



HM Revenue  
& Customs

# Annual Report and Accounts 2012-13

(for the year ending 31 March 2013)



**£20.7bn**  
compliance yield

**£475.6bn**  
in revenue



call handling



# HM Revenue & Customs Annual Report and Accounts 2012-13

(For the year ended 31 March 2013)

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

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# Achievements of 2012-13

# £475.6 billion

Record amount of tax revenue we brought in – more than £1 bn above what we collected in 2011-12

## £20.7 bn

Record compliance yield – almost £2 billion above our target for the year

## 100 legal wins

Using a legal argument to successfully defend about £300 million in VAT claims in 2012-13



## £2 bn

Revenue brought in using our state-of-the-art fraud-busting tool Connect, which won project of the year at the 2012 National Outsourcing Association Awards

## 17.9 million

PAYE legacy open cases we finished clearing from our old computer system. We are now up to date with PAYE

£342 million – first payment made after the UK-Swiss Tax Agreement came into force in January 2013



## 90+ per cent

The highest proportion of customer calls we have ever answered in the last half of the year



We answered **75 per cent** of calls across the entire year



## £1 bn

Estimated revenue over five years, after we agreed to share tax information with the Isle of Man, Jersey and Guernsey

## 85%

Post we turned around within 15 working days – the best performance ever recorded by HMRC

## 15.4

The number of days it took on average to process tax credits and Child Benefit UK new claims and changes of circumstances against a target of 22 days: our highest customer service level to date

# 64,476

The number of full-time equivalent staff we employed at March 2013



## 1,700

The number of our people who started tax training for the first time, so we can increase revenue collected and provide a better service for customers

## 5,463

The number of our people moved to new or different compliance roles to help meet our commitments to bring in extra revenue



## 200

People joined our graduate level Tax Professional Development Programme, including 120 externally recruited graduates



# 5,589

Days we gave to volunteering in our local communities

# £1.8 million

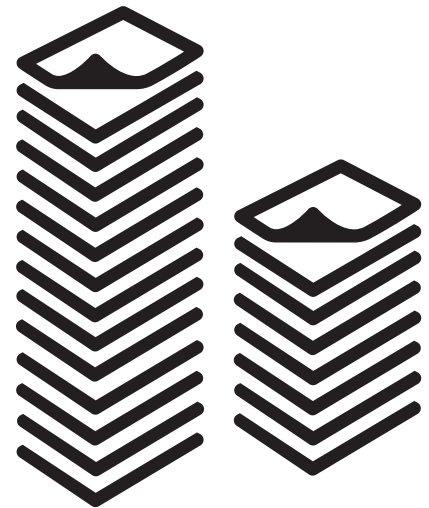
Raised for good causes through fundraising for BBC Children in Need, Lifeboat Fund, Charity for Civil Servants and other good causes via payroll giving

## 8,800

Leaders and managers are benefiting from leader-led master classes on the new performance management system for the Civil Service



What we expect to save in IT costs over four years in a new agreement signed with Microsoft in December 2012



# 27m

Fewer sheets of paper were bought last year because we printed less

# Our Charter

## Our role

- We make sure that the money is available to fund the UK's public services by collecting taxes and duties as laid down by Parliament. We help families and individuals with targeted financial support.
- We want to give you a service that is even-handed, accurate and based on mutual trust and respect. We also want to make it as easy as we can for you to get things right.

## Your rights

### What you can expect from us:

- Respect you
- Help and support you to get things right
- Treat you as honest
- Treat you even-handedly
- Be professional and act with integrity
- Tackle people who deliberately break the rules and challenge those who bend the rules
- Protect your information and respect your privacy
- Accept that someone else can represent you
- Do all we can to keep the cost of dealing with us as low as possible.

## Your obligations

### What we expect from you:

- Be honest
- Respect our staff
- Take care to get things right.

### More information

For more information about what we do, your rights and where you can get help and support please go to [www.hmrc.gov.uk/charter](http://www.hmrc.gov.uk/charter) or speak to one of our advisers.

# Chief Executive Foreword



**Lin Homer**  
Chief Executive and  
Permanent Secretary

At HMRC, we deal with the tax and payments affairs of virtually every business and individual in the UK. That means, quite rightly, that expectations are high – and with those expectations comes a great deal of public and media interest in what we do.

I'm pleased to say that meeting and maintaining those expectations is a challenge we have met head on. We have collected record revenues, brought PAYE up to date and made significant improvements to customer service – all achieved while continuing to deliver efficiency savings and redeploy large numbers of staff to meet the continuing demands placed upon us.

We have collected or protected additional revenue of £20.7 billion through our compliance work – almost £2 billion more than the target set by the Government – which is testament to the hard work and dedication of our people and our commitment to narrow the tax gap.

Performance in our contact centres over the final six months of the year has been at record levels, with 90 per cent of call attempts answered. Overall, we recorded our second-best-ever annual results, at 75 per cent of call attempts answered.

We also turned around 85 per cent of post sent to us within our target of 15 working days – our best ever performance – and saw feedback from our customer surveys show improvement throughout the year.

And our customers are also helping us to improve our services. A record-breaking 9.61 million Self Assessment (SA) tax returns were received by the deadline – the

best result since the start of SA in 1998. This means 93 out of 100 people filed on time this year, helping us to get their tax right first time.

It is an impressive set of results.

The next two years will continue to be challenging, but given the momentum we have already established I am confident that that we can deliver the further improvements in our performance, in order to meet our objectives for the remainder of the Spending Review period.

We will continue to invest in improvements that help compliant customers. This will make it easier for them to manage their affairs, and harder for them to get it wrong.

We will aim to maintain contact centre performance at 90 per cent, while implementing real-time reporting for PAYE for all businesses, and piloting a new service for customers who need extra help.

Real Time Information for PAYE has started well – with more than a million schemes submitting data via RTI in April, the first month of the roll-out. This is a huge programme, impacting every single employer in the country, and it will remain a huge challenge – operationally and reputationally – throughout the coming year.

We will also increasingly work in real time with larger businesses to reduce risk and increase revenues, and deliver more support to smaller businesses to cut error and fraud. We will reduce opportunities for tax avoidance, by delivering well-designed processes, policy and legislation and tackle those who promote



# Chief Executive Foreword

"We have collected record revenues, brought PAYE up to date and made significant improvements to customer service - all achieved while continuing to deliver efficient savings."


avoidance schemes. We will continue to do everything we can to make sure everyone pays the tax that is due.

The first annual report of the Tax Assurance Commissioner, published alongside this Annual Report and Accounts, provides details on our management and governance of the settlements of large tax disputes.

We plan to put an increasing focus on tackling debt and tax credits fraud and error. We are launching a new private-sector trial alongside our own efforts, and stepping up preparations for the switch to Universal Credit.

We will also continue to tackle offshore evasion, alongside a range of new campaigns and taskforces. And we will make new technology work harder for us, exploiting its potential to track down those who cheat their taxes.

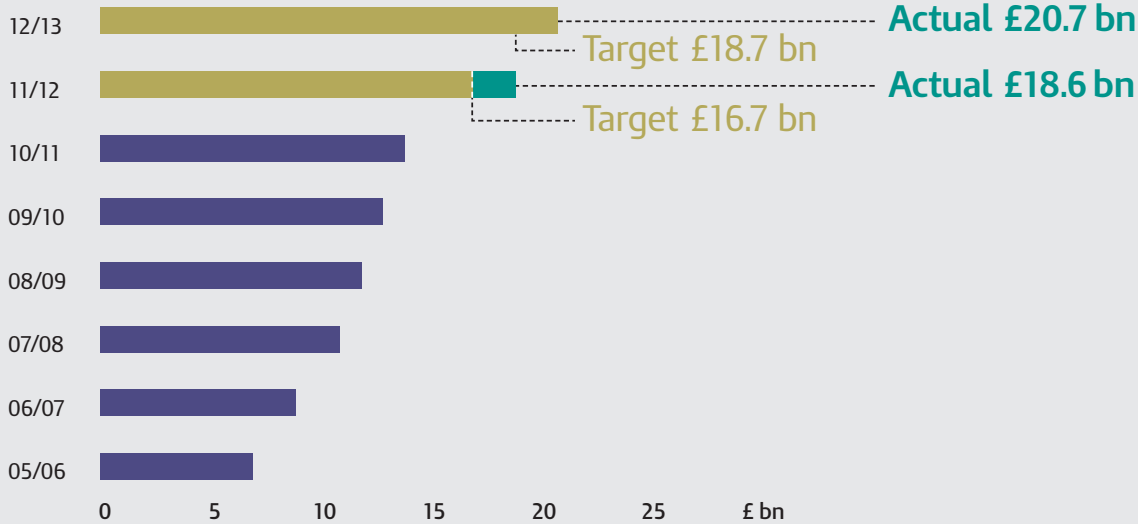
This will be tough, requiring us to invest heavily in our own skills and capacity, but if we are to meet the expectations placed upon us by the public and Ministers we must rise to the challenge and based on our progress so far, I am confident we will continue to do so.



**Lin Homer**  
Chief Executive  
and Permanent Secretary

# Chief Executive review of performance

Additional revenues protected through compliance work



## Maximising revenue collection

Our strong results during the past financial year highlight the Department’s continued focus on making it easy for the vast majority of compliant customers to meet their tax obligations, while at the same time continuing to target and crack down on those who try to avoid or evade paying their taxes. It is wrong that a minority of customers fail to pay what they owe, and we will use all the resources at our disposal to make sure they comply with the law and encourage them to keep their tax planning within the spirit of the law too.

We carried out a large amount of compliance work during 2012-13 to collect a record amount of additional revenue for the Exchequer. This included:

- redeploying more than 5,000 of our people to new or different compliance roles to help meet our Spending Review

commitments to bring in extra revenue of £7 billion a year by 2015

- enhancing the skills and knowledge of all our 17,000 tax professionals, coupled with improving the effectiveness and efficiency of our processes and systems
- increasing our focus on offshore tax evasion, such as the UK/Swiss Agreement on Tax Cooperation, with a first instalment of more than £342 million being paid to the UK by Swiss banks in January; and agreement to share tax information with the Isle of Man, Guernsey and Jersey, which is estimated to bring in £1 billion over five years
- tackling evasion risks through taskforces, so we can target risks where they have been identified. In 2012-13, we launched 28 taskforces, targeting various areas from the legal profession

in London to hair and beauty in the North East, and restaurants in the South East and south coast, to the motor trade in Scotland

- tackling risks through campaigns, so we can target large populations of high-risk customers to make or keep them compliant. In 2012-13 we launched four new campaigns, focusing on more than half a million people. This resulted in £80 million of voluntary disclosures, intervention revenue and future revenue benefit.
- maintaining our impressive record of wins against tax avoidance schemes used by companies and wealthy individuals, with 26 out of 32 (81 per cent) successes in the courts and tribunals, protecting £1 billion in revenue
- securing £7.5 billion in additional revenue from large business through our compliance activity.

# Chief Executive review of performance

## Creating sustainable cost reductions

All government departments had to deliver significant cost reductions in 2012-13, and HMRC is no exception. While we received additional funding to tackle tax avoidance and evasion, HMRC still had to reduce its costs and we delivered more than £245 million in efficiency savings.

By improving the effectiveness and efficiency of our processes and systems, we have been able to increase our performance to record levels. The challenge, put simply, is having to do more with less. We achieved this in a number of ways, including:

- simplifying our IT systems to support the long-term transformation of the Department's technology base. This led to a new agreement being signed with Microsoft in December 2012, which should save us £16 million in IT costs over four years

- reducing our overall staff numbers as part of our Spending Review targets. At 31 March 2013, there were 64,476 full-time equivalent staff, which is a net reduction from 2011-12 of 2,406
- reducing the size of our estate. We announced plans to vacate 11 offices and give up space in another seven buildings over the past financial year. All of these changes have been successfully completed, apart from one location, where our plans to give up space will now be finalised in June 2013
- reduced the cost of administering personal tax credits from 1.55 pence for every £1 paid out in 2011-12 to 1.43 pence in 2012-13
- analysing in more detail how we use resources such as paper. Changing the way we print material across HMRC has resulted in our using 27 million fewer sheets of paper during 2012-13.

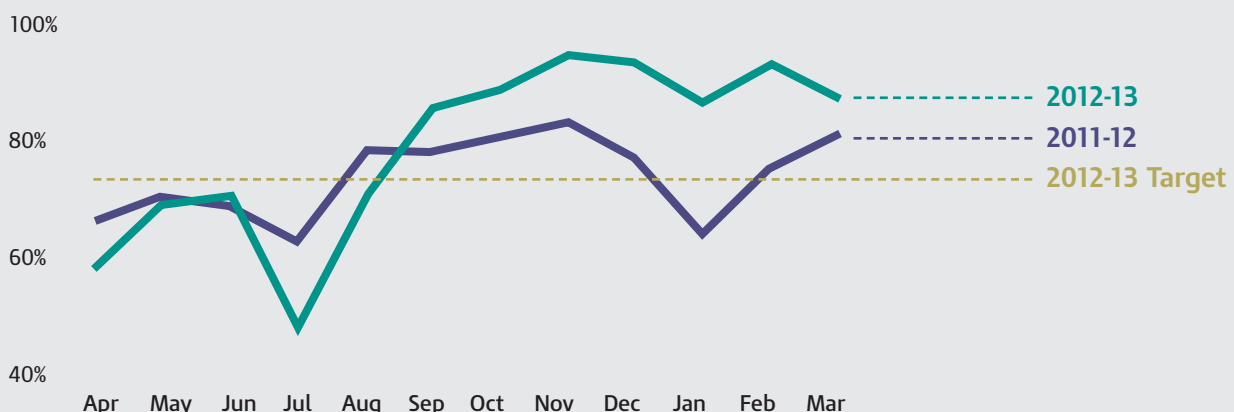
## Stabilising and improving customer service

We made significant strides forward in our customer service during this period, due to far greater flexibility in how we deploy our resources across the Department. We moved staff between different functions, sometimes at relatively short notice, depending on business priority and customer demand.

We also made a significant number of changes to our processes, which included:

- deploying an extra 1,100 staff to answer contact centre phones, so we could meet our target of answering 90 per cent of calls by the end of March 2013 – much earlier than previously planned
- preparing the way to move our help lines to 03XX numbers in 2013-14. This follows on from the successful introduction of the Welsh Language and the tax credits help lines in 2011-12.

### Call attempts handled



## Post handled in 15 working days



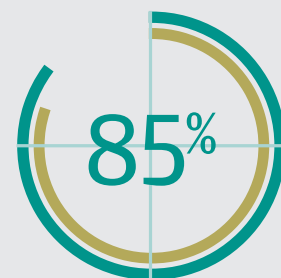
2009-10  
54% Actual



2010-11  
51% Actual



2011-12  
66% Actual



2012-13  
85% Actual 80% Target

The new numbers will reduce the cost of calling HMRC for most of our customers

- clearing 85 per cent of post within 15 working days, exceeding our target of 80 per cent. We are also on track to clear 97 per cent of post in 40 days, exceeding our 95 per cent target
- simplifying letters and guidance, and using automated messages to provide information and to signpost customers to information on the HMRC internet. This has reduced the need for our customers to speak to contact centre advisers
- improving our telephony equipment and putting telephony in more operational offices to increase our flexibility in taking calls from customers

- identifying business transactions that could be dealt with over the phone, without referrals to other staff or requesting written details from the customer. This meant that customer queries could be dealt with at the first point of contact
- enhancing the skills and knowledge of our staff so they can carry out a diverse selection of roles
- improving our resource management to make sure that we have enough resources in the right parts of the business to satisfy the demands of our customers

- introducing a new bereavement service that meant we significantly improved our call handling times for customers calling this line. In 2012-13, 95 per cent of calls were handled within 20 seconds. To improve the service we also met with recently bereaved customers to understand their experience of dealing with us, introduced bereavement teams, single points of contact throughout HMRC, and a dedicated contact centre helpline, and consulted with professional bodies and charities on our overall approach.



**HM Revenue & Customs** @HMRCgovuk 

Thanks to all those who took part and followed #biztaxhelp this week. More business support here <http://bit.ly/Yz2eWB> #biztaxhelp



# Chief Executive review of performance

## In summary

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

### Creating sustainable cost reductions

Unit costs (pence per £ collected/paid out)	2012 13	2011 12
Collecting Income Tax (Self Assessment and Pay As You Earn)	1.00	1.02
Collecting Corporation Tax	0.76	0.73
Collecting National Insurance Contributions	0.27	0.28
Collecting VAT	0.63	0.63
Administering Personal Tax Credits	1.43	1.55
Administering Child Benefits	0.57	0.59

### Maximising revenue collection

	2012 13	2011 12
Cash collected from compliance	£8.9 bn	£8.2 bn
Revenue protected	£11.8 bn	£10.4 bn
Total additional revenue raised	£20.7 bn	£18.6 bn <sup>1</sup>
	2010 11	2009-10
Tax gap – difference between all the tax theoretically due and tax actually collected	6.7% (£32 bn)	7.1% (£31 bn)
Payment on time – proportion of businesses and individuals who pay tax on time – using VAT as lead indicator	86.7%	83.2%
	2012	2011
Debt roll rate – proportion of tax debt (CT, SA, Employers' PAYE) by value cleared within 90 calendar days (%)	97.1% <sup>2</sup>	95.2%
	2010 11	2009-10
Personal Tax Credits Error and Fraud – amount of tax credits money claimed by people who are not entitled to it	£2.27 bn	£2.06 bn

<sup>1</sup> HMRC's Spending Review (SR) settlement required us to increase the additional revenues raised from compliance activity across the SR period, reaching an additional £7 billion a year by 2014-15. This is on top of the £13 billion a year we were raising at the start of the SR period in 2010-11 (ie a total performance target of £20 billion). At Autumn Statement 2012, we committed to further increase this revenue target from an extra £7 billion a year to an extra £9 billion a year by 2014-15, bringing the total performance target for 2014-15 from £20 billion to £22 billion. From 2012-13 onwards, we have adopted a revised evidence-based approach to assessing the additional revenue that will be brought in from compliance interventions. This measurement change has resulted in an increase to our £13 billion baseline performance of £1.7 billion. In order to retain our commitment to increase revenues by £9 billion, our targets for each year of the SR period have therefore also risen by £1.7 billion, bringing our total performance target for 2014-15 to £23.5 billion. Performance figures for 2012-13 are calculated using the new methodology. To provide a like-for-like comparison, we have also re-stated 2011-12 performance above using the new methodology – this has increased 2011-12 performance from £16.7 billion to £18.6 billion.

<sup>2</sup> This figure covers April to December 2012 as data for 2012-13 as a whole is not yet available.

### Stabilising and improving customer service

	2012 13	2011 12
% of post cleared within 15 working days of receipt	85%	65.5%
% of post cleared within 40 working days of receipt	97.1%	92.3%
% of post cleared within 15 working days of receipt passing HMRC quality standards	91.7%	91.8%
% of post cleared within 40 working days of receipt passing HMRC quality standards	91.8%	91.8%
% of call attempts handled by our contact centres	75.2%	74.4%
% of return transactions carried out online (12 months to quarter end e-returns, SA, PAYE, VAT, CT and Stamp Duty Land Tax)	92.8%	90.2%
Increase/decrease (-) in cost for customers dealing with us (compared to March 2010)	-£2.7 m	+£54.2 m
Increase/decrease (-) in cost for business customers dealing with us (compared to March 2010)	+£28.4 m	+£53.7 m
Customers find us straightforward to deal with – all customers rolling annual score out of 100 (margin for error in brackets)	73.0 (±2.6)	72.8 (±2.4)

Our programme of work will support the Government's priority to deliver a more focused and effective tax administration

# HMRC in more detail

## How we are organised

HMRC is structured around how our taxes are collected. These four areas are known as our ‘lines of business’.

### Personal Tax

Personal Tax touches the lives of 60 million people through PAYE, Self Assessment, National Insurance, and through specialist taxes and reliefs like Inheritance Tax, Gift Aid and Capital Gains Tax. It collects more than £250 billion in revenue every year, deals with 45 million Income Tax customers, and receives more than 28 million phone calls from people asking for advice, as well as 17 million customer letters or forms.

Personal Tax employs 24,000 permanent and 3,100 temporary staff. This includes 1,700 staff who look after specialist taxes, as well as very wealthy customers, trusts and charities. Its 17 contact centres and digital services support customers on behalf of the entire Department.

### Business Tax

Business Tax administers the collection of business taxes, including Corporation Tax, Stamp Duty, Stamp Duty Land Tax, Employer PAYE and National Insurance contributions, VAT, Customs Duty and Excise. It collected £39.2 billion in Corporation Tax, £101 billion in VAT, £46.3 billion in excise duties and £9.5 billion from Stamp Duty taxes in 2012-13. Business Tax employs more than 4,000 staff across the UK, delivering services for business customers and managing the design and delivery of taxes and duties that business customers pay.

### Benefits and Credits

Benefits and Credits make tax credits payments to 4.8 million families responsible for 7.9 million children and Child Benefit payments for 13.7 million children. It ensures families receive the payments they are entitled to and tackles losses from error and fraud. Benefits and Credits employs around 6,000 staff across the UK.

### Enforcement and Compliance

All collection, compliance and enforcement activities are organised together in this area of HMRC. Its purpose is to understand and manage the risks to taxation, and undertake operational compliance work across the range of business taxes and duties managed by the Department.

Enforcement and Compliance provides a well-targeted and appropriate response through a wide range of activity, from education and local support through to substantial financial and custodial penalties. It also acts to bring in late returns and payments, while supporting businesses in genuine temporary difficulty with Time To Pay arrangements.

It collected more than £13.6 billion in 2012-13 – £741 million above target and almost £3 billion more than in 2011-12, as well as receiving payments and accounting for tax and other liabilities through its Banking section. It employs around 26,000 staff at offices throughout the UK and internationally.

### Corporate functions

Supporting the lines of business are a number of specialist areas

including Finance, Central Tax and Strategy, Security and Information, People, Corporate Communications and Legal. These are known as our ‘enabling functions’.

The heads of these lines of business and enabling functions, along with Chief Executive Lin Homer and Tax Assurance Commissioner Edward Troup, comprise the Executive Committee (ExCom). ExCom is our decision-making body and is responsible for running the business.

We have a Lead Non-Executive, Ian Barlow, who leads the HMRC Board, which comprises a number of Non-Executives. The Lead Non-Executive and the Board are advisory and provide strategic direction and challenge to HMRC. The Chief Executive, the Director General of Enforcement and Compliance, Director General for Personal Tax, Tax Assurance Commissioner, Director General for Business Tax and the Chief Finance Officer also sit on the Board (see Governance Statement for more detail).

### Valuation Office Agency

We have one executive agency, the Valuation Office Agency (VOA). The VOA is responsible for providing property valuations that underpin Council Tax, Non-Domestic Rates and valuations for the purposes of Capital Gains Tax and Inheritance Tax. It also provides other valuation services to government departments.

### Civil Service Resourcing

There are four suppliers of ‘HR Expert Services’, one of which, Civil Service Resourcing, is hosted by HMRC. Under the



hosting arrangements, HMRC must ensure that it has the necessary powers to provide the services to other Departments, as is responsible for providing enabling services, such as HR, IT, finance and estates to Civil Service Resourcing. HMRC must also operate appropriate internal controls, including financial controls, risk, information management and security.

Civil Service Resourcing was subject to an internal audit during Spring 2013. No significant weaknesses were found and all recommendations are in the process of being implemented.

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

Our structural reform plan sets out our programme of work to support the Government's priority to deliver a more focused and effective tax administration. This meant that during 2012-13 we:

- introduced a business tax dashboard that allowed our customers to register online and get an online picture of their tax position across different business taxes
- ran four campaigns to provide opportunities for taxpayers voluntarily to put their tax affairs in order

- launched 28 taskforces in specific, high-risk sectors or locations where there was evidence of tax evasion. This included fast food outlets in Scotland, landlords in the North West and property transactions in Greater London
- published a draft code of governance for the resolution of tax disputes, to further improve the transparency of our decision making
- finished clearing a backlog of 17.9 million PAYE cases, and we are making progress towards transforming the PAYE system through the use of Real Time Information (RTI).

We are also reviewing how we can tackle tax credit error and fraud more effectively following the Comptroller and Auditor General's report *Tackling Tax Credit Error and Fraud*. While the report recognised our use of innovation in addressing the challenge, it highlighted the need to improve our understanding of risks and better use information.

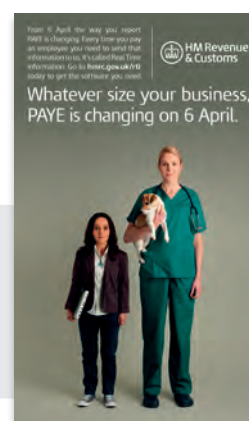
"We finished clearing a backlog of 17.9 million PAYE cases, and are making progress towards transforming the PAYE system through the use of Real Time Information (RTI)."



**HM Revenue & Customs @HMRCgovuk** 

HMRC launched ad campaign for biggest overhaul of PAYE system in almost 70 years today

<http://bit.ly/WgWAbk> #RTI1qa





# HMRC in more detail

## Transparency and open data

We need to be as transparent as possible to our customers and staff, so they can have confidence in our performance and ability. Since 2010, we have published our key figures at [www.data.gov.uk](http://www.data.gov.uk)

This includes details of departmental spending, how we are structured and meetings between senior officials and external organisations. We are fully committed to releasing as much data as possible, while upholding our legal duty to protect confidential and personal information.

In June 2012, we produced an open data strategy, which explained how we plan to make some of the information we hold available for the public to use without restrictions. As part of this initiative, we created a Tax Transparency Sector Board, advising on our open data work plan and serving as a focal point for data requests from external organisations.

We have contributed to the Administrative Data Taskforce, an initiative involving government departments and the research community, which explores ways to improve access to administrative data for research and statistical purposes. We are also a leading member of the Social Mobility Sector Board, a group chaired by the Minister for Universities and Science to support the Government's goal to improve social mobility.

In January 2013, we launched the Tax Administration Research Centre. The centre is sponsored by HMRC, HM Treasury and the Economic and Social Research Council and led by Exeter University. Its role is to support research on tax administration, with a view to improving the delivery of tax operations and policies.

Further examples of our work on transparency include a personal tax calculator with downloadable phone application, our commitment to issue personal tax statements from 2014-15 and the expansion of our Datalab, a secure environment where researchers can access anonymised HMRC data to undertake academic research.

## Better regulation

We are committed to simplifying the administration of the tax system and reducing the associated costs to business. In the 2012 Autumn Statement the Government announced a new target for HMRC to reduce the annual cost of tax administration to business by £250 million by March 2015.

HMRC's work to cut red tape for taxpayers is overseen by the Administrative Burdens Advisory Board. Membership is made up of individuals who run small businesses and representatives from bodies that understand tax, serve small businesses and know and understand their needs. It scrutinises our work to make sure we are improving small business customer service and monitors our performance against the £250 million target.

Our progress is contained in a quarterly data summary published by the Cabinet Office. In 2012-13, reductions in ongoing costs to business of £42 million were offset by increases of £14 million arising from Government policy changes, resulting in an overall decrease of £28 million. We predict that we will achieve an overall reduction in the Spending Review period in line with the new target.

We also acted on recommendations made by the independent Office of Tax Simplification (OTS), which included:

- implementing changes to the income tax rules for unincorporated businesses
- simplifying the expenses rules
- continuing to deliver against a wider set of commitments set out in the document *Making tax easier, quicker and simpler for small businesses* that was published at Budget 2012.

## Complaints to the Parliamentary Ombudsman 2011 12

Number of HMRC complaints accepted for investigation	6
Number of investigations reported on	13
Number of cases upheld in full	3 (23%)
Number of cases upheld in part	3 (23%)
Number of cases not upheld	7 (54%)
Number of Ombudsman recommendations complied with	13
Number of Ombudsman recommendations not complied with	0

The vast majority of complaints are dealt with by HMRC or the Adjudicator, with only a small proportion being referred via MPs to the Parliamentary Ombudsman. In 2012-13 we received 69,894 complaints compared to 77,166 in 2011-12, which is an overall reduction of 7,272. Figures include VOA complaints of 1,938 and 2,335 respectively.

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

Details of complaints made to the Ombudsman and to the Adjudicator in 2012-13 will be included in their respective annual reports, due for publication in July 2013.

In 2011-12 the Adjudicator took on 1,540 cases for investigation in addition to the 1,443 cases on hand. 1,052 investigations were completed, of which 55 per cent were upheld either wholly or in part.

## Valuation Office Agency (VOA)

The VOA is an executive agency of HMRC. It employs around 3,500 people based in 72 locations throughout the UK and is responsible for the valuation of property to support local and national taxation and benefits. It enables the collection of local taxation by local authorities, the payment of significant sums of benefits, the collection of key national taxes by HMRC and the setting of fair rents, and enables organisations in the wider public sector to make best use of their property assets through its property services business. The VOA's vision is that "its customers have confidence in its valuations and advice. As a modern professional organisation with expert and committed people, it acts fairly, consistently and efficiently".

The VOA has four strategic objectives:

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

Operational performance has again been very strong this year. National business streams, which were introduced in November 2011 for non-domestic rating and council tax and housing allowances, have continued to evolve, underpinning performance and delivering further consistency in the services provided to customers. The Agency worked closely throughout the year with the Department for Communities and Local Government and local authorities to support business rates retention. The Government and Welsh administration both announced their intention to postpone a non-domestic rating revaluation to 2017. The agency was at the early stages of preparing for a revaluation in 2015 and subsequently diverted resources to clearing rating appeals and supporting the business rates retention scheme.



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HMRC Tax Calculator app has had over 300,000 downloads. Get the free app here: iTunes <http://ow.ly/jVNVR> Play <http://ow.ly/jVNQ2>



# HMRC in more detail

## Senior Civil Service (SCS) staff by pay band

Grade	Number at 1 April 2013	Difference from 2012	Percentage change
Out on secondment*	12	-2	14.3% decrease
Permanent Secretary	2	0	No change
SCS3	7	-1	12.5% decrease
SCS2	42	+2	5% increase
SCS1	283	-27	8.7% decrease
<b>Total</b>	<b>334</b>	<b>-26</b>	<b>7.2% decrease</b>

The overall total of 334 SCS includes 11 SCS posts in the VOA.

The number of SCS posts has reduced from 400 at the end of 2009 to 334 at 1 April 2013. The reduction in number continued over the course of the year as transitional posts came to an end and our structures were reviewed and refined.

### SCS recruitment

We have adopted rigorous governance, assessment and selection in our SCS recruitment practices to put the right people with the right skills in key roles and enhance our leadership capability.

A total of 49 SCS posts were advertised:

- 16 within HMRC (all at SCS1)
- 26 across the Civil Service (11 at SCS2, 15 at SCS1)
- seven by external campaign (two at SCS3, one at SCS2 and four at SCS1).

### Non-SCS recruitment

Our focus remains on building the workforce of the future through redeployment of staff across the organisation, team moves and recruitment campaigns. As we restructure, we have proactively worked to find new roles for existing staff through our redeployment pool. The majority of staff in the pool are redeployed to new roles within HMRC, although some have moved to other departments and others have left HMRC voluntarily.

A number of teams have been transferred into reinvestment roles in compliance. By the end of 2012-13 more than 1,000 staff in 30 locations had been moved into new roles. We have used reinvestment funding to recruit people externally, with a mix of permanent specialist skills and a significant number of temporary staff to support transformation activities and specific compliance work. Two major recruitment exercises saw 990 people with tax experience promoted and a promotion exercise at Administrative Assistant (AA)

level saw 1,275 AAs promoted to Administrative Officer (AO) and a similar number placed in a promotion pool to meet future demands.

We have only recruited externally where we have lacked the necessary skills within HMRC and been unable to fill the vacancy by any other means. In September, we advertised 400 caseworker posts externally at locations where we anticipated future demand. Where we have short-term temporary needs we have offered fixed-term contracts in order to manage our resources more effectively.

### Health and safety

Meeting and maintaining the required levels of health and safety is something HMRC takes extremely seriously, and we invest considerable resources into making sure this is achieved. Our governance arrangements include Board and ExCom-level committees reviewing health and safety performance at regular intervals throughout the year.

Data packs with active and reactive health and safety measures are sent to every business area within HMRC and throughout our regional offices every month. We are continually improving the guidance and support available to our managers and staff to make sure we have practicable, proportionate procedures in place, to keep our staff safe and enable business delivery.

One of our key aims has been to promote a more proactive approach to wellbeing among our staff, encouraging them to lead healthier lives. In October we became a partner organisation in the Public Health Responsibility Deal and signed up to a number of health at work and physical activity pledges. The Civil Service Physical Activity Challenge was inspired by the London Olympics and Paralympics and was an opportunity for all government departments to show their commitment to a fitter and healthier workforce by encouraging staff to 'get physical'.

We had the highest proportion of staff achieving the UK Chief Medical Officer's recommendation of at least 150 minutes of physical activity per week. Other initiatives included launching a cycle to work scheme, encouraging people to give up smoking and sensible drinking awareness campaigns. At local level, staff ran more than 200 wellbeing events and set up healthy eating and exercise groups.

Stress, either at work or at home, is the biggest single reason for ill-health and absence. We have trained more facilitators to deliver 'stress tool' events that will help teams develop and own an action plan to reduce work-related stress. We are also helping staff with specific health conditions such as back pain, who need swift occupational health intervention and advice. Our occupational health provider and reasonable adjustment team support managers, provide staff with practical advice, and ensure appropriate aids and adaptations are in place promptly.

Our staff have the right to work without fear of violence or intimidation from customers in the workplace. A new customer violent incident recording database will be launched in the coming months, which will allow better sharing of information across the Department about unacceptable customer behaviour.

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


Fatal injuries	0
Major injuries	15
Dangerous occurrences	1
Over three-day injuries	16
Over seven-day injuries <sup>1</sup>	40
Diseases	6
<b>Total RIDDOR</b>	<b>78</b>

<sup>1</sup> On 6 April 2012 the RIDDOR 'over-three day' injury reporting requirement changed in Great Britain. The trigger point increased from over three days to 'over-seven day' incapacitation.

#### Non RIDDOR incidents

Upper limb disorders	135
Stress	708
Slips/trips/fall	554
Violence and verbal abuse	322
Other	1,839
<b>TOTAL Non-RIDDOR</b>	<b>3,558</b>



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# HMRC in more detail

## Consultancy and temporary staff

We sometimes use professional service providers to help us with specialist work – including consultancy, contingent labour, learning, legal advice, translation, interpretation and research services. We use these services when we do not have the necessary skills internally, or where a different external expert opinion on complex issues is required.

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

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

Spend on consultancy has continued to reduce in 2012-13, to £151,000 from £1.1 million in 2011-12, £10.1 million in 2010-11 and £47 million in 2009-10. Total consultancy and contingent labour spend for the Valuation Office Agency for 2012-13 is just over £1 million.

## Publicity and advertising

During 2012-13 we spent about £6 million on advertising campaigns to support our operations. The main focus was on prompting tax credit customers to renew their claims on time and encouraging Self Assessment customers to file and pay before the deadline. We also informed parents with incomes of more than £50,000 of the changes to Child Benefit entitlement and encouraged tax evaders to change their behaviour and declare all their income. A campaign was also started to prepare employers for the introduction of Real Time Information for PAYE, which continues into 2013-14.

### Reporting on the tax arrangements of public sector appointees

For off-payroll engagements at a cost of more than £58,200 a year that were in place at 31 January 2012

	Main department	Valuation Office Agency
Number in place at 31 January 2012	9	9
Number in place between 31 January 2012 and 31 March 2013		
Have become part of the organisation's payroll	2	1
Re-negotiated/re-engaged, to include contractual clauses allowing the Department to seek assurance in relation to income tax and National Insurance obligations <sup>1</sup>	4	0
Unsuccessfully re-negotiated and therefore continue without contractual clauses allowing the Department to seek assurance as to their tax obligations	0	0
Come to an end	3	8
<b>Total</b>	<b>9</b>	<b>9</b>

<sup>1</sup>All subsequently assured

## Reporting on the tax arrangements of public sector appointees

For all new off-payroll engagements between 23 August 2012 and 31 March 2013 – more than £220 per day and more than six months

	Main department	Valuation Office Agency
<b>Number of new engagements which:</b>	3	0
include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	3	0
<b>of which:</b>		
the number for whom assurance has been requested and received	3	0
the number for whom assurance has been requested but not received	0	0
the number that have been terminated as a result of assurance not being received	0	0
<b>Total</b>	<b>3</b>	<b>0</b>

"We continue to implement the Cabinet Office directive to reduce the use of consultants."

## Detentions and warrants for further detention

### Detentions and applications for warrants for further detention

	2012 13
<b>1. Number of persons detained after arrest*:</b>	
Detained after arrest by HMRC officers	525
Detained after arrest by other Government Agencies before adoption by HMRC	143
Detained for more than 24 hours and subsequently released without charge	0
<b>2a. Number of persons for whom warrants for further detention beyond 36 hours were:</b>	
Applied for	0
Granted	0
<b>2b. In this instance where a warrant for further detention beyond 36 hours was applied for, the number of persons:</b>	
Charged	0
Released on payment of a compound settlement	0
Released for other reasons	0

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



# Sustainability

## What sustainability means for us

HMRC plays a key role in supporting the Government's sustainability agenda and its aim to improve the quality of life of everyone in the UK. We continue to build sustainability considerations into our policymaking, our major change programmes, and how we manage our estate. We are also striving to deliver our services in more sustainable ways, for example by reducing the environmental impact of business travel and providing our customers with paperless information through new electronic media, including webinars, e-learning products, Twitter messages and YouTube videos.

Our drive to cut greenhouse gas emissions from our estate and business travel, and to reduce our domestic flights, waste, water consumption and paper usage are all driven by the targets contained in the Greening Government Commitment (GGC) to sustainable operations and procurement during the period 2010-15.

This section focuses on progress to achieve these targets and the costs involved. In line with HM Treasury's reporting requirements, it incorporates the performance of our executive agency, the Valuation Office Agency (VOA).

### Governance

Sustainability remains a priority for our top leadership team with our Chief Finance Officer championing environmental considerations at meetings, through internal communications and during visits to our offices across the UK. Progress against the government targets is reported quarterly to:

- HMRC's Performance Committee
- the Department for the Environment and Rural Affairs
- the Cabinet sub-committee on the Greening Government Commitment.

Our data is verified externally by the environment organisation, Carbon Smart. The Directors General in charge of our lines of business are responsible for monitoring business travel and paper usage in their areas of responsibility.

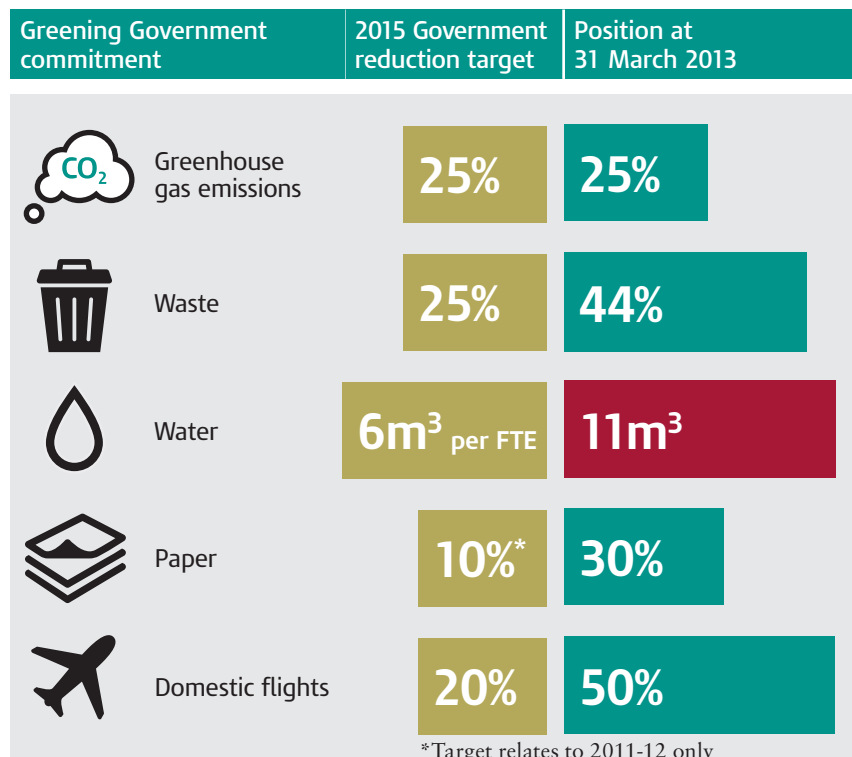
### Opportunities and risks

As these accounts show, there is a clear link between reducing emissions, waste and water and generating efficiency savings and cutting costs. Through our commitment to greener operations, we are also building HMRC's reputation as a responsible organisation and changing behaviours in the workplace

and in the way we interact with our customers. For example, by providing information to our customers 24/7, through digital channels and social media, we are making significant savings in our paper usage. One of the risks with our sustainability agenda is uncertain weather conditions: prolonged periods of wintery weather requiring extra heating in our offices could mean we miss the government's 2015 emissions target.

### Summary of performance

Our performance takes into account the size of our estate and the number of people we employ. At the end of March 2013, our estate included 378 offices and 41 non-office properties at 291 locations across the UK. The VOA had a presence at 72 locations. We employed 72,742 people (64,476 full time equivalents (FTE)). The VOA's workforce totalled 3,870 employees (3,576 FTE).



According to Met Office statistics, average temperatures in 2012-13 were 18 per cent below those recorded for 2011-12. Despite the prolonged cold spells that contributed to these lower temperatures, we maintained our emissions at 2011-12 levels. Savings achieved from rationalising our estate and IT equipment were offset by the increase in gas usage necessary for extra heating.

Travel emissions also mirrored those recorded for 2011-12. Savings from increased use of audio and video conferencing were balanced by the travel commitments of additional staff recruited to tackle tax avoidance and evasion. The noticeable shift from air and road travel to rail demonstrates the commitment of our staff to sustainable travel.

All government departments are required to offset emissions from their air travel. The significant reduction in the cost of our offsetting payments over the last three years can be attributed partly to fewer emissions, but more so to the cost of carbon for offsetting purposes falling from £13.70 per tonne in 2010-11 to £0.68 per tonne in 2012-13.

## Greenhouse gas emissions

In the three-year period 2010-13, we reduced greenhouse gas emissions by 25 per cent from a combination of offices and business travel, against a government target of 25 per cent for the five-year period 2010-15.

	2010 11	2011 12	2012 13
<b>Non-financial indicators</b> tCO <sub>2</sub> e, 000s			
Total gross emissions	166	*146	146
Total net emissions	155	*136	136
Gross emissions Scope 1 and 2	154	134	134
Gross emissions Scope 3 (business travel)	12	12	11
<b>Energy consumption</b> kWh, 000s			
Electricity: non-renewable	187,032	170,720	159,558
Electricity: renewable	20,216	18,594	17,949
Gas	176,441	136,012	167,181
Oil	20,485	12,946	15,686
Whitehall District Heating	3,526	2,852	3,061
Enviroenergy District Heating	N/A	N/A	5,060
<b>Travel breakdown</b> tCO <sub>2</sub> e, 000s			
Road	11.3	9.9	8.9
Rail	3.2	3.3	4.3
Air (domestic and overseas)	3.3	3.8	3.3
<b>Financial indicators</b> £000			
Expenditure on energy	25,702	**24,117	23,475
Carbon Reduction Commitment, administration costs, Energy Efficiency Scheme	2.2	1.3 1,800 (accrued)	1.3
Expenditure on accredited offsets (e.g. GCOF)	99	25	2.5
Expenditure on official business travel	22,148 (excludes VOA)	31,352	32,068

\* A two per cent adjustment was made to 2011-12 emissions after publication of last year's report.

\*\*An adjustment was made to 2011-12 energy expenditure following a reconciliation after last year's report.



# Sustainability

## Domestic air travel

In the period 2010-13, HMRC halved the number of domestic flights (more than 27,000 single flights) against a Government target of a 20 per cent reduction between 2010 and 2015. The reduction in 2012-13 was 16 per cent, partly achieved by a shift from air to rail travel and partly by the growing trend for audio and video conferencing.

## Waste and copier paper

In the three-year period 2010-13, we reduced waste by 44 per cent, against a government target to reduce the amount of waste generated by 25 per cent over the five-year period 2010-15.

Waste		2010 11	2011 12	2012 13
<b>Non-financial indicators</b>		<b>Tonnes 000s</b>		
Total waste		12.8	11.2	9.9
Waste	Landfill	3.8	4	3.6
	Reused/recycled	8.7	7.1	6.2
	Incinerated with energy recovery	0.3	0.12	0.07
<b>Financial indicators</b>		<b>£000s</b>		
Total waste		594.8	588	791
Waste	Landfill	305.5	356	439
	Reused/recycled	279	228	348
	Incinerated with energy recovery	11	4	4

Copier paper purchased		2010 11	2011 12	2012 13
<b>Non-financial indicators</b>		<b>A4 reams equivalent 000s</b>		
		727	649	594
<b>Financial indicators</b>		<b>Tonnes 000s</b>		
		1,417	1,390	1,325

## Waste

Our waste has reduced steadily over the last three years. We achieved this year's reduction of 11.6 per cent from a combination of behaviour change and paper savings. For example, we cut our paper purchases by eight per cent. We also minimised the amount of waste we send to landfill through actions that included: recycling, reusing or reselling 563 tonnes of IT waste; and recycling more than 600 items of office supplies through our online swap shop. Our costs relating to waste have increased as a result of rises in landfill tax and waste disposal charges.

## Paper


Printer and copier paper savings were achieved through simple steps, such as double-sided printing, reducing the length of letters so they fit on a single sheet of paper, and the introduction of an environmental waste calculator to raise awareness of the carbon and financial benefits of reducing paper, printing and postage.

## Water

In the three year period 2010-13, we reduced water consumption by 24 per cent and achieved an efficiency level of 11.03m<sup>3</sup> per FTE against a government target of 4-6m<sup>3</sup> per FTE over the five-year period 2010-15. While overall water consumption has fallen as a result of the closure of several buildings and the continuing reduction of the workforce, water use per FTE increased since 2011-12 because there are now proportionately more people in buildings that are less water-efficient.

Finite resource consumption - water		2010 11	2011 12	2012 13
<b>Non-financial indicators</b>		<b>£000s</b>		
Water consumption (Office estate)	Supplied	843	752	733
		<b>m<sup>3</sup>/FTE</b>		
Water consumption (Office estate)	Supplied		10.23	11.03
<b>Financial indicators</b>		<b>£000s</b>		
Water supply cost (Office estate)	Supplied	6,048 (excl. VOA)	4,048	4,542



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# Sustainability

## Other considerations relating to our estate

### Biodiversity and the natural environment

We developed a biodiversity policy for our estate and prioritised 13 sites for action. Surveys at these sites will identify protected species living in the vicinity, and the measures we can take to make the surroundings more attractive to bees, invertebrates, birds, bats and mammals. As a first step, we created a large wildflower meadow at our Benton Park View office complex in Newcastle.

### Sustainable construction

The VOA carried out major refurbishment work at its Gloucester and Swansea offices. Both projects complied with timber procurement policy.

### Environmental Management Systems

Two of our sites are accredited with the environmental management standard ISO14001 – they are Benton Park View at Newcastle and our headquarters office at 100 Parliament Street, London.

### Office moves

We adopted government guidance on sustainability appraisals for our office moves, vacations and rationalisation.

### Our supply chain

We maximised our use of Government Procurement Service (GPC) centralised contracts and complied with the Government Buying Standards (GBS) when purchasing IT equipment, printer

and copier paper, envelopes, furniture, food, catering services, vehicles and construction.

Difficulties in accessing a low cost supply of complaint paper meant that only four per cent of our printed products met GBS expectations.

Our closed loop recycled paper initiative, which is mandated across government, collected 30,000 tonnes of paper from which 525,000 boxes of recycled copier were produced and sold to central government.

We continue to use the CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility) tool to monitor our supply chain impacts. The last CAESER report found that 85 per cent of our suppliers who completed the assessment had strategies in place for reducing their greenhouse gas emissions.

### Climate change

Our responsibility for the administration of environmental taxes means that we play a particularly important role in protecting the environment and supporting initiatives to slow the rate of climate change. The impact of extreme weather on our ability to deliver our services and to enable our staff to work in a safe environment is built into our planning and strategies.

### Rural proofing

All our tax policy proposals are tested against a range of impacts, which include rural proofing. While none of the tax policies introduced during the year impacted specifically on rural locations, consideration was

always given to how any change would affect rural areas generally.

### Voluntary activity

In reaching out into local communities, our staff gave 5,589 days of volunteering time during 2012-13 to support schools and voluntary groups, help young people on the Prince's Trust programme and to undertake public duties as school governors and magistrates. In recognition of our partnership with the Prince's Trust, we became the first public sector organisation to be awarded Gold Patron status.

In November 2012, our staff raised more than £100,000 for the BBC's Children in Need appeal. Further donations totalling £1,775,000 were made by staff to the Charity for Civil Servants, the Lifeboat Fund and to good causes of their choice through our online payroll giving arrangements.

### Future challenges

In maintaining our position for the last two years of the government targets, we will focus on: improving our water efficiency; targeting action at our underperforming buildings; continuing to improve the biodiversity of our sites; and influencing the review of government buying standards for paper.

# Governance Statement

# Lead Non-Executive foreword



**Ian Barlow**  
Lead Non-Executive

It was an honour for me to be appointed as HMRC's Lead Non-Executive at a time when the Department continues to undergo a major programme of change.

Those changes required a stable platform on which HMRC can build its capability now and in the future and I would like to pay tribute to my predecessor, Mike Clasper, for his work with Lin Homer and the late Dame Lesley Strathie to create such solid foundations.

The Board's role is to advise and challenge the executive team on its strategy and performance. Board members also participate in key executive appointments, such as the new Tax Assurance Commissioner, and performs an assurance role through its Audit Committee. We aim to operate to the highest standards of corporate governance, including an appropriate supporting committee structure comprising Audit and Risk, Remuneration, Scrutiny, and People, Nominations and Governance committees.

The Board comprises seven Non-Executives, including myself, and six executives from HMRC's Executive Committee, including, the Chief Executive, Lin Homer.

We are assisted by three further Non-Executives who serve on our committees. A full list is set out on page 40. Both Non-Executives and executives come from a variety of backgrounds, with a mix of commercial and tax skills and experience of managing very large and complex businesses – just like HMRC – and of building or advising smaller businesses, like many of HMRC's taxpayers. Many of the Board are new, but they have quickly gelled as a team. Our emphasis is on offering insight and advice, helping the executive team to plan longer term, while avoiding duplicating their work.

The Non-Executives work in three principal ways. First, collectively as a Board that meets seven times a year, including an annual strategy session. Two of these meetings are held away from London in operational offices. Secondly, the Board works through its committee structure, which enables issues to be looked at in greater depth before they are brought back to the Board. Thirdly, individual Board members have adopted a buddy system, working one-on-one with individual executives according to their skills and experience base.

"A key endeavour has been in helping the Department to develop a far-reaching strategy, orientated around its customer groups, with a strong focus on digital services."

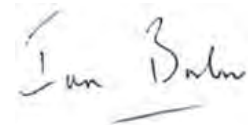
A key endeavour has been in helping the Department to develop a far-reaching strategy, orientated around its customer groups, with a strong focus on digital services that will allow tax payers and their agents to do more for themselves, thereby reducing costs for both them and HMRC. Non-Executive expertise in managing change, in data analysis, human resources and technology and understanding of the tax system has all contributed to this work and been valued by the executive team.

Other work has included assistance with the new Departmental Improvement Plan, which has replaced the Capability Review as the main Cabinet Office measure for testing Departmental performance. We also assisted with a review of the Department's IT security and its HR and IT strategies and, through the Audit and Risk Committee, in overseeing the work of the Internal Audit and Risk functions, and the relationship with the external auditors, the National Audit Office and in reviewing the annual report and accounts.

It has been a pleasure working with Lin Homer and her new

executive team. They have brought renewed energy and ideas to the continuing task of meeting the challenging financial targets set for the Department, and to improving customer service. The Department met its financial targets last year and has much improved its customer handling. Yet there is always more to do.

The task for myself and my fellow Non-Executives is to provide the challenge and support to the executive team as they transform the Department to serve customers better, while meeting its medium-term financial and customer service targets. It is a task that the Board relishes, as we play our role in helping HMRC become recognised as one of the world's most competent and efficient tax administrations and an exemplar in public service in the UK.



**Ian Barlow**  
Lead Non-Executive

# The role of the Board

## The Board's role is to help HMRC deliver its agenda and maximise its performance.

The Board has an advisory role, providing the challenge and assurance to the Chief Executive and Executive Committee on the design of HMRC's strategy and on its implementation, including reviewing and challenging performance against the Department's business plan. Non-executive Board members provide an external perspective and use their skills and experience to advise the Department.

### The Board provides:

- **challenge:** reviewing and challenging the Department's business plan and performance against that plan, with particular reference to agreed strategic priorities
- **expertise:** providing wider public and private-sector expertise to help shape the delivery of strategies and improve HMRC's performance, and ensuring the strength of the executive team by advising the Chief Executive on senior appointments
- **strategy:** assuring that HMRC's strategic direction is clear, reflects ministerial and cross-governmental priorities, responds to risks, is consistent with the available resources and focuses on the long-term health and success of the Department

- **assurance:** providing the Principal Accounting Officer with assurance that the financial statements are factually accurate, that risk management processes are robust, and that control processes across HMRC are strong and appropriate
- **stakeholder views:** reflecting the views of HMRC's external stakeholders as part of advice on the strategies and plans; supporting HMRC to develop stakeholder communications plans; and using the cross-government network of Non-Executive Directors to bring insight and intelligence to support the Executive Committee to identify challenges and opportunities.

The Board met seven times in 2012-13. Its terms of reference and summary minutes of meetings are published on the HMRC website and attendance at the Board and the Executive Committee can be found at the end of this statement.

At Board meetings and in the periods in between, Board members receive detailed updates on HMRC's performance, which gives them clear oversight of how the Department is performing against its objectives and business plan commitments. The Board has had access to the Executive's 'performance hub', which is the tool the Executive uses each month to analyse performance issues, and is something the Board will use more regularly during the coming year. The

updates provided to the Board cover financial performance, departmental targets, including customer service measures, and the key risks to performance faced by the Department.

With Ian Barlow's appointment as Lead Non-Executive, the Department took the opportunity to review its Board's purpose and structure, as well as filling non-executive posts which became vacant.

As a result, the Board's committee structure was altered to maximise its value and alignment with the guidance set out in the HM Treasury document, *Managing Public Money*. Three new Non-Executives joined the Board in 2013 as well as an advisor. There are now six Non-Executive Board members, one Non-Executive Advisor to the Board and six members from the Executive Committee on the Board. Three new Non-Executives who are not Board members also joined the Board's committees in 2013.

As part of the new Board structure, the Department established a 'buddying' system between members of the Executive Committee and Non-Executive Board Members with areas of particularly relevant expertise. This enables Non-Executives to use their experience to help Executive colleagues between meetings, and to provide an informal 'trusted sounding board' outside the formal Board schedule.



In addition to full Board meetings, work is also delegated to Board committees, where smaller groups of Non-Executives and Executive Committee members can delve in more detail into issues and present their findings to the Board for discussion and conclusion. The Board has three committees, chaired by Non-Executive Board Members, which provide independent assurance and advice.

At the start of 2012-13, the committees were Audit and Risk, Ethics and Responsibilities and People. To build on the work of the Ethics and Responsibilities Committee, the Scrutiny Committee was established, to look at single issues in greater depth. The People Committee was also developed to encompass nominations and governance issues, in line with the guidance set out in *Managing Public Money*. By the end of the reporting year there were still three Board Committees in place – named Audit and Risk, Scrutiny and People, Nominations and Governance.

*The Statements of Accounting Officer Responsibilities are reported on page 73 for the Resource Account and page 152 for the Trust Statement.*

## Board attendance

Board Member	Number of times attended	Number of times invited/eligible to attend
Mike Clasper* (Non-Executive Chairman)	3	3
Lin Homer (Chief Executive)	7	7
Dave Hartnett* (Permanent Secretary for Tax)	3	3
Ian Barlow (Lead Non-Executive)	7	7
Simon Bowles (Chief Finance Officer)	7	7
Colin Cobain (Non-Executive)	7	7
Philippa Hird (Non-Executive)	7	7
Phil Hodgkinson* (Non-Executive)	6	6
Mike Eland* (former Director General, Enforcement and Compliance)	3	3
John Spence* (Non-Executive)	2	2
Jennie Granger (Director General, Enforcement and Compliance)	3	3
Jim Harra (Director General, Business Tax)	2	3
Ruth Owen (Director General, Personal Tax)	3	3
John Whiting (Non-Executive)	1	1
Volker Beckers (Non-Executive)	2	2
Norman Pickavance (Non-Executive)	2	2
Edwina Dunn (Non-Executive Advisor)	2	2
Edward Troup (Tax Assurance Commissioner)	4	4

\* left HMRC during 2012-13



# The role of the Board

## Responsibilities of the Executive Committee and Non-Executives

Until the end of August 2012, HMRC's top management team comprised:

- a Non-Executive Chairman, leading the Board
- a Chief Executive, running the Department
- a Permanent Secretary for Tax.

From 28 August, the role of the Permanent Secretary for Tax was replaced by a new Tax Assurance Commissioner and Second Permanent Secretary.

From 1 September, the post of Chairman ceased and was replaced by a Lead Non-Executive board member, appointed to chair the Board.

Lin Homer is the Chief Executive and Permanent Secretary of HMRC. She is responsible for providing leadership and direction to the Department. She leads all aspects of HMRC's business, ensuring delivery of the Department's objectives and driving continuous improvement. Lin is also the Principal Accounting Officer and is accountable to Parliament for the Department's expenditure and performance.

Edward Troup is the Tax Assurance Commissioner and Second Permanent Secretary. 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, tax strategy, and tax settlements. Edward is an Additional Accounting Officer, who has delegated responsibility for the Scottish Rate of Income Tax.

From 1 September, Ian Barlow took on the role of Lead Non-Executive and chairs the HMRC Board. His role is advisory and is to lead the Board in providing challenge and assurance on Departmental strategy, performance and key appointments. Prior to this, Mike Clasper was the Non-Executive Chairman of HMRC.

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

"The Board provides guidance and advice to the Executive Committee, support and challenge on strategy and monitors progress."

# How we are structured

## Ministers

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

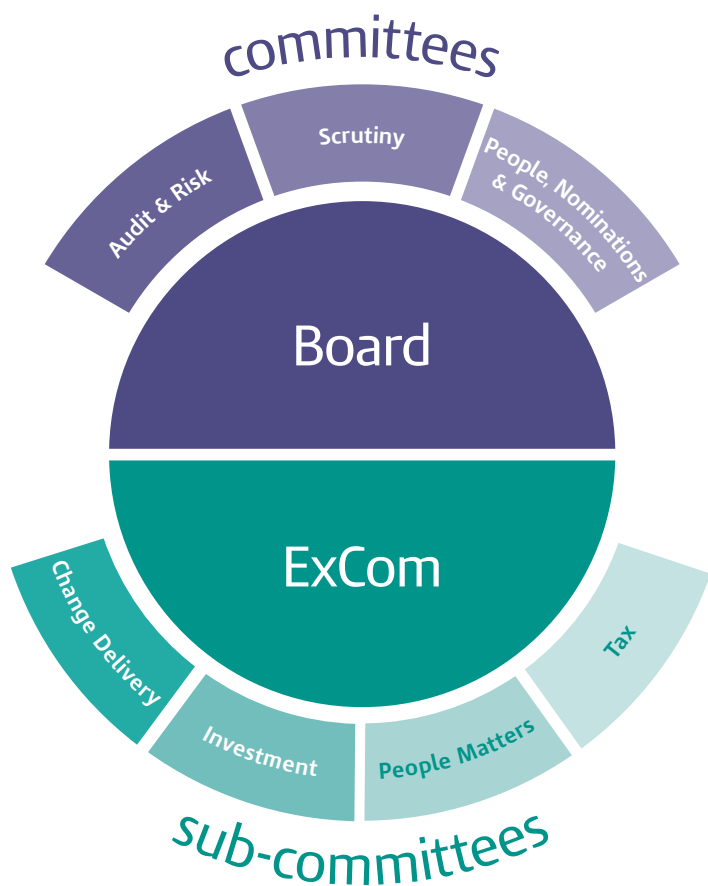
The Department is ultimately accountable to the Chancellor of the Exchequer for how it conducts its business. The Chancellor has delegated the responsibility for oversight of the Department to the Exchequer Secretary to the Treasury, as Departmental minister for HMRC. The current departmental minister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

Under Section 11 of CRCA, the Department must comply with any directions of a general nature given by the Treasury, including Treasury ministers.

## Commissioners

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

The way in which Commissioners conduct their business is contained in section 12 of the CRCA. Generally, two Commissioners are required to make a decision, but during the year we agreed new arrangements for significant tax settlements above £100 million, which mean that they are now agreed by three Commissioners – including one who has special responsibility for tax assurance, currently Edward Troup.



# How we are structured

## Executive Committee 2012-13



Front row, left to right: Mark Hall, Ruth Owen, Lin Homer  
Back row, left to right: Edward Troup, Nick Lodge, Jim Harra, Jennie Granger, Simon Bowles and Mike Falvey\*

**Lin Homer (C)**  
**Chief Executive and Principal Accounting Officer**

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

**Jennie Granger (C)**

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

**Simon Bowles (C)**

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

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

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

**Ruth Owen (C)**

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

**Mark Hall**

Mark joined HMRC from the utility industry, where he held a number of senior IT leadership roles in both UK and international organisations. A chartered IT and HR professional, with a MBS from the University of Birmingham, Mark has been closely involved with ITIL and IT Service Management Industry since the early 1990s and is a former Chairman of ITSMF UK.

**Jim Harra (C)**

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

**Nick Lodge (C)**

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

**Mike Falvey\***

Mike joined HMRC in February 2010 as Chief People Officer (CPO) and left in April 2013.

(C) = Commissioner

\*Mike Falvey left HMRC in April 2013. Replaced by Dorothy Brown, acting Chief People Officer

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## The Board



Front row, left to right: Philippa Hird, Ruth Owen, Ian Barlow and Lin Homer  
 Middle row, left to right: Norman Pickavance, John Whiting, Edward Troup, Jim Harra and Jennie Granger  
 Back row, left to right: Volker Beckers, Colin Cobain, Simon Bowles and Edwina Dunn

### Ian Barlow Lead Non-Executive

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

### John Whiting

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

### Edwina Dunn

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

### Janet Williams

Janet was until recently Deputy Assistant Commissioner in the Metropolitan Police. She is now national security advisor for the Qatar 2022 world cup, Interpol chair of the protective security experts group, a Non-Executive for a private company and president of a UK charity.

### Norman Pickavance

Norman has experience in HR and organisational development, most recently as Group HR and Communications Director of WM Morrisons Supermarkets Plc. He has worked at board level for more than a decade.

### Volker Beckers

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

### Leslie Ferrar

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

### Philippa Hird

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

### Colin Cobain

Colin started his career with the Mars group, held a variety of senior positions at Kingfisher group and was group CIO at Tesco. He is currently a partner at global consulting firm Oliver Wyman and was also chairman of medical technology company Safe Patient Systems.

### Paul Smith

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

## Other Non-Executives



Leslie Ferrar Paul Smith Janet Williams

In addition to the current Non-Executives, the following Board members left HMRC during the last financial year:

- Mike Clasper – Non-Executive Chairman
- Dave Hartnett – Permanent Secretary for Tax
- Phil Hodkinson – Non-Executive
- John Spence – Non-Executive



# How we are structured

## Committees

In order to ensure effective and transparent decision-making, we have a committee structure in place to enable executive decision-making and to provide appropriate challenge and assurance from our Non-Executives.

## Executive Committee (ExCom)

**Members:** Chief Executive; Tax Assurance Commissioner; Directors General for Business Tax, Personal Tax, Benefits and Credits, Enforcement and Compliance; Chief People Officer; Chief Finance Officer; Chief Information Officer.

**Chair:** Chief Executive

**Responsibilities:** Acting as the Department's main executive forum and the primary place in which Commissioners make their decisions. The Executive Committee oversees the whole 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 functions.

The Executive Committee met ten times during this reporting year, covering a wide range of strategic, financial and operational issues which required the decision, agreement or discussion of the top layer of the Department's leadership.

## Executive Committee (Performance)

**Chair:** Chief Finance Officer

The Executive Committee also meets as Executive Committee (Performance) to oversee departmental performance. Within a dedicated performance hub based on PaceSetter principles, it analyses HMRC performance against targets and looks at ways to improve performance in all areas, including both customer service and value for money.

Executive Committee (Performance) met ten times over the year to oversee Departmental performance. Key issues covered by the committee during the year included contact centre performance, attendance management, revenue raised and work done on time.

ExCom member	Attendance (ExCom)		Attendance (ExCom Performance)	
	Number of times attended	Number of times invited/eligible to attend	Number of times attended	Number of times invited/eligible to attend
Lin Homer	10	10	9	10
Mike Eland*	3	4	5	5
Jim Harra	10	10	9	10
Mike Falvey*	10	10	8	10
Anthony Inglese	7	7	6	7
Simon Bowles	10	10	10	10
Phil Pavitt*	7	7	5	7
Dave Hartnett*	2	3	4	4
Stephen Banyard*	3	3	4	4
Steve Lamey*	0	3	2	2
Nick Lodge	7	7	6	6
Edward Troup	7	7	6	6
Ruth Owen	7	7	5	6
Jennie Granger	5	5	5	5

\* left HMRC during 2012-13

## ExCom sub-committees

	Change Delivery	Investment	People	Tax
<b>Responsibilities</b>	Assures delivery of agreed HMRC investment programmes on behalf of ExCom, in line with Government best practice, and acts as the 'design authority' for the HMRC Change Programme.	Makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives, which cost more than £2 million, or are new or contentious.	Plans for three to five years ahead in terms of how HMRC will be structured and use its resources. It also oversees the programme of work that will deliver the new People Strategy and takes decisions on delegated issues relating to people policies. The committee supports the Chief People Officer in designing and implementing processes such as performance management.	Proactively coordinates tax strategy and approaches to risk across HMRC.
<b>Chair</b>	Phil Pavitt (Chief Information Officer – to December 2012) Mike Falvey (Chief People Officer – January to April 2013) Lin Homer (Chief Executive – July 2012 and January 2013 as Change Programme senior responsible officer).	Simon Bowles (Chief Finance Officer).	Mike Falvey (Chief People Officer – until 30 April) Dorothy Brown, Acting CPO.	Dave Hartnett (Permanent Secretary for Tax – to July 2012) Edward Troup (Tax Assurance Commissioner – from July 2012).
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>reviews monthly Change Programme risks and issues, and agrees Change Programme status each month</li> <li>'stock-takes' the Change Programme twice a year</li> <li>reviews key programmes within the Change Programme portfolio</li> <li>monitors status of major IT projects, known as Enterprise Releases</li> <li>escalation body for PaceSetter.</li> </ul>	<ul style="list-style-type: none"> <li>examines business cases for Spending Review settlement, reinvestment and Autumn Statement 2012 investment</li> <li>leads quarterly investment funding prioritisation exercises</li> <li>reviews finance and benefits status and associated risks and issues of core change SR10 and reinvestment settlements.</li> </ul>	<ul style="list-style-type: none"> <li>examines existing HR/people practices that are being updated, refreshed or operationalised</li> <li>looks at significant new practices that are being developed</li> <li>oversees the delivery plan for the HMRC People Strategy</li> <li>supports HR-related strategies and inter-dependencies</li> <li>examines the priority and work plan for HR policy remit</li> <li>considers items escalated via the departmental risk register, and referred by the Board, ExCom, or the People, Nominations and Governance Committee for in-depth review.</li> </ul>	<ul style="list-style-type: none"> <li>improving HMRC's strategic overview and management of litigation work</li> <li>agreeing a streamlined approach to the tax policy process through PaceSetter techniques</li> <li>overseeing work being done within HMRC to design a reporting process for tax assessment issues.</li> </ul>

# How we are structured

## Board committees

	Audit and Risk	Scrutiny (from February 2013)	Ethics and Responsibilities (until 31 August 2012)	People, Nominations and Governance
<b>Responsibilities</b>	Gives assurance to the Board and the Principal Accounting Officer on the veracity of financial statements, the strength of risk management and appropriateness of control processes across HMRC.	Convenes one-off meetings to address single issues in-depth as they arise.	Advises the Board on whether HMRC's strategies, policies, practices and performance measures take into account our customers, community, people and suppliers.	Provides advice and scrutiny for the Board and Chief Executive on: <ul style="list-style-type: none"> <li>• the effectiveness of governance and nominations arrangements within HMRC</li> <li>• HR support for the Department's strategic direction</li> <li>• HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.</li> </ul>
<b>Chair</b>	Ian Barlow (Lead Non-Executive – to March 2013) John Whiting (Non-Executive – April 2013 onwards).	Volker Beckers (Non-Executive)	Phil Hodkinson (Non-Executive)	Philippa Hird (Non-Executive)

## Board committees

	Audit and Risk	Scrutiny (from February 2013)	Ethics and Responsibilities (until 31 August 2012)	People, Nominations and Governance
Issues covered	<ul style="list-style-type: none"> <li>examines audit and risk reports at every meeting</li> <li>reviews Internal Audit reports and Audit Plan and Departmental Risk Register</li> <li>monitors the progress of external recommendations following external reports/audit exercises</li> <li>reviews the strategic processes for risk, control and governance and the Governance Statement</li> <li>reviews the accounting policies, the accounts, and the annual report of the organisation</li> <li>reviews the planned activity and effectiveness of both internal and external audit</li> <li>reviews adequacy of management response to issues identified by audit activity</li> <li>considers reports and plans from the National Audit Office</li> <li>reviews anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.</li> <li>reviews financial systems</li> <li>liaises with the NAO.</li> </ul>	<ul style="list-style-type: none"> <li>reviews issues relating to the Department's stakeholders and customers</li> <li>examines issues escalated to it via the Departmental Risk Register and reviews issues relating to the Department's stakeholders and customers</li> <li>examines issues referred to it by the Board, ExCom or another committee identified as high profile, carrying significant risk to the Department's reputation or security</li> <li>looks at issues arising from the recommendations or advice of the Adjudicator, Ombudsman, consultative groups, the NAO or other review bodies or from customer feedback.</li> </ul>	<ul style="list-style-type: none"> <li>reviews our customers – delivering our promises to customers and treating them fairly. The security of customer data. The needs of vulnerable customers and social inclusion</li> <li>reviews our community – sustainable development and our impact on climate change. Community engagement and colleague volunteering</li> <li>reviews our people – the way we do business as set out in the Civil Service Code</li> <li>reviews our suppliers – behaving responsibly towards our suppliers within procurement guidance.</li> </ul>	<ul style="list-style-type: none"> <li>oversees the process for succession planning at HMRC, including appointments to ExCom, the Board and senior management, to maintain the right balance of skills and experience</li> <li>oversees the process for identifying and developing leadership capability across the Department</li> <li>oversees the incentive and reward strategy for the Department, its integrity, and its effectiveness including the process for determining senior-level pay</li> <li>oversees the effectiveness of governance arrangements within HMRC</li> <li>oversees the implementation of the strategy for people in HMRC</li> <li>oversees the strategic process for managing HR risks, including health and safety and how those processes are implemented.</li> </ul>





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


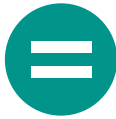

Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to the strategic-level risks identified in our Departmental Risk Register.

There are several ways that HMRC manages risk, including:




- running a risk management escalation/de-escalation process, based on risk registers operated at the various levels
- having an independent corporate risk management team, whose function is to scrutinise, assess and develop how we manage risk at HMRC
- embedding ‘risk partners’ within business areas, who are responsible for developing appropriate risk-related activity
- assessing the effectiveness of our risk processes by running an HMRC-wide risk management maturity assessment. The next one will be run during 2013-14
- examining specific risks in greater detail with ExCom ensuring the assessment of the risk, the mitigating actions and tolerance of the residual risk levels are appropriate.

## Current risks



Revenue		
Risk	Progress	What we are doing
<p><b>Avoidance - open cases</b></p> <p>That we fail to make sufficient progress in avoidance enquiries: the National Audit Office (NAO) report Tax avoidance: tackling marketed avoidance schemes identified that HMRC has 41,000 open avoidance cases relating to marketed schemes used by small businesses and individuals.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>• building on existing work to manage and reduce the stock of open cases by agreement or eventual litigation by developing an operational Avoidance Delivery Plan which will quantify the number of users of a scheme, how much tax is at stake and identify the appropriate legal arguments the Department can prioritise and resource most effectively</li> <li>• ensuring all known avoidance is dealt with in accordance the Managing Avoidance Risk (MAR) governance and developing, reviewing and approving handling strategies via the Anti-Avoidance Board</li> <li>• considering alternative approaches to settlement of complex issues that are fully in accordance with HMRC’s governance and communicating these to customers in a consistent way</li> <li>• improving strategies and handling of avoidance issues where they need to be litigated deploying additional resource made available by Government to tackle avoidance.</li> </ul>
<p><b>Large business settlements</b></p> <p>That, despite securing good value for the UK in large business settlements (as validated by the NAO in their report on five settlements last year), we fail to provide adequate transparency, scrutiny and accountability for the settlements, or fail to maintain the appropriate level of separation between those who negotiate and those who approve settlements.</p>		<ul style="list-style-type: none"> <li>• ensuring the largest and most sensitive cases now go through a new decision-making model. The Tax Disputes Resolution Board considers all disputed cases with tax under consideration of more than £100 million (previously £250 million), sensitive cases and a sample of cases in the range of £10 million to £99 million. It then makes recommendations to three Commissioners (previously two), including the Tax Assurance Commissioner (TAC), who make the final decision. The Tax Assurance Commissioner does not engage with specific taxpayers about their liabilities</li> <li>• setting out our governance arrangements in our Code of Governance for Resolution of Tax Disputes published in November 2012</li> <li>• carrying out the first phase of a review programme looking at processes used in settled cases, with findings reported to Audit and Risk Committee. The 2013-14 programme of reviews has been agreed</li> <li>• publishing a new Annual Report on tax disputes work, covering the period from arrival of TAC to 31 March 2013.</li> </ul>

Revenue		
Risk	Progress	What we are doing
<p><b>Tax Credits error and fraud</b> That we fail to meet our published targets on tax credits error and fraud, and that our analysis of which interventions are effective is inaccurate.</p>		<ul style="list-style-type: none"> <li>• accepting in full the recommendations in the NAO's report <i>Tackling Tax Credits error and fraud</i> – published on 14 February 2013</li> <li>• reviewing and updating the methodology used to forecast the effect of our interventions on the overall amount of error and fraud in the tax credits system</li> <li>• introducing a mechanism to review and update those assumptions and the associated modelling annually in the light of the official statistics on tax credits error and fraud</li> <li>• further developing our analysis of error and fraud data and using new sources of data</li> <li>• reviewing and improving the delivery of our tax credits error and fraud strategy, introducing new interventions and increasing the effectiveness of existing work through better targeting of risk.</li> </ul>
<p><b>Tax Credits debt</b> That we are unable to reduce the levels of outstanding tax credits overpayments. Without any further intervention beyond existing activity, the balance could rise to £6.5 billion by 2014-15.</p>		<ul style="list-style-type: none"> <li>• introducing a new facility to recover tax credits debt by 'coding out' from PAYE from April 2012</li> <li>• introducing the use of third-party data to segment tax credits debtors, based on their likely ability to pay, to inform the 2012-13 tax credits debt recovery campaign</li> <li>• starting to pilot the use of debt collection agencies to collect tax credits debts</li> <li>• refocusing our efforts to identify policy and process changes to slow down or eliminate the inherent growth in the creation of tax credits overpayments.</li> </ul>
<p><b>Tax gap</b> That unforeseen changes in the external environment contribute to an increase in the size of the tax gap.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>• using customer understanding to encourage voluntary compliance, making it easier for customers to deal with their taxes and supporting those who need help. More than 90 per cent of customers pay what they owe</li> <li>• continuing to build on a risk-based approach to tackling non-compliance, focusing resources on reducing the scope for avoidance, evasion and criminal attack</li> <li>• continuing to develop the anti-avoidance strategy, including the introduction of the General Anti-Abuse Rule</li> <li>• increasing investment in HMRC people, skills, technology and data analytics to tackle evasion and organised crime</li> <li>• substantially reducing the stock of debt by making increasingly efficient use of debt management resources.</li> </ul>





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

Operations		
Risk	Progress	What we are doing
<p><b>HMRC change programme</b> That we are unable to achieve our overall change targets due to delayed business cases or delivery, or through programmes failing to meet their benefits forecasts.</p>		<ul style="list-style-type: none"> <li>managing risk and processes signed off by our Change Delivery Committee in January 2011 and endorsed by Major Projects Authority during their reviews of the Programme</li> <li>reviewing the key risks at least once a month and latest position reported to our Change Delivery Committee and Investment Committee</li> <li>reviewing quarterly all change initiatives carried out using a risk-based approach to enable the programme to prioritise its funding</li> <li>tracking progress against delivery, costs and benefits with a robust monthly reporting process – reporting the latest position and identifying any additional risks to Change Delivery Committee.</li> </ul>
<p><b>Non-matching National Insurance items</b> That HMRC receives information from employers and pension schemes which cannot be matched to an individual's record (for example, where the employer has provided incorrect details about the individual). If automated tracing action fails these returns are placed in a file until they can be matched to the correct customer.</p>		<ul style="list-style-type: none"> <li>improving guidance to make it easier for employers to understand the required data standards</li> <li>analysing returns and working with those employers and pension schemes who have the highest error rates, showing them how to improve the accuracy of their returns through outreach activities</li> <li>validating incoming RTI returns at the point of entry, prior to acceptance and on a more regular basis, issuing automated messages to confirm whether submissions have matched employee accounts, giving them real-time advice on their data quality.</li> </ul>
<p><b>PAYE open cases</b> That we fail to deal with the 17.9 million open PAYE cases by the end of 2012, failing to meet the public commitment to the Public Accounts Committee and having significant negative impact on customers and reputation.</p>		<ul style="list-style-type: none"> <li>using a combination of technical clearances, using our new computer functionality, and manual clearances with dedicated teams we cleared the 17.9 million open cases by the end of October 2012, two months ahead of schedule. This process has now been completed</li> <li>introducing strong governance through a Project Board reporting to the Executive Committee.</li> </ul>




## Operations

Risk	Progress	What we are doing
<p><b>Pension overpayments</b></p> <p>That we risk overpaying pensions to civil servants, according to a review by the National Audit Office in 2009 (<i>Review of errors in Guaranteed Minimum Pension (GMP) payments</i>). This was caused by the use of incorrect indexation information in calculations, with an impact of financial loss to the taxpayer.</p>		<ul style="list-style-type: none"> <li>• introducing an electronic service so that the provider of civil service pensions (a mutual named 'My CSP') could obtain indexation information electronically from the National Insurance Contributions Office. As a result, My CSP raised no indexation queries with HMRC during 2012-13</li> <li>• monitoring and managing risk run by a specialist team in HMRC who are subject to scrutiny from within HMRC and by Cabinet Office and NAO.</li> </ul>
<p><b>Real Time Information</b></p> <p>That we fail to embed the significant changes implemented by RTI for employers, pension providers, individuals and for the Universal Credit Programme led by the Department for Work and Pensions.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>• testing RTI thoroughly with a successful year long pilot which ended in March 2013</li> <li>• using lessons learned from the pilot in the transitional year of 2013-14</li> <li>• writing to around 219,000 PAYE schemes due to start reporting PAYE in real time from 6 April, but which have not yet joined</li> <li>• agreeing specified dates for when the very largest PAYE schemes will join over the summer</li> <li>• managing carefully any issues through tried and tested processes</li> <li>• working very closely with DWP during the transitional year, and continuing to do so once RTI becomes a 'business as usual' process.</li> </ul>

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



Customer Service		
Risk	Progress	What we are doing
<p><b>Customer service standards and performance</b></p> <p>That our customer service standards fail to deliver against our targets or customer expectations, particularly during peak periods.</p>		<ul style="list-style-type: none"> <li>investing in an additional 1,000 staff in contact centres to improve customer response times</li> <li>introducing technology in key sites that enables HMRC to move staff more flexibly across work areas to better meet priorities and demands</li> <li>introducing strong governance measures to control investment, establishing clear priorities and closely monitoring performance against those key priorities and targets</li> <li>introducing weekly and monthly manager meetings to consider performance against plans and to inform decisions on how to use available resource effectively</li> <li>adding telephony capability to locations which previously only undertook processing work.</li> </ul>
<p><b>Complaints</b></p> <p>That we fail successfully to resolve the complaints we receive, leading to increased escalation. In turn, this could lead to increased numbers of complaints, deterioration in customer satisfaction and increased external criticism.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>ensuring all aspects of PAYE are up to date, including correspondence and complaints</li> <li>monitoring performance, focusing on successful resolution indicators at each stage of the complaints process</li> <li>completing reviews of the processes, guidance available, capability and resources within key customer-facing lines of business, and developed action plans to improve current performance.</li> <li>improving clarity of guidance in areas of difficulty, as well as establishing more consistent and robust quality assurance processes</li> <li>Chief Executive and Second Permanent Secretary have prioritised the focus on learning from complaints.</li> </ul>
<p><b>Tax Credits appeals</b></p> <p>That we fail to tackle the significant backlog of appeals cases that has built up over the course of 2012-13, resulting in significant processing delays and an increasing stock of unresolved appeals on hand.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>implementing a “recovery plan” to tackle the backlog of outstanding appeals – including increasing resources and reviewing, updating and simplifying processes</li> <li>introducing a new mechanism to monitor the intake, stock and clearance rates for appeals with oversight at director and director general level</li> <li>conducting a review of stock levels and intake, stock and clearance rates for work items across all lines of business and putting mechanisms in place to increase the visibility of stock levels – particularly in “non targeted” areas including tightening the monitoring and oversight function in this area of the HMRC Performance Committee.</li> </ul>
<p><b>Tax Credits unresolved cases</b></p> <p>That we fail to resolve the historical Tax Credits cases that are “stuck” in our systems or fail to deal with them in a risk-based and prioritised way by our target date of March 2014.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>implementing IT system fixes or manual work-arounds to prevent, as far as possible, future occurrences</li> <li>completing analysis to understand the potential impacts for customers, the Exchequer and our internal accounting processes</li> <li>setting up a dedicated project team to work through and resolve historic cases</li> <li>introducing improved monitoring arrangements to increase visibility with monthly reporting and progress tracking including commissioning review and continuing monitoring by HMRC Internal Audit.</li> </ul>

## People

Risk	Progress	What we are doing
<p><b>Employee relations</b> That deteriorating industrial relations, sustained industrial action and unrest could undermine change delivery, staff engagement and operating performance.</p>		<ul style="list-style-type: none"> <li>• maintaining dialogue with unions, including weekly meetings with the Workforce Management Programme (which delivers changes to staff numbers and locations)</li> <li>• using a Strategic Forum to identify and communicate on risks to employee relations</li> <li>• participating in the Cabinet Office Employee Relations Manager Group to develop ER best practice</li> <li>• involving the owners of the top time-critical processes for HMRC in reviewing business continuity planning</li> <li>• consulting the business on impact and mitigating action when action occurred</li> <li>• monitoring statistics to identify trends and hotspots</li> <li>• updating guidance for managers.</li> </ul>
<p><b>HMRC leadership capability</b> That HMRC fails to improve the capability of its leaders, leading to inability to deliver its objectives.</p>		<ul style="list-style-type: none"> <li>• introducing management ‘checkpoints’ to galvanise senior leaders</li> <li>• measuring results and behaviours with a new Civil Service Competency Framework and performance system for use from 2013-14</li> <li>• using rigorous selection processes for new Senior Civil Servants</li> <li>• appointing new Executive Committee members to enhance tax and operational delivery leadership</li> <li>• using 360-degree feedback</li> <li>• supporting those on certain development programmes by using blue chip company leaders</li> <li>• using peer reviews of performance appraisals</li> <li>• introducing highly-effective Fast Stream and Internships programmes</li> <li>• ensuring learning and development is integrated into Business Plans</li> <li>• endorsing succession planning and corporate culture approaches from our Executive Committee.</li> </ul>
<p><b>Attendance management</b> That HMRC fails to meet its wellbeing and attendance targets, resulting in reduced business performance and staff engagement.</p>		<ul style="list-style-type: none"> <li>• creating a Managers’ Advice Service and ‘Wellbeing’ intranet site</li> <li>• promoting employee assistance support available through a strategic partner of HMRC</li> <li>• delivering learning products to support managers’ attendance management decision-making</li> <li>• carrying out manager assurance activity using enhanced sickness absence data to identify trends to help target actions</li> <li>• focusing on seven large HMRC sites, where managers across the business work together to promote wellbeing.</li> </ul>

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

## People




Risk	Progress	What we are doing
<p><b>People, skills and technical ability</b> That HMRC's Workforce Management Programme (WMP) is unable to deliver an appropriate number of people with the right skills in the right place at the right time to deliver business objectives.</p>		<ul style="list-style-type: none"> <li>improving resourcing data and forecasting capability, to be developed further during 2013-14, built on collaboration with the business and use of specialist organisational development advice. This has included pilot analysis of staff skills gaps which will be built on during 2013-14</li> <li>improving workforce-related governance arrangements during 2012-13, such as further development of a Skills Strategy Board, SCS Governance Group and Funded Exit Panel. These provide strategic direction and control over staff development, succession planning, recruitment and exits.</li> </ul>
<p><b>Contact centre annual leave</b> That, following an audit which identified some control weaknesses in our processes for staff to book annual leave in our contact centres, those weaknesses are not addressed and the situation becomes worse.</p>	 <p>New risk</p>	<ul style="list-style-type: none"> <li>introducing improved processes for recording and monitoring annual leave for contact centre staff</li> <li>ensuring our new contact centre annual leave process is fully effective, with our Internal Audit directorate carrying out a follow-up audit which has been given an overall rating of green (acceptable level of risk)</li> <li>monitoring the day-to-day management of processes using an assurance programme.</li> </ul>

## Reputation

Risk	Progress	What we are doing
<p>That HMRC does not embed and effectively use communications and stakeholder management proactively to manage its reputation and to respond appropriately to a crisis situation.</p>		<ul style="list-style-type: none"> <li>using collaborative governance structures across HMRC to monitor media and stakeholder comment and to deploy key messages rapidly</li> <li>developing and improving staff skill levels, including tailored coaching for staff involved with the media or Parliament</li> <li>involving communications professionals at the planning stage of reputation and business-critical projects and initiatives, in order to represent stakeholder and customer perspectives and ensure these are appropriately addressed in project design and implementation</li> <li>engaging with cross-Government Communications networks and using a 'Reputation Index' to measure stakeholder perceptions.</li> </ul>



## IT and Security

Risk	Progress	What we are doing
<p><b>Data loss incidents and information leak</b></p> <p>That we do not adequately protect data and information, resulting in loss or inappropriate sharing of classified information.</p>		<ul style="list-style-type: none"> <li>• set up a group to review how information is stored in CAFs is accessed, stored and what lessons could be learned from such incidents</li> <li>• introducing tighter controls on access to our information, while ensuring that any controls we put in place do not prevent us accessing the material needed to provide the quality of service our customers' need</li> <li>• further restricting access to our shared folders to minimise the risk of any leaks. Teams can only access records within their respective directorate</li> <li>• reviewing procedures at TNT warehouses to make further improvements to how data is transported.</li> </ul>
<p><b>Legacy systems</b></p> <p>That some legacy tax systems do not provide us with the reporting we need for accurate and efficient accounting, with robust audit trails and disaster recovery, in line with the Treasury Financial Reporting Manual.</p>		<ul style="list-style-type: none"> <li>• working to ensure we fully understand NAO requirements. Through our Financial Accreditation Team and other Finance professionals, we have shared this understanding with system owners and data providers within HMRC to ensure new tax systems and upgrades conform to requirements and to improve the internal reporting of tax data</li> <li>• establishing the SAP Enterprise Tax Management Platform (ETMP) as the strategic IT solution which, though limited by funding constraints, we expect to improve financial reporting significantly in 2014-15 and beyond.</li> </ul>
<p><b>Cyber attacks</b></p> <p>That attacks continue to become more widespread and sophisticated and we do not meet the challenge with appropriate improvements in the security of our systems.</p>		<ul style="list-style-type: none"> <li>• undertaking a number of projects that will reduce our exposure to online fraud, ensure our services and information remain secure and available to our customers; and further develop our ability to identify and respond to changing threats online</li> <li>• roll out a diverse programme of technical IT controls improvement, organisational and process development, training and education and intelligence led risk management for our live IT services.</li> </ul>

# Current control challenges – statement by Principal Accounting Officer Lin Homer

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

- individual statements from each member of the Executive Committee, outlining the governance, risk and control arrangements in their business areas
- the Governance Statement provided by the Chief Executive of the Valuation Office Agency and the review that underpins this
- the production of the Great Britain and Northern Ireland National Insurance Funds' Governance Statements – there are two funds and two accounts produced, which I sign separately
- National Audit Office (NAO) reports
- bi-monthly reports to Audit and Risk Committee on the status of recommendations made by external scrutiny bodies, such as the NAO, Public Accounts Committee and Treasury Select Committee
- the Director of Internal Audit's annual opinion to me as Principal Accounting Officer
- the first tax assurance report, put together by the Tax Assurance Commissioner
- external reports on HMRC produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners
- formal assurance that I receive from HMRC's Senior Information Risk Owner that Information Risk has been appropriately managed in the conduct of HMRC business
- the reviews that underpin the Managing Risk of Financial Loss project. This is run by the Chief Finance Officer and is HMRC's response to HM Treasury's requirement that government departments conduct financial process assessments of their significant financial processes
- on 5 March 2013, a review of the quality assurance of business critical models by Sir Nicholas Macpherson was published (*Review of quality assurance of Government analytical models*). HMRC has around 20 models viewed as business critical and already has a quality assurance process in place. We will review our quality assurance approach in light of the recommendations of the Macpherson review.

# Recommendations made by external scrutiny bodies

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

The Chief Executive presents a report to each meeting of the Audit and Risk Committee (A&RC) updating it on the status of recommendations and whether any are overdue. Recommendations are classified

as either tier 1 or tier 2 and are considered overdue if they have not been implemented within 12 months<sup>1</sup>. On 31 March 2013, there were no overdue tier 1 recommendations, and five tier 2.

**Tier 1** recommendations are those where failure to implement is likely to have the greatest financial, operational or reputational impact for HMRC. This includes recommendations made by our primary assurance providers, the National Audit Office (NAO), Public Accounts Committee (PAC), and Treasury Select Committee (TSC), as well

as recommendations made by the Independent Police Complaints Commission (IPCC) and the Major Projects Authority (MPA). These are reported at each bi-monthly A&RC meeting.

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

2012-13	Tier 1 recommendations				
	Opening balance <sup>2</sup>	New	Settled	Closing balance <sup>3</sup>	Overdue
NAO/PAC/TSC reports	82	82	142	22	0
NAO <sup>4</sup>	38	192	173	57	0
Others <sup>5</sup>	12	57	53	16	0
<b>Total</b>	<b>132</b>	<b>331</b>	<b>368</b>	<b>95</b>	<b>0</b>

<sup>1</sup> From 2013-14, recommendations in NAO/PAC/TSC reports will be considered overdue if they are not implemented by the date stated at the time of acceptance.

<sup>2</sup> Balance as at 1 April 2012.

<sup>3</sup> Balance as at 31 March 2013.

<sup>4</sup> S2 audit recommendations and management letters.

<sup>5</sup> Independent Police Complaints Commission (IPCC) and Major Projects Authority (MPA).

# Recommendations made by external scrutiny bodies

External body making recommendation	Tier 2 recommendations				
	Opening balance <sup>6</sup>	New	Settled	Closing balance <sup>7</sup>	Overdue
Committee on Arms Export Control	0	3	3	0	
Deep Dive reviews	0	36	27	9	
European Commission	3	47	28	22	2
European Court of Auditors	2	14	2	14	
Health & Safety	10	0	5	5	2
HM Inspectorate of Constabulary	6	0	1	5	1
Northern Ireland Affairs Committee	0	1	1	0	
Office of Surveillance Commissioners	1	0	0	1	
UK Statistical Authority	9	0	0	9	
<b>Total</b>	<b>31</b>	<b>101</b>	<b>67</b>	<b>65</b>	<b>5</b>

<sup>6</sup> The first report to A&RC was made in November 2012. The opening balance at 1 October 2012 was originally reported to A&RC as 29 but increased to 31 following the identification of a further two recommendations made by HM Inspectorate of Constabulary.

<sup>7</sup> Balance as at 31 March 2013.

## Suppliers

HMRC has now established formal arrangements for managing its supplier relationships, based on an industry standard supplier relationship management governance model.

Approximately two-thirds of the HMRC estate is held under what is known as the STEPS contract. The supplier relationship management structure introduced in 2010 is now embedded into our business as usual activity and developed into an effective contract management tool.

The structure has been strengthened further as part of a management letter from the National Audit Office. This includes a contract management assurance team led at director level. Key directorates within HMRC are structured along functional lines with clear accountabilities around management of contracts. We review all our critical control processes annually for continuous improvements. Our legal and commercial actions are validated by our Solicitors Office and Commercial Directorate in our meetings with suppliers.

Similar formal governance arrangements based on the supplier relationship model have been developed for other PFI property contracts and these are in place. Annual value for money assessments are carried out on major PFI contracts and there are regular financial viability checks on key suppliers.

# Good practice – the effectiveness of our committee structures and what is required of us

The Code of Good Practice issued by HM Treasury sets out what is required of government Departments when it comes to corporate governance. The Chief Executive is satisfied that the Department fully complies with the code, and has this year made a number of changes to improve and build on our existing governance structure.

They include:

- significantly refreshed our team of Non-Executives this year, giving us the opportunity to reorganise the committee structure of the Department and make changes to further improve their effectiveness
- appointed Ian Barlow as Lead Non-Executive
- appointed three new Non-Executive Board members, one Board advisor and three Non-Executives to join Board committees. The new appointments replaced departing Non-Executives, and helped build on the experience and knowledge they brought to the organisation
- established a ‘buddy system’ between Non-Executive Board members and the Executive Committee team to ensure strong oversight and challenge between Board meetings, and to make full use of non-executive skills and experience in the Department
- built on the work of the Ethics and Responsibilities Committee, by replacing it with a Scrutiny Committee, chaired by a Non-Executive Board member, formed to focus on single issues in-depth
- expanded the remit of the People Committee to become the People, Nominations and Governance Committee, which now fully complies with the guidance given by the Code of Good Practice, and oversees our nominations and governance arrangements as well as people issues, such as succession planning and reward
- brought together the Board and the Executive Committee Secretariat functions into one central corporate governance team, which provides support to the Board, all of its Committees, the Executive Committee and all of its sub-committees, ensuring coherence and consistency in the flow of information and decision making through the Department.

# Good practice – the effectiveness of our committee structures and what is required of us

The Chief Executive continually assesses the effectiveness of the Board with the Lead Non-Executive and other Board members and the Executive. This year, we held a workshop to consider the role of the Board and where and how its input could have most impact. The impact and effectiveness of Board committees are reviewed regularly. The Executive Committee and its sub-committees review their own effectiveness on a regular basis as part of the arrangements for each meeting, and periodically by other means – for instance, coaching, workshops and external scrutiny.

Given the significant changes made to the Board composition and committee structure this year, the Department has delayed the formal assessment of Board effectiveness to ensure new elements of the structure are captured, and the views of the new non-executives. There will be a formal and rigorous evaluation of Board performance and effectiveness this year, as well as a review of effectiveness of our Executive Committee and its sub-committees. These reviews will be reported on in next year's governance statement.

The Chief Executive has reviewed and is confident that HMRC's governance arrangements fully comply with the guidance set out in the Code of Good Practice. As a non-ministerial Department, HMRC does not need to comply fully with the provisions in the Code for a Board led by a minister and a lead Non-Executive Board member. We do, however, have a Board led by our Lead Non-Executive, and with an even balance of Executive Committee and Non-Executive members.

## Conclusion

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

**Lin Homer CB**  
Principal Accounting Officer  
20 June 2013

# Statistical tables



# Statistical tables

Table 1: Total departmental spending (£000)

	2008 09 Outturn	2009-10 Outturn	2010 11 Outturn	2011 12 Outturn	2012 13 Outturn	2013 14 Plans	2014 15 Plans
<b>Resource DEL</b>							
HMRC administration	3,709,865	3,596,631	3,345,192	3,311,468	3,289,624	3,314,826	3,191,939
Departmental unallocated provision	-	-	-	-	-	36,887	35,445
VOA administration	1,632	644	1,298	5,835	-1,978	-	1
Utilised provisions	49,100	54,283	48,381	47,599	40,954	44,858	38,697
National Insurance Fund	413,760	433,818	411,362	340,644	334,541	313,613	302,104
<b>Total Resource DEL</b>	<b>4,174,357</b>	<b>4,085,376</b>	<b>3,806,233</b>	<b>3,705,546</b>	<b>3,663,141</b>	<b>3,710,184</b>	<b>3,568,186</b>
<i>Of which:</i>							
Staff costs	2,614,451	2,510,589	2,421,423	2,373,043	2,305,144	2,263,961	2,099,667
Purchase of goods and services	1,377,377	1,417,643	1,153,093	1,086,949	1,332,633	1,375,846	1,393,395
Income from sales of goods and services	-352,232	-339,163	-310,604	-329,140	-359,195	-339,144	-330,309
Current grants to persons and non-profit bodies(net)	18,301	8,572	40,628	11,240	27,943	14,743	1,743
Current grants abroad (net)	544	627	595	576	594	594	594
Rentals	302,892	271,867	259,820	265,590	12,609	-	-
Depreciation <sup>1</sup>	201,731	203,386	215,373	217,296	226,075	239,000	252,000
Change in pension scheme liabilities	-	2,963	-	-	1,255	-	-
Other resource	11,293	8,892	25,905	79,992	116,083	118,297	115,651
Unallocated funds-resource	-	-	-	-	-	36,887	35,445
<b>Resource AME</b>							
Social benefits and grants	11,310,962	12,179,253	12,259,046	12,134,533	12,160,117	11,792,000	11,942,000
Providing payments in lieu of tax relief to certain bodies	121,057	154,513	176,852	101,532	57,134	127,433	172,199
Filing incentive payments	181,470	100,069	-	-	-	42	41
HMRC administration	82,384	106,926	64,776	3,967	19,596	30,001	30,001
VOA – Payments of rates to Local Authorities (LAs) on behalf of certain bodies	29,083	32,049	39,603	47,537	55,747	63,605	72,601
VOA administration	7,486	5,416	5,126	1,139	-398	1	1
Utilised provisions	-166,843	-141,317	-185,491	-56,271	-41,500	-46,858	-39,697
Personal Tax Credit	24,097,719	27,600,898	28,870,775	29,914,314	30,109,413	30,027,000	30,096,000
Other reliefs and allowances	411,514	416,046	492,718	634,429	739,496	1,660,984	1,786,975
<b>Total Resource AME</b>	<b>36,074,832</b>	<b>40,453,853</b>	<b>41,723,405</b>	<b>42,781,180</b>	<b>43,099,605</b>	<b>43,654,208</b>	<b>44,060,121</b>
<i>Of which:</i>							
Purchase of goods and services	37,202	48,327	52,360	79,369	74,927	67,292	76,832
Income from sales of goods and services	-2,100	-2,155	-2,365	-2,846	-3,312	-3,687	-4,231
Current grants to persons and non-profit bodies (net)	35,722,888	40,078,530	41,378,570	42,386,319	42,610,245	43,079,359	43,051,073
Subsidies to private sector companies	287,710	272,963	308,509	443,358	465,118	528,100	946,142
Depreciation <sup>1</sup>	16,177	-3,034	40,054	-9,270	-489	2	2
Take up of provisions	167,082	234,910	136,108	14,376	3,829	30,000	30,000
Release of provisions	-167,252	-175,507	-196,050	-142,802	-41,500	-46,858	-39,697
Other resource	13,125	-181	6,219	12,676	-9,213	-	-
<b>Total Resource Budget</b>	<b>40,249,189</b>	<b>44,539,229</b>	<b>45,529,638</b>	<b>46,486,726</b>	<b>46,762,746</b>	<b>47,364,392</b>	<b>47,628,307</b>

Table 1: Total departmental spending (£000)

	2008 09 Outturn	2009-10 Outturn	2010 11 Outturn	2011 12 Outturn	2012 13 Outturn	2013 14 Plans	2014 15 Plans
<i>Of which:</i>							
Depreciation <sup>1</sup>	217,908	200,352	255,427	208,026	225,586	239,002	252,002
<b>Capital DEL</b>							
HMRC administration							
Departmental unallocated provision	271,151	214,312	161,073	215,064	190,063	177,036	135,896
VOA administration	7,314	14,432	7,334	5,156	3,968	7,312	7,018
<b>Total Capital DEL</b>	<b>278,465</b>	<b>228,744</b>	<b>168,407</b>	<b>220,220</b>	<b>194,031</b>	<b>185,570</b>	<b>144,200</b>
<i>Of which:</i>							
Capital grants to persons and non-profit bodies (net)	-	-	-	-	-	-	-
Capital grants to private sector companies (net)	-	-	-	-	-	-	-
Purchase of assets	290,151	232,902	172,696	221,589	199,245	185,148	143,914
Income from sales of assets	-11,686	-4,158	-4,289	-1,369	-5,214	-800	-1,000
Unallocated funds-capital	-	-	-	-	-	1,222	1,286
<b>Capital AME</b>							
Social benefits and grants	188,259	306,302	226,677	86,255	547	2,000	1,000
Utilised provisions	108,139	80,691	113,996	-	-	-	-
<b>Total Capital AME</b>	<b>296,398</b>	<b>386,993</b>	<b>340,673</b>	<b>86,255</b>	<b>547</b>	<b>2,000</b>	<b>1,000</b>
<i>Of which:</i>							
Capital grants to persons and non-profit bodies (net)	296,398	386,993	340,673	86,255	547	2,000	1,000
<b>Total Capital Budget</b>	<b>574,863</b>	<b>615,737</b>	<b>509,080</b>	<b>306,475</b>	<b>194,578</b>	<b>187,570</b>	<b>145,200</b>
<b>Total departmental spending<sup>2</sup></b>	<b>40,606,144</b>	<b>44,954,614</b>	<b>45,783,291</b>	<b>46,585,175</b>	<b>46,731,738</b>	<b>47,312,960</b>	<b>47,521,505</b>
<i>of which:</i>							
Total DEL	4,251,091	4,110,734	3,759,267	3,708,470	3,631,097	3,656,754	3,460,386
Total AME	36,355,053	40,843,880	42,024,024	42,876,705	43,100,641	43,656,206	44,061,119

<sup>1</sup> Includes impairments.

<sup>2</sup> 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 and total AME is the sum of the resource budget AME and capital budget AME less depreciation in AME.

# Statistical tables

Table 2: Public Spending control (£ million)

	Main Estimate	Supplementary Estimate	Final Provision	2012 13 Outturn
<b>Resource Del</b>				
<b>Voted</b>				
HMRC administration	3,289	15	3,304	3,290
Departmental unallocated provision	37	-37	0	0
VOA administration	2	0	2	-2
Utilised provision	52	0	52	41
<b>Non-voted</b>				
National Insurance Fund	333	0	333	334
<b>Total Spending DEL</b>	<b>3,713</b>	<b>-22</b>	<b>3,691</b>	<b>3,663</b>
<b>Resource AME</b>				
<b>Voted</b>				
Social benefits and grants	12,580	280	12,300	12,160
Providing payments in lieu of tax relief to certain bodies	67	-3	64	57
e-filing incentive payments	0	0	0	0
HMRC administration	30	0	30	20
VOA – payments of rates to LA's on behalf of certain bodies	55	2	56	56
VOA administration	0	0	0	0
Utilised provisions	-52	-6	-58	-42
<b>Non-voted expenditure</b>				
Personal Tax Credits	30,365	5	30,360	30,109
Other relief and allowances	548	208	756	739
<b>Total Spending AME</b>	<b>43,592</b>	<b>-84</b>	<b>43,508</b>	<b>43,100</b>
<b>Capital Del</b>				
HMRC administration	141	55	196	190
Departmental unallocated provision	1	-1	0	0
VOA administration	8	0	8	4
<b>Capital AME</b>				
Social benefits and grants	5	1	6	1

Table 3: Capital employed (£ million)

Assets and liabilities in the Statement of Financial position at year end	2008 09 <sup>1</sup> Outturn	2009-10 Outturn	2010 11 <sup>2</sup> Outturn	2011 12 <sup>3</sup> Outturn	2012 13 Outturn	2013 14 Plans	2014 15 Plans
<b>Assets</b>							
Non-current assets	1,861	1,840	1,787	1,742	1,680	1,629	1,587
Property, plant and equip	709	640	580	536	485	445	408
Land	23	24	24	29	29	30	31
Buildings	400	360	329	285	253	232	212
Accommodation refurbishments	57	74	70	85	75	66	58
Office and computer equipment	130	98	84	83	66	56	47
Vehicles	6	6	5	9	7	6	4
Furniture and fittings	35	36	35	31	29	27	25
Assets under construction	54	38	31	11	23	25	27
Scientific aids	4	4	3	4	4	4	3
Intangible	1,152	1,200	1,207	1,206	1,195	1,184	1,179
Software licences	15	14	14	10	6	5	4
Developed computer software	900	1,003	1,058	1,031	1,041	1,031	1,027
Website development costs <sup>4</sup>	–	–	–	2	4	4	4
Assets under construction	237	183	136	163	144	144	145
Receivables > 1 Year	–	–	1,093	1,099	939	957	977
Current assets <sup>5</sup>	748	287	886	783	801	784	767
<b>Liabilities</b>							
Liabilities < 1 Year <sup>5</sup>	-1,503	-1,100	-1,919	-1,975	-1,971	-1,968	-1,955
Liabilities > 1 Year	-499	-201	-419	-381	-344	-327	-311
Provisions	-296	-356	-296	-169	-129	-122	-120
Capital employed	311	469	1,133	1,099	976	954	946

<sup>1</sup> Certain figures have been restated for machinery of government changes.

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

<sup>3</sup> The approach agreed with HM Treasury has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. This treatment ceased from 01 April 2012 and the penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.

<sup>4</sup> Website developments costs, previously reported within developed computer software, have been reported as a separate intangible category in line with IFRS disclosure requirements.

<sup>5</sup> The figures for 2008-09 include values for those penalties that have now transferred to the Trust Statement under clear line of sight.

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

# Statistical tables

Table 4: Administration budget (£000)

	2008 09 Outturn	2009-10 Outturn	2010 11 Outturn	2011 12 Outturn	2012 13 Outturn	2013 14 Plans	2014 15 Plans
HMRC administration	3,587,581	3,483,369	3,217,450	871,766	849,599	747,739	695,212
Departmental unallocated provision	-	-	-	-	-	36,887	35,445
National Insurance Fund	-	-	-	49,801	64,838	70,487	67,289
Utilised provisions	58,704	60,626	71,495	40,850	32,971	24,858	18,697
VOA administration	-9,604	-6,343	-23,114	-	-	-	-
<b>Total administration budget</b>	<b>3,636,681</b>	<b>3,537,652</b>	<b>3,265,831</b>	<b>962,417</b>	<b>947,408</b>	<b>879,971</b>	<b>816,643</b>
<i>Of which:</i>							
Staff costs	2,614,451	2,510,589	2,421,423	335,549	612,917	579,307	554,319
Purchase of goods and services	848,106	861,565	643,079	413,024	323,591	244,977	200,679
Income from sale of goods and services	-322,763	-316,102	-296,264	-88,623	-103,300	-99,700	-96,400
Current grants to persons and non-profit bodies(net)	-	-	-	1,999	-	-	-
Rentals	302,892	271,867	259,820	178,377	-	-	-
Depreciation	194,014	201,586	213,166	66,611	55,000	59,300	63,400
Change in pension scheme liabilities	-	2,963	-	-	-	-	-
Other resource	-19	5,184	24,607	54,632	59,200	59,200	59,200
Unallocated funds–resource	-	-	-	-	-	36,887	35,445

Table 5: Staff numbers

	2010 11 Outturn	2011 12 Outturn	2012 13 Outturn
<b>Core Department</b>			
Permanent staff	67,533	64,483	61,568
Others <sup>1</sup>	264	2,591	3,577
<b>Total</b>	<b>67,797</b>	<b>67,074</b>	<b>65,145</b>
<b>Valuation Office Agency (VOA)</b>			
Permanent staff	3,758	3,535	3,418
Others <sup>1</sup>	81	39	74
<b>Total</b>	<b>3,839</b>	<b>3,574</b>	<b>3,492</b>

<sup>1</sup> The 'others' figure includes values for contingent labour and consultants. 2012-13: Core department 105, VOA 12. (2011-12 Core department 70, VOA 11; 2010-11 Core department 69, VOA 19.)

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

Table 6: Total identifiable expenditure on services by country and region, 2008 09 to 2011 12 (£ million)

	2008 09 Outturn	2009-10 Outturn	2010 11 Outturn	2011 12 Outturn
North East	1,356	1,534	1,588	1,667
North West	3,764	4,297	4,447	4,678
Yorkshire and the Humber	2,771	3,171	3,281	3,453
East Midlands	2,212	2,532	2,629	2,765
West Midlands	2,955	3,392	3,524	3,705
East	2,565	2,938	3,058	3,210
London	4,054	4,702	4,907	5,167
South East	3,562	4,067	4,222	4,421
South West	2,337	2,670	2,772	2,908
<b>Total England</b>	<b>25,574</b>	<b>29,304</b>	<b>30,427</b>	<b>31,974</b>
Scotland	2,423	2,719	2,805	2,918
Wales	1,550	1,766	1,823	1,917
Northern Ireland	1,021	1,168	1,220	1,284
<b>UK identifiable expenditure</b>	<b>30,569</b>	<b>34,956</b>	<b>36,274</b>	<b>38,093</b>
Outside UK	49	62	62	64
<b>Total identifiable expenditure</b>	<b>30,618</b>	<b>35,018</b>	<b>36,336</b>	<b>38,158</b>
Non-identifiable expenditure	4,329	4,186	3,811	3,718
<b>Total expenditure on services</b>	<b>34,948</b>	<b>39,203</b>	<b>40,147</b>	<b>41,876</b>

# Statistical tables

Table 7: Total identifiable expenditure on services by country and region, per head 2008 09 to 2011 12 (£ per head)

	2008 09 Outturn	2009-10 Outturn	2010 11 Outturn	2011 12 Outturn
North East	525	594	613	642
North West	540	614	633	663
Yorkshire and the Humber	533	607	624	653
East Midlands	499	567	584	609
West Midlands	536	612	632	661
East	448	509	526	548
London	511	586	605	630
South East	421	477	491	511
South West	450	511	526	549
<b>England</b>	<b>492</b>	<b>559</b>	<b>577</b>	<b>602</b>
Scotland	469	523	537	555
Wales	514	582	598	626
Northern Ireland	575	653	677	708
<b>UK identifiable expenditure</b>	<b>493</b>	<b>560</b>	<b>577</b>	<b>602</b>



Table 8: Total identifiable expenditure on services by function, country and region, for 2011 12 (£ million)

HM Revenue & Customs	North East	North West	Yorkshire and The Humber	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	Identifiable expenditure UK	Outside UK	Total identifiable expenditure	Not identifiable	Totals
<b>General public services</b>																			
Executive and legislative organs, financial and fiscal affairs, external affairs	0	1	0	0	1	1	1	1	1	0	5	0	0	0	6	-	6	3,718	3,724
General public services not classified elsewhere	2	5	3	3	4	5	9	8	4	4	42	4	2	1	49	-	49	-	49
<b>Total general public services</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>47</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>55</b>	<b>-</b>	<b>55</b>	<b>3,718</b>	<b>3,772</b>
<b>Economic affairs</b>																			
General economic, commercial and labour affairs	7	20	15	13	16	20	43	33	16	16	184	18	8	5	214	-	214	-	214
Mining, manufacturing and construction	1	-	-	-	-	-	-	-	-	-	1	7	-	-	8	-	8	-	8
R&D economic affairs	7	21	16	14	16	21	44	34	17	17	190	18	8	5	221	-	221	-	221
<b>Total economic affairs</b>	<b>15</b>	<b>41</b>	<b>31</b>	<b>27</b>	<b>32</b>	<b>42</b>	<b>87</b>	<b>67</b>	<b>33</b>	<b>33</b>	<b>374</b>	<b>43</b>	<b>15</b>	<b>10</b>	<b>443</b>	<b>-</b>	<b>443</b>	<b>-</b>	<b>443</b>
<b>Environment protection</b>																			
Environment protection not classified elsewhere	0	1	1	1	1	1	2	1	1	1	7	1	0	0	8	-	8	-	8
<b>Total Environment protection</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>8</b>
<b>Social protection</b>																			
Old age	2	5	4	4	4	5	6	8	5	5	42	5	2	1	50	-	50	-	50
<i>of which: pensions</i>	2	5	4	4	4	5	6	8	5	5	42	5	2	1	50	-	50	-	50
Family and children	492	1,396	1,033	876	1,128	1,147	1,661	1,666	972	972	10,371	935	579	395	12,281	16	12,296	-	12,296
<i>of which: family benefits, income support and tax credits</i>	492	1,396	1,033	876	1,128	1,147	1,661	1,666	972	972	10,371	935	579	395	12,281	16	12,296	-	12,296
Housing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0	-	0
Social exclusion not classified elsewhere	1,156	3,230	2,381	1,854	2,536	2,009	3,401	2,669	1,892	1,892	21,129	1,930	1,318	877	25,254	49	25,302	0	25,303
<i>of which: family benefits, income support and tax credits</i>	1,156	3,230	2,381	1,854	2,536	2,009	3,401	2,669	1,892	1,892	21,129	1,930	1,318	877	25,254	49	25,302	0	25,303
Social protection not classified elsewhere	0	0	0	0	0	0	1	0	0	0	2	0	0	0	3	-	3	-	3
<b>Total social protection</b>	<b>1,650</b>	<b>4,631</b>	<b>3,418</b>	<b>2,734</b>	<b>3,668</b>	<b>3,162</b>	<b>5,069</b>	<b>4,344</b>	<b>2,869</b>	<b>2,869</b>	<b>31,545</b>	<b>2,870</b>	<b>1,899</b>	<b>1,273</b>	<b>37,587</b>	<b>64</b>	<b>37,652</b>	<b>0</b>	<b>37,652</b>
<b>TOTAL HM Revenue &amp; Customs</b>	<b>1,667</b>	<b>4,678</b>	<b>3,453</b>	<b>2,765</b>	<b>3,705</b>	<b>3,210</b>	<b>5,167</b>	<b>4,421</b>	<b>2,908</b>	<b>2,908</b>	<b>31,974</b>	<b>2,918</b>	<b>1,917</b>	<b>1,284</b>	<b>38,093</b>	<b>64</b>	<b>38,158</b>	<b>3,718</b>	<b>41,876</b>

# Statistical tables

## Footnotes/explanatory text

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

- <sup>1</sup> **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 Departmental Report.
- <sup>2</sup> 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.
- <sup>3</sup> 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.
- <sup>4</sup> 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.
- <sup>5</sup> 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.
- <sup>6</sup> 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.

# Resource Accounts

# Resource Accounts

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# The Annual Report

## Introduction

1. These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2013 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts (HC 240), which is available from The Stationery Office and which can be viewed at [www.voa.gov.uk](http://www.voa.gov.uk).
2. HMRC is responsible for collecting the bulk of tax revenue. We manage: Income, Corporation, Capital Gains, Inheritance, Insurance Premium, Stamp and Petroleum Revenue taxes; Value Added Tax (VAT); Excise and Customs duties; Environmental taxes – Climate Change and Aggregates Levies, Landfill Tax and Air Passenger Duty; National Insurance Contributions; Bank Levy; Tax Credits; Child Benefit and the Child Trust Fund; Health in Pregnancy Grant; enforcement of the National Minimum Wage; recovery of Student Loan repayments, statutory payments and provision of the Contracts Finder portal.
3. HMRC has a close relationship with the Department for Work and Pensions and its counterpart in Northern Ireland, the Department for Social Development, as they are responsible for the payment of benefits based on National Insurance Contributions. Expenditure related to the collection of National Insurance Contributions is included in the Consolidated Statement of Comprehensive Net Expenditure.
4. Receipts and payments of direct and indirect taxes and National Insurance Contributions are accounted for in the Trust Statement which is on pages 145-173 of this publication.
5. Pension benefits are provided through the Civil Service pension arrangement (see note 1.15.1 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 1.15.2).

## Departmental reporting cycle

6. The Department's Main Estimate for 2012-13 was published in April 2012 as part of the Central Government Supply Estimates 2012-13 Main Supply Estimates (HC 1919). The Department also applied for a Supplementary Estimate, details of which are available in the Central Government Supply Estimates 2012-13 Supplementary Estimates (HC 894) published in February 2013. These documents are in the public domain and can be accessed from the HM Treasury website.
7. In 2012 the Department produced a combined Annual Report and Accounts (HC 38) that reported on its performance. This report is available from The Stationery Office and the HMRC Internet site ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)). Details of the Department's performance for 2013 can be found on pages 2-60 of this publication.

## Management Commentary

### Change in penalty income reporting

8. The approach agreed with HM Treasury for many years has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. A new agreement has been reached with HM Treasury that with effect from 1 April 2012 this would cease and these penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.

Certain prior year values have been restated as a result of this change. The financial impacts of this change are disclosed at note 30 (page 143).

## Estate Management Strategy

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

## Pay Multiples

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

The basis of the calculation has changed this year to exclude severance payments which were previously considered to be in scope for the pay multiple disclosure. The 2011-12 figures below have been restated to reflect this change.

11. The banded remuneration of the highest paid director in HMRC for financial year 2012-13 is £195,000-£200,000 and this is a 9.8 multiple of the median remuneration of the workforce, (£19,974). Comparison with the 2011-12 declaration shows an upward movement in the workforce median due to a base pay increase to salaries beneath £21,000. The downward movement to the highest paid director is due to the highest paid director in 2011-12 having left HMRC.

The banded remuneration of the highest paid director in HMRC for financial year 2011-12 was £205,000-£210,000 which was a 10.4 multiple of the median remuneration of the workforce, (£19,724).

The banded remuneration of the highest paid director in HMRC for financial year 2010-11 was £210,000-£215,000 which was a 10.6 multiple of the median remuneration of the workforce, (£19,474).

12. In 2012-13 no employees received remuneration in excess of the highest paid director (2011-12: no employees received remuneration in excess of the highest paid director). Remuneration in 2012-13 ranged from £4,625 to £197,700 (2011-12: £9,502 to £206,891).

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

14. The calculation for both 2011-12 and 2012-13 combines the remuneration of the workforce for both HMRC and the Valuation Office Agency. For both years the median figure falls at the HMRC Assistant Officer national pay maximum plus non-consolidated performance award. The increase of the median point in 2012-13 is due to the £250 pay award to those on £21,000 or less. The year on year ratio reduction is due to the combination of the continuing Senior Civil Service (SCS) pay freeze, the reduction in the number and value of performance awards made, and also the reduction in the number of the HMRC SCS.

## Personal data related incidents

15. 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 2012-13.

**Table 1: Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioner's Office in 2012-13**

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
October	Unauthorised action in breach of HMRC's security rules leading to potential serious disclosure of HMRC customer information (disclosure not confirmed)	The data comprised 23,657 lines extracted from income tax returns that an HMRC officer attempted to transfer unencrypted to a UK website whose server is hosted in the USA. Most of the data could not be linked to identifiable individuals. For 32 data subjects, the information had the potential to be misused or cause distress (information comprised a name or address or National Insurance number or financial information).	32	Individuals contacted.

**Table 2: Summary of Other Protected Personal Data Related Incidents in 2012-13**

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 2011-12 are shown in brackets.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	9 (6)
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	18 (28)
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	- (-)
IV	Unauthorised disclosure.	49 (45)
V	Other.	- (-)

### Statement on information risk

In 2012-13 the number of centrally managed security incidents impacting on Protected Personal Data in HMRC has reduced to 76, from a total of around 5,000 mostly minor incidents that potentially impacted on customers. In addition, HMRC can report that the number of customers affected by those centrally managed incidents has continued to fall. The single largest incident involved around 785 customers arising from unauthorised disclosure. Customer impact has now reduced by 80 per cent in the last 4 years, including a 10 per cent reduction in the last year, to 2,320 customers.

### Further action on information risk

HMRC has a huge customer base with many tens of millions of paper and electronic interactions per year. HMRC continues to take data security extremely seriously and continually seeks to improve the security of its customers' information. HMRC uses security incident reports and trend analysis to understand and reduce security risk and ensure the Department remains a trusted and professional organisation. Five or fewer staff members have been disciplined as a result of data security incidents.

## Financial position and results for the year

### Supply Procedure

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

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

As a government department, HMRC is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons.

The Department is subject to net expenditure control under the Parliamentary Vote system. The Vote is constructed on a resource account basis and includes a formal description (ambit) of the services to be financed. Voted money cannot be used to finance services not covered by the ambit.

### Comparison of Outturn against Estimate

17. The total Resource outturn for the year was £46,762.7m, £436.3m (0.9 per cent) below the Estimate. The total Capital outturn for the year was £194.5m, £14.9m (7.1 per cent) below the Estimate. The variances which exceed 10 per cent and those that are also significant in terms of value are explained below as required by the *Government Financial Reporting Manual (FRM)*.

### Resource Departmental Expenditure Limit (DEL)

B VOA Administration – Outturn was £4.0m (200.0 per cent) less than Estimate, due to £2.0m being for ring fenced exit funds which the VOA did not require. The additional £2.0m surplus is a normal small surplus against operating income.

C Utilised Provisions – Outturn was £11.4m (21.8 per cent) less than Estimate, due to utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2012-13 becoming more protracted.

### Resource Annually Managed Expenditure (AME)

F Providing payments in lieu of tax relief to certain bodies – Outturn was £6.7m (10.5 per cent) less than Estimate, of which £6.6m relates to an under spend on Transitional payment relief to charities. This is due to lower than expected residual claims.

H HMRC Administration – Outturn was £10.4m (34.7 per cent) less than Estimate, due to a lower than expected need for new provisions.

K Utilised Provisions – Outturn was £16.4m (28.3 per cent) less than Estimate, due to utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2012-13 becoming more protracted.

### Capital Departmental Expenditure Limit (DEL)

B VOA Administration – Outturn was £3.9m (49.4 per cent) less than Estimate, due to reducing investment whilst also developing a new long term strategy to avoid unnecessary spend.



## Capital Annually Managed Expenditure (AME)

E Social Benefits and Grants – Outturn was £5.0m (90.9 per cent) less than Estimate, due to lower than expected residual claims for Child Trust Fund endowments.

## Consolidated Statement of Financial Position

18. Details of the Department's assets and liabilities are reported in the Consolidated Statement of Financial Position (see page 90).

19. Significant assets and liabilities include:

- property, plant and equipment £484.9m (note 12);
- intangible assets £1,194.9m (note 13);
- receivables (amounts falling due within one year) of £775.0m (note 18);
- receivables (amounts falling due over one year) of £939.1m (note 18);
- payables (amounts falling due within one year) of £1,970.6m (note 20);
- payables (amounts falling due over one year) of £344.3m (note 20);
- provisions of £129.6m (note 21).

## Cash flow

20. The net cash outflow for the year was £23.9m as detailed in the Consolidated Statement of Cash Flows (see page 91).

The explanation of the variances between Estimate and cash requirement is shown in the note 4 Reconciliation of Net Resource Outturn to Net Cash Requirement (see page 109):

- Receivables varied by £279.0m (215.1 per cent) from the Estimate. It was expected that Personal Tax Credit receivables would increase by £32.5m. Mainly due to the increased provision for impairment of receivables, the balances were reduced by £245.7m.
- Payables varied by £145.2m (126.0 per cent) from the Estimate. It was expected that the level of Corporation tax relief and Child Benefit accruals would remain at the same level. However, these increased by £79.4m and £19.2m respectively. In addition, trade and other payables reduced more than expected reporting a movement of £58.9m.
- Other adjustments varied by £607.5m (1.9 per cent) from the Estimate. A significant proportion of this variance related to a lower than expected spend on Personal Tax Credits.

## Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	2012-13 £m	Restated* 2011-12 £m
Net Resource Outturn (Estimates)	46,762.7	46,498.2
<b>Total Resource Budget Outturn</b>	<b>46,762.7</b>	<b>46,498.2</b>
<i>of which:</i>		
Departmental Expenditure Limits (DEL)	3,663.1	3,717.1
Annually Managed Expenditure (AME)	43,099.6	42,781.1
<i>Adjustments include:</i>		
Child Trust Fund budgeted as Capital	0.5	86.3
Expenditure outside the budget	6.4	13.3
Consolidated Fund Extra Receipts	(0.3)	(1.1)
Barter deal prepayment release	(48.7)	(15.7)
<b>Net Operating Cost (Accounts)</b>	<b>46,720.6</b>	<b>46,581.0</b>

\* Certain prior year figures have been restated as per note 30

21. HMRC was allocated a pay settlement worth 0.5 per cent for 2011-12 and 0.47 per cent for 2012-13 to pay an award of £250 to staff earning below £21,000, which was consistent with the outcome of the Spending Review and the Government's two year pay freeze policy. For 2013, we expect to pay an average award of 1 per cent to all staff including the SCS.

22. Tax Credits are accounted for within programme costs (see note 9). Additional information concerning Tax Credits expenditure can be seen at note 10 (page 118).

23. Child Benefit is accounted for within programme costs (see note 9). From 7 January 2013, a new higher income Child Benefit tax charge was introduced when a customer or their partner receives Child Benefit and either one of them has an income above £50,000 in a tax year. Customers who are liable to the new higher income Child Benefit tax charge have two options:

- i) To continue to receive Child Benefit payments; or
- ii) To elect to stop receiving Child Benefit payments.

For those who decide to continue to receive Child Benefit, the new higher income Child Benefit tax charge will be calculated as an increasing percentage of the Child Benefit received for incomes above £50,000 until the charge equals the full amount of the Child Benefit at incomes of £60,000 or greater. As a result, a proportion of the Child Benefit recorded as expenditure in the Resource Accounts for these higher rate taxpayers will be recovered as an income tax charge and accounted for in the Trust Statement as additional revenue.

24. Details of the Department's significant provisions are reported in note 21 (see page 131).

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

- Mapeley STEPS Contractor Ltd contract for private sector provision of serviced accommodation across the majority of the Departmental estate for 20 years;

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

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

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

In 2012 there was a major renegotiation of the contract which involved significant price reductions and the restructuring of the contract so that Capgemini will act as Service and System Integrator, new suppliers will contract with HMRC direct, and HMRC and Capgemini will look to novate the major subcontracts such as Fujitsu to HMRC.

## Government Banking Service

28. The Government Banking Service (GBS) is part of HMRC and is responsible for providing banking transaction services to around 700 public sector customers. It also works with HM Treasury to minimise the cost of Government borrowing and supports Treasury cash management. Its creation was a result of the recommendations of the Chancellor’s 2004 Departments Banking Review and The Bank of England’s decision to withdraw from the provision of retail banking and clearing services. In 2006 both the Office of the HM 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 Royal Bank of Scotland and Citibank, 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 90, but are included in the accounts of the relevant government entities.

## Management

### Ministers and senior managers

29. The Governance Statement (see page 25) identifies those senior managers who are members of the Board.

### Register of interests

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

## Internal Communications

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

## Public Sector Information Holders

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

## Public Interest Matters

### Diversity and inclusion

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

34. In February 2013 we published our second tranche of data in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to develop under-represented groups and address equality issues in the workplace. In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

35. Our progress on diversity issues has been recognised in a number of ways: we achieved 30th place in the Stonewall Workplace Equality Index for lesbian, gay and bisexual equality, an HMRC employee won the Civil Service Diversity Award for Championing Disability Issues, HMRC was included in the Opportunity Now and Race for Opportunity Top 10 Public Sector employers for gender and race diversity and, for the second year running, HMRC has been included in The Times Top 50 Employers for Women, following completion of the Opportunity Now equality benchmark.

36. Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and the newly established team, dedicated to ensuring reasonable adjustments are put in place quickly and cost-effectively, has dealt with approximately 800 cases in its first year. We are raising awareness of mental health issues to ensure that sufficient support mechanisms are available to managers and staff, and we are offering development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds.

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

## Employee Engagement

38. HMRC's 2012 people survey results show that the Department's biggest engagement challenges are still leadership and the management of change. There is no question that HMRC still has to improve morale and engagement and all senior leaders are taking responsibility for this. They are determined to improve leadership and the way change is handled. Actions are in place to take things forward, but it will take time. HMRC has piloted a workshop on repairing and building trust and engagement amongst its senior civil service cadre and we will roll these out in 2013-14.

39. HMRC's single Change Programme provides clear principles to guide all corporate communications about change. Leaders know that to really make change work, they need to involve people across the Department and create opportunities for them to connect with HMRC as an organisation. Honest and transparent communication is an essential part of the Change Programme. People are being given information and certainty about the changes that will affect them personally as soon as senior leaders are able to; while being open about the things they don't know, or haven't yet decided. To enable greater connectivity with frontline teams, a programme of site based communications has been introduced with senior leaders (Top three Tiers) communicating key messages face to face across the UK. This is being extended to all sites and SCS not previously involved will be encouraged to take responsibility for a site. The Open Conversations have been a real success providing feedback, acting as a sounding board and supporting site based communications. As a result we have established a vibrant Open Conversations Network. A People Impact Assessment has been developed, with supporting tools and master-classes taking place to enable managers, leaders and project managers to think through the implications of change for their people.

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

### Social and community issues

41. We invest approximately £2 million a year in partnerships with voluntary sector organisations to provide advice and support for disadvantaged communities. We also encourage our employees to work with voluntary organisations in the communities close to our offices and to participate in civic duties, for example as magistrates and school governors. This year, we gave 5,589 days of employee time to community activity across the UK. Further work took place with UK and International agencies to develop and support effective civil governments overseas.

42. In November 2012, our staff raised more than £100,000 for the BBC's Children in Need appeal. In addition, volunteers at our Contact Centres in Liverpool, Manchester and Lillyhall took £214,000 in telephone pledges from members of the public on the appeal night. Further donations totalling an incredible £1,775,000 were made by staff to the Charity for Civil Servants, the Lifeboat Fund and to other good causes of their choice through our on-line payroll giving arrangements.

### Payment of suppliers

43. The Department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 99 per cent (2011-12: 99 per cent) of supplier invoices within 30 days.

44. The Department aims to pay invoices within 5 days of receipt of goods and valid invoice. The Department paid 97 per cent (2011-12: 96 per cent) of supplier invoices within 5 days. The legal requirement remains at 30 days.

45. In 2012-13 Interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was Nil (2011-12: £216).

### Auditors

46. 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 (2011-12: £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 2012-13 the cost of the audit of the Trust Statement amounted to £1.2m (2011-12: £1.3m). The total audit fee reported in these Resource Accounts is £1.9m (2011-12: £2.1m).

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

**Lin Homer**  
Principal Accounting Officer  
20 June 2013

# 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, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

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

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

For 2012-13 the Principal Accounting Officer was Lin Homer.

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

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

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

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

# HMRC Governance Statement

The Department's Governance Statement is shown on pages 25 to 50.



# Remuneration Report

## Remuneration Policy

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

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

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- 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](http://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. No such compensation payments were made to senior managers during 2012-13.

Details of the service contract for each member of the Department's Executive Committee are shown on page 78.

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

There have been no amounts payable to third parties for services of a senior manager in 2012-13. For reporting purposes, the term senior manager refers to those individuals who have served on either the Board or the Executive Committee.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

## Performance management system

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

In 2012-13 there were no changes to the SCS pay ranges and no increases in base pay.

Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. In 2012-13 non-consolidated performance awards were made to SCS in the 'Top' performance group only, based upon 2011-12 performance which was analysed as below.

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

- Top: top 25 per cent of performers;
- Achieving: next 65 per cent of performers; and
- Low: bottom 10 per cent of performers.

Performance assessment is based on:

- the degree to which business objectives within the performance contract have been met or not;
- the degree to which the corporate, capability and development objectives in the performance contract have been met or not;
- the degree to which leadership behaviours and professional skills elements of the common framework have been demonstrated;
- additional consideration of the degree of difficulty or ease of meeting the objectives in the light of actual events;
- performance against these criteria should be considered in the round. It is not sufficient to deliver business results at the expense of good team leadership, or to deliver corporate objectives at the expense of managing poor performance; and
- an individual can only be awarded a Top if they have exceeded at least one finance/efficiency objective.

Non-consolidated performance award decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias. The value of non-consolidated awards paid in 2012-13 for performance in 2011-12 were set as fixed amounts SCS1 = £7,500, SCS2 = £9,375 and SCS3 = £10,500.

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

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

The Permanent Secretaries moderate the performance and non-consolidated awards for Director Generals with advice from an independent observer.

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

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

## Policy on notice periods and termination payments

The following provides details of the Department's policy on standard SCS notice periods and termination payments.

### Notice

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

- (i) if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified:
  - continuous service up to 4 years, a notice period of 5 weeks;
  - continuous service of 4 years and over, a notice period of 1 week plus 1 week for every year of continuous service, up to a maximum of 13 weeks.
- (ii) if retired on medical grounds, a period of notice as above or, if longer, 9 weeks, unless a shorter period is agreed.
- (iii) if employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, a notice period of 6 months applies.

On the expiration of such notice, employment will terminate.

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

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

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

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

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

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

Officials	Date of appointment	End date of term	Unexpired term (months)
Lin Homer CB	23 January 2012	N/A	N/A
Stephen Banyard CBE	8 November 2010	31 August 2012	N/A
Simon Bowles	17 March 2009	N/A	N/A
Mike Eland CB <sup>1</sup>	18 April 2005	26 September 2012	N/A
Mike Falvey	15 February 2010	14 February 2015	23
Jennie Granger	1 October 2012	30 September 2015	30
Jim Harra	16 April 2012	N/A	N/A
Dave Hartnett CB <sup>2</sup>	18 April 2005	31 July 2012	N/A
Anthony Inglese CB <sup>3</sup>	8 March 2008	N/A	N/A
Steve Lamey <sup>4</sup>	18 April 2005	16 July 2012	N/A
Nick Lodge	6 August 2012	N/A	N/A
Mike Norgrove CBE <sup>5</sup>	10 October 2011	31 January 2013	N/A
Ruth Owen	1 September 2012	N/A	N/A
Phil Pavitt	2 September 2009	4 January 2013	N/A
Edward Troup	28 August 2012	N/A	N/A

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

<sup>1</sup> Mike Eland was appointed to the Board of the former Customs & Excise Department on 8 January 2001 prior to the creation of HMRC on 18 April 2005.

<sup>2</sup> Dave Hartnett was appointed to the Board of the former Inland Revenue Department on 19 June 2000 prior to the creation of HMRC on 18 April 2005.

<sup>3</sup> Anthony Inglese left the Executive Committee on 31 December 2012 but continues to be employed by the Department.

<sup>4</sup> Steve Lamey was appointed to the Board of the former Inland Revenue Department on 18 October 2004 prior to the creation of HMRC on 18 April 2005.

<sup>5</sup> Mike Norgrove left the Executive Committee on 13 April 2012 but continued to be employed by the Department until 31 January 2013.

The following sections provide details of the salaries and pension entitlements of the most senior officials of the Department. These disclosures have been subject to external audit.

## Remuneration:

### Senior Officials

	2012-13				2011-12			
	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)	Total £000	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)	Total £000
Mike Clasper CBE <sup>1</sup> (to 30 August 2012)	40-45 (100-105 full year equivalent)	–	–	40-45 (100-105 full year equivalent)	100-105	–	–	100-105
Lin Homer CB	180-185	15-20	200	195-200	30-35 (175-180 full year equivalent)	–	–	30-35 (175-180 full year equivalent)
Stephen Banyard CBE <sup>2</sup> (to 31 August 2012)	75-80 (130-135 full year equivalent)	5-10	–	85-90 (140-145 full year equivalent)	130-135	5-10	200	140-145
Simon Bowles	180-185	–	200	185-190	180-185	–	200	185-190
Mike Eland CB (to 26 September 2012)	70-75 (145-150 full year equivalent)	–	100	70-75 (145-150 full year equivalent)	145-150	5-10	300	155-160
Mike Falvey <sup>3</sup>	170-175	10-15	200	185-190	170-175	–	200	175-180
Jennie Granger <sup>4</sup> (from 1 October 2012)	70-75 (145-150 full year equivalent)	–	200	75-80 (150-155 full year equivalent)	–	–	–	–
Jim Harra (from 16 April 2012)	120-125 (125-130 full year equivalent)	5-10	200	130-135 (135-140 full year equivalent)	–	–	–	–
Dave Hartnett CB <sup>5</sup> (to 31 July 2012)	100-105 (160-165 full year equivalent)	–	–	100-105 (160-165 full year equivalent)	160-165	–	300	160-165
Anthony Inglese CB (to 31 December 2012)	100-105 (135-140 full year equivalent)	–	200	105-110 (140-145 full year equivalent)	135-140	–	200	140-145
Steve Lamey (to 16 July 2012)	60-65 (205-210 full year equivalent)	–	–	60-65 (205-210 full year equivalent)	205-210	–	300	205-210
Nick Lodge (from 6 August 2012)	75-80 (115-120 full year equivalent)	5-10	100	85-90 (125-130 full year equivalent)	–	–	–	–

	2012-13				2011-12			
	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)	Total £000	Salary £000	Bonus £000	Benefits in kind (to the nearest £100)	Total £000
Mike Norgrove CBE (to 13 April 2012)	0-5 (115-120 full year equivalent)	–	–	0-5 (115-120 full year equivalent)	55-60 (115-120 full year equivalent)	–	100	55-60 (115-120 full year equivalent)
Ruth Owen (from 1 September 2012)	75-80 (130-135 full year equivalent)	–	200	75-80 (130-135 full year equivalent)	–	–	–	–
Phil Pavitt <sup>6</sup> (to 4 January 2013)	135-140 (175-180 full year equivalent)	10-15	200	145-150 (190-195 full year equivalent)	180-185	5-10	200	185-190
Edward Troup (from 28 August 2012)	85-90 (145-150 full year equivalent)	–	200	85-90 (150-155 full year equivalent)	–	–	–	–
<b>Band of highest paid Director's total</b>					<b>Band of highest paid Director's total</b>			
<b>Remuneration (£'000)</b>				195-200	<b>Remuneration (£'000)</b>			205-210
<b>Median Total Remuneration</b>				19,974	<b>Median Total Remuneration</b>			19,724
<b>Ratio</b>				9.8	<b>Ratio</b>			10.4

<sup>1</sup> Mike Clasper was appointed on a three-year contract commencing on 1 August 2008. His contract was extended and he left the Department on 30 August 2012.

<sup>2</sup> Stephen Banyard's salary for 2012-13 includes a one-off payment of £24,132 relating to an annual leave adjustment.

<sup>3</sup> Mike Falvey was appointed on a three-year contract commencing on 15 February 2010. His contract was extended and he left the Department on 30 April 2013.

<sup>4</sup> Jennie Granger was appointed on a three-year contract commencing on 1 October 2012. She received £7,633 for relocation allowances upon joining HMRC.

<sup>5</sup> Dave Hartnett's salary for 2012-13 includes a one-off payment of £46,897 relating to an annual leave adjustment.

<sup>6</sup> Phil Pavitt was appointed on a three-year contract commencing on 2 September 2009. His contract was extended and he left the Department on 4 January 2013.

## Salary

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

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2012-13 are based on 2011-12 performance and bonuses paid in 2011-12 are based on 2010-11 performance.

## Benefits in kind

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

## Non-Executive Board Members

The Department's Board comprises both senior operational management and external appointees. The fees of the external appointees is detailed below. These disclosures have been subject to external audit.

	2012-13			2011-12		
	Fees £000	Benefits in kind (to the nearest £100)	Total £000	Fees £000	Benefits in kind (to the nearest £100)	Total £000
Ian Barlow	40-45	–	40-45	0-5 (25-30 full year equivalent)	–	0-5 (25-30 full year equivalent)
Volker Beckers (from 1 January 2013)	5-10 (15-20 full year equivalent)	–	5-10 (15-20 full year equivalent)	–	–	–
Colin Cobain	25-30	–	25-30	25-30	–	25-30
Philippa Hird	30-35	–	30-35	30-35	–	30-35
Phil Hodgkinson (to 31 January 2013)	25-30 (35-40 full year equivalent)	–	25-30 (35-40 full year equivalent)	30-35	400	35-40
Norman Pickavance (from 1 January 2013)	0-5 (10-15 full year equivalent)	–	0-5 (10-15 full year equivalent)	–	–	–
John Spence OBE (to 30 June 2012)	5-10 (30-35 full year equivalent)	–	5-10 (30-35 full year equivalent)	30-35	–	30-35

## Pension Benefits

	Accrued pension at pension age as at 31 March 2013 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2013 (to the nearest £000)	CETV at 31 March 2012 (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 <sup>1</sup> (to 30 August 2012)	–	–	–	–	–	–
Lin Homer CB <sup>2</sup>	105-110	5.0-7.5	1,869	1,686	86	–
Stephen Banyard CBE <sup>3</sup> (to 31 August 2012)	65-70 (Plus 135-140 lump sum)	0-2.5 – <sup>6</sup>	1,393 <sup>7</sup>	1,370 *	6	–
Simon Bowles <sup>4</sup>	20-25	2.5-5.0	272	198 *	45	–
Mike Eland CB <sup>1</sup> (to 26 September 2012)	–	–	–	–	–	–
Mike Falvey <sup>4</sup>	20-25	2.5-5.0	248	191 *	32	–
Jennie Granger <sup>4</sup> (from 1 October 2012)	0-5	0-2.5	24	– <sup>11</sup>	20	–
Jim Harra <sup>5</sup> (from 16 April 2012)	45-50 (Plus 140-145 lump sum)	10.0-12.5 (Plus 30.0-32.5 lump sum)	831	616 <sup>12</sup>	176	–
Dave Hartnett CB <sup>1</sup> (to 31 July 2012)	–	–	–	–	–	–
Anthony Inglese CB <sup>5</sup> (to 31 December 2012)	65-70 (Plus 195-200 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	1,475 <sup>8</sup>	1,470	2	–
Steve Lamey <sup>2</sup> (to 16 July 2012)	15-20	0-2.5	317 <sup>9</sup>	305	7	–
Nick Lodge <sup>5</sup> (from 6 August 2012)	40-45 (Plus 120-125 lump sum)	2.5-5.0 (Plus 7.5-10.0 lump sum)	728	646 <sup>13</sup>	47	–
Mike Norgrove CBE <sup>5</sup> (to 13 April 2012)	45-50 (Plus 140-145 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	1,063 <sup>10</sup>	1,058	–	–
Ruth Owen <sup>5</sup> (from 1 September 2012)	35-40 (Plus 105-110 lump sum)	0-2.5 (Plus 5.0-7.5 lump sum)	524	469 <sup>14</sup>	32	–
Phil Pavitt <sup>1</sup> (to 4 January 2013)	–	–	–	–	–	–
Edward Troup <sup>2</sup> (from 28 August 2012)	15-20	0-2.5	368	333 <sup>15</sup>	16	–



<sup>1</sup> Officer is not contributing towards the Civil Service pension scheme.

<sup>2</sup> Member of the Premium Scheme, lump sum not applicable.

<sup>3</sup> Member of the Classic Plus Scheme.

<sup>4</sup> Member of the Nuvos Scheme, lump sum not applicable.

<sup>5</sup> Member of the Classic Scheme.

<sup>6</sup> Real increase is negative.

<sup>7</sup> CETV at 31 August 2012.

<sup>8</sup> CETV at 31 December 2012.

<sup>9</sup> CETV at 16 July 2012.

<sup>10</sup> CETV at 13 April 2012.

<sup>11</sup> CETV at 30 September 2012.

<sup>12</sup> CETV at 15 April 2012.

<sup>13</sup> CETV at 5 August 2012.

<sup>14</sup> CETV at 31 August 2012.

<sup>15</sup> CETV at 27 August 2012.

\* The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31 March 2012 and 31 March 2013 have both been calculated using the new factors. In some instances the CETV at 31 March 2012 differs from the corresponding figure in last year's report.

## 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 salary-related and range between 1.5 per cent and 3.9 per cent of pensionable earnings for **classic** and 3.5 per cent and 5.9 per cent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. 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/pensions](http://www.civilservice.gov.uk/pensions)

### Cash Equivalent Transfer Values

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

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

### Real Increase in CETV

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

**Lin Homer**  
Principal Accounting Officer  
20 June 2013

# 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 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: Consolidated Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual 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.

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

## Basis for qualified opinion on regularity

The Resource Accounts record £30.1 billion of personal tax credits expenditure in 2012-13. As shown in Note 10.3 to the Resource Accounts the Department's latest estimate is that in 2011-12 error and fraud resulted in overpayments of between £1.91 billion and £2.27 billion (6.6 per cent to 7.9 per cent) of the final award by value to which claimants were not entitled. Note 10.3 also shows that the Department estimates that error led to underpayments of between £0.17 billion and £0.36 billion (0.6 per cent to 1.2 per cent) of the final award by value. Where error and fraud result in over or underpayment of personal tax credits, the transactions are not in conformity with the Tax Credits Act 2002 and related regulations which specify the criteria for entitlement to personal tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the personal tax credits awards made in 2012-13 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2012-13. Accordingly, I have been unable to confirm that, in all material respects, personal tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament.

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

### Qualified opinion on regularity

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

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

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

### Matters on which I report by exception

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

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

## Report

I have prepared a Report on HM Revenue & Customs 2012-13 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921. This includes, at paragraphs 4.7 to 4.23, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

26 June 2013

# Statement of Parliamentary Supply

## Summary of Resource and Capital Outturn 2012-13

	Note	Estimate			Outturn			2012-13 £m	2011-12 £m
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/(excess)	Outturn Total
<b>Departmental Expenditure Limit</b>									
– Resource	2	3,358.0	332.9	3,690.9	3,328.6	334.5	3,663.1	29.4	3,705.6
– Capital	2	203.9	–	203.9	194.0	–	194.0	9.9	219.5
<b>Annually Managed Expenditure</b>									
– Resource	2	12,392.1	31,116.0	43,508.1	12,250.7	30,848.9	43,099.6	141.4	42,781.1
– Capital	2	5.5	–	5.5	0.5	–	0.5	5.0	86.3
<b>Total Budget</b>		<b>15,959.5</b>	<b>31,448.9</b>	<b>47,408.4</b>	<b>15,773.8</b>	<b>31,183.4</b>	<b>46,957.2</b>	<b>185.7</b>	<b>46,792.5</b>
<b>Non-Budget</b>									
– Resource	2	–	–	–	–	–	–	–	–
<b>Total</b>		<b>15,959.5</b>	<b>31,448.9</b>	<b>47,408.4</b>	<b>15,773.8</b>	<b>31,183.4</b>	<b>46,957.2</b>	<b>185.7</b>	<b>46,792.5</b>
<b>Total Resource</b>	2	<b>15,750.1</b>	<b>31,448.9</b>	<b>47,199.0</b>	<b>15,579.3</b>	<b>31,183.4</b>	<b>46,762.7</b>	<b>170.8</b>	<b>46,486.7</b>
<b>Total Capital</b>	2	<b>209.4</b>	<b>–</b>	<b>209.4</b>	<b>194.5</b>	<b>–</b>	<b>194.5</b>	<b>14.9</b>	<b>305.8</b>
<b>Total</b>		<b>15,959.5</b>	<b>31,448.9</b>	<b>47,408.4</b>	<b>15,773.8</b>	<b>31,183.4</b>	<b>46,957.2</b>	<b>185.7</b>	<b>46,792.5</b>

### Net Cash Requirement 2012-13

Note	2012-13 Estimate	2012-13 £m	2011-12 £m
		<b>Outturn</b>	<b>Outturn</b>
4	<b>16,002.9</b>	15,700.0	15,882.7
		<b>Voted outturn compared with estimate: saving/(excess)</b>	
		302.9	

### Administration Costs 2012-13

Note	2012-13 Estimate	2012-13 Outturn	2011-12 Outturn
3	<b>962.9</b>	947.4	963.0

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

An explanation of material variances between the Estimate and outturn are provided in the Management Commentary on page 66.

The notes on pages 94 to 144 form part of these accounts.

HM Revenue & Customs Annual Report and Accounts 2012-13

# Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

	Note	2012-13 £m Core Department & Agency		Restated* 2011-12 £m Core Department & Agency	
<b>Administration costs</b>					
Staff costs	7	303.5	303.5	339.8	339.8
Other costs	8	666.7	666.7	696.2	696.0
Income	11	(59.6)	(56.0)	(90.5)	(86.2)
<b>Programme expenditure</b>					
Staff costs	7	1,833.8	1,967.2	1,859.6	1,999.8
Other costs	9	43,985.1	44,087.1	43,768.7	43,867.4
Income	11	(62.3)	(247.9)	(38.6)	(235.8)
<b>Net Operating Costs for the year ended 31 March 2013</b>		<b>46,667.2</b>	<b>46,720.6</b>	<b>46,535.2</b>	<b>46,581.0</b>
Total expenditure		46,789.1	47,024.5	46,664.3	46,903.0
Total income		(121.9)	(303.9)	(129.1)	(322.0)
<b>Net Operating Costs for the year ended 31 March 2013</b>		<b>46,667.2</b>	<b>46,720.6</b>	<b>46,535.2</b>	<b>46,581.0</b>
<b>Other Comprehensive Net Expenditure</b>					
Net (gain)/loss on:					
– revaluation of property, plant and equipment		–	–	9.8	9.6
– revaluation of intangibles		(17.5)	(17.8)	–	(0.2)
<b>Total Comprehensive Expenditure for the year ended 31 March 2013</b>		<b>46,649.7</b>	<b>46,702.8</b>	<b>46,545.0</b>	<b>46,590.4</b>

\*Certain prior year figures have been restated as per note 30

# Consolidated Statement of Financial Position

as at 31 March 2013

	Note	31 March 2013 £m Core		Restated* 31 March 2012 £m Core		Restated* 1 April 2011 £m Core
		Core Department	Department & Agency	Core Department	Department & Agency	Department & Agency
<b>Non-current assets:</b>						
Property, plant and equipment	12	475.6	484.9	524.8	536.1	580.6
Intangible assets	13	1,174.3	1,194.9	1,181.1	1,205.8	1,207.2
Financial assets	14,15	–	–	–	–	–
Receivables	18	939.1	939.1	1,099.3	1,099.3	1,092.9
<b>Total non-current assets</b>		<b>2,589.0</b>	<b>2,618.9</b>	<b>2,805.2</b>	<b>2,841.2</b>	<b>2,880.7</b>
<b>Current assets:</b>						
Inventories	17	–	2.0	–	2.2	2.6
Trade and other receivables	18	770.9	775.0	729.4	732.3	782.7
Other current assets		–	–	–	–	–
Financial assets	14,15	–	–	–	–	–
Cash and cash equivalents	19	12.0	24.4	29.9	48.3	27.9
<b>Total current assets</b>		<b>782.9</b>	<b>801.4</b>	<b>759.3</b>	<b>782.8</b>	<b>813.2</b>
<b>Total assets</b>		<b>3,371.9</b>	<b>3,420.3</b>	<b>3,564.5</b>	<b>3,624.0</b>	<b>3,693.9</b>
<b>Current liabilities:</b>						
Trade and other payables	20	(1,940.4)	(1,970.6)	(1,928.9)	(1,975.0)	(1,918.6)
Provisions	21	(63.4)	(65.4)	(101.2)	(104.9)	(202.9)
Other liabilities		–	–	–	–	–
<b>Total current liabilities</b>		<b>(2,003.8)</b>	<b>(2,036.0)</b>	<b>(2,030.1)</b>	<b>(2,079.9)</b>	<b>(2,121.5)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>1,368.1</b>	<b>1,384.3</b>	<b>1,534.4</b>	<b>1,544.1</b>	<b>1,572.4</b>
<b>Non-current liabilities:</b>						
Provisions	21	(62.9)	(64.2)	(61.4)	(63.9)	(93.1)
Pension liability	22	–	(33.0)	–	(28.8)	(11.9)
Other payables	20	(343.9)	(344.3)	(380.5)	(381.0)	(418.7)
Financial liabilities	14	–	–	–	–	–
<b>Total non-current liabilities</b>		<b>(406.8)</b>	<b>(441.5)</b>	<b>(441.9)</b>	<b>(473.7)</b>	<b>(523.7)</b>
<b>Total Assets less liabilities</b>		<b>961.3</b>	<b>942.8</b>	<b>1,092.5</b>	<b>1,070.4</b>	<b>1,048.7</b>
<b>Taxpayers' equity and other reserves:</b>						
General fund		831.0	844.1	952.8	957.7	866.1
Revaluation reserve		130.3	131.7	139.7	141.5	194.5
Pension reserve	22	–	(33.0)	–	(28.8)	(11.9)
<b>Total equity</b>		<b>961.3</b>	<b>942.8</b>	<b>1,092.5</b>	<b>1,070.4</b>	<b>1,048.7</b>

Lin Homer

Principal Accounting Officer

20 June 2013

\* Certain prior year figures have been restated as per note 30

The notes on pages 94 to 144 form part of these accounts.



# Consolidated Statement of Cash Flows

for the year ended 31 March 2013

	Note	2012-13 £m	Restated* 2011-12 £m
<b>Cash flows from operating activities</b>			
Net operating cost		(46,720.6)	(46,581.0)
Adjustments for non-cash transactions	8,9	277.8	279.3
(Increase)/Decrease in trade and other receivables		149.2	44.0
<i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		–	–
(Increase)/Decrease in inventories		0.2	0.4
Increase/(Decrease) in trade and other payables		(41.1)	18.7
<i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		71.1	19.0
Use of provisions	21	(41.6)	(142.8)
<b>Net cash outflow from operating activities</b>		<b>(46,305.0)</b>	<b>(46,362.4)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	(27.2)	(30.9)
Purchase of intangible assets	13	(171.1)	(190.3)
Proceeds of disposal of property, plant and equipment		0.3	0.4
Proceeds of disposal of intangible assets		–	–
<b>Net cash outflow from investing activities</b>		<b>(198.0)</b>	<b>(220.8)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		15,676.1	15,908.6
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		30,546.0	30,390.0
From the National Insurance Fund		299.7	343.3
Payments to the National Insurance Fund		–	–
Advances from the Contingencies Fund		0.2	–
Repayments to the Contingencies Fund		(0.2)	–
Loans received from the National Loans Fund		–	–
Repayments of loans from the National Loans Fund		–	–
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts		(42.4)	(44.5)
Change in penalty income reporting		–	12.8
<b>Net financing</b>		<b>46,479.4</b>	<b>46,610.2</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>(23.6)</b>	<b>27.0</b>
Payments of amounts due to the Consolidated Fund		(0.3)	(6.6)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(23.9)</b>	<b>20.4</b>
Cash and cash equivalents at the beginning of the period	19	48.3	27.9
Cash and cash equivalents at the end of the period	19	24.4	48.3

\* Certain prior year figures have been restated as per note 30

The notes on pages 94 to 144 form part of these accounts.

# Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

Note	Core Department				Core Department & Agency			
	General Fund £m	Revaluation Reserve <sup>1</sup> £m	Pension Reserve £m	Total Reserves £m	General Fund £m	Revaluation Reserve <sup>2</sup> £m	Pension Reserve £m	Total Reserves £m
Balance at 31 March 2011	922.9	192.6	–	1,115.5	938.4	194.5	(11.9)	1,121.0
Change in penalty income reporting*	(72.3)	–	–	(72.3)	(72.3)	–	–	(72.3)
<b>Restated balance at 1 April 2011*</b>	<b>850.6</b>	<b>192.6</b>	<b>–</b>	<b>1,043.2</b>	<b>866.1</b>	<b>194.5</b>	<b>(11.9)</b>	<b>1,048.7</b>
Net Parliamentary Funding – drawn down	15,859.4	–	–	15,859.4	15,908.6	–	–	15,908.6
Net Parliamentary Funding – deemed	17.7	–	–	17.7	22.3	–	–	22.3
Change in penalty income reporting*	12.8	–	–	12.8	12.8	–	–	12.8
Funding from Trust Statement	30,390.0	–	–	30,390.0	30,390.0	–	–	30,390.0
National Insurance Fund	343.3	–	–	343.3	343.3	–	–	343.3
Supply (payable)/receivable adjustment	(29.8)	–	–	(29.8)	(48.2)	–	–	(48.2)
CFERs payable to the Consolidated Fund	5 (1.1)	–	–	(1.1)	(1.1)	–	–	(1.1)
Comprehensive Net Expenditure for the Year	(46,535.2)	(9.8)	–	(46,545.0)	(46,581.0)	(9.4)	–	(46,590.4)
<b>Non-cash Adjustments</b>								
Non-cash charges – auditor's remuneration	8,9 2.0	–	–	2.0	2.1	–	–	2.1
<b>Movements in Reserves</b>								
Transfer between reserves	43.1	(43.1)	–	–	42.8	(43.6)	0.8	–
Pension Reserve actuarial (losses)/gains	–	–	–	–	–	–	(17.7)	(17.7)
Contributions to LGPS pension fund by DWP	22 –	–	–	–	–	–	–	–
<b>Balance at 31 March 2012*</b>	<b>952.8</b>	<b>139.7</b>	<b>–</b>	<b>1,092.5</b>	<b>957.7</b>	<b>141.5</b>	<b>(28.8)</b>	<b>1,070.4</b>

	Note	Core Department				Core Department & Agency			
		General Fund £m	Revaluation Reserve <sup>1</sup> £m	Pension Reserve £m	Total Reserves £m	General Fund £m	Revaluation Reserve <sup>2</sup> £m	Pension Reserve £m	Total Reserves £m
Net Parliamentary Funding – drawn down		15,621.5	–	–	15,621.5	15,676.1	–	–	15,676.1
Net Parliamentary Funding – deemed		29.8	–	–	29.8	48.2	–	–	48.2
Funding from Trust Statement		30,546.0	–	–	30,546.0	30,546.0	–	–	30,546.0
National Insurance Fund		331.5	–	–	331.5	331.5	–	–	331.5
Supply (payable)/receivable adjustment		(11.9)	–	–	(11.9)	(24.3)	–	–	(24.3)
CFERs payable to the Consolidated Fund	5	(0.3)	–	–	(0.3)	(0.3)	–	–	(0.3)
Comprehensive Net Expenditure for the Year		(46,667.2)	17.5	–	(46,649.7)	(46,720.6)	17.8	–	(46,702.8)
<b>Non-cash Adjustments</b>									
Non-cash charges – auditor’s remuneration	8,9	1.9	–	–	1.9	2.0	–	–	2.0
<b>Movements in Reserves</b>									
Transfer between reserves		26.9	(26.9)	–	–	27.8	(27.6)	(0.2)	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	(4.0)	(4.0)
Contributions to LGPS pension fund by DWP	22	–	–	–	–	–	–	–	–
<b>Balance at 31 March 2013</b>		<b>831.0</b>	<b>130.3</b>	<b>–</b>	<b>961.3</b>	<b>844.1</b>	<b>131.7</b>	<b>(33.0)</b>	<b>942.8</b>

<sup>1</sup> The 31 March 2013 Core Department Revaluation Reserve Balance comprised £74.5m in relation to Intangible Assets (31 March 2012 £75.4m, 1 April 2011 £94.5m).

<sup>2</sup> The 31 March 2013 Consolidated Revaluation Reserve Balance comprised £75.7m in relation to Intangible Assets (31 March 2012 £76.8m, 1 April 2011 £95.9m).

\* Certain prior year figures have been restated as per note 30

# Notes to the Departmental Resource Accounts

## 1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2012-13 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

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

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

### 1.1 Accounting convention

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

### 1.2 Basis of consolidation

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

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

### 1.3 Tax Credits

#### 1.3.1 Personal Tax Credits

Personal Tax Credits consist of Child Tax Credit and Working Tax Credit. Background about the operation of Personal Tax Credits can be found at [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

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

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

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments, the underpayment is offset against the receivable. Overpayments are treated as other receivables and the Department seeks to recover these from future Personal Tax Credits awards or through direct repayments. Further details relating to the accounting for Personal Tax Credits receivables are provided at Note 1.25 and Note 10.

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

### 1.3.2 Corporation Tax Reliefs

Certain Corporation Tax Reliefs are included in these Resource Accounts:

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

These reliefs can contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. There may also be an element that is treated as Negative Taxation which is when the extent of the relief is less than or equal to the recipient's tax liability. The payment of entitlement and negative tax elements of these reliefs are reported on the basis of estimated payments adjusted for accruals.

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

## 1.4 Child Benefit

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

Where an overpayment of benefit is established, a receivable is created and programme expenditure in the Consolidated Statement of Comprehensive Net Expenditure is reduced accordingly. Where possible, overpayments are recovered from future benefit entitlements. Receivables which are deemed irrecoverable are written-off in accordance with the Department's normal remission policy, and recorded as losses or remissions as appropriate within the Consolidated Statement of Comprehensive Net Expenditure.

From 7 January 2013, a new higher income Child Benefit tax charge was introduced when a customer or their partner receives Child Benefit and either one of them has an income above £50,000 in a tax year. Customers who are liable to the new higher income Child Benefit tax charge have two options:

- i) To continue to receive Child Benefit payments; or
- ii) To elect to stop receiving Child Benefit payments.

For those who decide to continue to receive Child Benefit, the new higher income Child Benefit tax charge will be calculated as an increasing percentage of the Child Benefit received for incomes above £50,000 until the

charge equals the full amount of the Child Benefit at incomes of £60,000 or greater. As a result, a proportion of the Child Benefit recorded as expenditure in the Resource Accounts for these higher rate taxpayers will be recovered as an income tax charge and accounted for in the Trust Statement as additional revenue.

## 1.5 Financial instruments

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

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

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

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

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

Further details can be found at note 14.

## 1.6 Property, plant and equipment

### 1.6.1 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 *Property, Plant and Equipment*. A £5,000 capitalisation threshold applies to all property, plant and equipment except for furniture, vehicles and IT hardware, which are capitalised regardless of cost. 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 revaluation 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 *Leases*.

### 1.6.2 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 *Service Concession Arrangements*, and where the Department has control within the contract and a material residual interest, the property is recognised as a non-current asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between a Consolidated Statement of Comprehensive Net Expenditure service charge and a Consolidated Statement of Financial Position finance lease liability.

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor Departments by Mapeley STEPS Contractor Ltd in March 2001 under a twenty-year PFI contract (see note 23.3). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The Department has also capitalised its seven other PFI property interests as finance leases being service concession arrangements under IFRIC 12, with the exception of Benton Park View, of which only 75 per cent has been capitalised as the Department for Work and Pensions is the joint tenant for the remainder of the property. The Department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

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

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

#### 1.6.3 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.

#### 1.6.4 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 significant 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.

#### 1.6.5 Tangible assets under construction

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

### 1.7 Depreciation

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

### 1.7.1

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

### 1.7.2

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

## 1.8 Intangible assets

### 1.8.1 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.

### 1.8.2 Developed computer software

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

### 1.8.3 Intangible assets under construction

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

## 1.9 Impairments of non-financial assets

In accordance with IAS 36 *Impairment of Assets*, 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.

### 1.10 Inventories

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

### 1.11 Operating income

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

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

### 1.12 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 agreed with HM Treasury.

Administration reports the internal administration costs of running the Department, for example, human resources, finance, estates management, and includes both costs and associated operating income. The income is analysed between that which is allowed to be offset against gross administrative costs and that which is not. Programme reports the costs incurred in the delivery of front line services such as the parts of the Department which interact directly with our external customers. In addition it includes the payments made for Tax Credits, Child Benefit and other disbursements by the Department. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

### 1.13 Cash and cash equivalents

These are cash and bank balances in respect of administering the Department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the Department's Trust Statement.

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

### 1.14 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.

## 1.15 Pensions

### 1.15.1 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.

### 1.15.2 Local Government Pension Scheme (LGPS)

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

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

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

A formal valuation of the scheme's assets and liabilities for the purpose of setting employers' contributions is carried out every three years. The last formal valuation was as at 31 March 2010. The current employer contribution rate is 22.2 per cent of pensionable pay (2011-12: 22.2 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 Rent Service pension fund liability to crystallise, then DWP would accept this liability and in so far as they could fund this themselves would do so and in the event that they could not fund this would seek additional funding from HM Treasury to address any shortfall. The VOA and by extension the Department is effectively indemnified against this liability.

## 1.16 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.

### 1.17 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.

### 1.18 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 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 rates set by HM Treasury.

### 1.19 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who take early departure or retirement under the Civil Service Compensation Scheme. The Department has made provision in full for this cost. The estimated risk-adjusted cash flows are discounted at 2.35 per cent as set by HM Treasury (2011-12: 2.8 per cent).

### 1.20 Impairment of receivables

In accordance with IAS 39 an impairment of receivables is made when considered material following assessment of the recoverability of future cash flows, for example, in respect of legal costs that have been awarded to the Department. Impairments are also made to include those made in respect of Child Benefit receivables (note 1.4) and Tax Credits receivables (note 1.25) to allow for potentially irrecoverable amounts. All these impairments have been estimated having regard to the level of receivables not expected to be recovered (see note 1.25).

### 1.21 Value Added Tax

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

### 1.22 Third-party assets

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

Details of these assets are reported in note 28.

### 1.23 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*. Further information about *Managing Public Money* can be found on the HM Treasury website.

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.

## 1.24 Newly applied and future accounting policy changes

### Adopted in these Financial Statements

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

- Change in penalty income reporting. The approach agreed with HM Treasury for many years has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. A new agreement has been reached with HM Treasury that with effect from 1 April 2012 this would cease and these penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts. Prior year figures have been restated, please see note 30 for further details.

### Effective for future Financial Years

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

- IAS 1 Presentation of financial statements (Other Comprehensive Income), effective 1 January 2013. This requires changes to reporting of Other Comprehensive income and HM Treasury will consider if application enhances public sector reporting and is effective in a public sector context from 1 April 2013;
- IAS 19 Employee Benefits, effective 1 January 2013. This introduces a number of changes on recognition, presentation, disclosure and modifies accounting for termination benefits. This will be effective in a public sector context for 2013-14;
- IFRS 9 Financial Instruments: Classification, Measurement and impairments, effective 1 January 2015 (not yet EU adopted). IFRS 9 addresses classification, measurement and impairment of financial assets. The impact of the proposals on the public sector are being further reviewed by HM Treasury;
- IFRS 12 Disclosure of the Interests in Other Entities, effective 1 January 2013 (not yet EU adopted). IFRS 12 requires more disclosure of the financial effects on, and risks to, the consolidating entity. The application of this IFRS is subject to further review by HM Treasury;
- IFRS 13 Fair Value Measurement, effective 1 January 2013 (not yet EU adopted). IFRS 13 is expected to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS. The impact of the proposals on the public sector are being further reviewed by HM Treasury;
- IAS 16 Property, Plant and Equipment effective from 1 January 2013. IFRS 16 deals with the classification of servicing equipment and when they meet the definition of property, plant and equipment. The FReM is expected to apply this change in full for 2013-14.

## 1.25 Critical accounting judgements and key sources of estimation

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

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

### Personal Tax Credits expenditure

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

### Corporation Tax Reliefs

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

### Impairment of receivables

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

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

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

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

Relatively minor adjustments in assumptions can have a significant impact on reported figures. The maximum impact of a 1 per cent change in the recoverability assumptions would be an increase or decrease of £47.5million of the impairment.

The impairment of Child Benefit receivables is calculated by reference to recovery rates by aged debt bands. The percentages have been created by comparing the outstanding balance with the original value of the overpayment debt in each aged debt band. Following this process through each of the aged debt bands provides the value of the Child Benefit impairment required.

### **Revaluation of assets in accordance with Modified Historic Cost Accounting**

Where required, the Department has historically revalued its IT software assets on the basis of indices published by The Office for National Statistics. An appropriate index series is selected which is considered to be a useful proxy for movements on the IT software value. The most recent index series utilised is K5EX based on average wage earnings for the 'Information & Communication' sector (see note 1.8.2).

### **Valuation of furniture**

The asset value of furniture reported is based upon an accounting estimate of the value of assets used by the Department. This estimation is dependant upon several variables: a per capita unit value for each member of staff; the ratio of staff numbers to each unit of furniture; and the life of furniture over which depreciation is charged. In 2011-12 a review of the per capita unit value was undertaken and a revised value was identified with new targets being set for the ratio of staff numbers to units of furniture with reference to Full Time Equivalents (see note 1.6.4).

### **Employee leave accrual**

In accordance with IAS 19, the employee leave accrual is derived by extracting data of outstanding employee leave at the financial year end from the source HR system and applying an estimated average salary rate (see note 1.17).

### **Provisions and Contingent Liabilities**

The Department undertakes a quarterly review of provisions and contingent liabilities. The provisions include legal claims, early departure costs, Child Trust Fund and accommodation costs. These are estimated by appropriate business areas based on the likelihood of a liability materialising. In accordance with IAS 37, a provision is recorded if it is considered that there is a more than 50 per cent probability of an obligation arising (see note 21). Where it is less than probable that an obligation will arise the Department discloses a contingent liability unless the outflow of economic benefits is remote (see note 25).

## 2. Net Outturn

### 2.1 Analysis of net resource outturn by section

									2012-13 £m	Restated* 2011-12 £m
Outturn						Estimate			Outturn Total compared to Estimate Net Total, adjusted for virements	Total
Administration			Programme			Total	Net Total	Estimate Net Total		
Gross	Income	Net	Gross	Income	Net					

#### Spending in Departmental Expenditure Limit

<b>Voted:</b>											
A HMRC Administration	909.1	(59.5)	849.6	2,502.1	(62.1)	2,440.0	3,289.6	3,303.6	14.0	12.4	3,322.9
B VOA Administration	–	–	–	189.9	(191.9)	(2.0)	(2.0)	2.0	4.0	4.0	(2.8)
C Utilised Provisions	33.0	–	33.0	8.0	–	8.0	41.0	52.4	11.4	11.4	56.3
<b>Total Voted</b>	<b>942.1</b>	<b>(59.5)</b>	<b>882.6</b>	<b>2,700.0</b>	<b>(254.0)</b>	<b>2,446.0</b>	<b>3,328.6</b>	<b>3,358.0</b>	<b>29.4</b>	<b>27.8</b>	<b>3,376.4</b>
<b>Non-voted:</b>											
D National Insurance Fund	64.8	–	64.8	269.7	–	269.7	334.5	332.9	(1.6)	–	340.7
<b>Total Non-Voted</b>	<b>64.8</b>	<b>–</b>	<b>64.8</b>	<b>269.7</b>	<b>–</b>	<b>269.7</b>	<b>334.5</b>	<b>332.9</b>	<b>(1.6)</b>	<b>–</b>	<b>340.7</b>
<b>Total spending in Departmental Expenditure Limit</b>	<b>1,006.9</b>	<b>(59.5)</b>	<b>947.4</b>	<b>2,969.7</b>	<b>(254.0)</b>	<b>2,715.7</b>	<b>3,663.1</b>	<b>3,690.9</b>	<b>27.8</b>	<b>27.8</b>	<b>3,717.1</b>

#### Spending in Annually Managed Expenditure

<b>Voted:</b>											
E Social Benefits and Grants	–	–	–	12,160.1	–	12,160.1	12,160.1	12,300.0	139.9	123.5	12,134.5
F Providing payments in lieu of tax relief to certain bodies	–	–	–	57.1	–	57.1	57.1	63.8	6.7	6.7	101.5
G e-filing incentive payments	–	–	–	–	–	–	–	0.1	0.1	0.1	–
H HMRC Administration	–	–	–	19.6	–	19.6	19.6	30.0	10.4	10.4	4.0

	2012-13										Restated*	
	£m										2011-12	
	Outturn						Estimate				Outturn	£m
	Administration			Programme			Total	Net Total	Estimate Net Total	Outturn Total compared to Estimate Net Total, adjusted for virements	Total	
Gross	Income	Net	Gross	Income	Net							
I VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	59.1	(3.3)	55.8	55.8	56.1	0.3	0.3	47.6	
J VOA Administration	–	–	–	(0.4)	–	(0.4)	(0.4)	–	0.4	0.4	1.1	
K Utilised Provisions	–	–	–	(41.5)	–	(41.5)	(41.5)	(57.9)	(16.4)	–	(56.3)	
<b>Total Voted</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,254.0</b>	<b>(3.3)</b>	<b>12,250.7</b>	<b>12,250.7</b>	<b>12,392.1</b>	<b>141.4</b>	<b>141.4</b>	<b>12,232.4</b>	
<b>Non-voted:</b>												
L Personal Tax Credit	–	–	–	30,109.4	–	30,109.4	30,109.4	30,360.0	250.6	250.6	29,914.3	
M Other reliefs and allowances	–	–	–	739.5	–	739.5	739.5	756.0	16.5	16.5	634.4	
<b>Total Non-Voted</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>30,848.9</b>	<b>–</b>	<b>30,848.9</b>	<b>30,848.9</b>	<b>31,116.0</b>	<b>267.1</b>	<b>267.1</b>	<b>30,548.7</b>	
<b>Total spending in Annually Managed Expenditure</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>43,102.9</b>	<b>(3.3)</b>	<b>43,099.6</b>	<b>43,099.6</b>	<b>43,508.1</b>	<b>408.5</b>	<b>408.5</b>	<b>42,781.1</b>	
<b>Total Voted</b>	<b>942.1</b>	<b>(59.5)</b>	<b>882.6</b>	<b>14,954.0</b>	<b>(257.3)</b>	<b>14,696.7</b>	<b>15,579.3</b>	<b>15,750.1</b>	<b>170.8</b>	<b>169.2</b>	<b>15,608.8</b>	
<b>Total Non-Voted</b>	<b>64.8</b>	<b>–</b>	<b>64.8</b>	<b>31,118.6</b>	<b>–</b>	<b>31,118.6</b>	<b>31,183.4</b>	<b>31,448.9</b>	<b>265.5</b>	<b>267.1</b>	<b>30,889.4</b>	
<b>Total</b>	<b>1,006.9</b>	<b>(59.5)</b>	<b>947.4</b>	<b>46,072.6</b>	<b>(257.3)</b>	<b>45,815.3</b>	<b>46,762.7</b>	<b>47,199.0</b>	<b>436.3</b>	<b>436.3</b>	<b>46,498.2</b>	

\* Certain prior year figures have been restated as per note 30



## 2.2 Analysis of net capital outturn by section

	Outturn		Estimate		Outturn Net Total compared to Estimate Net Total	2012-13 £m	2011-12 £m
	Gross	Income	Net	Net		Outturn Total compared to Estimate Net Total adjusted for virements,	Outturn
<b>Spending in Departmental Expenditure Limit</b>							
<b>Voted:</b>							
A HMRC Administration	194.3	(4.3)	190.0	196.0	6.0	6.0	214.3
B VOA Administration	4.0	–	4.0	7.9	3.9	3.9	5.2
C Utilised Provisions	–	–	–	–	–	–	–
<b>Total Voted</b>	<b>198.3</b>	<b>(4.3)</b>	<b>194.0</b>	<b>203.9</b>	<b>9.9</b>	<b>9.9</b>	<b>219.5</b>
<b>Non-voted:</b>							
D National Insurance Fund	–	–	–	–	–	–	–
<b>Total Non-Voted</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total spending in Departmental Expenditure Limit</b>	<b>198.3</b>	<b>(4.3)</b>	<b>194.0</b>	<b>203.9</b>	<b>9.9</b>	<b>9.9</b>	<b>219.5</b>
<b>Spending in Annually Managed Expenditure</b>							
<b>Voted:</b>							
E Social Benefits and Grants	0.5	–	0.5	5.5	5.0	5.0	86.3
F Providing payments in lieu of tax relief to certain bodies	–	–	–	–	–	–	–
G e-filing incentive payments	–	–	–	–	–	–	–
H HMRC Administration	–	–	–	–	–	–	–
I VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	–	–	–	–
J VOA Administration	–	–	–	–	–	–	–
K Utilised Provisions	–	–	–	–	–	–	–
<b>Total Voted</b>	<b>0.5</b>	<b>–</b>	<b>0.5</b>	<b>5.5</b>	<b>5.0</b>	<b>5.0</b>	<b>86.3</b>
<b>Non-voted:</b>							
L Personal Tax Credit	–	–	–	–	–	–	–
M Other reliefs and allowances	–	–	–	–	–	–	–
<b>Total Non-Voted</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total spending in Annually Managed Expenditure</b>	<b>0.5</b>	<b>–</b>	<b>0.5</b>	<b>5.5</b>	<b>5.0</b>	<b>5.0</b>	<b>86.3</b>
<b>Total Voted</b>	<b>198.8</b>	<b>(4.3)</b>	<b>194.5</b>	<b>209.4</b>	<b>14.9</b>	<b>14.9</b>	<b>305.8</b>
<b>Total Non-Voted</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>198.8</b>	<b>(4.3)</b>	<b>194.5</b>	<b>209.4</b>	<b>14.9</b>	<b>14.9</b>	<b>305.8</b>

An explanation of material variances between the Estimate and outturn are provided in the Management Commentary on page 66.

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

#### 3.1 Reconciliation of net resource outturn to net operating cost

	Note	2012-13 £m Outturn	Restated* 2011-12 £m Outturn
Total resource outturn in Statement of Parliamentary Supply			
Budget	2	46,762.7	46,498.2
Non-Budget	2	–	–
		<b>46,762.7</b>	<b>46,498.2</b>
Add:			
Capital spend – Child Trust Fund	2	0.5	86.3
IFRS asset costs		6.4	13.3
		<b>6.9</b>	<b>99.6</b>
Less:			
Income payable to the Consolidated Fund		(0.3)	(1.1)
Barter deal prepayment release		(48.7)	(15.7)
		<b>(49.0)</b>	<b>(16.8)</b>
Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure		<b>46,720.6</b>	<b>46,581.0</b>

#### 3.2 Outturn against final Administration Budget and Administration net operating cost

	2012-13 £m	2011-12 £m
Estimate – Administration costs limit	<b>962.9</b>	<b>974.8</b>
Outturn – Gross Administration Costs	1,006.9	1,052.8
Outturn – Gross Income relating to administration costs	(59.5)	(89.8)
Outturn – Net administration costs	<b>947.4</b>	<b>963.0</b>
Reconciliation to the Statement of Comprehensive Net Expenditure		
Adjustments:		
provisions utilised (transfer from Programme)	(33.0)	(40.9)
Administration IFRS asset costs	34.5	39.8
Consolidation adjustments	3.6	4.1
Barter deal prepayment release	(38.2)	(15.7)
Administration income payable to the Consolidated Fund	(0.1)	(0.7)
<b>Net Administration Costs in the Consolidated Statement of Net Expenditure</b>	<b>914.2</b>	<b>949.6</b>

\* Certain prior year figures have been restated as per note 30

#### 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	2.1	47,199.0	46,762.7	436.3
Capital Outturn	2.2	209.4	194.5	14.9
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation and amortisation		(227.0)	(270.3)	43.3
New provisions and adjustments to previous provisions		(29.9)	(2.4)	(27.5)
Other non-cash items		(2.3)	(5.1)	2.8
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in stock		–	(0.2)	0.2
Increase/(decrease) in receivables		129.7	(149.3)	279.0
(Increase)/decrease in payables		115.2	(30.0)	145.2
Use of provisions		57.8	41.6	16.2
Other adjustments		(31,449.0)	(30,841.5)	(607.5)
<b>Net Cash Requirement</b>		<b>16,002.9</b>	<b>15,700.0</b>	<b>302.9</b>

An explanation of material variances between the Estimate and outturn are provided in the Management Commentary on page 66.

#### 5. Income payable to the Consolidated Fund

##### 5.1 Analysis of income payable to the Consolidated Fund

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

	Outturn 2012-13 £m		Outturn 2011-12 £m	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income outside the ambit of the Estimate	(0.3)	<i>(0.3)</i>	(1.1)	<i>(1.1)</i>
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
<b>Total income payable to the Consolidated Fund</b>	<b>(0.3)</b>	<b><i>(0.3)</i></b>	<b>(1.1)</b>	<b><i>(1.1)</i></b>

## 5.2 Consolidated Fund Income

Consolidated Fund income shown in note 5.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement, see pages 145-173.

## 6. Statement of Operating Costs by Operating Segment

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. 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 Finance Pack and reported here in the same format.

The Finance Pack covers expenditure and income which is reported to the Chief Executive and the Board. Information on all other net expenditure is included in note 6.1. This information is reported to the Board, however as it is Annually Managed Expenditure (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 full year forecast spend at the segment level.

Reportable Segment			2012-13
	Gross Expenditure £m	Income £m	Net Expenditure £m
Business Tax	199.3	(14.7)	184.6
Personal Tax	736.3	(8.7)	727.6
Enforcement and Compliance	1,051.2	(23.1)	1,028.1
Benefits and Credits	157.2	(0.1)	157.1
Central Tax & Strategy	36.6	(0.6)	36.0
Chief Finance Officer Group	483.4	(24.4)	459.0
Chief Information Officer Group	793.4	(29.7)	763.7
HMRC Change Programme	7.2	–	7.2
Chief People Officer Group	126.9	(15.0)	111.9
Legal	47.4	(3.3)	44.1
Estimate Control	(3.3)	–	(3.3)
HMRC Central	51.1	(1.6)	49.5
Change Investment funding	98.9	(0.3)	98.6
<b>Total</b>	<b>3,785.6</b>	<b>(121.5)</b>	<b>3,664.1</b>

Reportable Segment	Gross Expenditure £m	Income £m	Restated* 2011-12 Net Expenditure £m
Business Tax	191.0	(10.1)	180.9
Personal Tax	736.1	(10.1)	726.0
Enforcement and Compliance	1,013.9	(22.9)	991.0
Benefits and Credits	154.6	(1.0)	153.6
Central Tax & Strategy	41.7	(0.5)	41.2
Chief Finance Officer Group	525.2	(20.2)	505.0
Chief Information Officer Group	772.7	(48.0)	724.7
HMRC Change Programme	7.7	–	7.7
Chief People Officer Group	146.9	(11.0)	135.9
Legal	50.8	(3.5)	47.3
Estimate Control	(0.4)	–	(0.4)
HMRC Central	68.0	(2.0)	66.0
Change Investment funding	120.3	(0.3)	120.0
<b>Total</b>	<b>3,828.5</b>	<b>(129.6)</b>	<b>3,698.9</b>

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

	2012-13 £m	Restated* 2011-12 £m
<b>Total net expenditure reported by segment</b>	<b>3,664.1</b>	<b>3,698.9</b>
Valuation Office Agency	(2.4)	(1.7)
Payments in lieu of tax relief	54.4	98.6
Payments of Local Authority Rates	55.7	47.5
Child Benefit, Child Trust Fund and Health in Pregnancy Grant	12,160.1	12,220.8
Personal Tax Credits	30,109.4	29,914.3
Corporation Tax Credits	729.3	623.8
Other Income Tax reliefs	11.0	11.6
IFRS elements not included in the Management Accounts	6.3	13.3
Remaining reconciling items	(67.3)	(46.1)
<b>Net Operating Cost per Statement of Comprehensive Net Expenditure</b>	<b>46,720.6</b>	<b>46,581.0</b>

\* Certain prior year figures have been restated to align with the segments reported to the Board and the transfer of Penalties to the Trust Statement as per note 30

## Explanation of the significant variances between 2012-13 and 2011-12 Management Accounts.

The net spend of the Department overall as shown in the Management Accounts has decreased from £3,698.9m to £3,664.1m. The significant variances are as follows:

- Chief Finance Officer Group – decrease in expenditure of £41.8m (8.0 per cent) mainly relates to a decrease in wages and salaries due to the reduction in Full Time Equivalent (FTE) staff, a reduction in postage expenditure now delegated to other business areas and a reduction in utility costs following rationalisation of the estate;
- Enforcement and Compliance – increase in expenditure of £37.3m (3.7 per cent) mainly relates to an increase in wages and salaries due to the growth in FTEs in line with SR10 plans;
- Change Investment Funding – decrease in expenditure of £21.4m (17.8 per cent) relates to the winding down and closure of the Business Link Programme in November 2012;
- Chief People Officer Group – decrease in expenditure of £20.0m (13.6 per cent) mainly relates to a reduction in the number of payments made under the Civil Service Compensation Scheme. An increase in income of £4.0m (36.4 per cent) mainly relates to increased income received from Government Departments for providing centralised recruitment and related services for the Civil Service;
- Chief Information Officer Group – increase in expenditure of £20.7m (2.7 per cent) mainly relates to several increases in costs in 2012-13 for Universal Credits IT costs and a one-off payment made to an IT partner under contractual obligations. In addition, several one-off credits were received in 2011-12 that reduced expenditure in that year. A decrease in income of £18.3m (38.1 per cent) mainly relates to a reduction of accommodation income from Aspire following novation of some lease contracts to Aspire and the remainder now being re-charged by CFO group; and
- Business Tax – increase in expenditure of £8.3m (4.3 per cent) mainly relates to an increase in Shipbuilders' Relief. This is due to an increase in the claims received. An increase in income of £4.6m (45.5 per cent) mainly relates to an increase in Shipbuilders' Relief recovered from the DVLA.

## 7. Staff numbers and related costs

Staff costs comprise:

	2012-13 £m			2011-12 £m
	Permanently employed staff	Others	Total	Total
Wages and salaries	1,749.2	66.4	1,815.6	1,876.9
Social security costs	126.2	3.9	130.1	132.4
Other pension costs	320.1	4.9	325.0	330.3
<b>Sub Total</b>	<b>2,195.5</b>	<b>75.2</b>	<b>2,270.7</b>	<b>2,339.6</b>
Less recoveries in respect of outward secondments	(3.4)	–	(3.4)	(2.9)
<b>Total net costs<sup>1</sup></b>	<b>2,192.1</b>	<b>75.2</b>	<b>2,267.3</b>	<b>2,336.7</b>
	<b>Charged to Administration budgets</b>	<b>Charged to Programme budgets</b>	<b>Total</b>	
Of which:				
Core Department	302.3	1,831.7	2,134.0	
Valuation Office Agency	–	133.3	133.3	
<b>Total net costs</b>	<b>302.3</b>	<b>1,965.0</b>	<b>2,267.3</b>	

<sup>1</sup> In 2011-12 and 2012-13 no HMRC staff costs have been charged to capital.

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

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

For 2012-13, employers' contributions of £323,206,137 were payable to the PCSPS (2011-12: £328,372,539) 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 2012-13 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 £749,334 (2011-12: £678,178) 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 £52,558, 0.8 per cent of pensionable pay (2011-12: £47,362, 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.

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2012-13 were £971,438 (2011-12: £979,461). Details of this scheme can be found in note 1.15.2 and note 22.

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

The Remuneration Report provides details of the Pension benefits for the members of the Executive Committee. 123 individuals (2011-12: 85 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £195,613 (2011-12: £121,509).

#### Average number of persons employed

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

	2012-13			2011-12
	Permanently employed staff	Others	Total	Total
Core Department	61,568	3,472	65,040	67,004
Valuation Office Agency	3,418	62	3,480	3,563
Staff engaged on capital projects	–	–	–	–
<b>Total</b>	<b>64,986</b>	<b>3,534</b>	<b>68,520</b>	<b>70,567</b>

### 7.1 Reporting of Civil Service and other compensation schemes - exit packages

Comparative data shown in brackets for previous year.

Exit package cost band	Core Department			Core Department & Agency		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	– (6)	14 (4)	14 (10)	– (6)	14 (5)	14 (11)
£10,000 – £25,000	1 (1)	93 (59)	94 (60)	2 (12)	94 (77)	96 (89)
£25,000 – £50,000	2 (-)	129 (96)	131 (96)	2 (4)	129 (116)	131 (120)
£50,000 – £100,000	– (-)	85 (116)	85 (116)	– (-)	91 (129)	91 (129)
£100,000 – £150,000	– (-)	15 (72)	15 (72)	– (-)	18 (76)	18 (76)
£150,000 – £200,000	– (-)	10 (13)	10 (13)	– (-)	10 (13)	10 (13)
£200,000+	– (-)	4 (11)	4 (11)	– (-)	4 (11)	4 (11)
Total number of exit packages by type	3 (7)	350 (371)	353 (378)	4 (22)	360 (427)	364 (449)
Total resource cost	£34,616 (£66,481)	£16,524,689 (£26,941,896)	£16,559,305 (£27,008,377)	£48,616 (£394,481)	£17,317,689 (£29,365,896)	£17,366,305 (£29,760,377)

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.



## 8. Other Administration Costs

	Note	Core Department	Core Department & Agency	Core Department	Core Department & Agency
			£m		2011-12 £m
			Core Department & Agency	Core Department	Core Department & Agency
<b>Rentals under operating leases:</b>					
Hire of plant and machinery		0.3	0.3	1.8	1.8
Other operating leases		17.3	17.3	20.4	20.4
		17.6	17.6	22.2	22.2
<b>Interest charges:</b>					
Accommodation PFI interest charges <sup>1</sup>		39.8	39.8	42.8	42.8
Accommodation Non-PFI interest charges		0.6	0.6	0.7	0.7
		40.4	40.4	43.5	43.5
<b>PPP and PFI service charges:</b>					
IT PPP contract payments		202.4	202.4	197.7	197.7
Accommodation PFI contract payments <sup>1</sup>		90.5	90.5	100.6	100.6
Indexation of liability on PFI deals		2.5	2.5	2.5	2.5
		295.4	295.4	300.8	300.8
<b>Other expenditure:</b>					
Travel, subsistence and hospitality		10.0	10.0	9.6	9.6
Accommodation expenses		72.7	72.7	78.7	78.6
Staff related costs		3.1	3.1	0.7	0.7
Printing, postage, stationery and office supplies		10.8	10.8	22.1	22.1
Telephone expenses		36.0	36.0	41.3	41.3
IT services and consumables		19.7	19.7	13.7	13.7
Legal costs		1.6	1.6	0.1	0.1
Consultancy		1.2	1.2	0.7	0.7
Contracted out services		19.4	19.4	19.1	19.0
Publicity		4.3	4.3	4.1	4.1
Bank charges		10.4	10.4	9.8	9.8
Other miscellaneous expenditure		7.5	7.5	12.2	12.2
		196.7	196.7	212.1	211.9
<b>Non-cash items:</b>					
Depreciation		64.4	64.4	68.5	68.5
Amortisation		47.2	47.2	46.5	46.5
Profit on disposal of property, plant and equipment		(0.1)	(0.1)	(0.3)	(0.3)
Loss on disposal of property, plant and equipment		3.2	3.2	0.9	0.9
Net revaluation loss		–	–	–	–
Auditor's remuneration and expenses		1.9	1.9	2.0	2.0
		116.6	116.6	117.6	117.6
<b>Total</b>		<b>666.7</b>	<b>666.7</b>	<b>696.2</b>	<b>696.0</b>

<sup>1</sup> Includes payments for non-PFI land and buildings that are leased by the PFI service provider.

## 9. Programme Costs

		2012-13 £m		Restated* 2011-12 £m	
	Note	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Tax Credits</b>					
Personal Tax Credits	10	30,109.4	30,109.4	29,914.3	29,914.3
Corporation Tax Credits	10	729.3	729.3	623.8	623.8
		30,838.7	30,838.7	30,538.1	30,538.1
<b>Child Benefit, Child Trust Fund and Health in Pregnancy Grant</b>					
Child Benefit		12,176.0	12,176.0	12,221.7	12,221.7
Guardians Allowance (Funded from NIF)		1.9	1.9	2.0	2.0
Health in Pregnancy Grant		–	–	(0.9)	(0.9)
		12,177.9	12,177.9	12,222.8	12,222.8
<b>Payments in lieu of tax relief</b>					
Life Assurance Premium Relief, MIRAS		11.0	11.0	11.6	11.6
Transitional payments to charities		4.4	4.4	48.6	48.6
Stakeholder pensions		50.0	50.0	50.0	50.0
		65.4	65.4	110.2	110.2
<b>Payments of Local Authority Rates</b>					
Payments of Local Authority Rates (POLAR)		–	59.1	–	50.4
		–	59.1	–	50.4
<b>Rentals under operating leases:</b>					
Hire of plant and machinery		0.1	0.1	(0.9)	(0.9)
Other operating leases		15.3	15.6	18.4	18.7
		15.4	15.7	17.5	17.8
<b>Interest charges:</b>					
IT PPP interest charges		8.6	8.6	8.6	8.6
		8.6	8.6	8.6	8.6
<b>PPP and PFI service charges:</b>					
IT PPP contract payments		276.7	288.2	235.9	246.4
Accommodation PFI contract payments <sup>1</sup>		47.3	55.4	52.1	61.9
		324.0	343.6	288.0	308.3
<b>Other Programme Costs</b>					
Travel, subsistence and hospitality		33.6	38.7	30.1	35.0
Accommodation expenses		26.8	36.0	29.9	40.4
Staff related costs		0.3	0.8	0.1	0.6

		2012-13 £m		Restated* 2011-12 £m	
	Note	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Printing, postage, stationery and office supplies		66.6	68.2	49.0	50.5
Telephone expenses		20.6	22.3	17.5	18.9
IT services and consumables		5.9	7.0	41.1	42.5
Legal and Investigation		37.3	37.5	49.1	49.2
Consultancy		0.3	0.3	0.4	0.4
Contracted out services		22.5	23.2	16.4	17.0
Publicity		2.4	2.5	0.1	0.2
Post Office services		12.7	12.7	12.7	12.7
Bank charges		8.6	8.7	10.0	10.0
Shipbuilders' Relief		33.1	33.1	9.2	9.2
Enforcement Costs		20.2	20.2	18.9	18.9
Business Link Payments		4.7	4.7	32.3	32.3
NIF OGD Costs		60.1	60.1	57.7	57.7
Other programme expenditure		48.3	40.9	59.0	54.0
		404.0	416.9	433.5	449.5
<b>Non-cash items</b>					
Depreciation		8.3	12.2	4.6	8.2
Amortisation		141.1	146.5	138.2	142.7
(Profit)/Loss on disposal of property, plant and equipment		(2.1)	(1.9)	(1.6)	(1.6)
Net revaluation loss/(gain)		(0.5)	0.3	(5.7)	(5.7)
Net loss/(profit) on impairment of non-current assets		1.4	1.4	–	3.2
Auditor's remuneration and expenses		–	0.1	–	0.1
Other Pension Finance Costs	22	–	0.2	–	(0.8)
Provision provided for in year	21				
Amounts provided for early departure costs		9.1	8.3	1.7	2.7
Borrowing costs (Unwinding of discount) on provisions	21	1.5	1.6	2.4	2.5
Child Trust Fund		(15.9)	(15.9)	–	–
Other programme provisions		8.2	8.4	10.4	10.4
		151.1	161.2	150.0	161.7
<b>Total</b>		<b>43,985.1</b>	<b>44,087.1</b>	<b>43,768.7</b>	<b>43,867.4</b>

<sup>1</sup> Includes payments for non-PFI land and buildings that are leased by the PFI service provider.

## Child Benefit

Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum (see paragraph 23 of the Management Commentary on page 68). In accordance with the revised government policy, it is estimated that £250m will be recovered via future income tax charges accounted for in the Trust Statement.

\* Certain prior year figures have been restated as per note 30

## 10. Tax Credits

### 10.1 Analysis of Personal Tax Credit Expenditure:

	2012-13 £m			2011-12 £m		
	Child Tax Credits	Working Tax Credits	Total Tax Credits	Child Tax Credits	Working Tax Credits	Total Tax Credits
Tax Credits treated as Negative Taxation	2,208.6	630.2	2,838.8	3,367.1	1,052.6	4,419.7
Tax Credits treated as Payments of Entitlement	20,200.2	5,763.7	25,963.9	18,668.7	5,836.0	24,504.7
	<b>22,408.8</b>	<b>6,393.9</b>	<b>28,802.7</b>	<b>22,035.8</b>	<b>6,888.6</b>	<b>28,924.4</b>
Movement in impairment for receivables	802.1	182.8	984.9	(396.8)	(287.7)	(684.5)
Write-offs	250.4	71.4	321.8	1,276.3	398.1	1,674.4
<b>Total Tax Credits</b>	<b>23,461.3</b>	<b>6,648.1</b>	<b>30,109.4</b>	<b>22,915.3</b>	<b>6,999.0</b>	<b>29,914.3</b>

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

Please see note 1.25 for the Estimation techniques used to determine the values for Negative Taxation and the Payments of Entitlement and how these are apportioned between Child Tax Credits and Working Tax Credits.

### 10.2 Personal Tax Credit Receivables

	Note	2012-13 £m	2011-12 £m
Receivables as at 1 April		4,013.5	4,676.6
Overpayments identified on finalisation of awards		760.2	829.9
Overpayments identified from change of circumstances in year		1,063.7	1,019.1
Recoveries made		(762.9)	(837.7)
Remissions/Write-offs		(321.8)	(1,674.4)
<b>Receivables as at 31 March</b>		<b>4,752.7</b>	<b>4,013.5</b>
Provision for impairment for receivables		(3,259.7)	(2,274.8)
<b>Net</b>	18	<b>1,493.0</b>	<b>1,738.7</b>

As a result of the finalisation exercise undertaken in 2012-13 further overpayments relating to tax credits paid in 2011-12 totalling £748.0m were identified. Adjustments made to payments through to 2010-11 resulted in overpayments totalling £12.2m. These have been accounted for in 2012-13.

In accordance with the accounting policy for Personal Tax Credits (Note 1.3.1), amounts under or over paid in 2012-13 and identified during the finalisation exercise being undertaken in 2013-14 are not included in the above figures.

Remissions and write-offs in 2012-13 include £10.1m (2011-12: £32.3m) written off in respect of organised fraud identified during the year.

### 10.3 Personal Tax Credits Error and Fraud

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

In June 2013, HMRC completed its testing on finalised awards for 2011-12, based on a random sample of some 3,780 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.91 billion and £2.27 billion (6.6 per cent to 7.9 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 £0.17 billion and £0.36 billion (0.6 per cent to 1.2 per cent of the final award by value) to which they were entitled.

### 10.4 Corporation Tax Reliefs

	2012-13 £m			2011-12 £m		
	Negative Taxation	Payments of Entitlement	Total	Negative Taxation	Payments of Entitlement	Total
Research & Development Tax Credits – Small & Medium Enterprises	237.1	206.8	443.9	155.8	213.1	368.9
Land Remediation Relief	24.6	6.3	30.9	33.6	5.0	38.6
Vaccine Research Relief	2.5	–	2.5	2.7	–	2.7
Film Tax Relief	–	252.0	252.0	–	213.6	213.6
Enhanced Capital Allowance	–	–	–	–	–	–
<b>Total</b>	<b>264.2</b>	<b>465.1</b>	<b>729.3</b>	<b>192.1</b>	<b>431.7</b>	<b>623.8</b>

### 10.5 Use of Estimates

Statistical models are used to derive certain estimated values. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns (see note 1.3 and 1.25).

## 11. Income

	2012-13 £m		Restated* 2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Administration Services	(60.5)	(58.5)	(57.1)	(52.9)
Banking Services	(16.0)	(16.0)	(16.3)	(16.3)
Other Income Types	(21.4)	(23.2)	(25.9)	(28.9)
Subscriptions and Fees	(18.0)	(18.0)	(19.7)	(19.7)
IT and Telephony Charges	(6.0)	(6.0)	(10.1)	(10.1)
VOA Services	–	(182.2)	–	(194.1)
	<b>(121.9)</b>	<b>(303.9)</b>	<b>(129.1)</b>	<b>(322.0)</b>

\* Certain prior year figures have been restated as per note 30

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.

	2012-13 £m			2011-12 £m		
	Income	Full Cost	Surplus/ (Deficit)	Income	Full Cost	Surplus/ (Deficit)
<b>Fees and Charges raised by the Valuation Office Agency (VOA)</b>						
Rating and Council Tax	(150.5)	150.6	(0.1)	(161.8)	160.5	1.3
National and Central Services	(11.6)	10.9	0.7	(11.9)	12.1	(0.2)
Commercial Services	(16.1)	14.8	1.3	(15.5)	15.5	–
Local Housing Allowances and Fair Rents	(13.8)	13.5	0.3	(15.2)	14.9	0.3
<b>Fees and Charges raised by the Core Department</b>						
International Assistance <sup>1</sup>	(0.6)	1.0	(0.4)	(0.8)	2.4	(1.6)
Money Laundering Regime	(7.5)	7.4	0.1	(7.2)	7.3	(0.1)
Bank charges via GBS	(15.7)	13.3	2.4	(15.3)	18.9	(3.6)
National Minimum Wage	(7.2)	7.2	–	(7.0)	6.9	0.1
Collection of Student Loans	(6.0)	5.6	0.4	(5.6)	5.7	(0.1)
DWP Welfare Reform Agenda	(3.3)	3.3	–	(2.7)	2.7	–
DWP Pensions Reform Delivery Programme	(0.2)	0.2	–	(3.2)	3.1	0.1
Services provided to the Valuation Office Agency	(3.6)	3.6	–	(4.3)	4.3	–
UK Border Agency	(27.2)	27.2	–	(24.6)	24.6	–
Child Maintenance and Enforcement Commission	(1.5)	1.5	–	(1.7)	1.7	–
Additional Statutory Paternity Pay	(0.1)	0.1	–	(1.5)	1.5	–
Civil Service Resourcing	(14.1)	13.7	0.4	(10.3)	10.3	–
Accommodation Recharges	(5.2)	5.2	–	(13.9)	13.9	–
<b>Total</b>	<b>(284.2)</b>	<b>279.1</b>	<b>5.1</b>	<b>(302.5)</b>	<b>306.3</b>	<b>(3.8)</b>

<sup>1</sup> For this service it is not the financial objective to recover the full costs.

## 12. Property, plant and equipment

	Land <sup>1</sup>	Buildings <sup>1</sup>	Accommodation Refurbishments <sup>1</sup>	Office & Computer Equipment	Vehicles	Furniture & Fittings <sup>2</sup>	Assets under Construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>									
At 1 April 2012	28.9	522.2	164.9	277.8	15.8	56.1	10.6	6.7	1,083.0
Additions	–	–	–	9.5	0.3	2.1	20.1	0.7	32.7
Disposals	–	(25.4)	(6.1)	(20.7)	(1.7)	(3.6)	–	(1.7)	(59.2)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications <sup>3</sup>	–	–	3.3	9.2	–	0.4	(7.5)	0.6	6.0
Revaluation <sup>4</sup>	–	–	–	–	–	–	(0.3)	–	(0.3)
<b>At 31 March 2013</b>	<b>28.9</b>	<b>496.8</b>	<b>162.1</b>	<b>275.8</b>	<b>14.4</b>	<b>55.0</b>	<b>22.9</b>	<b>6.3</b>	<b>1,062.2</b>
<b>Depreciation</b>									
At 1 April 2012	–	(237.1)	(80.2)	(194.8)	(7.2)	(24.8)	–	(2.8)	(546.9)
Charged in year	–	(21.9)	(12.4)	(35.1)	(2.0)	(3.6)	–	(1.6)	(76.6)
Disposals	–	15.1	5.2	20.4	1.5	2.3	–	1.7	46.2
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluation <sup>4</sup>	–	–	–	–	–	–	–	–	–
<b>At 31 March 2013</b>	<b>–</b>	<b>(243.9)</b>	<b>(87.4)</b>	<b>(209.5)</b>	<b>(7.7)</b>	<b>(26.1)</b>	<b>–</b>	<b>(2.7)</b>	<b>(577.3)</b>
<b>Carrying amount at 31 March 2012</b>	<b>28.9</b>	<b>285.1</b>	<b>84.7</b>	<b>83.0</b>	<b>8.6</b>	<b>31.3</b>	<b>10.6</b>	<b>3.9</b>	<b>536.1</b>
<b>Carrying amount at 31 March 2013</b>	<b>28.9</b>	<b>252.9</b>	<b>74.7</b>	<b>66.3</b>	<b>6.7</b>	<b>28.9</b>	<b>22.9</b>	<b>3.6</b>	<b>484.9</b>
<b>Asset financing:</b>									
Owned	28.9	–	74.7	33.3	6.7	28.9	22.9	3.6	199.0
Finance leased	–	–	–	33.0	–	–	–	–	33.0
On-Statement of Financial Position PFI contracts	–	252.9	–	–	–	–	–	–	252.9
<b>Carrying amount at 31 March 2013</b>	<b>28.9</b>	<b>252.9</b>	<b>74.7</b>	<b>66.3</b>	<b>6.7</b>	<b>28.9</b>	<b>22.9</b>	<b>3.6</b>	<b>484.9</b>
<b>Of the total:</b>									
Core Department	28.9	252.5	72.7	62.6	6.7	26.5	22.1	3.6	475.6
Valuation Office Agency	–	0.4	2.0	3.7	–	2.4	0.8	–	9.3
<b>Carrying amount at 31 March 2013</b>	<b>28.9</b>	<b>252.9</b>	<b>74.7</b>	<b>66.3</b>	<b>6.7</b>	<b>28.9</b>	<b>22.9</b>	<b>3.6</b>	<b>484.9</b>



	Land <sup>1</sup>	Buildings <sup>1</sup>	Accommodation Refurbishments <sup>1</sup>	Office & Computer Equipment	Vehicles	Furniture & Fittings <sup>2</sup>	Assets under Construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cost or valuation</b>									
At 1 April 2011	24.0	596.2	145.4	359.6	16.8	58.4	30.6	6.7	1,237.7
Additions	–	–	–	33.9	4.6	1.7	9.6	0.9	50.7
Disposals	–	(26.3)	(6.7)	(116.0)	(1.7)	(1.6)	–	(2.9)	(155.2)
Impairments	–	–	–	(0.1)	–	–	–	–	(0.1)
Reclassifications <sup>3</sup>	–	–	26.0	0.4	–	0.6	(29.6)	2.0	(0.6)
Revaluation <sup>4</sup>	4.9	(47.7)	0.2	–	(3.9)	(3.0)	–	–	(49.5)
<b>At 31 March 2012</b>	<b>28.9</b>	<b>522.2</b>	<b>164.9</b>	<b>277.8</b>	<b>15.8</b>	<b>56.1</b>	<b>10.6</b>	<b>6.7</b>	<b>1,083.0</b>
<b>Depreciation</b>									
At 1 April 2011	–	(267.8)	(75.1)	(274.9)	(12.0)	(23.5)	–	(3.8)	(657.1)
Charged in year	–	(22.7)	(11.4)	(35.6)	(1.3)	(3.8)	–	(1.9)	(76.7)
Disposals	–	13.6	6.4	115.7	1.6	1.1	–	2.9	141.3
Impairments	–	–	–	–	–	–	–	–	–
Revaluation <sup>4</sup>	–	39.8	(0.1)	–	4.5	1.4	–	–	45.6
<b>At 31 March 2012</b>	<b>–</b>	<b>(237.1)</b>	<b>(80.2)</b>	<b>(194.8)</b>	<b>(7.2)</b>	<b>(24.8)</b>	<b>–</b>	<b>(2.8)</b>	<b>(546.9)</b>
<b>Carrying amount at 31 March 2011</b>	<b>24.0</b>	<b>328.4</b>	<b>70.3</b>	<b>84.7</b>	<b>4.8</b>	<b>34.9</b>	<b>30.6</b>	<b>2.9</b>	<b>580.6</b>
<b>Carrying amount at 31 March 2012</b>	<b>28.9</b>	<b>285.1</b>	<b>84.7</b>	<b>83.0</b>	<b>8.6</b>	<b>31.3</b>	<b>10.6</b>	<b>3.9</b>	<b>536.1</b>
<b>Asset financing:</b>									
Owned	28.9	–	84.7	29.7	8.6	31.3	10.6	3.9	197.7
Finance leased	–	–	–	53.3	–	–	–	–	53.3
On-Statement of Financial Position PFI contracts	–	285.1	–	–	–	–	–	–	285.1
<b>Carrying amount at 31 March 2012</b>	<b>28.9</b>	<b>285.1</b>	<b>84.7</b>	<b>83.0</b>	<b>8.6</b>	<b>31.3</b>	<b>10.6</b>	<b>3.9</b>	<b>536.1</b>
<b>Of the total:</b>									
Core Department	28.9	284.5	81.9	79.0	8.6	28.8	9.2	3.9	524.8
Valuation Office Agency	–	0.6	2.8	4.0	–	2.5	1.4	–	11.3
<b>Carrying amount at 31 March 2012</b>	<b>28.9</b>	<b>285.1</b>	<b>84.7</b>	<b>83.0</b>	<b>8.6</b>	<b>31.3</b>	<b>10.6</b>	<b>3.9</b>	<b>536.1</b>

<sup>1</sup> See note 1.6.2 for the accounting policy for property assets.

<sup>2</sup> See note 1.6.4 for the accounting policy for furniture.

<sup>3</sup> See note 13.

<sup>4</sup> See notes 1.1 and 1.6 for the accounting policy regarding revaluation of property, plant and equipment.

### Freehold Land and Buildings 100 Parliament Street

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

### Leased Land and Buildings

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

## 13. Intangible assets

	Licences £m	Software £m	Website Development £m	Assets under Construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2012	36.5	2,273.1	2.0	162.6	2,474.2
Additions	0.9	1.9	–	169.7	172.5
Disposals	(2.7)	(16.1)	–	–	(18.8)
Impairments	–	(1.4)	–	–	(1.4)
Reclassifications <sup>1</sup>	–	179.3	3.0	(188.3)	(6.0)
Revaluation <sup>2</sup>	–	39.8	–	(0.5)	39.3
<b>At 31 March 2013</b>	<b>34.7</b>	<b>2,476.6</b>	<b>5.0</b>	<b>143.5</b>	<b>2,659.8</b>
<b>Amortisation</b>					
At 1 April 2012	(26.4)	(1,241.8)	(0.2)	–	(1,268.4)
Charged in year	(4.5)	(188.8)	(0.4)	–	(193.7)
Disposals	2.7	15.9	–	–	18.6
Impairments	–	–	–	–	–
Reclassifications	–	–	–	–	–
Revaluation <sup>2</sup>	–	(21.4)	–	–	(21.4)
<b>At 31 March 2013</b>	<b>(28.2)</b>	<b>(1,436.1)</b>	<b>(0.6)</b>	<b>–</b>	<b>(1,464.9)</b>
<b>Carrying amount at 31 March 2012</b>	<b>10.1</b>	<b>1,031.3</b>	<b>1.8</b>	<b>162.6</b>	<b>1,205.8</b>
<b>Carrying amount at 31 March 2013</b>	<b>6.5</b>	<b>1,040.5</b>	<b>4.4</b>	<b>143.5</b>	<b>1,194.9</b>
<b>Asset financing:</b>					
Owned	6.0	1,039.9	4.4	143.5	1,193.8
Finance leased	–	–	–	–	–
On-Statement of Financial Position PFI contracts	0.5	0.6	–	–	1.1
<b>Carrying amount at 31 March 2013</b>	<b>6.5</b>	<b>1,040.5</b>	<b>4.4</b>	<b>143.5</b>	<b>1,194.9</b>

	Licences £m	Software £m	Website Development £m	Assets under Construction £m	Total £m
<b>Of the total:</b>					
Core Department	6.5	1,020.5	4.4	142.9	1,174.3
Valuation Office Agency	–	20.0	–	0.6	20.6
<b>Carrying amount at 31 March 2013</b>	<b>6.5</b>	<b>1,040.5</b>	<b>4.4</b>	<b>143.5</b>	<b>1,194.9</b>
<b>Cost or valuation</b>					
At 1 April 2011	35.8	2,137.0	–	135.6	2,308.4
Additions	0.7	0.2	–	189.5	190.4
Disposals	–	(21.9)	–	–	(21.9)
Impairments	–	(3.7)	–	–	(3.7)
Reclassifications <sup>1</sup>	–	161.1	2.0	(162.5)	0.6
Revaluation <sup>2</sup>	–	0.4	–	–	0.4
<b>At 31 March 2012</b>	<b>36.5</b>	<b>2,273.1</b>	<b>2.0</b>	<b>162.6</b>	<b>2,474.2</b>
<b>Amortisation</b>					
At 1 April 2011	(22.2)	(1,079.0)	–	–	(1,101.2)
Charged in year	(4.2)	(184.8)	(0.2)	–	(189.2)
Disposals	–	21.6	–	–	21.6
Impairments	–	0.5	–	–	0.5
Reclassifications	–	–	–	–	–
Revaluation <sup>2</sup>	–	(0.1)	–	–	(0.1)
<b>At 31 March 2012</b>	<b>(26.4)</b>	<b>(1,241.8)</b>	<b>(0.2)</b>	<b>–</b>	<b>(1,268.4)</b>
<b>Carrying amount at 31 March 2011</b>	<b>13.6</b>	<b>1,058.0</b>	<b>–</b>	<b>135.6</b>	<b>1,207.2</b>
<b>Carrying amount at 31 March 2012</b>	<b>10.1</b>	<b>1,031.3</b>	<b>1.8</b>	<b>162.6</b>	<b>1,205.8</b>
<b>Asset financing:</b>					
Owned	9.8	1,031.2	1.8	162.6	1,205.4
Finance leased	–	–	–	–	–
On-Statement of Financial Position PFI contracts	0.3	0.1	–	–	0.4
<b>Carrying amount at 31 March 2012</b>	<b>10.1</b>	<b>1,031.3</b>	<b>1.8</b>	<b>162.6</b>	<b>1,205.8</b>
<b>Of the total:</b>					
Core Department	10.1	1,009.6	1.8	159.6	1,181.1
Valuation Office Agency	–	21.7	–	3.0	24.7
<b>Carrying amount at 31 March 2012</b>	<b>10.1</b>	<b>1,031.3</b>	<b>1.8</b>	<b>162.6</b>	<b>1,205.8</b>

<sup>1</sup> See note 12.

<sup>2</sup> See notes 1.1 and 1.8 for the accounting policy regarding revaluation of intangible assets.

## 14. Financial Instruments

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

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

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

### 14.a Credit Risk

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

Due to the nature of trade and other receivables, the Department views the credit risk associated with these receivables as negligible. No provision for impairment of receivables is made in respect of other government departments. An appropriate impairment of receivables in respect of other areas is made where required taking into account recoverability (see note 1.25).

### 14.b Liquidity Risk

Liquidity risk is the risk that liabilities cannot be met when they fall due. The Department does not face a liquidity risk as it is financed by the Exchequer.

### 14.c Market Risk

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

### 14.d Collateral and other credit enhancements obtained

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

### 14.e Embedded Derivatives

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

## 14.f Fair Value

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

## 14.g Capital disclosures

This section is not applicable to the Department.

## 15. Investments in other public sector bodies

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

## 16. Impairments

The Core Department has identified a number of impairments in 2012-13 in respect of discontinued IT Software projects.

	Note	Impairment taken through the Revaluation Reserve		Impairment charged to the Consolidated Statement of Comprehensive Net Expenditure	
		Core Department	Core Department & Agency	Core Department	Core Department & Agency
Property, plant and equipment	12	–	–	–	–
Intangible assets	13	–	–	1.4	1.4
<b>Impairment charged for the year ended 31 March 2013</b>		–	–	1.4	1.4

	Note	£m		£m	
		Core Department	Core Department & Agency	Core Department	Core Department & Agency
Property, plant and equipment	12	–	–	–	0.1
Intangible assets	13	–	–	–	3.1
<b>Impairment charged for the year ended 31 March 2012</b>		–	–	–	3.2

## 17. Inventories

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

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Inventories	–	2.0	–	2.2
	–	2.0	–	2.2

## 18. Trade receivables, financial and other assets

	2012-13 £m		Restated* 2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Amounts falling due within one year:</b>				
Trade receivables	–	4.1	–	4.3
Deposits and advances	32.0	31.0	31.6	30.8
Value added tax	22.1	22.1	16.4	16.4
Other receivables – excluding Child Benefit, CTF, HiPG and Tax Credits <sup>1</sup>	6.0	5.7	9.6	8.0
Other receivables – Child Benefit, CTF and HiPG <sup>2</sup>	22.7	22.7	10.3	10.3
Other receivables – Personal Tax Credits <sup>3</sup>	553.9	553.9	639.4	639.4
Prepayments and accrued income – excluding Child Benefit, CTF and Tax Credits	93.7	95.0	10.0	11.0
Prepayments and accrued income – Child Benefit and CTF	40.5	40.5	11.9	11.9
Prepayments – Tax Credits	–	–	0.2	0.2
	<b>770.9</b>	<b>775.0</b>	<b>729.4</b>	<b>732.3</b>
<b>Amounts falling due after more than one year:</b>				
Trade receivables	–	–	–	–
Other receivables – Personal Tax Credits <sup>3</sup>	939.1	939.1	1,099.3	1,099.3
	<b>939.1</b>	<b>939.1</b>	<b>1,099.3</b>	<b>1,099.3</b>

<sup>1</sup> This figure is net of provision for impairment amounting to Core: £19.3m, Consolidated: £19.5m (2011-12: Core: £20.6m, Consolidated £21.1m)

<sup>2</sup> This figure is net of provision for impairment amounting to Core: £13.8m (2011-12: Core: £23.0m)

<sup>3</sup> This figure is net of provision for impairment amounting to Core: £3,259.7m (2011-12: Core: £2,274.8m) (see Note 10).

## 18.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13 £m	Restated* 2011-12 £m	2012-13 £m	2011-12 £m
Balances with other central government bodies	57.9	38.5	–	–
Balances with local authorities	38.7	1.2	–	–
Balances with NHS bodies	0.6	0.7	–	–
Balances with public corporations and trading funds	0.1	0.6	–	–
<b>Subtotal: intra-government balances</b>	<b>97.3</b>	<b>41.0</b>	<b>–</b>	<b>–</b>
Balances with bodies external to government	677.7	691.3	939.1	1,099.3
<b>Total receivables at 31 March</b>	<b>775.0</b>	<b>732.3</b>	<b>939.1</b>	<b>1,099.3</b>

\* Certain prior year figures have been restated as per note 30

## 19. Cash and cash equivalents

			2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Balance 1 April	29.9	48.3	17.8	27.9
Net change in cash and cash equivalent balances	(17.9)	(23.9)	12.1	20.4
Balance at 31 March	12.0	24.4	29.9	48.3
The following balances at 31 March were held at:				
Government Banking Service	10.9	23.3	27.9	46.3
Commercial banks and cash in hand	1.1	1.1	2.0	2.0
Balance at 31 March	12.0	24.4	29.9	48.3

## 20. Trade payables and other current liabilities

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Amounts falling due within one year:</b>				
Other taxation and social security	(41.6)	(41.6)	(44.1)	(44.1)
Trade payables	(71.2)	(71.3)	(53.2)	(57.8)
Other payables – excluding Child Benefit, CTF, HiPG and Tax Credits	(0.8)	(0.8)	(38.5)	(38.5)
Other payables – Child Benefit, CTF and HiPG	(8.7)	(8.7)	(19.0)	(19.0)
Other payables – Personal Tax Credits	(684.9)	(684.9)	(709.3)	(709.3)
Accruals and deferred income excluding Child Benefit, CTF & Tax Credits	(314.3)	(332.0)	(318.5)	(341.6)
Accruals and deferred income – Child Benefit, CTF and HiPG	(282.4)	(282.4)	(263.2)	(263.2)
Accruals – Corporation Tax Reliefs	(488.8)	(488.8)	(409.4)	(409.4)
IT PPP payables	(21.0)	(21.0)	(27.3)	(27.3)
Accommodation PFI payables	(14.3)	(14.3)	(15.9)	(15.9)
Accommodation non-PFI payables	(0.4)	(0.4)	(0.6)	(0.6)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(11.9)	(24.3)	(29.8)	(48.2)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	(0.1)	(0.1)	(0.1)	(0.1)
receivable	–	–	–	–
	<b>(1,940.4)</b>	<b>(1,970.6)</b>	<b>(1,928.9)</b>	<b>(1,975.0)</b>
<b>Amounts falling due after more than one year:</b>				
Other payables, accruals and deferred income	–	–	–	–
IT PPP payables	(18.5)	(18.9)	(33.5)	(34.0)
Accommodation PFI payables	(320.5)	(320.5)	(339.5)	(339.5)
Accommodation non-PFI payables	(4.9)	(4.9)	(7.5)	(7.5)
	<b>(343.9)</b>	<b>(344.3)</b>	<b>(380.5)</b>	<b>(381.0)</b>



## 20.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13 £m	2011-12 £m	2012-13 £m	2011-12 £m
Balances with other central government bodies	(123.0)	(201.5)	–	–
Balances with local authorities	(29.0)	(0.1)	–	–
Balances with NHS bodies	–	–	–	–
Balances with public corporations and trading funds	(4.7)	(4.1)	–	–
<i>Subtotal: intra-government balances</i>	<i>(156.7)</i>	<i>(205.7)</i>	<i>–</i>	<i>–</i>
Balances with bodies external to government	(1,813.9)	(1,769.3)	(344.3)	(381.0)
<b>Total payables at 31 March</b>	<b>(1,970.6)</b>	<b>(1,975.0)</b>	<b>(344.3)</b>	<b>(381.0)</b>

## 21. Provisions for liabilities and charges

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Balance at 1 April</b>	<b>(162.6)</b>	<b>(168.8)</b>	<b>(282.0)</b>	<b>(296.0)</b>
Provided in the year	(32.0)	(32.5)	(30.3)	(31.7)
Provisions not required written back	30.6	31.7	18.2	18.6
Provisions utilised in the year	39.2	41.6	133.9	142.8
Borrowing costs (Unwinding of discounts)	(1.5)	(1.6)	(2.4)	(2.5)
<b>Balance at 31 March</b>	<b>(126.3)</b>	<b>(129.6)</b>	<b>(162.6)</b>	<b>(168.8)</b>

### *Analysis of expected timing of discounted flows*

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than one year	(63.4)	(65.4)	(101.2)	(104.9)
Later than one year and not later than five years	(60.8)	(62.0)	(55.9)	(58.2)
Later than five years	(2.1)	(2.2)	(5.5)	(5.7)
<b>Balance at 31 March</b>	<b>(126.3)</b>	<b>(129.6)</b>	<b>(162.6)</b>	<b>(168.8)</b>

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	(25.7)	(2.6)	(28.4)	(2.5)	(6.2)	(65.4)
Later than one year and not later than five years	(40.8)	(1.0)	(18.9)	–	(1.3)	(62.0)
Later than five years	(2.2)	–	–	–	–	(2.2)
<b>Balance at 31 March</b>	<b>(68.7)</b>	<b>(3.6)</b>	<b>(47.3)</b>	<b>(2.5)</b>	<b>(7.5)</b>	<b>(129.6)</b>

### 21.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and when the employee reaches age 60. The Department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 2.35 per cent in real terms, and updated annually to reflect the unwinding of the discount.

### 21.2 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £106.3m was made in 2010-11 for amounts that were forecast to become payable in respect of children qualifying for CTF endowments. Utilisations in 2012-13 total £0.5m (2011-12: £86.3m).

### 21.3 Legal claims

A provision of £47.3m (2011-12: £48.5m) has been made for costs relating to various legal claims against the Department. The provision reflects all known claims, in excess of the de minimis limit for reporting of £0.1m, where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 25.

### 21.4 Accommodation costs

A provision of £2.5m has been made (2011-12: £2.8m) for buildings-related claims giving rise to probable liabilities under tenancy agreements and for personal injury claims relating to HMRC estate where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 25.

### 21.5 Other

Provisions relating to various other claims against the Department amount to £7.5m (2011-12: £4.2m).

## 22. Pension liability

This pension liability, part of the Local Government Pension Scheme (LGPS), is in respect of staff previously employed by The Rent Service (TRS) but now employed by the Valuation Office Agency (VOA). For the purposes of International Accounting Standard 19, the VOA commissioned a qualified independent actuary to carry out an assessment of the TRS pension fund as at 31 March 2013. The results of the actuarial assessment are shown below.

### Financial Assumptions

	31 March 2013 % per annum	31 March 2012 % per annum
RPI Increase Rate	3.3%	3.3%
CPI Increase Rate	2.5%	2.5%
Salary Increase Rate	4.2%	4.2%
Expected Return on Assets	5.9%	5.9%
Discount rate	4.1%	4.6%

### Demographic and Statistical Assumptions

#### Life expectancy from age 65 (years)

	31 March 2013	31 March 2012
Retiring today:		
Males	21.4	21.4
Females	24.0	23.9
Retiring in 20 years:		
Males	23.5	23.4
Females	25.9	25.8

#### Assets

	Expected Return on Assets	Fund value at 31 March 2013 £m	Expected Return on Assets	Fund value at 31 March 2012 £m
Equities	6.3%	72.0	6.3%	65.1
Target Return Funds	4.5%	9.9	4.5%	10.7
Alternative Assets	5.3%	14.8	5.3%	12.5
Cash	3.0%	2.0	3.0%	0.9
Corporate Bonds	–	–	–	–
<b>Total</b>		<b>98.7</b>		<b>89.2</b>

#### Net pensions deficit as at

	31 March 2013 £m	31 March 2012 £m
Fair Value of Employer Assets	98.7	89.2
Present Value of Scheme Liabilities	131.4	117.7
Present Value of Unfunded Liabilities	0.3	0.3
Total value of Liabilities	131.7	118.0
<b>Net Pension Deficit</b>	<b>(33.0)</b>	<b>(28.8)</b>

### Recognised in the Consolidated Statement of Comprehensive Net Expenditure

	31 March 2013		31 March 2012	
	£m	% of pay	£m	% of pay
Current Service Cost	1.1	25.0%	0.9	20.1%
Interest Cost	5.3	120.9%	5.6	127.1%
Expected Return on Employer Assets	(5.2)	-117.5%	(6.1)	-137.4%
Past Service Cost/(Gain)	–	0.0%	–	–
Losses/(Gains) on Curtailments and settlements	–	0.0%	–	–
<b>Total</b>	<b>1.2</b>	<b>28.4%</b>	<b>0.4</b>	<b>9.8%</b>
<b>Actual Return on Plan Assets</b>	<b>12.5</b>		<b>0.9</b>	

### Recognised in Statement of Changes in Taxpayers' Equity

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	£m	£m	£m	£m	£m
Actuarial Gains/(Losses)	(4.0)	(17.7)	9.4	(14.4)	(16.4)
Increase/(Decrease) in Irrecoverable Surplus from Membership	–	–	–	–	–
Actuarial Gains/(Losses) recognised in Statement of Changes in Taxpayers' Equity	(4.0)	(17.7)	9.4	(14.4)	(16.4)
<b>Cumulative Actuarial Gains and Losses</b>	<b>(43.6)</b>	<b>(39.6)</b>	<b>(21.9)</b>	<b>(31.3)</b>	<b>(16.9)</b>

### Statement of Financial Position

	31 March 2013	31 March 2012
	£m	£m
Fair Value of Employer Assets	98.7	89.2
Present Value of Funded Liabilities	(131.4)	(117.7)
Net (Under)/Overfunding in Funded Plans	(32.7)	(28.5)
Present Value of Unfunded Liabilities	(0.3)	(0.3)
Unrecognised past service cost	–	–
<b>Net Asset/(Liability)</b>	<b>(33.0)</b>	<b>(28.8)</b>
Amount in the Statement of Financial Position		
Liabilities	33.0	28.8
Assets	–	–
<b>Net Asset/(Liability)</b>	<b>33.0</b>	<b>28.8</b>

	31 March 2013 £m	31 March 2012 £m
<b>Reconciliation of Defined Benefit Obligation</b>		
Opening Defined Benefit Obligation	118.0	103.1
Current Service Cost	1.1	0.9
Interest Cost	5.3	5.6
Contributions by Members	0.3	0.3
Actuarial Losses/(Gains)	11.3	12.5
Past Service Costs/(Gains)	–	–
Losses/(Gains) on Curtailments	–	–
Liabilities Extinguished on Settlements	–	–
Liabilities Assumed in a Business Combination	–	–
Exchange Differences	–	–
Estimated Unfunded Benefits Paid	–	–
Estimated Benefits Paid	(4.3)	(4.4)
<b>Closing Defined Benefit Obligation</b>	<b>131.7</b>	<b>118.0</b>

	31 March 2013 £m	31 March 2012 £m
<b>Reconciliation of Fair Value of Employer Assets</b>		
Opening Fair Value of Employer Assets	89.2	91.2
Expected Return on Assets	5.2	6.1
Contributions by Members	0.3	0.3
Contributions by the Employer	1.0	1.2
Contributions in respect of Unfunded Benefits	–	–
Actuarial Gains/(Losses)	7.3	(5.2)
Assets Distributed on Settlements	–	–
Assets Acquired in a Business Combination	–	–
Exchange Differences	–	–
Unfunded Benefits Paid	–	–
Benefits Paid	(4.3)	(4.4)
<b>Closing Fair Value of Employer Assets</b>	<b>98.7</b>	<b>89.2</b>

	31 March 2013 £m	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m
<b>Amounts for the Current and Previous Accounting Periods</b>					
Fair Value of Employer Assets	98.7	89.2	91.2	90.0	70.5
Present Value of Defined Benefit Obligation	(131.7)	(118.0)	(103.1)	(123.3)	(87.4)
<b>Surplus/(Deficit)</b>	<b>(33.0)</b>	<b>(28.8)</b>	<b>(11.9)</b>	<b>(33.3)</b>	<b>(16.9)</b>
Experience Gains/(Losses) on Assets	7.3	(5.2)	(2.7)	16.0	(24.6)
Experience Gains/(Losses) on Liabilities	–	–	11.1	14.8	–

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

## 23. Capital and other commitments

### 23.1 Capital commitments

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

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant and equipment	4.5	4.6	2.5	2.6
Intangible assets	159.2	159.2	180.1	180.4
	163.7	163.8	182.6	183.0

### 23.2 Commitments under leases

#### 23.2.1 Operating leases

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

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Obligations under operating leases for the following periods comprise:</b>				
<b>Land and Buildings</b>				
Not later than one year	100.0	110.9	107.5	119.4
Later than one year and not later than five years	383.5	393.7	402.5	418.3
Later than five years	271.7	271.8	375.6	376.7
	<b>755.2</b>	<b>776.4</b>	<b>885.6</b>	<b>914.4</b>
<b>Other</b>				
Not later than one year	9.8	9.9	13.9	14.1
Later than one year and not later than five years	9.5	9.5	24.3	24.4
Later than five years	–	–	–	–
	<b>19.3</b>	<b>19.4</b>	<b>38.2</b>	<b>38.5</b>

### 23.2.2 Finance leases

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

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Obligations under finance leases for the following periods comprise:</b>				
<b>Buildings</b>				
Not later than one year	3.9	3.9	4.2	4.2
Later than one year and not later than five years	15.7	15.7	16.8	16.8
Later than five years	12.9	12.9	18.3	18.3
	<b>32.5</b>	<b>32.5</b>	<b>39.3</b>	<b>39.3</b>
<i>Less interest element</i>	(9.7)	(9.7)	(12.1)	(12.1)
<b>Present value of obligations</b>	<b>22.8</b>	<b>22.8</b>	<b>27.2</b>	<b>27.2</b>

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

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

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Buildings				
Not later than one year	6.3	6.3	7.3	7.3
Later than one year and not later than five years	21.6	21.6	26.3	26.3
Later than five years	12.9	12.9	24.0	24.0
	40.8	40.8	57.6	57.6

## 23.3 Commitments under PFI and other service concession arrangements

### 23.3.1 Off-balance sheet (SoFP)

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

### 23.3.2 On-balance sheet (SoFP)

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

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

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

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

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



	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
<b>Total obligations under on-balance sheet (SoFP) service concession arrangements for the following periods comprises:</b>				
Not later than one year	72.5	72.5	88.6	88.7
Later than one year and not later than five years	199.3	199.7	231.0	231.7
Later than five years	469.8	470.2	522.3	522.9
	<b>741.6</b>	<b>742.4</b>	<b>841.9</b>	<b>843.3</b>
<i>Less interest element</i>	(384.8)	(385.2)	(444.8)	(445.7)
<b>Present value of obligations</b>	<b>356.8</b>	<b>357.2</b>	<b>397.1</b>	<b>397.6</b>
<b>Present Value of obligations under on-balance sheet (SoFP) service concession arrangements for the following periods comprises:</b>				
Not later than 1 year	33.6	33.7	41.6	41.6
Later than 1 year and not later than 5 years	68.6	68.7	83.0	83.2
Later than 5 years	254.6	254.8	272.5	272.8
<b>Total Present Value of obligations</b>	<b>356.8</b>	<b>357.2</b>	<b>397.1</b>	<b>397.6</b>

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

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-balance sheet (SoFP) PFI and other service concession arrangement transactions (there were no off-balance sheet (SoFP) transactions) was £639.0m<sup>1</sup> (2011-12: £623.3m) and the payments to which the Department is committed are detailed in the table below.

<sup>1</sup> This amount is included within the figures reported in note 8 and note 9 as PPP and PFI service charges.

	2012-13 £m		2011-12 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than one year	552.0	552.2	605.6	605.9
Later than one year and not later than five years	1,745.6	1,746.4	2,337.4	2,338.2
Later than five years	804.0	804.7	1,047.0	1,047.8
	<b>3,101.6</b>	<b>3,103.3</b>	<b>3,990.0</b>	<b>3,991.9</b>

### 23.4 Other financial commitments

The Department has not entered into any non-cancellable contracts (which are not leases or PFI contracts) during 2012-13. The commitments reported in the prior year include a Strategic Partnership agreement with Accenture which was 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 finished at the end of February 2013.

	2012-13		2011-12	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than 1 year	–	–	1.2	1.2
Later than 1 year and not later than 5 years	–	–	–	–
Later than 5 years	–	–	–	–
	–	–	1.2	1.2

## 24. Financial Guarantees, Indemnities and Letters of Comfort

The Department has entered into the following quantifiable guarantees, indemnities or provided letters of comfort. None of these are a contingent liability within the meaning of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* 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 *Financial Instruments: Recognition and Measurement*.

*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 2012	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2013	Amount reported to Parliament by Departmental Minute
	£m	£m	£m	£m	£m	£m
Guarantees	–	–	–	–	–	–
Indemnities	5.4	2.7	–	(4.3)	3.8	–
Letters of Comfort	–	–	–	–	–	–

The Department has not entered into any unquantifiable contingent liabilities.

## 25. Contingent assets and contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities:

- Shipbuilders' Relief – a contingent liability of £19.8m (2011-12: £55.4m) exists for potential future claims against the Department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur; and the amount of the possible obligation cannot be measured with sufficient accuracy;
- Legal Claims – a contingent liability of £69.6m (2011-12: £68.6m) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the Department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably;
- Compensation – potential liability in relation to a Missing Trader Intra Community Fraud (MTIC) case totalling £9.7m (2011-12: £10.2m);
- Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £1.0m, 108 cases (2011-12: £0.9m, 113 cases);

- Personal Tax Credits – the Department has a contingent asset and liability arising from the finalisation process of claims which takes place in the following year whereby claimants confirm their actual income and other circumstances. This process finalises the award for the award year that has ended and where the payments made do not match the revised entitlement based on the final information provided, this will give rise to under or overpayments which are accounted for as soon as identified. Estimates of these under or overpayments based on trend analysis would not be reliable due to changes in economic climate and scheme eligibility rules;
- The Department has a further number of contingent liabilities amounting to £4.8m (2011-12: £3.2m).

## 26. Losses and special payments

### 26.1 Losses Statement

	2012-13				Restated* 2011-12			
	Core Department		Core Department & Agency		Core Department		Core Department & Agency	
	cases	£m	cases	£m	cases	£m	cases	£m
Losses are made up of:								
Personal Tax Credits remissions	2,680,688	290.6	2,680,688	290.6	2,908,160	1,617.3	2,908,160	1,617.3
Personal Tax Credits write-offs	19,935	31.2	19,935	31.2	45,483	57.1	45,483	57.1
Child Benefit irrecoverable overpayments	53,206	16.8	53,206	16.8	70,739	28.7	70,739	28.7
Law costs remissions	18,277	1.7	18,277	1.7	27,012	3.0	27,012	3.0
Others	1,063	1.5	1,093	1.5	2,245	1.5	2,258	6.0
<b>Total</b>	<b>2,773,169</b>	<b>341.8</b>	<b>2,773,199</b>	<b>341.8</b>	<b>3,053,639</b>	<b>1,707.6</b>	<b>3,053,652</b>	<b>1,712.1</b>

### Details of cases over £250,000

#### Personal Tax Credits

In 2012-13 there was one bulk remission exercise which concluded in March 2013. This exercise targeted low affordability inactive debt and resulted in £62.3m being remitted. The balance of £259.5m was remitted/written-off as part of our business as usual processing activity as it was deemed uncollectable.

#### Child Benefit

After significantly reducing the stock of dormant Child Benefit debt cases in 2011-12 the focus in 2012-13 has been around implementing new Welfare Reform legislation re-instating powers to recover Child Benefit debt directly from an ongoing award thereby allowing us to increase the amount of outstanding debt we recover. The new powers were introduced in June 2012 and since that time we have increased the total debt recovered from the ongoing award from £1.3m last year to £2.3m as at the end of March 2013. Overall we have recovered a total of £10.7m which is 22 per cent higher than the average annual debt recovered over the last 4 years.

Annual remissions and write-offs stand at £16.8m. From July 2012 we stopped pursuing recovery of all official error overpayments as subsequent recovery rates did not represent value for money. Overall, losses have decreased from last year (2011-12: £28.7m) because of the new recovery powers, although this is partly off-set by a greater number of write-offs of uneconomic smaller debts.

## Other

£0.8m – Exchange rate loss in respect of currency conversion.

\* Certain prior year figures have been restated as per note 30

## 26.2 Special Payments

	2012-13				2011-12			
	Core Department		Core Department & Agency		Core Department		Core Department & Agency	
	cases	£m	cases	£m	cases	£m	cases	£m
Payments and accruals	8,853	2.9	8,902	3.0	7,652	3.7	7,689	4.0
New provisions	4	2.6	4	2.6	5	1.6	5	1.6
Increase in existing provisions		0.4		0.4		0.6		0.6
Write back of provisions		(0.9)		(0.9)		(0.9)		(0.9)
<b>Total</b>	<b>8,857</b>	<b>5.0</b>	<b>8,906</b>	<b>5.1</b>	<b>7,657</b>	<b>5.0</b>	<b>7,694</b>	<b>5.3</b>

### Details of cases over £250,000

The Department has made a provision of £2.6m for 4 new cases. If these cases are finalised for an amount in excess of £250,000 a separate disclosure will be made in the appropriate accounts. It is likely that these cases will be finalised in 2013-14.

## 27. Related-party transactions

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

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

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

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

## 28. Third-party assets

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

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

		2012-13 Core Department & Agency		2011-12 Core Department & Agency
	Core Department		Core Department	
<b>Monies on deposit:</b>				
Euro deposits – EC Twinning Projects	€	0.2m	0.2m	–

## 29. Entities within the departmental boundary

The entities within the boundary during 2012-13 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](http://www.voa.gov.uk)

## 30. Change in penalty income reporting

The approach agreed with HM Treasury for many years, has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. A new agreement has been reached with HM Treasury that with effect from 1 April 2012 this would cease and these penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.

Certain prior year values have restated as a result of this change. A summary of the impact of this change is shown in the table below:

### Restatement of Consolidated Statement of Comprehensive Net Expenditure at 31 March 2012

	Previously published Resource Accounts as at 31 March 2012 £m	Transfer of reporting of Penalties to the Trust Statement £m	Restated at 31 March 2012 £m
Net operating cost	46,569.5	11.5	46,581.0

## Restatement of Consolidated Statement of Financial Position at 31 March 2012

	Previously published Resource Accounts as at 31 March 2012 £m	Transfer of reporting of Penalties to the Trust Statement £m	Restated at 31 March 2012 £m
Net Assets	1,141.4	(71.0)	1,070.4
<i>Changes consist of:</i>			
Penalty receivables		(175.7)	
Provision for impairment of receivables		104.7	
		(71.0)	

### 31. Events after the reporting period date

There are no reportable events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 26 June 2013.

# Trust Statement

# Trust Statement

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# Principal Accounting Officer's Foreword to the Trust Statement

## 1. Introduction

The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year 2012-13; for a full year's activity of HMRC. The costs of running HMRC, payments of Child Benefit and payments of tax credits, are reported in the Departmental Resource Accounts.

## 2. 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. This includes the Financial Reporting Manual and the principles underlying it as well as International Financial Reporting Standards (IFRS).

HMRC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive and appropriate.

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

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement (see Note 1). Areas where judgements and estimates are used are as follows:

### 3.1 Estimation of accrued revenue

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable and this is verified each year by means of a validation exercise as more recent data becomes available. Further detail can be found in Note 6.

### 3.2 Provision for liability

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 8 'Provision for Liabilities and Contingent Liabilities'. HMRC may make additional significant provisions for such legal proceedings as required in the event of further developments in these matters, consistent with generally accepted accounting principles. Litigation is inherently unpredictable and, depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. At 31 March 2013 HMRC's aggregate provision was £8.0 billion. The ultimate liability 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.

#### 4. 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.

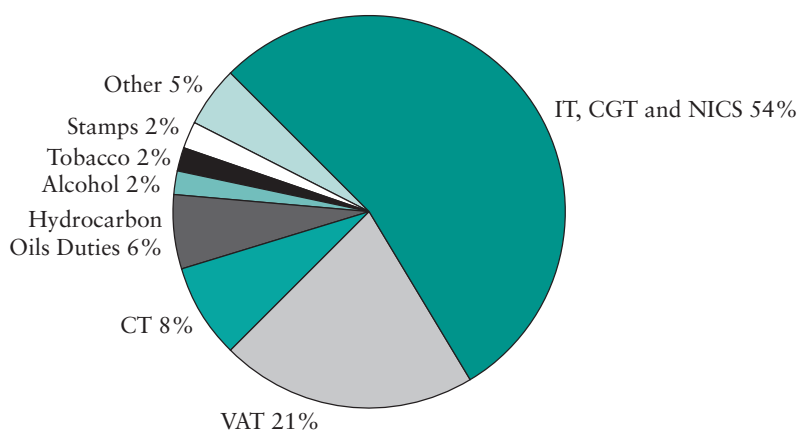
#### 5. Financial Review

The Financial Review provides a commentary of HMRC's performance in tax and duty collection and explains movements in values when compared to prior years.

##### 5.1 Total Revenue

This year saw the highest ever reported accrued revenue of £475.6 billion, an extra £1.4 billion when compared to the prior year. This was partially as a result of HMRC exceeding its compliance yield target by £2 billion. Compliance activity brought in or protected £20.7 billion, coming from our work tackling avoidance, evasion and criminal attack.

##### Taxes and Duties as a percentage of Total Accrued Revenue



Total revenue accruing is shown before deduction of revenue losses, decrease in impairments 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 7 and 8.

	2012-13 £ billion
Total Revenue	475.6
Revenue Losses and decrease in Impairments (note 7)	(5.1)
Movement in Provision for Liabilities (note 8)	(6.7)
<b>Total Revenue less items noted above</b>	<b>463.8</b>

## 5.2 Comparison by Tax Type with explanations for significant movements

### Income Tax, Capital Gains Tax & National Insurance Contributions (NICs)

Income Tax, Capital Gains Tax and NICs accounted for 54 per cent of total revenue at £256.5 billion; £1.3 billion (0.5 per cent) lower than in 2011-12.

### Value Added Tax

Value Added Tax accounted for 21 per cent of total revenue at £101 billion, being £1.4 billion (1.4 per cent) higher than 2011-12 with increases in revenue across the Business Services and Automotive Industry sectors.

### Corporation Tax

Corporation Tax accounted for 8 per cent of total revenue at £39.2 billion; £0.9 billion (2.2 per cent) lower than 2011-12. The main rate of Corporation Tax fell from 26 per cent for company profits accruing in 2011-12 to 24 per cent for profits in 2012-13, which had an effect on total receipts. There was also a significant fall in revenues from offshore oil and gas production companies as a result of lower production and higher expenditure in the sector.

### Hydrocarbon Oils Duties

Hydrocarbon Oils accounted for 6 per cent of total revenue at £26.5 billion, £0.4 billion (1.5 per cent) lower than 2011-12. This decrease is primarily due to record pump prices reducing demand for petrol.

### Alcohols

Alcohol Duties accounted for 2 per cent of total revenue at £10.2 billion, the highest on record, being £0.1 billion (1 per cent) higher than 2011-12. This increase is primarily due to duty rate rises in March 2012.

### Tobacco

Tobacco Duties accounted for 2 per cent of total revenue at £9.6 billion, being £0.3 billion (3.0 per cent) lower than 2011-12. This decrease is primarily due to a decrease in usage of all tobacco products with the exception of hand-rolling tobacco, partially offset by duty rate rises in March 2012.

### Stamp Taxes

Stamp Taxes accounted for 2 per cent of total revenue at £9.5 billion; £0.8 billion (9.2 per cent) higher than 2011-12. This increase is primarily due to an increase in Stamp Duty Land Tax transactions coupled with the introduction of a new 7 per cent rate on residential property transactions worth over £2 million.

### Other Taxes, Duties and Revenues

The remaining minor taxes and duties account for 5 per cent of the total revenue at £23.1 billion; £2 billion (9.5 per cent) higher than in 2011-12. Significant variances were:

#### Petroleum Revenue Duty (PRT)

PRT revenue (£1.8 billion) decreased by £0.2 billion (10 per cent) when compared to 2011-12. This was mainly due to unplanned shutdowns contributing to lower production and higher expenditure on maintenance and decommissioning costs.

#### Landfill Tax

Landfill Tax revenue at £1.2 billion was £0.1 billion (9.1 per cent) higher than 2011-12. This increase is due to the inclusion of one large new debt and a reduction in the number of litigation loss repayments compared to 2011-12.

## Betting & Gaming

Betting and Gaming Duty revenue increased by 12.5 per cent, from £1.6 billion (2011-12) to £1.8 billion (2012-13). This increase is due to the introduction of Machine Games Duty (MGD) which replaced Amusement Machine Licence Duty (AML) on 1 February 2013, resulting in a higher estimation of expected revenue receipts.

## UK – Swiss Confederation Tax Agreement

The UK – Swiss Confederation Tax Agreement came into force on 1 January 2013 and aims to regularise the Swiss assets of UK individuals. Included within Other Taxes and Duties is an upfront payment of 500 million Swiss Francs (£342.2 million) received by HMRC on 28 January 2013.

## Penalties

Penalties increased by 87.5 per cent, from £0.8 billion (2011-12) to £1.5 billion (2012-13). This increase is due in part to certain penalties, previously reported in the HMRC Resource Accounts, now being reported in the Trust Statement (2011-12 figures have not been re-stated) and an increase in SA penalties for both non-filing and late payment.

## Movement in Assets and Liabilities

- The total of receivables and accrued revenue receivable (ARR) – before impairments – decreased by £3.7 billion (3.4 per cent) due to ARR estimates being revised following analysis of actual receipt data.
- The total of payables, accrued revenue payable and deferred revenue increased by £0.4 billion (1 per cent).
- Impairment decreased by £0.2 billion (3.1 per cent).
- Revenue losses increased by £0.1 billion (2.6 per cent) however they remain at 1.1 per cent of total receipts.

## Provision for Liabilities and Contingent Liabilities

Provisions were reviewed during 2012-13. Of the sum of £2,081 million provided last year £771 million was paid out during the year and it was identified that £459 million was no longer required. New provisions and increases to existing provisions totalling £3,333 million have been added, giving a carried forward balance of £4,184 million for legal claims, a £2,103 million increase on last year.

A new provision of £3.8 billion in respect of the tax costs of oil and gas field decommissioning has been set up (see note 8.2 for further details).

Contingent liabilities were also reviewed during 2012-13 resulting in the estimates being reduced by £833 million. In addition new cases have been identified with an estimated value of £874 million.

## Comparison of Movement over the last 8 years

	2012-13 £bn	2011-12 £bn	2010-11 £bn	2009-10 £bn	2008-09 £bn	2007-08 £bn	2006-07 £bn	2005-06 £bn
Total revenue	475.6	474.2	469.7	435.8	441.0	461.6	441.3	409.3
Variance to prior year	1.4	4.5	33.9	(5.2)	(20.6)	20.3	32.0	26.4
Variance to prior year (per cent)	0.3	1.0	7.8	(1.2)	(4.5)	4.6	7.8	6.9

Note: Total Revenue figures for the years 2005-06 to 2008-09 above differ from those published at the time, having been adjusted in 2009-10 to take account of the fact that, from 2009-10, Tax Credits Negative Taxation is reported as Expenditure in the Statement of Revenue & Expenditure, and so allow all years 2005-06 to 2012-13 to be compared on a like-for-like basis.

**Lin Homer**  
Principal Accounting Officer  
20 June 2013

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

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

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

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

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for the financial year 2012-13. In conforming with HM Treasury direction (see page 173 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3 and some repayments (note 2.8 refers) which are accounted for on a cash basis. The Trust Statement must give a true and fair view of the state of affairs of HMRC, including a Statement of Revenue, Other Income and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows.

The Trust Statement includes a Governance Statement which sets out the governance, risk and control arrangements for HMRC. The Governance Statement process is firmly and clearly linked to the risk management process in HMRC.

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

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

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

# Governance Statement

The Department's Governance Statement, covering both the Resource Accounts and the Trust Statement, is shown on pages 25 to 50.

# 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 2013 under the Exchequer and Audit Departments Act 1921. The Trust Statement comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Principal Accounting Officer's Responsibilities in respect of the Trust Statement, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Department and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual 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 report.

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the HM Revenue & Customs Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by the Department as at 31 March 2013 and of the revenue and expenditure and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

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

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

26 June 2013

# Financial Statements

## Statement of Revenue, Other Income and Expenditure

For the year ended 31 March

	Notes	2013 £bn	2012 £bn
<b>Taxes and Duties</b>			
Income Tax	2.1	150.9	151.8
Value Added Tax	2.2	101.0	99.6
Corporation Tax	2.3	39.2	40.1
Hydrocarbon Oils Duties	2.4	26.5	26.9
Alcohol Duties	2.5	10.2	10.1
Tobacco Duties	2.6	9.6	9.9
Stamp Taxes	2.7	9.5	8.7
Other Taxes and Duties	2.8	23.4	23.0
<b>Total Taxes and Duties</b>		<b>370.3</b>	<b>370.1</b>
<b>Other Revenue and Income</b>			
National Insurance Contributions	3.1	101.7	101.6
Student Loan Recoveries	3.3	1.6	1.3
Taxation due from Isle of Man	3.4	0.5	0.4
Fines and Penalties		1.5	0.8
<b>Total Other Revenue and Income</b>		<b>105.3</b>	<b>104.1</b>
<b>Total Revenue</b>		<b>475.6</b>	<b>474.2</b>
<b>Expenditure</b>			
Impairment charges	7.1	(5.1)	(4.5)
Movement in provisions	8	(6.7)	0.9
<b>Total Expenditure</b>		<b>(11.8)</b>	<b>(3.6)</b>
<b>Disbursements</b>			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(101.0)	(101.0)
Appropriation of revenue to Resource Account	3.2	(30.6)	(30.4)
Student Loan Recoveries due to the Department for Business, Innovation and Skills	3.3	(1.6)	(1.3)
<b>Total Disbursements</b>		<b>(133.2)</b>	<b>(132.7)</b>
<b>Total Expenditure and Disbursements</b>		<b>(145.0)</b>	<b>(136.3)</b>
<b>Net Revenue for the Consolidated Fund</b>		<b>330.6</b>	<b>337.9</b>

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

## Statement of Financial Position

As at 31 March	Notes	2013 £bn	2012 £bn
<b>Non-current Assets</b>			
Receivables falling due after more than one year	4	0.9	0.8
<b>Current Assets</b>			
Receivables	4	15.3	16.0
Accrued Revenue Receivable	4	82.4	85.3
<b>Total Current Assets</b>		<b>97.7</b>	<b>101.3</b>
<b>Total Assets</b>		<b>98.6</b>	<b>102.1</b>
<b>Current Liabilities</b>			
Payables	5	14.3	14.5
Accrued Revenue Payable	5	26.8	26.3
Deferred Revenue	5	0.9	0.8
Bank balance		2.0	1.9
<b>Total Current Liabilities</b>		<b>44.0</b>	<b>43.5</b>
<b>Assets less Current Liabilities</b>		<b>54.6</b>	<b>58.6</b>
<b>Non-current Liabilities</b>			
Provision for Liabilities	8	8.0	2.1
<b>Net Assets</b>		<b>46.6</b>	<b>56.5</b>
 <b>Movements on Consolidated Fund Account:</b>			
Balance on Consolidated Fund Account as at 1 April		56.5	59.1
Net Revenue for the Consolidated Fund		330.6	337.9
Less amount paid to Consolidated Fund		(340.5)	(340.5)
<b>Balance on Consolidated Fund Account as at 31 March</b>		<b>46.6</b>	<b>56.5</b>

Lin Homer  
Principal Accounting Officer  
20 June 2013

## Statement of Cash Flows

### For the year ended 31 March

	2013 £bn	2012 £bn
Net Cash Flow from Revenue Activities	340.4	339.7
Cash paid to Consolidated Fund	(340.5)	(340.5)
<b>Decrease in Cash in this period</b>	<b>(0.1)</b>	<b>(0.8)</b>

Notes

A

B

### Notes to the Statement of Cash Flows

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

##### For the year ended 31 March

	2013 £bn	2012 £bn
Net Revenue for the Consolidated Fund	330.6	337.9
Decrease in Non-cash Assets	3.5	1.3
Increase in Liabilities	0.4	2.8
Increase/(Decrease) in Provision for Liabilities	5.9	(2.3)
<b>Net Cash Flow from Revenue Activities</b>	<b>340.4</b>	<b>339.7</b>

#### B: Analysis Of Changes in Net Funds

##### For the year ended 31 March

	2013 £bn	2012 £bn
Decrease in Cash in this period	(0.1)	(0.8)
Net Funds as at 1 April (Opening Cash at Bank)	(1.9)	(1.1)
<b>Net Funds as at 31 March (Closing Cash at Bank)</b>	<b>(2.0)</b>	<b>(1.9)</b>

# Notes to the Trust Statement

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

## 1. Statement of Accounting Policies

### 1.1 Basis of Accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921;
- the 2012-13 Financial Reporting Manual issued by HM Treasury;
- reference to International Financial Reporting Standards as adapted or interpreted for the public sector context;
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2012-13 and these policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The tax gap is not recognised in the Trust Statement. The tax gap is defined as the difference between tax collected and that which should be collected (the theoretical liability). The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the Department's compliance activities. An equivalent way of defining the tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

The financial information presented in the primary statements and notes are rounded to the nearest £0.1 billion except for Certificates of Tax Deposit, Student Loan Recoveries, revenue losses, and provision for liabilities which are rounded to the nearest £1 million, due to the much smaller amounts of revenue accrued.

### 1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. In addition, some repayments are accounted for on a cash basis. Accounting for these elements on a cash basis does not have a material impact on the accounts.

### 1.3 Revenue Recognition

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. The taxable events for the main taxes and duties are described in Note 2 below. Note 4 provides an explanation of accrued revenue receivable, Note 6 describes the circumstances and approaches used where estimation of accruals is needed and Note 8 provides an explanation of Provisions for Liabilities and Contingent Liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

## 2. Taxes and Duties (additional information)

### 2.1 Income Tax

For the year ended 31 March	2013 £bn	2012 £bn
Self Assessment	19.3	18.8
Other Income Tax revenue (including PAYE)	131.6	133.0
<b>Total</b>	<b>150.9</b>	<b>151.8</b>

The taxable event for Income Tax is the earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the Income Tax component is based on prior year Income Tax liabilities.

### 2.2 Value Added Tax

For the year ended 31 March	2013 £bn	2012 £bn
Gross Revenue	175.7	174.9
Less: Revenue Repayable	(74.7)	(75.3)
<b>Net Revenue</b>	<b>101.0</b>	<b>99.6</b>

The taxable event for Value Added Tax is the undertaking of taxable activity during the taxation period by the taxpayer.

VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

### 2.3 Corporation Tax

The taxable event for Corporation Tax is the earning of assessable profit during the taxation period by the taxpayer.

### 2.4 Hydrocarbon Oils Duties

For the year ended 31 March	2013 £bn	2012 £bn
Road Fuel	25.9	26.0
Rebated Fuel	0.6	0.9
<b>Total</b>	<b>26.5</b>	<b>26.9</b>

The taxable event for Hydrocarbon Oils Duty is production of taxable goods.

## 2.5 Alcohol Duties

For the year ended 31 March

	2013 £bn	2012 £bn
Wine, Cider and Perry	3.9	3.7
Beer	3.4	3.5
Spirits	2.9	2.9
<b>Total</b>	<b>10.2</b>	<b>10.1</b>

The taxable event for Alcohol duties is the date of production, date of import or movement of goods out of a duty suspended warehouse.

## 2.6 Tobacco Duties

For the year ended 31 March

	2013 £bn	2012 £bn
Cigarettes	8.5	8.8
Hand rolling Tobacco	1.0	1.0
Cigars	0.1	0.1
<b>Total</b>	<b>9.6</b>	<b>9.9</b>

The taxable event for Tobacco Duties is the date of production, date of import or movement of goods out of a duty suspended warehouse.

## 2.7 Stamp Taxes

For the year ended 31 March

	2013 £bn	2012 £bn
Stamp Duty Land Tax	7.0	6.2
Stamp Duty Reserve Tax	2.2	2.2
Stamp Duty	0.3	0.3
<b>Total</b>	<b>9.5</b>	<b>8.7</b>

The taxable event for Stamp Taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property or shares.

Stamp Duty is recognised in the accounting period in which the tax receipt is received and is measured at the cash amount received. Repayments of Stamp Duty are made on a cash basis – these are recognised in the period the repayment is made.

## 2.8 Other Taxes and Duties

### For the year ended 31 March

	Note	2013 £bn	2012 £bn
Capital Gains Tax*	2.8.1	3.9	4.4
Inheritance Tax*		3.1	2.8
Insurance Premium Tax		3.0	3.0
Customs Duties		3.0	3.0
Air Passenger Duty		2.8	2.6
Petroleum Revenue Tax*		1.8	2.0
Betting and Gaming Duties		1.8	1.6
Bank Levy		1.6	1.5
Landfill Tax		1.2	1.1
Climate Change Levy		0.6	0.7
Aggregates Levy		0.3	0.3
Capital Taxes – (UK Swiss Agreement)	2.8.2	0.3	–
<b>Total</b>		<b>23.4</b>	<b>23.0</b>

\* Repayments for Capital Gains Tax, Inheritance Tax and Petroleum Revenue Tax are made on a cash basis – these are recognised in the period the repayment is made.

### 2.8.1 Capital Gains Tax

Capital Gains Tax (CGT) is collected via the self-assessment (SA) system. Liability ratios taken from analysis of taxpayer returns are applied to SA receipts to split them between Income Tax, National Insurance Class 4 and CGT.

### 2.8.2 Capital Taxes

Capital Taxes – (UK Swiss Agreement) The UK – Swiss Confederation Tax Agreement which came into force on 1 January 2013, aims to regularise the assets of UK individuals held in Swiss bank accounts. Supporting UK legislation at Schedule 36 to the Finance Act 2012 also became effective from the same date. The agreement will cover tax liability in the years 2003-12 through a one-off payment for the past, and a future withholding tax from 2013 onwards. Bank assets will be in scope if they are beneficially owned by a UK resident taxpayer.

UK taxpayers with assets in Swiss accounts will either be subject to a one-off payment on 31 May 2013 to clear past unpaid tax liabilities and/or a future withholding tax on income and gains for the future from 1 January 2013, or will authorise their bank or paying agent to provide details of those assets to HMRC. Where a one-off payment is levied to clear past unpaid tax liabilities, these are classified as Capital Taxes.

The amount included within Other Taxes and Duties is an upfront payment of 500 million Swiss Francs (£342.2 million) received by HMRC on 28 January 2013.



### 3. Other Revenue, Income and Disbursements (additional Information)

#### 3.1 National Insurance Contributions

For the year ended 31 March	Note	Net Revenue 2013 £bn	Net Revenue 2012 £bn
National Insurance Fund – Great Britain		78.8	79.8
National Insurance Fund – Northern Ireland		1.4	1.6
National Health Services (NHS)		21.5	20.2
<b>Total Revenue</b>		<b>101.7</b>	<b>101.6</b>
Remissions and Write-offs	7.2	(0.7)	(0.6)
<b>Net Revenue due to the National Insurance Funds and National Health Services for the year</b>		<b>101.0</b>	<b>101.0</b>

National Insurance Contributions (NICs) 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 and not when accrued. Some elements are estimated (refer to Note 6 for further information).

National Insurance Classes 1A, 1B and 3 receipts are recognised in the accounting period in which the contributions are received and are measured at the cash amount received.

#### 3.2 Appropriation of Revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund Tax Credit payments which are accounted for within the Resource Accounts.

#### 3.3 Student Loan Recoveries

	2012-13 £m	2011-12 £m
Balance at 1 April	155	(146)
Revenue – included in ‘Other Revenue and Income’	1,590	1,251
Payments – included in ‘Disbursements’	(1,680)	(950)
<b>Balance at 31 March – Included payables</b>	<b>65</b>	<b>155</b>

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.

### 3.4 Taxation due from the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM) 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 is 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 revenue disclosed in the Trust Statement is net of the amount deducted and retained by the Isle of Man under the Agreement.

## 4. Receivables and Accrued Revenue Receivable

	Receivables as at 31 March 2013 £bn	Accrued Revenue Receivable as at 31 March 2013 £bn	Total as at 31 March 2013 £bn	Total as at 31 March 2012 £bn
<b>Receivables and Accrued Revenue Receivable due within one year:</b>				
Income Tax	6.0	26.8	32.8	34.6
Value Added Tax	7.2	25.9	33.1	34.8
Corporation Tax	2.0	11.3	13.3	14.1
National Insurance Contributions	2.5	11.4	13.9	14.3
Other Taxes and Duties	3.8	7.0	10.8	9.9
<b>Totals before Impairment</b>	<b>21.5</b>	<b>82.4</b>	<b>103.9</b>	<b>107.7</b>
Less Impairment	(6.2)	–	(6.2)	(6.4)
<b>Total</b>	<b>15.3</b>	<b>82.4</b>	<b>97.7</b>	<b>101.3</b>
<b>Receivables due after more than one year:</b>				
Inheritance Tax	0.7	–	0.7	0.6
Corporation Tax	0.2	–	0.2	0.2
<b>Totals before Impairment</b>	<b>0.9</b>	<b>–</b>	<b>0.9</b>	<b>0.8</b>
Less Impairment	–	–	–	–
<b>Total</b>	<b>0.9</b>	<b>–</b>	<b>0.9</b>	<b>0.8</b>
<b>Total before Impairment</b>	<b>22.4</b>	<b>82.4</b>	<b>104.8</b>	<b>108.5</b>
Less Impairment (Note 7.4)	(6.2)	–	(6.2)	(6.4)
<b>Total</b>	<b>16.2</b>	<b>82.4</b>	<b>98.6</b>	<b>102.1</b>

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Examples of liabilities that are due but not overdue are VAT returns received prior to the Statement of Financial Position date, where electronic payment is due during the first week in April.

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 (see note 6 below).

In addition to receivables and accrued revenue receivables, HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under Income Tax (PAYE/SA) and Corporation Tax. For most cases the revenue cannot be measured reliably and the probability of an economic flow to HMRC is viewed as low. However to ensure all appropriate liabilities are disclosed HMRC undertake a review of material postponed Corporation Tax cases. As a result of the review, an amount of £0.6 billion (2011-12 £0.7 billion) has been included in accrued revenue receivables.

## 5. Payables, Accrued Revenue Payable and Deferred Revenue

	Payables as at 31 March 2013 £bn	Accrued Revenue Payable as at 31 March 2013 £bn	Deferred Revenue as at 31 March 2013 £bn	Total as at 31 March 2013 £bn	Total as at 31 March 2012 £bn
Value Added Tax	1.7	10.0	–	11.7	12.2
Corporation Tax	9.6	0.5	0.2	10.3	10.8
Income Tax	0.1	2.4	–	2.5	1.3
National Insurance Funds and the NHS	1.1	13.9	–	15.0	14.9
Other Revenue Payables	0.2	–	0.7	0.9	1.0
Payments on Account	1.6	–	–	1.6	1.4
<b>Total</b>	<b>14.3</b>	<b>26.8</b>	<b>0.9</b>	<b>42.0</b>	<b>41.6</b>

Payables are amounts recorded as due at the end of the reporting period but payment has not been made.

Accrued Revenue Payable is recognised when:

- amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period;
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services; and
- amounts in respect of Corporation Tax and Income Tax likely to be repayable by HMRC pending finalisation of taxpayer liabilities (refer to Note 6).

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.

## 6. Accruals measurement and Accounting Estimates

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been provided to support the accrued revenue receivable and payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates are consistent with those prepared for the March 2013 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility.

## 6.1 Uncertainty around the Estimates

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

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

The estimates process for each major tax stream is described in more detail below:

## 6.2 Income tax and National Insurance Class 1 Collected under PAYE

The Pay-as-You-Earn (PAYE) accrued revenue receivable balance primarily relates to expected receipts from employers relating to the 2012-13 tax year which have not been received by year end. The level of uncertainty around these estimates is reduced as the Department is able to compare expectations to the actual level of employer receipts which have been received post year end.

PAYE estimates also include amounts expected to fall due or repayable once end of year reconciliations of taxpayers' records have been completed. These amounts have been estimated based upon previous experience of the levels of underpayments and overpayments from end of year reconciliations done in previous years, as there are no alternate sources of information to draw from.

Almost all 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. For 2012-13 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. These estimated allocations are re-assessed when the end of year returns are available and adjustments made based on the actual split information.

## 6.3 Self Assessment Income Tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2012-13 where payment is not yet due at 31 March 2013. The estimation process has three stages:

- (i) Estimation of accrued tax liabilities for 2012-13. Due to the nature of the self assessment regime, information from actual self assessment returns or associated tax payments relating to 2012-13 is not available at the point of estimation. The IT SA forecast has been revised slightly to incorporate latest 'Head of Duty analysis' results (see below for more information), the class 4 NICs forecast is as published at Budget 2013 as changes due to latest head of duty analysis are very small;
- (ii) Deduction from the 2012-13 accrued tax liabilities of relevant payments by 31 March 2013. 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.

Accrued revenue receivable is separately estimated for each revenue stream and component of Income Tax. The estimates used are those prepared for March 2013 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility. The most important of these assumptions was that profits from self-employment rose by 2.0 per cent and dividend income by 4.7 per cent in 2012-13. Additionally, in Budget 2012, the Government announced a reduction in the additional rate of tax from 50 per cent to 45 per cent, taking effect from April 2013. It is likely that some individuals subject to the additional rate deferred income that would otherwise have arisen in 2012-13 into 2013-14 in order to gain further advantage from the reduction in tax rate. This will have had the effect of depressing Income Tax liabilities for 2012-13. However the extent of these deferrals and their impact on 2012-13 liabilities are not known and subject to significant estimation uncertainty.

## 6.4 Value Added Tax

Not all information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts. The remaining elements have been estimated using historic data designed to show the accrued revenue by month; this past outturn is then used to project forward in order to construct estimates for the more recent periods. 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 year end to derive the final ARR figure. This provides an estimate of accrued revenue receivable and payable via the regular return process. The methodology provides 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 using the methodology described above.

## 6.5 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

### Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts.

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.

## North Sea companies

The accrued revenue receivable for 2012-13 is almost entirely attributable to companies with accounting periods ending December 2013. 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.

## 7. Impairment Charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables.

### 7.1 Breakdown of Impairment Charges

#### For the year ended 31 March

	Notes	2013 £bn	2012 £bn
Revenue losses	7.2	5.3	5.2
(Decrease) in impairment of receivables	7.4	(0.2)	(0.7)
<b>Total impairment charges</b>		<b>5.1</b>	<b>4.5</b>

### 7.2 Revenue Losses

#### For the year ended

	Remissions 31 March 2013 £m	Write-offs 31 March 2013 £m	Total 31 March 2013 £m	Remissions 31 March 2012 £m	Write-offs 31 March 2012 £m	Total 31 March 2012 £m
Income Tax	565	720	1,285	756	743	1,499
Value Added Tax	6	1,998	2,004	13	1,907	1,920
Corporation Tax	3	605	608	3	500	503
Alcohol Duties	18	54	72	3	61	64
Tobacco Duties	–	1	1	–	1	1
Capital Gains Tax	3	35	38	4	38	42
National Insurance Contributions	80	654	734	74	579	653
Fines and Penalties	250	284	534	98	305	403
Other Remissions and Write-offs	4	27	31	6	80	86
<b>Total Revenue Losses</b>	<b>929</b>	<b>4,378</b>	<b>5,307</b>	<b>957</b>	<b>4,214</b>	<b>5,171</b>

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

### 7.3 Revenue Losses – Cases over £10 million

There were 13 cases (21 cases in 2011-12) where the loss exceeded £10 million, totalling £568 million (£1 billion in 2011-12). Specific details are shown below:-

There were 5 write-offs of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £104 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 8 write-offs relating to Insolvency over £10 million each. They were for VAT, Corporation Tax, Income Tax, National Insurance and Excise Duty including interest, surcharge and penalties totalling £464 million (£181 million in 2011-12).

There was a bulk remission of £206 million for Construction Industry Scheme penalties relating to 1.2 million cases. These related to financial years 2006-2012. These were considered irrecoverable or there was a low likelihood of recovery. The remissions were therefore progressed on a value for money basis.

There was a bulk remission of £29 million for Income Tax relating to 66,242 cases. These related to financial years 2007-08 and earlier where the debts were considered not cost effective to pursue and the remission was therefore progressed on a value for money basis.

## 7.4 Impairment of Receivables

	2012-13 £bn	2011-12 £bn
Balance as at 1 April	6.4	7.1
(Decrease) in impairment of receivables	(0.2)	(0.7)
<b>Balance as at 31 March</b>	<b>6.2</b>	<b>6.4</b>

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The Department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non collectable debt.

Non collectable debt includes legally due debt that is written off or remitted (losses, note 7.2 refers), 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.

## 8. Provision for Liabilities and Contingent Liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

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.



## Provision for liabilities

	Legal Claims £m	Oil And Gas Field Decommissioning £m	PAYE Open Cases £m	Total 2012-13 £m	Total 2011-12 £m
Balance at 1 April	1,337	–	744	2,081	4,381
Provided in the year	3,333	3,835	–	7,168	410
Provision not required written back	(459)	–	–	(459)	(1,264)
Provision utilised in the year	(27)	–	(744)	(771)	(1,446)
<b>Balance at 31 March</b>	<b>4,184</b>	<b>3,835</b>	<b>–</b>	<b>8,019</b>	<b>2,081</b>

## 8.1 Legal claims

### Provision for Liability

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of negotiation and litigation over several years. The Department having taken legal and other specialist advice, has established provision having regard to the relevant facts and circumstances of each matter 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.

### Contingent Liabilities

HMRC currently has 21 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 £14.5 billion (£14.5 billion as at 31 March 2012).

## 8.2 Consequences of oil and gas field decommissioning on revenues from UK oil and gas exploration and production

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with UK oil and gas fields subject to PRT, to be carried back indefinitely. As a result, there is always the possibility that 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.

The Corporation Tax Act 2010 allows a company incurring a loss in a trade to set that loss against profits of the same accounting period of the loss and of earlier accounting periods so far as they fall within the twelve months ending immediately before the loss making period begins and during which the trade was being carried on. To the extent the loss does not exceed a special allowance made for the accounting period in respect of general decommissioning expenditure of a ring fence trade, the carry back period is three years rather than twelve months. For accounting periods beginning on or after 12 March 2008, the carry back period for relief for such losses and terminal losses was extended to allow the losses to be carried back and set against ring fence profits of previous accounting periods back to 17 April 2002.

Decommissioning costs over the 6 year period from 2012-17 are largely planned so industry estimates of costs over that period are assumed to be the best available. This 6 year period is also consistent with Government/



OBR forecasts of revenues. The total costs of decommissioning for the period 2012 to 2017 are estimated to be £6.5 billion at today's prices<sup>1</sup>. The impact on tax receipts thereon is estimated to be a cost to the Exchequer of £3.8 billion (split between PRT at £1.2 billion and CT at £2.6 billion) and since this estimate is seen as relatively reliable, a provision for this amount is included in the Provision for Liabilities table above. This provision will be monitored in future years and adjusted accordingly should estimates, or the quality of the estimates, change.

There is considerable uncertainty in the amount and timing of decommissioning costs beyond 2017. The main areas of uncertainty are:

**Future costs** – decommissioning is still at a very early stage in the UK Continental Shelf (UKCS). This means that technology and techniques are still being developed and future costs remain very uncertain. For example, as the first fields have started to be decommissioned industry estimates of the total costs of decommissioning across the basin have increased by more than 50 per cent, from £23 billion in 2009 to £35 billion in 2013<sup>1</sup>.

**Timing** – companies currently provide projections of when they expect to decommission individual fields following cessation of production, but these can be affected by a number of factors. One of the Government's key priorities is to encourage incremental investment in older fields, and the recently announced Brown Field Allowance (BFA) is a tax incentive which is designed to encourage companies to invest in projects which extend field life. Following the BFA announcement, a number of projects are already being taken forward which could extend field life by a decade or more.

**Future changes in tax rates and allowances** – any estimate of the costs to Government of decommissioning relief would essentially have to assume a constant tax rate and the introduction of no new field allowances – both of which are very unlikely scenarios over the lifetime of the UKCS.

For these reasons of uncertainty it is not possible to provide a reliable estimate of the longer term tax costs of decommissioning.

<sup>1</sup> Cost estimates extracted from Oil & Gas UK survey reports.

## 9. Certificates of Tax Deposits

	CTD Issues 2012-13 £m	CTD Redemptions 2012-13 £m	CTD Total 2012-13 £m	CTD Total 2011-12 £m
Receipts	304	320	624	515
Payments	(313)	(325)	(638)	(501)
			(14)	14
Balance at 1 April			9	(5)
<b>Balance at 31 March – Included in (receivables)/payables</b>			<b>(5)</b>	<b>9</b>

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website ([www.hmrc.gov.uk](http://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.

## 10. RN LTD

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. These are not recognised in the Trust Statement until realised.

## 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 26 June 2013.

# 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 2013 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury (“FReM”) which is in force for 2012-13.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties in so far as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer’s Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department’s Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

**Karen Sanderson**

Deputy Director, Assurance and Financial Reporting Policy  
HM Treasury  
17 December 2012





National Audit Office

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HM Revenue & Customs 2012-13 Accounts

## Report by the Comptroller and Auditor General

This Report is published alongside the 2012-13 Accounts  
of HM Revenue & Customs

2 July 2013

Issued under Section 2 of the Exchequer and  
Audit Departments Act 1921

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

26 June 2013

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# Summary

## About this report

- 1** This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General (C&AG) must assess the adequacy of the systems to assess and collect taxes.
- 2** This report forms part of our programme of audit work on HM Revenue & Customs (HMRC). The programme includes our examinations under section 2, our annual financial audit of HMRC's accounts, and value-for-money studies assessing how HMRC spends its money. Our work is designed to support effective parliamentary scrutiny of HMRC's activities, to provide insight and make recommendations to help HMRC meet its objectives.
- 3** The report is arranged in five parts:
  - **The Summary** describes the scope of the audit and provides our overall conclusion and main findings and recommendations in each area.
  - **Part One** sets out key facts and figures about revenue collected by HMRC in 2012-13 and highlights relevant findings from reports published in the last year.
  - **Part Two** covers progress in stabilising and operating the PAYE service and delivery of Real Time Information.
  - **Part Three** covers HMRC's performance in tackling value added tax (VAT) fraud.
  - **Part Four** examines HMRC's progress in tackling fraud and error in respect of tax credits and the effectiveness of its approach to managing debt arising from the tax credits system.

## Scope of the audit

- 4** Section 2 of the Exchequer and Audit Departments Act 1921 requires the C&AG to examine the accounts of HMRC "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. Taken alongside the C&AG's audit opinion on HMRC's Trust Statement, which records the tax revenues HMRC has collected, this report meets this requirement.



**5** In forming his conclusion, the C&AG considers a range of work that complements his section 2 examination. This includes the results of our financial audit of HMRC's accounts and findings from value-for-money reports and reports published under the C&AG's section 2 powers. We have published four value-for-money reports on HMRC in the last year: *Tax avoidance: tackling marketed avoidance schemes*;<sup>1</sup> *Customer service performance*;<sup>2</sup> *Progress on reducing costs*;<sup>3</sup> and *Tackling tax credits error and fraud*.<sup>4</sup> We also published a section 2 report on HMRC's *Progress in tackling tobacco smuggling*.<sup>5</sup>

**6** The C&AG provides a separate audit opinion on HMRC's Resource Accounts, which record HMRC's running costs and other spending, most significantly its spending on tax credits. Before 2011-12, tax credit expenditure and related balances were reported in HMRC's Trust Statement. From 1 April 2011, these are reported in the Resource Accounts to reflect changes in accounting policy resulting from the Government's 'clear line of sight' project to align departmental budgets and accounts. For ease of reporting, we have included our examination of tax credits in this report.

## Conclusion

**7** HMRC aims to deliver three strategic priorities: to improve customer service; to reduce operating costs; and to reinvest money from its efficiency savings to generate increased tax revenue. There are inherent tensions in reconciling these priorities. Our 2012-13 work programme helped us to form a view on HMRC's progress against each priority. We found that HMRC had made good progress in reducing costs and had met its revenue targets, but has much further to travel to raise customer service standards to an acceptable level. Improving its service to customers is an important element of HMRC's strategy to collect a higher proportion of the tax due by helping people and businesses to comply voluntarily with their tax obligations.

**8** Critical to HMRC's ability to increase its efficiency and reduce the tax gap further will be its success in delivering on two key commitments: to increase automation and digitalisation of its tax collection systems; and to reduce avoidance and evasion by investing further in its enforcement and compliance activities. HMRC is committed to being at the forefront of the Government's Digital Strategy with the objective of modernising its business to deliver a better service with fewer and better targeted resources. It has made progress in 2012-13 by, for example, introducing online registration for VAT and successfully piloting Real Time Information, a system which is central to modernising the PAYE system and implementing Universal Credit. But when we looked at HMRC's response to marketed tax avoidance schemes, we found it had 41,000 open avoidance cases at 31 August 2012, and had yet to demonstrate whether it could successfully manage this number down. HMRC therefore faces a considerable management challenge if it is to continue to meet its commitments to increase revenue by stepping up its anti-avoidance and anti-fraud activities.

<sup>1</sup> Comptroller and Auditor General, *Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, National Audit Office, HC 730, November 2012.

<sup>2</sup> Comptroller and Auditor General, *Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.

<sup>3</sup> Comptroller and Auditor General, *Progress on reducing costs*, Session 2012-13, HC 889, National Audit Office, February 2013.

<sup>4</sup> Comptroller and Auditor General, *Tackling tax credits error and fraud*, Session 2012-13, HC 891, National Audit Office, February 2013.

<sup>5</sup> Comptroller and Auditor General, *Progress in tackling tobacco smuggling*, Session 2013-14, HC 226, National Audit Office, June 2013.

**9** In fulfilling our statutory duties, while recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, we conclude that in 2012-13 HMRC has framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

## Specific findings and recommendations

### PAYE and Real Time Information (Part Two)

#### Findings

**10** We have previously reported on the difficulties HMRC has faced in operating PAYE after introducing its National Insurance and PAYE Service (NPS) system.

**11 HMRC has met its target to operate a normal PAYE service by March 2013.**

In line with its commitment to the Committee of Public Accounts, HMRC has:

- cleared the 6.7 million outstanding end-of-year reconciliations for 2008-09 and 2009-10 by 31 March 2012 – HMRC carries out end-of-year reconciliations on each taxpayer's record to determine whether the correct amount of tax has been paid;
- cleared the outstanding PAYE cases predating the introduction of NPS relating to the 2003-04 to 2007-08 tax years by December 2012; and
- reconciled the 2010-11 and 2011-12 tax years by March 2013 (paragraphs 2.5 to 2.7).

**12 It has cost less to stabilise the PAYE service than HMRC had expected.** Up to 31 March 2013, stabilisation had cost £78.9 million against an estimated £80.9 million although an estimated £953 million of tax relating to tax years 2003-04 to 2009-10 has been foregone (paragraph 2.8).

**13 The NPS system gives HMRC the opportunity to do more to keep taxpayer records up to date in-year than its previous computer systems.** Day-to-day workload management involves manually dealing with in-year changes to taxpayer records triggered by taxpayers and work automatically generated by the NPS system (work items). HMRC prioritises its workload to ensure that taxpayers pay the right amount of tax. While HMRC responds to taxpayers' requests to make in-year changes, it does not currently plan to process all those work items which would keep tax codes correct in-year. During 2011-12, there were more work items generated than HMRC had the capacity to handle. Therefore HMRC prioritises their clearance, including these in-year items, based on the impact on the accuracy of a taxpayer's final liability to tax. HMRC is developing proposals to eliminate more work items through its business process re-engineering programme and will re-prioritise its available resource to ensure that the highest priority work is done (paragraph 2.12).

**14 During 2012-13, HMRC successfully piloted its new PAYE data capture system, Real Time Information (RTI).** RTI is a major change to the PAYE system. It enables PAYE information to be captured when payments are made rather than annually. RTI is a critical part of the Department for Work & Pensions' roll-out of Universal Credit which we will report on in due course (paragraph 2.19).

**15 There were some limitations to the scope of the RTI pilot, which means that certain functions of the system have not yet been fully tested.** Lower than expected employer numbers participating in the pilot, resulted in HMRC having to revise its plans and focus on bringing in larger schemes, to ensure the required number of individual employment records were tested during the pilot. Only 66,240 employer schemes participated in the pilot against HMRC's original assumption of 250,000, however more than six and a half million employee records were tested which exceeded the planned volume. The pilot covered the initial validation of employer records and submission of data files to HMRC. From April 2012, starter and leaver data has been transferred into the NPS system but testing of all data transfers from RTI to the NPS system and end-of-year year reconciliation processes only started in April 2013 after RTI's live roll-out. New issues may arise as more employers start to use RTI for the first time or as further IT system changes are made (paragraphs 2.20 and 2.22).

**16 The RTI programme budget does not include contingency for any significant extra development costs.** The current expected cost of £356.6 million is £115.5 million more than outlined in the original business case because of new development costs needed to increase the system's functionality as a result of consultation with stakeholders and better cost estimations. Within the expected cost, HMRC has not budgeted for any significant extra development costs arising from new issues (paragraphs 2.28 and 2.29).

**17 The financial and accounting systems supporting RTI are not yet fully accredited.** Financial accreditation is a formal requirement of HMRC's Change Programme and provides assurance that any new systems are acceptable for accounting and financial control purposes. The RTI systems went live on the basis that action would be taken to resolve identified financial design issues by 31 October 2013. These issues do not affect an employer's ability to submit data to HMRC but do weaken HMRC's ability to produce and report financial information on PAYE. HMRC is currently undertaking work to understand the impact of these issues and how best to address them (paragraphs 2.24 to 2.25).

**18 The resilience needed to maintain the RTI service if there is a major technical failure is not in place.** Online and time-sensitive system implementations are usually developed with formal technical resilience and disaster recovery capability. HMRC chose not to pay for full resilience because of the cost implications and because PAYE could be operated in an emergency without RTI. However, although RTI has the potential to be used by other government departments, the lack of full resilience may inhibit its use in areas of activity where a temporary disruption to service cannot be tolerated. Data submissions can be held temporarily in a queue but this would not provide continuity of service in the event of a catastrophic failure. The RTI service failing at a critical processing time could increase the volume of customer communications and lead to more effort for employers (paragraphs 2.26 to 2.27).

**19 While the delivery of individual projects has been well managed, HMRC is still developing its long-term strategy for improving the PAYE process and defining its future operating model.** As a result, HMRC has to manage the risk of projects operating in isolation and that, in the face of operational pressures, short-term decisions may not support its longer-term objectives. It has invested in new systems, such as RTI, and is currently scoping how it might exploit the data it provides as part of developing its long-term strategy for improving the PAYE process and defining its future operating model (paragraphs 2.32 to 2.33).

### **Recommendations**

**20 HMRC should complete its planned programme of process and system improvements to reduce the volumes of work items generated by the NPS system and should further improve its in-year maintenance of taxpayers' records.** More up-to-date and accurate tax codes being maintained during the year should lead to fewer over and underpayments of tax, reduced customer contact and a positive impact on HMRC's performance targets.

**21 HMRC must urgently address the financial system design issues for accounting under RTI.** Failure to address these accounting issues could result in HMRC being unable to correctly allocate and account for some PAYE payments received from employers or to identify and collect amounts outstanding.

**22 HMRC should adopt measures to address the lack of technical resilience and disaster recovery for RTI.** In the short term, HMRC should document and test contingency measures for the main technology-enabled processes to ensure they could continue to run if there is a technical failure.

**23 HMRC should decide on its future operating model for PAYE and determine how it will exploit the opportunities and benefits provided by RTI.** Without clarity on the operating model or how the use of RTI can be exploited, it is difficult for HMRC to forecast its overall workload and operational resources required. HMRC needs to consider which changes notified under RTI should update taxpayer records in real time, and to what extent work performed at the end of the tax year can be undertaken earlier.

## Tackling VAT fraud (Part Three)

### **Findings**

**24 HMRC estimated the tax gap for VAT in 2010-11 as £9.6 billion (30 per cent of the total estimated tax gap of £32 billion).** This equates to 10.1 per cent of the VAT that could theoretically be collected. HMRC estimated that missing trader intra-community (MTIC) fraud constituted between £0.5 billion and £1 billion of the VAT tax gap, but it does not publish a full breakdown of the tax gap by behaviour (paragraph 3.7).

**25 HMRC has made good use of intelligence to respond to the risks of VAT fraud.** In the recent past, intelligence from industry has allowed HMRC to tackle the risk of repayment fraud in the renewable energy market. Competitors have also provided useful intelligence to let HMRC know about suppliers who are operating in the hidden economy. HMRC has liaised effectively with other European tax administrations and reacted quickly to new threats to the VAT system (paragraphs 3.10 to 3.12).

**26 HMRC's online VAT registration system has proven popular with taxpayers but it is too early to determine whether it has delivered the projected reduction in revenue losses.** Since implementation began in October 2012, between 81 and 84 per cent of all monthly registrations have been online, exceeding HMRC's target of 80 per cent. The online registration project aims to reduce revenue losses (by between £30 million and £35 million a year) by improving and automating HMRC's risk checking and decision-making. The new system is generating twice as many cases for investigation as its predecessor, but HMRC has yet to show whether this is delivering the expected enhancement in the security of the VAT system. HMRC plans a post-implementation review after January 2014, but this has yet to be scheduled (paragraphs 3.13 to 3.19).

**27 In 2012-13, HMRC checks prevented £579 million of erroneous repayment requests, but its checking of payment returns is more limited.** HMRC uses an automated system to profile VAT repayment returns and identify those where there is an increased risk of error or fraud for additional checks. It undertakes fewer real-time risk profiling checks on payment returns (paragraphs 3.23 and 3.29).

**28 HMRC's current risk profiling of VAT returns identifies cases where compliance yield can be maximised, rather than where the risk of VAT evasion may be greatest.** HMRC uses predictive analytics, based on customer histories, to identify those customers posing the greatest risk to revenue. This drives its approach to customer interventions. HMRC plans to examine the feasibility of extending this model to more explicitly target evasion risks (paragraphs 3.21 and 3.28 to 3.29).

**29 HMRC's interventions and wider cooperation have helped reduce significantly the VAT losses from MTIC fraud.** Since it peaked at between £2 billion and £3 billion in 2005-06, HMRC has worked with others to reduce losses caused by MTIC fraud to an estimated £0.5 billion to £1 billion in 2010-11 (paragraph 3.34).

**30 HMRC has yet to produce a comprehensive plan to react to the emerging threat to the VAT system posed by online trading.** HMRC has helped secure legislative change to the place of supply for VAT purposes for certain products. While it has developed tools to identify internet-based traders and launched campaigns to encourage compliance, overall HMRC has shown less urgency in developing its operational response. In March 2013, HMRC began scoping work to review its current activities and internet-based traders with greatest potential to commit VAT fraud. Its more detailed compliance work is unlikely to start until later in 2013 (paragraphs 3.39 to 3.45).

## Recommendations

- 31 HMRC should establish whether its online VAT registration system is delivering the expected reduction in revenue losses.** The new VAT registration system is generating increased volumes of cases to investigate, but it is not yet clear that this is leading to expected improvements in the security of the VAT system.
- 32 HMRC should consider the costs and benefits of enhanced real-time risk profiling of VAT payment returns.** Understandably, HMRC focuses its current scrutiny of VAT returns where taxpayers are requesting repayments, but this creates a risk that significant levels of fraud in other returns may not be detected.
- 33 HMRC needs to increase the urgency with which it is responding to the fraud risks posed by internet-based traders.** HMRC has assessed the risks presented by online traders. It has introduced initiatives to address specific risks but, to date, these have had limited financial impact. The timing of HMRC's future plans does not reflect the scale of public and parliamentary concerns about the way these businesses operate.

## Personal tax credits (Part Four)

### Findings

- 34 The C&AG has qualified his regularity audit opinion on HMRC's 2012-13 Resource Accounts because of material levels of error and fraud in the payments of personal tax credits.** The overall level of error and fraud in 2011-12 (the latest year available) indicates that payments of between £1.9 billion and £2.3 billion were made to claimants incorrectly because of error and fraud. Further amounts of between £170 million and £360 million are not being paid to claimants because of error (paragraph 4.9).
- 35 HMRC's central estimate of error and fraud of 7.3 per cent is the lowest since the current personal tax credit scheme was introduced.** HMRC estimated the level of error and fraud in 2011-12 payments to be between 6.6 and 7.9 per cent (compared with between 7.5 and 8.8 per cent in 2010-11). The 2011-12 central estimate of error and fraud is 7.3 per cent (8.1 per cent midpoint in 2010-11), which is the lowest figure since the personal tax credit scheme was introduced in 2003-04 (paragraph 4.10).
- 36 HMRC and HM Treasury have not yet published a new target for savings from reducing error and fraud in tax credits awards.** HMRC failed to meet its target of reducing error and fraud to 5 per cent of finalised tax credits awards by March 2011. In evidence to the Committee of Public Accounts on 6 March 2013, HMRC estimated that it is likely to deliver losses identified and prevented of between £2.5 billion and £3 billion in the four years to 2015. The Committee of Public Accounts has recommended HM Treasury and HMRC should introduce a new target for savings from reducing tax credits error and fraud by 2017 to which HMRC should be held to account (paragraphs 4.12 and 4.19).

**37 HMRC has adopted a more prudent methodology for measuring the losses prevented by its interventions.** Following publication of the 2010-11 error and fraud results, HMRC reassessed the relationship between error and fraud and how losses prevented through interventions were estimated, and adopted a more prudent methodology in 2012-13 (paragraphs 4.14 to 4.16).

**38 HMRC faces a significant challenge to meet its target of reducing the gross personal tax credits debt balance to £3.7 billion by March 2015.** In 2011-12, HMRC set itself a target to reduce the gross personal tax credits debt balance from £4.7 billion to £3.7 billion by 31 March 2015. As disclosed in the 2012-13 Resource Accounts, HMRC's gross personal tax credits debt balance increased from £4.0 billion at 31 March 2012 to £4.8 billion at 31 March 2013 (paragraphs 4.24 and 4.25).

**39 HMRC has undertaken a detailed analysis of its success in recovering historic debt, which has led to a significant increase in the provision for uncollectable amounts.** HMRC has tracked the history of recovery of debt raised in 2009-10 and this has led it to revise its estimation of the recovery rate for debts from 43 to 31 per cent. As a result, HMRC has increased its provision for irrecoverable debt by £1.0 billion (paragraph 4.26).

**40 HMRC has launched a series of initiatives with the aim of improving its debt recovery performance, but it is too early to determine whether these will achieve the expected outcomes.** Alongside a debt collection campaign, HMRC has extended schemes to recover debts through PAYE and debt collection agencies and has developed plans to extend recovery of overpayments from ongoing awards. The most significant initiatives will not have an impact before 2014-15. HMRC also faces challenges in improving collection rates, given its need to strike the right balance between pursuing collection and a claimant's ability to pay (paragraphs 4.28 to 4.31).

## **Recommendations**

**41 HMRC should look to build on its successful approach to tackling error and fraud within each of its six identified areas of risk.** HMRC have estimated reduced losses due to error and fraud in 2011-12 in three of the six identified risk areas. HMRC should establish what factors contributed to its success in these areas of risk and seek to apply any lessons learned across other risk areas.

**42 HMRC should analyse its remaining balance of tax credits debt to see whether it can recover individual debts.** The tax credits debt balance increased to £4.8 billion as at 31 March 2013 and HMRC recognises that much of this is unlikely to be collectable. HMRC needs to prepare a robust analysis of the age and collectability of debt and collect what is value for money to do so before it considers writing these off.



## System-wide findings and recommendations

### Findings

**43** HMRC has made progress in applying lessons learned identified in our 2011-12 report on Accounts (Annex One). Our work in 2012-13 has identified priority areas of activity that HMRC should seek to strengthen:

- **While improving customer service is one of HMRC's three core strategic objectives, its main focus and energy in this spending review period has been to meet its commitments to reduce costs while increasing revenue from its compliance and enforcement work.** Our report on *Customer service performance* recognised the resources HMRC has committed and the progress it has made to recover customer service standards from a very low base. It continues to lag behind other service delivery organisations in the extent to which it places the needs of customers at the heart of decision-making. Achieving compliance with their tax obligations thus remains more difficult and costly than it should for many citizens and smaller businesses.
- **HMRC faces complex challenges such as combating the mass-marketing of tax avoidance schemes and changes to the way taxes are administered. In some cases, it has not always responded by establishing the critical information systems required to help it assess risks and target resources and is hampered by old and inflexible information systems.** HMRC's culture places a high value on data and it uses performance information widely across its business. It has invested in new systems, such as RTI, and is currently scoping how it might exploit the data it provides as part of developing its long-term strategy for improving the PAYE process and defining its future operating model. Furthermore, HMRC has focused efforts on tackling VAT fraud caused by erroneous repayment requests. HMRC uses a variety of tools to determine its risk based interventions but it recognises that it needs to make its risk profiling more comprehensive and more fully understand the behavioural impact of its activities on compliance.



## Recommendations

**44 HMRC should recognise the extent of cultural change required to put customers at the heart of its decision-making and should identify and seek to apply best practice in customer service from elsewhere in government and the private sector.** It needs to build awareness and commitment throughout its business that its customers matter and to place equal focus and attention on meeting their needs so it becomes easier for all taxpayers to pay the right tax at the right time, and to get help when needed.

**45 HMRC should prioritise initiatives to improve the quality of its data and to improve management information to aid decision-making. It should build the case for investment in its information systems in the medium to long term.** HMRC's culture places a high value on data and it uses performance information widely across its business. However, it is hampered by old and inflexible information systems. The outcome of discussions with HM Treasury about where HMRC deploys resources over the 2010 Spending Review period has been to prioritise spending that will provide a quick return in terms of cash revenue. More sustainable and potentially larger gains could be achieved in the longer term by strategic investment in HMRC's critical information systems, helping it to assess tax risks and target its resources more accurately.

## Annex One: HMRC's progress against recommendations in HMRC's 2011-12 accounts

**46** In our report on HMRC's 2011-12 accounts,<sup>6</sup> we identified three broad themes that linked our findings and recommendations to our wider value-for-money work on HMRC's activities. We recommended that HMRC should seek to apply these lessons across the full range of its activities. Our analysis of HMRC's progress in each of these areas is outlined in **Figure 1**.

### Figure 1

#### HMRC progress against lessons learned identified in our 2011-12 report on accounts

##### HMRC has made progress in applying lessons learned

NAO recommendation	Progress	Commentary
To improve the analysis of the costs and benefits of interventions, such as debt campaigns and initiatives to reduce tax credits error and fraud	Limited	HMRC has work in progress to improve its understanding of cost. It has developed a costing model as part of its business improvement programme to identify the end-to-end costs of common processes across all its tax streams. However, we found in our study, <i>Progress on reducing costs</i> , that its use of costing techniques is still immature, and on <i>Tax avoidance: tackling marketed avoidance schemes</i> , that HMRC could not identify the full cost of its avoidance activities. We also found in <i>Tackling tax credits error and fraud</i> that HMRC was unable to reliably measure the impact of its interventions to reduce error and fraud, and it had significantly overestimated their benefits.
To use better understanding of risks, such as risk profiling of taxpayers, to prioritise and target its activities	Good	HMRC has strengthened its understanding of its customer base and its risk profiling as a means to prioritise activities and allocate resources, which is an essential element of its business transformation programme. Through reports such as <i>Tackling tax credits error and fraud</i> we identified how HMRC could improve its risk assessment and targeting of interventions to address the points at which error and fraud is most likely to enter the system.
To be clearer about what its future operating model will be before implementing structural change	Good	In 2012-13, HMRC has continued work to underpin its future vision with a clearer statement of its future operating model, which has informed the choices and decisions made in implementing its change and cost reduction programme. In <i>Progress on reducing costs</i> we found that HMRC was moving from making tactical efficiency savings and quick wins towards a more strategic approach to managing and using its resources, and that its cost reduction plans were consistent with its longer-term vision for transforming its business.

Source: National Audit Office analysis of HM Revenue & Customs performance

# Part One

## Departmental performance in 2012-13 and the Comptroller and Auditor General's work on HM Revenue & Customs

**1.1** This part of the report discusses:

- tax revenues in 2012-13;
- tax debt management;
- changes to child benefit;
- the UK–Switzerland tax agreement; and
- work we have published on HMRC's activities.

### Tax revenues in 2012-13

**1.2** In 2012-13, total revenues accruing to HMRC were £475.6 billion – £1.4 billion (0.3 per cent) more than in 2011-12. **Figure 2** overleaf shows the tax revenues reported in HMRC's Trust Statement<sup>7</sup> in the last five years. The Trust Statement reports the revenues and expenditure, and assets and liabilities, related to taxes and duties.

**1.3** **Figure 3** on page R17 shows the changes in tax revenues between 2011-12 and 2012-13. Corporation tax revenue decreased by £0.9 billion – a reduction in the main rate of corporation tax from 26 per cent in 2011-12, to 24 per cent in 2012-13, may have impacted total receipts. In addition, HMRC stated that revenues from offshore oil and gas production fell by £0.4 billion following lower production levels and higher expenditure, partly offset by increased revenue from financial and life assurance sectors. VAT revenue increased by £1.4 billion, which HMRC has explained by increased revenue from the business services and automotive sectors. Income tax and National Insurance revenues decreased by £0.8 billion, which HMRC states follow a reduced estimate for revenue receivable through self-assessment.

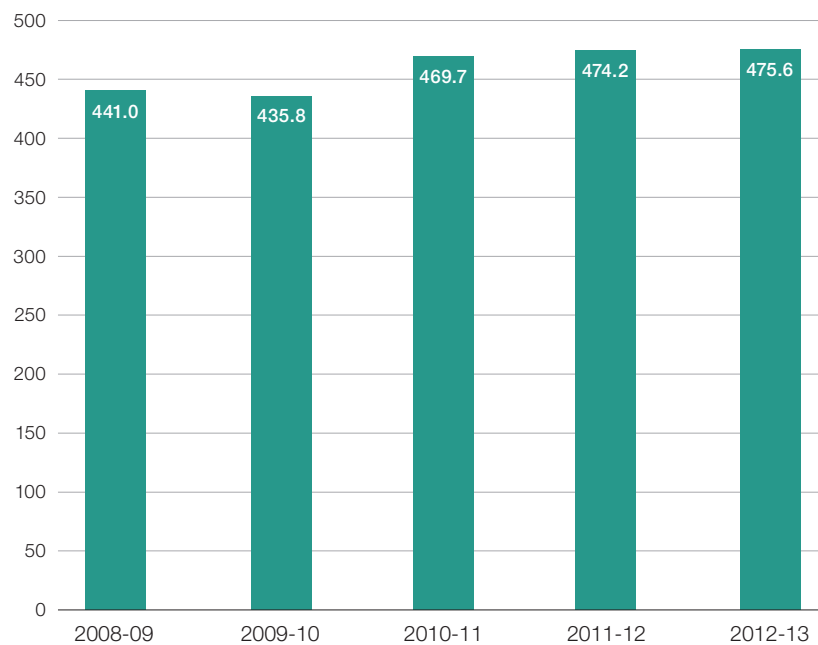
<sup>7</sup> *HM Revenue & Customs annual report and accounts 2012-13*, HC 28, June 2013; *HM Revenue & Customs annual report and accounts 2011-12*, HC 38, July 2012; *HM Revenue & Customs annual report and accounts 2010-11*, HC 981, July 2011; *HM Revenue & Customs 2009-10 accounts*, HC 299, July 2010; *HM Revenue & Customs 2008-09 accounts*, HC 464, July 2009.

**Figure 2**

## Total revenue from 2008-09 to 2012-13

In 2012-13, total revenue was £475.6 billion, £1.4 billion more than 2011-12

£ billion

**NOTES**

- 1 Total revenue figures represent accruals based values taken from published accounts.
- 2 The total revenue figure for 2010-11 varies from the published accounts because of changes in accounting policy as a result of the government's 'clear line of sight' project to align departmental budgets and accounts.
- 3 Total revenue figures for the years 2008-09 varies from those published in the respective Trust Statement, which include tax credits as negative taxation within revenue for those years.
- 4 Total revenue in 2008-09 excludes revenue from fines and penalties.

Source: HM Revenue & Customs

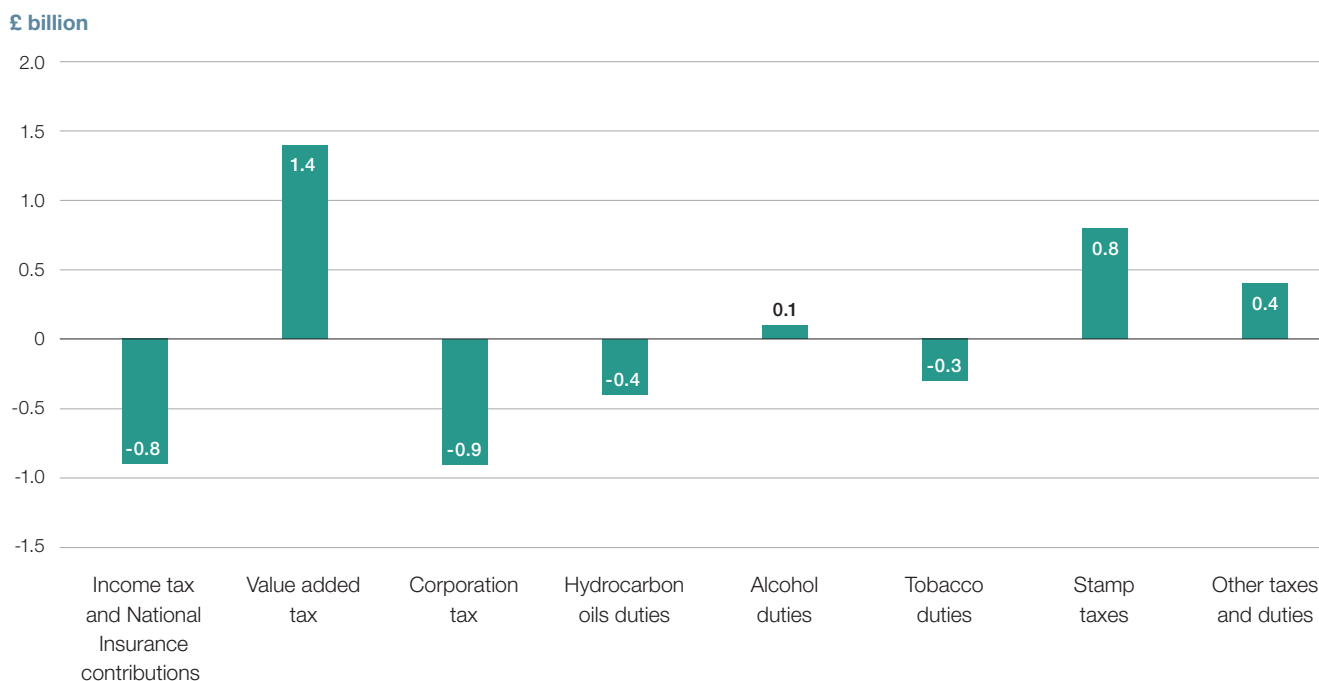
**Update on tax debt management**

**1.4** We reported on tax debt management in our report on HMRC's 2011-12 accounts.<sup>8</sup> Tax debt occurs when a tax liability remains outstanding after the due payment date. It is defined by HMRC as amounts which are overdue for payment and are legally enforceable. Tax debt is not shown separately in HMRC's Trust Statement but is included within a larger figure described as 'receivables'.

**Figure 3**

Change in tax revenues, by tax stream, from 2011-12 to 2012-13

VAT revenue increased by £1.4 billion between 2011-12 and 2012-13



Source: HM Revenue &amp; Customs

**1.5** The value of tax debt under active management by HMRC at 31 March 2013 stood at £12.2 billion, compared with £13.3 billion at 31 March 2012. This sum excludes tax credit debt, arising when HMRC identifies that customers have been overpaid tax credit, which we examine in Part Four. HMRC continued to collect significant amounts of overdue tax: £34.5 billion, compared with £37.9 billion in 2011-12. There has been a greater emphasis by HMRC on clearing older debt during the period. The value of debt written off during the year or which HMRC has decided not to pursue for reasons such as hardship or value for money ('remitted') has increased from £5.17 billion last year to £5.31 billion this year. The majority of debt written off is due to insolvency.

**1.6** HMRC has made progress in implementing the debt management strategy introduced in 2009-10. It is using its new debt analytics system to allocate risk scores to its debt and design debt collection campaigns based upon customer segmentation, starting with corporation tax and VAT debt. This new approach will be applied to other debt types in 2013-14. In line with recommendations made in our report on HMRC's 2011-12 accounts, it has started to collect cost data for debt collection activities, but these data are not yet reliable or robust enough to identify the costs of all its collection activities and interventions to support the efficient allocation of resources. However, the analytics system is being used increasingly to test and compare the relative effectiveness of different collection strategies and techniques.

## Child benefit

**1.7** On 7 January 2013, HMRC introduced a new tax charge for those with income over £50,000 and who receive, or whose partner receives, child benefit. The charge increases in proportion to income until it fully offsets the child benefit received at incomes above £60,000. This change has a number of implications:

- **Individuals** must either opt out of receiving child benefit payments or the partner with the higher income needs to declare the child benefit income received by them, or their partner, through the income tax self-assessment process. They may need to register or rejoin the self-assessment income tax regime.
- **HMRC** is responsible for raising awareness of these changes. By March 2013, it had directly communicated this change by letter to 0.8 million (75 per cent) of those thought likely to be affected and also by other media, including advertising and information on its website. HMRC will continue to raise awareness during the 2012-13 self-assessment programmes. The volume of those filing self-assessment income tax returns is expected to increase by 350,000. Additional administration costs are estimated at £13 million per annum.
- The 2012-13 Resource Accounts record child benefit as expenditure. Where individuals have stopped receiving their payments, this will reduce overall child benefit expenditure. Where individuals have chosen to pay the tax charge, the Trust Statement accounts for them as additional revenue. Note 9 to the Resource Accounts explains the accounting treatment.

**1.8** Overall, the change is expected to produce net annual savings of £1.5 billion by 2015-16.

## UK–Switzerland tax agreement

**1.9** On 6 October 2011, the UK and Swiss governments signed an agreement to tackle offshore tax evasion. The agreement aims to settle the past tax liabilities of UK individuals who hold assets in Swiss bank accounts through a one-off payment covering liabilities. It will also establish a new withholding tax to collect future amounts due. Any person under investigation at 31 May 2013 who had not authorised the one-off payment to be made before the investigation commenced, or those subject to a previous relevant investigation and who did not disclose relevant assets in Switzerland, cannot benefit from the clearance of past tax liabilities. Also, there will be no clearance of past liabilities for those involved in criminal attacks on the tax system or for anyone whose relevant Swiss assets are the proceeds of non-tax crime.

**1.10** During 2012-13, the Swiss authorities made an upfront payment of 500 million Swiss francs – equivalent to £342 million – in anticipation of future payments expected under the agreement. Under the agreement, individuals choosing not to share their details with HMRC will suffer a one-off levy as well as a new withholding tax for future amounts due. Alternatively, individuals can make voluntary disclosures to settle tax liabilities. HMRC forecasts that a total of £4.4 billion will be received over the next three years in respect of past tax liabilities, either directly from individuals or through the levy by Swiss banks. Note 2.8.2 in the Trust Statement explains the accounting treatment of this revenue.

### Summary of National Audit Office work in the last year

**1.11** Against the background above, in 2012-13 we published the following reports.

Reports published under the Comptroller and Auditor General's section 2 powers

**1.12** In June 2013, we published a report reviewing HMRC's renewed strategy for tackling tobacco smuggling,<sup>9</sup> which followed a similar evaluation of HMRC's renewed alcohol strategy published in January 2012.<sup>10</sup> We found the strategy to be logical, incorporating a wide range of complementary measures to tackle tobacco smuggling, but HMRC's approach to deterring and disrupting the distribution of illicit tobacco within the UK is not yet effectively integrated. HMRC's focus on building overseas intelligence is yielding success. HMRC exceeded internal operational targets in 2011-12 but fell short of more stretching targets in 2012-13 and has failed to capitalise on additional reinvestment funding made available under the 2010 spending review settlement. Two years on, HMRC lacks a timely and comprehensive assessment of the impact of its strategy on the scale and nature of tobacco smuggling.

<sup>9</sup> See footnote 5.

<sup>10</sup> Comptroller and Auditor General, *Renewed alcohol strategy: a progress report*, Session 2010–2012, National Audit Office, HC 1702, January 2012.

## Value-for-money reports

**1.13** We published four value-for-money reports in 2012-13:

- *Tax avoidance: tackling marketed avoidance schemes.*<sup>11</sup> In 2010-11, HMRC estimated the difference between the tax that is collected and the tax that should be collected to be £32 billion, of which £5 billion was due to those “using the tax law to get a tax advantage that Parliament never intended”. We found that HMRC had made some important headway in reducing the opportunities for avoidance by closing legal loopholes, but that the large number of users of avoidance schemes posed a significant challenge with little evidence of HMRC making progress in preventing some promoters from selling highly contrived schemes. We recommended that it increase its efforts to understand and influence the market of promoters and users of avoidance schemes and improve its management information to better direct its anti-avoidance effort.
- *Tackling tax credits error and fraud.*<sup>12</sup> In June 2012, HMRC estimated tax credit error and fraud in 2010-11 to be around 8.1 per cent, which meant it had missed its target to reduce error and fraud to 5 per cent of finalised entitlements by March 2011. We found HMRC had not yet developed an effective response to stopping error and fraud occurring on claims in the system because of changes in claimants’ circumstances, although it was moving in the right direction by introducing innovative approaches that could make a difference in the future. We recommended that it should establish error and fraud plans for high risk areas and make better use of data analysis.

**1.14** The two further reports focused on how HMRC is run:

- *Progress on reducing costs.*<sup>13</sup> In our second report on HMRC’s cost reduction programme we found that in 2011-12, the first year of the programme, it had saved one third of the total it needed to save by 2014-15 and had maintained performance in key strategic areas, improving its value for money. It had reduced its costs by £296 million – 19 per cent more than target – but we noted that further reductions would be challenging. HMRC is moving from making tactical efficiency savings and quick wins towards a more strategic approach to managing its resources. We recommended that HMRC continue to strengthen its management and governance of savings that do not come from defined and funded cost reduction projects. In 2012-13, it identified new savings of £249 million: 4 per cent more than its target.

<sup>11</sup> See footnote 1.

<sup>12</sup> See footnote 4.

<sup>13</sup> See footnote 3.



- *Customer service performance.*<sup>14</sup> Our report concluded that while HMRC has improved its customer service, overall performance represented poor value for money for customers. We recognised that HMRC had restored customer service levels from a low point in 2010 and had committed to making further improvements. Its future plans were ambitious given past performance and the difficult decisions it has to make in order to meet its spending review commitments to reduce costs and increase tax revenues. We recommended it develop a longer-term customer service strategy. Since our report and the Committee of Public Accounts hearing, HMRC has committed to making improvements to customer service such as migrating its 0845 helplines to 03 numbers, offering a call-back service, increasing online self-service and revising performance targets. It has now migrated two of its 0845 numbers; set itself new targets and begun a call-back service trial. HMRC's customer service performance has improved in 2012-13 with HMRC achieving performance targets and answering on average 78 per cent of calls and 85 per cent of post within 15 days.

<sup>14</sup> See footnote 2.

# Part Two

## The PAYE service

### Introduction

**2.1** Pay As You Earn (PAYE) is HMRC's largest single tax collection process. In 2012-13, HMRC collected £150.9 billion in income tax and £101.7 billion in National Insurance contributions, of which approximately 85 per cent was collected through PAYE. There are approximately 41 million individuals with an active PAYE record. Each year HMRC processes around 60 million<sup>15</sup> returns for separate employments and pensions.

**2.2** In June 2009, HMRC implemented the National Insurance and PAYE Service (NPS) system to bring together individuals' tax records into a single taxpayer account. It encountered significant difficulties in administering PAYE after implementing NPS, which we have reported on in our reports on HMRC's 2010-11 and 2011-12 accounts. HMRC committed to stabilising the PAYE service by the end of March 2013.

**2.3** HMRC is changing the way it administers PAYE. In April 2012, HMRC piloted its online Real Time Information (RTI) system which will require employers to report PAYE information more frequently. HMRC plans to have fully rolled out RTI by October 2013, largely to support Universal Credit. From October 2013, the Department for Work & Pensions plans to expand Universal Credit pathfinders, which started in April 2013, and progressively roll-out Universal Credit to all claimants by 2017.

**2.4** This part of the report covers HMRC's:

- progress in stabilising the PAYE service; and
- readiness for the roll-out of RTI.

<sup>15</sup> Of these about 6.5 million were reported through Real Time Information in 2012-13 for separate employments and pensions.

## Progress in stabilising the PAYE service

**2.5** Up to and including 2012-13, the majority of employers paid PAYE deductions for their employees to HMRC monthly based on tax codes from HMRC, and only provided detailed information on the deductions made for each employee after the end of the tax year. HMRC would then reconcile the tax due with the payments received throughout the year to ensure that employees had paid the correct amount of tax. These end-of-year reconciliations can sometimes result in under and overpayments of tax, for example where an employee's circumstances changed.

**2.6** When NPS was introduced in 2009, HMRC encountered significant difficulties in administering PAYE, which caused a backlog in end-of-year reconciliations. HMRC committed to undertaking a programme of work to stabilise the PAYE service and to clear this backlog.

**2.7** **Figure 4** shows how HMRC cleared the backlog of reconciliations and completed the final 12 months of the stabilisation programme by the end of March 2013, in line with its commitment to the Committee of Public Accounts. By bringing PAYE up to date, HMRC has reconciled all outstanding PAYE cases, up to and including the tax year 2011-12, that the NPS system identified for review. HMRC has either cleared the cases or, for a small minority, are following up for further information or investigation.

### Figure 4 HMRC performance against its commitments to stabilise NPS

#### HMRC successfully delivered the final 12 months of the stabilisation programme

HMRC aimed to stabilise NPS by completing	Target date	Task completed?
Outstanding end-of-year reconciliations from 2008-09 and 2009-10 (6.7 million)	31 March 2012	✓
Outstanding reconciliations from 2003-04 to 2007-08	31 December 2012	✓ <sup>1</sup>
End-of-year reconciliations for 2010-11 and 2011-12 within accelerated processing timetable	31 March 2013	✓ <sup>2</sup>

#### NOTES

- Actual completion date 31 October 2012.
- There are 17,500 cases which HMRC have reviewed where further information is being requested or further investigations are taking place (paragraph 2.7).

Source: National Audit Office analysis of HM Revenue & Customs data

**2.8** The stabilisation and clearance of outstanding cases has come at a cost, both in processing costs and uncollected taxes. Up to March 2013, HMRC had spent £78.9 million in stabilising PAYE, against an estimated £80.9 million, and had foregone an estimated £953 million of tax to keep workloads manageable (**Figure 5** overleaf).

**Figure 5**

## Stabilisation of PAYE: estimated tax foregone

HMRC's best estimate of total tax foregone during the stabilisation programme is £953 million

Estimated tax foregone (£m)	Explanation
266	Consequence of temporary increase in threshold for debt collection (applies to tax years 2008-09 and 2009-10)
630	Estimated notional tax foregone in respect of open cases (applies to tax years 2003-04 to 2007-08)
57	Successful claims under Extra-Statutory Concession A19 <sup>1</sup>
<b>953</b>	<b>Total</b>

**NOTE**

1 An Extra-Statutory Concession is a relaxation which gives taxpayers a reduction in tax liability to which they would not be entitled under the strict letter of the law. Concession A19 is a concession relating to arrears of tax arising through official error, specifically where the Department has not used the information in a timely manner.

Source: HM Revenue & Customs

## Managing the PAYE service in-year

**2.9** For the PAYE service to work effectively, HMRC should only be dealing with three open tax years at any one point in time for the majority of taxpayers. This means that over 12 months, HMRC should:

- reconcile taxpayer accounts for the previous tax year;
- make some in-year adjustments to reflect changes in circumstances, thereby keeping some taxpayer accounts up to date; and
- calculate and send tax codes for the following tax year.

**2.10** HMRC must therefore efficiently administer in-year changes to taxpayer records and actions generated by the NPS system in-year (known as work items) alongside maintaining customer service standards. The majority of changes are processed automatically and the remainder require manual review.

**2.11** In 2011-12, we reported that the NPS system generated more work items than HMRC had the capacity to handle. **Figure 6** shows actual work items generated in 2012-13 against forecast and the projections for the following two years. HMRC is forecasting a reduction in work items generated year on year. Those work items which impact on the accuracy of a taxpayer's ultimate liability are planned to be worked. Although this means that some tax codes will not be reviewed in-year, all taxpayer accounts will be automatically reviewed at year end, with the majority showing that no further action is required. Any items identified for manual intervention will be worked in the following year.

**Figure 6**

## How HMRC will deal with work items generated by NPS

HMRC plans to reduce the volume of work items generated to around 10 million in 2014-15

	2012-13 plan (million)	2012-13 actual (million)	2013-14 forecast (million)	2014-15 forecast (million)
Total generated	25.8	24.1	17.4	13.3
Tapped <sup>1</sup>	(5.1)	(2.8)	(2.8)	(2.8)
Planned to automate/eliminate	(1.1)	(0.8)	(2.5)	(3.2)
<b>Total requiring manual work</b>	<b>19.6</b>	<b>20.5</b>	<b>12.1</b>	<b>7.3</b>
HMRC's capacity to work	14.4	16.0	10.7	5.3
<b>Excess over capacity</b>	<b>5.2</b>	<b>4.5</b>	<b>1.4</b>	<b>2.0</b>

**NOTE**

<sup>1</sup> Tapped: Work items which HMRC does not intend to action in the normal course of business.

Source: HM Revenue & Customs

**2.12** HMRC currently prioritises work items to ensure that the excess produced above its capacity to work them does not impact on the taxpayer's final liability to tax. It does this by prioritising those work items affecting what the taxpayer has to pay after annual reconciliation. Not all work items affect customers' tax records and therefore HMRC prioritises or seeks to 'tap' (switch off) those items so they are not generated for action. HMRC has no plans to work all in-year work items which would adjust the taxpayer's code to ensure that in-year tax deductions are correct, although RTI is expected to update taxpayers' records based on data about starting and leaving employment. HMRC has also started a project to deliver further automated solutions.

**2.13** HMRC is relying on business process re-engineering and opportunities presented by RTI to reduce the number of under and overpayments required at each year end. If HMRC is able to reduce its work items as it hopes, it is likely that this would improve the accuracy of customers' records held during the year. More up-to-date and accurate tax codes being maintained during the year should lead to fewer over and underpayments of tax at the end of the tax year, reduced customer contact and a positive impact on HMRC's performance targets.

**2.14** The full impact of RTI on the volume of work items is yet to be determined, although HMRC expects the volume of work items to reduce with more taxpayer records automatically reconciled at the end of the tax year.

## Implementing Real Time Information

**2.15** Implementing RTI is the next stage in HMRC's modernisation of PAYE. With RTI, employers must report employees' income tax and National Insurance deductions on or before payment, rather than after the end of the tax year, as described in paragraph 2.5.

**2.16** Under RTI, some elements of the PAYE process will no longer be required, such as employer end-of-year returns and in-year forms for starters and leavers. It should also reduce the time it takes to complete end-of-year reconciliations and increase the number of automated reconciliations. However, end-of-year reconciliations will still be needed as, for example, HMRC would only be notified of benefit in kind information, such as company cars, at the end of the tax year.

**2.17** RTI offers HMRC the prospect of tracking changes in income and employment in-year, ensuring that individuals remain on the correct tax code when employments change and thereby reducing the level of under and overpayments of tax.

**2.18** Receiving data more regularly brings many potential benefits for HMRC including:

- greater efficiency through automation of tasks and workflow management;
- more timely information on employees' actual earnings leading to more accurate tax credit renewals; and
- improvements in cash flow and debt management from the closer monitoring of in-year tax receipts.

**2.19** The timetable for implementing and rolling out RTI nationally – by April and October 2013 respectively – is challenging. It was originally driven by the Department for Work & Pensions' plans to progressively extend Universal Credit from October 2013 for which PAYE information on employment and pension income is required.

### Real Time Information pilot

**2.20** Learning from the implementation of NPS, HMRC ran a pilot of RTI during 2012-13 with employers invited to test the new technology and processes. The pilot started on time (April 2012), but the number of employer and pension schemes using RTI by 31 March 2013 was significantly lower than the original assumption of 250,000 schemes. Due to lower than expected employer volumes, HMRC revised its plans and focused on bringing in larger schemes to ensure the required number of individual employment records were tested during the pilot. Only 66,240 employers and pension schemes participated in the pilot, although these included over 6.5 million individual employment records, in line with planned volumes. The lower number of employer schemes participating meant that live employer volume testing in advance of the full roll-out in April 2013 was lower than originally anticipated.

**2.21** Various bodies have expressed concern over the requirements placed on smaller employers by the more frequent payroll reporting requirements of RTI and whether such employers were sufficiently represented in the pilot exercise. Seventy-three per cent of employer schemes participating in the pilot had nine or fewer employees. **Figure 7** outlines the mix of schemes involved in the pilot. As participation in the pilot was voluntary, the pilot results may not necessarily reflect the issues experienced by all employers or in all industry sectors.

**2.22** The pilot covered the initial matching of employer records with those held by HMRC and the electronic submissions of payroll information. During the pilot year to April 2013, only starter and leaver data has been transferred into the NPS system and testing of the internal data interfaces between RTI and the NPS system, enabling the performance of end-of-year reconciliations, only started from April 2013 after the live roll-out of RTI. Further IT releases are scheduled for October 2013 and April 2014. Consequently, new issues may arise as more employers start to use RTI for the first time or with further IT system changes.

**2.23** The pilot has been successful in testing functionality and system performance, while identifying issues for HMRC to address before the live roll-out to all employers. One of the most significant issues is the creation of duplicate employment records when employer payroll references differ from HMRC records, as a result of the employers changing references without informing HMRC. This could lead to incorrect tax codes being issued to employees. In response, HMRC have developed methods to identify and correct such cases, and are working to address all cases from the pilot period. By the middle of May, HMRC had identified approximately 10,000 duplicates from 21 million employments validated within RTI. This issue will continue as employers migrate on to RTI and HMRC is monitoring daily. It also demonstrates the value in undertaking such a pilot.

**Figure 7**  
Size and volume of employers involved in RTI pilot

The RTI pilot covered 65,850 employer schemes and 6,573,011 employments

Size of employer scheme	Number of schemes	Number of employments
5,000 employees and greater	283 (0%)	4,441,093 (66%)
250 to 4,999 employees	1,306 (2%)	1,490,200 (22%)
50 to 249 employees	3,656 (6%)	376,327 (6%)
10 to 49 employees	12,672 (19%)	275,365 (4%)
0 to 9 employees	48,323 (73%)	128,276 (2%)
<b>Total</b>	<b>66,240</b>	<b>6,711,261</b>

Source: HM Revenue & Customs

## Financial systems accreditation

**2.24** Financial accreditation is a requirement of HMRC's Change Programme and provides HMRC with assurance that any systems introduced are acceptable for accounting and financial control purposes. As RTI reflects a major change to how financial information is gathered, the RTI project board had to obtain internal financial accreditation over the financial systems supporting RTI. Full accreditation will not be granted until implementation of the appropriate principles and controls.

**2.25** RTI went live without full accreditation on the basis that the financial system design issues identified would be resolved by October 2013. A number of these system requirements were identified towards the end of the pilot and were not included in the original business case. These issues do not impact an employer's ability to submit data to HMRC using RTI but do result in weaknesses in HMRC's ability to produce and report financial information about PAYE. HMRC is currently undertaking work to understand the extent to which failure to address these accounting issues could result in HMRC being unable to correctly allocate and account for some PAYE payments received from employers or to identify and collect amounts outstanding.

## Contingency arrangements

**2.26** Online and time-sensitive system implementations are usually developed with formal technical resilience and disaster recovery capability to help maintain the service being offered if there is a technical failure. HMRC chose not to develop full resilience because of the cost implications and because the PAYE service could be operated in an emergency without RTI.

**2.27** HMRC management is confident that the RTI service could be recovered if there is a significant processing disruption. However, RTI has the potential to be exploited by other government departments and the absence of resilience may inhibit its use in areas of activity where a temporary disruption to services cannot be tolerated. Data submissions can be held temporarily in a queue but this would not be sufficient to provide continuity of service in the event of a catastrophic failure. A failure in the RTI service at a critical processing time could also increase the amount of customer communication with HMRC and lead to more effort on behalf of employers.

**2.28** We reported in 2011-12 that the delivery of the RTI programme lacked any contingency arrangements. In response, HMRC has developed various short-term scenario-based contingencies to achieve the October 2013 delivery date. However, there is no significant contingency spend within the project for any major delays or problems with the implementation.

**2.29** The current expected cost of implementing RTI at £356.6 million is £115.5 million more than originally estimated because of new development costs required to increase the system's functionality as a result of consultation with stakeholders and better cost estimations. Within the expected cost, HMRC has not budgeted for any extra costs stemming from significant new issues arising.



**2.30** A phased approach is now being adopted to get the remaining 1.9 million employer schemes into RTI by the October 2013 deadline. As part of this phased approach, in March 2013, HMRC announced a temporary relaxation to 5 October 2013 of RTI reporting arrangements for small businesses (fewer than 50 employees) to allow extra time for these employers to adapt their processes and change arrangements with payroll providers. On 12 June 2013, HMRC announced that it will be seeking to extend this temporary relaxation until April 2014.

**2.31** HMRC reports that take-up of RTI has to date exceeded its expectations since the live roll-out, with approximately 1.4 million employer schemes filing RTI returns with 23.9 million employments by the end of May 2013. However, there are a number of risks to HMRC meeting its timetable, including the operational capacity of its systems and resources to manage take-on volumes over the April to October period, which HMRC is monitoring on a daily basis.

#### Future operating model

**2.32** HMRC sees digitalisation as key to its ability to modernise its business and deliver a better service with fewer and better targeted resources. HMRC has an overall objective to reduce costs and believes staff should be engaged in value-added activities such as tax collection and customer service, rather than in back-office processing work. A number of individual projects, including those on NPS work items and RTI implementation described above, have been designed to support that objective.

**2.33** Efforts to reduce workload have been targeted at tasks that save the most manual effort and those with a direct tax impact have been prioritised. While this has led to some successes, HMRC is still developing its long-term strategy for improving the PAYE process and defining its future operating model. Detailed scoping work is currently under way to determine how to exploit the opportunities and benefits provided by RTI and support a business process re-engineering and digitalisation programme. This is, and must continue to be, a priority for HMRC.

# Part Three

## Tackling VAT fraud

### Introduction

**3.1** Value added tax (VAT) is a tax levied on the supply of goods and services within the United Kingdom and Isle of Man. In 2012-13, net VAT revenue totalled £101 billion (gross revenues of £176 billion less repayments of £75 billion).

**3.2** VAT registration is compulsory for businesses with an annual turnover above the registration threshold (from 1 April 2013 this increased from £77,000 to £79,000). Businesses with turnover below this level can choose to register for VAT voluntarily. There are currently 1.9 million businesses registered for VAT.

**3.3** Registered businesses incur VAT on the goods and services they buy (input tax) and, subject to partial exemption restrictions, can recover the cost against the VAT charged on the sale of their own goods and services (output VAT) or by reclaiming a repayment from HMRC, if there is an excess. VAT is, therefore, ultimately paid by the consumer and collected by businesses on behalf of HMRC.

**3.4** VAT is susceptible to fraud to a greater extent than most other taxes collected by HMRC. This is partly because repayments are an integral part of the system, as some traders claim back more input tax on their purchases than they pay output tax on their sales. This creates both the opportunity and incentive for criminal attack, by claiming repayments that are not based on legitimate business activity.

**3.5** This part of the report covers:

- the current assessment of the extent of revenue lost from the VAT system because of fraud;
- HMRC's approach to identifying and tackling the risk of fraud;
- progress in combating missing trader intra-community (MTIC) fraud; and
- HMRC's plans to improve its response to tackling fraud.

## Assessment of the current level of VAT fraud

**3.6** HMRC estimated the tax gap for VAT in 2010-11 as £9.6 billion (30 per cent of the total estimated tax gap of £32 billion). This equates to around 10.1 per cent of the amount of VAT that could theoretically be collected. HMRC estimated that MTIC fraud constituted between £0.5 and £1 billion of the VAT tax gap.

**3.7** A range of customer behaviours contribute to the VAT gap, including errors, failure to take reasonable care and conflicting legal interpretations. Our review focused on behaviours leading to deliberate evasion and criminal attacks. Aside from the estimate of MTIC fraud losses, and VAT debt (£0.9 million in 2011-12), HMRC does not publish a breakdown of the VAT tax gap by behaviour. Fraudulent behaviour contributes to the VAT tax gap in a number of areas:

- **Hidden or shadow economy fraud:** genuine businesses with a turnover above the VAT registration threshold who do not register for VAT.
- **Suppression of revenues:** genuine businesses with legitimate trading activity perpetrate a fraud by understating a portion of their sales or by falsely inflating their claims for the VAT on purchases to reduce their tax liability.
- **MTIC fraud:** fraudsters register for VAT in the United Kingdom to buy goods from other European Union member states VAT-free. They subsequently sell goods in the United Kingdom inclusive of VAT without paying over VAT due to HMRC.
- **Repayment fraud:** fraudsters registered for VAT make false claims for repayments.

## HMRC's approach to identifying and tackling the risk of fraud

**3.8** HMRC seeks to identify and tackle the risk of VAT fraud through a series of measures including:

- using intelligence provided by customers, European Union members and others;
- automated risk profiling of VAT registration applications;
- risk assessment of VAT returns; and
- risk profiling of VAT repayment claims.

**3.9** HMRC does not deploy enforcement and compliance staff to individual tax regimes, so does not routinely measure the total staff time and cost devoted to tackling VAT fraud each year. However, during 2012-13, HMRC estimates that 4,120 front-line caseworkers were allocated to managing the risk of VAT non-compliance, of which an estimated 2,335 worked primarily on tackling VAT fraud.

## Using and sharing intelligence

**3.10** Intelligence from taxpayers and other European tax administrations plays an important role in alerting HMRC to emerging threats against the VAT systems. In the recent past, for example, intelligence from industry has allowed HMRC to tackle the risk of repayment fraud in the renewable energy market. Competitors have also provided HMRC useful intelligence on suppliers who are operating in the hidden economy. This intelligence enables HMRC to focus its compliance activity on specific business sectors and regions.

**3.11** HMRC also works increasingly closely with other European tax administrations, which is important given the pan-European nature of VAT fraud. This has alerted HMRC to new threats, such as trading in carbon credits.

**3.12** In 2007, the Committee of Public Accounts<sup>16</sup> criticised HMRC's track record in responding positively to requests for cooperation from other European tax jurisdictions to tackle missing trader fraud. HMRC set a target to respond to 80 per cent of all requests within 90 days. In 2011, the latest year for which data is available, HMRC met this target by responding to 86 per cent of requests. This is a significant improvement from the 55 per cent achieved in 2005-06, with HMRC the best performing administration among the larger member states. However, the response rate is still below the 100 per cent rate the Committee encouraged HMRC to move closer towards.

## Automated risk profiling of registration applications

**3.13** A crucial first stage in preserving the integrity of the VAT systems is ensuring that only bona fide businesses are able to register. HMRC implemented the first phase of its VAT registration transformation (VRT) project in October 2012. It will enable traders to apply for their VAT registration, amend their details and deregister online for the first time.<sup>17</sup> The project cost HMRC £22.3 million (to the end of March 2013), and the planned VRT costs are not separately identified within the wider One Click programme.<sup>18</sup>

**3.14** In addition to improving customer service and reducing HMRC's operational costs, the project intended to reduce revenue losses, including those caused by fraud, by between £30 and £35 million in each subsequent year. HMRC expects to reduce the number of processing staff by 109 between 2012-13 and 2015-16, with savings of £180,000 per annum in 2013-14 and £360,000 per annum in 2014-15 and 2015-16. Benefits will arise through automated risk checking and decision-making (for example to establish duplicate applications from businesses already registered for VAT) and allowing more sophisticated risk assessment, using the IT platform Connect.

<sup>16</sup> HC Committee of Public Accounts, *Standard report on the accounts of HM Revenue & Customs: VAT missing trader fraud*, Forty-fifth Report of Session 2006-07, HC 250, July 2007.

<sup>17</sup> Customers were required to file VAT returns online prior to the introduction of VRT, but were unable to get an online decision and issue of their VAT certificate, which they can now do as a result of the VRT project.

<sup>18</sup> VRT is part of the One Click programme (bringing tax services online), with a total programme budget of £113 million. In 2012-13, there was a £16 million overspend against a £10 million One Click budget.

**3.15** All registrations are assessed using identity checks alongside Connect, which HMRC uses across many of its taxes. Connect identifies links between individuals and companies using a range of data sources. The Connect tool is used as part of an automated replacement for the manual risk assessment checks previously carried out. A range of rules have been defined within Connect to identify potentially risky or fraudulent traders.

**3.16** The first phase of VRT delivered the online registration facility with phase 2, which went live in December 2012, introducing automated variation and deregistration processing. Between April and June 2013, the final phase of the project, which includes the production of better management information, will be rolled out.

**3.17** Since the system went live, the data transfer process between VRT and Connect has failed numerous times. None of these delays have been significant and HMRC processed 98 per cent of non-risky returns within its three-day target. HMRC is investigating this issue as ongoing failures in the links between Connect and VAT systems could become more serious when the processing of repayment returns using Connect goes live later in 2013.

**3.18** Since implementation of the first phase of the VRT project, between 81 and 84 per cent of all monthly registrations have been made online, exceeding HMRC's 80 per cent target. In excess of 2,000 registration requests have been identified as potentially risky and requiring further investigation each month, compared to an average of less than 1,000 cases before implementation of VRT. HMRC has not yet assessed whether the increased caseload for investigation generated by the VRT system risk rules is delivering the expected outcome in terms of preventing risky traders entering the VAT system.

**3.19** HMRC plans a formal post-implementation review of the launch of the VRT system. This is expected to be after January 2014 but has not yet been scheduled. Until such a review has been completed it is not possible to conclude whether the VRT project has delivered the expected benefits in terms of reduced revenue losses, including those caused by fraud.

### Monitoring and profiling of VAT returns

**3.20** VAT-registered businesses submit regular online VAT returns to HMRC, along with an assessment of their tax liability. Most businesses file returns quarterly in arrears, but can request to submit monthly or annual returns to HMRC. Where HMRC identifies businesses that are in a payment position at a high risk of non-compliance, they demand more regular, monthly VAT returns.

**3.21** Each month HMRC undertakes a central risk analysis for VAT traders. This uses a predictive analytical model which is run against the returns made by the 1.9 million businesses registered for VAT. HMRC's objective is to prioritise investigations which will maximise financial returns, rather than to target businesses where the risk of VAT evasion and fraud may be greatest.

**3.22** HMRC regularly monitors VAT returns and applies different approaches depending on the nature of the return:

- **Repayment returns:** Where VAT returns lead to a repayment to the taxpayer, there is a more immediate fraud risk. HMRC uses an automated risk profiling tool to identify high risk returns, which are investigated.
- **Payment returns:** Fraud can still arise from returns where payments are made to the Exchequer if revenue has not been fully declared or expenses overstated. Returns are assessed using limited real-time data validation checks.

### Repayment returns

**3.23** HMRC conducts prepayment checks to prevent fraudulent repayments being made, but must meet customer service standards to process 90 per cent of VAT repayment requests within ten working days of receipt of the return. **Figure 8** shows that in 2012-13, HMRC processed 2.12 million repayment returns, of which 191,000 (9 per cent) were subject to further checks, with £579 million repayments prevented.

**3.24** HMRC uses an automated system ('the credibility suite') to profile VAT repayment returns and identify those where there is an increased risk of error or fraud. Where high or medium risk returns are identified, HMRC conducts an assessment of the return, which may involve visiting the trader before the repayments are authorised and, in some instances, will reject them. The system considers factors such as:

- the company's trading history and performance;
- trends from previous VAT returns; and
- information provided on the current return.

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## Figure 8

### VAT repayments made, stopped and failing initial checks in 2012-13

Of the 2.1 million repayment returns processed in 2012-13, 0.8 per cent were stopped or amended owing to fraud or error

Status of repayments	Volume (percentage of 2.1 million returns)	Value (£m)
Subject to further checks	190,996 (9%)	26,320
Repayments stopped/reduced	16,861 (0.8%)	579

Source: HM Revenue & Customs

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**3.25** In recent years there has been little change to the automated system and the criteria used to risk profile repayment requests. Although HMRC has identified potential amendments, these have rarely been implemented because of the constraints of the legacy system and the consequential impact on HMRC's ability to predict the effect on the volume of cases assessed as high risk.

**3.26** In March 2013, HMRC identified a number of traders who had been submitting repayment requests for sums just below the threshold it had set to trigger an investigation. HMRC's analysis suggests that this may have caused a loss of some £500,000. This emphasises that organised fraudsters are adaptable and will attempt to submit multiple registrations and returns until they are successful in discovering the parameters at which HMRC operates its fraud controls. HMRC is aware that it needs to monitor and respond quickly to emerging threats to the VAT system.

**3.27** HMRC recognises the need to modernise its system for risk profiling VAT repayment requests. It is currently developing a replacement system that will offer a more comprehensive and flexible set of risk factors. The new system will incorporate the existing rules and parameters, but will exploit the functionality of Connect by enhancing risk profiling at the pre-repayment stage. The new system is intended to be introduced in autumn 2013 and will eventually replace the credibility suite, subject to resolving existing problems with the interface between VAT systems and Connect (noted in paragraph 3.17). Sensibly, HMRC plans to carry out 500 visits to traders to compare the level of stopped payments under the new system with those generated by the credibility suite. It intends to keep the credibility suite in the short term to mitigate the risk of failure of the replacement system.

### **Payment returns**

**3.28** HMRC undertakes separate checks on all returns that are submitted, using its central risk analysis model (noted in paragraph 3.21) to identify those businesses where HMRC interventions have potential to generate the greatest compliance yield. The current focus of this model is on tackling non-compliance, informed by past customer behaviour and the level of risk associated with the trade sector. The analysis does not specifically target VAT evasion and fraud.

**3.29** HMRC recognises that it could build on the strengths of this analysis and its taskforces programme to more explicitly focus on tackling the risk of evasion. It is planning to review the feasibility of this development during 2013-14. For example, HMRC's analysis currently excludes sector benchmarks and cross-tax data which, if included, would allow a comparison of tax declared against expectations. In addition, Connect is not currently used in the initial risk assessment of payment returns in the way that it is used to risk assess registrations and is planned to be used for repayment returns.

**3.30** HMRC's other main activities include an analysis of trade sectors and geographical regions to identify emerging risks, followed by a focused review as part of individual campaigns and taskforces. It also monitors traders who are making payments but not submitting returns. In these cases it may send a 'prime assessment'<sup>19</sup> of VAT payable by the company. HMRC has not established the potential benefits of sophisticated risk profiling of payment returns as routine, to show whether this could yield a high rate of return on investment in terms of revenue loss prevented.

**3.31** Since May 2011, HMRC has created 43 taskforces with the aim of securing around £173 million in additional tax revenue; to date it has recorded additional revenues from these initiatives of £72 million. Taskforces often work across taxes and involve other government departments and have recorded some notable successes to date. For example, HMRC's analysis identified a higher proportion of zero-rated to standard-rated sales in fast-food restaurants in certain cities than elsewhere in the country. This analysis led to individual establishments being assessed and HMRC estimates that this resulted in additional VAT revenue of £40 million.

**3.32** HMRC uses campaigns to target particular trades or professions and encourage behavioural change and increased compliance with tax requirements. It estimates that previous campaigns have raised more than £600 million across all tax streams with more than 22,000 investigations covering trades such as medical professionals, plumbers and electricians.

**3.33** HMRC business areas agree an annual level of cases to be investigated, driven by resource availability, and selected after payment profiling and work by campaigns and taskforces. During 2012-13, HMRC agreed a 49,000 caseload of which 17,000 had not yet been started as at 31 March 2013. HMRC informed us that cases with high fraud risk would have been resolved earlier and that its optimum level for the stock of cases was 15,000. However, there is a shortage of management information on the age profile and nature of this workload. This increases the risk that cases will not be prioritised and investigated sufficiently quickly to protect against revenue losses.

### **Progress in tackling missing trader intra-community fraud**

**3.34** HMRC has been tackling missing trader intra-community (MTIC) fraud since it emerged as a particular risk area in 2000. **Figure 9** illustrates that MTIC fraud, in its simplest form, involves a business obtaining a VAT registration number in the UK for the purpose of purchasing goods, VAT free, from other European Union member states. The business then sells the goods at a VAT inclusive rate in the UK and disappears without paying the VAT to HMRC. In its most abusive form, commonly referred to as carousel fraud, traders sell the same goods repeatedly through contrived supply chains involving other traders in both the UK and other member states of the European Union.

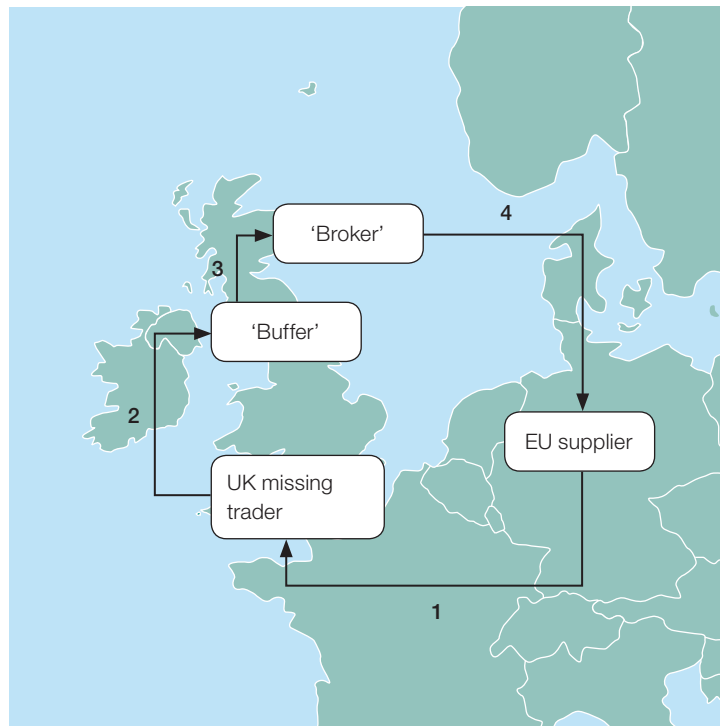
<sup>19</sup> If taxpayers fail to submit VAT returns by the required date, HMRC will make an assessment for the amount of VAT that it believes is owed, based on its best judgement, to protect the Exchequer's interest.



**Figure 9**

## The missing trader intra-community fraud process

The MTIC process is complex, even in its simplest form, and involves a number of players



- 1 A European Union supplier from another member state sells goods for £1,000,000 to a trader based in the UK free of VAT.
- 2 The trader sells the goods to another trader ("the buffer") at a reduced price of £900,000 plus £180,000 VAT. To avoid the price of goods spiralling up each time the carousel turns, one business in the chain must sell at a loss. The initial UK trader subsequently goes missing without paying the VAT due.
- 3 The buffer accounts for VAT correctly and sells the goods to a trader at the end of the UK chain ("the broker") for £950,000 plus £190,000 VAT.
- 4 The broker makes a zero-rated VAT sale back to the original European Union supplier for £970,000 and is entitled to reclaim the input VAT of £190,000 on the goods purchased from the buffer. HMRC pays the claim and incurs a cash loss because the missing trader did not pay the VAT due on the sale to the buffer.

Source: National Audit Office

**3.35** The level of attempted fraud increased from 1999-2000 to a peak in 2005-06 when HMRC estimated it at between £3 billion and £4 billion. However, as a significant proportion of attempted frauds were stopped, the estimated actual cash loss was between £2 billion and £3 billion. Since then, HMRC's interventions and cooperation with others has helped reduce losses to an estimate of between £0.5 billion to £1 billion in 2010-11. This reduction has coincided with a change in the nature of the threat; the more significant losses were incurred when the threat and the response were less sophisticated and fraudsters were able to submit repayment returns. The risk now is that large businesses can be included as buffers in the MTIC transaction chain, making the losses more difficult to detect. The MTIC trader is paid by the large business and the related input tax is not repaid but offset against the tax liability of the large business.

**3.36** As part of the 2010 Spending Review, HMRC secured agreement to reinvest £917 million of efficiency savings across its business between 2010-11 and 2014-15, on the basis that this would return £7 billion of additional revenue a year by March 2015. It allocated £25 million of this funding to projects directly related to tackling MTIC fraud, with the objective of generating benefits of £1.6 billion over the spending review period. During 2013-14, we will be examining HMRC's progress in meeting its additional revenue targets from its reinvestment programme.

**3.37** Reinvestment contributed to funding key initiatives such as the VAT MTIC Fraud Trader Monitoring project where HMRC enhanced its monitoring of business sectors. HMRC is responding swiftly to intelligence that MTIC traders could launch criminal attacks against the VAT system in particular industries, for example parts of the energy sector. HMRC informs large legitimate companies in these sectors of the potential threat and the need for due diligence in the business they undertake. This may include a requirement to tell HMRC of any new traders in the sector, enabling HMRC to check the VAT registration status and other intelligence about the third party.

**3.38** The UK is one of few nations to publish its estimate of the tax gap each year and, alongside this, an estimate of losses due to missing trader fraud. There has been no published estimate of the VAT gap across the European Union for any period since 2009.<sup>20</sup> There is no consistent methodology used across member states to derive this estimate, so the estimate and any comparatives are not yet meaningful.

## Plans to tackle VAT fraud

### Internet-based trading

**3.39** We assessed the risks to the VAT system posed by e-commerce in our 2006 report.<sup>21</sup> We concluded that HMRC's judgement that the overall risk to VAT revenue from e-commerce was at that point low appeared reasonable. Since then, the substantial increase in e-commerce sales has presented increased challenges.

<sup>20</sup> Reckon LLP, 'Study to quantify and analyse the VAT gap in the EU-25 member states', 21 September 2009.

<sup>21</sup> Comptroller and Auditor General, *HM Revenue & Customs: VAT on e-commerce*, Session 2005-06, HC 1051, National Audit Office, May 2006.

**3.40** Increases to the breadth and volume of online trading affects the number of traders providing goods and services whose cumulative value may exceed the VAT threshold. During 2012-13, the Committee of Public Accounts has raised concerns that some internet traders may either not be declaring all of their taxable income or failing to pay over VAT charged to UK customers.

**3.41** For many products marketed over the internet, current European Union rules mean that the place of supply for VAT purposes is based on where the business is established, rather than where the customer is based. From 2015, subject to approval of the Finance Bill 2014, these rules will change for supplies of telecommunications, broadcasting and e-services. Thereafter they will be taxed in the member state where consumption takes place.

**3.42** As well as pursuing a policy response, as in the above example, HMRC recognises that it needs an adequate compliance response to ensure that internet-based traders are paying their fair share of VAT and not enjoying a competitive advantage over UK-based traders.

**3.43** As noted in our earlier report, HMRC's assurance arrangements for ensuring that UK businesses register and pay the VAT due in part address the risk that VAT payable on e-commerce is not declared. Anti-evasion and avoidance activities now include tools that can interrogate websites to identify turnover arising from internet sales and identify businesses trading in certain goods or services and not paying the full amount of tax owed. This information feeds into HMRC's campaigns and taskforces.

**3.44** HMRC has supplemented its approach with initiatives focused on the significant areas of risk. Since our last report, this includes:

- undertaking an e-commerce pilot in 2007 to analyse users of major marketplace and auction websites; and
- launching in 2012 an e-marketplace campaign, aimed at giving people who use online marketplaces to buy and sell goods as a trade the option to disclose voluntarily the tax they owe. This initiative has had a limited financial impact to date – HMRC has reported that the e-Markets Disclosure Facility resulted in 702 notifications and raised around £650,000. As at 30 November 2012, investigations using data gathered as part of the campaign have recovered a further £670,000.

**3.45** HMRC recognises the need to secure public confidence in its ability to tackle the risks of revenue loss associated with e-commerce. In March 2013, it began scoping work to review internet-based traders and identify those with greatest potential to commit VAT fraud. More detailed compliance work is unlikely to start until later in 2013.

## Sector-specific initiatives

**3.46** In addition to the general initiatives and controls already noted, HMRC has undertaken a number of specific initiatives and monitored the activity of those traders considered to present the greatest risk of committing MTIC fraud. These include:

- **Educating the wholesale gas and power markets** on how MTIC fraudsters work and what action they can take to protect themselves. HMRC sees this sector as particularly vulnerable to MTIC fraudsters and issues specific alerts to registered traders to inform them of matters of heightened threat.
- **Introducing new vehicle import processes.** In conjunction with the Driver and Vehicle Licensing Agency, in April 2013, HMRC introduced a new Notification of Vehicle Arrivals procedure. Private individuals must pay VAT on an imported vehicle in advance of receiving car registration documents and businesses must declare the output tax on their next VAT return. HMRC believes that this initiative will help tackle the VAT gap estimated to cost £110 million per annum.
- **Analysing credit/debit card spends** to identify those business sectors where turnover declared on VAT returns may be less than actual turnover. Dependent on legislative changes, HMRC expects to start receiving data from merchant services providers from autumn 2013, which it is planning to use from spring 2014 onwards to target enforcement and compliance activity.

# Part Four

## Personal tax credits

### Introduction

**4.1** In 2012-13, HMRC spent £30 billion on child and working tax credits (personal tax credits), which offer financial support to around 4.8 million families, supporting around 7.9 million children.

**4.2** The personal tax credits scheme is designed to be flexible enough to react to changes in claimants' circumstances. However, claimants do not always understand their obligations to tell HMRC when their circumstances change and to report their actual income and circumstances at the end of the tax year. Claimants may make errors in their applications, which result in incorrect payment awards. For example, claimants may misunderstand what they should report as income, or miscalculate their childcare costs. Claimants' final entitlement, based on their actual income and circumstances in the year, can only be calculated after the end of each year. If claimants have been paid more than they were entitled to, overpayments and debts arise, which HMRC seeks to recover.

**4.3** In February 2011, the government announced its intention to introduce a new 'Universal Credit' to replace many of the current working-age benefits, including working and child tax credits, with a single means-tested payment. The Department for Work & Pensions plans to progressively roll-out Universal Credit nationally from October 2013, with all remaining tax credits payments ceasing, and claimants being required to apply for Universal Credit by 2017.

**4.4** This part of the report describes:

- how HMRC's accounts report personal tax credits;
- why the Comptroller and Auditor General (C&AG) qualified his audit opinion in 2012-13; and
- the actions HMRC is taking to reduce personal tax credits error and fraud; manage personal tax credits debt; and prepare for the implementation of Universal Credit.

**4.5** The report structure is in line with HMRC's priorities for the coming year, confirmed by the Chancellor of the Exchequer in February 2013 when he wrote to HMRC's Accounting Officer.

## Accounting for personal tax credits

**4.6** 2012-13 is the second year that HMRC has reported personal tax credits in its Resource Accounts.<sup>22</sup> The Resource Accounts record all HMRC's running costs and wider expenditure. Until 2010-11, HMRC's Trust Statement, which records the tax revenue it has collected, reported personal tax credits. The change came from the Treasury's 'clear line of sight' initiative designed to align budgets, estimates and accounts to improve parliamentary oversight and control. Total expenditure recorded in HMRC's 2012-13 Resource Accounts is £47 billion, of which £30 billion was on personal tax credits.

## The C&AG's audit opinion

**4.7** In forming his audit opinion on HMRC's Resource Accounts, under the Government Resources and Accounts Act 2000, the C&AG is required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities that govern them (his regularity opinion).

**4.8** The C&AG has qualified his regularity opinion on HMRC's 2012-13 Resource Accounts owing to the material level of error and fraud in personal tax credits expenditure. This expenditure has not been applied to the purposes intended by Parliament and does not conform to the requirements of the Tax Credits Act 2002. The Act specifies the criteria that govern entitlement to personal tax credits and the method to be used to calculate the amounts to be paid. Transactions do not conform to the governing legislation and are therefore irregular for one of two reasons:

- error or fraud results in payments of personal tax credits to households that are not entitled to those credits; or
- error or fraud results in under or overpayments which differ from the entitlement specified in the legislation.

**4.9** This is the second year in which HMRC's Resource Accounts have been qualified in respect of the regularity of personal tax credits expenditure, however HMRC's Trust Statement, in which personal tax credits were reported in previous years, received similar qualified audit opinions since the scheme commenced in 2003-04. The C&AG has consequently reported on personal tax credits every year since they were introduced.

## Reducing personal tax credits error and fraud

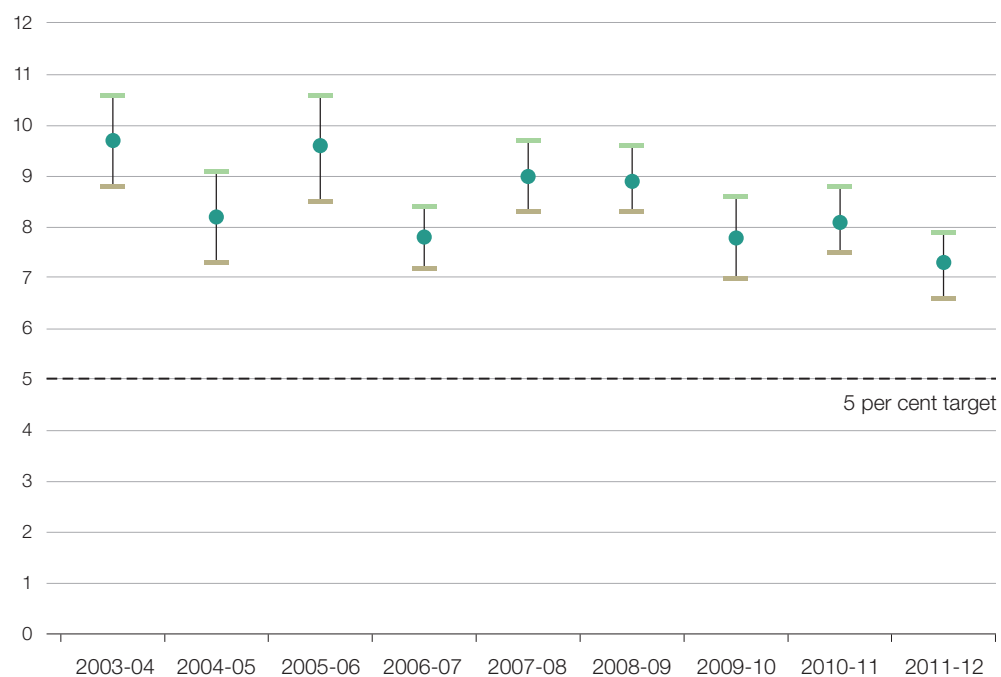
**4.10** HMRC's estimate of error and fraud within the personal tax credits system decreased from between 7.5 and 8.8 per cent in 2010-11 to between 6.6 per cent and 7.9 per cent in 2011-12, as shown in **Figure 10**. The 2011-12 central estimate of error and fraud is 7.3 per cent (8.1 per cent midpoint 2010-11) and is the lowest since the current personal tax credit scheme was introduced in 2003-04. The 2011-12 error and fraud percentages equate to payments of between £1.9 billion and £2.3 billion being made to claimants incorrectly because of error or fraud and a further £170 million to £360 million not being paid to claimants because of error. The overall levels of error and fraud in finalised awards are significant within the context of the £30 billion spent on personal tax credits in 2012-13. Note 10.3 to HMRC's Resource Accounts discloses its best estimate of all error and fraud within the personal tax credits system.

### Figure 10

#### HMRC error and fraud estimates from 2003-04 to 2011-12

HMRC missed its target to reduce tax credits error and fraud to 5 per cent by March 2011

##### Percentage of error and fraud



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Lower bound	8.8	7.3	8.5	7.2	8.3	8.3	7.0	7.5	6.6
Central estimate	9.7	8.2	9.6	7.8	9.0	8.9	7.8	8.1	7.3
High bound	10.6	9.1	10.6	8.4	9.7	9.6	8.6	8.8	7.9

#### NOTE

- 1 HMRC reports error and fraud within a range around a central estimate. The figures referred to within this report are the central estimates. The National Audit Office reviews the methodology for producing this estimate, which meets the national standard for official statistics. It is the best estimate of error and fraud available.

Source: HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics, 2003-04 to 2011-12*

**4.11** In June 2012, HMRC announced that, based on the midpoint of 8.1 per cent in its estimate of the overall level of error and fraud in finalised awards, it did not achieve its target to reduce personal tax credits losses caused by error and fraud to no more than 5 per cent of the value of finalised entitlement by March 2011. In addition, as part of the 2010 Spending Review and within the context of the error and fraud strategy, HMRC has a commitment to deliver £8 billion of personal tax credits error and fraud losses prevented by 31 March 2015.

**4.12** HMRC agreed the £8 billion target based on its original understanding of the impact of its interventions and its calculation of the losses prevented measurement. Under its new understanding of the impact of its interventions and its current approach, HMRC will be unable to achieve this target. It currently expects to deliver £2.5 billion to £3 billion of losses prevented using its revised measurement methodology.

### Measuring in-year error and fraud performance

**4.13** HMRC can only measure the personal tax credits error and fraud in any year once the awards for that year are finalised. It has, therefore, developed proxy indicators to allow it to track ongoing progress in reducing error and fraud in-year in the form of a calculation of losses prevented through intervention.

**4.14** Our report *Tackling tax credits error and fraud*<sup>23</sup> noted that following publication in June 2012 of the 2010-11 results, HMRC's analysts reassessed the relationship between the overall level of error and fraud in the tax credits system and the losses prevented by its 2010-11 interventions. HMRC concluded that the interventions had a lower than expected impact on the level of error and fraud. In July 2012, HMRC assessed the actual level of error and fraud prevented in 2010-11 as £480 million – one-third of the £1.4 billion originally claimed. In the most part, the difference related to the assumptions underpinning the calculation around the preventative effect and the 'carry over' effects – the extent to which claims would have continued to be correct after its interventions.

**4.15** HMRC has continued to calculate the proxy measure in the same way for comparability internally, but for the purposes of management monitoring levels of error and fraud, they have reassessed their assumptions and the original proxy measure is amended to include only what it has direct evidence to support. Using the new basis, HMRC estimates that its actions will have prevented losses of £694 million in 2012-13.

**4.16** Our 2011-12 review noted inconsistencies and errors in the way that HMRC staff had recorded the impact of interventions in terms of estimated losses prevented. In our 2012-13 review, we found evidence of some inconsistencies and errors, although at a lower level than in 2011-12. We have also seen evidence of enhanced quality checks by HMRC, which should help to ensure the accuracy of reported performance in future.

23 See footnote 4.



## Error and fraud strategy and targets

**4.17** HMRC's approach, launched in April 2009, seeks to: provide better support to claimants by helping them through the claim and renewals process, confirming that information held is accurate; prevent error and fraud from entering the system at important stages in the process; and tackle non-compliance by targeting high risk claims for compliance and other enquiries. The strategy launched in April 2009 now needs to be refined based on the latest available analysis to truly tackle error and fraud.

**4.18** Our report *Tackling tax credits error and fraud* analysed the reasons why HMRC did not meet its March 2011 target for reducing error and fraud in finalised tax credits awards. This also highlighted (based on 2010-11 results) the limited progress HMRC had made in addressing three of the six risk areas it had identified: undeclared partner; work and hours; and children. HMRC's analysis of error and fraud in finalised 2011-12 awards, as shown in **Figure 11** overleaf, indicates that it has made progress in two of the six risk areas: children and childcare; while income and undeclared partner have worsened.

**4.19** The Committee of Public Accounts considered our report at its hearing in March 2013. In its subsequent report,<sup>24</sup> the Committee concluded that HMRC has made little progress in reducing losses from error and fraud in tax credits. It recommended that HMRC should:

- agree with HM Treasury a new target for savings from reducing tax credits error and fraud up to 2017, to which HMRC should be held to account;
- work with the Department for Work & Pensions to ensure a consistent approach to measuring error and fraud throughout the welfare system;
- produce a plan setting out how it will tackle losses occurring because of individuals' changes of circumstances; and
- systematically review what internal and external data sources are available for each of its six risk categories and develop a credible plan for reducing error and fraud losses in each category before Parliament's summer recess 2013.

**4.20** The government is yet to formally respond to the Committee of Public Accounts recommendations, but HMRC have started to analyse how data can be used in a smarter and more effective ways and is refining its understanding of what factors combine to make a claim more risky.

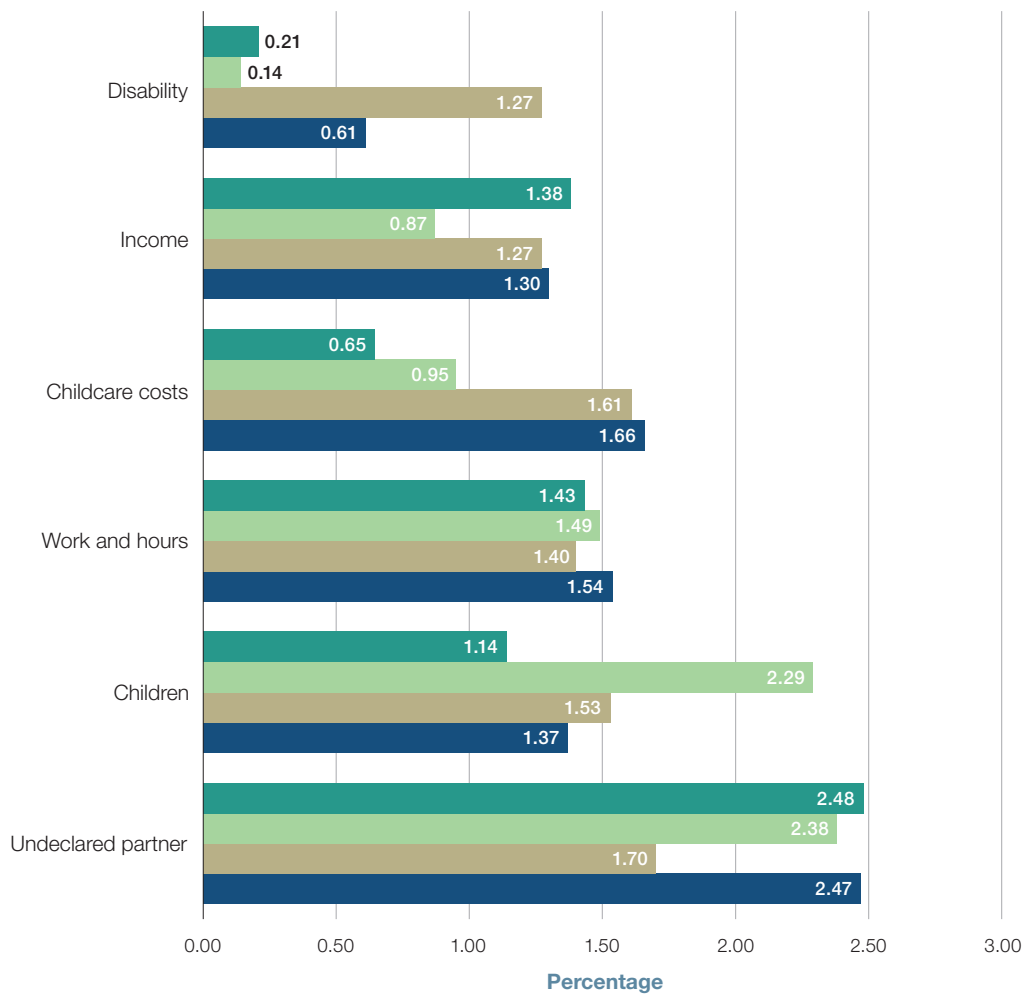
**4.21** Also, in autumn 2013, HMRC plans to select 1,000 cases from its completed high risk renewals interventions from April to July. Once the interventions are complete, it will track these for three months to collect data on how the cases change. This should allow HMRC to improve its methodology for tracking better the impact of its interventions to tackle error and fraud and therefore provide further information to direct its strategy.

<sup>24</sup> HC Committee of Public Accounts, *HM Revenue & Customs: tax credits error and fraud*, Fourth Report of Session 2012-13, HC 135, May 2013.

**Figure 11**

HMRC error and fraud estimates by risk area for 2008-09 to 2011-12

Error and fraud losses have reduced in 2011-12 in three of the six identified risk areas



- 2011-12
- 2010-11
- 2009-10
- 2008-09

**NOTE**

1 The values are HMRC's best estimate of the primary reason for an adjustment to awards. HMRC does not publish confidence intervals for these estimates. The figure does not sum to total error and fraud due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs' Child and Working Tax Credits Error and Fraud Statistics

## Current initiatives to reduce error and fraud

**4.22** As noted in Part Two, HMRC's Real Time Information (RTI) project should enable it to have an up-to-date position on the salaries of employees paid through the PAYE system. This could reduce the level of error and fraud due to overpayments of tax credits, where recipients have not reported changes to their circumstances. This has the potential to reduce the levels of error and fraud in the income risk area identified in Figure 11.

**4.23** In March 2013, HMRC signed a contract with Transactis for a three-month trial of the provision of extra capacity from the private sector to tackle tax credits error and fraud. This is in line with our recommendation that HMRC should improve the quality and volume of interventions by using third parties.

## Managing personal tax credits debt

**4.24** HMRC has a target to reduce the gross personal tax credits debt balance to £3.7 billion by March 2015. There are no interim targets for the debt balance.

**4.25** At 31 March 2013 the total value of tax credits debt was £4.8 billion (£4 billion at 31 March 2012). The £0.8 billion increase in total debt between 31 March 2012 and 2013 is the net effect of £1.8 billion of new debts identified in-year offset by £0.7 billion of recoveries and £0.3 billion of debt remissions.

**4.26** In 2012-13, HMRC began tracking historic debt to calculate new recovery rates, using data on debt raised in 2009-10. This led it to reduce estimated recovery rates by 12 per cent (from 43.3 per cent to 31.4 per cent) and increase the provision for irrecoverable debts by £985 million (from £2.3 billion to £3.3 billion). This followed our finding last year that HMRC had inadequate management information on the age profile and recoverability of tax credits debt and that the level of irrecoverable debt could be substantially higher than it had initially estimated, resulting in a change to the accounts.

**4.27** Personal tax credits debt will continue to increase if HMRC does not take steps to better recover and clear debt. In 2012-13, HMRC generated £1.8 billion of new personal tax credits debt by identifying overpayments from the award finalisation process and from changes reported by claimants or identified in-year through error and fraud interventions. HMRC estimates that it is likely to produce £1.9 billion of new personal tax credits debt in 2013-14 and, based on current business processes, total debt could increase to £5.5 billion by 2014-15.

**4.28** HMRC is developing a number of strategies and initiatives to address existing and new tax credits debt. These include:

- allocating more resources to target the collection of tax credits debt including the use of enhanced segmentation data to improve the design and effectiveness of debt campaigns; and
- exploring the feasibility of using private sector support through innovative payment models.

**4.29** HMRC's latest tax credits debt campaign has moved its focus away from only looking at new debt. For this campaign, which commenced in autumn 2012 for 14 months until March 2014, HMRC has categorised the debt into segments. This enables HMRC to tailor how it pursues debt, depending upon the claimant's circumstances and ability to pay.

**4.30** At the end of March 2013, of the 495,000 cases (value £562 million) in the debt campaign, HMRC has tackled 213,000 (value £272 million). This included cases where HMRC had agreed repayments under time to pay arrangements, as well as debts recovered in full and cancelled debts. Full repayment of debts had been made in some 19,500 cases (£12.6 million) with 'time to pay' arrangements set up for a further 121,000 items with a value of £152 million. Converting tax credits debt into cash remains challenging and needs to be set in the context of HMRC's need to strike the right balance between pursuing collection and a claimant's ability to pay, so as not to cause hardship through its approach to debt recovery.

**4.31** In addition to its debt campaign, HMRC has launched a series of initiatives aimed at improving its record in debt recovery, as outlined in **Figure 12**. These have the potential to achieve significant reductions in the outstanding debt balance (£648.9 million over the coming years) but it is too early to predict their probability of success.

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### **Figure 12** HMRC initiatives to improve debt recovery and estimated recovery

**HMRC estimates that it will recover £648.9 million of tax credits debt through specific initiatives over the coming years**

<b>Initiative</b>	<b>Estimated recovery</b>	<b>Time frame</b>
Recovery of debts through PAYE coding	£38.9 million <sup>1</sup>	12 months – 2013-14
Debt collection agencies	£90 million	26 months – January 2013 to end of 2014-15
Updating IT to collect historic debt by deducting proportions of payment from new claimant awards	£520 million	From April 2014
<b>Total</b>	<b>£648.9 million</b>	

#### **NOTE**

<sup>1</sup> Represents the maximum possible recovery in 2013-14. The full value will not be recoverable through PAYE. Due to changes in customer circumstance a proportion will need to be collected through other means.

*Source: HM Revenue & Customs*

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## Preparing to implement Universal Credit

**4.32** In February 2011, the government announced its intention to introduce a new Universal Credit to replace many of the current working-age benefits, including working and child tax credits, with a single means-tested payment. Universal Credit is designed to improve work incentives and simplify the benefits system, by creating a single streamlined working-age benefit. This should be easier for people to understand, and easier and cheaper for staff to administer and reduce the opportunities for error and fraud.

**4.33** From October 2013, the Department for Work & Pensions plans to expand Universal Credit pathfinders which started in April 2013, and progressively roll-out Universal Credit to all claimants by 2017.

**4.34** HMRC is working with the Department for Work & Pensions to share lessons learned from tax credits to enable the Department for Work & Pensions to build error and fraud prevention into the design of the new Universal Credit system. HMRC is responsible for stopping existing tax credits claims when a claimant becomes eligible for Universal Credit.

**4.35** HMRC will still be accountable for historic tax credit debt. HMRC and the Department for Work & Pensions are working closely to develop mechanisms for recovering tax credits debt directly from Universal Credit. HMRC will be required to inform the Department for Work & Pensions of the debt it has outstanding for a household so that debt can be collected on HMRC's behalf. Any debt that cannot be recovered in this way will be recovered using HMRC's own direct methods of recovery.



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