Other Government Departments;
- Legal – decrease in income of £1.8m (40.9 per cent). This is primarily due to a decrease in income from Other Government Departments;
- People Function – decrease in income of £4.0m (83.3 per cent). This is due to a decrease in income from Other Government Departments, and a reduction in the UKBA service charge.

25. Capital commitments

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

	2010-11 £m		2009-10 £m	
	Core Department	Consolidated	Core Department	Consolidated
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant and equipment	2.6	2.7	2.6	2.6
Intangible assets	85.1	85.2	92.2	92.9

26. Commitments under leases

26.1 Operating leases

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

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

	2010-11 £m		2009-10 £m	
	Core Department	Consolidated	Core Department	Consolidated
Obligations under operating leases for the following periods comprise:				
Land and buildings				
Not later than one year	137.2	149.6	133.2	145.9
Later than one year and not later than five years	593.1	604.1	605.3	619.4
Later than five years	862.8	866.1	1,090.0	1,092.4
	1,593.1	**1,619.8**	**1,828.5**	**1,857.7**
Other				
Not later than one year	12.6	13.0	49.9	50.0
Later than one year and not later than five years	36.6	36.9	58.5	58.5
Later than five years	–	–	–	–
	49.2	**49.9**	**108.4**	**108.5**

26.2 Finance leases

The following commitments are in respect of assets that have been brought onto the Department's Consolidated Statement of Financial Position (SoFP) under IAS 17. Total finance lease charges are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the Department and property leased by the Department direct from private landlords. The property leases vary in length and the Department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired. The properties have been brought onto the SoFP under IAS 17 and determined as finance leases and therefore the associated commitments have been recorded in this note. The commitments also include payments relating to the property known as 100 Parliament Street which was brought onto the SoFP under UK GAAP rules and the ownership will revert back to the Department at the end of the contract.

				Restated*
		2010-11		**2009-10**
		£m		**£m**
	Core Department	**Consolidated**	**Core Department**	**Consolidated**
Obligations under finance leases for the following periods comprise:				
Buildings				
Not later than one year	20.1	20.1	21.5	21.5
Later than one year and not later than five years	82.4	82.4	92.1	92.2
Later than five years	384.0	384.0	556.6	556.6
	486.5	**486.5**	**670.2**	**670.3**
Less interest element	(269.6)	(269.6)	(437.9)	(437.9)
Present value of obligations	**216.9**	**216.9**	**232.3**	**232.4**
Other				
Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	–	–	–
Less interest element	–	–	–	–
Present value of obligations	–	–	–	–

** Certain prior year figures have been restated to disclose the capital and interest element only of the finance leases.*

26.3 Finance leases – Consolidated Statement of Comprehensive Net Expenditure – Future commitments

The payments to which the Department is committed in relation to Finance leases are detailed in the table below. The building commitments in notes 26.1, 26.3 and 27.3 are based on the assumption of an annual RPI increase of 4 per cent (2009-10: 5 per cent).

	2010-11 £m		2009-10 £m	
	Core Department	Consolidated	Core Department	Consolidated
Buildings				
Not later than one year	32.5	32.5	29.5	29.5
Later than one year and not later than five years	137.6	137.6	127.8	127.8
Later than five years	616.1	616.1	623.1	623.1
	786.2	786.2	780.4	780.4
Other				
Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	–	–	–

27. Commitments under PFI and other service concession arrangements

27.1 Off-balance sheet (SoFP)

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

27.2 On-balance sheet (SoFP)

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

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

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

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

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

	2010-11 £m Core Department	2010-11 £m Consolidated	Restated* 2009-10 £m Core Department	Restated* 2009-10 £m Consolidated
Total obligations under on-balance sheet (SoFP) service concession arrangements for the following periods comprises:				
Not later than one year	78.4	78.6	81.7	81.9
Later than one year and not later than five years	177.8	178.4	208.5	209.1
Later than five years	203.3	203.9	259.8	260.6
	459.5	**460.9**	**550.0**	**551.6**
Less interest element	(215.3)	(216.2)	(288.8)	(289.8)
Present value of obligations	**244.2**	**244.7**	**261.2**	**261.8**

** Certain prior year figures have been restated to disclose the capital and interest element only of the finance leases.*

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

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-balance sheet (SoFP) PFI and other service concession arrangement transactions (there were no off-balance sheet (SoFP) transactions) was £502.0m[1] (2009-10: £486.3m) and the payments to which the Department is committed are detailed in the table below. The building commitments in notes 26.1, 26.3 and 27.3 are based on the assumption of an annual RPI increase of 4 per cent (2009-10: 5 per cent).

[1] This amount is included within the figures reported in note 10 as PPP and PFI service charges.

	2010-11 £m Core Department	2010-11 £m Consolidated	2009-10 £m Core Department	2009-10 £m Consolidated
Not later than one year	596.0	596.2	522.5	522.7
Later than one year and not later than five years	2,267.1	2,268.0	2,024.0	2,025.1
Later than five years	1,438.2	1,439.7	1,836.8	1,838.4
	4,301.3	**4,303.9**	**4,383.3**	**4,386.2**

28. Other financial commitments

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

	2010-11 £m Core Department	2010-11 £m Consolidated	2009-10 £m Core Department	2009-10 £m Consolidated
Not later than 1 year	10.1	10.1	6.6	6.6
Later than 1 year and not later than 5 years	1.2	1.2	2.9	2.9
Later than 5 years	–	–	–	–
	11.3	**11.3**	**9.5**	**9.5**

28.1 Financial Guarantees, Indemnities and Letters of Comfort

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

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

	1 April 2010 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2011 £m	Amount reported to Parliament by Depart-mental Minute £m
Guarantees	–	–	–	–	–	–
Indemnities	**3.3**	**3.4**	**(0.4)**	**(1.2)**	**5.1**	**–**
Letters of Comfort	–	–	–	–	–	–

The Department has not entered into any unquantifiable contingent liabilities.

29. Contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities:

- Shipbuilders' Relief – a contingent liability of £61.7m (2009-10: £93.2m) exists for potential claims against the Department;
- Legal Claims – a contingent liability of £81.2m (2009-10: £52.3m) 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;
- Specialist Investigations are reporting a contingent liability in respect of potential compensation for a Missing Trader Intra Community Fraud (MTIC) case totalling £10.2m (2009-10: £9.7m);
- Action where appointed liquidators have been guaranteed costs with a view to recovery of outstanding tax liabilities £0.9m, 120 cases (2009-10: £1.1m, 141 cases);
- The Department has a further number of contingent liabilities amounting to £8.1m (2009-10: £6.0m).

30. Losses and special payments

30(a) Losses Statement

	2010-11		2009-10	
	cases	£m	*cases*	£m
Losses are made up of:				
Child Benefit irrecoverable overpayments	*60,298*	10.2	*67,166*	14.0
Law costs remissions	*21,343*	2.8	*32,952*	4.2
Tax penalty remissions	*29,224*	15.2	*34,379*	15.3
Others	*2,734*	8.0	*2,480*	1.4
Total	***113,599***	**36.2**	***136,977***	**34.9**

Details of cases over £250,000

£6.1m – The Government announced in the budget on the 22 June 2010 that the Saving Gateway would no longer be introduced. Accordingly, the Department has incurred a constructive loss of £6.1m in respect of the decommissioning of the IT system.

30(b) Special Payments

	2010-11		2009-10	
	cases	£m	*cases*	£m
Payments and accruals	*10,956*	5.5	*13,629*	4.8
New provisions	*8*	2.0	*1*	0.7
Increase in existing provisions		–		–
Write back of provisions		–		(1.4)
Total	***10,964***	**7.5**	***13,630***	**4.1**

Details of cases over £250,000

£0.8m – Utilisation of a prior year provision in respect of a personal injury claim.
£0.6m – Ex-gratia payment in respect of losses caused by control and enforcement action.
£0.4m – Compensation payment in respect of damages for unsuccessful legal proceedings.

31. Related-party transactions

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

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

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

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

32. Third-party assets

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

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

		31 March 2010	Gross inflows	Gross outflows	31 March 2011
Monies on deposit					
Euro deposits – EC Twinning Projects	**€€**	–	0.2m	0.1m	0.1m

In previous years details of deposits held in relation to VAT on E-services, seized monies (Sterling and US dollar), motor vehicles and vessels have been reported in the Resource Account. As proceeds from the sale of seized assets are now paid to the Exchequer as Consolidated Fund Extra Receipts (CFERs), these are now reported in the Trust Statement.

33. Entities within the departmental boundary

The entities within the boundary during 2010-11 were as follows:

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

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

34. 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 6 July 2011.

Trust Statement

Contents

Principal Accounting Officer's Foreword to the Trust Statement

Scope

HM Revenue & Customs (HMRC) is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of tax credits, Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grants. HMRC is also responsible for collecting repayments of student loans, enforcing payment of the national minimum wage and for providing the Government business link portal. The Trust Statement reports the revenues and expenditures and assets and liabilities related to the taxes and duties for the financial year 2010-11 and reports the full year's activity of HMRC. The costs of running HMRC, and payments of Child Benefit and Child Trust Fund, are reported in the Departmental Resource Accounts.

The taxes and duties which HMRC has accounted for in this Trust Statement are:

- Income, Corporation, Bank Payroll, Capital Gains, Inheritance, Insurance Premium, Stamp and Petroleum Revenue taxes
- Bank Levy
- Value Added Tax (VAT)
- Excise duties
- Customs duties
- Betting and Gaming duties
- Air Passenger Duty
- Environmental taxes: Climate Change Levy, Aggregates Levy and Landfill Tax
- National Insurance Contributions (NICs)
- Fines and Penalties
- Tax Credits and
- Recovery of Student Loan repayments

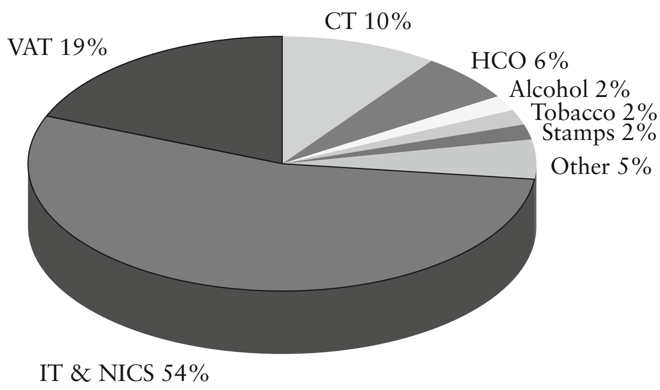
RN Limited, a company registered in 1933, is used by HMRC as a nominee to hold charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. RN Limited also holds as nominee and on behalf of HMRC assets that have been assigned to HMRC in settlement of debts.

Financial Review of 2010-11 Trust Statement

1. Total Revenue

Total revenues accruing in year were £468.9 billion: £33.1 billion (7.6 per cent) higher when compared to prior year, reflecting the highest accrued revenue to date. This significant rise is due to increases in various tax/duty rates and a continued upturn in the economy when compared to the prior year. It is also reflective of improved performance of the Department in reducing revenue losses from fraud and error, increasing compliance yield and improving debt management.

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



The eight taxes and duties specifically named above (Income Tax & National Insurance Contributions [IT & NICS] being reported together) between them account for 95 per cent of HMRC revenue in 2010-11.

Total revenue accruing to the Department is shown before deduction of revenue losses, decrease in provision for doubtful debt and the movement in the provision for liabilities provided in the year. In order to analyse revenue from taxes and duties after these changes, the Statement of Revenue and Expenditure should be viewed in conjunction with notes 9.1 and 10.1.

	2010-11 £ billion
Total Revenue	468.9
Revenue Losses and decrease in Provision for Doubtful Debt (note 9.1)	(4.4)
Movement in Provision for Liabilities (note 10.1)	(1.6)
Total Revenue less items noted above	**462.9**

2. Comparison by Tax Type

2.1 Income Tax & National Insurance Contributions

Income Tax and NICs accounted for 54.2 per cent of total revenue at £254.1 billion; £5.1 billion (2.0 per cent) higher than 2009-10.

The main reason for the increase was due to higher receipts of PAYE IT and NIC 1, reflecting economic improvement throughout the year across most sectors.

2.2 Value Added Tax

Value Added Tax accounted for 19.3 per cent of total revenue at £90.3 billion; £13.2 billion (17.1 per cent) higher than 2009-10.

The main reasons for the increase are the changes in the VAT rate which returned to 17.5 per cent from January 2010 and the increase to 20 per cent which took effect from January 2011. The improvement in economic growth also resulted in increased receipts.

2.3 Corporation Tax

Corporation Tax accounted for 9.8 per cent of total revenue at £45.9 billion; £8.0 billion (21.1 per cent) higher than 2009-10.

This increase is primarily due to an improvement in the economic situation with increased Corporation Tax receipts being an indication of an upturn in company profits. The growth in receipts compared to 2009-10 is evident across all onshore and offshore sectors.

2.4 Hydrocarbon Oils Duties

Hydrocarbon Oils accounted for 5.8 per cent of total revenue at £27.2 billion and were the highest on record; £0.9 billion (3.4 per cent) higher than 2009-10.

The increase is mainly due to duty rate rises.

2.5 Alcohols

Alcohol Duties accounted for 2.0 per cent of total revenue at £9.5 billion and were the highest on record; £0.3 billion (3.3 per cent) higher than 2009-10.

The increase is partly due to the duty rate rises in April 10 coupled with increased sales attributable to a stronger UK alcohols market.

2.6 Tobacco

Tobacco Duties accounted for 2.0 per cent of total revenue at £9.3 billion; £0.2 billion (2.1 per cent) lower than 2009-10.

The decrease is primarily due to exceptionally high out-turns in 2009-10 resulting from changes in the timing of budgets which led to increased trade activity by manufacturers. In 2010-11, the Budget reverted back to March 2011 and normal trading patterns were restored.

2.7 Stamp Taxes

Stamp Taxes accounted for 1.9 per cent of total revenue at £9.0 billion; £0.9 billion (11.1 per cent) higher than 2009-10.

The increase is mainly attributable to an increase in receipts of Stamp Duty Land Tax reflecting higher prices of residential properties and higher volumes of commercial sales.

2.8 Other Taxes, Duties and Revenues

The remaining minor taxes and duties account for 5.0 per cent of the total revenue at £23.6 billion; £4.9 billion (26.2 per cent) higher than in 2009-10.

2.8.1 Capital Gains Tax

Capital Gains Tax accounted for 0.79 per cent of total revenue at £3.7 billion; £1.8 billion (94.7 per cent) higher than 2009-10.

The increase looks high as it is compared to a particularly low revenue yield in 2009-10.

The 2009-10 yield was low due to an inflated receipts figure in 2008-09 as taxpayers brought forward their disposals following a pre-announced effective increase in the CGT rate on longer term investments in the 2007 Pre-Budget Report.

2.8.2 Petroleum Revenue Tax

Petroleum Revenue Tax accounted for 0.35 per cent of total revenue at £1.6 billion; £0.6 billion (60.0 per cent) higher than 2009-10.

This increase is the result of rising oil prices.

2.8.3 Bank Payroll Tax

Bank Payroll Tax accounted for 0.2 per cent of total revenue at £925 million.

The £925 million revenue accrued in 2010-11 was in addition to the £2.5 billion estimated in 2009-10; resulting from stronger than anticipated bonuses.

2.8.4 Bank Levy

An estimated £659 million (£0.7 billion) Bank Levy has accrued, which is payable through future Corporation Tax Quarterly Instalment Payments (QIPs).

3. Movement in Accrual Adjustments

3.1 Receivables and Accrued Revenue Receivable (Note 7) – Restated for 2009-10

The total of Receivables and accrued revenue receivable (ARR) - before the provision for doubtful debt - increased by £7.4 billion (6.9 per cent) between 31 March 2010 and 31 March 2011 to £115.2 billion.

Receivables increased by £1.4 billion (5.0 per cent) compared to a prior year increase of £0.4 billion (1.4 per cent). Debt management has improved over the last year resulting in a decrease in overdue debt,* which has been reflected in the receivables balance. However, overall the receivable balance has increased due to the addition of higher number of prior year PAYE underpayment cases being reconciled during 2010-11, the impacts of extended payment dates for VAT online filing and the inclusion of new penalties.

Accrued Revenue Receivable increased by £6.0 billion (7.5 per cent) to £85.7 billion. These increases mainly relate to VAT (£4.2 billion), Income Tax (£1.7 billion) and Corporation Tax (£1.4 billion), offset by a reduction in Bank Payroll Tax (£2.5 billion). The increase in VAT is mainly due to the VAT rate increase to 20 per cent whilst increases in the other taxes reflect the ongoing signs of the economic recovery.

*Overdue debt represents only part of the receivable balance. Receivables represent all liablilities that have been established, irrespective of whether they are due or overdue (see note 7 for further details).

3.2 Provision for Doubtful Debt (Note 9.4)

	2010-11 £ billion	2009-10 £ billion
Receivables	29.5	28.1
Provision	10.0	11.5

Provision for Doubtful Debt decreased by £1.5 billion (13.0 per cent). This is mainly due to improved debt collection rates which form the basis of the provision calculation.

The Provision for Doubtful Debt is calculated to provide a fair value of receivables in the Trust Statement, in effect reducing receivables to a value that is likely to be collected and providing for non collectable debt.

Non collectable debt includes legally due debt that is written off or remitted (losses), in addition to debt that is discharged, amended or cancelled as information is received which reduces the liability or confirms that it is not legally due. The discharge, amendment and cancelled element results from liabilities being estimated by either the Department or the taxpayer and then subsequently amended once the true liability is known.

3.3 Provision for Liabilities and Contingent Liabilities (Note 10.1)

Provisions were reviewed during 2010-11. Of the sum of £4,919 million provided last year £2,119 million was paid out during the year and it was identified that £977 million was no longer required. A new provision of £2,558 million has been added, the larger part of which relates to PAYE open cases, giving a carried forward balance of £4,381 million – a £538 million reduction on last year.

Contingent liablities were also reviewed during 2010-11 resulting in the estimates being increased by £2.6 billion. In addition, new cases have been identified with an estimated value of £1.6 billion.

3.4 Payables, Accrued Revenue Payable & Deferred Revenue (Note 8)

The total of Payables, Accrued Revenue Payable (ARP) and deferred revenue decreased by £4.2 billion (9.7 per cent), mainly due to a net decrease of £3.0 billion in payables for the National Insurance Funds (NIF) and the NHS resulting from one large payable of £3.6 billion, due as at 31 March 2010, being paid during the current year.

3.5 Revenue Losses (Note 9.2)

Revenue losses decreased by £0.7 billion (11.3 per cent); from £6.6 billion in 2009-10 to £5.9 billion in 2010-11.

This was mainly due to a large reduction in VAT losses resulting from Missing Trader Intra Community (MTIC) Fraud. This was partly offset by an increase in Income Tax losses due to additional underpayments below £300 being remitted during 2010-11.

4. Comparison of Movement over the last 7 years

	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
	£ billion	£ billion	£ billion	£ billion	£ billion	£ billion	£ billion
Total revenue	468.9	435.8	441.0	461.6	441.3	409.3	382.9
Variance to prior year	33.1	(5.2)	(20.6)	20.3	32.0	26.4	–
Variance to prior year (per cent)	7.6	(1.2)	(4.5)	4.6	7.8	6.9	–

Note: Total Revenue figures for the years 2004-05 to 2008-09 above differ from those previously published, having been adjusted to take account of the fact that, from 2009-10, Tax Credits Negative Taxation is reported as Expenditure in the Statement of Revenue & Expenditure, and so allow all years 2004-05 to 2010-11 to be compared on a like-for-like basis.

5. Tax Credits

Tax credits accrued payments when compared to last year were £1.3 billion (4.9 per cent) higher due to:

- the up-rating (increase) to the rates of tax credits elements brought forward from 2011-12;
- policy changes which increased the value of the child element above average earnings; and
- an increase in the number of families in work receiving tax credits.

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury and the principles underlying UK Generally Accepted Accounting Practice (UK GAAP) and International Financial Reporting Standards (IFRS).

HMRC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive, appropriate, and supported to a sufficient level of detail by reports from Departmental business systems.

Owing to the diverse nature of the taxes and duties administered by HMRC, a variety of methods are used to produce the relevant accruals information.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. 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.

In respect of the direct taxes, the nature of tax legislation and our associated systems, some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. We have used estimates for a number of taxation streams because the majority of tax returns reporting taxpayer liabilities are not required to be sent to us until several months after the Trust Statement has been published.

In preparing our estimates we have to take account of areas of uncertainty around those factors which determine future revenue flows. We therefore have to make complex judgements concerning some of these factors and we have procedures in place to do this.

We utilise statistical models to derive the estimates. These use a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. We have based these forecasts on what we believe to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of forecasting in the area of direct taxes.

The accuracy of the estimates included in the 2009-10 Trust Statement has been reviewed as more recent data has become available, and I can confirm that they were within the levels of overall uncertainty quoted there.

Accrued revenue receivable is separately estimated for each revenue stream and component of income tax. The estimates used are those prepared for March 2011 Budget on the basis of the economic assumptions provided by Office for Budget Responsibility. The most important of these assumptions were that profits from self-employment rose by 4.4 per cent in 2010-11 and dividend income rose by 5.9 per cent, while savings income fell by 11.8 per cent.

In respect of indirect taxes, accrued revenue receivable and accrued revenue payable are estimated for VAT, as the amounts involved are material. These include a significant amount of actual data available after 31 March which is included in the estimation calculations. Estimation techniques are not required for other indirect taxes and duties where actual data is available.

No tax collection system can ensure that all those who have a tax liability comply with their obligations. Whilst the Department is concerned with compliance, the Trust Statement does not include estimates of taxes foregone as a result of avoidance and non-compliance with taxpayers' obligations.

Legal Proceedings

The HMRC Litigation and Settlement Strategy is available via the HMRC website. The aim of the Strategy is to make sure that disputes are conducted in a way that is professional, effective and that supports HMRC objectives to close the tax gap and provide customers with a clear understanding of the law.

HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. The Department makes provision for these proceedings, which occur in the normal course of business, as summarised in Note 1, 'Statement of Accounting Policies' and Note 10.1, 'Taxes Subject to Challenge'. HMRC may make additional significant provisions for such legal proceedings as required in the event of further developments in these matters, consistent with generally accepted accounting principles. Litigation is inherently unpredictable and, depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. At 31 March 2011, HMRC's aggregate provision for legal and other disputes was £4.4 billion. PAYE open cases accounted for £2.5 billion of this total (see Note 10.1). The ultimate liability for legal claims may vary from the amounts provided and depends upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Other cases, where it is probable that HMRC will be required to settle the obligation and is unable to reliably estimate the amount, or where it is possible that HMRC will be required to settle the obligation, are classed as contingent liabilities - see Note 10.1.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 2 of the Exchequer and Audit Departments Act 1921. The auditor's remuneration for this is included in HMRC's Resource Accounts.

No non-audit work was carried out by the auditors for HMRC.

Dame Lesley Strathie DCB
Principal Accounting Officer
6 July 2011

Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Principal Accounting Officer for HMRC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Principal Accounting Officer is responsible for the fair and efficient administration of the tax system, including the assessment, collection and proper allocation of revenue, and payment of tax credits and other entitlements.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for the financial year 2010-11. In conforming with HM Treasury direction (see page 161 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. The Trust Statement must give a true and fair view of the state of affairs of HMRC, including a Statement of Revenue and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows.

The Trust Statement includes a Statement on Internal Control (SIC) which sets out the governance, risk and control arrangements for HMRC. The SIC process is firmly and clearly linked to the risk management process in HMRC.

In preparing the Trust Statement, the Principal Accounting Officer is required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the account.

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

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 39 to 47 of this document.

The Audit Report of the Comptroller and Auditor General to the House of Commons

I have audited HM Revenue & Customs' (the Department's) Trust Statement for the year ended 31 March 2011 under the Exchequer and Audit Departments Act 1921. The Trust Statement comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Principal Accounting Officer and auditor

As explained more fully in the Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the state of affairs relating to taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries as at 31 March 2011 and of the revenue and expenditure and cash-flows for the year then ended. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Department 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 Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Principal Accounting Officer's Foreword to the Trust Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the revenue and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Qualified opinion on regularity

The Trust Statement records £28.1 billion of tax credits expenditure in 2010-11. As shown in Note 3.3 to the Trust Statement, the Department's latest estimate is that in 2009-10 error and fraud resulted in overpayments of between £1.75 billion and £2.14 billion (6.6 per cent to 8.1 per cent) of the final award by value to which claimants were not entitled. Note 3.3 also shows that the Department estimates that error led to underpayments of between £0.25 billion and £0.55 billion (1.0 per cent to 2.1 per cent) of the final award by value. Where error and fraud result in over or underpayment of tax credits the transactions are not in conformity with the Tax Credit Act 2002 and related regulations which specify the criteria for entitlement to tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the tax credit awards made in 2010-11 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2010-11. Accordingly, I have been unable to confirm that, in all material respects, tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament. I have therefore qualified my audit opinion on the regularity of tax credits expenditure because of the probable level of overpayments attributable to error and fraud which have not been applied to the purposes intended by Parliament; and because of the probable level of under and over payments in tax credits expenditure which are not in conformity with the relevant authorities.

In my opinion, except for the probable level of error and fraud in tax credits expenditure, in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions 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 as at 31 March 2011 relating to the collection and settlement of taxes, duties, National Insurance Contributions, tax credits and student loan recoveries and related expenditures administered by the Department, and of the revenue and expenditure and cash flows for the year then ended; and
- the Trust Statement has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter: significant uncertainty in the estimates of accrued revenue receivable and accrued revenue payable

In forming my opinion on the truth and fairness of the Trust Statement, which is not qualified, I have considered the adequacy of the disclosures made in Notes 7 and 8 on the estimates of accrued tax revenue receivable of £85.7billion and accrued revenue payable of £24.6 billion at 31 March 2011. As described in Note 7.1.4, the Department considers that the combined accrued revenue receivable and accrued revenue payable at 31 March 2011 are subject to maximum likely uncertainty of £4 billion in either direction, equivalent to less than one per cent of total revenue reported in the Statement of Revenue and Expenditure. The significant uncertainty is adequately disclosed in the Trust Statement.

Opinion on other matters

In my opinion:

- the information given in the Principal Accounting Officer's Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

Details of these matters are set out in paragraph 4.4 of my Report on HM Revenue and Customs 2010-11 Accounts.

Amyas C E Morse
Comptroller and Auditor General

6 July 2011

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

Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2011

	Notes	2010-11 £ billion	Restated* 2009-10 £ billion
Taxes and Duties			
Income Tax		157.2	150.0
Value Added Tax	2.1	90.3	77.1
Corporation Tax		45.9	37.9
Hydrocarbon Oils Duties	2.2	27.2	26.3
Alcohol Duties	2.3	9.5	9.2
Tobacco Duties	2.4	9.3	9.5
Stamp Taxes	2.5	9.0	8.1
Other Taxes and Duties	2.6	21.0	16.9
Total Taxes and Duties		**369.4**	**335.0**
Other Revenue and Income			
National Insurance Contributions	4.1	96.9	99.0
Student Loan Recoveries	4.3	1.3	1.1
Taxation due from Isle of Man	5	0.2	0.1
Fines and Penalties	6	1.1	0.6
Total Other Revenue and Income		**99.5**	**100.8**
Total Revenue		**468.9**	**435.8**
Less Expenditure			
Tax Credits	3.1	(28.1)	(26.8)
Bad and Doubtful Debts	9.1	(4.4)	(6.4)
Provision for Liabilities	10.1	(1.6)	2.1
Total Expenditure		**(34.1)**	**(31.1)**
Less Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	4.1	(96.1)	(98.1)
Student Loan Recoveries due to the Department for Business, Innovation and Skills	4.3	(1.3)	(1.1)
Total Disbursements		**(97.4)**	**(99.2)**
Total Expenditure and Disbursements		**(131.5)**	**(130.3)**
Net Revenue for the Consolidated Fund		**337.4**	**305.5**

*Certain prior year figures have been restated as per Note 1.6

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 142 to 160 form part of this Statement.

Statement of Financial Position as at 31 March 2011

	Notes	31 March 2011 £ billion	Restated* 31 March 2010 £ billion
Non-current Assets			
Receivables falling due after more than one year	7	2.1	1.6
Current Assets			
Receivables	7	17.4	15.0
Accrued Revenue Receivable	7	85.7	79.7
Prepayments		0.2	0.3
Cash		0.1	0.2
Total Current Assets		103.4	95.2
Total Assets		105.5	96.8
Current Liabilities			
Payables	8	14.1	19.3
Accrued Revenue Payable	8	24.6	23.6
Deferred Revenue	8	0.6	0.6
Other Payables at Bank		1.2	0.9
Total Current liabilities		40.5	44.4
Net Assets (Non-current Assets plus Current Assets less Current Liabilities)		**65.0**	**52.4**
Non-current Liabilities			
Provision for Liabilities	10.1	4.4	4.9
Assets less Liabilities		**60.6**	**47.5**
Movements on Consolidated Fund Account:			
Balance on Consolidated Fund Account as at 1 April		47.5	34.2
Net Revenue for the Consolidated Fund		337.4	305.5
Less amount paid to Consolidated Fund		(324.3)	(292.2)
Balance on Consolidated Fund Account as at 31 March		**60.6**	**47.5**

* Certain prior year figures have been restated as per Note 1.6

The notes at pages 142 to 160 form part of this Statement.

Dame Lesley Strathie DCB
Principal Accounting Officer
6 July 2011

Statement of Cash Flows for the year ended 31 March 2011

	Notes	2010-11 £ billion	Restated* 2009-10 £ billion
Net Cash Flow from Revenue Activities	A	323.9	291.7
Cash paid to Consolidated Fund		(324.3)	(292.2)
Decrease in Cash in this period	B	**(0.4)**	**(0.5)**

Notes to the Statement of Cash Flows

A: Reconciliation of Net Cash Flow to movement in Net Funds

	2010-11 £ billion	Restated* 2009-10 £ billion
Net revenue for the Consolidated Fund	337.4	305.5
(Increase) in Non-cash Assets	(8.8)	(14.6)
(Decrease)/Increase in Liabilities	(4.2)	4.4
(Decrease) in Provision for Liabilities	(0.5)	(3.6)
Net Cash Flow from Revenue Activities	**323.9**	**291.7**

B: Analysis Of Changes in Net Funds

	2010-11 £ billion	Restated* 2009-10 £ billion
Decrease in Cash in this period	(0.4)	(0.5)
Net Funds as at 1 April (Opening Cash at Bank)	(0.7)	(0.2)
Net Funds as at 31 March (Closing Cash at Bank)	**(1.1)**	**(0.7)**

* Certain prior year figures have been restated as per Note 1.6

Notes to the Trust Statement

1 Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921;
- the 2010-11 Financial Reporting Manual issued by HM Treasury; and
- the accounting policies detailed below.

The accounting policies have been developed by HM Revenue & Customs (HMRC) in consultation with HM Treasury and have been reviewed during 2010-11 and these policies have been applied consistently in dealing with items considered material in relation to the accounts.

The 'tax gap' is not recognised in the Trust Statement. This is defined as the difference between tax collected and that which, in HMRC's view, should be collected. Tax liability is therefore defined so as to include all tax that is due under either the letter or the spirit of the law. Under this definition the tax gap revenue loss equates to the shortfall resulting from fraud, error, non-payment and artificial avoidance schemes.

The financial information presented in the primary statements is rounded to the nearest £0.1 billion. The financial information presented in the notes to the financial statements is rounded to the nearest £0.1 billion except for Certificates of Tax Deposit, Student Loan Recoveries, tax revenue due to/from the Isle of Man, revenue losses and provision for liabilities which are rounded to the nearest £1 million.

1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. In addition, some repayments are accounted for on a cash basis as detailed in Note 1.3.

1.3 Revenue Recognition

Taxes and Duties Recognised on an Accruals Basis

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. Note 7 provides an explanation of accrued revenue receivable.

Taxable events for the material tax streams are as follows:

- Income Tax and National Insurance Contributions- earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the Income Tax component is based on prior year Income Tax liabilities.
- Value Added Tax – undertaking of taxable activity during the taxation period by the taxpayer
- Corporation Tax – earning of assessable profit during the taxation period by the taxpayer
- Excise duties – movement of goods out of a duty suspended warehouse
- Hydrocarbon Oils Duty – production of taxable goods
- Stamp Taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) – purchase of property or shares
- Bank Levy – chargeable equity and liabilities as reported in balance sheet at end of chargeable period
- Inheritance Tax – the date of agreement of assessment, after death or other chargeable transfer of value

- Capital Gains Tax – disposal of a chargeable asset leading to a taxable gain. Where payments are received in advance of Self Assessment returns, the estimate of the Capital Gains Tax component is based on prior year Capital Gains Tax liabilities.

Revenues are deemed to accrue evenly over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

All repayments are accounted for on an accruals basis with the exception of Capital Gains Tax, Inheritance Tax, Petroleum Revenue Tax and Stamp Duty.

Taxes Recognised on a Cash Basis

Taxes are recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received for those taxes and duties listed in Note 1.2.

Repayments for Capital Gains Tax, Inheritance Tax, Petroleum Revenue Tax and Stamp Duty are made on a cash basis. These are recognised in the period the repayment is made.

Tax Credits

Tax credits are recognised in the year in which they are assessed and authorised by HMRC. Authorisation is the point at which the obligation to pay the tax credit arises.

Payments of tax credits are provisional until entitlement is finalised after the financial year end. Under-payments are accounted for on a cash basis in the year of payment. Over-payments are recovered from future tax credit awards or through repayments by claimants.

National Insurance Contributions

National Insurance Contributions are collected by HMRC on behalf of the National Insurance Funds of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the Funds and the Health Services when received. For 2010-11 an allocation has been made between income tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The allocations are re-assessed when the end of year returns are available and any adjustments to the amounts due are made with actual information on the income tax and national insurance contribution split. At year end, the difference between the revised estimated NIC receipts and amounts which have been paid over to National Insurance Funds and NHS funds is recognised as payable or receivable as appropriate. Amounts due from taxpayers to HMRC but not received at the end of the reporting period are included as receivables in Note 7 and as accrued revenue payable in Note 8 in respect of the Funds and Health Services.

Student Loan Recoveries

HMRC collects Student Loans that are recovered through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS). Student loan recoveries are accounted for on the basis of estimated cash collected during the year. The actual amounts recovered during the year are only known after the year end when employers submit their annual returns. Estimates of receipts are made in year using an estimation model and at year end are updated based on the latest figures of employer returns processed. At the year end the difference between estimated receipts (recoveries) and pay-over to BIS is shown as a receivable or payable. Differences between estimated and actual recoveries are adjusted and accounted for in the following year.

Fines and Penalties

Income arising from the levying of tax penalties is generally treated as Consolidated Fund Extra Receipts.

However, HM Treasury has given authority for certain penalties relating to Income Tax, Corporation Tax and Capital Gains Tax to be appropriated in aid by the Department, i.e. kept by the Department to fund the cost of collection and they are reported in the Resource Accounts.

Penalties relating to National Insurance Contributions are accounted for as income and paid over to the National Insurance Fund.

1.4 Receivables

Receivables are shown net of a provision for doubtful debts.

1.5 Provisions and Contingent Liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation but is not able to estimate the amount reliably, or where it is possible that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the Department.

1.6 Restated totals for 2009-10

The prior year comparative data has been restated due to the following:

1. Consolidated Fund Extra Receipts (CFERs) are now reported in the Trust Statement as part of the HM Treasury Clear Line of Sight Alignment Project. These adjustments, reported as Fines and Penalties, have increased revenue by £0.6 billion and resulted in changes to:

- Statement of Revenue, Other Income and Expenditure; Statement of Financial Position; Statement of Cash Flows; Notes 7, 9.1, 9.2, 9.4 and a presentational rounding in Note 2.3.

2. A review of receivables affected the Statement of Financial Position with a net increase in receivables of £1.0 billion (VAT £0.8 billion, Customs duty £0.2 billion) and a net decrease in Accrued Revenue Receivable of £1.0 billion (VAT £0.8 billion, Customs Duty £0.2 billion).

2 Taxes and Duties Due

2.1 Value Added Tax

	2010-11 £ billion	2009-10 £ billion
Gross VAT Revenue	155.5	129.2
Less: Revenue Repayable	(65.2)	(52.1)
Net VAT Revenue	**90.3**	**77.1**

VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.2 Hydrocarbon Oils Duties

	2010-11 £ billion	2009-10 £ billion
Road Fuel	26.4	25.7
Rebated Fuel	0.8	0.6
Total	**27.2**	**26.3**

2.3 Alcohol Duties

	2010-11 £ billion	2009-10 £ billion
Beer	3.4	3.2
Wine Cider and Perry	3.4	3.3
Spirits	2.7	2.7
Total	**9.5**	**9.2**

2.4 Tobacco Duties

	2010-11 £ billion	Restated* 2009-10 £ billion
Cigarettes	8.5	8.7
Hand rolling tobacco	0.7	0.7
Cigars	0.1	0.1
Total	**9.3**	**9.5**

* Certain prior year figures have been restated as per Note 1.6

2.5 Stamp Taxes

	2010-11 £ billion	2009-10 £ billion
Stamp Duty Land Tax	6.0	5.1
Stamp Duty Reserve Tax	2.8	2.8
Stamp Duty	0.2	0.2
Total	**9.0**	**8.1**

2.6 Other Taxes and Duties

	Note	2010-11 £ billion	2009-10 £ billion
Capital Gains Tax		3.7	1.9
Customs Duties		3.0	2.7
Inheritance Tax		2.7	2.5
Insurance Premium Tax		2.5	2.2
Air Passenger Duty		2.2	1.9
Betting And Gaming Duties		1.6	1.4
Petroleum Revenue Tax		1.6	1.0
Landfill Tax	2.7	1.1	1.0
Bank Payroll Tax	2.8	0.9	2.5
Bank Levy	2.9	0.7	–
Climate Change Levy		0.7	0.7
Aggregates Levy		0.3	0.3
Other Revenue		–	(1.2)
Total Revenue Due		**21.0**	**16.9**

Other Revenue relates to the movement of monies for Payments on Account which occur when a taxpayer makes a payment to HMRC before a charge is raised. Such funds are shown in the Statement of Financial Position under current liabilities and are only transferred to Revenue when liability has been established.

2.7 Landfill Tax

The Landfill Tax revenue of £1,137 million (2009-10: £1,023 million) is net of £65 million (2009-10: £63 million) contributions made to environmental bodies by landfill operators, under the Landfill Communities Fund (formerly the Landfill Tax Credit Scheme.)

Landfill Tax was introduced on 1 October 1996 as a tax on the disposal of waste through landfill. It is levied on landfill operators by weight of refuse disposed in landfill sites. The Landfill Communities Fund was introduced at the same time as the tax. It allows operators to claim tax credits for contributions they make to approved environmental bodies for environmental improvement works in the vicinity of landfill sites. The recipients spend the contributions which meet one of the objectives specified in the Landfill Tax Regulations. Operators can contribute up to 5.5 per cent of their landfill tax liability and reclaim 90 per cent of the contributions they make as a tax credit. ENTRUST is a not-for-profit private sector company which acts as regulator of the Landfill Communities Fund and is an arm's length body of HMRC.

2.8 Bank Payroll Tax

Bank Payroll Tax was introduced by the Finance Bill 2010. It had effect for the period 9 December 2009 to 5 April 2010 and was payable on or before 31 August 2010. Additional revenue in excess of the amount accrued at 31 March 2010 are due to higher than expected bonuses being paid. No prior year adjustment is considered necessary.

2.9 Bank Levy

Bank levy was introduced by the Finance Bill 2011 and commenced on the 1 January 2011. Payment will be through the existing Corporation Tax Quarterly Instalment Payments (QIPs). In 2011 payment will be required only on QIPs payment dates on or after the date that Finance Bill 2011 receives Royal Assent. The accrued revenue receivables figure included in Note 2.6 is an estimate of accrued revenue liabilities from the 1 January 2011 to the 31 March 2011.

3 Tax Credits

3.1 Analysis of Tax Credit Expenditure:

	Child Tax Credits 2010-11 £ billion	Working Tax Credits 2010-11 £ billion	Total Tax Credits 2010-11 £ billion	Child Tax Credits 2009-10 £ billion	Working Tax Credits 2009-10 £ billion	Total Tax Credits 2009-10 £ billion
Tax Credits treated as Negative Taxation	3.9	1.5	5.4	3.8	1.6	5.4
Tax Credits treated as Payments of Entitlement	16.4	6.3	22.7	15.2	6.2	21.4
Total Tax Credits	**20.3**	**7.8**	**28.1**	**19.0**	**7.8**	**26.8**

The Tax Credits expenditure analysis above is in accordance with the Organisation for Economic Co-operation and Development's classification rules and international practice for the calculation of net taxes and social security contributions. It is disclosed as Negative Taxation to the extent that the tax credits are less than or equal to the recipient family's income tax liability and as Payments of Entitlement where tax credits exceed the recipient family's income tax liability.

The split between Child and Working Tax Credits has been estimated.

3.2 Tax Credit Receivables

	Note	2010-11 £ billion	2009-10 £ billion
Receivables as at 1 April	7	4.5	4.3
Overpayments identified on finalisation of awards		0.7	0.5
Overpayments identified from change of circumstances in year		0.9	0.9
Recoveries made		(0.8)	(0.8)
Remissions/Write-offs	9.2	(0.6)	(0.4)
Receivables as at 31 March	7	**4.7**	**4.5**
Provision for doubtful debts		(3.0)	(2.5)
Net		**1.7**	**2.0**

As a result of the finalisation exercise undertaken in 2010-11 further overpayments relating to tax credits paid in 2009-10 totalling £636.8 million were identified. Adjustments made to payments in 2003-04 through to 2008-09 resulted in a net £16.7 million overpayment. These have been accounted for in 2010-11.

In accordance with the accounting policy for tax credits (Note 1.3), amounts under or over paid in 2010-11 and identified during the finalisation exercise being undertaken in 2011-12 are not included in the above figures.

Remissions and write-offs in 2010-11 include £16.7 million written off in respect of organised fraud identified during the year.

3.3 Tax Credits Error and Fraud

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

In June 2011, HMRC completed its testing on finalised awards for 2009-10, based on a random sample of some 2,696 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.75 billion and £2.14 billion (6.6 per cent to 8.1 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments to claimants of between £0.25 billion and £0.55 billion (1.0 per cent to 2.1 per cent of the final award by value) to which they were entitled.

4 Other Revenue

4.1 National Insurance Contributions

	Note	Net Revenue 2010-11 £ billion	Net Revenue 2009-10 £ billion
National Insurance Fund – Great Britain		74.1	75.5
National Insurance Fund – Northern Ireland		1.5	1.5
National Health Services (NHS)		21.3	22.0
Total Revenue		96.9	99.0
Remissions and Write-offs	9.2	(0.8)	(0.9)
Net Revenue due to the National Insurance Funds and National Health Services for the year		**96.1**	**98.1**

	Cash Paid to NIFs/NHS 2010-11 £ billion	Cash Paid to NIFs/NHS 2009-10 £ billion
National Insurance Fund – Great Britain (GB)	77.1	72.2
National Insurance Fund – Northern Ireland (NI)	1.5	1.4
National Health Services (NHS)	21.3	21.4
Totals	**99.9**	**95.0**

Balances owing to/(due from) the National Insurance Funds (NIF) and NHS as at 31 March 2011 were:

- NIF Great Britain: £1.0 billion (opening balance at 1 April 2010: £4.0 billion)
- NIF Northern Ireland: (£0.4 billion) (opening balance at 1 April 2010: (£0.4 billion))

The combined balance of £0.6 billion is included within payables (Note 8).

National Insurance Contributions are paid over to the National Insurance Funds and National Health Services when received and not when accrued (as published in the GB and NI White Paper Accounts). The balances owing to/(due from) the National Insurance Funds (NIF) and NHS represent the difference between cash receipts and cash transferred to the NIF and NHS.

Almost all Pay-as-You-Earn (PAYE) payments are made as combined payments of income tax and Class 1 National Insurance Contributions without any notification at the time of the breakdown between the two. An allocation has been made between income tax and Class 1 National Insurance Contributions based on the Departments' best estimate of the amounts of each likely to be reported in employers' end of year returns. The allocations are re-assessed when the end of year returns are available and any adjustments to the amounts due are made with actual information on the income tax and national insurance contribution split.

4.2 Certificates of Tax Deposit

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities that are listed in the current Prospectus (details can be found at www.hmrc.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables on the Statement of Financial Position in the Trust Statement.

	CTD Issues 2010-11 £ million	**CTD Redemptions 2010-11 £ million**	**CTD Total 2010-11 £ million**	**CTD Total 2009-10 £ million**
Receipts	379	527	906	989
Payments	(382)	(523)	(905)	(984)
			1	5
Balance at 1 April			(6)	(11)
Balance at 31 March – Included in receivables			**(5)**	**(6)**

4.3 Student Loan Recoveries

	2010-11 £ million	2009-10 £ million
Receipts	1,296	1,109
Payments	(1,460)	(1,100)
Balance	(164)	9
Balance at 1 April	18	9
Balance at 31 March - Included (receivables)/payables	**(146)**	**18**

The Department recovers Student Loans through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS), from those former students eligible to make repayments. Student Loan recoveries are estimated on the basis of the end of year employer returns processed before the Trust Statement is certified. The actual value of Student Loan recoveries is established later in the year, and the difference between the estimate and the actual receipts is adjusted in the Trust Statement for the following year.

There is a net overpayment of £146 million to BIS at 31 March 2011 which, with HM Treasury authorisation, will be rectified by decreasing payments to BIS during 2011-12. Any adjustments to the annual figures will be reflected in next year's Trust Statement.

5 Taxation Revenue due from the Isle of Man

		2010-11		2009-10
	£ million	£ million	£ million	£ million
Opening Payable/(Receivable) (amount due to/from IoM)		10		(29)
IoM Share of Revenue receipts	393		360	
Revenue collected and retained in IoM	(657)		(449)	
Surplus revenue collected in IoM on behalf of UK		(264)		(89)
Payments received from IoM	198		128	
Payments made to IoM	(10)		–	
Net Payments during the year		188		128
Balance owed (from)/ to IoM at 31 March included in (receivables)/payables		**(66)**		**10**

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man Governments whereby VAT and certain Customs and Excise duties (known as Common Duties) are pooled and shared on an agreed basis.

The Isle of Man Treasury is therefore entitled to a share of Common Duties collected in both the United Kingdom and the Isle of Man that are attributable to goods consumed or services supplied on the Island. This share is reduced by the Common Duties collected and retained by the Isle of Man and by UK costs of collection.

The 2009-10 IoM figures shown in this Note last year were based on estimates. The current 2009-10 figures have been revised to reflect the audited and certified 2009-10 IoM Annual Account. The figures provided for 2010-11 are based on estimates as the 2010-11 IoM Annual Account will not be audited and certified until late 2011.

A revised agreement came into force on 1st April 2010 introducing arrangements that enabled funding flows between the two parties to be reviewed on a quarterly basis and appropriate adjustments made thus avoiding the build up of significant over/under payments. As a result of this arrangement, the Isle of Man paid the UK £68 million on 21 April 2011 covering the period January to March 2011.

6 Fines and Penalties

Following a proposal emerging from the HM Treasury Clear Line of Sight Alignment Project, HMRC was directed that Consolidated Fund Extra Receipts (CFERs), previously reported in the HMRC Resource Accounts, be accounted for in the Trust Statement with effect from 1 April 2010. These receipts consist mainly of tax related fines and penalties together with amounts collected when seized assets are sold. The amounts accrued for 2010-11 are shown in the Statement of Revenue, Other Income and Expenditure. The impact of restated data for 2009-10 is explained in Note 1.6.

7 Receivables and Accrued Revenue Receivable

	Receivables as at 31 March 2011 £ billion	Accrued Revenue Receivable as at 31 March 2011 £ billion	Total as at 31 March 2011 £ billion	Restated* Total as at 31 March 2010 £ billion
Receivables and Accrued Revenue Receivable due within one year:				
Income Tax	7.3	27.8	35.1	32.8
Value Added Tax	8.0	25.6	33.6	28.9
Corporation Tax	2.5	14.4	16.9	15.8
Hydrocarbon Oils Duties	–	1.3	1.3	1.3
Alcohol Duties	0.1	0.7	0.8	0.8
Tobacco	-	1.5	1.5	1.3
Stamp Taxes	0.2	0.4	0.6	0.6
Bank Payroll Tax	–	–	–	2.5
Bank Levy	–	0.7	0.7	–
Other Taxes and Duties	1.1	1.9	3.0	2.6
Tax Credit Overpayments	0.8	–	0.8	3.2
National Insurance Contributions	2.9	11.4	14.3	15.0
Isle of Man	0.1	–	0.1	–
Fines and Penalties	1.4	–	1.4	1.0
Other Debtors	0.2	–	0.2	–
Totals before Provision	24.6	85.7	110.3	105.8
Less Provision	(7.2)		(7.2)	(11.1)
	17.4	**85.7**	**103.1**	**94.7**
Receivables due after more than one year:				
Inheritance Tax	0.7	–	0.7	0.7
Tax Credit Overpayments	3.9	–	3.9	1.3
Corporation Tax	0.3	–	0.3	–
Totals before Provision	4.9	–	4.9	2.0
Less Provision	(2.8)	–	(2.8)	(0.4)
	2.1	**–**	**2.1**	**1.6**
Totals before Provision	**29.5**	**85.7**	**115.2**	**107.8**
Less Provision (Note 9.4)	(10.0)	–	(10.0)	(11.5)
Total	**19.5**	**85.7**	**105.2**	**96.3**

* Certain prior year figures have been restated as per Note 1.6

Receivables represent all liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Examples of liabilities that are due but not overdue are VAT returns received prior to the Statement of Financial Position date, where electronic payment is due during the first week in April, and some assessments issued to taxpayers where a period of time (generally 30 days) is allowed for payment to be made.

Accrued revenue receivable represents taxes and duties relating to the financial year that are not yet due or received from taxpayers where these have not been included in receivables. The majority of these amounts have been estimated using statistical models based on projections of the most recent revenue flows and forecasts of economic variables on which future revenue flows depend.

An amount of £0.7 billion is included in the Corporation Tax accrued revenue receivable figure in respect of liabilities stoodover (postponed) by HMRC pending finalisation of enquiries. Accrued revenue receivable has only been recognised in cases where there is clear evidence that the amount is due to HMRC.

7.1 Accounting Estimates

Estimates have been provided to support the accrued revenue receivable balances and accrued revenue payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

Estimates have been provided to support the accrued revenue receivable balances for Income Tax collected under PAYE, self assessment, Company Income Tax and Tax Deducted from Savings Income; Corporation Tax, Value Added Tax, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Bank Levy and National Insurance Contributions (Class 1 collected through PAYE and Class 4 collected through self assessment). Accounting estimates have also been provided to support the Value Added Tax and National Insurance Contributions accrued revenue payable balances.

Descriptions of the estimation techniques and details of the underlying assumptions have not been provided for Income Tax collected under PAYE, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Company Income Tax and Tax Deducted from Savings Income as the estimated monetary amounts are either relatively small or not deemed to be particularly sensitive to changes in the underlying assumptions.

7.1.1 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

<u>Onshore companies</u>

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts. The principal assumptions are shown below:

	2010-11 (per cent)	2009-10 (per cent)
Proportion of Corporation Tax liability remitted with first QIP	26.5	29.2
Proportion of Corporation Tax liability remitted with second QIP	24.3	21.9
Proportion of Corporation Tax liability remitted with third QIP	26.3	25.3
Adjustment for overpayment of Corporation Tax liabilities	12.0	(10.0)
Adjustment for late payment of Corporation Tax liabilities	7.0	6.5

The proportions of Corporation Tax liability remitted with the first, second and third QIPs are now being separately calculated for each relevant accounting period. The proportions shown above are the overall weighted averages.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities. The annual growth rates applied are based on the economic assumptions that are provided by HM Treasury and used to forecast Corporation Tax revenues for the March 2011 Financial Statement and Budget Report, and are shown below:

Annual Growth in Corporation Tax liabilities	2010-11[1] (per cent)	2009-10[2] (per cent)
Onshore companies	6.1	13.6

1 This is the growth rate used in the 2010-11 Trust Statement and relates to the growth in 2011 liabilities.
2 This is the growth rate used in the 2009-10 Trust Statement and relates to the growth in 2010 liabilities.

North Sea companies

The accrued revenue receivable for 2010-11 is almost entirely attributable to companies with accounting periods ending December 2011. These are accounting periods for which no TIPs have been received and so the estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities. The growth rate used for 2010-11 is shown below:

Annual growth in Corporation Tax liabilities	2010-11[1] (per cent)	2009-10[2] (per cent)
North Sea companies	54.3	21.3

1 This is the growth rate used in the 2010-11 Trust Statement and relates to the growth in 2011 liabilities.
2 This is the growth rate used in the 2009-10 Trust Statement and relates to the growth in 2010 liabilities.

7.1.1.1 Bank Levy

In line with its June 2010 Budget announcement, the Government introduced a levy on banks and banking groups[3] chargeable equities and liabilities with effect from 1 January 2011. This followed publication of the draft Finance Bill on 9 December 2010 and consultation over the summer and autumn.

[3] Banks and banking groups also includes building societies, building society groups and banking sub groups in non-banking groups

Banks and banking groups will pay the Levy as part of their regular QIPs payments although the first payment in respect of 2011 liabilities will not be received until after Finance Act 2011 receives Royal Assent. For most banks and banking groups the first payments are not expected until October 2011.

As the Bank Levy is based on annual balance sheet figures, accrued revenue receivable will be estimated by assuming the Bank Levy revenue accrues evenly throughout the banks' Accounting Periods.

At present as no Bank Levy payments have yet been received therefore accrued revenue receivable figures have been estimated based on HM Treasury forecasts set out in the March 2011 Budget.

7.1.2 Self Assessment Income Tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2010-11 where payment is not yet due at 31 March 2011. The estimation process has three stages:

(i) estimation of accrued tax liabilities for 2010-11. The estimates used are those prepared for Budget 2011 on the basis of the economic assumptions provided by the Office for Budget Responsibility (OBR). The most important of these assumptions were that profits from self-employment rose by 4.4 per cent in 2010-11 and dividend income rose by 5.9 per cent, while savings income fell by 11.8 per cent;

(ii) deduction from the 2010-11 accrued tax liabilities of relevant payments by 31 March 2011. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total self assessment receipts of income tax, NICs Class 4 and capital gains tax between these three components. The breakdown is estimated from separate information on self assessment liabilities;

(iii) a further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between income tax and NICs is made by statistical estimation.

7.1.3 Value Added Tax

VAT registered businesses in the UK are required to submit VAT returns either monthly, quarterly or annually one month in arrears of the end of the relevant accounting period. Consequently, some, but not all, information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts.

To facilitate the creation of estimates for the remaining elements, historical time-series have been created to show the accrued revenue by month. Established statistical forecasting techniques have then been applied to construct estimates for the more recent periods based on the resulting trends. These have been combined with actual return data and adjusted to account for any payments or repayments relating to these returns that were made prior to the financial year end. This provides an estimate of accrued revenue receivable and payable via the regular return process. The statistical models selected on the basis of historical data provide a reliable indication of future accrued revenue receivable and payable.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments have been made to reflect VAT that is accounted for outside the process described above. The principal adjustments relate to import VAT, repayments made to government departments and Officers' Assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains.

7.1.4 Uncertainty Around the Estimates

Statistical models are used to derive the estimates. 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 believe to be the relevant inputs, as previously described. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns.

These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models. HMRC believes that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of tax forecasting.

8 Payables, Accrued Revenue Payable and Deferred Revenue

A breakdown of payables, accrued revenue payable and deferred revenue falling due within one year is as follows:

	Payables as at 31 March 2011 £ billion	Accrued Revenue Payable as at 31 March 2011 £ billion	Deferred Revenue as at 31 March 2011 £ billion	Total as at 31 March 2011 £ billion	Total as at 31 March 2010 £ billion
Value Added Tax	1.5	9.9	–	11.4	9.8
Corporation Tax	10.3	0.4	0.2	10.9	12.9
National Insurance Funds and the NHS	0.6	14.3	–	14.9	18.6
Other Revenue Payables	0.5	–	0.4	0.9	1.0
Payments on Account	1.2	–	–	1.2	1.2
Total	**14.1**	**24.6**	**0.6**	**39.3**	**43.5**

Payables are amounts recorded as due at the end of the reporting period but payment has not been made in full.

There are three distinct types of accrued revenue payable. These comprise, firstly, amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period; secondly amounts of receivables and accrued revenue receivable that will when received be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services; thirdly amounts in respect of Corporation Tax likely to be repayable by HMRC pending finalisation of enquires.

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.

9 Bad and Doubtful Debts

9.1 Breakdown of Bad and Doubtful Debts

	Notes	2010-11 £ billion	Restated* 2009-10 £ billion
Revenue Losses	9.2	5.9	6.6
(Decrease) in Provision for Doubtful Debts	9.4	(1.5)	(0.2)
Total Bad and Doubtful Debts		**4.4**	**6.4**

* Certain prior year figures have been restated as per Note 1.6

Bad and doubtful debts are made up of revenue losses and the movement in the provision for doubtful debts. The analysis of revenue losses is shown below:

9.2 Revenue Losses

	Remissions 2010-11 £ million	Write-offs 2010-11 £ million	Total 2010-11 £ million	Remissions 2009-10 £ million	Write-offs 2009-10 £ million	Restated* Total 2009-10 £ million
Income Tax	409	937	1,346	91	892	983
Value Added Tax	48	1,941	1,989	32	3,117	3,149
Corporation Tax	2	633	635	5	725	730
Alcohol Duties	-	10	10	24	28	52
Tobacco Duties	3	-	3	19	2	21
Capital Gains Tax	3	36	39	2	27	29
National Insurance Contributions	66	757	823	50	870	920
Fines and Penalties	6	363	369	2	238	240
Tax Credits	600	24	624	407	30	437
Other Remissions and Write-offs	5	18	23	17	29	46
Total Revenue Losses	**1,142**	**4,719**	**5,861**	**649**	**5,958**	**6,607**

* Certain prior year figures have been restated as per Note 1.6

Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

HMRC has identified a number of cases where there has potentially been an underpayment of Income Tax through the PAYE system. HMRC was not able to establish a liability in respect of cases relating to 2005-06 and earlier before statutory limitations became applicable in April 2010. HMRC has determined that it was not cost effective to do further work to establish liabilities for cases relating to 2006-07 before the statutory limitation for these cases applied in April 2011. Because these cases have not been worked it has not been possible to estimate reliably the revenue foregone.

9.3 Revenue Losses – Cases over £10 million

There were 31 cases including 4 bulk write-off cases (2009-10: 69 cases) where the loss exceeded £10 million, totalling £0.8 billion (2009-10: £1.9 billion). Specific details are shown below:

There were 14 write-offs of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £337 million. All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 12 write-offs relating to Insolvency over £10 million each. They were for VAT, Corporation Tax and Income Tax, including interest and penalties totalling £248 million.

There was a bulk write-off of £47.8 million in respect of 49,100 Corporation Tax debts. These related to companies that had been struck off the Companies House Register and therefore in the absence of a legal entity, were considered irrecoverable.

There were 2 bulk remissions totalling £171 million (£129 and £42 million) in respect of Tax Credits relating to 481,000 overpayments. These related to small aged debts that were considered irrecoverable or those where there was a low likelihood of recovery. The remissions were therefore progressed on a value for money basis.

There was a remission of £18.5 million VAT in respect of one trader. The trader was incorrectly advised by HMRC regarding the apportionment of VAT between zero and standard rated supplies. In June 2010 the Commissioners determined that assessment and interest for the period would be remitted.

There was a bulk remission of £284 million for Income Tax, related to a number of financial years, which was considered not cost effective to pursue as recoverability was in doubt. This included a specific decision not to pursue amounts under £300 for 2008-09 and 2009-10 estimated at £160 million, in addition to amounts given up related to small occupational pensions for approximately £35 million.

9.4 Provision for Doubtful Debts

	2010-11 £ billion	Restated* 2009-10 £ billion
Balance as at 1 April	11.5	11.7
(Decrease) in Provision for Doubtful Debts	(1.5)	(0.2)
Balance as at 31 March	**10.0**	**11.5**

* Certain prior year figures have been restated as per Note 1.6

Receivables in the Statement of Financial Position are reported after the deduction of the provision for doubtful debt (PDD) which is estimated based on HMRCs 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 PDD is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non collectable debt.

Non collectable debt includes legally due debt that is written off or remitted (losses), in addition to debt that is discharged, amended or cancelled, as information is received which reduces the liability or confirms that it is not legally due. The discharge, amendment and cancelled element results from liabilities being estimated by either the department or the tax payer and then subsequently amended once the true liability is known.

10. Provision for Liabilities and Contingent Liabilities

10.1 Taxes subject to challenge

	Claims 2010-11 £ million	**Claims 2009-10 £ million**
Balance at 1 April	4,919	8,545
Provided in the year	2,558	339
Provision not required written back	(977)	(2,440)
Provision utilised in the year	(2,119)	(1,525)
Balance at 31 March	4,381	4,919

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of negotiation and litigation over several years. The Department, having taken legal and other specialist advice, has established provisions having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

This provision also includes probable repayments of tax for PAYE open cases amounting to £2.5 billion that will be made once the cases are reconciled.

The accounting policy on provisions and contingent liabilities can be found in Note 1.5.

HMRC currently has 12 cases where the maximum potential tax revenue, before losses, capital allowances and other reliefs, is over £100 million. This covers a range of heads of duty, including Corporation Tax, Income Tax, and VAT. The table above shows the total provision we have made for likely outcomes. The total meeting the criteria for contingent liabilities is estimated at £9.7 billion compared to £5.5 billion as at 31 March 2010.

10.2 Consequences of oil field decommissioning on Petroleum Revenue Tax

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with oil and gas fields subject to PRT, to be carried back indefinitely. As a result, there is always the possibility that the field decommissioning costs will be set-off against the assessable profit arising for any chargeable period during the life of the field. The set-off must be made first against the assessable profit arising in the latest possible chargeable period with, thereafter, any balance of the loss offset against the profit of previous periods, working backwards until it is exhausted. Consequently, the PRT charges for the period to which the losses get carried back may be less than originally measured and any accrued revenue receivable for those periods will be less than originally thought.

There is considerable uncertainty in the amount and timing of decommissioning costs which depend on a range of economic, technical, and environmental factors, for example the effect of movements in oil and gas prices.

The estimated contingent liability for the PRT cost of decommissioning to the Exchequer is £5 billion at today's prices over the period 2011 to 2040. This is based on an estimate of total decommissioning costs to the industry of around £26 billion. However, estimates of decommissioning costs continue to rise and the oil and gas industry representative body 'Oil & Gas UK' recently produced a report, based on the 2011 UK Oil & Gas UK Activity Survey, which estimates the total cost of decommissioning will be £29 billion at today's prices over the same period, so the Exchequer cost may be higher.

11 Third Party Assets

The Department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the Department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as Penalty Income.

The Department also holds Euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states. Neither the Department nor the Government generally have any beneficial interest in these funds

12 Related-Party Transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related parties have undertaken material transactions with the Department during the year.

13 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 6 July 2011.

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 2011 for the revenue and other income 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 2010-11.

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 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 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
22 December 2010

National Audit Office

HM Revenue & Customs 2010-11 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2010-11 Accounts of HM Revenue & Customs

7 July 2011

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Amyas Morse

Comptroller and Auditor General

National Audit Office

6 July 2011

Contents

Summary

Scope of the audit

1 Section 2 of the Exchequer and Audit Departments Act 1921 requires the Comptroller and Auditor General (C&AG) to examine the accounts of HM Revenue & Customs (the Department) to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. The C&AG is also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. The C&AG's audit opinion on the Trust Statement account and this report together satisfy that requirement.

2 We have examined the Department's activities and principal tax streams, and obtained evidence on the adequacy and operation of its regulations and procedures. This report sets out our overall conclusions from this examination, and our findings and recommendations in three areas which were a priority for the Department in 2010-11:

- The resolution of tax disputes (Part Two);
- Stabilising the PAYE Service (Part Three); and
- Tax Credits (Part Four).

3 This report is part of a wider programme of audit we conduct on the Department. The programme includes our annual financial audit of the Department's accounts and examination of its systems for the assessment and collection of taxes, and value for money studies and other work either across government or focusing specifically on the Department. In devising our programme, we have regard to the NAO's three strategic themes of cost-effective service delivery, financial management and informed government. Recognising the Department's challenge of balancing objectives on revenue, cost and customer experience, we seek to provide objective insight on how the Department is:

- transforming its performance and improving compliance among taxpayers and benefit and tax credits claimants using its customer-centric approach; and
- achieving value for money by delivering a sustainable cost base while maintaining revenues.

4 Our conclusions on the Department's overall management of the tax systems are based on our examination under Section 2 of the Exchequer and Audit Departments Act 1921, our value for money studies under the National Audit Act 1983, and consideration of the Department's Statement on Internal Control. Since our previous report on the Department's Accounts[1], we have completed two value for money studies, resulting in the following reports:

- HMRC: Engaging with Tax Agents (Session 2010-11, HC 486, 13 October 2010); and
- Managing civil tax investigations (Session 2010-11, HC 677, 17 December 2010).

5 We have begun work on five further value for money studies, to be published later in 2011-12, on: Improving the efficiency of HMRC processes (Pacesetter); Reducing costs in HMRC; Online filing of tax returns; HMRC's professional (tax) skills; and The delivery of the Compliance & Enforcement Programme.

Conclusion

6 Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, we conclude that in 2010-11, HM Revenue & Customs has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes and tax credits in this report.

The resolution of tax disputes

7 Tax disputes between the Department and major businesses are an inevitable consequence of the complexity and international nature of modern business transactions. At 31 March 2011, the Department was investigating over 2,700 issues with the largest companies, with potential tax at stake of £25.5 billion.

8 In 2007, the Department published its Litigation and Settlement Strategy, setting out its framework for concluding tax disputes across all taxes, duties and tax credits streams. The Strategy seeks to ensure consistency in the way in which tax disputes are resolved and requires each tax issue to be considered on its own merits, rather than as part of a package. It provides a sound framework for resolving disputes, but the Department's review of the Strategy in December 2009 identified differences in understanding amongst its staff of the flexibility permitted by the Strategy in settling disputes.

1 *HM Revenue & Customs' 2009-10 Accounts,* Session 2009-10, HC 299, 20 July 2010.

9 The Department launched its High Risk Corporates Programme (the Programme) in 2006 with the intention of resolving long-outstanding tax disputes with large companies; improving its relationship with these businesses; and discouraging aggressive tax avoidance behaviour. The Department has concluded settlements with companies in the Programme totalling over £9 billion since 2006. The Programme has helped to reduce the backlog of outstanding tax issues and has contributed to reduced avoidance activity by major companies. Companies have welcomed the Department's commitment to resolving tax disputes within the Programme to an accelerated timescale, although this brings the risk that issues will be traded as settlement deadlines are approached. We have seen examples where the Programme Board has agreed not to pursue issues involving finely balanced arguments. Whilst this is consistent with the Litigation and Settlement Strategy, the Department accepts that it could be more explicit in describing the criteria used to make marginal decisions.

10 The High Risk Corporates Programme Board (the Programme Board) includes relevant senior stakeholders from across the Department and provides a strong governance framework. In general, the largest and most contentious proposed settlements with companies both in and outside of the Programme must be approved by the Programme Board. The Board is a useful forum for challenging proposed settlements, reinforced by the requirement for consensus before settlements are agreed.

11 In four of the largest settlements we examined, the Department used specific governance arrangements, which involved reducing the size of the team dealing with the case and the settlement being signed off by Commissioners without a prior reference to the Programme Board. In three of these cases, one or both of the Commissioners signing off the settlement also participated in the settlement negotiations. These arrangements meant that in these three cases, there was no, or limited, separation between the negotiation and the approval of major tax settlements (though in one case there was support from independent legal counsel for the settlement). In the case where both Commissioners were involved in the negotiations, there was no independent scrutiny of the proposed settlement. The Department believes that there will always be cases where Commissioners have to be involved and a clear separation will not be possible. However, in our view, this reduces the demonstrable assurance that the settlement reached is appropriate, for both external stakeholders, including other taxpayers and Parliament, and the Department's own staff.

12 A substantial majority of the settlements that we examined complied with the Litigation and Settlement Strategy and the Department's processes for involving relevant technical experts and for approving settlements. We found two significant exceptions to this. In one case, a settlement was reached without those negotiating the settlement realising that it should have been referred to the Programme Board before being agreed with the company. When the Programme Board reviewed the settlement, they established that a financial error had been made. In another case, the settlement was put to the Programme Board by email, and agreed even though not all members of the Board formally responded.

13 Parliament has provided the Commissioners with some discretion with regard to their duty for the collection and management of taxes, but a 2005 House of Lords judgement ('the Wilkinson case') limits the extent of this discretion. We found some differences of view within the Department on the implications of this judgement for settling tax disputes, and we found one instance where Commissioners were invited to exercise these powers on the basis of oral legal advice. In our view, in the particular circumstances of this case, it would have been helpful to have secured confirmation of that advice in writing.

Recommendations

14 The High Risk Corporates Programme sets out strong governance arrangements for overseeing the settlement of a number of major tax disputes which should achieve clear separation between the analysis and negotiation, and the approval of large tax settlements. In order to provide confidence to internal and external stakeholders on the appropriateness of all such settlements, the Department should ensure that this separation is fully in place in the resolution of every major tax dispute.

15 We found two cases where it was unclear to the staff working on the settlement that the proposal would need to be approved by the Programme Board. In both cases, the Board subsequently raised substantive issues about the proposal. The Department should issue guidance as soon as possible to clarify the criteria for referral of cases to the Programme Board.

16 Referrals to the Programme Board are based on the overall settlement value of the case, but referrals to Commissioners are based on the value of individual issues. The criteria for referring proposed settlements to Commissioners should take account of the overall settlement value as well as the value of individual issues.

17 The Commissioners are able to use discretion in exercising the collection and management powers granted to them by Parliament, but this has been limited by a House of Lords judgement. The Department should ensure that there is clarity on when to apply these powers to resolving tax disputes, and each proposal to use the powers in settling major tax disputes should be supported by appropriate legal advice.

18 The Department has decided that it needs to re-launch its Litigation and Settlement Strategy. This is a sensible approach and should be done as soon as possible, taking our comments in this report into account, to ensure that there is a common understanding within the Department of how to apply the strategy in determining whether to settle or litigate on individual tax issues.

Stabilising the PAYE Service

19 Historically the Department faced a number of challenges in its administration of income tax through the Pay As You Earn system. The increasing complexity of employments and pensions made it more difficult for it to administer individuals' tax affairs without some degree of manual working. In recent years, the number of cases requiring manual intervention exceeded its capacity to clear them, leading to backlogs in processing and uncertainty for those individuals with unresolved tax liabilities.

20 In June 2009, the Department implemented the new National Insurance and PAYE Service (NPS). Unlike the predecessor PAYE system, NPS combines all the information the Department holds on an individual's employment and pension income into a single record. The increased automation under NPS offers the Department the opportunity to process PAYE accurately and on time and reduce the volume of over and underpayments, which will help to restore taxpayers' confidence in the system. Over and underpayments of tax are nevertheless a normal part of the PAYE process, and will continue to occur, for example, where people move in and out of work or receive changes to taxable benefits.

21 The Department encountered a number of operational challenges in 2009-10 following the introduction of NPS. The phased release of the automated reconciliation functionality led it to defer its reconciliation of approximately 39 million taxpayer records for 2008-09, delaying the identification of over and underpayments of tax by over a year. It also limited its ability to deal with the backlog of some 17.9 million cases pre-dating NPS, contributing to the Department having to forego the recovery of underpayments of tax relating to 2006-07 and earlier years assessed as uneconomic to collect or out of time. The failure to keep so many PAYE taxpayers' affairs up to date resulted in significant reputational damage for the Department. It also led the Committee of Public Accounts to conclude that the Department had failed in its duty to process PAYE accurately and on time, and deliver an acceptable standard of service to PAYE taxpayers.

22 Against this background, the Department has made significant progress in stabilising its administration of PAYE during 2010-11. By the end of March 2011, it had successfully reconciled the vast majority of the records available for automated reconciliation for 2008-09 and 2009-10, and processed the associated over or underpayments of tax. It had also ensured that over 99 per cent of all annual codes for 2011-12 for issue to taxpayers were dispatched on time. At the same time, it introduced new test procedures to safeguard against inaccurate tax calculations and codes being issued to taxpayers.

23 The poor quality of PAYE data and initial issues with the NPS specification following its implementation resulted in more processing exceptions (or work items) than originally anticipated. The Department had to divert its operational resources to review and, where necessary, correct NPS data before it could undertake its processing of end of year reconciliations and annual coding. This recovery work was extensive, covering over 11 million records, over 25 per cent of the NPS database. A consequence of diverting operational resources to recovery is that some in-year changes to individuals' records have not been processed, increasing the risk of some taxpayers facing higher under or overpayment of tax at the year end. In response to this risk, the Department has established priorities for manual processing and clearing in-year work items.

24 The Department's decision to reconcile the 2008-09 and 2009-10 tax years together also contributed to increased workloads. To keep workloads to a manageable level, it temporarily raised the threshold for not reclaiming underpaid tax identified through reconciliation to £300. After subsequently extending the increase in threshold to 2007-08, the Department estimates that this had excluded £266 million from recovery by March 2011.

25 The Department began to implement a two-year plan to clear the backlog of cases relating to its legacy PAYE system by the end of 2012, by prioritising the reconciliation of 416,000 underpayment cases relating to 2007-08 and identifying £228 million for recovery. While the Department has lost the opportunity to recover underpayments for the 2006-07 tax year, it plans to complete the reconciliation and process the repayment of an estimated £2.8 billion of tax overpaid in the 2003-04 to 2007-08 tax years by the end of 2012.

26 The Department plans to complete the stabilisation of PAYE by 2013. This includes completing by March 2012, the identification and manual clearance of a forecast 6.7 million records relating to the 2008-09 and 2009-10 tax years where it has not yet received all the information it needs to reconcile automatically. It then plans to accelerate the identification and manual clearance of similar records for the 2010-11 and 2011-12 tax years, and complete this by March 2013. Under NPS, the Department expects it will need to manually review 3 to 4 million of these records to complete the annual end of year reconciliation, compared with 16 to 17 million records immediately before its implementation. It has allocated an additional £34 million in 2011-12 to begin its clearance of all PAYE processing arrears.

27 The Department recognises that it must address the issue of PAYE data quality if it is to realise the full benefits of NPS. The need to maintain PAYE data quality will become even more important with the planned introduction of Real Time Information (RTI) for PAYE in 2013 and the Department for Work and Pensions' reliance on this information to deliver the new Universal Credit. It has launched a PAYE data improvement project to identify and address the impact of poor data quality on the implementation of RTI.

28 Under RTI, employers and pension schemes will be required to report income tax and national insurance deductions at the same time as they pay them. RTI data will initially be passed to NPS on the same timescales as it comes from employers today and over time, NPS will be updated more frequently. The potential increase in the volume of in-year changes to taxpayer records could, if not accurately matched to NPS records, adversely affect the accuracy of codes issued from NPS at a time when the Department's capacity to deal with them will be diminishing. As part of its cost reduction programme, the Department plans to reduce the headcount in its Personal Tax business area from some 24,900 currently to around 16,400 by April 2015.

Recommendations

29 The Department has established plans to complete the stabilisation of PAYE by bringing its reconciliation of all outstanding tax years up to date by March 2013 and introducing further efficiencies to NPS in April 2012, but its plans for dealing with in-year processing, including manual clearance of work items, are not yet finalised. It should develop a fuller understanding of the impact of work items to develop a comprehensive plan which embraces in-year work management.

30 The Department has significant work to complete in stabilising PAYE on the new NPS platform by 2013, which is an essential foundation for the introduction of RTI and the headcount reductions in its Personal Tax business area by April 2015. It should define its operating model for PAYE and how it plans to transform that model as it moves to the RTI environment.

31 The Department has had to divert significant resources to PAYE recovery to deal with the higher volumes of work following NPS implementation. The change in the frequency of information passed to NPS from RTI has the potential to increase the number of in-year changes in PAYE records and introduce further challenges to data quality. In the light of its experience with NPS, the Department needs to thoroughly test the adequacy of its plans for implementing RTI, and in particular its capacity to manage the risks presented by poor data quality and their impact on processing.

Tax credits error and fraud

32 Based on the latest information available, the Department estimates that in 2009-10 it overpaid between £1.75 billion and £2.14 billion to tax credits claimants due to error and fraud and underpaid between £0.25 billion and £0.55 billion to claimants due to error. The levels of error and fraud are material within the context of the £28.1 billion spent on tax credits. As this expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002, the Comptroller and Auditor General has qualified his opinion on the regularity of the tax credits expenditure reported in the 2010-11 Trust Statement.

33 The Department's target is to reduce tax credits error and fraud to no more than 5 per cent of the value of finalised entitlement by the end of March 2011; this cannot be measured until 2012. In April 2009, it launched a revised strategy for reducing error and fraud. As part of an increased focus on preventing error and fraud, the Department aimed to target high-risk claims and correct the awards before they enter the tax credits system ('Check First, Then Pay'). There is evidence that this new approach is working. In the first year of the strategy, 2009-10, the Department estimates that error and fraud fell from between 8.3 and 9.6 per cent to between 6.6 and 8.1 per cent.

34 During 2010-11, the Department has significantly increased the number of interventions to 1.8 million and prevented an estimated £792 million in error and fraud losses, a threefold increase in the losses prevented before the strategy was introduced. A key feature of its approach were 450,000 new checks against high risk cases completed before new claims, changes of circumstance and renewals were processed, preventing an estimated loss of £200 million. The Department has worked to improve its targeting of high risk awards, but accepts that there is scope to refine its methodology, to increase the proportion of error or fraud identified above the 13 to 16 per cent currently achieved.

35 To provide a measure of its progress, the Department has set itself a series of proxy targets based on the error and fraud prevented as a result of its interventions. It estimates that in 2010-11 it prevented £1,054 million of error and fraud, marginally in excess of its £1 billion target. We found that while the Department continues to develop its measurement of interventions which form the basis of this estimate, there is scope to improve the consistency and accuracy of measurement processes and the related assurance activities.

36 In October 2010, the Department launched a joint fraud and error strategy with the Department for Work and Pensions. In the context of that strategy, the Department has a target to prevent £8.0 billion of tax credits error and fraud over the period of the 2010 Spending Review.

Tax credits debt

37 At the end of March 2011, the overall level of tax credits debt stood at £4.7 billion, compared with its target of £4.3 billion. The Department estimates that without any further intervention tax credits debts could increase to £7.4 billion by 2014-15.

38 The Department's plan to develop a more active approach for managing tax credits debt has so far met with limited success. By the end of April 2011, some £380 million of the £550 million of recent debt included in the current tax credits debt campaign remained to be collected or otherwise cleared. It has assessed the value for money of collecting £1.7 billion of tax credits debt not under active recovery, and expects to decide what debt should be remitted by the end of July 2011.

Recommendations

39 The success of the Department's strategy to reduce error and fraud depends on its ability to target those cases that are most likely to yield the highest levels of error and fraud. This is in turn informed by the quality of the management information on the outcome of its interventions. The Department needs to ensure that results of interventions are accurately measured and recorded in its systems.

40 The Department is now expected to prevent losses of £8.0 billion through error and fraud interventions over the period of the 2010 Spending Review. The measurement of losses prevented will be central to the assessment of its performance. To inform this assessment, it should develop its existing assurance activities on the measurement of its interventions to support a statistical evaluation of the level of uncertainty in the estimate of error and fraud identified against the proxy target.

41 The Department faces a significant increase in tax credits debt without further intervention. It should reassess its plan for reducing tax credits debt to determine whether the campaign strategy and the level of resources dedicated to its delivery are sufficient to actively manage all new tax credits debt and clear uncollected debts from previous years.

Part One

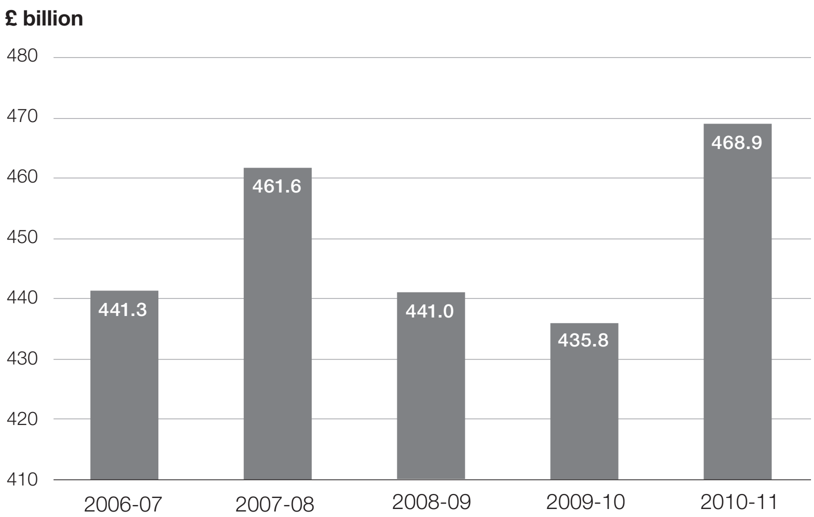
Introduction

Tax revenues in 2010-11

1.1 In 2010-11, total revenues accruing to the Department were £468.9 billion, £33.1 billion (7.6 per cent) greater than in 2009-10. **Figure 1** shows the tax revenues reported in the Department's Trust Statement in the last five years.

1.2 **Figure 2** shows the changes in tax revenues between 2009-10 and 2010-11. Revenues from the largest taxes – Income Tax and National Insurance contributions, Value Added Tax (VAT) and Corporation Tax – account for the majority of the increase in revenues from the previous year. Other taxes contributing to the increase in revenues include Capital Gains Tax, Hydrocarbon Oils Duties, and the new Bank Levy. Bank Payroll Tax accrued revenue of £2.5 billion was initially recognised in 2009-10; the actual receipts were higher than this estimate. This difference has been accounted for in the current year.

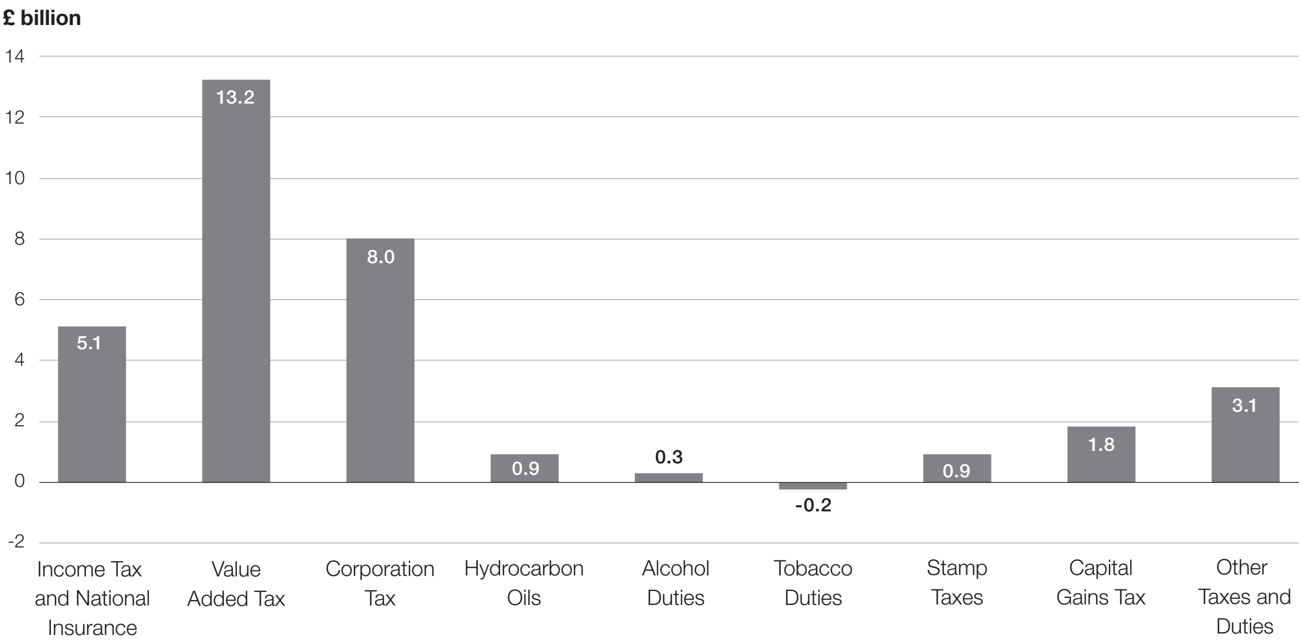
Figure 1
Total revenue 2006-07 to 2010-11



NOTES
1 Total Revenue figures for the years 2006-07 to 2008-09 vary from those published in the respective Trust Statement Accounts, which include Tax Credits as negative taxation within Revenue for those years.
2 Total revenue in 2006-07, 2007-08 and 2008-09 excludes revenue from fines and penalties.

Source: HM Revenue & Customs

Figure 2
Changes in 2010-11 tax revenues compared to 2009-10



Source: HM Revenue & Customs

1.3 The increase from the prior year reflects the improving economic situation, as well as the impact of rate and duty rate changes. The increase in VAT revenue is also affected by the temporary reduction of the VAT rate to 15 per cent that decreased receipts in the prior year, and the increases due to the return to the 17.5 per cent VAT rate in March 2010 and increase to 20 per cent in January 2011.

Assets and liabilities

Receivables

1.4 Receivables represent all taxpayer liabilities which have been established for which payments have not been received at the year end; this has increased by £1.4 billion (5.0 per cent) to £29.5 billion, after taking account of changes to accounting policies. A provision for doubtful debts has been estimated as £10.0 billion, based on the Department's expectation of the value that is likely to be collected.

1.5 In our 2009-10 report on the accounts, we reported on the Department's efforts to improve debt collection through new approaches such as the use of debt collection agencies and the introduction of tailored debt campaigns that targeted debt by its characteristics.

1.6 In 2010-11, £11.7 billion of debt was assigned to campaigns, leading to the collection of approximately £7 billion. The Department is developing and refining its approach to campaigns, including their evaluation, and it is too early to conclude on the effectiveness of this approach.

Bank Levy

1.7 Legislation in the Finance Bill 2011 introduces a new bank levy based on the balance sheets of UK banking groups and building societies, effective from 1 January 2011. The first payments are due through Corporation Tax instalment payments following commencement of the legislation. The Trust Statement includes revenue of £0.7 billion, which is the Department's estimate of the amounts due in the period.

Part Two

The resolution of tax disputes

Introduction

2.1 A tax dispute is a disagreement between the Department and the taxpayer that is not readily resolved. There are broadly two types of disputes. Disputes can be about the facts in a particular case or about the interpretation and application of tax law.

2.2 At 31 March 2011, the Department was investigating over 2,700 issues with the largest companies, including enquiries where facts had still to be established or verified, and cases involving disputes. The estimated tax under consideration in these open issues was £25.5 billion.

2.3 Tax disputes are a long-established feature of the United Kingdom's and other countries' tax systems. Many businesses, especially the largest, now trade and operate in multiple countries. Corporate structures and the nature of transactions have both become more complex, and new technologies and other developments mean that most businesses operate in a climate of rapid change. These complexities mean that establishing tax liabilities is often far from straightforward, leaving scope for differences of opinion which can develop into tax disputes.

2.4 In November 2010, the Committee of Public Accounts examined the Department on its arrangements for settling tax disputes with large companies.[2] In the light of this, the Comptroller and Auditor General decided to undertake a review of these arrangements.

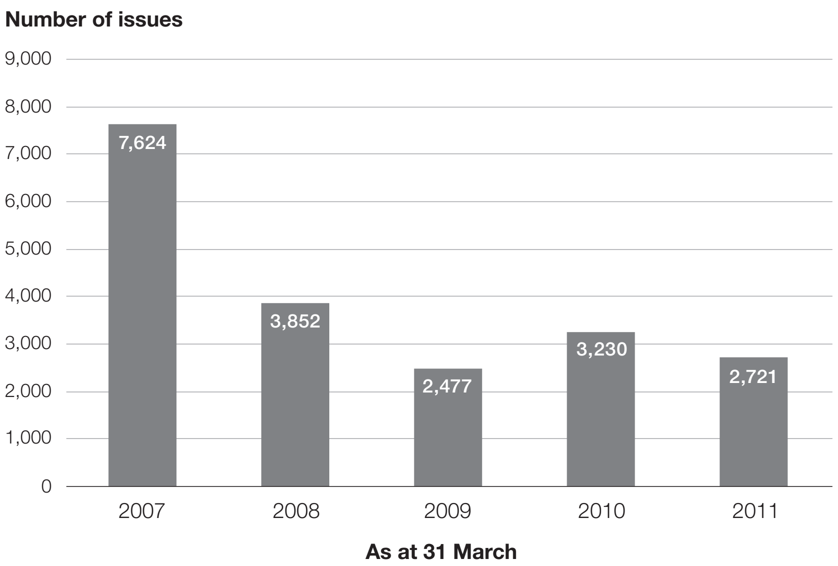
2.5 Our review considered two questions:

- Are the Department's processes for resolving tax disputes adequate to secure an effective check on the assessment and collection of tax revenue?
- Has the Department complied with its processes for resolving tax disputes?

2 HC Committee of Public Accounts, *HM Revenue & Customs' 2009-10 Accounts*, Eighteenth Report of Session 2010-11, HC 502, February 2011.

2.6 Our review focused on the Department's processes for resolving tax disputes with the largest companies. The 770 largest companies are dealt with by the Department's Large Business Service, and in aggregate accounted for over a third of all revenues from Corporation Tax, VAT, PAYE Income Tax and National Insurance contributions in 2010-11. We examined a sample of 27 disputes, to assess whether the Department had complied with statutory requirements and its own processes for resolving disputes. Our review considered whether the Department's processes were adequate to establish a sound position on the amount of tax due; it did not involve coming to an independent judgement on the tax liability in individual cases. The disputed issues we examined mainly involved Corporation Tax, with a smaller number about Value Added Tax, or the payment or administration of employee taxes. We examined disputes that were resolved in or after 2006, as this was when the Department adopted a revised approach to resolving high value tax disputes with large companies. **Figure 3** shows the number of open issues over the last five years, for the companies dealt with by the Large Business Service. **Figure 4** shows the value of open issues over the last five years, stratified by issue value.

Figure 3
Number of open issues for Large Business Service companies over the last five years



NOTES

1 An issue is a 'risk' recorded on the Large Business Service's CORE System. These cover a wide range of matters across all the taxes that companies pay and include enquiries where facts have still to be established and details verified. They are therefore not all 'disputes'.

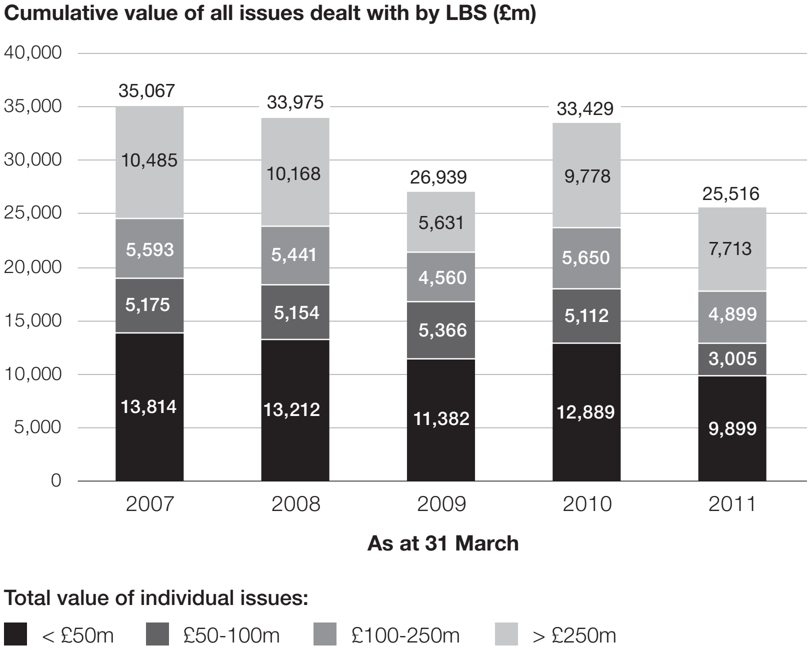
2 The number of issues is a snapshot showing the number of open issues as at 31 March of each year. This includes issues that were opened in previous tax years and have not been resolved, rather than the number of issues opened in the year.

3 An issue may include consideration of the tax liability for more than one year.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 4

Value of open issues for Large Business Service companies over the last five years



NOTES

1. The value of an open issue is the amount of 'tax under consideration'. The tax under consideration in an enquiry is an estimate before any consideration of the specific facts has taken place and before any reliefs or allowances are applied. It does not represent tax owed or unpaid. The tax under consideration for a given risk is updated when the Department's view on the possible outcome of the enquiry changes, for example, because new facts are established or legal advice is obtained.
2. The value of open issues is a snapshot as at 31 March each year. It includes issues which were opened in previous years that have not been resolved.
3. The amount of tax under consideration is normally entered by the relevant Tax Specialist under the supervision of the taxpayer's Customer Relationship Manager, who is responsible for the quality and content of the data.

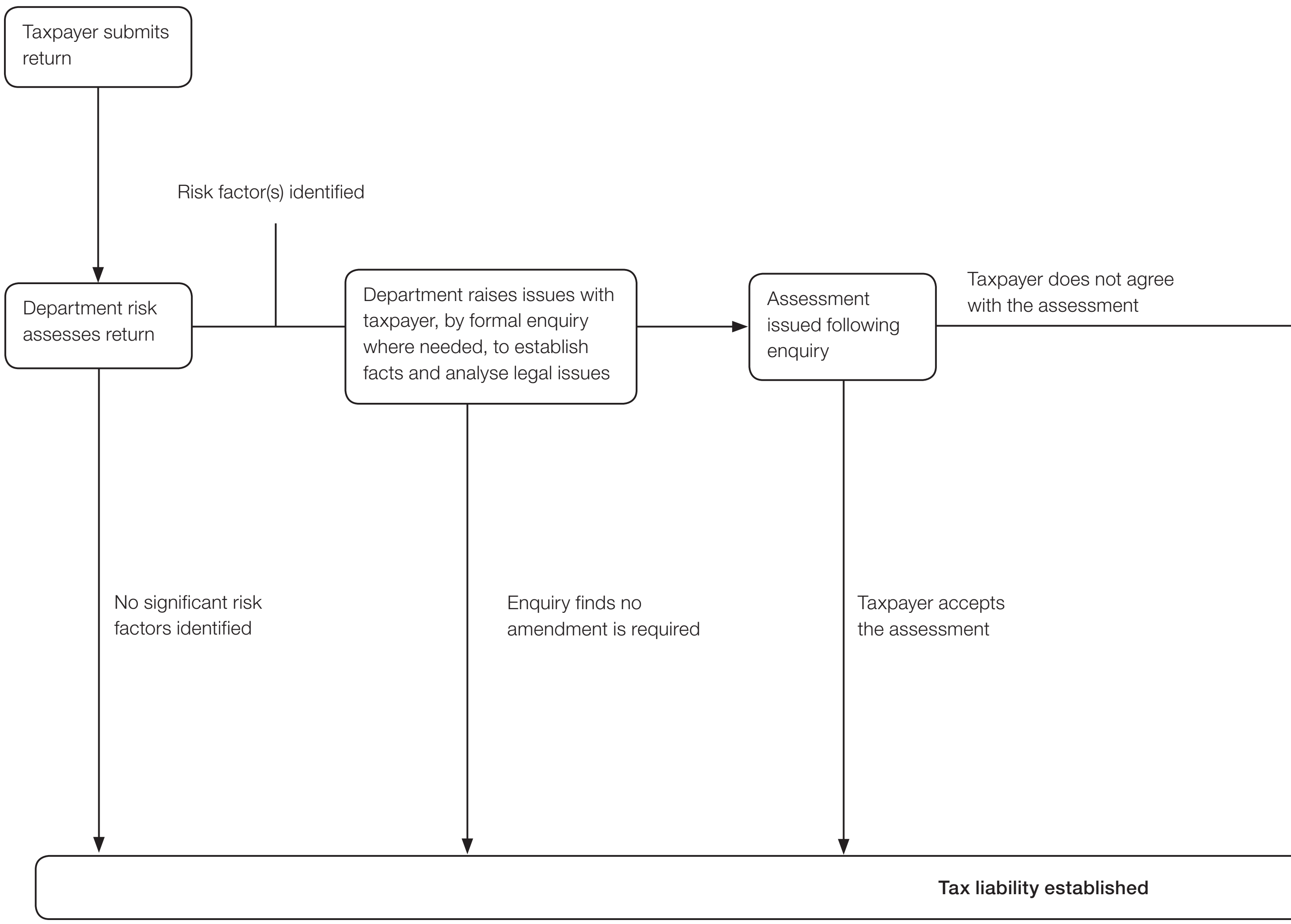
Source: National Audit Office analysis of HM Revenue & Customs data

The Department's processes for resolving tax disputes

The process for identifying and resolving issues

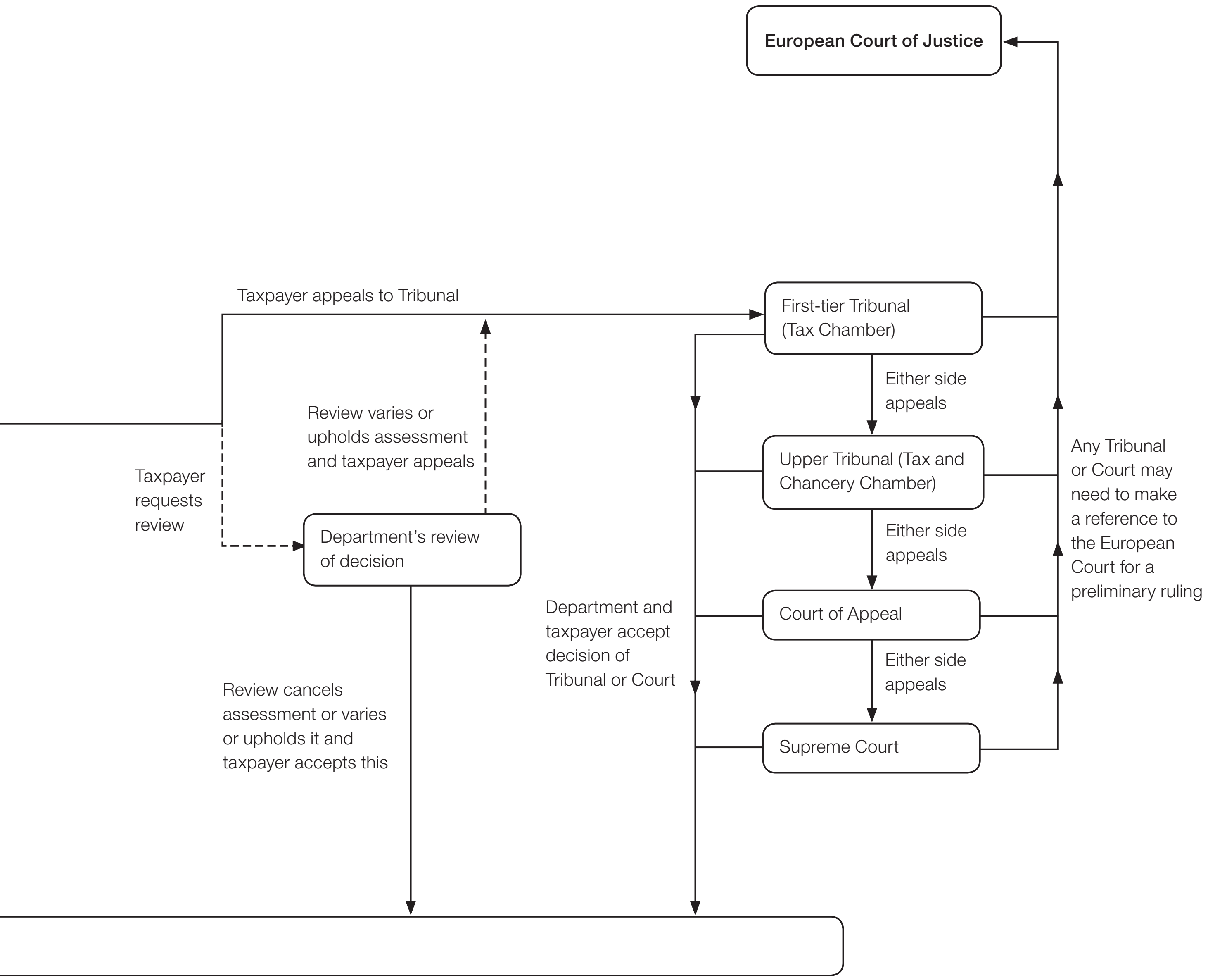
2.7 The Department uses risk assessment techniques to examine returns from taxpayers to identify issues where the taxpayer's self-assessment may be incorrect or incomplete. The risk assessment of larger companies also considers the likelihood of the company providing information that is inaccurate or incomplete, or not fully disclosing all relevant information and judgements. The Department can open enquiries and carry out compliance checks on any tax returns. Not all enquiries develop into disputes, and the issue can be resolved by agreement at any point. **Figure 5** overleaf shows the process for resolving enquiries and disputes.

Figure 5
General disputes resolution process map



NOTE
1 Disputes can arise at any stage after an enquiry is opened, but many enquiries are resolved without disputes developing.

Source: National Audit Office


European Court of Justice
Taxpayer appeals to Tribunal
First-tier Tribunal (Tax Chamber)
Either side appeals
Review varies or upholds assessment and taxpayer appeals
Taxpayer requests review
Upper Tribunal (Tax and Chancery Chamber)
Any Tribunal or Court may need to make a reference to the European Court for a preliminary ruling
Department's review of decision
Either side appeals
Department and taxpayer accept decision of Tribunal or Court
Court of Appeal
Either side appeals
Review cancels assessment or varies or upholds it and taxpayer accepts this
Supreme Court

2.8 If there is still a difference of opinion following the enquiry, the Department will usually issue an assessment of the amount of tax it thinks is due. Since 1 April 2009, taxpayers have been entitled to ask the Department to review its decisions[3], including assessments. This review is carried out by someone in the Department who was not involved in the original decision. The review may result in the Department's assessment being either cancelled (effectively reinstating the taxpayer's self assessment), varied or upheld. If the assessment is not cancelled, or the taxpayer does not ask for a review, the taxpayer can refer the matter to the First-tier Tribunal (Tax Chamber). The Tribunal is part of HM Courts and Tribunals Service, an executive agency of the Ministry of Justice, and independent of the Department.

2.9 Either side can withdraw at any stage before the Tribunal hears the case and agree to settle.[4] Following the First-tier Tribunal's decision, either side can appeal to the upper Tribunal (Tax and Chancery Chamber), then to the Court of Appeal and Supreme Court. Any tribunal or court may refer the case to the Court of Justice of the European Union.

Litigation and Settlement Strategy

2.10 The Department's Litigation and Settlement Strategy[5] sets out its framework for concluding tax disputes, whether by agreement with the taxpayer or by litigation (which includes referral to the Tribunals as well as referral to the courts). The Litigation and Settlement Strategy applies to all disputes involving tax, duties, or tax credits. It was introduced in May 2007 with the aim of bringing consistency to the way that the Department resolves disputes, and ending the practice of agreeing settlements for a proportion of the tax under dispute ('compromise deals') or settling several issues for a single sum ('package deals').

2.11 The Litigation and Settlement Strategy encourages settlement of disputes by agreement, and sets out the terms under which settlement may be reached. It requires each issue to be considered on its own merits and resolved in accordance with the law. Where the nature of the issue is such that there is a range of plausible outcomes, settlement must be for not less than the Department would reasonably expect to get from litigation. The Strategy states that, in general, cases should be dropped where the Department does not have a strong case, or the evidence is weak.

3 The right to a review is under Sections 49A to 49H of the Taxes Management Act 1970, introduced by The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009, SI 2009 No. 56.

4 The law provides a statutory basis for tax appeals to the Tribunal to be determined by agreement between the Department and the taxpayer, notably Section 54 of the Taxes Management Act 1970 for direct taxes and Section 85 of the Value Added Tax Act 1994 for indirect taxes.

5 Litigation and Settlement Strategy, HM Revenue & Customs, 2007 (http://www.hmrc.gov.uk/practitioners/lss.pdf)

Processes applying to the largest disputes

2.12 The Department has five Commissioners, who have ultimate responsibility for collecting and managing tax revenues.[6] In practice, Commissioners are normally only directly involved in signing off the settlement of the largest tax disputes. **Figure 6** overleaf shows an extract from the Department's organisational structure for Business Tax. The resolution of most large and complex tax disputes will involve several Directorates, for example, experts in Corporation Tax and accountancy specialists, and also legal and policy advisers where relevant. Each company in the Large Business Service has a Customer Relationship Manager, who is responsible for managing the Department's ongoing relationship with the company across all taxes and duties, and for coordinating all the Department's technical specialists relevant to the company's tax affairs.

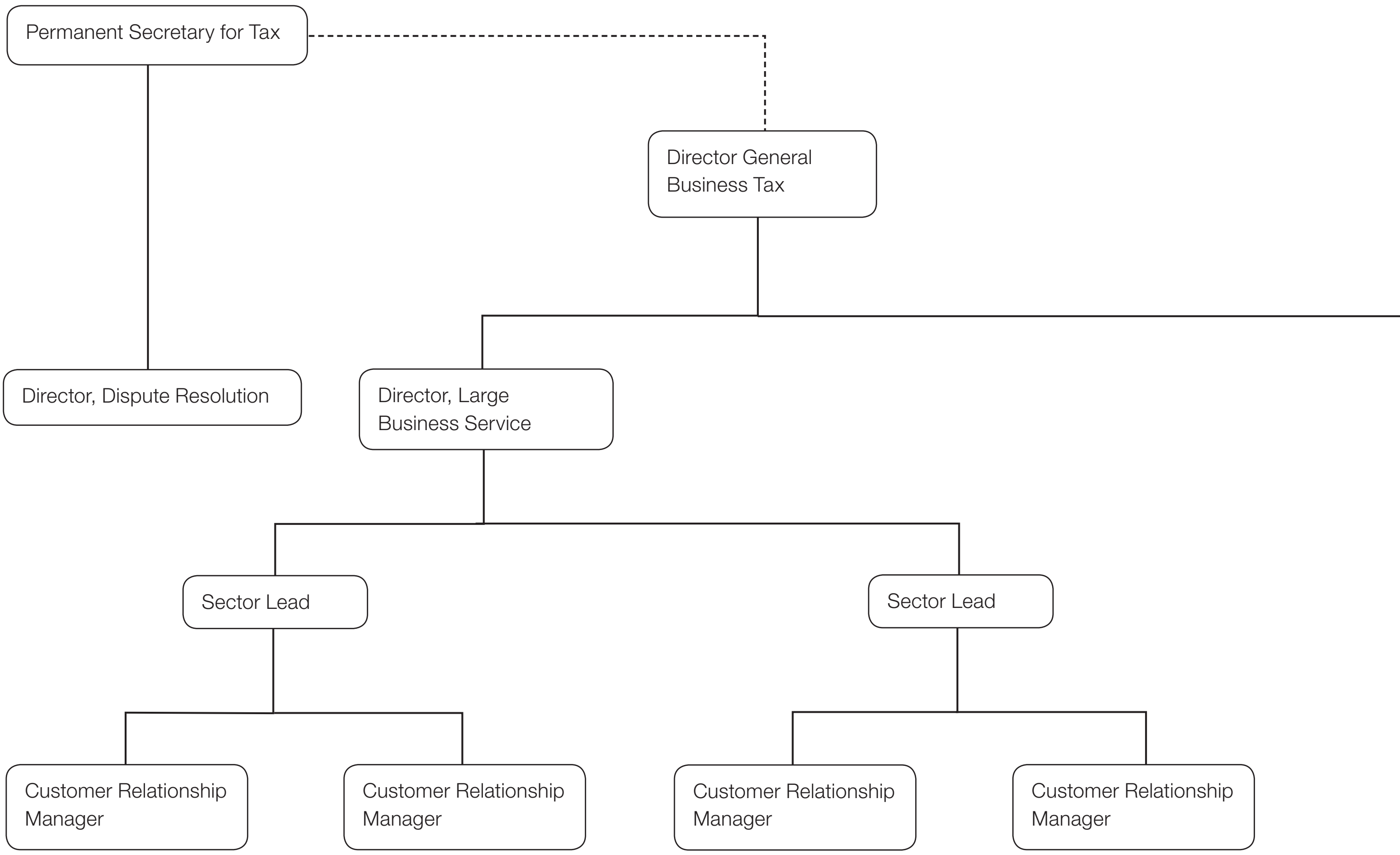
2.13 The Department established a High Risk Corporates Programme (the Programme) in 2006, and settlements totalling over £9 billion have been reached with the companies participating in the Programme since it began. At the time, many large companies had multiple, long-unresolved tax disputes, and in some cases were involved in extensive avoidance activity. The Programme was set up to address this situation, with the aims of:

- reducing avoidance and improving the compliance of the largest businesses;
- improving the relationship between the Department and the businesses[7]; and
- establishing and collecting the right amount of tax.

2.14 The High Risk Corporates Programme involves an intensive process for resolving the participating company's issues. The approach includes Board-to-Board, or other high level, engagement between the Department and the company with a commitment from both sides to apply high levels of resource to providing information and resolving issues within an accelerated timeframe. In addition, the Department seeks agreement from the Board of a company within the Programme that it will in future work more constructively with the Department.

6 Commissioners for Revenue and Customs Act 2005, Section 5 (1).
7 The need for a more professional relationship and speedier resolution of tax issues were also identified in Sir David Varney's 2006 *Review of Links with Large Business* report (http://www.hmrc.gov.uk/large-business/review-report.pdf) which built on the Hartnett Review 'Inland Revenue's Review of Links with Business 2001'.

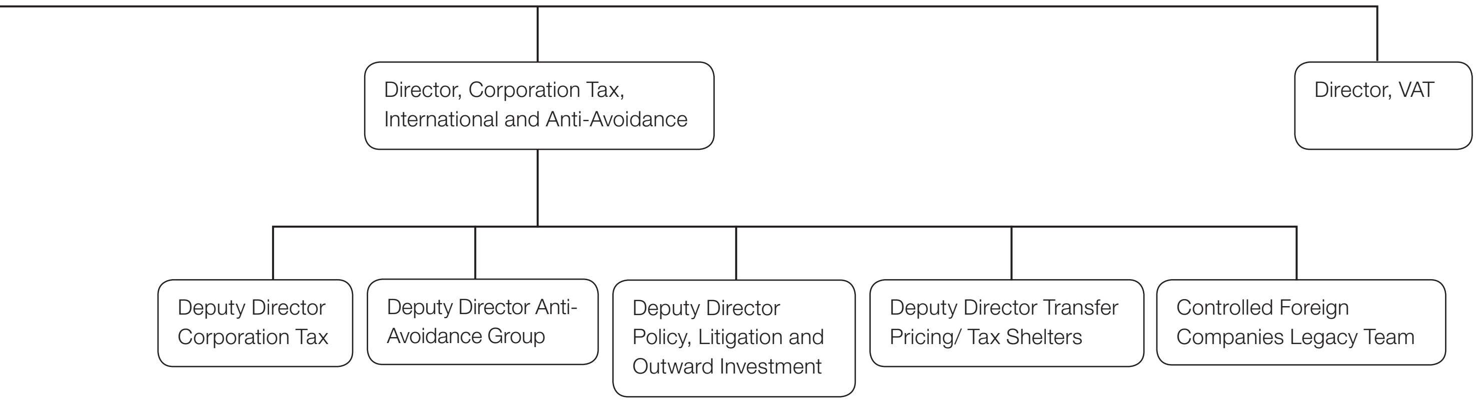
Figure 6
Extract from organisational structure for Business Tax



NOTE
1 This is an abbreviated version of the organisational structure as at 31 March 2011, showing some of the key parties involved in resolving tax disputes with large companies.

Source: National Audit Office

2.15 The Director General for Business Tax has overall accountability for the Programme and the Director, Large Business Service is the Programme's owner. There is a Programme Board, responsible for agreeing which companies will be admitted to the Programme (based on factors such as the size, age and wider application of the issues under consideration), endorsing proposed settlements, and for the priorities, development and governance of the Programme. The Programme Board is chaired by the Director, Large Business Service and its membership includes the Directors of VAT; Corporation Tax, International and Anti-Avoidance; and Special Investigations and representatives from the Solicitor's Office. Each case has an Enquiry Coordinator, whose responsibilities include bringing together the work of the Customer Relationship Manager and all the Department's technical specialists, policy advisers, caseworkers, consultants and solicitors that have an interest in the case. **Figure 7** on page R24 shows the governance structure for the Programme.

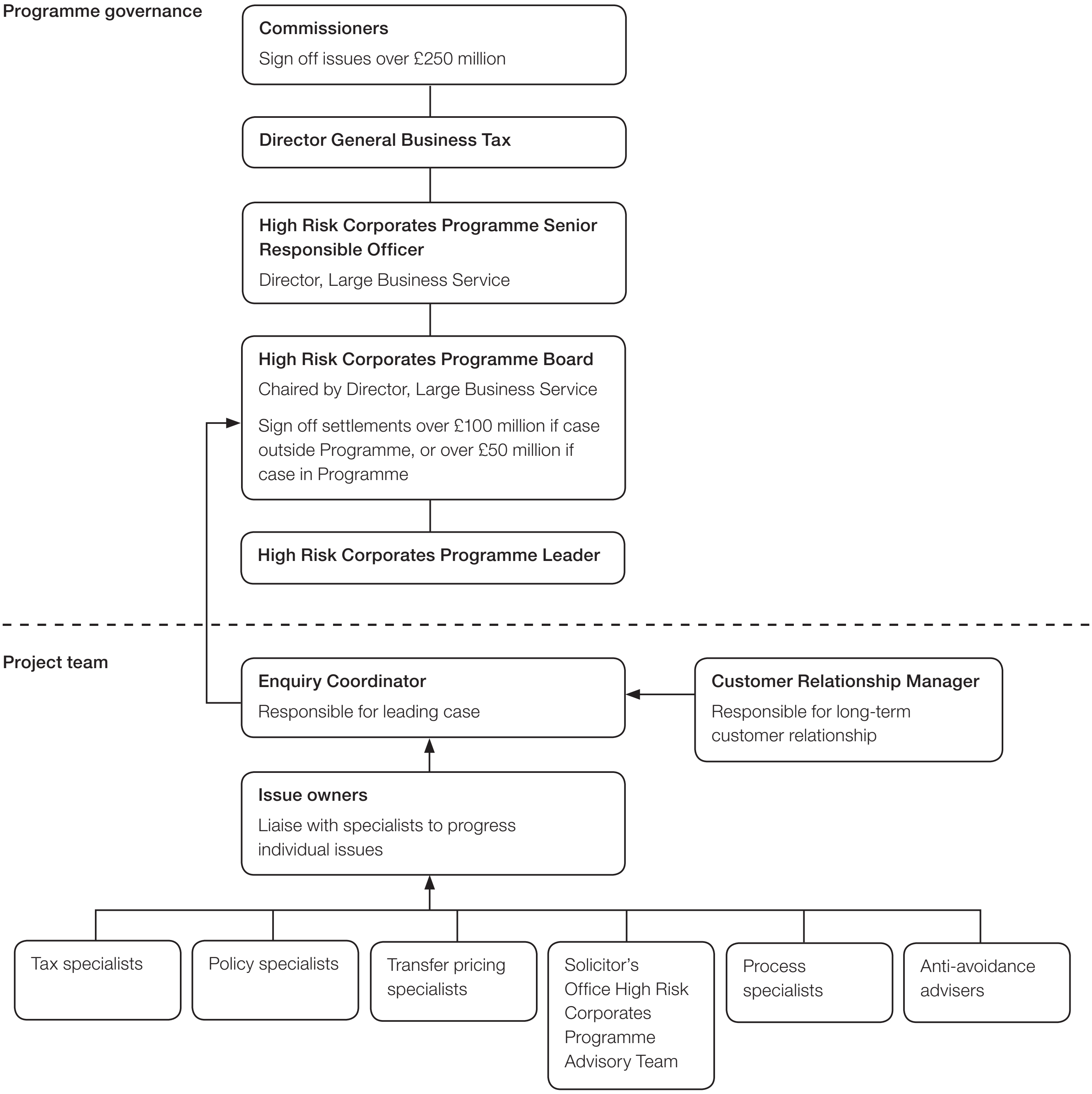


2.16 For disputes dealt with outside the Programme, the Customer Relationship Manager is initially responsible for bringing together the relevant specialists in resolving tax issues. The Department encourages these parties to reach consensus on how the issue should be resolved but, if they cannot agree, then the issue is escalated to the relevant Directors for a decision.

2.17 There are defined procedures for signing off settlements for cases within and outside of the Programme. For cases outside the Programme where the tax under consideration is less than £100 million, agreement must be reached between the relevant stakeholders. Since November 2009, cases must be referred to the Programme Board before settlement where the tax under consideration exceeds £100 million, and there is a proposal for the Department to concede one issue or more, or to accept less than 100 per cent of the total tax under consideration, or where the case and issues are particularly sensitive.

Figure 7

High Risk Corporates Programme governance structure



Source: HM Revenue & Customs

2.18 For companies within the Programme, the decision is taken by the Programme Board if the tax under consideration exceeds £20 million for one issue or £50 million for a combination of issues in a settlement, or where there are issues of particular sensitivity, difficulty or with wider significance. Issues of lower value are also referred to the Programme Board where the Department's stakeholders cannot reach consensus. The Programme Board must reach a consensus on the matters referred to it; it does not take decisions by majority. Any issues where the Programme Board cannot reach a consensus are referred to Commissioners for sign off.

2.19 All individual issues where the tax under consideration is more than £250 million, or where there is potential for adverse national publicity or for questions to be raised in Parliament, or which represent a significant departure from previous policy, must be signed off by Commissioners. In practice, two Commissioners are required to sign off settlements, usually the Permanent Secretary for Tax, as the Department's senior tax specialist, and the Director General for Business Tax.

Are the Department's processes adequate?

Strengths of current processes

2.20 There are elements of the Department's current processes that contribute strongly to ensuring that the correct tax liabilities are established and the associated tax is collected in a timely way. In complex tax disputes, establishing the amount of tax due is not straightforward. The Department has established teams of specialists for taxes, aspects of taxes and policy and legal matters and has processes for involving relevant specialists in considering each tax dispute. The requirement for consensus among these specialists, and defined procedures for escalating issues where agreement cannot be reached, help to ensure that the relevant knowledge and expertise are deployed.

2.21 The Litigation and Settlement Strategy sets out a clear framework for resolving disputes. When settlements are authorised, whether by Commissioners, the Programme Board or at lower levels, there is a requirement to confirm that the settlement complies with the Litigation and Settlement Strategy.

2.22 The Litigation and Settlement Strategy encourages settling disputes by agreement where possible. This reduces costs for both the Department and the taxpayer, and means issues can be settled more quickly, which is again in the interests of both parties. The Department is also moving towards more real time working, discussing issues with taxpayers before returns are submitted so that issues are resolved before they become disputes. Where there are differences of opinion and litigation looks likely, the Department has sought to share technical arguments with the taxpayer, ensuring that each side fully understands the other's perspective. This allows the area of disagreement to be identified before the case goes to litigation and, in some cases, removes the disagreement entirely.

2.23 The Programme Board is a forum that brings together relevant expertise and subjects arguments to challenge, especially as a consensus rather than a majority is required for a decision.[8] The requirements for settlements above a certain value, or otherwise of significance, to be signed off by the Programme Board and in some cases also by Commissioners should ensure that the most important decisions are taken at an appropriately senior level.

2.24 There has been a significant reduction in the number of open issues with companies dealt with by the Large Business Service since 2006. This is in line with the recommendations made by the Committee of Public Accounts in 2008 for the Department to shift towards focusing on high risk businesses, close down long-running enquiries and deal more quickly with new tax risks.[9] The Programme has contributed to the reduction of high value open issues and brought in a yield of £9.2 billion to March 2011.

2.25 As part of our review, we interviewed major accountancy firms and six of the UK's largest businesses to get their views on the Department's performance in resolving tax disputes. In general, both groups welcomed the impact of the Programme in allowing them to resolve long outstanding disputes within an accelerated timescale. This has provided large businesses with certainty on major tax issues and helped to improve their relationship with the Department.

2.26 In September 2010, the Department reviewed the impact of the High Risk Corporates Programme on company behaviours, focusing on the earliest cases where sufficient time had elapsed to make an assessment. This indicated that the Programme had helped to improve the levels of openness, cooperation and disclosure in these companies. The review also suggested that the companies concerned had reduced the scale of their aggressive and artificial tax avoidance activity. However, the review was unable to establish the degree to which these changes were due to the direct impact of the Programme, as opposed to other factors, such as changes in the economic environment and in share ownership and control, the outcome of other litigation cases involving other companies, and changes to the tax avoidance disclosure regime.[10]

2.27 Some of the accountancy firms and companies we interviewed held the view that the Litigation and Settlement Strategy and the Department's willingness to resolve issues more quickly had reduced the incentives for creating avoidance schemes. Whereas previously there might have been an incentive for companies to create multiple avoidance schemes (to enable trade-offs during the settlement process), the Strategy's focus on individual issues, together with the Department's readiness to litigate where issues cannot be settled, has helped to reduce the advantages of this approach.

8 Our review identified one case where the Board could not reach a consensus, so the case was escalated to the Commissioners for a decision.

9 HC Committee of Public Accounts, *Management of large business Corporation Tax*, Thirtieth Report of Session 2007-08, HC 302, October 2008.

10 The 'Disclosure of Tax Avoidance Schemes' (DOTAS) regime requires promoters of avoidance schemes to notify the Department of the details of the scheme, and users of avoidance schemes to notify the Department when they are using an avoidance scheme. The regime was introduced in 2004, was widened in 2006 to include Corporation Tax, among others, and now covers most of the largest taxes.

Shortcomings in current processes

2.28 In four of the largest settlements we examined, the Department operated specific governance arrangements. The Department considered each of these cases to involve a single issue, with a range of possible outcomes for the tax due[11], rather than being the 'all or nothing' cases normally dealt with by the Programme Board. The arrangements involved reducing the size of the team dealing with the case, and sign off by Commissioners without a prior reference to the Programme Board. In each case, the team included the relevant Director, supported by Deputy Directors, and Commissioners were involved. These arrangements meant that decisions were taken at the most senior level, and relevant technical and legal expertise remained available. The Department's view is that the Programme Board would not have added value to the decision-making process in these particular cases given the involvement of senior staff, including the Commissioners and members of the Programme Board, and relevant internal and external experts.

2.29 In two of the four cases, one of the Commissioners approving the settlements had participated in the negotiations and, in another case, both Commissioners had done so. Where Commissioners are directly involved in negotiating settlements, particularly where the Programme Board is not used, there is less independent oversight of settlements to provide assurance, internally and externally, that these have been reached on an appropriate basis. The Department has attracted criticism from Parliament and its own staff because of the absence of adequate separation between the analysis, negotiation and approval processes for major tax settlements. The complexities of the issues in these cases make it more difficult to demonstrate that an appropriate tax liability has been assessed and legal restraints over taxpayer confidentiality mean that the details of these cases cannot be released subsequently.[12]

2.30 We found cases where large companies wanted early engagement with a Commissioner to secure an authoritative view of the Department's position. The Department's strategy for board level engagement with large business means that contact between Commissioners and business leaders on specific and general issues will continue to be a feature of its approach. The Department believes that a degree of Commissioner involvement in resolving some tax disputes is inevitable. However, the Department recognises that it needs to build its capacity to negotiate settlements on major cases in staff below Commissioner level. This should help to reduce the frequency of taxpayers requesting the involvement of Commissioners on specific issues as settlement discussions are continuing.

11 Examples of cases where there is a range of possible outcomes for the tax due are those with transfer pricing issues, which require a determination of the share of taxable profits.
12 Commissioners for Revenue and Customs Act 2005, Section 18.

2.31 There is currently a difference between the criteria for referral of decisions to the Programme Board and those for referral to Commissioners. The threshold for referral to the Programme Board is based on the total value of a settlement with a taxpayer, which usually covers more than one issue. The threshold for a referral to Commissioners is, however, based on the value of individual issues. We found a settlement worth more than £400 million, with issues totalling over £400 million conceded by the Department because it considered its position was weak, which was not referred to Commissioners because no single issue exceeded £250 million.

2.32 The Department has a clearly defined approach to settling disputes, as set out in the Litigation and Settlement Strategy. An internal review of the Litigation and Settlement Strategy in December 2009 found that, when it was launched in May 2007, the extent to which it was understood by the Department's staff varied. Some staff did not appreciate the flexibility it offered, or thought it emphasised litigation. This initially led to delays in some cases, and inconsistent application, creating an adversarial relationship with some taxpayers. The Department does not currently intend to revise the substance of its Litigation and Settlement Strategy as its core message does not need to change, but is planning to relaunch the Strategy to make the messages clearer. This should assist in developing a common understanding within the Department on how to apply the Strategy in the resolution of tax disputes.

Has the Department complied with its processes for resolving tax disputes?

2.33 We examined 27 settlements, involving 21 companies and assessed the extent to which the processes applied by the Department were consistent with:

- statutory requirements, for example, the provisions for the exercise by the Commissioners of their discretion under their statutory 'collection and management' powers[13];
- the Litigation and Settlement Strategy; and
- internal guidelines on the arrangements for approving settlements.

2.34 Fifteen of the settlements we examined were in the High Risk Corporates Programme, and a further three[14] were presented to the Programme Board for a decision. The settlements involved between one and 236 issues, with values (which totalled £8.8 billion) ranging from some £70 million to more than £1 billion. In selecting settlements to examine, we aimed to select the largest issues by value, irrespective of the type of tax involved. We selected our sample to include issues where a large amount of tax was under consideration, even if the final settlement value was small. We selected a sample of cases settled since April 2006 meeting one or more of the following criteria:

13 The Commissioners have a limited discretion with regard to their duty for the collection and management of taxes under Section 5 of the Commissioners for Revenue and Customs Act 2005. In certain limited circumstances, they can forego the collection of tax, for example if there is a higher net return from not collecting the tax. The judgement in *Wilkinson-v-Commissioners of Inland Revenue* in the House of Lords 2005 set out the limits of the circumstances in which the collection of tax could be foregone.

14 Four of the cases not referred to the Programme Board for a decision were those subject to the special governance arrangements noted in paragraph 2.28.

- Settlements reached by companies in the Programme.
- Other settlements considered by the Programme Board.
- Settlements where the issues involved the tax under consideration of more than £250 million, whether the company was in the Programme or not.
- Any settlements where we were made aware of specific concerns about the governance of the dispute resolution.

Collection and management powers

2.35 Our review identified a number of cases where the Commissioners had been asked to exercise powers available to them under Section 5 of the Commissioners for Revenue and Customs Act 2005 to forego the collection of tax. We did not identify any instances where these powers were exercised inappropriately. We noted, however, some differences of view within the Department on the implications of the *Wilkinson* judgement on the Commissioners' ability to exercise these powers to resolve tax disputes. If the Commissioners apply powers inappropriately, they may face a Judicial Review of their decision.

2.36 In one case, we identified that Commissioners had been asked to exercise their collection and management powers on the basis of oral advice from the Department's Solicitor's Office. In our view, in the particular circumstances of this case, it would have been helpful to have secured confirmation of that advice in writing to provide a clearer audit trail.

Adherence to the Litigation and Settlement Strategy and guidelines for approving settlements

2.37 We found that the Department had complied with the requirements of the Strategy and with internal guidelines for managing cases in a substantial majority of the cases we examined. Technical and legal expertise was sought and received as appropriate and the available documentation indicated that individual issues had been considered on their merits. We did, however, note exceptions in the following cases which were referred to the Programme Board as the tax under consideration exceeded £100 million:

- A case was settled before the Department recognised that it should have been referred to the Programme Board. The Board identified a financial error, demonstrating its value as a check on settlement proposals.
- A case where the Department came under pressure from a company to agree a settlement on a single issue very quickly. The Department judged that it should not wait until the next monthly Programme Board meeting, so the proposed settlement was put to the Programme Board by email and Board members were given a week to respond. The settlement proposal was agreed even though not all Board members responded by the deadline.

2.38 The High Risk Corporates Programme approach assists in resolving long outstanding issues within an accelerated timeframe. However, there is a risk that the pressure to reach resolution quickly will be at the expense of considering issues properly. There is also a risk that, in settling a range of issues in a short timeframe, weaker issues will be dropped in the wider interest of obtaining a settlement, where they might have been pursued if considered in isolation. We have seen examples where the Programme Board has agreed not to pursue issues involving finely balanced arguments. Whilst this is consistent with the Litigation and Settlement Strategy, the Department accepts that it could be more explicit in describing the criteria used to make marginal decisions.

Future developments

2.39 The Department is currently piloting 'Alternative Dispute Resolution' procedures, to try to resolve disputes earlier in the process. The aim is to save both the Department and the taxpayer time and money by resolving disputes sooner through the early use of mediation. The Department is also piloting a dispute resolution process that involves an internal facilitator for smaller cases. These pilots have so far been well received by taxpayers and the accountancy firms.

2.40 The Department is also keen to build on the successes of the High Risk Corporates Programme. It is looking to extend its principles and disciplines to dealing with tax disputes with the next tier of businesses who are overseen by the 'Large and Complex' teams within the Department's Local Compliance Offices.

Part Three

Stabilising the PAYE Service

Introduction

3.1 Pay As You Earn (PAYE) is the Department's largest tax collection process. In 2010-11, it collected £157.2 billion in Income Tax and £96.9 billion in National Insurance contributions, of which nearly 90 per cent was collected through PAYE. There are approximately 39 million individuals with an active PAYE employment record, including 10 million receiving pension income, administered through 2.1 million PAYE schemes. Each year the Department processes around 57 million returns for separate employments and pensions.

3.2 The PAYE process embraces the Department, employers and pension scheme administrators (collectively referred to as employers), and individuals. Employers administer PAYE by ensuring that the correct amounts of tax and National Insurance contributions are deducted from employees' earnings and paid over to the Department each month. After the Department has received information on earnings and tax deductions from employers at the end of each year, it reconciles each individual's record to confirm that the correct amount of tax has been paid though PAYE. Whilst most people pay the right amount in-year, over and underpayments are nevertheless a normal part of the PAYE process and can occur, for example, for people moving in and out of work or receiving changes to taxable benefits. **Figure 8** overleaf outlines the main stages in the PAYE process.

3.3 Up to 2009, the Department's information on individual employments was structured around employers and held on 12 separate regional databases, making it difficult for it to obtain a complete view of an individual's income. The limitations of the system and changing employment patterns led to an increasing number of cases where it was not possible to reconcile an individual's tax without manual intervention. This led to the numbers of unreconciled (or 'open') cases in the PAYE system to outstrip the Department's capacity to work them. At its peak this backlog reached 32 million in 2008. After the Department's efforts to reduce this number in advance of system changes, the backlog of open cases relating to 2007-08 and previous tax years stood at 17.9 million.

Figure 8

Key stages in the PAYE annual cycle

Annual coding (prior to new tax year)	In-year processing	End of year returns	End of year reconciliation
HM Revenue & Customs issues coding notices to both individuals and employers, based on latest known information. Employers apply the new tax coding to individuals for the purposes of determining net pay and tax deductions. Individuals contact HM Revenue & Customs with questions relating to their new tax coding.	Employers deduct tax (using tax code) and National Insurance contributions and pay these to HM Revenue & Customs. The majority of employers make monthly payments. Employers send HM Revenue & Customs information about employees starting or leaving. HM Revenue & Customs updates its records for employee movements and provides employers with a tax code for new employees.	Employers send HM Revenue & Customs information about total amounts of tax and National Insurance deducted and paid over in the year, together with details of employment income and deductions by employee. HM Revenue & Customs matches monthly deductions paid to the amounts declared in the end of year returns. HM Revenue & Customs collects any underpayments and repays any overpayments.	HM Revenue & Customs matches returns for individuals to its records and reconciles their tax and National Insurance deductions with their employment income. HM Revenue & Customs updates its records of pay and tax details and issues a revised tax coding notice, where necessary. Where additional tax is payable, HM Revenue & Customs may adjust the tax code for a subsequent year to collect the balance through the PAYE system, or the individual can pay the amount in full immediately. HM Revenue & Customs repays any overpayments of tax. Individuals may contact HM Revenue & Customs if they deem the tax paid in-year to be incorrect.

Source: National Audit Office

3.4 This Part of the report examines the Department's administration of PAYE by considering:

- the improvements in PAYE processing that are intended under the new National Insurance and PAYE Service (NPS);
- the difficulties encountered in the operation of PAYE following the introduction of NPS;
- the short-term progress made in stabilising the delivery of PAYE in 2010-11, including the progress in clearing the backlog of cases pre-dating NPS; and
- the plans for stabilising the delivery of the PAYE service by 2013.

The National Insurance and PAYE Service

3.5 In June 2009, the Department implemented the new National Insurance and PAYE Service (NPS) to replace its former PAYE computer system. NPS introduced a number of important system changes which offer the opportunity to process PAYE accurately and on time, and reduce the volume of over and underpayments of income tax.

3.6 Under NPS, PAYE records are structured around the individual rather than the employer or pension scheme. The creation of a single taxpayer record brings all of an individual's sources of income together for the first time, increasing the Department's ability to confirm that individuals start the tax year on the correct code. This will help ensure that the correct amount of tax is deducted in-year, reducing the number of over and underpayments identified at the end of the tax year.

3.7 NPS increases the opportunity for the Department to complete its end of year reconciliation of taxpayers' records automatically. This allows it to confirm that the right amount of tax has been collected and, where necessary, process over or underpayments of tax earlier than in the past. The increased automation of PAYE processes under NPS also allows the Department to focus its manual processing on clearing exceptions caused by unexpected data or missing information, or where processing is overly complicated or not cost-effective to automate.

Operational difficulties following NPS implementation

3.8 As we reported in July 2010, problems in the quality of the PAYE data transferred from the predecessor system and the NPS system specifications led to difficulties in the timeliness and accuracy of PAYE processing. The Department only fully appreciated the extent of the data inaccuracies when it started processing annual codes for 2010-11, in January 2010, leading it to suspend the production and issue of codes. As part of its recovery programme, it isolated and cleansed in excess of nine million NPS records which it had assessed as having a high risk of error, before processing through NPS. Although it corrected the majority of codes by the start of the 2010-11 tax year, the recovery was not completed until the end of September 2010.

3.9 The phased release of NPS also meant that the functionality to support the automated reconciliation of individuals' PAYE records was not available to the Department between July 2009 and April 2010. This led the Department to defer its reconciliation of approximately 39 million taxpayer records for 2008-09 to September 2010, delaying the clearance of these records and the identification of over and underpayments of tax by over a year. It also meant that it was not able to process the bulk of the backlog of 17.9 million unreconciled cases from 2007-08 and earlier tax years.

3.10 The delay in clearing the processing backlog and the effect of legislative changes mean that the Department will now not recover underpayments of tax relating to the 2006-07 and earlier tax years. The Finance Act 2008 reduced the time limit for collecting tax from six years to four years, so a notional £150 million of tax underpaid in the 2004-05 and 2005-06 tax years could no longer be pursued.[15]

3.11 The Department had intended to start processing the backlog of 2006-07 cases in the summer of 2010, but was not able to implement its plan due to the diversion of resources to support the annual coding recovery. In October 2010, it decided not to pursue the notional £500 million of tax underpaid relating to these 2006-07 cases, because it estimated that only £25 million was recoverable at that stage, outweighing the cost of recovery. The Department accepts that, had it commenced the processing of these cases in the summer of 2010 as planned, it may have had the opportunity to recover up to £100 million of those underpayments.

3.12 The problems encountered in the annual coding for 2010-11, the delay in reconciling the 2008-09 tax year and the backlog of cases from previous years has resulted in reputational damage for the Department. In October and November 2010, the Committee of Public Accounts examined the implementation of NPS and concluded that the Department had failed in its duty to process PAYE accurately and on time, deliver an acceptable standard of service to PAYE taxpayers, and to understand the risks of poor quality data.

Stabilising PAYE in 2010-11

3.13 Following the problems encountered in the initial implementation of NPS and execution of annual coding for 2010-11, the Department established a programme to stabilise NPS, and to allow it to realise improvements in efficiency and productivity under the new system.

3.14 In this section, we consider the Department's progress in stabilising the administration of PAYE by:

- learning the lessons from annual coding for 2010-11;
- bringing taxpayers' affairs for 2008-09 and 2009-10 up to date, by completing the end of year reconciliations for these tax years;
- getting taxpayers on the right codes, by delivering annual coding for 2011-12;
- managing work items arising from in-year PAYE changes; and
- clearing the backlog of legacy open cases.

15 The Department cannot determine the precise make-up and value of the open case population until the cases are actually worked.

Lessons learned from annual coding for 2010-11

3.15 The Department reviewed the lessons learned from issues encountered during annual coding for 2010-11. In the light of this review, it introduced a more rigorous process for testing NPS releases to confirm that the system functionality was operating as intended and accurate outputs were being generated. The principal changes involved:

- greater business stakeholder involvement in development and approval of the test strategy as well as in the testing and implementation;
- the detailed testing of NPS outputs to taxpayer records performed and quality assured by personal tax experts to ensure that accurate PAYE calculations and tax codes were issued to taxpayers;
- excluding NPS records from live processing where results of testing fell below pre-determined accuracy targets, while the underlying causes of inaccuracy were investigated and corrected; and
- the Department's senior management taking the formal 'go/no go' decision on the live running of end of year reconciliations and annual coding.

3.16 The Department first implemented these changes in its approach as part of its testing of NPS functionality and data quality in preparation for the end of year reconciliation of the 2008-09 and 2009-10 tax years. It further refined its testing approach in the delivery of annual coding for 2011-12, to improve its analysis of errors and their tax effect, and to continue to monitor the accuracy of annual coding notices issued to taxpayers during live processing.

3.17 The Department assessed the overall accuracy of annual coding against an internal target of 97 per cent prior to its decision to start live processing. It continued to monitor the accuracy of codes issued to ensure that the overall accuracy target was being achieved. The Department plans for this approach to be the standard test process to be applied to NPS in advance of all key PAYE business events.

3.18 The poor quality of the data and the NPS specification has continued to have a major impact on the processing of PAYE. To undertake its processing of the end of the year reconciliations for 2008-09 and 2009-10 and annual coding for 2011-12, the Department has reviewed over 11 million taxpayer records, almost 25 per cent of the NPS database, and as necessary, repaired the records. It still has to repair approximately 2.4 million of the reviewed records before reconciliations for 2008-09 and 2009-10 can take place.

3.19 The need to review and repair NPS records in advance of processing should reduce significantly in the future as the Department improves the quality of data on NPS and introduces changes to the system's functionality. It currently estimates that between 5 and 8 per cent of NPS records will need to be reviewed and repaired as part of the end of year reconciliation for the 2010-11 tax year.

End of year reconciliations for 2008-09 and 2009-10

3.20 Having decided to defer the end of year reconciliation for 2008-09, the Department had to complete the 2008-09 and 2009-10 reconciliations together. It started these reconciliations in September 2010, once it had completed its testing of the NPS end of year reconciliation functionality. By March 2011, the Department had completed the reconciliation of the vast majority of the 2008-09 and 2009-10 records where it had all the information necessary for automated reconciliation.

3.21 In April 2011, the Department started the review of a forecast 6.7 million taxpayers' records relating to the 2008-09 and 2009-10 tax years where it had not yet received the information from the employer or the information had not matched automatically to the NPS record. It is necessary for the Department to investigate each of the records manually. Under NPS, the Department expects to manually review 3 to 4 million of these records annually, compared with 16 to 17 million records in each year immediately before its implementation. The Department plans to clear the remaining 2008-09 and 2009-10 end of year reconciliations by March 2012. It also expects that when the information has been received and matched to NPS, some 85 per cent of the records will reconcile without resulting in an over or underpayment of tax.

3.22 The Department estimates that at 31 March 2011, its reconciliation of the 2008-09 and 2009-10 tax years had identified 5.6 million overpayments of tax totalling £1.9 billion and 1.1 million underpayments of tax totalling £1.1 billion across the two years. **Figure 9** shows the total volume and value of overpaid and underpaid tax for the two years combined to date.

3.23 To keep workloads to a manageable level, the Commissioners used their collection and management powers to temporarily raise the threshold for not reclaiming underpayments of tax identified as part of the end of year reconciliation for 2008-09 and 2009-10 from £50 to £300. The temporary rise in the threshold to £300 was applied to all underpayments of tax from PAYE reconciliations processed from September 2010 to March 2011, including 2007-08 legacy open cases. By March 2011, this had excluded underpayments of tax totalling an estimated £266 million from recovery across all open years.

Figure 9
Outturn for 2008-09 and 2009-10 end of year reconciliations

	Estimated		Position at 31 March 2011	
	Number	**Value (£)**	**Number**	**Value (£)**
Overpayments	4.3m	1.8bn	5.6m	1.9bn
Underpayments, greater than £300	1.4m	2.0bn	1.1m	1.1bn
Underpayments between £50 to £300	900,000	160m	Not known	Not known[1]

NOTE
1 The Department is unable to analyse underpayments between £50 and £300 by tax year.

Source: HM Revenue & Customs

3.24 The Department's decision to delay its reconciliation of the 2008-09 tax year has also resulted in it foregoing the recovery of some underpayments of tax. Some taxpayers have successfully claimed under Extra Statutory Concession A19 (ESC A19) that the Department had failed to make proper and timely use of the information available to it. By June 2011, the Department had received 111,000 claims for the remission of income tax underpayments for 2008-09 and 2009-10 under ESC A19, of which it had remitted 28,000 at a cost of £41 million.

3.25 The Department also chose to forego the recovery of underpayments of income tax from 250,000 pensioners where their tax codes for 2008-09 and/or 2009-10 had failed to reflect they were receiving state pension as well as other income, because it considered that a substantial number of this group of pensioners could reasonably claim a remission under ESC A19. The Department has been unable to obtain a reliable estimate of the value of the tax foregone in these cases.

Annual coding for 2011-12

3.26 Between January and the end of March 2011, the Department issued 17.4 million coding notices for the 2011-12 tax year, representing 99.4 per cent of the total expected to be issued.[16] The high levels of accuracy achieved in annual coding for 2011-12 led to lower levels of taxpayer contact, with only 4 per cent of coding notices issued leading to calls to the Department's contact centres, compared with 8 per cent for the annual coding for 2009-10.

PAYE work management

3.27 Work items are produced by the PAYE work management system for manual clearance when user intervention is required to complete the automated processing in NPS. The system has produced high volumes of work items from in-year processing, compounded in the short term by the recovery work associated with annual coding and end of year reconciliations, including the need to work two years of reconciliations together.

3.28 The Department has had to actively manage the higher volumes of work items to keep them within the work management system's operating capacity of 12.5 million work items. This has included staggering the production of items for manual end of year reconciliation and focusing its resources on the highest priority work items. Additionally, it has reviewed categories of work items to determine if their production can be temporarily inhibited where they are considered redundant or low priority. It has also deleted work items that were redundant or no longer relevant.

16 The Department will issue a coding notice to an individual and their employer where changes in income or circumstances have an impact on the tax they will have to pay. This includes those in receipt of a state pension, taxable state benefits and changes to benefits in kind.

3.29 Outstanding work items may result in some taxpayers' records not being up to date for a period. A potential consequence of not processing these work items is that for some taxpayers, over and underpayments identified as part of the Department's end of year reconciliation may be higher than they would otherwise have been. In response to this risk, the Department prioritised its clearance of work items based on its assessment of the impact on the taxpayer, the tax involved and the availability of resources to undertake the work.

3.30 The Department is still working to fully understand the impact of not clearing work items that are generated by NPS on the PAYE process, including whether it is necessary to clear certain categories of work item at all. It is aiming to reduce the volume of work items produced through enhancements to NPS functionality. The Department plans to introduce changes to NPS functionality in April 2012. It is also working to increase the efficiency of its manual clearance of work items through improvements to operational instructions issued to staff.

Clearing legacy open cases

3.31 The Department established a programme in late 2010 to work the 2007-08 underpayment cases manually to allow it time to recover any underpaid tax within the four year statutory window.[17] By the end of March 2011, it completed processing of 416,000 underpayment cases, against a target of 400,000, and identified £228 million[18] in underpaid tax. It is collecting £100 million of this through adjustments to the 2011-12 tax codes where individuals have sufficient income subject to PAYE to make the recoveries and has written to taxpayers to arrange direct payment of the remaining £122 million. The Department estimates there is a further £136 million in underpayments of tax to be identified from cases yet to be worked for the 2007-08 tax year.

3.32 The Department has committed to completing clearance of all outstanding legacy cases by the end of 2012. It is currently testing an automated solution based on NPS functionality, which it expects to implement in October 2011. It will use this solution to classify the remaining population of 16.8 million cases and target its resources in clearing overpayments of tax across the tax years 2003-04 to 2007-08. It estimates that the new functionality will allow it to clear at least 60 per cent of these cases automatically, leaving the residual to be cleared by clerical staff. This figure may be lower if the automated solution can be applied to a larger proportion of the population. The Department's best estimate is that overpayments of tax of up to a total of £2.8 billion[19] may have to be repaid for the period 2003-04 to 2007-08.

17 The Commissioners extended their decision to temporarily raise the threshold for not reclaiming underpayments of tax below £300 identified through PAYE reconciliations to include 2007-08.

18 £6 million of the £228 million has been set off completely against overpayments in other years (or reduces the underpayment to below £300 once set off).

19 The Department has recognised a provision of £2.5 billion in its 2010-11 Accounts as not all of the £2.8 billion repayments issued as payable orders will be cashed, for example, where the taxpayer is not contactable.

Costs

3.33 The stabilisation of PAYE was initially managed under two programmes, one to stabilise NPS and the other to clear legacy open cases. The Department has estimated the cost of the programmes over the period 2010-11 to 2012-13 at £23.6 million and £57.3 million, respectively.[20]

A Stabilised PAYE Service

3.34 The Department's aim for a stabilised PAYE service is that it would be dealing with only three open years in any one year. This means that in any year the Department would be:

- completing the reconciliation of taxpayer accounts for the previous year;
- making in-year adjustments to reflect changes in circumstances, thereby keeping taxpayer accounts up to date; and
- calculating and issuing correct codes for the following year.

3.35 The Department plans to deliver a stabilised PAYE service by 2013. It intends to achieve this by focussing on three areas:

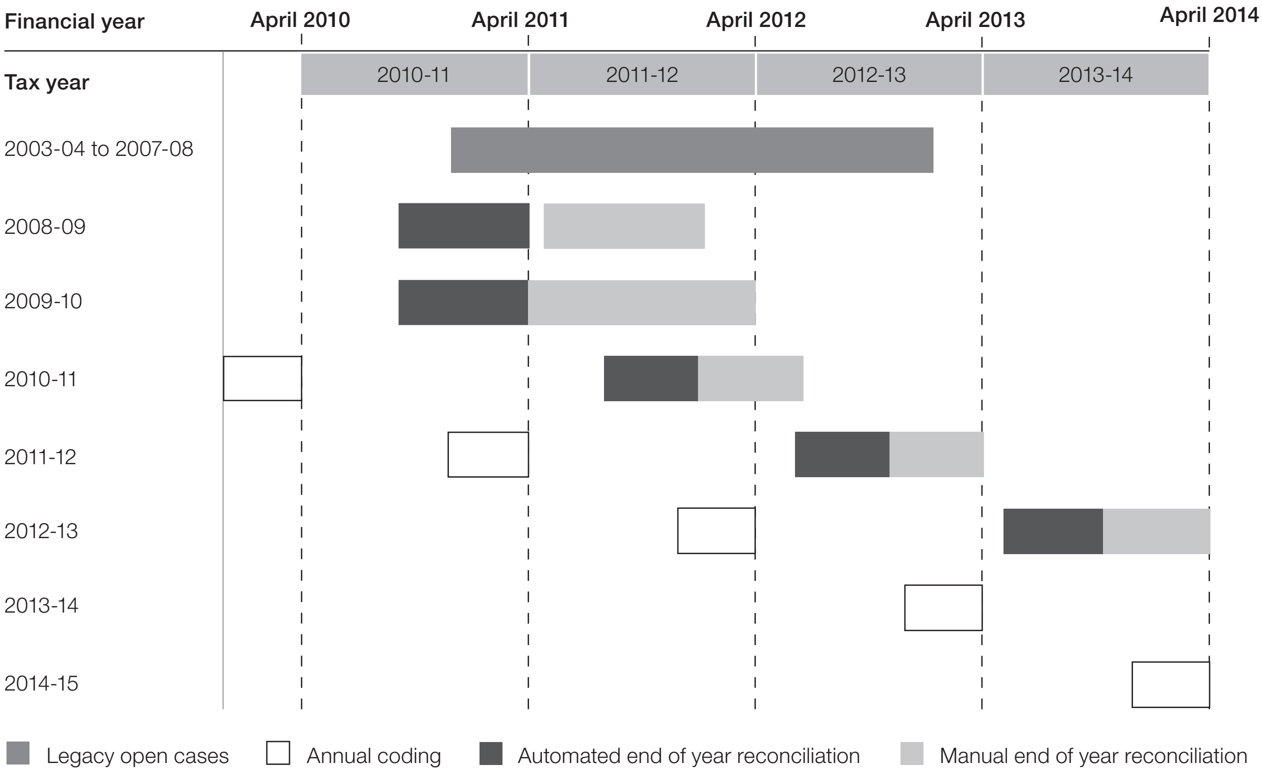
- efficient clearance of post – it plans to speed up the turnaround of taxpayer correspondence, including a target clearance of 80 per cent of post in 15 days, by the summer of 2011, in order to minimise the level of repeat taxpayer contact chasing progress and thus free up resources;
- clearance of arrears – it plans to clear outstanding end of year reconciliation cases for 2008-09 and 2009-10 by March 2012, and legacy open cases relating to the 2003-04 to 2007-08 tax years by December 2012; and
- advancing the processing timetable – it has announced plans to start the automated end of year reconciliation for the 2010-11 tax year in July 2011, two months earlier than the previous year. Initially the Department will prioritise the processing of overpayments of tax so taxpayers will receive the money they are owed promptly. It will then begin its processing of underpayments in the autumn so they can be included in the tax codes for 2012-13.[21] It will then identify and manually process incomplete records excluded from automated reconciliation.

Figure 10 overleaf illustrates the estimated timeline to meet the Department's target of a stabilised PAYE service by 2013.

20 The cost of NPS stabilisation excludes the costs of the manual working of cases by the Department's operational staff.

21 The reconciliation is expected to generate 1.7–3.5 million repayments to the taxpayer by the end of September 2011, and approximately 1.2 million underpayment notices between September and December 2011.

Figure 10
PAYE Forward Look



NOTES

1 In 2010-11, the Department completed the majority of annual coding for 2011-12 and end of year reconciliations for 2008-09 and 2009-10 where all information for automated reconciliation was available, in addition to processing 2007-08 underpayments from legacy open cases. In 2011-12, the Department plans to complete the manual end of year reconciliations for 2008-09 and 2009-10, progress the clearance of legacy open cases and commence the end of year reconciliation for 2010-11.

2 In-year PAYE processing is a year-round activity and is not represented in the diagram.

Source: National Audit Office analysis of HM Revenue & Customs data

3.36 The Department has recognised the priority of PAYE recovery and stabilisation in allocating the Personal Tax business area for 2011-12 another £34 million for recovery activity through manual processing in addition to the amounts stated in paragraph 3.33. The Department has informed us that it will recognise this priority again when considering the allocations for 2012–13 as part of the business planning process, which will take place in the autumn of this year.

3.37 The Department has not been resourced to clear all exceptions arising from in-year processing while it is engaged in clearing processing arrears and cleansing NPS data. While it plans to accelerate its end of year reconciliation and clear legacy backlogs, as well as introduce further efficiencies to NPS in 2012, the Department will not be able to finalise its plans until it fully understands the volume of work items that will be produced from in-year processing and its capacity to work them. Until it has a comprehensive plan that embraces in-year work management, the Department cannot achieve its goal to deliver a stabilised PAYE service.

Real Time Information for PAYE and Data Improvement

3.38 The Department plans to introduce Real Time Information (RTI), where employers will be required to report employees' Income Tax and National Insurance deductions at the same time as they pay them rather than at year end. Under RTI, some elements of the PAYE process will no longer be required, such as employer end of year returns and in-year forms for starters and leavers.

3.39 RTI is a key component in the Department for Work and Pensions' plans for the introduction of Universal Credit from 2013, where it will use real time PAYE information on employment and pension income to award and adjust Universal Credit. To meet this timetable, the Department will begin to pilot RTI in April 2012 with volunteer employers and software developers for a full year. Employers not already on RTI as a result of the pilot will be mandated to join RTI in the period April to October 2013. Small and medium employers will be brought on in April 2013 with the remaining larger employers progressively taken on in the period to October 2013. All employers will be under RTI from October 2013.

3.40 The Department identified poor data quality as the key cause of the issues experienced during annual coding for 2010-11 and the current volumes of over and underpayments. It recognises that it has to address these data quality issues in PAYE if it is to realise the benefits of NPS. It also recognises that improvements in PAYE data quality are a precursor to the successful implementation and operation of RTI and Universal Credit, where the maintenance of data quality will be critical. In particular, PAYE information submitted in real time will need to be matched to the correct taxpayer's record on receipt.

3.41 The Department launched a PAYE data improvement project, within its wider RTI programme. The objectives of the data improvement project, include amongst other things, to:

- understand and address the root causes of data quality issues that could impact on the successful implementation of RTI;
- improve the current standard of data quality within PAYE to reduce the risk to the RTI programme;
- deliver changes to the PAYE operating model to ensure that data quality improvements can be sustained; and
- support and inform data cleansing activities required in advance of the delivery of RTI.

The detailed planning phase of the project was completed at the end of June 2011. The Department has now entered into the evaluation and pilot phase from July to October, prior to full implementation from November 2011.

Cost reductions

3.42 The Department faces further challenges in the delivery of the PAYE service beyond its plans to stabilise the service by 2013, and the implementation of RTI. Following the 2010 Spending Review, the Department committed to reducing running costs by 25 per cent in real terms by 2014-15, which will involve significant cost reductions in the administration of personal tax. The Department's Personal Tax business area is currently expected to reduce its overall staffing from 24,900 as at April 2011 to 16,400 by April 2015. It is planned that the full time employee and cost reductions will be enabled by a number of new programmes, including RTI, under the umbrella of a central Change Programme identified in and funded through the Spending Review settlement. We intend to report separately on the Department's cost reduction proposals.[22]

22 National Audit Office report on Reducing Cost in HMRC with a publication date of 20 July 2011.

Part Four

Tax Credits

Introduction

4.1 Child and Working Tax Credits (tax credits) offer financial support to more than seven million families, supporting around 10 million children. Tax credits form part of the personal tax system. The Department accounts for this expenditure in its Trust Statement for taxes, duties and other revenues and related expenditure. In 2010-11 it spent around £28.1 billion on tax credits.

4.2 The tax credits scheme is designed to be flexible and to react to the changes in claimants' circumstances. The process is complex, however, and claimants have not always understood their obligations to tell the Department when their circumstances change and to report their actual income and circumstances at the end of the year. Claimants also make genuine errors in their applications that result in incorrect awards, for example, because they misunderstand what should be reported as income, or calculate childcare costs incorrectly.

4.3 In February 2011, the Government announced its intention to introduce a new Universal Credit to replace many of the current working-age benefits, including working and child tax credits, with a single means tested payment. The aim of the Universal Credit is to create a single streamlined working age benefit, to reduce or remove some of the current complexities around benefit entitlement, verification of customer circumstances and administrative burden that can increase the opportunities for error and fraud. The Universal Credit is scheduled for introduction in 2013, but it is anticipated that some tax credits claimants will not be transferred onto the new scheme until 2017.

Reducing error and fraud

4.4 The Department's latest estimate, based on finalised awards for 2009-10, indicates that the overall level of error and fraud has decreased from between 8.3 and 9.6 per cent in 2008-09 to between 6.6 and 8.1 per cent in 2009-10. This equates to payments of between £1.75 billion and £2.14 billion being made to claimants incorrectly because of error or fraud and further amounts of between £250 million and £550 million not being paid to claimants due to error (**Figure 11** overleaf). The levels of error and fraud are material within the context of the £28.1 billion spent on tax credits. As this expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002, the Comptroller and Auditor General qualified his opinion on the regularity of the tax credits expenditure reported in the 2010-11 Trust Statement.

Figure 11
HM Revenue & Customs' estimates of error and fraud

	2009-10	2008-09	2007-08
Value of finalised awards	£26.4bn	£23.6bn	£19.9bn
Error and fraud favouring the claimant[1] (Overpayments)			
Percentage of finalised awards[2]	6.6-8.1%	8.3-9.6%	8.3-9.7%
Value	£1.75bn-£2.14bn	£1.95bn-£2.27bn	£1.65bn-£1.93bn
Error favouring HMRC (Underpayments)			
Percentage[2]	1.0-2.1%	0.8-1.3%	1.0-1.6%
Value	£0.25bn-£0.55bn	£0.20bn-£0.31bn	£0.20bn-£0.32bn

NOTES

1 The Department estimates levels of error and fraud based on the examination of a random sample of 2,696 finalised awards under its annual Error and Fraud Analytical Programme. As awards for 2010-11 are not due to be finalised until July 2011 and in some cases later, the Department will not be able to complete its error and fraud analysis of these awards until summer 2012.

2 The percentages shown in Figure 11 represent the estimated ranges of error and fraud as a percentage of finalised tax credits entitlement, ranges are used as the estimated mid points are subject to margins of error. The Department publishes Child and Working Tax Credits Error and Fraud Statistics each year from where further details may be obtained: http://www.hmrc.gov.uk/stats/personal-tax-credits/menu.htm

Source: National Audit Office analysis of HM Revenue & Customs' data

4.5 In July 2008, the Department announced a target to reduce tax credits losses due to error and fraud to no more than 5 per cent of the value of finalised entitlement by March 2011. It will only be able to measure its performance against this target in summer 2012, once the estimate of error and fraud in the finalised awards for 2010-11 is available.

4.6 In April 2009, the Department launched a revised strategy to reduce the level of error and fraud in tax credits. The strategy is based on getting a better understanding of tax credits claimants and their behaviours to support a tailored approach to reducing error and fraud. It includes:

- **better support to claimants** – by offering more support to claimants to help them get their claims right first time by assisting them through the claim and renewals process and by contacting existing claimants to confirm that information held is accurate;
- **preventing error and fraud** – by increasing the Department's focus on stopping error and fraud from entering the system at the application, change of circumstance and renewal stages; and
- **tackling non-compliance** – by continuing to identify tax credits claims for compliance and other enquiries based on specified verification and risk scoring criteria applied at the time awards are processed.

4.7 Since the introduction of the revised strategy in 2009, the Department has significantly increased the number of interventions to almost 1.8 million in 2010-11 and identified losses attributable to error and fraud of £792 million, compared with £253 million in 2008-09 (**Figure 12**).

Figure 12
HM Revenue & Customs Error and Fraud – Outcomes from Interventions

	2010-11		2009-10		2008-09	
Interventions	Number (000)	Estimate of loss prevented (£m)	Number (000)	Estimate of loss prevented (£m)	Number (000)	Estimate of loss prevented (£m)
Better Support to Claimants	470	215	524	40	38	5
Preventing Error and Fraud	340	238	104	173	57	96
Tackling Non-Compliance	984	339	653	356	28	152
Total	1,794	792	1,281	569	123	253

NOTES

1 Each category includes an amount arising from interventions undertaken by Compliance, Operations and Customer Contact Directorate.

2 Some of these measures impact on more than one area.

Source: HM Revenue & Customs and National Audit Office

4.8 A key feature in the Department's delivery of the strategy has been to increase the number of interventions against those tax credits awards likely to contain error and fraud and, in particular, to identify error and fraud before awards pass into payment ('Check First, Then Pay') rather than limit the checks to compliance enquiries against awards in payment. During 2010-11, it increased its interventions at the primary points where error and fraud enters the tax credits system – application, changes of circumstance and renewals – to deliver 450,000 checks against high risk awards and prevent an estimated loss of £200 million. In comparison, in 2009-10, it performed 34,000 of these pre-capture checks, identifying an estimated £5 million of error and fraud losses.

4.9 There is scope for the Department to improve its targeting of high risk awards. We found that between 13 and 16 per cent of high risk awards selected for intervention prior to processing resulted in the identification of error or fraud. We also found that rules-based guidance applied to support the selection of high risk change of circumstances and renewal cases did not allow the Department to identify which of its risk criteria were most likely to target error or fraud. Work to develop this functionality has now been commissioned.

Measuring performance

4.10 The Department can only measure the underlying level of tax credits error and fraud in any year once the awards for that year are finalised. It has therefore developed proxy indicators to allow it to track progress in reducing error and fraud through the year. It estimates that by the end of March 2011 it had identified £1,054 million of error and fraud in 2010-11 awards against a target of £1 billion. The Department has a target to identify £1.4 billion of error and fraud by July 2011, once the majority of 2010-11 awards are finalised. For 2011-12, it plans to identify £1.2 billion of error and fraud by March 2012 and £1.7 billion by July 2012.

4.11 The Department's estimate of £1,054 million of error and fraud identified by March 2011 comprises £792 million of loss prevented from its interventions on individual awards, plus estimates for the wider deterrent effect of its strategy and for sustained improvements in compliance as a result of interventions in previous years. It is undertaking a review of its estimated level of error and fraud for 2009-10, and plans to link the outcome with the direct and indirect effect of its interventions measured against its proxy target.

4.12 In our 2009-10 report, we recommended that the Department improve the accuracy and reliability of its measurement of intervention yields. During 2010-11, it issued new guidance and training for tax credits teams on measuring interventions and introduced new assurance arrangements. We have continued to find inconsistency in measurement and some instances where the results of interventions were inaccurately recorded, resulting in both the over and under reporting of loss prevented. However, the Department is strengthening its approach to quality assurance including the independent sampling of intervention results.

Joint Fraud and Error Strategy

4.13 In October 2010, as part of the Spending Review, the Department launched a Joint Fraud and Error Strategy with the Department for Work and Pensions. Within the context of the Strategy, and as part of Spending Review 2010, the Department has a target to prevent £8 billion of tax credits losses, through interventions, over the next four years.

4.14 The Joint Strategy commits the departments to delivering an integrated approach to tackling error and fraud based on five fundamental components: prevent; detect; correct; punish; and deter. The departments are developing a common governance and reporting framework and have established a new Joint Programme Management Office and a senior level Joint Strategy Programme Board to manage delivery of the Strategy. The integrated approach will include better data sharing between the departments and the creation of integrated teams to provide the departments with a combined risk and intelligence, analytical, fraud investigation, and mobile task force capability.

Recovering tax credits debt

4.15 In 2009-10, the Department prepared a Tax Credits Debt Tactical Delivery Plan, designed to reduce tax credits debt. The plan included objectives to reduce the amount of tax credits debt by £0.2 billion to £4.3 billion by March 2011, and reduce the level of tax credits debt going forward. As we reported last year, during 2010-11 the Department intended to work to:

- stem the creation of debt by reducing the amount of error and fraud entering the system and by better understanding and measuring the impact of other interventions that reduce overpayments;
- develop a more active approach to engaging with claimants with a tax credits debt and support Debt Management and Banking directorate in its 2010 Debt Campaign; and
- review and remit uneconomic and unenforceable debts where there is no possibility of collection by March 2011.

4.16 The Department has not met its target to reduce the overall level of debt. At 31 March 2011, the total value of tax credits debt was £4.7 billion, compared with £4.5 billion at March 2010. Not all of this balance is likely to be recoverable as, at 31 March 2011, the Department estimates that the collection of £3.0 billion as doubtful (£2.5 billion at 31 March 2010). The majority of the debt for which collection is assessed as doubtful relates to the £2.6 billion of terminated tax credits awards which have been passed to the Department's Debt Management and Banking directorate for direct recovery.

4.17 Tax credits debt will continue to increase if the Department does not take any further steps to improve the recovery and clearance of debt. In 2010-11, £1.5 billion of new tax credits debt was generated which was almost £300 million more than expected. This increase is in part a consequence of the increase in overpayments identified as a result of the increase in the number of error and fraud interventions. Tax credits debt levels are likely to increase further from 2011-12 onwards, as Budget changes affect eligibility to tax credits and the threshold for disregarding income changes affecting awards is reduced. The Department estimates that £1.7 billion of new tax credits debt is likely to be generated in 2011-12 and, without any further intervention, overall debts could increase to £7.4 billion by 2014-15.

4.18 The Department's efforts to increase engagement with tax credits debtors through its 2010 debt campaign has so far had a limited impact on debt recovery. The Department's current tax credits debt campaign, launched in December 2010, is focusing on 330,000 overpayment cases totalling £550 million passed to the Debt Management Directorate between April and November 2010. By the end of April 2011, fewer than 9,000 cases with a value of £12 million had been recovered by payment, £103 million put into time to pay arrangements for recovery over a number of years or other recovery activity, and 21,000 cases totalling £55 million had been remitted or otherwise cleared.

4.19 The Department also sought to identify uneconomic and unenforceable tax credits debt and assess the scope for remission. During 2010-11, it undertook an exercise to assess the value for money of collecting £1.7 billion of tax credits debt not under active recovery, and will make decisions about what debt should be remitted by the end of July.

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