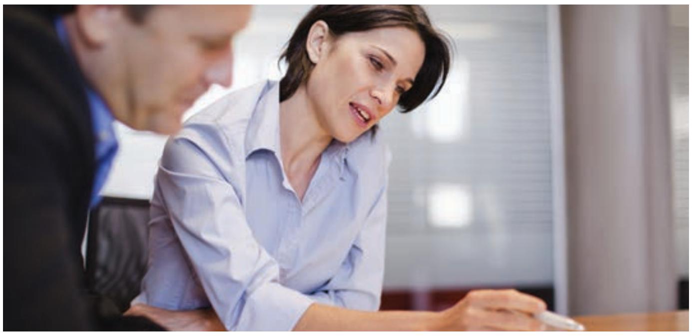
HM Revenue
& Customs

Annual Report and Accounts 2015-16









HM Revenue and Customs
Annual Report and Accounts 2015-16

(For the year ended 31 March 2016)

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

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

Ordered by the House of Commons to be printed on 14 July 2016

HC 338

This is part of a series of departmental publications which, along with the Main Supply Estimates 2016-17, the document Public Expenditure: Statistical Analyses 2016 present the Government's outturn for 2015-16 and planned expenditure for 2016-17.

This publication is available at www.gov.uk/government/publications

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Contents

Look out for these icons throughout this report

Read more content **within this report**

Read more content **online**

Your Charter

Mission statement

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

We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

Your Charter – Our role

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

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

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

Your rights – What you can expect from us:

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

Your obligations – What we expect from you:

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

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

We report on our progress in the Charter Annual Report that can be found at
www.gov.uk/government/publications/your-charter-annual-report-2014-to-2015

More information can also be found on **page 100**.

Who we are and what we do

Our objectives

Our key objectives in 2015-16, set by the government, were to

- maximise revenues
- improve the service that we give our customers
- make sustainable cost savings.

We revised these at the start of 2016-17, with HM Treasury's agreement, to reflect our rapid transformation into a smaller, more highly-skilled and digital organisation.

Our key objectives are now to:

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

What we do

We are one of the UK's biggest organisations. At 31 March, we had around 58,600 full-time equivalent employees in 167 offices across the UK, collecting tax and duties from 45 million individuals and more than 5.4 million businesses, and paying tax credits to 4.4 million families and Child Benefit to 7.4 million families.

We contribute to the country's economic and social wellbeing, support growth and as a socially-responsible organisation, we monitor closely our economic, social and environmental impact.

The UK is one of the largest economies in both the EU and the world and we play our part by making it easier for business to trade.

We work closely with HM Treasury through the Policy Partnership to deliver effective tax policy which meets government objectives, working together on policy design through to implementation. We are uniquely placed to provide advice on the implementation of tax policies using our considerable expertise, knowledge and insight of our customers and their behaviour, tax compliance and tax legislation.

We also work with a number of other government departments to help deliver their objectives; for example, in collecting student loans and in enforcing the National Minimum Wage and National Living Wage.

Our achievements
in 2015-16

Total tax revenues

£536.8bn

£19.1 billion more than last year

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

£26.6bn

compliance revenues secured – making a total of more than £110 billion since 2011-12

754,900

tax credits customers renewed online using our digital service, almost double the 2014 figure

£14.9bn

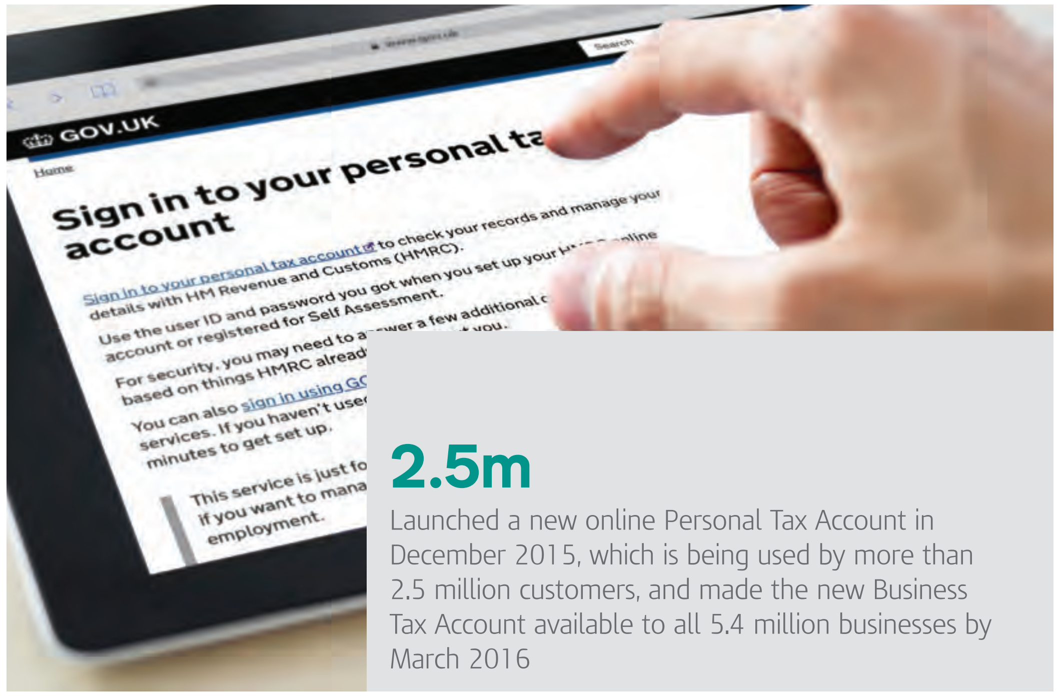
tax protected through successful litigation

£210m

annual sustainable cost savings, exceeding the target set by the government

46,500+

staff attended 616 Building our Future events across 84 locations to discuss our transformation

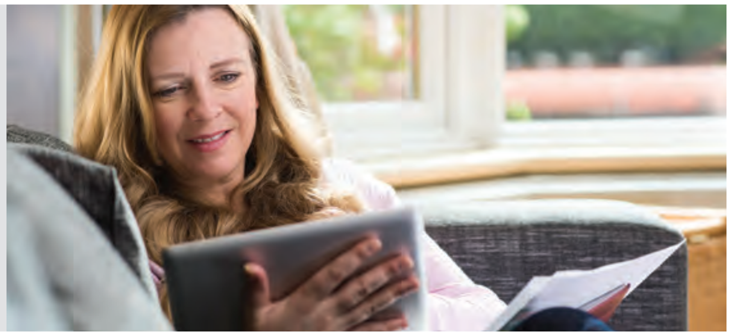


2.5m

Launched a new online Personal Tax Account in December 2015, which is being used by more than 2.5 million customers, and made the new Business Tax Account available to all 5.4 million businesses by March 2016

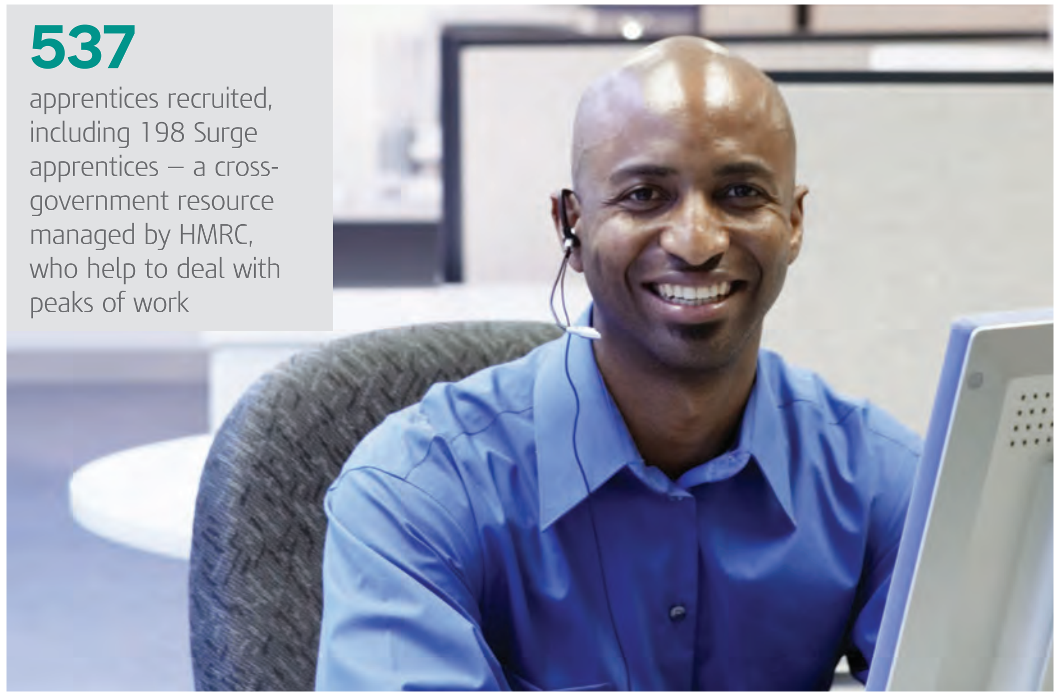
89%

of Self Assessment returns done online by 31 January deadline – a record



537

apprentices recruited, including 198 Surge apprentices – a cross-government resource managed by HMRC, who help to deal with peaks of work



94%

of all customs clearances for trade cleared within two hours

Introduction by the Executive Chair and Permanent Secretary

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

We are moving from laying the foundations for our future, to actively building that future, and it is a great privilege to be leading HMRC at a time of such unprecedented change.

As HMRC's Executive Chair, my role is to lead the Board and I have ultimate responsibility for the department's strategy, safeguarding our reputation and supporting the executive team who are responsible for the department's performance.

I am working closely with Jon Thompson who, as our new Chief Executive, is responsible for the delivery of HMRC's strategy, including our transformation programme, objectives and performance, so that we can build on the success of the past year – a year which has seen a record amount of tax receipts brought in, as well as securing £26.6 billion from our compliance work to stop tax avoidance, evasion, fraud and non-compliance.

Our ability to deliver six consecutive years of increased tax revenues led to the Chancellor's 2015 Spending Review announcement of an additional £1.3 billion investment in our transformation and confirmed the Summer Budget 2015 announcement of an additional £800 million for investment in compliance activities.

Effective, targeted action against those who do not wish to pay provides the framework against which our performance is measured, but the public rightly judge us on the quality of service we provide to the overwhelming majority of people in the UK who are honest and pay the right amount of tax on time.

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

Clearly we have a lot to do, and we are very fortunate to have non-executives on the HMRC Board with a wealth of experience from senior positions within the public and private sector, to advise, support and challenge us. They have overseen the strategic direction of our continued transformation, and also played a pivotal role in helping appoint to some key director roles this year.

I would also like to thank the many thousands of HMRC colleagues across the country whose commitment and hard work have delivered this year's significant improvements to customer service and our record performance in collecting taxes.

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

Edward Troup
Executive Chair and
Permanent Secretary

Foreword by the Chief Executive and Permanent Secretary

I am very pleased, as HMRC's new Chief Executive, to be presenting the Annual Report and Accounts for 2015-16. My first three months have been fascinating, as I have reviewed HMRC's performance last year and looked in detail at our ambitious and fast-paced transformation.

That transformation is far-reaching, changing almost every aspect of what we do as the UK's tax, payments and customs authority. Clearly, more change is on the way following the UK's decision to leave the European Union and we will work to help make that transition as smooth as possible. Many of the changes we've been making are already well underway. For instance, we're interacting differently with customers through new digital channels, with millions of individuals and businesses now using personal and business tax accounts.

Making it easier to do business with us is fundamental to bringing in revenue, ensuring compliance and making us more effective as an organisation. So we're sweeping aside time-consuming processes rooted in paper and post and replacing them, in the vast majority of cases, with something that just takes a few clicks of a mouse or taps of a smartphone screen.

Our transformation will bring considerable benefits to customers and to the department, but we need to ensure that we don't take our eye off the day job in the process. So I am pleased to report that HMRC overwhelmingly met, and in many cases exceeded, its objectives last year.

We achieved record tax revenues for a sixth year running, including securing record revenue from our compliance activity. We worked closely with the 2,100 largest and most complex businesses in the UK to secure compliance revenue of more than £7 billion last year, and secured more than £415 million from the UK's 6,000 wealthiest individuals. We also protected almost £15 billion in revenue by taking successful legal action.

We exceeded the sustainable efficiency savings targets set for us by government and, despite unsatisfactory customer service levels at the beginning of the year, we recovered to the point where we answered 88% of customer calls and improved our average speed of answering to around six minutes by the end of the year – a performance that we have sustained since then.

Our post handling performance has taken longer to improve, but by the end of the year we were dealing with 70% of post within 15 days and we have reached 80% as we start 2016-17.

We introduced secure webchats, used by more than a quarter of a million customers during the Self Assessment deadline peak in January. We also expanded our online tax credits renewals service, with almost double the number renewing online compared to the previous year, and half of those renewing online doing so on their mobile phone or tablet.

Our performance over the past year, at a time when we really began to push forward with transformation, shows that HMRC has the capability to deliver against our in-year targets while reforming and modernising to exploit the opportunities of the future. It is a testament to the hard work and dedication of HMRC people, on whom we rely for our continued success.

It's absolutely right that I also pay tribute to Dame Lin Homer, whose leadership over the past four years helped create the foundations upon which we are building the HMRC of the future.

That future is now taking shape and I'm confident we're up to the task of becoming a truly world-class tax, payments and customs authority.

Jon Thompson
Chief Executive and
Permanent Secretary

Small business customers

There are more than five million small businesses, which employ fewer than 20 people and have an annual turnover of less than £10 million. Micro businesses employ fewer than ten people, with a turnover below £2 million.

Around 70% of small businesses use an agent for some or all of their tax affairs.

The number of small businesses has grown by more than half since 2000, with a rapid rise in self-employment and online trading.

95%+
The proportion of total UK businesses that are small businesses

12m+
The number of people who work in small and micro businesses

5m+
The number of users who have access to their new Business Tax Account

To read about more customer groups see **pages 24-25.**

Performance – how we did and our plans

In summary...
We brought in record total tax revenues for the sixth consecutive year of £536.8 billion, and secured additional compliance revenues of £26.6 billion, which exceeded our target for last year. We also exceeded our sustainable cost savings targets set by ministers. In the first part of the year, service levels were substantially below our targets on both customer calls handled and post turnaround times. We responded swiftly by recruiting additional customer service staff to deliver improvements, which we then sustained throughout the year.

Reviewing our performance

We have a bold vision for the future of HMRC. Over the next few years, we will invest a further £1.3 billion to transform into one of the most digitally advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a digital-by-default organisation.

Maximising revenues

In 2015-16, total revenue increased by £19.1 billion, or 3.7%, to £536.8 billion.

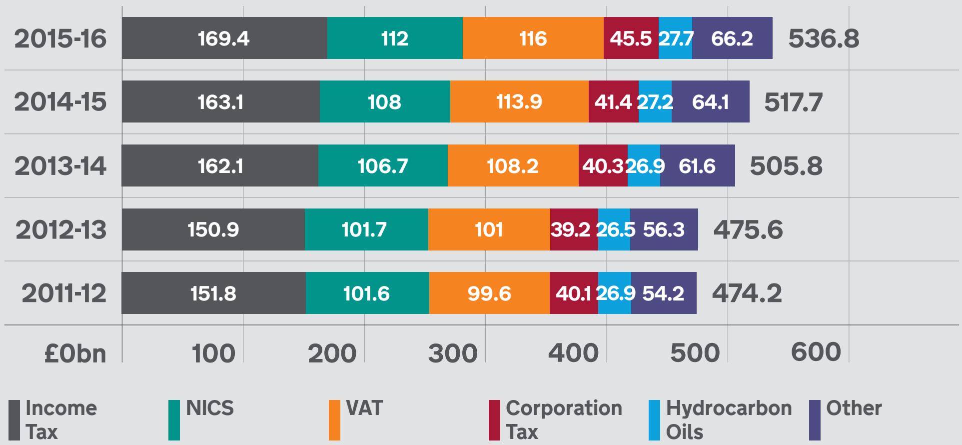
In summary, and compared to 2014-15:

- Income tax (32% of total revenue), and National Insurance Contributions (21% of total revenue) increased 3.8% due to higher levels of employment and higher wages.
- Value Added Tax (22% of total revenue) increased 1.8%, due to increases in receipts for the automotive, business services and utilities sectors. Household spending has also continued to rise.
- Corporation Tax (8% of total revenue) increased 9.9%.
- Hydrocarbon oils (5% of total revenue) increased 1.8%, due to the reduction of pump prices increasing the amounts purchased.

A number of other taxes, including stamp taxes, alcohol and tobacco duties, Capital Gains Tax, Inheritance Tax and Air Passenger Duty, accounted for the remaining 12%. There were some significant increases in: Capital Gains Tax (up £1.6 billion – 28%), Inheritance Tax (up £0.3 billion – 7.9%) and Insurance Premium Tax (up £0.8 billion – 27.6%).

These increases have been offset by decreases in some of the smaller taxes, notably Petroleum Revenue Tax, which has decreased by £0.6 billion due to the continuing fall in oil and gas prices. This has contributed to lower profits and some losses, resulting in repayments being made.

Figure 1: Revenue (£bn)



Full information about tax revenues, with year-on-year comparisons, can be found in the Trust Statement on **page 160.**

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

The tax gap and compliance revenues

The tax gap is the difference between the amount of tax that should in theory be collected by HMRC against what is actually collected – and we publish an estimate of the tax gap each year. The UK's tax gap is one of the lowest in the world and the only one covering direct and indirect taxes that is measured and published every year.

The latest estimate, for 2013-14, shows that over the past nine years the cash tax gap has reduced from around £37 billion to around £34 billion, at a time when total revenues collected have grown substantially, from around £405 billion in 2005-06 to £506 billion in 2013-14.

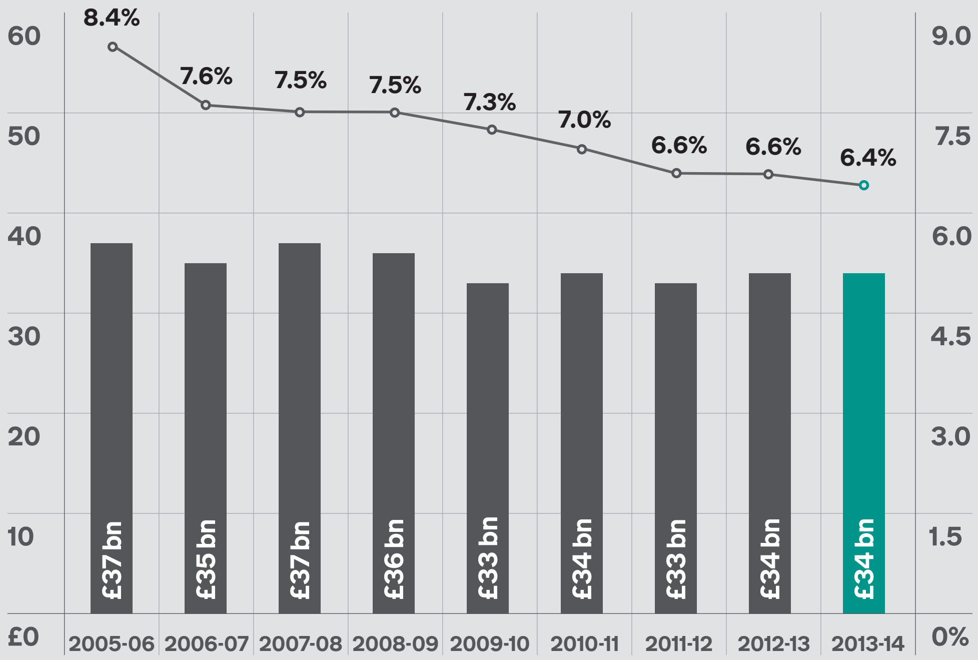
£169.4bn in income tax

equivalent to the forecast welfare payments to support children, adults and pensioners in 2015-16

However, the tax gap described as a percentage of the total tax liabilities that should in theory be collected, provides a better insight into changing compliance levels. This is because it takes into account of the effects of inflation, economic growth and changes to tax rates, as well as changes to tax compliance. Between 2005-06 and 2013-14 the tax gap reduced from 8.4% to 6.4%.

The latest estimate available is for 2013-14. Full information can be found at **www.gov.uk/government/uploads/system/uploads/attachment_data/file/470540/HMRC-measuring-tax-gaps-2015-1.pdf.**

Figure 2: Tax gap and percentage of liabilities: 2005-06 to 2013-14 (£bn)



The amount of compliance revenue we secure and the size of the tax gap are related, but the links between them are not straightforward. Compliance revenue records many aspects of compliance work, including tax recovered directly from our work, future revenue benefits and losses prevented. It can also cover more than one tax year. Different factors, such as the number of new businesses, new customers, changes in levels of voluntary compliance, economic factors, tax policy and rate changes all affect the tax gap.

Because the tax gap reflects a single year, and some compliance cases can cover multiple years, it is possible that the amount of compliance revenue we secure might increase while the percentage tax gap remains the same or reduces.

As our performance in tackling tax evasion, avoidance and non-compliance improves we should see a trend of tax gap reduction.

Over the long-term the trend is clearer. If we compare the first tax gap estimate in 2005-06 with 2013-14 there has been a corresponding decline in the tax gap from 8.4% to 6.4%.

Tax gap and compliance revenue case study

HMRC investigates Sarah's company's tax return and discovers they have under-declared their profits and should pay £2 million additional Corporation Tax for each of the previous three years. As a result, the company pays the outstanding £6 million tax bill, and interest and penalties of £1 million, which HMRC records as £7 million cash collected.

Sarah then puts in place new accounting systems to get her company's tax return right and prevent the same issue occurring in the future. This improved behaviour is expected to continue for the next two tax returns, and lead to the company paying an additional £2 million in each of these years, which HMRC records as a further £4 million of future revenue benefit (FRB).

As a result of the investigation, HMRC is able to record a total of £11 million compliance yield this year, with £6 million of the compliance yield from closing previous years' tax gaps, £4 million from preventing future tax gaps, and the £1 million interest and penalties part of compliance yield, but doesn't impact the tax gap. Therefore, while compliance yield is recorded as £11 million for the year the tax gap closure for a specific year would only be £2 million.

Compliance revenues — 2015-16 performance

While the vast majority of individuals and businesses pay what is due, we work very hard each year to make sure that those who try to cheat the system also pay what they should. We refer to the amount of revenue that we either collect or protect through our compliance activities as 'compliance revenue'.

We explain 'compliance revenue' in more detail on **page 20.**

Our compliance revenue amounts to billions of pounds that would have otherwise been lost to the UK. We have strengthened our grip on those who deliberately cheat the system through fraud, avoidance and evasion, and continue to pursue those who refuse to pay what they owe. We apply the most appropriate civil and criminal sanctions against this dishonest minority. The decision to carry out a criminal investigation is based on a number of factors, for example the nature and scale of the alleged fraud or our ability to obtain the evidence to prove the case.

During the last year we secured £26.6 billion from our compliance work, which exceeded our target for the year. As well as our on-going compliance work, our priority this year has been to increase our capacity to tackle avoidance and evasion, as well as to improve the skills and capabilities of our people. This recruitment and training has put us in a much stronger position to address the increasing challenges we face over the next few years.

How we calculate the full impact of our compliance activity is based on a well-established methodology that we have regularly refined and improved, and which is designed to capture the impacts of the wide range of compliance work we undertake.

Compliance revenue includes not only cash collected but also an estimate of the amount of revenue we prevent from being lost, together with an estimate of the impact of our current compliance interventions on future customer behaviour. Compliance revenue also captures the continued impact of the Accelerated Payments regime, which requires up-front payment from users of certain tax avoidance schemes.

Full information about the Accelerated Payments regime can be found at: **www.gov.uk/government/uploads/system/uploads/attachment_data/file/465787/151005_CC-FS24_10_15_PDF.pdf**

Cash collected is the amount of additional revenues due when we identify past non-compliance, reduced by a discount rate to reflect the fact that some of the amounts we identify will not be collected. We use an estimate due to the difficulties we would face in tracking all the payments made against all of our compliance interventions across the multiple IT systems we currently need to use, as well as to reflect that we know we will not collect every penny arising, due to businesses becoming insolvent, for example.

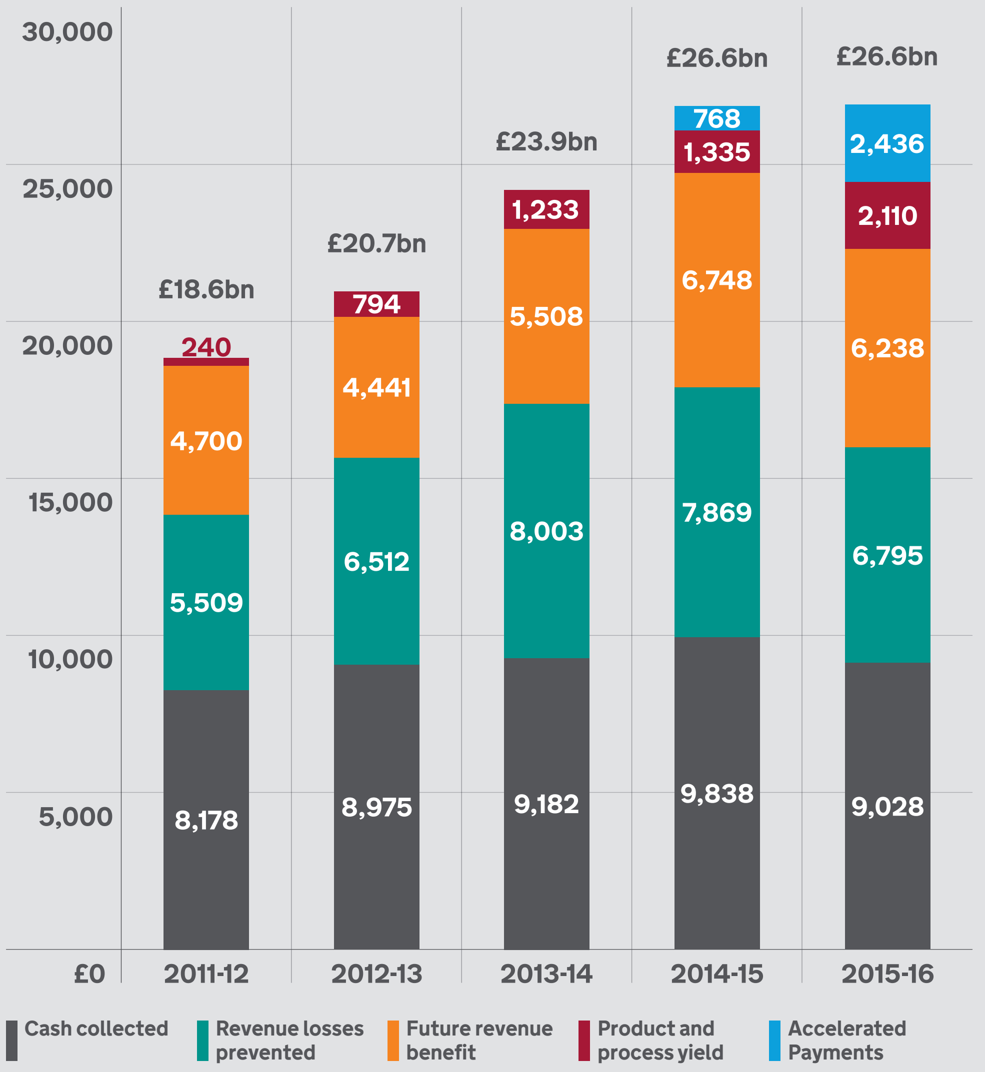
Following advice from the National Audit Office (NAO) we will change the way that we report future revenue benefit from 2016-17, so that we will report it in the year in which it has an impact on tax receipts, rather than in the year that we complete our compliance interventions.

Full information on the changes to our methodology is set out in a technical paper published alongside this report which can be found at: **www.gov.uk**

The main components of our compliance yield are:

- **£9.0 billion** of cash collected – while the amount of tax due from these cases is very clear, we cannot trace every compliance assessment through to final payment so there is an element of estimation involved in this figure.
- **£6.8 billion** of revenue loss prevented – the value of our activities where we have prevented revenue from being lost to the Exchequer that impacts on our tax receipts; for example, by stopping a fraudulent repayment claim. It also includes the impact of our compliance work to disrupt criminal activity.
- **£6.2 billion** of future revenue benefit – the effects of our compliance interventions on customers' future behaviour. Last year we reported total future revenue benefit in the year of intervention, as we did in 2011-12 to 2014-15. In 2016-17 we will be changing the methodology for reporting future revenue benefit to report it as compliance revenue in the years that it has an impact on tax receipts.
- **£2.1 billion** of product and process revenue – the estimated annual impact on the net tax receipts of changes to tax law that reduced opportunities to avoid or evade tax. While an estimate, this is subject to independent scrutiny by the Office for Budget Responsibility.
- **£2.4 billion** of revenue from Accelerated Payments notices – the disputed amounts of tax that some people using tax avoidance schemes are now required to pay up-front within 90 days, as well as the estimated behavioural change already generated by the policy.

Figure 3: Total Compliance Revenue (£m)



Full information about how we calculate revenue can be found at **www.gov.uk**

We tackle non-compliance through a wide range of targeted activities that include:

- working closely with the 2,100 largest and most complex businesses in the UK to understand and address the compliance risks they pose. At the start of the year half of these businesses were being reviewed by HMRC and during 2015-16 we secured £7.3 billion of compliance revenue from them
- securing additional compliance revenue of more than £415 million from the UK's 6,000 wealthiest individuals, as a result of work carried out by our High Net Worth Unit*, which has more than 400 specialists dealing with customers who each have a net worth of £20 million or more

- carrying out intensive bursts of activity targeted at specific sectors and locations where there is a high risk of tax evasion. During 2015-16 we launched a further 48 taskforces and secured £248 million from existing taskforces, nearly double the previous year, and bringing the total recovered since taskforces were launched in 2011 to more than £500 million
- targeting serious and complex tax crime through our Fraud Investigation Service (FIS)**. FIS prevented £5.5 billion being lost to the UK through tax avoidance and evasion through civil and criminal enforcement activity and legal action
- protecting more than £600 million in tax when the Supreme Court ruled in April that Eclipse Film Partners (No 35) LLP could not appeal against a Court of Appeal decision that it was a tax avoidance scheme
- raising more than £500 million through the FIS offshore group since it was established in April 2014. FIS now have more than 90 individuals under criminal investigation for suspected offshore evasion
- prosecuting 880 individuals, predominately for tax-related crimes – securing a collective total of 638.6 years in prison sentences
- extraditing eight people back to the UK who were wanted for revenue fraud worth an estimated £5.1 million. We continue to pursue all individuals overseas who are wanted in the UK for tax crime
- developing new legislation to toughen our approach to tackling offshore tax evasion, tackling serial tax avoiders and applying a penalty to General Anti-Abuse Rule (GAAR)*** cases.

* Full information about our High Net Worth Unit can be found at: **www.gov.uk/government/publications/issue-briefing-dealing-with-the-tax-affairs-of-wealthy-individuals/how-we-deal-with-wealthy-individuals**

** Full information about the Fraud Investigation Service can be found at: **www.gov.uk/government/publications/criminal-investigation/criminal-investigation**

*** Full information about the General Anti-Abuse Rule can be found at: **www.gov.uk/government/publications/tax-avoidance-general-anti-abuse-rules**

Compliance yield performance against targets since 2011-12

The 2010 Spending Review set targets for 2011 to 2015. In 2013 there was a further Spending Review which set a target for 2015-16. Compliance yield targets have also been increased as a result of announcements at subsequent fiscal events, such as Budgets and Autumn Statements. This table shows that we have continued to meet our targets.

Figure 4: Compliance yield performance (£bn)

	2011-12	2012-13	2013-14	2014-15	2015-16
Original baseline	13.0	13.0	13.0	13.0	13.0
Baseline adjustment to reflect new scoring rules for future revenue benefit	1.7	1.7	1.7	1.7	1.7
Baseline error adjustment[1]	1.9	1.9	1.9	1.9	1.9
Sub total — revised baseline	**16.6**	**16.6**	**16.6**	**16.6**	**16.6**
Targeted performance increment from SR10[2]	2.0	4.0	5.0	7.0	-
Extra increments from fiscal events before SR13			0.4	0.9	-
SR13 announcement of 2015-16 target					**24.5**
Extra target increments added by subsequent fiscal events				0.2	0.2
Amounts expected from Accelerated Payments				0.4	1.6
Amount of stretch added to performance expectations[3]			1.1	0.9	0.0
Target	**18.6**	**20.6**	**23.1**	**26.0**	**26.3**
Outturn	**18.6**	**20.7**	**23.9**	**26.6**	**26.6**

1 As part of the 2013-14 audit, an error was found in the calculation of the baseline which should have been £1.9 billion higher.
2 From 2015-16 onwards, the benefits from the SR10 'debt staff re-investment' are no longer being monitored and are therefore not included in the measure of compliance yield for 2015-16. DSR contributed £576 million to compliance yield in 2014-15.
3 Stretch refers to agreed increase to targets agreed with HM Treasury to reflect in-year performance.

We reported in detail in our 2013-14 Annual Report about an error we had made in the calculation of our compliance yield performance baseline. We corrected this error and it is fully reflected in our 2015-16 compliance yield target. Since 2014-15, our compliance yield targets have included the expected impact of the new Accelerated Payments legislation, and consequently our compliance yield includes the outturn performance of this policy. This means that the coverage of the compliance yield measure is wider than it was in previous years, but this change is necessary to fully reflect the increasing range of compliance activity and to report in a way that is consistent with the basis of our targets.

Large business customers

There are around 2,100 large businesses, each with an annual turnover of more than £200 million.

These include UK national businesses and multinational corporations with a UK base, and they account for around £200 billion, or 40%, of total tax receipts.

Almost half of large businesses are under enquiry at any one time to ensure that they pay the tax due.

40%
The proportion of total tax revenues accounted for by large businesses

£45bn
Additional compliance revenue secured from large businesses since 2010

2,400
The number of staff in HMRC's Large Business directorate dealing with the most complex tax issues

To read about more customer groups see **pages 32-33.**

Accelerated Payments

Accelerated Payment Notices are one of the most significant tools that we have to tackle avoidance by individuals and companies. Those who have entered tax avoidance schemes which are under investigation are now required to pay the disputed tax up-front within 90 days. During the last financial year we issued more than 36,000 notices, worth £3.1 billion in tax.

Since the start of the Accelerated Payments regime in 2014 we have issued more than 46,000 notices, worth £4.8 billion and are on course to issue more than 70,000 notices to individuals and businesses involved in avoidance schemes currently under dispute with HMRC by the end of 2016.

Full information about the Accelerated Payments regime can be found at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/465787/151005_CC-FS24_10_15_PDF.pdf

Accelerated Payments do not change the amount of tax that should be paid or affect anyone's right to pursue their dispute with us, if they feel they are legally entitled to the tax advantage claimed by the avoidance scheme. Instead, it sets out who holds the money while the dispute is resolved. Should they win their case, we will repay the tax with interest.

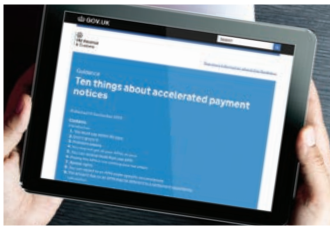
Where a customer disagrees with an Accelerated Payment Notice, they have the right to make representations to us. We have issued 46,000 notices since they started and received more than 15,000 representations. We decided more than 8,500 of these representations and 89% of the notices considered were upheld as valid, with most confirmed without any change.

Figure 5: Accelerated Payments 2015-16

Accelerated Payment Notices issued	Actual payments received by March 2016	Refunded after legal challenges	Net value
36,000	£2.1 billion	£14 million	£2.1 billion

Last year we also issued 282 'follower notices' to tax avoidance users. Follower notices urge tax avoiders to pay the disputed tax they owe after court rulings in similar cases find in our favour. We issued follower notices with a collective value of more than £200 million in 2015-16. If someone who has received a follower notice does not settle their dispute they may be liable to a penalty of up to 50% of the value of their tax and/or National Insurance Contributions in dispute. We started to issue follower notice penalties last year with a collective value of £1.4 million.

Full information about follower notices can be found at:
www.gov.uk/government/publications/follower-notices-and-accelerated-payments



£2.4bn

from users of tax avoidance schemes using Accelerated Payments powers, taking the total amount to more than £3 billion

Two judicial reviews of the Accelerated Payments regime were heard last year, with the High Court confirming that the Accelerated Payments legislation, and our delivery of it, was legal. The decisions are currently subject to appeal.

We also continued to target high-risk promoters of tax avoidance schemes in an attempt to change their behaviour.

We started issuing 'conduct notices' to promoters of tax avoidance schemes, which require them to change their behaviour or, among other things, face closer scrutiny from HMRC. We have so far issued a very small number of formal notices, as promoters have been responding positively and changing their behaviour in advance of formal action.

These initiatives are helping change behaviours around tax avoidance and we continue to win around 80% of avoidance cases that taxpayers take to court. Many more settle with us before the case reaches litigation.

More information about our litigation and settlement strategy can be found in the Tax Assurance Commissioner's Annual Report at:
www.gov.uk/government/publications/how-we-resolve-tax-disputes-2014-to-2015

The estimated compliance revenue protected by accelerated payments through making the use of avoidance schemes less attractive to existing and potential avoidance scheme users was £340 million last year.

Diverted Profits Tax

Diverted Profits Tax (DPT) strengthens UK defences against large multinational companies that abuse the international rules to shift their profits outside of the UK and avoid paying UK tax. The tax is applied to profits arising from 1 April 2015. The primary aim of DPT is to deter, and counteract, multinationals from diverting profits from the UK. DPT is set at a higher rate (25%) than Corporation Tax to encourage businesses to change their behaviour so that profits taxed in the UK fully reflect the economic activity carried on in the UK.

DPT is an important addition to the range of ways in which the UK tackles tax avoidance and contains features that strongly discourages multinationals from diverting their profits and prolonging HMRC enquiries, including:

- an obligation to tell HMRC if they may be within the scope of the tax
- a requirement to pay upfront if a charging notice is issued
- a higher tax charge than if they had not tried to divert their profits in the first place.

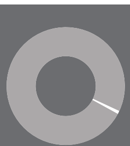
We expect that many businesses will restructure their tax affairs, and pay Corporation Tax on the full amount of profits arising on their UK activities, rather than pay the DPT itself. We are reviewing our information around the impact of DPT on 2015-16 Corporation Tax receipts, as this has not been included in our compliance yield total. We already detected increased liabilities of approximately £10 million for last year from a review of a small number of cases. We expect the full impact of DPT for the year to be greater.

More information about DPT can be found at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/480318/Diverted_Profits_Tax.pdf

Our compliance work in other areas

We are also involved in a wide variety of other activities in addition to traditional compliance work. Some highlights from 2015-16 include:

- investigating National Minimum Wage cases. Last year we expanded our enforcement team and the tools they had at their disposal which had a significant impact on performance, with our teams identifying pay arrears of more than £10 million for more than 58,000 workers - more than three times the amount of arrears and double the number of workers compared with the previous year
- establishing a new taskforce with the National Crime Agency (NCA) to investigate any evidence of tax evasion and money laundering in the so-called Panama Papers. The taskforce brings together expertise from HMRC, the NCA, the Financial Conduct Authority and the Serious Fraud Office
- intercepting a shipment of potential bomb making equipment, in transit from the Far East to Libya. Similar receiver modules and remote controls have been used in terrorist-led IED attacks in Mali
- combating tax evasion by US residents using foreign accounts through the US Foreign Account Tax Compliance Act (FATCA). It requires financial institutions outside the US to pass information about their American customers to the US tax authorities. We act as an intermediary for UK financial institutions reporting this information to the US and in return we receive information about UK residents. The first information exchange happened in September 2015. We will be using it to identify potential tax evasion by individuals and businesses named in the reports from the financial institutions.



£3bn in Air Passenger Duty

equal to the government's investment to safeguard England's countryside to 2020-21

Detentions and warrants

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

Figure 6: Detentions and warrants

		2015-16
1	**The number of individuals kept in detention for up to 24 hours (in a police station or Border Force suite)**	
	where the detention is as a result of an arrest by HMRC	663
	where the detention is as a result of an arrest by another government agency, either at, or immediately before adoption by HMRC for criminal investigation	171
	where the detention is as a result of a voluntary attendance	257
2	**The number of individuals detained for more than 24 hours, but less than 36 hours, and subsequently released without charge (Section 42, Police and Criminal Evidence Act)**	3
3	**The number of individuals for whom warrants of further detention beyond 36 hours (Section 43, Police and Criminal Evidence Act)**	
	Authorised	0
	Refused	0
	In relation to each warrant of further detention (authorised under Section 43, Police and Criminal Evidence Act)	
	the period of further detention authorised	0
	the total period spent in detention	0
	whether the person was charged or released	0
4	**The number of intimate searches under S55 of the Police and Criminal Evidence Act carried out in relation to suspects in our cases detained in police or Border Force custody**	0

Maximising revenues over the next five years

Our Single Departmental Plan sets out what we plan to deliver on our new strategic objective: to maximise revenues due and bear down on avoidance and evasion.

Over the next five years we will achieve this objective through well-designed tax policy, a transformed compliance strategy and effective delivery through digital channels.

At the Summer Budget in 2015, the government announced an £800 million investment into additional work to tackle evasion and non-compliance, including raising an additional £5 billion a year by 2019-20.

Our plan involves:

- building on the success of £536.8 billion in total revenues during 2015-16
- transforming our approach to compliance, using our 'promote, prevent, respond' strategy to tackle non-compliance. Our aim is to:
  - **promote** compliance by designing it into systems and processes
  - **prevent** non-compliance at or near the time of filing
  - **respond** to non-compliance through well-designed delivery
- delivering additional compliance revenues through HMRC compliance and enforcement activity ('promote, prevent, respond') of £27 billion in 2016-17
- using our data more efficiently – making the wealth of data we hold work better for HMRC and our customers, so we can we can identify the root causes of non-compliance among different customer groups and deliver online services that make things easier for them and for HMRC
- stopping non-compliance before it happens – more frequent reporting will lead to fewer errors and less opportunity to evade tax obligations, while new powers to acquire information from online intermediaries and increased sanctions for offshore evasion will allow us to address tax risks more effectively
- continuing working with our partners in HM Treasury to identify policy changes which make it harder to avoid and evade tax.

Tax – the next generation

To help future customers to engage with us, we developed Tax Facts, a flexible learning resource for 14 to 17 year olds, which aims to give young people a simple overview of the tax system, to help prepare them for the financial realities of life, either as an employee or a self-employed person.

The programme is being used widely by teachers in secondary schools and by a number of charities that support young people, including The Prince's Trust. There were more than 10,000 views of the videos on YouTube and on DVD last year.

It has been awarded two quality marks for teaching resources that are of particularly high quality and educational value, and was named as the 'Best Free Educational Resource' in the 2016 Education Resources Awards.

Individual customers

There are 45 million individual UK taxpayers in Pay As You Earn (PAYE) and/or Self Assessment.

The tax gap for individuals is £2.9 billion – 0.5% of the total tax due and the lowest of any of our customer groups.

2.5m
The number of people now using the new Personal Tax Account

1 in 4
The proportion of individual taxpayers with more than one job, with one in five changing jobs in the last year

6m
Approximate number of individuals who also claim tax credits. 500,000 of them are self-employed

To read about more customer groups see **pages 54-55.**

Improving customer services

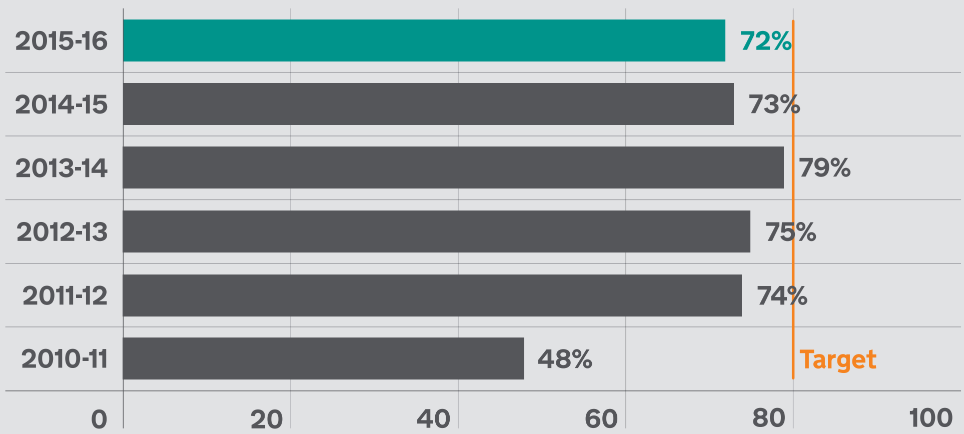
In summary…
In the first part of the year service levels were substantially below our targets on both customer calls handled and post turnaround times. We responded swiftly by recruiting additional customer service staff to deliver improvements, which we then sustained throughout the year. Overall call answering levels recovered quickly and by the end of the year, we were answering 88% of call attempts. Our average speed of answering calls was also too lengthy at the start of the year, but is now around six minutes and on an improving trend. We also moved more than 900 people from across HMRC to work on post. Our post handling performance took longer to recover but by the end of the year we were handling 70% of post within 15 days and we are now building on this improvement.

We worked hard to deliver the consistent level of service that customers expect from us, and while our performance wasn't good enough in the first part of the year and, as a result, we did not meet our overall targets for calls and post, we made significant and sustained improvements during the rest of the year.

Across the year, we handled 72% of calls (against our target of 80%), handled 52% of post within 15 days (against a target of 80%) and handled 87% of post within 40 days (against our target of 95%), although we did significantly improve performance in quarters two and three and sustained that improvement across the year.

Our phone performance dropped to 48% of call attempts handled in May. We were able to deliver and maintain improvements from that point, with performance above 70% in quarter two and above the target of 80% from November onwards. Similarly, at the start of the year our average speed of answer performance fell to 18-20 minutes. However, performance improved and averaged around six minutes over the last four months.

Figure 7: Call attempts handled – yearly (%)



11,069

customers helped via our Twitter account, with only 20% needing referral to a phone adviser

Figure 8: Call attempts handled – monthly (%)

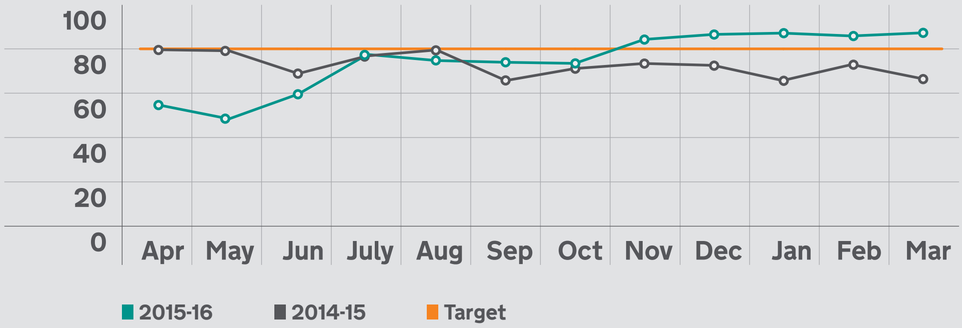


Figure 9: Average speed of answer (mins)

2015-16	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Average speed of answer (mins)	18	19	20	10	15	15	17	8	6	5	5	6

Our post performance also dropped in May, to 31% of post handled within 15 days. Again, we subsequently improved performance across the rest of the year, and by December were handling 75% of post within 15 days against the 80% target. During the early part of the year we prioritised handling calls over handling post which had a negative impact on the post turnaround times.

However, our efforts to reduce the level of post on hand did result in improved service levels. We turned around more than 95% of post within 40 days and more than 70% within 15 days during the last four months of the year.

Figure 10: Post turnaround within 15 working days – yearly (%)

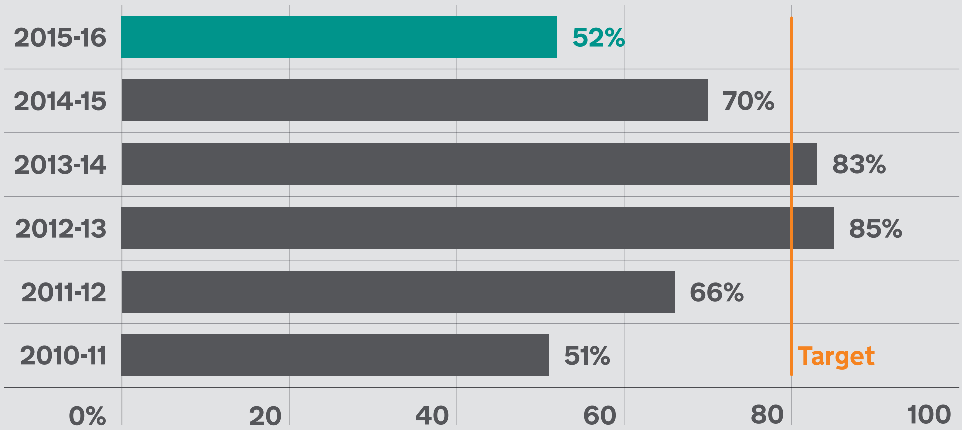


Figure 11: Post turnaround within 15 working days – monthly (%)

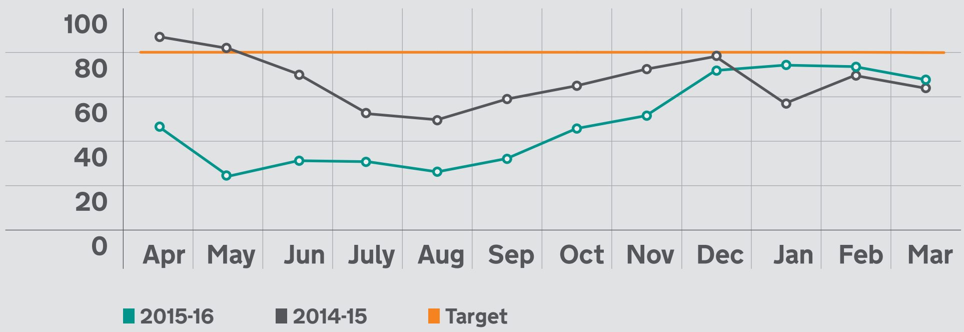
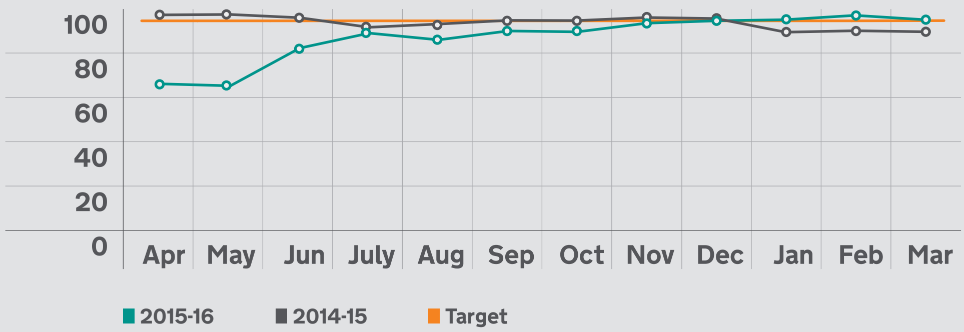


Figure 12: Post turnaround within 40 working days – monthly (%)



During the year, we also:

- maintained our performance in processing tax credits and Child Benefit claims and changes of circumstance in 17 days for UK claims and 63 days for international claims – well within our target of 22 days and 92 days respectively
- delivered yet another strong performance in dealing with our busiest periods of demand, such as the tax credits renewals deadline in July 2015 and the online Self Assessment deadline in January 2016
- had some excellent results in dealing with tax credits renewals. We received more than 2.5 million applications by the 31 July renewals deadline, including more than 750,000 through our new online renewals service. During the last week before the deadline, we received 1.2 million applications and answered 85% of calls
- achieved a marked improvement in our Self Assessment performance compared with the previous year. A total of 89% (86% in 2014-15) of the 10.39 million returns we received were submitted online. On the 31 January deadline day, we answered 98% of phone calls, compared with just 34% of calls on the same day in 2010, the last time the deadline fell on a Sunday.

100,000

enquiries handled through our Needs Extra Support service with face-to-face visits and specialist phone help

To address our poor performance in the early part of the year we also:

- recruited many of our 3,000 new staff on flexible working patterns, giving us 1,800 additional people working on telephone helplines at evenings and weekends when many of our customers choose to call
- gave 1,600 staff training to enable them to handle a wider range of customer queries and moved more than 900 people from other areas of HMRC to work on post
- Supported our most vulnerable customers by handling more than 100,000 enquiries through our Needs Extra Support service with face-to-face visits and specialist phone help.

We are committed to transforming the entire customer experience of HMRC, and have set ourselves a new strategic objective to 'transform tax and payments for our customers.' Investment of an additional £1.3 billion announced by the Chancellor at the 2015 Spending Review will transform HMRC into one of the most digitally advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation.

We will transform the tax system over the Parliament by introducing simple, secure and personalised digital tax accounts, removing the need for annual tax returns. This will give individuals, businesses and their authorised agents a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe and payments they are due to receive. These reforms will deliver the biggest transformation of the tax system in a generation, making it more effective, efficient and easier for taxpayers.

We want the customer experience to be consistently excellent by building on our progress in rolling out new digital services that will make dealing with tax and payments quicker, easier and more efficient for millions of our individual and business customers. We call this approach 'Making Tax Digital'.

This includes:

- contributing towards our objective of maximising revenues by delivering around £1 billion of additional tax revenue by 2020-21 by making it easier to pay the correct tax and reducing error
- ensuring the availability of a range of third-party software products, to include free products for the most straightforward businesses, that link securely to HMRC systems.

Our plan also involves:

- a seven-day service by April 2017, with extended hours and Sunday opening on online support services, like our popular webchats, and on our main phone lines
- improved online and telephone services, with reduced call answering times, achieved by recruiting more than 1,325 new people into our customer services teams, employed on a working pattern to deliver the extended service hours
- a new secure email service – operated through customers' online tax accounts – with a faster average response time than our current post handling target
- a dedicated phone line and online forum for start-up businesses and new self-employed people. We will be able to provide them with specialist support about filing and paying their taxes for the first time, as well as on using our digital services.

We began work on this transformation through changes we made to our customer service in 2015-16, including:

- launching our Personal Tax Account, which gives anyone the facility to see their tax and tax credits affairs in one place, similar to an online bank account. More than 2.5 million people are already using the service
- providing access to the Business Tax Account to all 5.4 million businesses, with millions already using the service to file, pay and obtain help
- expanding our online tax credits renewals service, which saw more than 750,000 people renew online in 2015 (almost double the number in 2014), with half using their mobile phone or tablet
- organising 257,000 webchats with our virtual assistant Ruth to help customers during the Self Assessment deadline peak in January
- increasing our use of webinars, webchats and online seminars for businesses to cover more of our customer demand. More than 373,000 small businesses viewed our advice and signposting videos on YouTube, and our e-learning modules had more than 142,000 customer views. We also sent more than 56 million support and advice emails
- supporting the cross-departmental Support to Growth Agenda, that resulted in more than 352,000 click-throughs to the available growth guidance for small businesses.

We know that not everyone will be able to use an online tax account, and so we will continue to offer a phone service and face-to-face support for those who need it. We will continue to up-skill our advisers so that we can resolve more complex queries in a 'once and done' way to ensure customers get their tax and payments affairs right first time.

5.4m

businesses with access to a Business Tax Account by March, with millions of businesses already using the service to file, pay and obtain help

We provided £2 million to the voluntary and community sector to provide varying levels of advice and support from signposting and generalist advice through to specialist tax advice to HMRC's most vulnerable customers, enabling them to comply with their tax obligations and claim correct entitlements.

Building on our international relationships, we are also working in partnership with the Department for International Development to provide technical advice to tax and customs administrations in a number of developing countries to help them collect the revenues they are due.

Reducing red tape for business

HMRC contributes to the government's better regulation agenda by simplifying the administration of the tax system, making it easier for customers to deal with us and reducing their costs and ours. We work closely with the Office of Tax Simplification (OTS) on their projects to deliver simplification and tackle complexity.

Full information about our work with the Office of Tax Simplification can be found at:
www.gov.uk/government/organisations/office-of-tax-simplification

Current examples include the introduction of voluntary payrolling of employee benefits and other changes which follow the OTS's recommendations and will in due course largely eliminate the need for PAYE: end-of-year expenses and benefits (P11D) returns.

Full information about how we are transforming customer service through Making Tax Digital can be found on **page 42.**

In his Spending Review 2015 the Chancellor announced a new target to reduce the annual cost to business of tax administration by £400 million by the end of this Parliament. This new target strengthens our commitment to delivering reductions in business costs, and will contribute to the government's £10 billion target for reducing business red tape.

By the end of March 2016, there was a net decrease in business customer costs of £5.6 million a year, against the same period the previous year. The net figure takes account of the fact that some government policy measures have increased burdens on businesses by £11 million, while others have made administrative savings £16.6 million.

Measures that contributed to savings included aligning the main and small corporate tax rates (£5.5 million saving), and improved online filing of company accounts (£8 million saving). We are working hard to identify measures over the next four years to support delivery of the £400 million target.

We are also scrutinised by an independent panel, the Administrative Burdens Advisory Board (ABAB) which supports small businesses by working with HMRC to challenge our performance against the new business cost reduction target. In its annual report, ABAB highlights the good progress we made in certain areas to simplify and improve tax administration – most notably in digital delivery, and urges HMRC to identify and grasp every opportunity to simplify the design and delivery of Making Tax Digital. Their online feedback channel 'Tell ABAB' has provided us with helpful insights into where small businesses would like improvements made in their dealings with us.

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

Complaints

HMRC deals with 45 million individuals and more than 5.4 million businesses. Each year we receive 60 million phone calls and 15 million letters from Self Assessment and PAYE customers. Given the sheer size and scale of our organisation, we inevitably sometimes make mistakes or provide a level of customer service below expectations, and receive complaints from our customers.

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

During the last financial year, our continued focus on tax credits error and fraud, debt recovery and compliance more broadly, generated more contact and complaints from some customer groups. We received 80,391 complaints, compared to 74,427 in 2014-15. Despite this increase, we successfully resolved 98.5% of complaints handled by our two-tier internal complaints process.

When a customer is unhappy with the outcome of a complaint to HMRC, they can take their case to the Adjudicator, who acts as a fair and unbiased referee of complaints about HMRC and the Valuation Office Agency.

In April this year, Helen Megarry was appointed as the new Adjudicator, succeeding Judy Clements OBE after a seven-year term.

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

Details of HMRC complaints referred to the Adjudicator and the Ombudsman in 2014-15, following Adjudicator investigation, are shown in the table below. Our 2015-16 performance will appear in their annual reports, which are due to be published later this year.

* Full information about the Adjudicator can be found at: **www.adjudicatorsoffice.gov.uk**

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

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

Figure 13: Complaints to the Adjudicator and Parliamentary and Health Service Ombudsman

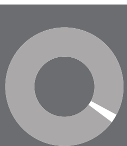
	2014-15		2013-14	
	Adjudicator	Ombudsman	Adjudicator	Ombudsman
Number of HMRC complaints accepted for investigation	1,044	125	1,087	69
Number of investigations reported on	1,808[1]	138[2]	2,311[3]	40[4]
Number of cases upheld in full	682 (37.7%)	3 (2%)	1,229 (53.2%)	6 (15%)
Number of cases upheld in part	861 (47.6%)	11 (8%)	844 (36.5%)	4 (10%)
Number of cases not upheld	232 (12.8%)	120 (87%)	173 (7.5%)	27 (67.5%)

1 For completeness, one case was reconsidered and 32 cases were withdrawn by customers. These cases represent the outstanding 1.9% of cases settled by the Adjudicator.
2 For completeness, two investigations were resolved without a finding and two investigations were discontinued. These cases represent the outstanding 3% of cases settled by the Ombudsman.
3 For completeness, 65 cases were withdrawn by customers. These cases represent the outstanding 2.8% of cases settled by the Adjudicator.
4 For completeness, three cases were resolved through intervention (without a formal investigation). These cases represent the outstanding 7.5% of cases settled by the Ombudsman.

We recognise that our performance was not good enough and that the number of complaints referred to and upheld by the Adjudicator in 2014-15 was too high and is a long way from the quality of service we want to provide for our customers.

Last year we worked closely with the Adjudicator's Office to better understand why the number of upheld complaints remained high, and how we could further improve the way we respond to complaints and learn from what our customers tell us. We built on the improvements we implemented in 2014-15, and introduced an extensive programme of work, which includes resolving more cases so that customers do not feel the need to refer to them to the Adjudicator and looking at how cases the Adjudicator upholds can be handled differently. We obviously want fewer complaints, to manage them more effectively, and for the Adjudicator to be satisfied that the cases which are referred to her have been handled appropriately.

We are also developing a facility for HMRC to receive online complaints. As an initial step, we introduced a complaints 'iForm' for personal taxpayers. We aim to introduce complaints iForms throughout our other lines of business as we test and learn from the iForm we already introduced.



£10.7bn in alcohol duties

almost the total budget for police
in England and Wales

Investment, efficiency and providing value for money

In summary…

We have exceeded our 2010 Spending Review investment and efficiency commitments by continuing to drive out efficiency savings. We made £210 million sustainable cost savings last year, and have now made £1.2 billion in savings since 2010-11, exceeding the targets set by government.

We are now investing a further £1.3 billion to transform HMRC into one of the most digitally advanced tax administrations in the world. This will enable us to deliver world-class digital services, invest significantly in technology and people, make use of data to make compliance the easy option and identify non-compliance, and do this through a more flexible, highly-skilled workforce in fewer locations. This investment builds on earlier funding, and we expect to spend £1.8 billion on transformation over the next four years in total, contributing £643 million to our efficiency savings target.

In November we announced the next step in our ten-year transformation programme to create a tax authority fit for the future. We plan to bring our employees together in 13 large, modern offices, equipped with the digital infrastructure and training facilities needed to build a more highly-skilled workforce, with a greater opportunity to build their careers.

Full information about our ten-year transformation programme can be found at:
www.gov.uk/government/publications/issue-briefing-hmrc-announces-next-step-in-its-ten-year-modernisation-programme

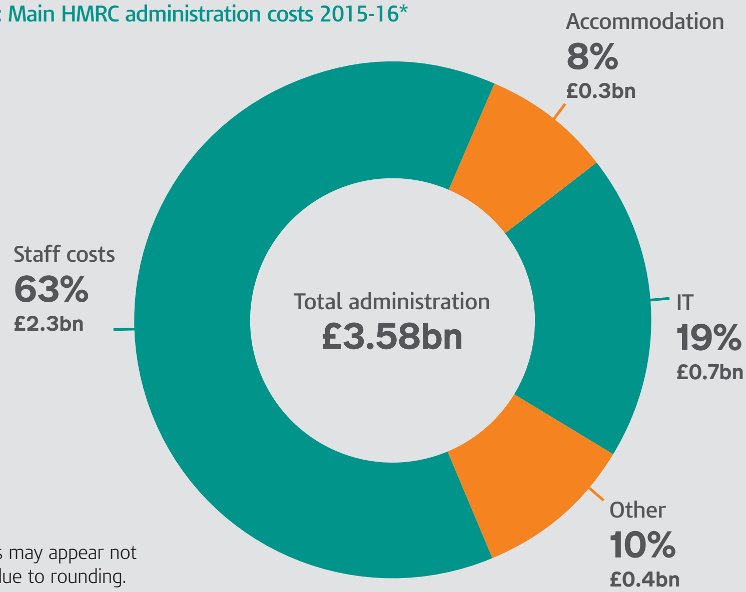
Expenditure and providing value for money

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

During the last financial year we received additional funding in both spring and summer budgets and the Autumn Statement to further improve customer service and increase the amount of revenue we bring in. This was on top of the additional funding announced in Autumn Statement 2013 and enabled HMRC to increase expenditure from £3.46 billion last year to £3.58 billion. This increase included £65 million on staff and £50 million on IT.

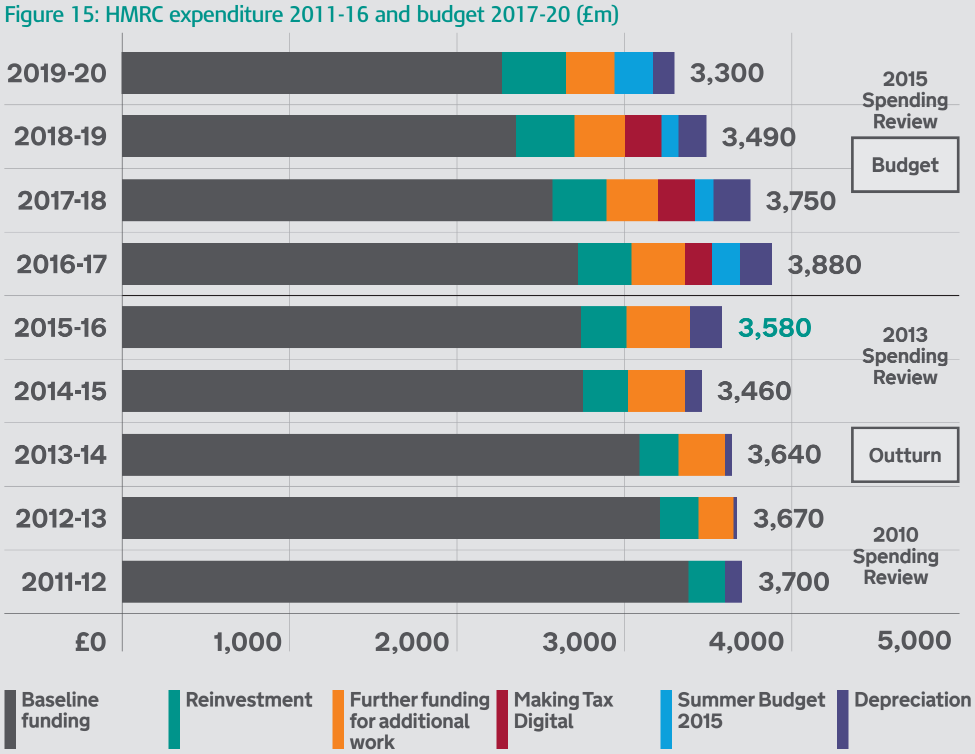
The main items that make up our administration costs are: staff (£2.3 billion or 63%), IT (£700 million or 19%), and accommodation (£300 million or 8%).

Figure 14: Main HMRC administration costs 2015-16*



* Numbers may appear not to sum due to rounding.

Figure 15: HMRC expenditure 2011-16 and budget 2017-20 (£m)

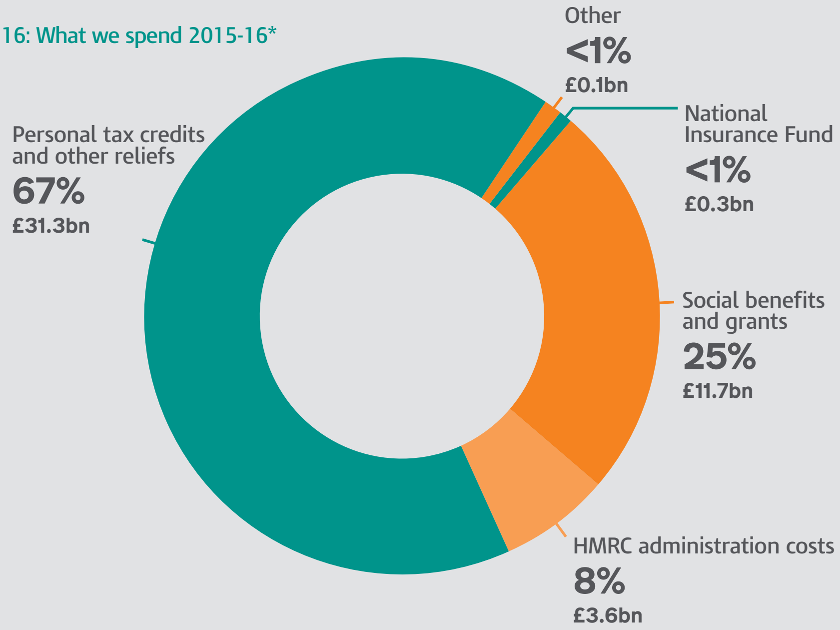


What we spend in addition to the administrative costs of running the department includes significant costs relating to the National Insurance Fund and payments to external customers, including personal tax credits* and Child Benefit**.

* Full information about personal tax credits can be found at: **www.gov.uk/topic/benefits-credits/tax-credits**

** Full information about Child Benefit can be found at: **www.gov.uk/child-benefit**

Figure 16: What we spend 2015-16*



* The chart above does not include non-budget expenditure of £9.9 billion relating to top-up payments to the National Insurance Fund, which were made by HMRC on behalf of HM Treasury.

For more detail about what we spend see the Resource Accounts on **page 192-193.**

£112bn in National Insurance

equal to the combined budgets for the Departments for Education, Defence, Home Office and International Development

Investment

Our people

Our people are vital to everything we do as an organisation. We need to have the right people in the right place, doing the right work at the right time, and we are achieving this by carefully managing our workforce. We need strong leaders to take us through change and people with the skills required to work in an increasingly flexible environment, so we continue to invest in leadership and skills.

We are investing significantly in the development of leaders and managers through our Leadership Academy. Within this, our Leading our Future programme is at the heart of developing our leadership capability and by 2021 we'll have rolled this out to all our senior leaders.

We are committed to improving our understanding of the needs of our customers and employees to enable them to give their best, feel they are treated fairly and valued for their contributions, and be able to progress their careers.

Building a stronger employer and employee relationship, while developing and maintaining effective union relationships, is a priority. We are confident that the majority of the workforce reductions we need will be made as people retire, reduce their hours or take jobs outside the department. While we have already announced a small number of unavoidable redundancies we continue to minimise these wherever possible. As businesses transform and develop regional career paths, new roles and resource requirements will be identified and evaluated.

4,500

HMRC people promoted, including 337 Administrative Assistants into more challenging and sustainable Administrative Officer positions

During 2015-16 we:

- continued our national conversation with our people to engage them with the transformation of the department, delivering 616 events to more than 46,500 staff across 84 locations
- recruited 7,700 new people, including 847 people via graduate recruitment, 537 apprentices and more than 4,500 people were promoted, ensuring we have the skills in the locations we need
- supported more than 5,400 people leaving the department through a combination of natural and managed reductions, including 472 people leaving under exit schemes
- increased our response rate to the Civil Service People Survey by 12% points across HMRC to 65% and we saw an increase in our Employee Engagement Index to a record high of 45%
- delivered tax training to more than 20,000 of our people using our Tax Academy
- successfully launched our Leadership Academy and by the end of March this had been accessed by 3,289 leaders and 58% of our senior leadership community were using the academy
- developed our people's skills and knowledge. Our staff spent an average of 7.28 days on recorded learning activities, increasing flexibility so they can move more easily between areas of work.

Our locations

When HMRC was created in April 2005, we had 97,000 full-time equivalent (FTE) staff and more than 500 offices in 300 towns and cities. At the end of 2015-16 we had more than 58,600 FTE based in 167 offices in fewer than 100 towns and cities. Yet we remain one of the biggest recruiters in government, bringing in 7,700 new people during the year and managing more than 5,400 leavers. Our recruits will deliver the tax avoidance, evasion and compliance measures announced at Summer Budget 2015, as well as providing additional staff for customer service and to replace those in other key roles who leave.

Our move to 13 large Regional Centres supports the government's commitment to locate jobs throughout the country. As a national organisation, we will maintain a significant presence in English regions, as well as Scotland, Wales and Northern Ireland.

Figure 17: Regional Centres

As we move to our new Regional Centres we'll be keeping a limited number of transitional sites to manage the impact of the changes. They will be existing HMRC offices that will enable people to continue working for the department for up to ten years. They are located in Reading, Ipswich, Portsmouth, Washington and, subject to agreement, East Kilbride.

In addition, we'll have four specialist sites for work that cannot be done elsewhere, notably where we need to work with our IT suppliers or other government agencies or departments. These sites will be in Telford, Worthing, Dover and at the Scottish Crime Campus in Gartcosh, and we will retain a smaller headquarters at 100 Parliament Street, in London.

We will also retain a series of 'stepping stone' sites that will give options to our employees whose offices close, but which will themselves close towards 2020. These are in Northampton, Exeter, Euston Tower, Luton, Maidstone, Bradford, Peterborough, Southend, Watford, Ealing, Lawress Hall in Lincoln and Londonderry.

Our IT services

We are investing a further £1.3 billion to transform HMRC into one of the most digitally-advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a digital-by-default organisation, while securing efficiencies in IT spend worth around 24% by 2020.

To achieve this, we are changing how we secure IT services. In 2004, we signed the Aspire contract with Capgemini to provide our technology services and IT development projects and we are proud of what has been achieved through Aspire. This contract expires in 2017, and we have agreed to the phased exit of the contract, bringing more development and delivery of IT under HMRC's direct control, while protecting the services through the transition.

As part of this, in December 2015 we decided to bring three services previously delivered by Capgemini under our direct control, as part of a new company called Revenue and Customs Digital Technology Services Ltd which is wholly owned by, and works exclusively for, HMRC. This brings us closer into line with cross-government outsourcing guidelines – which favour smaller, multiple contracts – and most importantly gives us the flexibility and control to push through our digital strategy.

The investment that we have made in modernising our services by putting them online is already paying off. We have been able to reduce the amount of post that we send out and receive by converting 500 paper forms into online iforms and by building functions into the new online tax accounts that remove the need for a form entirely.

We have also introduced digital scanning services for inbound post, which means we are dealing with customer correspondence on our computer screens within 48 hours of it being sent in – without the need for sorting, cataloguing and physically moving it around the country.

Efficiency

We continued to transform in size and shape during 2015-16 and delivered a further £210 million in sustainable cost savings, making a total of £1.2 billion of savings over the 2010 and 2013 Spending Review periods.

More information about our spending in the Resource Accounts can be found on **page 192-193.**

Included in the 2015-16 total was a further £50 million in new IT savings, delivered through changes to existing contracts and realising the benefits of the shift from paper to digital. That means we made a total of £100 million savings in IT over the past two years as we roll out more digital ways of working for our customers.

The following table shows the like-for-like reduction in HMRC costs from 2014-15 to 2015-16.

We received additional resource to tackle non-compliance in the tax system and raise additional revenue. We have re-invested many of the efficiencies delivered in 2015-16 to enable us to deliver a better service to our customers by deploying additional staff and by increased investment in IT systems.

Figure 18: Reconciliation of sustainable cost savings (£m)*

	2014-15	2015-16	Saving
Resource departmental expenditure	3,465	3,576	
Depreciation adjustment	-237	-271	
Re-investment to tackle non-compliance in the tax system	-342	-328	
Ring-fenced funding e.g. from Autumn Statement and Spending Reviews	-145	-175	
New investment in transformation and customer service		-185	
One off costs (shipbuilders relief)		-18	
Non-permanent staff outside the scope of the Spending Review	-32	-26	
Inflationary increases		-97	
	2,709	2,476	233
Less one off savings			-23
Sustainable efficiency savings			210

* Numbers may appear not to sum due to rounding.

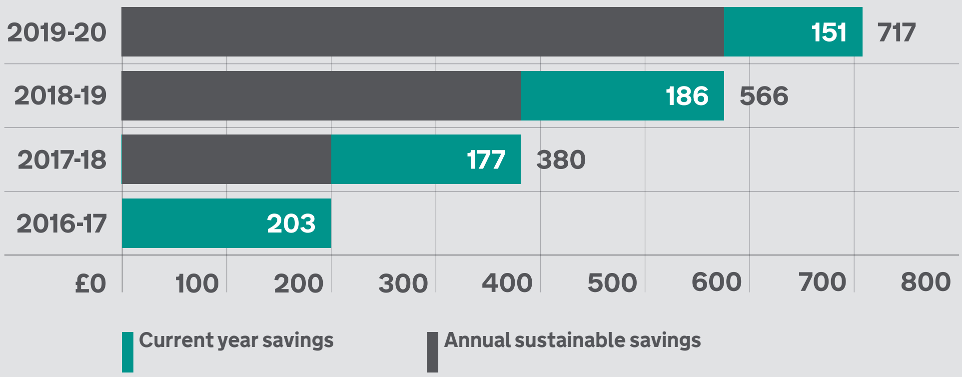
We made these savings by changing the way we work across the department, but particularly in our customer operations areas. By increasing automation, we have reduced the amount of PAYE work needed to keep people's records up to date by 5.6 million individual items. We supported more of our customers to file online and introduced new digital services, for example, the personal and business tax accounts.

We also changed our processes so customers have less need to contact us, leading to a reduction of 400,000 letters and 700,000 telephone calls. Our virtual online assistant 'Ruth' also answered 1.8 million queries about VAT, tax credits and charitable giving.

Future savings

We are committed to reducing our operating costs over the next five years. We will deliver sustainable cost savings of £203 million in 2016-17 and deliver £717 million a year of annual, sustainable efficiency savings by 2020, with a cumulative total of £1.9 billion to 2019-20. We will do this while continuing to improve our productivity and the service we provide to our customers.

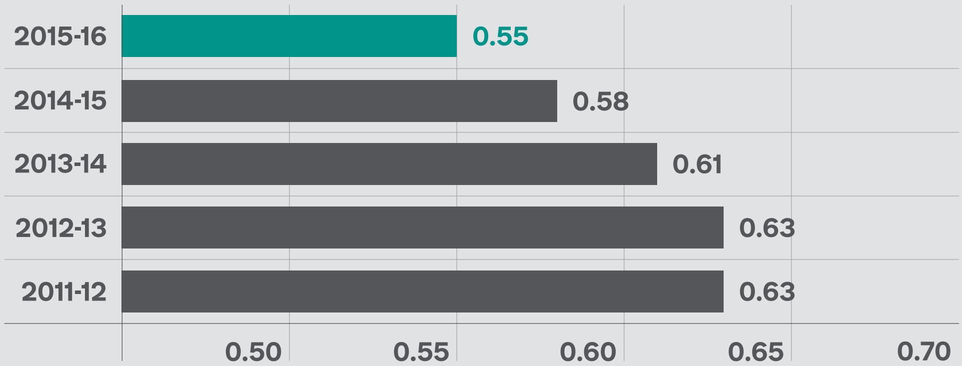
Figure 19: HMRC sustainable efficiencies (£m)



Collecting tax efficiently

Compared to the total revenues we collect, our administration costs are very low. The efficiencies we have delivered, together with increasing revenues, mean that the cost of collecting taxes in the UK dropped from 0.63 pence per pound in 2011-12 to 0.55 pence last year.

Figure 20: Overall cost of collection (pence per £ collected)



Being a sustainable organisation

The 2010-16 Greening Government Commitments have challenged us to reduce the environmental impact of our estate and operations, and we have an excellent record in meeting all the targets except one – water efficiency.

Environment targets

We made savings over and above those required for all of the targets except water efficiency. Our performance was monitored by HMRC's Performance Committee and Environment Champion and verified externally by Carbon Smart. We continue to build sustainability thinking into our policies and decision making, for example our plans to move our workforce to 13 Regional Centres, taking into account the environmental impact on our operations, sustainable construction, climate change adaptation and community engagement.

Figure 21: Environment targets

Greening Government commitment	2015 Government reduction target	Position at 31 March 2016
Greenhouse gas emissions	25%	41%
Waste	25%	62%
Water	6m³ per FTE	7.10m³ per FTE
Paper	10%	48%
Domestic flights	20%	35%

Business travel remains a necessity for us as a large operational department with a focus on frontline activity and offices spread across the UK. While our travel mileage has increased overall by 10%, we are seeing an increasing trend for travel alternatives, with more than 345,000 audio conferences taking place during the year. We also took 2,000 fewer domestic flights and road travel emissions dropped by 6%.

To reduce the carbon impact of our pool car fleet, we have introduced ultra-low emission vehicles (ULEVs) to our offices at Nottingham and Newcastle-on-Tyne.

Our success in tackling water leaks and out-of-hours usage has contributed to a 9.7% reduction in our water consumption – the equivalent of filling 27 Olympic swimming pools. This achievement has also impacted positively on our water efficiency, which now stands at 7.10m³ per full-time equivalent employee.

The trend to print less has continued with 21 million fewer sheets of paper printed compared with last year and a reduction of 369 tonnes in the amount of waste sent to landfill. We are also contributing to waste reduction across government through our preparatory work to lead a 2016-17 pilot programme, which will make sure that unwanted assets are re-used within government departments, rather than sent to waste. Fourteen government departments and agencies are committed to taking part.

1.3m

sheets of paper saved by not issuing paper Self Assessment reminders

The pilot will use an eBay-style format, initially offering a facility for office supplies, stationery and furniture.

Sustainable procurement, climate change and biodiversity

The Greening Government Commitments also impacted on our suppliers and our local environments.

Where possible, we complied with government buying standards in sourcing our materials and assets. In the categories of food, transport and office paper we fell very slightly short of 100% compliance. For our other paper purchases, there has been an insufficient supply of suitable recycled paper that meets our requirement for competitive pricing. We have instead sourced Forest Stewardship Council (FSC) grade products, covered by a Carbon Balanced Certificate (CBC)

We measured sustainability risks in our supply chain and are progressing the government aspiration for 33% of our procurement spend to be with small and medium enterprises by 2020.

We also addressed the impact of climate change through working with the Environment Agency to identify and monitor offices at risk of flooding. Our actions on biodiversity have included increasing the number of our sites under positive conservation management and adding biodiversity to the contract management requirements at our Newcastle estate.

Awards

Our achievements as an environmentally responsible organisation were recognised nationally with an Environment and Energy Award for reducing paper, and the Waste Management Champion accolade from the Green Apple organisation.

Advertising

We spent about £5.5 million on advertising campaigns to support our operations during the past year. Paid-for advertising is a cost-effective way of prompting customers to take action to deadlines, and helps to reduce the cost of pursuing customers who have failed to comply on time. Over recent years, HMRC has reduced advertising costs as we have sought no-cost and low-cost alternatives to large-scale marketing.

Our major campaigns focused on prompting tax credits customers to renew their claims on time by using the new online service, and encouraging Self Assessment customers to file and pay what they owe before the deadline. We also informed married couples how to claim the new Marriage Allowance and warned people using offshore accounts that they should step forward and declare all their undisclosed income. As in previous years, we ran an advertising campaign to recruit candidates for our graduate recruitment programme.

Our Self Assessment campaign, which was delivered with an approximate £600,000 cost reduction against the previous year, contributed towards 92% of customers filing on time and 89% filing online. Our tax credits campaign also helped secure 82% of customers renewing on time and 27% online, while the offshore evasion campaign helped encourage 980 registrations for voluntary disclosures in the final two months before the facility closed on 31 December.

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

Figure 22: In summary – key performance indicators

Creating sustainable cost reductions	2014-15	2015-16
Unit costs (pence per £ collected/paid out)		
Collecting income tax (Self Assessment and Pay As You Earn)	0.83	0.78
Collecting Corporation Tax	0.71	0.69
Collecting National Insurance Contributions	0.27	0.26
Collecting VAT	0.64	0.59
Administering personal tax credits	1.42	1.60
Administering child benefits	0.51	0.49
Maximising revenue collection	**2014-15**	**2015-16**
Cash collected from compliance	£9.8bn	£9.0bn
Future Revenue Benefit	£6.7bn	£6.2bn
Revenue Loss Prevented	£7.9bn	£6.8bn
Product and Process Yield	£1.3bn	£2.1bn
Accelerated Payments	£0.8bn	£2.4bn
Total revenue raised[1]	**£26.6bn**	**£26.6bn**
Payment on time – proportion of businesses and individuals who pay tax on time – using VAT as lead indicator	86.8%	87.3%
	2013-14	**2014-15**
Personal Tax Credits error and fraud – amount of tax credits money claimed by people who are not entitled to it	4.7% (£1.35bn)	4.8% (£1.37bn)
	2012-13	**2013-14**
Tax gap – difference between all the tax theoretically due and tax actually collected	6.6% (£34bn)	6.4% (£34bn)
Stabilising and improving customer service	**2014-15**	**2015-16**
% of post cleared within 15 working days of receipt	70%	52.2%
% of post cleared within 40 working days of receipt	93.9%	87.0%
% of post cleared within 15 working days of receipt passing HMRC quality standards	93.1%	97.3%
% of post cleared within 40 working days of receipt passing HMRC quality standards	93.0%	97.2%
% of call attempts handled by our contact centres	72.5%	71.6%
% of return transactions carried out online (12 months to quarter end e-returns, SA, PAYE, VAT, CT and Stamp Duty Land Tax)	97.1%	98.0%

1 Numbers may appear not to sum due to rounding.

4,518

The number of days that HMRC people volunteered in their local communities

Mid-sized business customers

There are around 170,000 mid-sized businesses in the UK with an annual turnover of between £10 million and £200 million, or who employ 20 or more people.

Many mid-sized businesses are growing, and their tax issues become more complex as they grow.

£80bn
The amount of taxes and duties paid by mid-sized businesses each year

50%
The percentage of mid-sized businesses that export goods and services

19%
The percentage of the UK workforce that mid-sized businesses employ, but they make up fewer than 4% of UK businesses

To read about more customer groups see **pages 64-65.**

Delivery against our Business Plan

In summary...

We delivered, or partially delivered, 22 of the 29 main external commitments made in our 2014-16 Business Plan, covering key areas of our work such as generating revenue, making payments, and tackling fraud and error. We didn't deliver on the remaining seven and we explain why below.

When we published our HMRC Business Plan in April 2014 we committed ourselves to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people in how we meet these key objectives.

We set out below the main external commitments that we have delivered on in 2015-16.

Figure 23: Business Plan commitments

- ● Commitment complete (green)
- ● Commitment ongoing (orange)
- ● Commitment missed (red)

Status	Business Plan commitments
Maximising revenues	
● (complete)	We will deliver additional compliance revenues of £26.3 billion in 2015-16
● (complete)	We will use specialist teams to identify individuals who have hidden assets in the UK or offshore. Our affluent teams, which were created in 2011, have delivered more than £200 million in overall benefit from April 2014 to February 2015 and are on track to help HMRC deliver around £500 million in overall compliance benefit by the end of 2014-15
● (complete)	We will make far better use of the customer information we collect to exploit sources of data, including from companies that process card payment transactions. This will allow us to track sales of £400 billion a year through the use of credit cards
● (complete)	We will strengthen our work to make sure migrants from the European Economic Area claim the right amount of Child Benefit and Child Tax Credit, by introducing a range of new compliance checks
● (complete)	We will continue to reduce the estimated £3.1 billion lost due to tax avoidance each year. We are stopping new avoidance activity by reducing the opportunities to become involved in tax avoidance and using targeted communications that emphasise the pitfalls of tax avoidance and our success in tackling it
● (complete)	We will enhance our capability to tackle multinational enterprises which seek to avoid UK tax by shifting profits from the UK, including creating a large business taskforce and implementing the new Diverted Profits Tax, which became law in April 2015
● (complete)	We will continue to prevent and deter offshore non-compliance using agreements with foreign countries, such as the Liechtenstein Disclosure Facility, the UK/Swiss Agreement and voluntary disclosure facilities with Crown Dependencies and Overseas Territories*
● (complete)	We will reduce fraud and error by using real time information supplied by customers and employers to risk assess which groups of customers are most likely to be non-compliant
● (complete)	We will strengthen our capacity to disrupt the activities of organised criminal gangs operating in the illicit road fuel market, through the introduction of the new fuel marker in April 2015 and the expansion of our road fuel testing units

Continued

* The Disclosure Facilities highlighted in this commitment have now closed. We continue to prevent and deter offshore non-compliance by increasing our ability to detect it using agreements with foreign countries to automatically exchange information and by increasing the sanctions for those who are caught and those who help them.

Status	Business Plan commitments
●	We will use new ways of collecting debt so all relevant government departments and bodies can access a range of private sector debt collection, analytics and enforcement services – known as the Debt Market Integrator
●	We will use new powers to modernise the way we collect debt, and tackle the persistent minority who refuse to pay what they owe, by recovering money from debtors' bank and building society accounts, including ISAs
Improving customer services	
●	We will make it easier for our customers to do business with us online by testing new channels and services, including making payments through telephony self-service
●	We will pre-populate Self Assessment returns with employment income, meaning customers won't have to fill in the details on pay by April 2015 We did not deliver on our commitment to introduce automatic pre-population of employment income for Self Assessment returns for the 2014-15 tax year, however we plan to introduce this for customers completing Self Assessment returns for the 2015-16 tax year. The reason for this delay was to allow us to ensure that the latest security controls could be applied
●	We will start preparing for the replacement of the annual tax return in favour of a single, digital account for all customers by providing five million small businesses and ten million individuals with their own digital tax accounts by early 2016
●	We will use SMS messaging to reassure customers that their information has been received, or that their case is being dealt with
●	We will make 'webchat' and email alerts available for Self Assessment customers who can already complete their returns entirely online
●	We will enable more tax credits customers to report changes and renew their claims online
●	We will achieve a consistent level of service across our helplines, handling at least 80% of calls in 2015-16. We will reply to at least 80% of customer correspondence and complaints within 15 working days and 95% in 40 days. An explanation about why we missed these targets can be found in the 'Improving customer services' section on pages 34-37
●	We will increase to 75.8% the proportion of customers who find HMRC straightforward to deal with. The customer survey that was designed to measure HMRC's performance against this commitment ran until the end of the target period (March 2015). The survey was replaced with the new mass market customer survey and the results for 2015-16 show that 72% of small businesses, 61% of individuals and 40% of agents rated their overall experience of dealing with HMRC positively. Full results will be published in July
●	For our benefits and credits customers we will continue to handle all new claims and changes of circumstances for UK customers within 22 days
●	For our benefits and credits customers we will continue to handle all new claims and changes of circumstances for international customers within 92 days

Continued

Status	Business Plan commitments
Reducing costs and providing value for money	
●	We will make sustainable cost savings of £205 million
●	We will continue the national conversation we are having with our people through Building our Future, while at the same time responding to feedback from previous events, to ensure we make continuous improvement in our delivery of future phases
●	We will develop and implement a new leadership academy for more than 4,000 of our senior leaders at Grade 7 and above, to build leadership and management capability
●	We will build a stronger employer/employee relationship, while maintaining effective union relationships. Over the course of the year we have continued to build effective relationships with our unions, although we recognise that there are further improvements to be made. Early engagement with our unions on matters impacting our people, and involving our unions in early thinking on change plans to give them the opportunity to influence implementation, have started to work well. However, moving into 2016-17 we are mindful of the scale of change and transformation HMRC is driving forward. We will therefore continue to prioritise timely engagement with both our employees and our unions, working with them to continually improve the relationship in the face of a challenging working environment
●	We will increase the percentage of staff who feel they have the skills required to do their job to 91% in 2015-16. In 2015-16 we missed the target of 91%, with 77% of positive responses. In a time of the largest transformation in HMRC's history, 91% was not achievable – it is likely people have some short-term uncertainties about the skills they need to undertake changing and challenging roles. We are focusing on getting the professional capability in place to support our people to get the learning they need. We are working towards the Civil Service benchmark (88% in 2015) by 2021
●	We will improve employee engagement by continuing to work towards our ambition of achieving the Civil Service Employee Engagement Index benchmark which was 59% in 2014. Our Employee Engagement score for 2015 has risen to 45% so we have not yet met the Civil Service Benchmark which was 58% in 2015. We achieved a 2% increase in employee engagement between 2014 and 2015 and we will build on this each and every year, working towards our ambition of achieving the Civil Service benchmark. To increase engagement this year we are investing in developing our managers and leaders and expanding the use of our action planning empowerment tool to act on the survey results at all levels of the department and continuing to invest in our continuous improvement tool PaceSetter
●	We will improve engagement among the Senior Civil Service, by maintaining or exceeding the Civil Service Employee Engagement Index benchmark (which was 74% in 2014)
●	We will reduce the average working days lost per employee to 7.0. We achieved a consistent reduction in average working days lost across the year from 7.98 at March 2015 to 7.58 March 2016, but identified significant challenges around line manager capability and policy structure that were barriers to achieving further reductions. We are reviewing our policy with a view to making changes which will enable us to achieve these targets by March 2017.

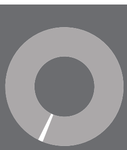
Measuring our performance — a new approach

How we measure our performance as the UK's tax, payments and customs authority involves looking at a large number of what we call indicators, or metrics, that collectively give us a picture of how we are delivering against our objectives set by the government.

We have been updating these metrics so they reflect better the work we will be delivering over the next five years as we become a smaller, more highly-skilled digital organisation.

There are about 60 different metrics that cover a broad range of our activities. Current metrics include revenue collection, debt collection, customer service, and our running costs. Others are completely new – such as how well we move to digital ways of working, the quality of our policy-making and the number of customers who pay their taxes accurately and on time.

By measuring our performance against these metrics we get a more accurate picture of where we are succeeding, and where we need to focus more attention to achieve our performance targets. We also want to be as transparent as possible, and our performance metrics gives us a framework to explain how we are performing to Parliament, our customers and staff, and the large number of external organisations who take an interest in our work.



£2.7bn in betting and gaming duties

more than the total Pupil Premium Awards available this year to help disadvantaged children

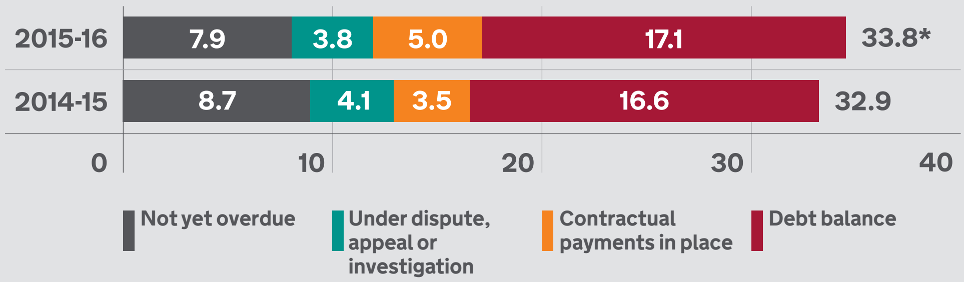
Receivables, debt and other liabilities

In summary…

The vast majority of taxpayers pay their taxes in full and on time. Individuals and businesses need to pay the tax that is due, or return a tax credit overpayment, otherwise it is unfair on the honest majority. Around 10% of the money legitimately owed to the Exchequer is not paid on time and has to be pursued using our debt collection powers and more than 90% of this is collected.

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payment has not been received at the Statement of Financial Position date.

Figure 24: Total due – Breakdown of receivables (£bn)



*** Tax receivables £26.7bn**
For more information see **page 169.**

*** Tax Credit receivables £7.1bn**
For more information see **page 196.**

Our debt balance

The debt balance is a snapshot of the total amount of debt, owed at any given time that is both collectable and enforceable. It includes debt that has been created in year, as well as older debt outstanding from previous years.

The total amount of tax debt owed to HMRC at the end of the year was £13 billion, the same position as March 2015. This comprised taxes, duties, penalties, and interest charges owed by individuals and businesses.

The total amount of personal tax credits debt owed to HMRC at the end of the year was £4.1 billion[1], compared to £3.6 billion for March 2015. The rise in tax credits reflects debt transferred in February and March 2015 that needed to be recovered from claimants receiving a new award. For technical reasons around £300 million of debt was not suitable for recovery via this method, and was returned for routine collection to Debt Management during 2015-16.

The total HMRC debt balance (tax and tax credits combined) was £17.1 billion at the end of the year, compared to £16.6 billion for March 2015.

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

£1.5m
Charitable donations made by HMRC people

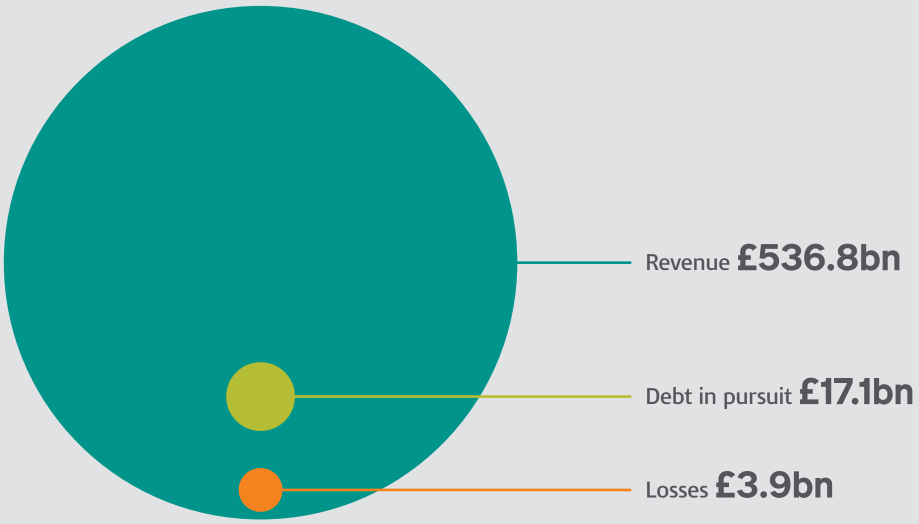
Money due to HMRC

We make it as easy as possible for our customers to pay what they owe by offering a range of payment methods and facilities.

Where customers are unable or unwilling to pay on time, we pursue outstanding amounts quickly and efficiently. We collected £43.1 billion using our debt collection powers in 2015-16, an increase of £2.1 billion compared to 2014-15. The majority of this debt is repaid in the same year, but some is old debt from previous years that is recovered more slowly.

We are able to offer Time to Pay arrangements to individuals and viable businesses which need more time to pay us what they owe, due to temporary financial difficulties. At the end of March 2016, we had agreed arrangements worth more than £2.5 billion – an increase of £600 million since April 2013.

Figure 25: Debt in pursuit and losses compared to revenue (£bn)*



* Debt and losses includes tax and tax credits data.

Losses, which occur when we formally cease collection activity, and are almost all driven by individual and business insolvencies, totalled £3.9 billion, which was a reduction of £500 million compared to the previous year.

We use private sector debt collection agencies (DCAs) to help with our debt collection activities. From August 2014, we increased our use of DCAs in the initial stages of tax credits debt collection to send letters, text messages and make telephone calls on our behalf. DCAs collected £271 million in overdue tax and tax credits payments in 2015-16 – an increase of £50 million on the previous year.

DCAs play an integral role in adding capacity to HMRC's debt collection function. Our future use of this service will be driven by our overall strategy, plans and the results of future fiscal events.

Other liabilities

Postponements

Postponed liabilities relate to direct tax charges (for example Corporation Tax or income tax) where the taxpayer liability is not resolved, and are therefore not yet legally collectable. Because only a proportion of postponed liabilities will become chargeable, we only recognise those that are virtually certain in our accounts. The value included in 2015-16 was £1.4 billion (£0.8 billion in 2014-15). The full postponed amount is excluded from the debt balance until it is legally collectable and recognised as debt. The value of postponed liabilities last year was £19.6 billion, compared to £17.1 billion for March 2015.

Jon Thompson
Accounting Officer
6 July 2016

£52.8bn in Corporation and Capital Gains Taxes

equivalent to the government's investment in the UK rail network to 2019 and in improving England's motorways and major roads in 2015-20

Wealthy individual customers

There are about 500,000 individuals who we consider to be wealthy.

Wealthy individuals have an annual income of at least £150,000, or wealth of £1 million or more.

Our wealthiest customers are closely managed by a specific customer team who have a detailed overview of their tax affairs.

£4.3bn+
The amount collected from the 6,300 wealthiest individuals in 2014-15

6,000
The number of wealthy individuals who we deal with on a one-to-one basis to manage their tax risk

£2bn+
The amount of additional compliance revenue secured from wealthy individuals since 2009

Valuation Office Agency

In summary...

The Valuation Office Agency (VOA) is an executive agency of HMRC. Its core purpose is to provide the property valuations and advice required to support taxation and benefits. The Agency employs approximately 3,600 people, based on full-time equivalents, in 62 offices across England, Wales and Scotland.

Vision and objectives

The VOA compiles and maintains statutory lists detailing the rateable value of 1.9 million commercial properties for non-domestic rating, and the council tax bands of 25 million domestic properties for council tax across England and Wales. This work enables local authorities to collect approximately £50 billion in revenue.

The VOA's work also enables the payment of housing benefits, the collection of key national taxes by HMRC and the setting of fair rents. It also determines Local Housing Allowances rates across England. The VOA provides independent property advice and valuations across the public sector and advises ministers on valuation and property matters.

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

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

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


427,000
Days that HMRC staff spent on learning this year; on average more than seven days per member of staff to improve skills and capability

Performance

Last year the VOA continued its work to deliver the Chancellor's 2013 Autumn Statement commitment – that 95% of non-domestic rating appeals in England outstanding on 30 September 2013 would be cleared by July 2015. The VOA cleared more than 94% by the end of July 2015, and by 31 October 2015 it had cleared slightly more than 95% of these outstanding appeals. Outstanding appeals are mostly awaiting a hearing at Valuation Tribunal, while some have been paused at the ratepayer's request.

Throughout the year the VOA worked with stakeholders in HM Treasury and the Department for Communities and Local Government to identify ways in which the administration of non-domestic properties could be improved. In particular, the VOA is working to deliver the reforms to the non-domestic properties appeals system that were announced by the Chancellor and are passing through Parliament as part of the Enterprise Bill. These reforms are set to be delivered through 'Check, Challenge, Appeal', a three-stage process that will be in place when the new non-domestic rating list comes into effect on 1 April 2017.

New rating lists are required for 1 April 2017. A national revaluation seeks to ensure that business rates are based on up-to-date property values. On 1 July 2015, the VOA began carrying out the 1.9 million valuations needed across England and Wales. It has continued to make good progress in delivering this work.

The VOA strengthened the quality of its council tax banding decisions, including acting on colleagues' suggestions for improvement about how to make processes more efficient. This work has helped to streamline internal processes and resulted in a 5% improvement in productivity over and above the annual productivity challenge.

Detailed statistics summarising the number of band reviews and proposals received and cleared will be available as Official Statistics on GOV. UK in August 2016.

The VOA's Network Support Offices (NSOs) handle centralised processing work and much initial telephone and postal contact with customers. The NSOs ensured council tax customers got the information they needed more quickly by resolving around 60% of council tax calls at first point of contact. This meant these calls did not need to be passed on to colleagues in other parts of the organisation.

The four NSOs can now resolve a much broader range of enquiries without requiring specialist input, meaning quicker resolution of some customers' enquiries. This also allows specialist operational colleagues to focus on more complex valuation work.

The VOA's Housing Allowances and Statutory Valuations Teams met or exceeded all their targets on timeliness and quality. The rental data gathered by the Housing Allowances team feeds into the Office for National Statistics Retail and Consumer Prices Indices, and new experimental Index of Private Housing Rental Prices.

The VOA's Property Services team generated £15.1 million through the provision of valuations and property advice to clients across the public sector. This team was recently appointed to the new Welsh Government Framework for Estates Professional Services and appointed as sole valuation services supplier to Highways England to support their infrastructure projects. It also continued to work on the High-Speed 2 (HS2) rail link.

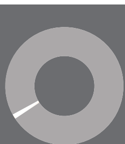
Transforming services

Throughout the year, the VOA made progress in transforming itself to deliver better, more efficient services to its customers and clients. As part of this far-reaching change programme, the agency reduced the amount of office space it occupies by 3,500m² and invested in its future locations to enable more flexible ways of working.

The agency also improved its understanding of the reasons customers make contact and the channels they use – an essential first step to enable the redesign of services to make them easier for customers and colleagues to use.

The agency continued to improve its technology infrastructure and took further steps to become digital by default, which will enable it to provide a more streamlined service to its external customers.

The VOA publishes its own Annual Report and Accounts which is available at: **www.voa.gov.uk**



£2.8bn from the Bank Levy

more than the UK's pledge to 2021 to help end worldwide deaths from malaria

Accountability – how we are managed and scrutinised

Governance Statement

Foreword by Ian Barlow, Lead Non-Executive

HMRC brought in record revenues for the sixth consecutive year, a notable achievement, and exceeded the efficiency targets set by government. However, there was a significant reduction in overall customer service levels responding to telephone calls and replying to post in the first part of the year. As a result of a major management effort service levels have now recovered and are again meeting or exceeding targets.

Meanwhile the fundamental transformation of the department continues at pace. This involves a major shift in customer channels from telephone and post to digital, much-improved use of data and a forthcoming move to large modern regional centres. This will improve efficiency for taxpayers and the department and continue to provide fulfilling careers for HMRC people across the country.

As non-executive members of the Board, we provide challenge, assurance and advice to the new Executive Chair, Chief Executive and his Executive Committee (ExCom). We are here to help the department succeed in its challenging plans and carry out our work at Board meetings, in the Board's committees, on ad-hoc projects and in one-to-one relationships.

Delivering excellent customer service should be at the heart of any successful organisation, so I was delighted that we helped strengthen this commitment last year through the creation of a new Charter Committee of the Board, which I am pleased to be chairing. It is early days in developing our agenda, but already I am encouraged by the strength and breadth of people we have recruited to the committee and believe it will play an increasingly important role in helping HMRC to focus on its customers. The committee is made up of individuals and external groups representing the many sectors that make up our diverse range of customers. They will be able to challenge HMRC with new perspectives and provide valuable customer insights.

During the year we were sorry to see Edwina Dunn stand down. She is an outstanding business leader who brought cutting-edge insight, particularly in the development and use of data, to inform how HMRC can serve better its compliant customers and chase down those seeking to evade their taxes. We will miss her wise counsel.

We were delighted to welcome Joanna Baldwin to the Board, whose career has spanned many industries and brings valuable experience in building digital businesses and on communication. Since the year-end we have also been joined by Alice Maynard, who has worked extensively in senior positions in charities and will help to ensure the department meets the needs of those more vulnerable in society and support them and those less able to cope with the move to digitalisation.

As Lead Non-Executive I have been privileged to chair the Board over the past three years. I am pleased now to have handed over to our new Executive Chair, Edward Troup, and will continue with my fellow non-executives to support him and our new Chief Executive, Jon Thompson, as the department executes its ambitious plans.

I can't close without saying a huge thanks to Dame Lin Homer, our Chief Executive until 4 April. Over four short years she developed a team, a plan for transformation and secured the budget that provided the platform on which Edward and Jon are building. She also created the environment that enabled the non-executives to contribute widely to the department and we much enjoyed working with her. I wish her well in the next stage of her life.

Ian Barlow
Lead Non-Executive

How we are structured

Ministerial arrangements

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

HMRC is ultimately accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is David Gauke MP.

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

Commissioners

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

The way in which the Commissioners conduct their business is governed by the CRCA, which says that the Commissioners may make arrangements specifying how many of them are required to carry out their functions. Decisions relating to the resolution of our largest and most sensitive cases are decided by three Commissioners.

HMRC's current Commissioners are Jon Thompson (from 13 June 2016), Edward Troup, Jennie Granger, Jim Harra, Nick Lodge, Ruth Owen and Justin Holliday (from 13 June 2016). Dame Lin Homer served as a Commissioner until her departure in April 2016.

Executive Chair and Chief Executive

The role of Executive Chair was agreed by the Cabinet Office and HM Treasury to be appropriate given the non-ministerial status and scale of the department, the nature of the business, and the level of Board oversight.

The Executive Chair leads the Board and has ultimate responsibility for the department's strategy, safeguarding of its reputation and supporting the executive team who are responsible for the department's performance. The Executive Chair also leads on providing tax policy advice to ministers and overseeing our relationship with HM Treasury. The current Executive Chair is Edward Troup.

The Chief Executive is responsible for the delivery of HMRC's strategy, including our transformation programme, objectives and performance. The Chief Executive is accountable for improving customer service and managing the department's budget, as well as being the Accounting Officer for HMRC. Our new Chief Executive is Jon Thompson, who replaced Dame Lin Homer in April 2016. Jon chairs the Executive Committee. Both the Executive Chair and the Chief Executive are Commissioners of Revenue and Customs.

Tax Assurance Commissioner

The role of Tax Assurance Commissioner (TAC) was introduced by HMRC in 2012 as part of a package of measures designed to strengthen the governance of tax disputes. The TAC provides assurance and transparency and has an explicit challenge role in decision making in tax disputes. They are usually one of the three Commissioners who make decisions in the largest and most sensitive disputes, and in a sample of smaller cases. The TAC publishes an annual report on how HMRC's tax dispute resolution governance operated during the year. These annual reports are available on GOV.UK. The TAC is currently Edward Troup.

Figure 26: HMRC committee structure

We have a committee structure in place that enables our Executive Committee (ExCom) to undertake effective and transparent decision-making and that provides appropriate challenge and assurance by our non-executives.

Executive Committee (ExCom)

L to R above:
Standing: Stephen Hardwick, Justin Holliday, Ruth Owen, William Hague, Nick Lodge, Mark Dearnley, Gill Aitken, Jennie Granger, Jim Harra,
Sitting: Edward Troup, Jon Thompson and Penny Ciniewicz

Edward Troup

Commissioner of Revenue and Customs; Executive Chair and Permanent Secretary and member of the Board*

Jon Thompson

Commissioner of Revenue and Customs; Chief Executive and Permanent Secretary, Accounting Officer and member of the Board*

Jennie Granger

Commissioner of Revenue and Customs; Director General Enforcement and Compliance and member of the Board

Ruth Owen

Commissioner of Revenue and Customs; Director General Customer Service and member of the Board

Jim Harra

Commissioner of Revenue and Customs; Director General Business Tax and member of the Board

Nick Lodge

Commissioner of Revenue and Customs; Director General Transformation and Benefits and Credits and member of the Board

William Hague

Chief People Officer and member of the Board

Mark Dearnley

Chief Digital and Information Officer and member of the Board

Justin Holliday

Commissioner of Revenue and Customs; Chief Finance Officer and member of the Board*

Gill Aitken

General Counsel and Solicitor

Penny Ciniewicz

Chief Executive of the Valuation Office Agency

Stephen Hardwick[1]

Director of Corporate Communications

1 Stephen Hardwick is a standing invitee at ExCom.

With effect from July 2016 the Executive membership of the Board changed to include only those indicated by the *

Non-Executives

L to R above:
Simon Ricketts,
Joanna Baldwin, Ian Barlow,
John Whiting and
Mervyn Walker

Ian Barlow

Lead Non-Executive and Board member

John Whiting

Non-Executive Board member

Edwina Dunn[1]

Non-Executive Board member

Simon Ricketts

Non-Executive Board member

Mervyn Walker

Non-Executive Board member

Joanna Baldwin

Non-Executive Board member

Alice Maynard[2]

Non-Executive Board member

Leslie Ferrar

Non-Executive and Board sub-committee member

Diane Herbert

Non-Executive and Board sub-committee member

Paul Smith

Non-Executive and Board sub-committee member

1 Edwina Dunn stood down as a Non-Executive Board member on 31 March 2016.
2 Alice Maynard joined the Board on 1 July 2016.

Roles and responsibilities

As a non-ministerial department, the role of the Board is critical to the success of HMRC. The Board comprises a mix of executive and non-executive members. It is in place to advise and challenge the management of HMRC, particularly focusing its attention on the performance and future strategic direction of the department. Last year, that meant a continuing focus on the development of the strategic plans for HMRC's transformation.

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

The Board provides:

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

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

The Board met seven times in 2015-16, including one session dedicated entirely to shaping the department's future strategy. Board members also met with many HMRC teams in 2015-16 to gain insight into their day-to-day work and the challenges they face, including three days visiting frontline offices and meeting with different HMRC talent scheme delegates in Birmingham; Shipley and at the Digital Delivery Centre in London.

The Board receives regular updates from business areas within HMRC covering financial performance, departmental targets, including customer service measures, and the key risks to performance and transformation faced by the department. At Board meetings, members receive detailed updates on HMRC's performance, which gives them clear oversight of how the department is performing against our objectives and business plan commitments. The Board regularly reviews ExCom's 'performance and transformation hubs' – a visual representation of the key indicators against which the executive judges our performance and transformation priorities. They also review the quality of data.

Board sub-committees

Work is delegated to Board committees, where smaller groups of non-executives and ExCom members can examine issues in more detail and present their findings to the Board for discussion and conclusion.

The Board's committee structure changed last year to replace the Scrutiny Committee with the HMRC Charter Committee. The three Board supporting committees are now:

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

More detailed information on the roles, responsibilities and work done by these committees during the year can be found on the next page.

Figure 27: Board sub-committees (roles and responsibilities)

Audit and Risk Committee	
Chair	John Whiting (Non-Executive)
Roles and responsibilities	Provides assurance to the Board and the Principal Accounting Officer on the accuracy of financial statements and the strength of risk management and control processes across HMRC. Its scope covers all aspects of HMRC business and those relating to the Valuation Office Agency (VOA), as escalated. The Chair of the Audit and Risk Committee will attend at least one meeting annually of the VOA Audit and Risk Assurance Committee. Advises the Board and the Principal Accounting Officer on: • assurance processes and actions in relation to management of risks in an HMRC context • strategic processes for risk, control and governance, the accounting policies, the accounts, and the annual report of the organisation. This includes the Resource Accounts, Trust Statement and the National Insurance Fund Accounts • the planned activity and results of both internal and external audit • the adequacy of management response to issues identified by audit activity • when necessary, proposals for tendering audit services from contractors who provide audit services to the department • anti-fraud policies, whistle-blowing processes and arrangements for special investigations.
Issues covered	• Assessing the process of risk management in the department and ensuring the right challenges and assurances are in place • Considering areas of qualification or concern within the accounts and possible remedies, which were discussed and tracked throughout the year • Reviewing major accounting issues, such as the provision for oil and gas field decommissioning • Assuring whistle-blowing and wrongdoing processes, shaping and improving policies and implementation • Assuring the Annual Report and Accounts • Assuring the improvements taking place with HMRC's financial accounting systems for tax and running costs • Monitoring the department's progress in implementing external recommendations made by external assurance bodies. • Having the opportunity to comment on the draft Tax Assurance Commissioner's Report, and challenge the information presented.

Continued

People, Nominations and Governance Committee	
Chair	Mervyn Walker (Non-Executive)
Roles and responsibilities	Provides advice and scrutiny for the Board and Chief Executive on: • nominations arrangements within HMRC • succession planning for appointments to ExCom and the Board, so they can maintain an appropriate balance of skills and experience • the identification and development of leadership capability and high potential across the department • the incentive and reward strategy for the department • HR support for the department's strategic direction and key HR performance indicators • HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.
Issues covered	• Building our future Phase 3 rollout of all staff events and feedback • Developing Leadership across HMRC and the Leadership Academy • Leadership Academy workforce planning for 2015-16 and 2016-17 • Employment Framework setting out HMRC's people policies and practices including the family friendly policies and flexible working • Civil Service People Survey 2016 results and engagement work undertaken by the Employee Engagement Working Group; and • HR People Priorities and the key interventions which support the department's transformation.
Charter Committee	
Chair	Edwina Dunn (Non-Executive) (to 31 March 2016) Ian Barlow (Lead Non-Executive) (from 1 April 2016)
Roles and responsibilities	Reviews the extent to which HMRC has demonstrated the standards of behaviour and values included in the Charter and prepares an annual report. Considers a range of performance and management information, representative of the views of all customer groups, and advises the Board on whether HMRC's strategies, policies, practices and measurement of performance in these areas are effective and how they might best be improved.
Issues covered	• How HMRC measures its customer service performance and how this will change under Next Generation Performance Measures • Making Tax Digital and its impact on customers • HMRC's use of data to understand the voice of the customer.

Board effectiveness

The Board regularly reviews its own effectiveness as part of the arrangements for each meeting using structured questionnaires. The Board assessed progress against recommendations from previous reviews, to ensure there was continuous improvement in its effectiveness and impact. The 2015-16 review identified further enhancements including arranging for more dedicated time for non-executives, increasing the use of digital board papers, undertaking a skills audit of non-executives and revisiting the approach to ensure site visits are suitably tailored to Board members' areas of expertise. Arrangements for the Board will change in 2016-17 and a further formal review will be undertaken once these have bedded in.

Members of ExCom liaise closely with non-executive board members with areas of particularly relevant expertise. This allows non-executives to use their experience to help executive colleagues between meetings, and to provide an informal, trusted sounding board outside the formal Board setting. Board members now also participate in the preparation of material to be discussed at meetings, to make the most efficient use of their time.

Executive Committee (ExCom)

Roles and responsibilities

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

ExCom met in four different forms each month – ExCom, ExCom (Performance), ExCom (Transformation) and, from September 2015, ExCom (Customer).

Since April 2016, ExCom has undertaken work to further clarify corporate governance arrangements for 2016 and beyond. This will include changes to board and committee structures, developing a strengthened delegation framework and work to assure ExCom and the Board that department's overall strategy continues to deliver on our objectives.

ExCom

Chair: Jon Thompson, Chief Executive (from April 2016)
Dame Lin Homer, Chief Executive (until April 2016)

ExCom met 11 times, covering a wide range of strategic, operational and financial issues which required decision, agreement or discussion by the department's most senior leadership team. Key issues covered included: long-term business planning and the key enablers for transforming HMRC; IT and infrastructure changes; talent management and succession planning, particularly building the right leadership capabilities to transform the way HMRC serves the UK; and the wider Civil Service reform agenda.

The committee regularly reviews its own effectiveness as part of the arrangements for each meeting and by other means from time to time, for instance coaching, workshops and formal reviews. A formal effectiveness review of ExCom and its sub-committees was conducted during 2013-14 and a number of recommendations were implemented during 2014-15, including the effectiveness of meeting discussions.

ExCom (Performance)

Chair: Jon Thompson, Chief Executive (from April 2016)
Edward Troup, Tax Assurance Commissioner (until April 2016).

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

It met 11 times during the reporting period, covering a range of key issues including: business and workforce planning; compliance revenues secured; tax receipts; customer service performance; debt; security and serious incidents; and Next Generation Performance Measures.

ExCom (Transformation)

Chair: Jon Thompson, Chief Executive (from April 2016).
Nick Lodge, Director General Benefits and Credits and Director General Transformation (until April 2016).

ExCom (Transformation) provides the most senior level of governance and ensures effective delivery of the department's transformational change.

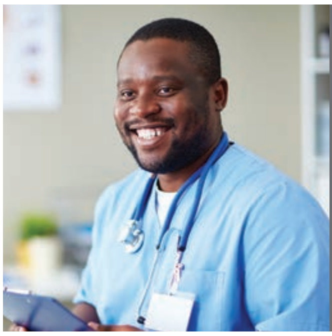
It met 11 times during the reporting period. In addition to monitoring the delivery of the Change Portfolio within a dedicated transformation hub, key issues covered include overseeing the introduction of new transformation governance arrangements; ExCom-level transformation risks; PaceSetter; Building our Future; new digital services and the replacement of the HMRC IT contract.

ExCom (Customer)

Chair: Jon Thompson, Chief Executive (from April 2016)
Dame Lin Homer, Chief Executive (until April 2016);

ExCom (Customer) ensures that HMRC achieves its overarching customer ambition to put the customer at the heart of everything we do, ensuring coherence and consistency across lines of business.

It met five times during the reporting period covering the following key issues covered included: The new annual customer survey and resulting actions to drive improvements in customer performance; The approach being taken around Digital Exploitation which aims to drive positive customer behaviour and the greater adoption of digital services; Proposals to improve the experience of tax credit customers through digital transformation and the Tax Credit Digital Service; and the role of the new Charter Committee and raising visibility of the Charter internally.



£116bn in Value Added Tax

equivalent to the planned net NHS expenditure in England in 2015-16

ExCom sub-committees

ExCom's sub-committee structure comprises three supporting committees:

- Transformation Board (formerly the Portfolio Delivery Board until December 2015)
- People Matters
- Investment.

More detailed information on the roles, responsibilities and work done by these committees during the year can be found below.

Figure 28: ExCom sub-committees (roles and responsibilities)

Transformation Board	
Chair	Nick Lodge, Director General Transformation
Roles and responsibilities	Acts as a decision-making body operating below, but reporting to ExCom (T) and offering support and advice, as well as a challenge function across the Transformation and wider Change Portfolio.
Issues covered	• Monitored and challenged progress in delivery of major programmes and projects • Oversaw the management of portfolio risks as well as ExCom-level change risks • Provided advice to ExCom on planning, prioritisation, dependencies and business-readiness across the change portfolio • Oversaw the deployment of change resource across HMRC.
Investment Committee	
Chair	Justin Holliday, Chief Finance Officer
Roles and responsibilities	Makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives, which cost more than £2 million, (£5 million from 8 December 2015) or are new or significant.
Issues covered	• Examined business cases in HMRC's Transformation Portfolio for settlements and investment provided by Spending Reviews and Fiscal Events (Autumn Statement 2012, Spending Review 2013, Autumn Statements 2013 and 2014, Budgets 2014 and 2015, and legacy business cases for Spending Review 2010; and reinvestment settlement) • Reviewed finance and benefits status and associated risks and issues of core Change settlements and investment.
People Matters Committee	
Chair	William Hague, Chief People Officer
Roles and responsibilities	Plans for three to five years ahead in terms of how HMRC will be structured and use our resources. It also oversees the programme of work that will deliver the People Strategy and takes decisions on delegated issues relating to people policies. The committee supports the Chief People Officer in designing and implementing the annual One HR work plan.
Issues covered	• The Civil Service People Survey 2015 results and priority areas for action • Building our Future plans and feedback from Phase 3 all staff events • Building our Future plans for Phase 4 leaders and managers events • Building the Leadership Academy and Management Matters initiative to support our leaders and managers through HMRC's transformation • The Workforce plan to grow the Apprenticeships scheme • Talent Management and succession planning; Health and Safety Risk Management and the Mental Health Strategy including the introduction of the Mental Health Advocate Scheme • Sick Absence Management and monitoring of the Average Working Days Lost target for 2015-16.

Figure 29: Meeting attendance by Executives and Non-Executives

	Board	Audit & Risk Committee	People Nominations & Governance Committee	Charter Committee	ExCom	ExCom (Performance)	ExCom (Transformation)	ExCom (Customer)
Non-Executive Board Members								
Joanna Baldwin	1/2							
Ian Barlow[1]	7/7			1/1				
Volker Beckers[2]	1/1							
Edwina Dunn	5/7			1/1				
Simon Ricketts	7/7							
Mervyn Walker	7/7	9/9	4/4					
John Whiting	7/7	8/9						
Non-Executives								
Diane Herbert			4/4	1/1				
Leslie Ferrar		8/9	4/4					
Paul Smith		9/9						
Executives								
Gill Aitken					10/11	10/11	9/11	2/5
Mark Dearnley	7/7				10/11	9/11	9/11	5/5
Penny Ciniewicz[3]					4/6	2/6	5/6	2/4
Jennie Granger	6/7				9/11	10/11	10/11	4/5
William Hague	6/7				11/11	10/11	9/11	5/5
Stephen Hardwick					10/11	10/11	9/11	4/5
Jim Harra	7/7				10/11	7/11	8/11	4/5
Justin Holliday	7/7				10/11	11/11	9/11	4/5
Lin Homer	7/7				11/11	7/11	7/11	5/5
Nick Lodge	7/7				11/11	9/11	9/11	5/5
Ruth Owen	7/7				11/11	11/11	11/11	5/5
Edward Troup	6/7				10/11	8/11	9/11	4/5

1 Ian Barlow chaired the Board until April 2016, when Edward Troup took on the role of Executive Chair.
2 Volker Beckers stood down as a Non-Executive on 15 April 2015.
3 Penny Ciniewicz joined ExCom following her appointment as a Director General.

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

Managing risks to our objectives

In summary...

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

Figure 30: HMRC risk framework

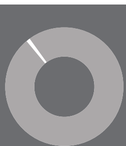
Accountability for effective risk management		Confirmation of risk management effectiveness
Assuring that the strategic risks identified are the right ones and being managed appropriately	Role of the Board	In addition to monthly reporting, conduct an ongoing series of reviews of specific departmental risks
ExCom set the risk framework, act as exemplars of risk management and sponsor individual, complex risks and issues	Role of senior management	Monthly review of risks including escalation, de-escalation and challenging mitigating actions
Determined by ExCom and senior management for each individual risk	Risk tolerance	Monthly reviews to challenge any gap between risk exposure and tolerance
Effective risk management delivered through managing risks, clear roles and responsibilities and committee structures	Risk and governance frameworks	Risk management is embedded into business planning. Risks are managed in conjunction with performance
Support the delivery of the risk management policy and strategy	Mandate of central risk team / Assurance	The Audit and Risk Committee seeks assurance over risk management. Internal Audit provides opinions on risk management effectiveness
Frameworks exist to identify, assess and control our current and emerging risks	Risk identification, measurement and control / Risk maturity	An assessment took place in 2015-16
Risk management is built into the way we work	Culture / Resources and capability	A suite of tools support the skills and behaviours required for effective risk management
A flow of risk reporting and challenge operates through the organisation	Information and Communication	Visual management tools drive risk conversations

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

- introduced new visual management tools, including ‘flight paths’ for each ExCom level risk, ensuring the focus of risk and issue management is on outcome and delivery, rather than process and supporting a clearer link to accountabilities and strategic delivery
- re-focused the department’s top risks, around organisational objectives identified in the Single Departmental Plan
- appointed a director general for the new transformation portfolio, enabling a clearer link to accountabilities, which will help ensure we deliver our Spending Review commitments
- increased scrutiny of the highest level risks by expressly considering risk at all ExCom committees, ensuring more risks are discussed in greater depth
- run an HMRC-wide risk maturity assessment to understand how well we use risk management in our decision-making. This told us that there was:
    - a clear commitment from ExCom to risk management, with the department’s top risks considered in monthly meetings
    - a well-established risk management strategy
    - a core group of people who have risk management expertise, although we could do more to build this across HMRC
    - a need for more consistency in how we manage risks across different areas of the department.

We will be implementing further improvements identified by the assessment in 2016-17 by:

- having a consistent approach to risk discussions across the department, with mini working groups sharing risk information
- helping senior managers understand that effective risk management is an integral part of good leadership
- ensuring emerging and existing risks are effectively managed by an accountable owner, recognising external factors which have an impact upon the department.



£4.1bn in inheritance tax

more than the planned investment to strengthen the UK’s counter-terrorism work over the next five years

Risk overview

The most significant risks faced by HMRC in 2015-16, together with key mitigating actions, are outlined below. Following the decision to leave the European Union on 23 June, we will be reviewing all our risks and working through what this means for delivering our strategic objectives in the coming weeks and months.

Figure 31: The risks to delivering our objectives: what they are and how we deal with them

Principal risks	Key mitigating actions
Maximising revenues	
Total revenue	
As the country's tax, payments and customs authority, we fail to bring in the revenue to the Exchequer to help pay for essential public services.	To support a clear understanding of the overall flow of revenue we: • provided detailed data on tax receipts and repayments to ExCom as part of HMRC's performance reporting process and results are discussed in monthly ExCom performance meetings • monitored tax and duty inflows regularly throughout each day and provided updates to HMT, allowing them to compare actual receipts with forecasts.
Tax compliance	
As the country's tax, payments and customs authority, a lack of understanding and proactive management of our tax compliance risks could prevent us from maximising the effectiveness of our compliance activities.	To ensure we understand and proactively manage our tax compliance risks we: • continued to develop the strategic picture of risk (SPR) to drive planning and operational activity in relation to various customer groups • focused our compliance activity around different customer groups to bring together policy-making and feedback from frontline staff.
Data exploitation	
We fail to sufficiently utilise the full range of data sources we have available to us and, as a result, inhibit our ability to meet our intended transformational needs.	To ensure the data we hold is reliable and up-to-date we: • built an Enterprise Data Hub (EDH) to capture data currently held in eleven separate data warehouses in a consolidated, linked and standardised manner • commenced phase 2 of the EDH project which will draw priority data from other departmental systems and/or storage locations, so more data is available to analysts • built the Data Engineering Centre to maintain the hub and its data and support the business in defining new ways to exploit the available data.

Continued

Principal risks	Key mitigating actions
Improving customer services	
Customer service	
Our levels of customer service fall below those expected of us, leading to long wait times, risking delivery of our objectives, loss of public confidence and reputational damage.	We developed a number of ways to deliver sustainable improvements in customer service. During the year we: • developed sophisticated and responsive monitoring and planning strategies to ensure that we have trained available staff to maintain our services, flexing staff from across HMRC to achieve our best ever results for tax credits renewals • commenced the roll-out of digital tax services that are designed to meet customer needs, including digitising our forms so they can be submitted online and scanning mail so correspondence can be dealt with more quickly and effectively.
Managing our cyber-security	
We must maintain and safeguard the availability, resilience and security of our systems to protect customers' information.	During the year, we: • developed a cyber-security command centre, providing a continuous monitoring and response capability to identify and respond to cyber threats as they occur • raised awareness among HMRC staff and customers of the dangers of phishing emails and malware • adopted increased governance through the '10 steps to cyber security' model • developed effective identity verification protocols.
Customer understanding	
There is a risk that we fail to use our understanding of customers consistently and effectively when designing and implementing policies, processes and services, resulting in a failure to fully deliver our objectives.	During the year we: • launched an internal 'customer zone' that we are developing to provide the research, data and tools so we can understand our customers better • implemented new approaches to the design and implementation of products and services that involve the use of greater customer insight and customer involvement • developed a suite of customer performance measures to better target areas for improvement.

Continued

Principal risks	Key mitigating actions
Exploiting digital opportunities	
If we do not deliver robust IT infrastructure and secure, high quality, digital services, there is a risk that customer confidence will be low which will result in low take-up of services impacting the success of our digital transformation and realisation of benefits and efficiencies.	Our future plans require us to make greater use of new digital technology. To this end we: • communicated the benefits of our digital services to our customers, in order to increase take up and enable them to take more control of their tax affairs • developed a bespoke authentication process, used for logging into our digital services, to increase the safety and security of customers and their data • launched the Personal Tax Account, paving the way for customers to submit their Self Assessment return online via their tax account • introduced a range of new digital infrastructure and services both for businesses and individuals.
Reducing costs and providing value for money	
Delivering affordable and sustainable transformation	
The pace and nature of the transformation programme could outstrip our capability and capacity to deliver the level of efficiencies and service improvements agreed.	During the year we: • launched a new transformation function to oversee the delivery of our programmes of change, including governance, resourcing and progress reporting • developed business cases and plans to track our progress against benefit commitments • introduced business change managers in all lines of business to help identify and manage the cumulative impacts of change.
Providing IT services	
There is a risk that our revised commercial IT supply and operating model may not deliver the expected benefits in a timely, efficient and effective manner and threaten the stability of tax collection and customer services.	During the year we: • developed a coherent business plan, setting out the commercial and operational model, including a robust transition plan and budget • recruited people with the necessary commercial, technical and operational skills • ensured that the decision making and governance framework, as well as the scope and the roles in the programme is effective.
Maximising our people's performance	
We need to continue to develop our leaders' innovation and resilience to ensure we are able to deliver the department of the future. We do not have sufficiently high levels of employee engagement to be confident that we are maximising our performance leading to reduced ability to meet our customer, tax revenue and cost-efficiency targets. We fail to create an organisation that is able to respond to the future needs of the business, meaning that we don't have the right people and skills in place.	During the year, we continued to build the skills of our leaders and talk to all our people about our plans for the future, which included: • the launch of a Leadership and Management Academy for all our senior people, asking them to undertake five days leadership training per year • working towards building trust in leadership and understanding sources of employee disengagement • continuing investment in Building our Future, our national conversation with our people about how we will transform over the coming years • acting on employee feedback and supporting a coaching and mentoring culture locally and centrally • actively engaging in trust workshops and linked together leadership and management capability and 'Building our Future' action plans.

Continued

Principal risks	Key mitigating actions
Delivering estates transformation	
The scale and complexity of the programme, and uncertainty over cost and affordability of suitable property, mean that we may not have the capability or the funding to move to 13 Regional Centres and to deliver HMRC's future workplaces.	Over the past year we: • recruited people with professional, specialist skills including strategic delivery partners, legal services and interior designers and plan to utilise further experts to deliver our working environment • actively maintained control of employee numbers at each regional centre, including rigorous change control and working with other government departments where buildings will be shared • held regular cost reviews to ensure maximum value for money • been realistic about what office design is affordable • implemented clear governance processes for decision making at defined decision points.

These risks have the potential to affect:

- revenues for the Exchequer
- levels of confidence in the department
- our reputation with the public
- delivery of our objectives and our ability to achieve the benefits and efficiencies required by our Spending Review settlement.

New risks and those removed from the ExCom level risk register during 2015-16

As well as reviewing the top level risks each month, ExCom refreshed the departmental risk register last year against our new Spending Review commitments and concluded three new risks should be included at ExCom level. They were data exploitation, exploiting digital opportunities and providing IT services. ExCom also concluded that we successfully mitigated or managed down the level of risk in some areas, including business planning, strategy, our performance measures and business continuity. This clarified ExCom's focus on our top risks and aligned with our Spending Review commitments.

Our control environment

In summary…
As part of the way we manage our business, we identify significant risks to our performance, and take action to mitigate their impact. From time to time we also identify issues and report these along with what action we have taken to address them. Overall, I conclude that HMRC had a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2015-16.

Regular oversight and scrutiny is carried out by ExCom (Performance), ExCom (Transformation) and ExCom (Customer) and effective assurance from Audit and Risk Committee.

This includes:

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

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

- individual statements from each member of the Executive Committee, outlining the governance, risk and control arrangements in their business areas
- the governance statement provided by the Valuation Office Agency and the review that underpins this
- the production of the Great Britain and Northern Ireland National Insurance Funds' governance statements. There are two funds and two accounts produced, which we sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Social Development in Northern Ireland) and we receive letters of assurance from the accounting officers of each of these
- bi-monthly reports to the Audit and Risk Committee on the status of recommendations made by external scrutiny bodies, such as the National Audit Office, Public Accounts Committee and Treasury Select Committee
- the Director of Internal Audit's opinion to the Principal Accounting Officer, which provides assurance that HMRC has an adequate and effective framework for governance, risk management and internal control, and an improving assurance trend
- weekly security incident reports, which include details of personal data-related incidents*

- the Tax Assurance Report, compiled by the Tax Assurance Commissioner
- external reports on HMRC, produced by organisations including the National Audit Office (NAO), 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 we receive from HMRC's senior information risk owner that information risk has been appropriately managed in the conduct of HMRC business
- our enhanced approach in response to the 2013 review of quality assurance of government analytical models, including the development of new, high-level departmental guidance and local procedures for assurance of models proportional to their risks. The Audit and Risk Committee monitors the quality assurance of business critical models
- the ongoing work of the Managing Risk of Financial Loss project, which conducts financial risk assessments of the department's significant financial processes in line with the rolling control assurance plan.

Taking all of these into account, we continue to improve the quality of controls we put in place. We recognise, however, that there are a number of real challenges we continue to face.

In last year's statement we referred to two such issues, tax credits appeals and Spending Review 2010 baseline calculations, and described a number of actions we took in 2014-15 to improve our controls. During the course of 2015-16 we took a number of actions in relation to a third issue from last year's statement, Identity Assurance. While we are working closely with the Government Digital Service to support the development of the cross-government Verify tool, we continued developing our current Government Gateway service for individuals to provide more secure credentials and stronger proof of identity. This has already been used on millions of occasions by customers, including at peak times – and is currently used to access most online services for individuals. The success rates for key services are high and we are continuing to improve the coverage and user experience. These improvements will be reusable for some of our business customers and we are continuing to explore options for providing improved strong authentication services for businesses in future. We now consider this issue to be closed.

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

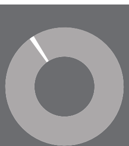
* More information about weekly security incident reports can be found on **pages 104-105**.

** Details of the recommendations made by the NAO and other external reviews during the year can be found on **pages 98-99**.

Customer service

Although customer service performance improved significantly in the latter part of 2015-16, maintaining and further improving that performance will continue to be a challenge and a key risk. We have taken a number of actions, including the recruitment of new staff, and the provision of additional training both for those staff and also for the thousands of existing HMRC staff who support our customer service teams during peak periods of customer demand. In the year just ended, we redesigned our customer service measures and performance management regimes, increasing both the level of insight we have over performance (for example monitoring telephony in 30 minute segments) and our focus on customer experience, including our new digital services such as webchat. We have quarterly reviews of future performance expectations chaired by the Director General of Customer Services. ExCom monitors performance and progress monthly.

Additional investment from government in our customer service, announced in Budget 2016, will enable us to enhance our customer services further, and new workforce planning systems will support us in continuing to build flexibility into our customer support model.



£2.9bn in customs duties

more than the six-year capital investment programme to better protect more than 300,000 homes from flooding

Workforce planning

Last year we recognised that we needed to more effectively manage our workforce, linking our immediate needs to our longer-term vision. To address this we have taken a coordinated approach in planning transformation for the 2015 Spending Review and the strategic resourcing and location strategy.

We have produced workforce plans to 2021 and delivered a range of related projects – including additional capacity for staff recruitment, and continued expansion of apprenticeship opportunities in HMRC.

We are developing a clear picture of where the business wishes to grow as we begin to implement our location strategy for 2020. This will continue to be a challenge in the future as there are many dependencies to actively manage. Although continuing to improve, we expect the level of risk around workforce planning to remain high in 2016-17, due to the size and complexity of our organisation and the demographics of our workforce.

We will take demographics into account in our workforce planning along with other factors such as office closures already announced for 2016-17 and early 2017-18 and the resultant exit schemes. This also includes delivering the first of our Regional Centres, significant recruitment mainly into the Regional Centres and the challenges of attracting talent and wider staff retention.

Tax credits error and fraud

The Comptroller and Auditor General qualified his regularity opinion on our Resource Accounts in 2014-15 because of material levels of error and fraud in the payment of personal tax credits, and will do so again this year. Our latest estimate of error and fraud for 2014-15 is 4.8% of finalised entitlement. This is a very slight (and not statistically significant) increase on the figure of 4.7% for 2013-14, which was the lowest since the current personal tax credits scheme was introduced in 2003-04. Since the launch of the departmental strategy to reduce tax credits error and fraud in 2009, the rate has fallen by 4.1 percentage points (from 8.9% in 2008-09).

The department has agreed a new target with ministers to maintain tax credit error and fraud at no more than 5% for 2016-17. This will be achieved by maintaining and building on the approach that has delivered its success to date; a strong insight into the different error and fraud risk groups; the use of risking based on a range of data sources to select the right cases for action; and, the delivery of large scale checks on those cases where we believe the award could be wrong. The department's forecast is that it can maintain performance against the challenging backdrop of the end of tax credits and the transition of staff and customers to Universal Credit.

Records retrieval

HMRC holds many millions of records, and we provide a (free of charge) service to customers who need dates of employment from their national insurance records. We do not have an obligation to provide this information although we feel it is necessary to support the service. In some cases, we are contacted by their legal representatives where this information is required to support a claim against a former employer, for example in relation to illness contracted as a result of their employment. These requested records often predate computerisation and are not stored digitally on our systems. This means the files require manual extraction, which is both costly and time consuming. We are currently exploring options, including the costs and benefits of digitising these records to improve our response times to the solicitors and customers involved, and other alternatives.

Conclusion and compliance with the Code of Good Practice

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

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 that were in place through 2015-16 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC had a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2015-16.

Jon Thompson
Accounting Officer
6 July 2016

Recommendations made by external scrutiny bodies

In summary…

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

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

Tier 1 recommendations we consider to have the greatest impact. Tier 2 recommendations are normally made after inspections on various aspects of our work. We report to the Audit and Risk Committee on their progress at every meeting.

We provide information to the Audit and Risk Committee on:

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

We consider recommendations overdue if they have not been implemented by the date agreed when we accepted them. Last year we implemented 248 tier 1 and 36 tier 2 recommendations, with eight tier 1 and no tier 2 recommendations overdue.

Figure 32: Tier 1 recommendations 2015-16

	Opening balance[1]	New	Closed	Closing balance[2]	Overdue[3]
NAO/PAC/TSC reports	14	34	32	16	0
NAO cross-cutting reports[4]	3	11	10	4	0
NAO[5]	35	82	85	32	1
Others[6]	26	130	121	35	7
Total	**78**	**257**	**248**	**87**	**8**

Figure 33: Tier 2 recommendations 2015-16

External body making recommendation[7]	Opening balance[1]	New	Closed	Closing balance[2]	Overdue
European Commission and European Court of Auditors	26	13	23	16	0
Health and Safety	0	0	0	0	0
HM Inspectorate of Constabulary	12	0	5	7	0
Interception of Surveillance Commissioners	0	0	0	0	0
Office of Surveillance Commissioners	1	7	8	0	0
UK Statistical Authority	0	0	0	0	0
GCHQ	0	0	0	0	0
Low Pay Commission	0	0	0	0	0
Total	**39**	**20**	**36**	**23**	**0**

1 Balance at 1 April 2015.
2 Balance at 31 March 2016.
3 Recommendations that have missed the envisaged implementation date due to operational reasons. All overdue recommendations are reviewed individually at each Audit and Risk Committee meeting.
4 NAO cross-government reports with recommendations appropriate to HMRC.
5 Section 2 audit recommendations and management letter recommendations.
6 Independent Police Complaints Commission and Infrastructure and Projects Authority.
7 No recommendations were made by Interception of Surveillance Commissioners, UK Statistical Authority, GCHQ, Low Pay Commission and the Health and Safety Executive in 2015-16.

Responding to external opinion

In summary...

We work proactively with different organisations that represent our customers – from small to large business groups, professional bodies and charities that deal with customers who need extra help. We listen to and act on their feedback in a number of ways to ensure that their expertise helps us to fine tune the way we work.

Bringing our Charter commitments to life

We refreshed 'Your Charter' in January 2016. How HMRC applies the Charter across our business is monitored and progress is reported in Your Charter – annual reports, which is published at the same time as our Annual Report and Accounts. We are committed to making sure that we are rigorously tested against our Charter promises, so we also strengthened the way in which we are tested against those commitments. The Charter Committee is now an HMRC Board sub-committee. Members recruited to the new committee are not HMRC employees, but individuals who represent our customers.

The Charter Committee scrutinises how we are performing against our Charter commitments, and we are working with the committee to help them understand HMRC business so that they can decide their priorities for the year ahead. As part of that process, the committee have observed a range of HMRC front line services and reviewed new digital services and channels. They have also observed how data analysis contributes towards more targeted compliance activity, improving the customer experience.

Figure 34: Charter Committee members

Name	Current positions held
Ian Barlow	HMRC Lead Non-Executive and Chair
Joanna Baldwin	HMRC Non-Executive Director: HMRC; Aviva France; Fight for Sight
Diane Herbert	HMRC Non-Executive Director
Uday Dholakia	Senior Partner, Global Consulting UK Ltd; Brand Ambassador, Birmingham Airport; Chair of the National Panel of Regulators and Businesses on Trade Facilitation
Natalie Doig	Director of Hareonna Diversity Ltd
Chris Jones	Director of Tax and Regulatory Markets, Lexis Nexis
David Oxley	Head of Quality, Intel Security; trustee and treasurer, Buckinghamshire Disability Service
Sue Terpilowski	Managing Director, Image Line; Chair of the Federation of Small Businesses, London branch

Stakeholder events

We hold two conferences each year for our external stakeholders to build engagement with, and awareness of, our work. Last year, these were our annual stakeholder conference in July, to coincide with the publication of the Annual Report and Accounts, and our first 'Making Tax Digital' conference in December 2015, where our stakeholders were able to see and hear at first-hand through breakout groups and demonstrations, how we will be moving to a fully digital tax system by 2020. We also streamed live interviews using social media from two of the keynote speakers to help reach a wider audience.

The audience for these events included businesses, tax agents, professional bodies, legal professionals, tax campaigning organisations, academics, software developers, digital influencers, consumer organisations, customer and voluntary sector organisations, and the media.

Feedback from events like this, as well as our more formal consultations, help to ensure that our stakeholders have the opportunity to contribute to our work, and shape tax administration for a generation to come.

Stakeholder surveys

We undertake annual qualitative research with Parliamentarians, stakeholders and journalists. The results enable us to gauge stakeholders' perceptions of HMRC and track improvements over time. This insight also helps to inform our future engagement work including, for example, the need to strengthen our support for Parliamentarians and their support staff.

Consultative groups

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

Case studies

Employment and Payroll Group (EPG)

The EPG is our principal formal consultation forum for employers, employment taxes and wider payroll obligations. EPG is co-chaired by the Chartered Institute of Payroll Professionals, who have supported us on a number of research and customer insight challenges, providing evidence and running policy think tanks.

The forum members work with us to help identify issues and concerns. It provides the opportunity for early review of guidance, policies and processes to ensure they are designed with customer input, and explained so that customers understand what is required of them.

EPG has been closely involved in a number of significant changes: supporting us on how we interact with customers around underpayments and overpayments of tax, and supporting the development of guidance for new reporting arrangements for intermediaries. More recently EPG has been directly involved in supporting the implementation of changes to employer National Insurance Contributions for employees under 25, and the new Apprenticeship Levy.

Working Together

To support our digital agenda, we have been working with tax agents to move Working Together meetings to digital channels. Jointly hosted with agents, Working Together now meets monthly online with agents joining nationally rather than face-to-face two or three times per year in a local group.

We have also launched Talking Points – weekly online meetings for agents to hear from and ask questions of a subject matter expert on various topics. We regularly have more than 80 agents joining these sessions with an average satisfaction rate of 88% and we are in the process of extending the reach of these meetings.

Sharing our data with others

We recognise we have privileged access to the data that our customers provide to us, and the importance and value of that information. Our ambition is to use the data we hold even more effectively and transparently, while continuing in our commitment appropriately to safeguard taxpayers' confidentiality. This underpins public confidence and trust in HMRC and the tax system, and the high levels of voluntary compliance that the UK enjoys.

The datasets which HMRC holds are among the largest and most reliable held by government. Our use of the data is focused on our core objectives in administering the tax system. We also recognise the potential value of data to inform the design and delivery of tax policy and public services more generally. For this purpose, we continue to engage positively in the debate about how government can be more efficient and effective through better use of data.

Examples of initiatives we have taken include:

- working in partnership with HM Treasury on policy development and delivery. We continue to be open about the evidence base for, and impacts of, tax policy changes, through Tax Information Impact Notes and consultation on draft Finance Bill legislation
- launching Making Tax Digital, a programme which will provide online services for our customers to engage directly with HMRC in 2015, allowing them to access their own information and understand their tax liability much more readily and easily
- continuing to publish key figures on our performance and activities, as well as findings of projects in our external research programme and a wealth of statistics releases online
- actively engaging in an open policy making initiative on improved data sharing, working with other public authorities, privacy groups and civil society to explore how government can deliver wider public benefits, supporting the public consultation 'Better use of data in government'
- supporting research and fostering a constructive relationship with the academic community, by making anonymous information available for research purposes through the HMRC Datalab, an accredited safe facility to access our data for high-level analysis
- releasing for the first time, details of UK companies exporting to non-EU countries in 2016, mirroring the importer information that HMRC has been publishing since the 1980s.

Tax Information Impact Notes can be found at:
www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

Information about Making Tax Digital can be found at:
www.gov.uk/government/publications/making-tax-digital

Information about our performance and activities can be found at:
www.gov.uk/government/organisations/hm-revenue-customs

Information about the public consultation led by the Cabinet Office can be found at:
www.gov.uk/government/consultations/better-use-of-data-in-government

Information about the HMRC Datalab can be found at:
www.gov.uk/government/organisations/hm-revenue-customs/about/research

Statement on information risk

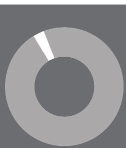
The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 38 to 31 in 2015-16. A further 6,000 mostly minor incidents potentially impacted on customers. The number of customers affected by these centrally-managed incidents was 4,496, which is a significant reduction from the previous financial year when 10,768 were affected.

Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We take the issue of data security extremely seriously and continually look to improve the security of customer information. We investigate and analyse all security incidents to understand and reduce security risk.

We actively learn and act on our incidents; for example, implementing changes in business processes such as sampling of post from consignments sent between offices as an additional assurance check on postal movements. Additional assurance work with our third-party service providers is also being undertaken to ensure that agreed processes are being carried out. We are also delivering awareness campaigns for HMRC staff to reduce the likelihood of reoccurrence.

All HMRC staff are required to complete mandatory security training which include the requirements of the Data Protection Act. By doing so we can make sure the department is seen as a trusted and professional organisation.



£14.5bn in stamp taxes

more than the government's investment
in transport projects across the north

Personal data-related incidents

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

Figure 35: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office (ICO) in 2015-16

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
Aug (2015)	A batch of cheques, sent to a third-party service provider for processing, were 'signed for' as received, but identified as missing	The data would have included names and bank account details	50	We notified customers
Aug (2015)	Customers in joint claims who used the Tax Credits Renewal Service between June and July 2015, and changed their address, had their address details updated on HMRC's system but this change was not reflected for their partners. While the notice was addressed to the correct individual, the tax credits award notices were sent to the customers' last known address. It is that address which was incorrect	The tax credits award notice contains the personal data of both customers and their children. This includes names, addresses, National Insurance Numbers and income details related to the award. It does not include the banking details of the customer	701	We notified customers
Sep (2015)	One of three boxes of customer correspondence being sent for scanning was not delivered	The customer correspondence was of a general nature (not cheques) and related to Self Assessment but we do not have precise details of what personal data may have been included in the missing box	350	Customers unknown so could not be contacted
Oct (2015)	A box of customer correspondence being sent for scanning was not delivered	The parcel is thought to have included customer offers of payment and queries about monies due (no cheques)	537	Customers unknown so could not be contacted
Dec (2015)	A consignment of ten boxes of customer correspondence was sent for scanning. Only nine boxes were delivered	The customer correspondence was of a general nature (no cheques) but we do not have precise details of what personal data may have been included in the missing box	413	Customers unknown so could not be contacted

Other protected personal data-related incidents

Incidents which did not require reporting to the Information Commissioner were recorded centrally within the department and are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures. Figures for 2014-15 are shown in brackets.

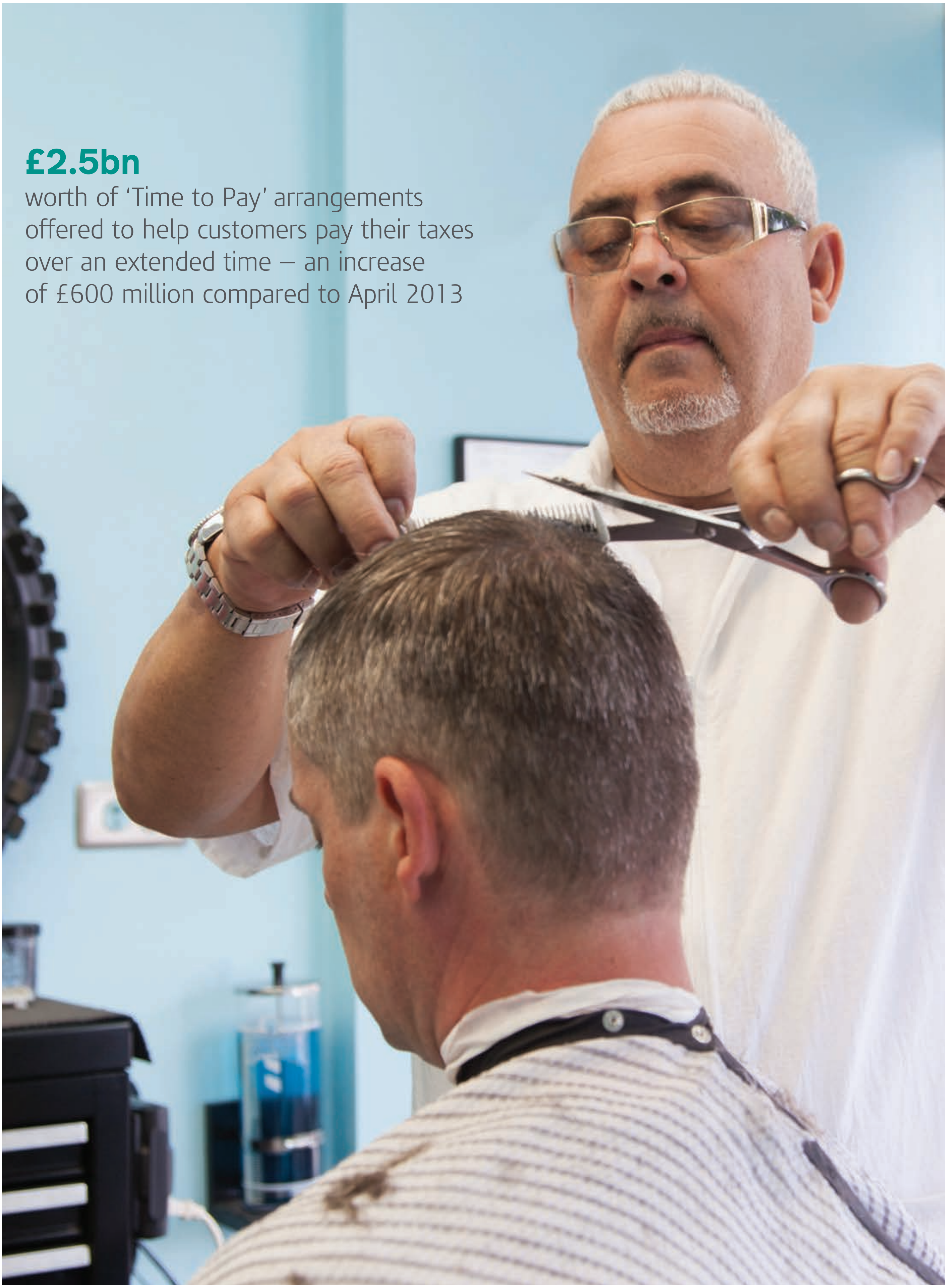
Figure 36: Summary of other protected personal data-related incidents in 2015-16

Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	**1 (2)**
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured	**8 (5)**
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	**0 (1)**
IV	Unauthorised disclosure	**20 (28)**
V	Other	**2 (2)**

Jon Thompson
Accounting Officer
6 July 2016

£2.5bn

worth of 'Time to Pay' arrangements offered to help customers pay their taxes over an extended time – an increase of £600 million compared to April 2013



Foreword and Principal Accounting Officer's Responsibilities

Introduction

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

Basis for the preparation of the accounts

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

Trust Statement

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

Resource Accounts

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

RCDTS Ltd was incorporated on 9 July 2015 and commenced trading on 1 December 2015. The accounts for the period ended 31 March 2016 will be prepared under the Companies Act 2006.

Further guidance followed in the preparation of the accounts

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

Principal Accounting Officer's responsibilities

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

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

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

Accounting officers for the Resource Accounts

On 4 April 2016, the Principal Accounting Officer, Dame Lin Homer left the department and was succeeded in this post by Jon Thompson. HM Treasury has appointed an additional accounting officer, Penny Ciniewicz, Chief Executive of the Valuation Office Agency, 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 HMRC Principal Accounting Officer's overall responsibility for the department's accounts.

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

Estimate sections A, C-G and J-M:
Jon Thompson, Accounting Officer.

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

More detail about the performance against the Estimate can be found in SoPS notes 1.1 and 1.2 in the Parliamentary Accountability Disclosures Section on **pages 141-143.**

Auditors

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

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

Jon Thompson
Accounting Officer
6 July 2016

Remuneration and staff report – our people and pay

Our people

Our people are vital to everything we do as an organisation. Without them we could not deliver our mission and objectives. We need to have the right people in the right place, doing the right work at the right time, and we are achieving this by carefully managing our workforce. We need strong leaders to take us through change and people with the skills required to work in an increasingly flexible environment, so we continue to invest in leadership and skills.

We are supporting everyone throughout our transformation, whether they stay with us or leave the department. We treat everyone with respect and recognise their contributions, rewarding good performance. We want our people to be engaged and have interesting, rewarding and challenging roles, and an opportunity to develop exciting careers.

Building our Future

We have continued our national conversation with our people to engage them with the transformation of the department, keeping our customers and staff at the heart of the programme. All staff have now had the chance to discuss the four Building our Future themes – data-led compliance, customer, digital and people.

Under Phase 3 we delivered 616 events to more than 46,500 staff across 84 locations. Feedback from Phase 3 shows a continued increase in understanding of HMRC's strategic direction and how and why HMRC is changing, with our people starting to take action locally to help us get there. Phase 4 will be a different style of roll-out with formal sessions only for leaders and managers, who will then lead local and regional cross-team conversations.

Leadership and management

Leadership and management skills are vital for our transformation. We successfully launched our Leadership Academy, where leaders can access all the leadership learning they require. Within this we have launched our Leading our Future programme focusing on being an inspiring, confident and empowering leader – the qualities set out in the Civil Service Leadership Statement as our expectations of our leaders. By the end of March the programme had been accessed by 3,289 leaders and 58% of our senior leadership community were using the academy.

For 2016-17 the site has been renamed as our Leadership and Management Academy, bringing all leadership and management related learning together. This includes the new Management Matters portal where managers can find the support they need to manage themselves and their teams, together with learning opportunities to fit with the new management framework for new, developing and experienced managers. This framework has been developed from the Civil Service Leadership Statement to help managers understand the standards expected of them as a people manager in HMRC and identify development needs.

Recruitment, promotions and exits[1]

We increased our staff numbers by 2,291 full-time equivalent roles to a total of 58,621 by 31 March 2016. We recruited a total of 7,700 new employees on either permanent or temporary contracts, ensuring we have the skills in the locations we need and creating a framework to deal with future resourcing needs as and when they arise. We recruited 847 people via graduate recruitment, of whom 815 were recruited into tax roles including 225 on the Tax Specialist Programme, and 32 generalists.

More than 4,500 people were promoted, including 337 Administrative Assistants promoted into more challenging and sustainable Administrative Officer positions.

Continuing with our programme of transformation, we closed 15 offices during the year. We supported 472 people[2] to leave under exit schemes and are supporting a further 162 people who will be leaving the department by November 2016, including through compulsory redundancies. In total over the year, we lost more than 5,400 staff (full-time equivalents) through a combination of natural and managed reductions, including both voluntary and compulsory redundancy.

Figure 37: Actual number of full-time equivalent persons employed[1]

	Permanently employed staff	Others	Total	Staff in post increase
Staff in post 31 March 2015	56,143	187	**56,330**	
Joiners			**7,700**	
Leavers[2]			**5,409**	
Staff in post 31 March 2016	58,432	189	**58,621**	**2,291**
Core department average[3]			**57,176**	

1 Excluding Civil Service Resourcing staff hosted by HMRC.
2 Of the 472 exits a total of 440 were paid for in 2014-15 with 32 paid for in 2015-16. The exit packages table on page 124 shows the year the exit cost was incurred which is often different to the year the member of staff left. Of 238 total exits in 2015-16, 32 left in 2015-16, 156 will leave by November 2016, with the remaining 50 exits from VOA.
3 As this is the average, it does not equate to the number of persons employed at 31 March.

Apprentices and Movement to Work

Apprenticeships support HMRC to develop new skills, raise capability and contribute to the development of professional career paths. HMRC externally recruits apprentices targeting 16 to 24 year olds, as well as offering existing staff, regardless of age, a development opportunity to undertake an apprenticeship. All participants complete a recognised qualification by combining on-the-job learning with study. Last year, we recruited 537 apprentices, including 198 Surge apprentices – a cross government resource managed by HMRC, who help to deal with peaks of work.

Movement to Work is an employer-led work experience initiative, involving both public and private-sector organisations. It aims to provide young people aged 18 to 24 who are not in employment, education or training and who are receiving job seekers allowance, with 4-6 week placements in an organisation to develop their skills and knowledge in a workplace. We committed to offering 1,000 placements, and we exceeded our target, with 1,143 placement offers registered at the year-end.

Engagement

Last year, our response rate to the Civil Service People Survey increased by 12% points across HMRC to 65%, the highest completion rate since 2010, which shows an improvement in engagement with the survey itself, and we also saw an increase in our Employee Engagement Index to a record high of 45%. This is still below the Civil Service benchmark and we are investing in developing our managers and leaders as we move into the next phase of transformation, and expanding the use of our action planning tool to act on the survey results at all levels of the department.

Tax Academy

During the year, our Tax Academy delivered tax training to more than 20,000 of our people over 35 locations. This included delivering 378 workshops to 4,118 people to support the tax credits peak, and training 220 newly-recruited managers. We also launched a new learning product focusing on the Litigation and Settlement Strategy, Alternative Dispute Resolution and tax dispute governance, which is aimed at our 18,000 tax professionals.

Learning and development

We have committed to investing in at least five days' leadership learning for our senior leaders, in addition to the Civil Service recommendation of five days for learning and development as a whole for all staff. For managers, at least two of the standard five days should be committed to building their management capability through learning. During the year, our staff spent an average of 7.28 days on recorded learning activities. We have also launched the My Development learning intranet site making it easier for all staff to find the guidance and information they need about learning and to access the learning and development they need.

Digital skills

We launched a set of initiatives to help people improve their digital capability. A team of 'digital ambassadors' are helping people across the department make better use of technology to deliver better customer service. Around 1,000 of our leaders attended Leading in a Digital Workplace training and we launched a pilot digital talent programme.

Changes to our employee offer

We introduced new special leave policies to make them more consistent and fairer to staff and HMRC. We also launched new family-friendly policies that anticipated and complied with statutory changes, aligned the offer available for childbirth, adoption and surrogacy and recognised the needs of foster carers.

Recognition

HMRC people were again recognised in the Queen's Birthday and New Year Honours lists for their excellent public service. Our former Chief Executive, Lin Homer, was appointed Dame Commander of the Order of the Bath and another 23 colleagues were recognised under the Order of the British Empire with three CBEs, five OBEs, 11 MBEs and four people receiving the British Empire Medal.

Reservists

Taking part in the Civil Service challenge to encourage 1% of its workforce to join the reserve forces by 2020, HMRC had the greatest increase in the number of new recruits, and now has the largest number of reservists outside the Ministry of Defence. We have received two recognition awards: Defence Employer Recognition Scheme Silver Award Winner 2015 and North West Armed Forces Business Award 2015.

Supporting our communities

We funded 4,518 days of employee time to community activity by encouraging our employees to work with schools, charities and voluntary organisations and participate in public duties, for example as school governors and magistrates. We worked with a range of community organisations to help some of our customers go online for the first time. We also supported teachers in delivering our award-winning tax education programme, Tax Facts, in secondary schools and we worked with The Prince's Trust, Street League and Inspiring the Future to raise the career aspirations and employability skills of young people from disadvantaged backgrounds.

Charitable giving

Our employees raised £1.5 million for a wide variety of charities, including more than £866,000 donated to good causes of their choice through our online payroll giving arrangements. In November 2015, we won the award for the Best Government and Public Sector Campaign at the 2015 National Payroll Giving Excellence Awards and we received the Institute of Fundraising's Gold Quality Mark for the eighth consecutive year. Our annual campaign for the BBC's Children in Need appeal raised more than £50,000 in employee donations and volunteers in our contact centres at Newcastle-upon-Tyne, Cardiff and Edinburgh took telephone pledges from members of the public on the appeal night in November.

Our approach to 'whistle-blowing'

Whistle-blowing is when someone raises a concern about wrongdoing, or an attempt to cover up wrongdoing, in an organisation where they work. Our arrangements for managing whistle-blowers have been monitored by the Executive Committee and the Audit and Risk Committee.

Following significant changes in 2014-15, we have continued to develop our approach in 2015-16, including:

- strengthening HMRC's cadre of nominated officers by delivering training events
- adopting the Civil Service Employee Policy's Nominated Officers' Toolkit strengthening the profile of the whistle-blowing and raising a concern policy via communications
- referencing HMRC's whistle-blowing and raising concerns policies in the quarterly management assurance checks for some key business areas
- improving the effectiveness of whistle-blowing processes
- developing our ability to support staff who raise a concern.

During the year we identified the need for a strong cadre of knowledgeable nominated officers who can support whistle-blowers, training them with the Government Legal Service.

Average number of persons employed

Figure 38: The average number of full-time equivalent persons employed during the year

	Permanently employed staff				
	Operational	Capital	Others	2015-16 Total	2014-15 Total
Core department[1]	55,997	265	914	57,176	58,168
Valuation Office Agency	3,354	–	255	3,609	3,420
Revenue and Customs Digital Technology Services Limited	129	–	–	129	–
Total	**59,480**	**265**	**1,169**	**60,914**	**61,588**

1 This excludes staff working on Civil Service Resourcing of 1,029 (2014-15 634) permanently employed operational staff. As this is the average, it does not equate to the number of persons employed at 31 March.

Diversity and inclusion

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

We published our diversity data and also a report providing evidence of the ways in which we support customer equalities in accordance with the requirements of the Equality Act 2010 in January 2016. The data shows the diverse make-up of our employees and highlights the actions we have in place to address the under-representation of groups and equality issues in the workplace.

The diversity data apart from gender is drawn from the voluntary declarations made by our employees. By the end of March, from a total of 66,652 employees, 39,848 (59.79%) had declared whether or not they were disabled, 48,489 (72.75%) had provided their ethnicity details and 32,912 (49.38%) had said what their sexual orientation was. The diversity data is therefore incomplete. We are taking steps across all lines of business to improve declaration rates.

Figure 39: Male and female employees

	Female	% Female	Male	% Male	Total at 31 March 2016
Directors General, Directors and Deputy Directors[1]	134	41.2%	191	58.8%	325
All other employees	37,699	56.8%	28,628	43.2%	66,327

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

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

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

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

We are proud to be recognised and acknowledged as a trailblazer in terms of our approach towards equality, diversity and inclusion. Our approach has gained external recognition and we have won a number of awards and achieved high ranking positions in benchmarking activities. The Employers Network for Equality and Inclusion recognised us as a silver standard employer after evaluating our performance in equality, diversity and inclusion. Our award-winning Embrace initiative, the career development programme for black, Asian and minority ethnic (BAME) colleagues, won the 2015 Personnel Today Diversity and Inclusion Award, and our Raising Disability Awareness campaign won the 'Know-how' category at the 2015 Disability-smart awards.

The department was also recognised for its commitment to diversity and inclusion – with awards including the 2015 Business in the Community Directing Diverse Talent Award, the 2015 Civil Service Diversity and Inclusion Excellence in Service or Business Delivery Award as well as the Championing Inclusion award.

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

Figure 40: Declared disability status of employees

	Disabled	% Disabled	Non-disabled	% Non-disabled
Directors General, Directors and Deputy Directors[1]	9	3.5%	249	96.5%
All other employees	6,082	15.4%	33,508	84.6%

We are also offering development opportunities for people from black, Asian and minority ethnic (BAME) backgrounds as well as other minority groups. We are committed to improve representation rates, particularly at senior levels. We have set ourselves aspirational goals at Senior Civil Servant (SCS) level and feeder grades (Grade 6 and Grade 7). The position at the end of March 2016 is set out in the tables below. We have set out what our leaders, managers and staff need to do to achieve our goals in our diversity and inclusion strategic action plan.

Figure 41: Declared ethnicity category of employees

	BAME	% BAME	White	% White
Directors General, Directors and Deputy Directors[1]	12	4.5%	252	95.5%
All other employees	4,778	9.9%	43,447	90.1%

Figure 42: Declared sexual orientation category of employees

	Heterosexual/ straight	% Heterosexual/ straight	Lesbian/gay/ bisexual/other	% Lesbian/gay/ bisexual/other
Directors General, Directors and Deputy Directors[1]	205	95.79%	9	4.21%
All other employees	31,230	95.50%	1,468	4.50%

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

Health and safety

The safety, wellbeing and resilience of our people is important to us. Last year, our main focus was on providing our people with the tools and support needed to maintain and improve their wellbeing at work. A key part of this was a refresh of our stress management and resilience guidance and training. This helps staff and managers to work together to identify how to remove or reduce the causes of stress. We have piloted a new process to make it easier to report, investigate and reduce work-related stress.

Improved occupational health services were introduced to build closer working between managers and occupational health practitioners to deliver better outcomes for people needing support in the workplace. We have encouraged people to be proactive about their wellbeing and helped them identify small, realistic changes they could make through provision of a health and wellbeing assessment. At two of our larger sites, we have also installed wellbeing kiosks to allow people to measure their body mass index and blood pressure.

We have continued to support managers in managing mental health in the workplace and contributed to cross-government activity in this area, including development of a Civil Service mental health awareness workshop. We have continued to raise awareness of mental health issues and supported campaigns such as Time to Change, Time to Talk Day and Mental Health Awareness Week. An internal audit has confirmed that the level of support we provide matches, and in some aspects exceeds, the best levels of support provided by other organisations.

We actively encourage our employees to report accidents, ill-health, or instances of work-related stress to their managers at an early stage and we provide this information to directors monthly, as part of highlighting trends, establishing risk areas and informing health and safety performance. The number of incidents reported fell by 8% last year, building on the reduction of 14% in the previous year.

Our estates team works with a number of private sector partners who provide property services across the HMRC estate. Each partner is responsible for ensuring compliance with health and safety legislation and we actively monitor their performance to ensure our people work in safe environments. We use a risk-based approach to monitoring compliance and have focused on assuring that service providers fully comply with their responsibilities for those hazards most likely to cause harm.

We have to report some incidents to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). Most of the incidents in the 'specified injuries' category were minor fractures due to slips, trips or falls. Incidents reported in the 'over seven-day' category (in Great Britain); and over three days (in Northern Ireland) are injuries where a person, due to an accident at work, is unable to work as normal for those periods.

Figure 43: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995: reports to the Health and Safety Executive

	2015-16	2014-15
RIDDOR incidents		
Specified injuries	9	13
Diseases	4	3
Fatal injuries	0	0
Dangerous occurrences	0	0
Over three-day injuries	2	3
Over seven-day injuries	33	32
Total	**48**	**51**
Non-RIDDOR incidents		
Stress	855	831
Slips/trips/falls	415	429
Violence and verbal abuse	383	353
Environmental	235	269
Road traffic accident	185	188
Bite (animal/insect)	45	100
Burns	91	87
Struck by moving/flying object	98	86
Upper limb disorders	55	80
Cut	66	74
Lifting/carrying injury	62	51
Exposure to hazardous substances	37	47
Acoustic	32	23
Electrical	25	23
Struck by moving vehicle	15	17
Contact with moving machinery	22	12
Fall from height	3	8
Other[1]	248	453
Total	**2,872**	**3,131**

1 H&S incident categories are selected by the investigating officer on the reporting form. 'Other' is selected where none of the main categories are appropriate.

Published sickness absence data

We set ourselves a target to reduce the average number of days lost to sickness absence, known as average working days lost, or AWDL, based on the number of full-time equivalent employees to 7.0 in 2015-16. We missed our target, ending the year at 7.58, although this is still lower than the figure at the end of 2014-15, which was 7.98. We have seen a downward trend within 2015-16, and we expect that to continue in 2016-17. We still plan to reduce AWDL by pursuing our approach of balancing active management of attendance, with activities aimed at promoting people's health and wellbeing. We also plan to implement the Civil Service Employee Policy on Managing Attendance within HMRC in September 2016. We believe this policy will support HMRC to build and develop the skills, capability and confidence of managers to deal with sickness absence and support a more proactive approach to attendance. It is therefore our expectation that HMRC will achieve the target of 7.0 by the end of the 2016-17 reporting year.

Staff costs[1]

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

Figure 44: The costs of persons employed during the year (£m)

	Permanently employed staff	Others	2015-16 £m Total	2014-15 £m Total
Wages and salaries	1,755.0	24.7	1,779.7	1,743.2
Social security costs	125.0	0.8	125.8	123.7
Other pension costs	353.4	2.8	356.2	314.8
Sub-total	**2,233.4**	**28.3**	**2,261.7**	**2,181.7**
Less recoveries in respect of outward secondments	(3.0)	–	(3.0)	(4.2)
Total net costs	**2,230.4**	**28.3**	**2,258.7**	**2,177.5**
Of which:	Charged to resource budgets	Charged to capital budgets		
Core department	2,101.4	7.3	2,108.7	2,040.7
Valuation Office Agency	146.5	–	146.5	136.8
Revenue and Customs Digital Technology Services Limited	3.5	–	3.5	–
Total net costs	**2,251.4**	**7.3**	**2,258.7**	**2,177.5**

1 These disclosures have been subject to external audit.

Reconciliation to staff costs in the Resource Account[1]

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

Figure 45: Reconciliation to staff costs in the Resource Account (£m)

	2015-16 Total	2014-15 Total
Total net costs	**2,258.7**	**2,177.5**
Recoveries in respect of outward secondments	3.0	4.2
Less net costs charged to capital budgets	(7.3)	(6.0)
Travel, subsistence and hospitality	60.6	57.6
Recruitment and training	26.7	21.6
Early severance schemes	6.1	32.1
Staff and related costs per the Consolidated Statement of Comprehensive Net Expenditure	**2,347.8**	**2,287.0**

1 These disclosures have been subject to external audit.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme (CSOPS) known as alpha, which provides benefits on a career average basis. From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants were able to choose one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos).

Existing members of the Principal Civil Service Pension Scheme (PCSPS) who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS preserved benefits, with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. 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).

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

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The scheme was last valued as at 31 March 2012 and you can find details in the resource accounts of the Cabinet Office: Civil Superannuation.

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

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

Figure 46: Pension benefits

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

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

For 2015-16, employers' contributions of £354,768,774 were payable to the PCSPS and CSOPS (2014-15: £312,564,213) at one of four rates in the range 20% to 24.5% of pensionable earnings, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Employers' contributions of £1,079,173 (2014-15: £750,731) were paid to one or more of the panel of three appointed stakeholder pension providers. In addition, employer contributions of £49,358 (2014-15: £55,822) were payable to the PCSPS for centrally-provided risk benefit cover.

132 individuals (2014-15: 107 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £142,359 (2014-15: £147,568).

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

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2015-16 were £785,138 (2014-15: £1,373,468).

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

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

More detail about the Remuneration Report, providing detail on the pension benefits for the members of the Executive Committee, can be found on **page 133.**

Reporting of Civil Service and other compensation schemes – exit packages[1]

Figure 47: Exit packages 2015-16

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Departmental group Total number of exit packages by type
<£10,000	15	1	16
£10,000 – £25,000	145	18	163
£25,000 – £50,000	3	32	35
£50,000 – £100,000	-	23	23
£100,000 – £150,000	-	1	1
£150,000 – £200,000	-	-	-
£200,000+	-	-	-
Total	**163**	**75**	**238**
Total resource cost (£000s)	**2,694**	**3,208**	**5,902**

Figure 48: Exit packages 2014-15

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Departmental group Total number of exit packages by type
<£10,000	-	102	102
£10,000 – £25,000	10	490	500
£25,000 – £50,000	1	669	670
£50,000 – £100,000	-	101	101
£100,000 – £150,000	-	-	-
£150,000 – £200,000	-	-	-
£200,000+	-	-	-
Total	**11**	**1,362**	**1,373**
Total resource cost (£000s)	**191**	**39,119**	**39,310**

1 These disclosures have been subject to external audit.

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

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

The prior year figures in the 2014-15 published account showed other departures agreed as 1,367 with a total resource cost of £39,290,555. These figures have been adjusted above to account for instances where individuals accepted offers previously rejected or rescinded acceptance after the date of submission of the accounts.

Remuneration report

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

Remuneration policy

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

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

Before making its recommendation, the Review Body considers:

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

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

Service contracts

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

Executive members hold appointments which are open-ended unless otherwise stated in the remuneration tables. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during 2015-16.

Figure 49: Senior Civil Service (SCS) employee numbers and approved posts

	HMRC	VOA	Total[1]
SCS employee Numbers	346	19	**365**
SCS posts	347	21	**368**

1 Total figures differ as the number of posts include vacancies and job shares.

SCS employee numbers

There are 365 SCS employees – 346 within HMRC and 19 placed in the Valuation Office Agency (VOA). In response to the government's digital strategy, we have been working at pace to deliver new digital ways of working by recruiting experienced specialists to increase our capability.

We created new SCS roles to support this transformation and as a result brought an increased level of professionalism and skills into the department. This targeted resourcing explains why our SCS numbers have risen more in this period than we would normally expect.

SCS posts

The total number of SCS posts decreased from 400 at the end of 2009 to 368 at 1 April 2016. This is comprised of 347 posts within HMRC and 21 VOA posts. The number of posts continued to be monitored closely to ensure SCS structures mirror changes in the overall size of the organisation while taking into consideration the need for HMRC to drive forward its digital transformation. In order to support this transformation and attract a large number of highly-skilled professionals there has been a slight increase SCS posts since April 2015.

Figure 50: HMRC Senior Civil Service (SCS) employee numbers comparison

Grade	Number at 1 April 2015	Number at 1 April 2016	Percentage change
Permanent Secretary	2	2	0%
SCS3	8	8	0%
SCS2	42	53	26% increase
SCS1	262	267	2% increase
On loan/secondment	18	16	11% decrease
Totals	**332**	**346**	**4% increase**

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. Governance over the number and nature of SCS posts remains with HMRC, and from 2014 Civil Service Resourcing (CSR) has handled the recruitment process.

A total of 47 HMRC and VOA posts were advertised during the last year with a number of appointments made on promotion into and within the SCS from HMRC and across the Civil Service:

- 20 posts were advertised across Whitehall
- 27 posts were advertised via external recruitment campaigns.

Performance management system

HMRC has two Permanent Secretaries: the Chief Executive Officer and the Executive Chair which, as of April 2016 are Jon Thompson and Edward Troup respectively. Below them are three levels of senior civil servant: Director General, Director and Deputy Director, which are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across departments, and a performance management system that is governed by Cabinet Office. A pay award that averaged 1% of the total SCS paybill was implemented from 1 April 2015.

Remuneration committees

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

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

The performance and reward arrangements for our Permanent Secretaries are managed by the Cabinet Office.

Pay awards

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

Base pay awards in 2015-16 were only paid to 'Top' and 'Achieving' performers whose pay fell below the median of their pay range. In addition, a limited number of awards were made on an exceptional basis to some in the 'Top' and 'Achieving' performance groups who were on or just above the median. Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. Non-consolidated performance awards for 2015-16 were made to SCS in the 'Top' performance group only, based on 2014-15 performance.

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

Performance assessments consider whether:

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

Non-consolidated performance award decisions are monitored to guard against bias or discrimination. The value of non-consolidated awards paid in 2015-16 for the top 25% performers in 2014-15 were set as:

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

Policy on notice periods and termination payments

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

Executive Committee and Non-executive Board members

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

Figure 51: Senior officials single total figure of remuneration and pension[1]

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits[2] (£000)		Total (£000)	
Senior official	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Dame Lin Homer DCB[3] Chief Executive and Permanent Secretary 23 Jan 2012 – 4 Apr 2016	185-190	180-185	15-20	15-20	200	200	70-75	70-75	275-280	270-275
Edward Troup[3] Tax Assurance Commissioner and Permanent Secretary From 28 Aug 2012	150-155	150-155	–	–	400	800	50-55	45-50	205-210	200-205
Gill Aitken General Counsel and Solicitor From 27 January 2014	125-130	125-130	–	–	–	–	45-50	30-35	175-180	155-160
Penny Ciniewicz[4] Chief Executive of the Valuation Office Agency From 20 July 2015	85-90 (125-130 full year equivalent)	–	10-15[5]	–	–	–	110-115	–	210-215	–
Mark Dearnley Chief Digital and Information Officer 1 Oct 2013 – 30 Sep 2016	175-180	175-180	15-20	–	300	300	50-55	65-70	250-255	245-250
Jennie Granger Director General Enforcement and Compliance 1 Oct 2012 – 30 Sep 2017	150-155	150-155	15-20	–	700	300	55-60	55-60	225-230	205-210
William Hague Chief People Officer From 23 September 2013	135-140	135-140	–	–	500	300	65-70	110-115	205-210	250-255
Jim Harra Director General Business Tax From 16 April 2012	135-140	130-135	–	–	300	100	55-60	30-35	190-195	165-170
Justin Holliday Chief Finance Officer From 9 Mar 2015	155-160	5-10 (145-150 full year) equivalent)	10-15[5]	–	400	–	75-80	0-5	245-250	10-15
Nick Lodge Director General Transformation and Benefits and Credits From 6 Aug 2012	135-140	130-135	–	15-20	400	400	55-60	100-105	190-195	250-255
Ruth Owen Director General Personal Tax From 1 Sep 2012	140-145	135-140	–	15-20	300	100	75-80	35-40	215-220	190-195

1 These disclosures have been subject to external audit.
2 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. The value of pension benefits can vary year to year due to a number of factors: the date an individual joined the department; the date an individual left the department; an individual receiving a higher pay increase in one year compared to another year.
3 From April 2016, Jon Thompson and Edward Troup were appointed as Chief Executive Officer and Executive Chair respectively
4 On 20 July 2015, Penny Ciniewicz was appointed to the Executive Committee of HMRC.
5 Bonus is based on 2014-15 performance achieved in previous role, before appointment to the Executive Committee.

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

Figure 52: Non-executive directors single total figure of remuneration[1]

Non-executive director	Fees (£'000)		Benefits in kind (to the nearest £100)		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Ian Barlow (Lead Non-Executive) 20 Feb 2012 – 19 Feb 2018	45-50	45-50	100	–	50-55	45-50
Joanna Baldwin 1 Jan 2016 – 31 Dec 2018	0-5 (10-15 full year equivalent)	–	–	–	0-5	–
Edwina Dunn 1 Jan 2013 – 31 Mar 2016	10-15	10-15	100	–	15-20	10-15
Simon Ricketts 1 Sep 2014 – 31 Aug 2017	10-15	5-10 (10-15 full year equivalent)	100	–	15-20	5-10
Mervyn Walker 1 Sep 2014 – 31 Aug 2017	15-20	10-15 (15-20 full year equivalent)	100	–	20-25	10-15
John Whiting 1 Apr 2013 – 31 Mar 2019	15-20	15-20	100	–	20-25	15-20

1 These disclosures have been subject to external audit.

Salary

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

Bonuses

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

Benefits in kind

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

Pay multiples[1]

The pay multiple is the ratio between the remuneration of the highest paid director in the department and the mid-point of the pay range – known as the median. This represents the pay of the employee that lies in the middle of the pay distribution of all employees, excluding the highest paid director. Total pay includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The banded pay of the highest paid director in HMRC in 2015-16 was £200,000-£205,000 (2014-15: £200,000-£205,000). This was 8.43 times (2014-15: 8.5 times) the median remuneration of the workforce, which was £24,012 (2014-15: £23,805).

The 2015-16 median has increased from 2014-15. This is due to a reduction of around 34% in the number of Administrative Assistants, with an increase in the total workforce and at each grade from Assistant Officer to Grade 6.

In 2015-16, as in 2014-15, no employees received pay in excess of the highest-paid director. Remuneration ranged from £2,500-£3,000 to £200,000-£205,000 (2014-15: £2,000-£2,500 to £200,000-£205,000).

The calculation for both 2015-16 and 2014-15 is based on workforce actual gross pay, which has been adjusted for part-time working. Therefore, the quoted bands of £2,500-£3,000 and £2,000-£2,500 reflect an individual's gross part-time salary. The workforce pay combines both HMRC and the Valuation Office Agency.

1 These disclosures have been subject to external audit.

Pension benefits

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

Figure 53: Pension benefits[1]

Senior official	Accrued pension at pension age as at 31 March 2016 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV[2] at 31 March 2016 (to the nearest £000)	CETV at 31 March 2015 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Dame Lin Homer DCB[3] Chief Executive and Permanent Secretary 23 Jan 2012 – 4 Apr 2016	120-125	2.5-5	2,402	2,174	72	–
Edward Troup[3] Tax Assurance Commissioner and Permanent Secretary From 28 Aug 2012	25-30	2.5-5	554	510	48	–
Gill Aitken[4] General Counsel and Solicitor From 27 January 2014	40-45 (Plus 110-115 lump sum)	0-2.5 (Plus 5-7.5 lump sum)	919	807	40	–
Penny Ciniewicz[4] Chief Executive of the Valuation Office Agency From 20 July 2015	25-30 (Plus 85-90 lump sum)	5-7.5 (Plus 15-17.5 lump sum)	558	447[6]	91	–
Mark Dearnley[5] Chief Digital and Information Officer 1 Oct 2013 – 30 Sep 2016	5-10	2.5-5	105	64	18	–
Jennie Granger[5] Director General Enforcement and Compliance 1 Oct 2012 – 30 Sep 2017	10-15	2.5-5	194	130	37	–
William Hague[5] Chief People Officer From 23 September 2013	35-40	2.5-5	408	336	24	–
Jim Harra[4] Director General Business Tax From 16 April 2012	55-60 (Plus 165-170 lump sum)	2.5-5 (Plus 7.5-10 lump sum)	1,107	974	47	–
Justin Holliday[5] Chief Finance Officer From 9 Mar 2015	50-55	2.5-5	695	588	38	–
Nick Lodge[4] Director General Transformation and Benefits and Credits From 6 Aug 2012	50-55 (Plus 160-165 lump sum)	2.5-5 (Plus 7.5-10 lump sum)	1,103	973	47	–
Ruth Owen[5] Director General Personal Tax From 1 Sep 2012	45-50 (Plus 125-130 lump sum)	2.5-5 (Plus 2.5-5 lump sum)	752	646	38	–

1 These disclosures have been subject to external audit
2 Cash Equivalent Transfer Value (CETV)
3 Member of the Premium Scheme
4 Member of the Classic Scheme
5 Member of the Alpha Scheme
6 CETV at 19 July 2015

Cash Equivalent Transfer Values

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

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

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

Real Increase in CETV

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

People off-payroll

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

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

Figure 54: Existing off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

	HMRC	VOA
Number of existing engagements as of 31 March 2016	66	5
Length of existing engagements:		
Less than one year at time of reporting	27	4
Between one and two years at time of reporting	31	1
Between two and three years at time of reporting	7	Nil
Between three and four years at time of reporting	Nil	Nil
Four or more years at time of reporting	1*	Nil

* Relates to one individual with expert legal knowledge that we do not have in-house and cannot readily obtain by other means. We seek regular tax-related assurances from this individual which shows they are paid through PAYE.

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

Figure 55: All new off-payroll engagements, as of 31 March 2016, for more than £220 per day and that last for longer than six months

	HMRC	VOA
New engagements, or those that reached six months in duration	66	11
Right to request information about income tax and National Insurance Contributions	66	11
Requests for information made	66	11
Information has been received	55	9
Information has not been received	11	2
Engagement terminated as a result of information not being received	Nil	2

As at 31 March 2016, we have engaged 66 people on an off-payroll basis for more than £220 per day and for longer than six months

We requested tax and national insurance information from all our off-payroll people throughout the year on a rolling basis.

Information has not been received from 11 people who no longer work for the department. We have referred them for possible enforcement and compliance action.

Figure 56: Board members, and/or, senior officials with significant financial responsibility

Number of individuals who are board members, and/or, senior officials with significant financial responsibility	HMRC	VOA
On payroll	74	7
Off payroll	Nil	Nil

Consultancy and temporary employees

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

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

We continue to support the Cabinet Office directive to reduce the use of consultancy across central government. This directive, and the austerity measures introduced from May 2010, has seen a significant reduction in our spend on consultancy.

We continually look for ways of achieving savings and introduced new procurement tools to improve our data analysis and share best practice in employing consultants within different parts of the department.

Although spend on consultancy increased slightly from £566,676 in 2014-15 to £643,987 in 2015-16, this is still a significant decrease when compared to £47 million in 2009-10 when the Cabinet Office measures were introduced and should also be viewed in the context of the major transformation agenda HMRC is currently undertaking.

Directors' report

Disclosures normally made within the Directors' Report are instead reported elsewhere in the Annual Report where they are an integral part of the text. They are signposted below.

Register of interests

Senior managers within HMRC, including the non-executives, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their management responsibilities. Note 18 to the Resource Accounts confirms that no member of the Board, including non-executives, had any related-party interests.

More detail about disclosures relating to management structure, governance and senior personnel can be found on **pages 72-85.**

More detail about disclosures relating to personal data-related incidents can be found on **pages 104-105.**

Jon Thompson
Accounting Officer
6 July 2016

Parliamentary accountability

Consolidated Statement of Parliamentary Supply

In summary…

Parliament sets the budget for HMRC. The Consolidated Statement of Parliamentary Supply shows that we delivered within that budget. We successfully managed our budget within all of the Treasury and parliamentary controls, despite the volatility of tax credits entitlements which are challenging to estimate. During the year we reacted efficiently to budgetary pressures, most notably agreeing with HM Treasury a switch from resource to capital budgets to enable increased investment in our transformation.

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

In 2015-16 we successfully delivered all of our business activities within our control totals.

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

Parliament also controls our expenditure by further categorising it between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL spending is tightly controlled by HM Treasury and firm multi-year plans are required whereas AME spending is demand led, more volatile and is not included in DEL controls.

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

Figure 57: Summary of resource and capital outturn

								2015-16 £m	2014-15 £m
		Estimate			Outturn				
	SoPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted variance: saving	Total outturn
Departmental Expenditure Limit									
– Resource	1.1	3,311.0	297.0	3,608.0	3,247.6	328.5	3,576.1	63.4	3,464.1
– Capital	1.2	234.5	-	234.5	227.8	-	227.8	6.7	231.7
Annually Managed Expenditure									
– Resource	1.1	12,080.0	32,458.0	44,538.0	11,844.9	31,348.9	43,193.8	235.1	42,931.3
– Capital	1.2	0.3	-	0.3	-	-	-	0.3	-
Total budget		**15,625.8**	**32,755.0**	**48,380.8**	**15,320.3**	**31,677.4**	**46,997.7**	**305.5**	**46,627.1**
Non-budget									
– Resource	1.1	9,852.0	-	9,852.0	9,852.0	-	9,852.0	-	4,720.0
– Capital	1.2	-	-	-	-	-	-	-	-
Total		**25,477.8**	**32,755.0**	**58,232.8**	**25,172.3**	**31,677.4**	**56,849.7**	**305.5**	**51,347.1**
Of which:									
Total resource	1.1	25,243.0	32,755.0	57,998.0	24,944.5	31,677.4	56,621.9	298.5	51,115.4
Total capital	1.2	234.8	-	234.8	227.8	-	227.8	7.0	231.7
Total		**25,477.8**	**32,755.0**	**58,232.8**	**25,172.3**	**31,677.4**	**56,849.7**	**305.5**	**51,347.1**

				2015-16 £m	2014-15 £m
	SoPS note	Estimate	Outturn	Voted variance: saving	Outturn
Net cash requirement	3	25,071.0	24,918.2	152.8	19,718.1
Administration costs		855.2	791.9	63.3	797.0

Explanations of material variances between the Estimate and outturn are provided in SoPS note 1 on **page 143.**

A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SoPS note 2 on **page 144.**

SoPS 1. Net outturn

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

Voted expenditure includes the costs of running the department as well as payments to individuals for social benefits, payments in lieu of tax relief and certain rates payments made by the Valuation Office Agency. As RCDTS Ltd do not hold a budget of their own, their expenditure and income is reported against Line A HMRC Administration. The department also makes payments to external parties that are not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax credits and our costs in respect of the National Insurance Fund. This year, as in 2014-15, the department has been required to make non-budget payments to top-up the National Insurance Fund.

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

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

SoPS 1.1 Analysis of net resource outturn by section

Figure 58: Analysis of net resource outturn by section

	2015-16 £m									2014-15 £m
	Estimate	Outturn								
		Administration			Programme			Outturn	Variance: saving/ (excess)	
	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total		Total outturn
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	3,276.2	843.5	(126.5)	717.0	2,591.0	(88.8)	2,502.2	3,219.2	57.0	3,106.6
B VOA administration	–	–	–	–	206.4	(207.8)	(1.4)	(1.4)	1.4	(2.4)
C Utilised provisions	34.8	13.6	–	13.6	16.2	–	16.2	29.8	5.0	31.0
Total voted	**3,311.0**	**857.1**	**(126.5)**	**730.6**	**2,813.6**	**(296.6)**	**2,517.0**	**3,247.6**	**63.4**	**3,135.2**
Non-voted:										
D National Insurance Fund	297.0	61.2	–	61.2	267.3	–	267.3	328.5	(31.5)	328.9
Total non-voted	**297.0**	**61.2**	**–**	**61.2**	**267.3**	**–**	**267.3**	**328.5**	**(31.5)**	**328.9**
Total spending in Departmental Expenditure Limit	**3,608.0**	**918.3**	**(126.5)**	**791.8**	**3,080.9**	**(296.6)**	**2,784.3**	**3,576.1**	**31.9**	**3,464.1**
Spending in Annually Managed Expenditure										
Voted:										
E Social benefits and grants	11,903.1	–	–	–	11,700.9	–	11,700.9	11,700.9	202.2	11,602.0
F Providing payments in lieu of tax relief to certain bodies	105.8	–	–	–	75.4	–	75.4	75.4	30.4	99.7
G HMRC administration	30.0	–	–	–	28.5	–	28.5	28.5	1.5	70.6
H VOA – payments of rates to local authorities on behalf of certain bodies	74.2	–	–	–	70.8	(3.8)	67.0	67.0	7.2	65.9
I VOA administration	2.0	–	–	–	2.9	–	2.9	2.9	(0.9)	1.0
J Utilised provisions	(35.1)	–	–	–	(29.8)	–	(29.8)	(29.8)	(5.3)	(31.1)
Payments to add capacity	-	–	–	–	–	–	–	–	–	2.7
Total voted	**12,080.0**	**–**	**–**	**–**	**11,848.7**	**(3.8)**	**11,844.9**	**11,844.9**	**235.1**	**11,810.8**
Non-voted:										
K Personal tax credits	29,453.6	–	–	–	28,450.2	–	28,450.2	28,450.2	1,003.4	29,123.2
L Other reliefs and allowances	3,004.4	–	–	–	2,898.7	–	2,898.7	2,898.7	105.7	1,997.3
Total non-voted	**32,458.0**	**–**	**–**	**–**	**31,348.9**	**–**	**31,348.9**	**31,348.9**	**1,109.1**	**31,120.5**
Total spending in Annually Managed Expenditure	**44,538.0**	–	–	–	**43,197.6**	**(3.8)**	**43,193.8**	**43,193.8**	**1,344.2**	**42,931.3**
Non-budget spending										
Voted:										
M Payments to National Insurance Fund	9,852.0	–	–	–	9,852.0	–	9,852.0	9,852.0	–	4,720.0
Total non-budget spending	**9,852.0**	**–**	**–**	**–**	**9,852.0**	**–**	**9,852.0**	**9,852.0**	**–**	**4,720.0**
Total voted	25,243.0	857.1	(126.5)	730.6	24,514.3	(300.4)	24,213.9	24,944.5	298.5	19,666.0
Total non-voted	32,755.0	61.2	–	61.2	31,616.2	–	31,616.2	31,677.4	1,077.6	31,449.4
Total spending	**57,998.0**	**918.3**	**(126.5)**	**791.8**	**56,130.5**	**(300.4)**	**55,830.1**	**56,621.9**	**1,376.1**	**51,115.4**

SoPS 1.2 Analysis of net capital outturn by section

Figure 59: Analysis of net capital outturn by section

	2015-16 £m					2014-15 £m
	Estimate	Outturn				
	Net Total	Gross	Income	Net Total	Variance: saving/ (excess)	Total outturn
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	227.2	221.4	(1.2)	220.2	7.0	224.0
B VOA administration	7.3	7.6	–	7.6	(0.3)	7.7
C Utilised provisions	–	–	–	–	–	–
Total voted	**234.5**	**229.0**	**(1.2)**	**227.8**	**6.7**	**231.7**
Non-voted:						
D National Insurance Fund	–	–	–	–	–	–
Total non-voted	–	–	–	–	–	–
Total spending in Departmental Expenditure Limit	**234.5**	**229.0**	**(1.2)**	**227.8**	**6.7**	**231.7**
Spending in Annually Managed Expenditure						
Voted:						
E Social benefits and grants	0.3	–	–	–	0.3	–
F Providing payments in lieu of tax relief to certain bodies	–	–	–	–	–	–
G HMRC administration	–	–	–	–	–	–
H VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	–	–	–
I VOA administration	–	–	–	–	–	–
J Utilised provisions	–	–	–	–	–	–
Total voted	**0.3**	**–**	**–**	**–**	**0.3**	**–**
Non-voted:						
K Personal tax credits	–	–	–	–	–	–
L Other reliefs and allowances	–	–	–	–	–	–
Total non-voted	–	–	–	–	–	–
Total spending in Annually Managed Expenditure	**0.3**	**–**	**–**	**–**	**0.3**	**–**
Non-budget spending						
Voted:						
M Payments to National Insurance Fund	–	–	–	–	–	–
Total non-budget spending	**–**	**–**	**–**	**–**	**–**	**–**
Total voted	234.8	229.0	(1.2)	227.8	7.0	231.7
Total non-voted	–	–	–	–	–	–
Total spending	**234.8**	**229.0**	**(1.2)**	**227.8**	**7.0**	**231.7**

The total resource outturn for the year was £56,621.9 million, £1,376.1 million (2.4%) below the Estimate. The total capital outturn for the year was £227.8 million, £7.0 million (3.0%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Departmental Expenditure Limit (DEL)

C Utilised Provisions – outturn was £5.0 million (14.4%) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

D National Insurance Fund – outturn was £31.5 million (10.6%) more than the Estimate. Expenditure allocated to National Insurance work is variable depending on the combination of work we do on a range of taxes and contributions, which can be customer driven. This variance is offset by the corresponding underspend in Line A HMRC Administration. All National Insurance spending is fully accounted for in the National Insurance Fund Accounts.

Resource Annually Managed Expenditure (AME)

F Providing payments in lieu of tax relief to certain bodies – outturn was £30.4 million (28.7%) less than the Estimate. This is due to a revised estimate for Government contributions to Personal Pensions being made after the budget was settled.

I VOA Administration – outturn was £0.9 million (45%) more than the Estimate. This relates to the changes in pension scheme liability relating to staff that transferred from DWP into VOA.

J Utilised Provisions – outturn was £5.3 million (15.1%) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

K Personal Tax Credit – outturn was £1,003.4 million (3.4%) less than the Estimate. This is because payments are driven by entitlement and demand and therefore fluctuate throughout the year.

Capital Departmental Expenditure Limit (DEL)

B VOA Administration – outturn was £0.3 million (4.1%) more than the Estimate. This was a result of a specific investment decision that still ensured Total Voted Capital DEL remained within the Estimate.

SoPS 2. Reconciliation of outturn to net operating expenditure

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

Figure 60: Reconciliation of net resource outturn to net operating expenditure

		SoPS note	2015-16 £m Outturn	2014-15 £m Outturn
Total resource outturn in the Statement of Parliamentary Supply				
	Departmental Expenditure Limit	1.1	3,576.1	3,464.1
	Annually Managed Expenditure	1.1	43,193.8	42,931.3
	Non-budget – additional payments to the National Insurance Fund	1.1	9,852.0	4,720.0
			56,621.9	**51,115.4**
Add:	IFRS asset costs		7.4	3.0
			7.4	3.0
Less:	Income payable to the Consolidated Fund		(1.9)	(2.2)
			(1.9)	(2.2)
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure			**56,627.4**	**51,116.2**

Explanation of additions and deductions

IFRS asset costs

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

IT – as described in note 1.8.3, IT non-current assets of our IT suppliers used in the delivery of the PPP contract have been capitalised as finance leases under IFRIC 12.

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

Income payable to the Consolidated Fund

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

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

This note reconciles the net resource and capital outturn to the net cash requirement in the Statement of Parliamentary Supply, showing the adjustments for non cash items, movements in the Statement of Financial Position and other adjustments which include funding other than from the Consolidated Fund.

Figure 61: Reconciliation of net resource outturn to net cash requirement

	SoPS note	Estimate £m	Outturn £m	Outturn compared to Estimate: saving/(excess) £m
Resource outturn	1.1	57,998.0	56,621.9	1,376.1
Capital outturn	1.2	234.8	227.8	7.0
Accruals to cash adjustments:				
Adjustments for Arms Length Bodies (ALBs):				
Remove voted resource and capital			(0.3)	0.3
Adjustments to remove non-cash items:				
Depreciation and amortisation		(285.4)	(271.2)	14.2
New provisions and adjustments to existing provisions		(32.0)	(28.8)	(3.2)
Other non-cash items		(2.2)	(7.7)	5.5
Adjustments to reflect movements in working balances:				
Increase/(decrease) in inventories		–	(0.3)	0.3
Increase/(decrease) in receivables		382.2	52.0	330.2
(Increase)/decrease in payables		(504.5)	(495.5)	(9.0)
Use of provisions		35.1	29.8	5.3
Removal of non-voted budget items				
Other adjustments[1]		(32,755.0)	(31,209.5)	(1,545.5)
Net cash requirement		**25,071.0**	**24,918.2**	**152.8**

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

Net cash requirement calculation only applies to core department and agency.

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

Resource Outturn and Other Adjustments – varied from the Estimate largely due to expenditure on Personal Tax Credits being £1,003.4 million less than the Estimate. This is because payments are driven by entitlement and demand and therefore fluctuate throughout the year.

Receivables – varied by £330.2 million from the Estimate, largely due to a lower than expected increase in the level of personal tax credits debt.

SoPS 4. Income payable to the Consolidated Fund

SoPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics). This consists of income types that government rules do not allow the department to keep for its own use.

Figure 62: Analysis of income payable to the Consolidated Fund

	Outturn 2015-16 £m		Outturn 2014-15 £m	
	Income	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate	1.9	*1.9*	2.2	*2.2*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total amount payable to the Consolidated Fund	**1.9**	***1.9***	**2.2**	***2.2***

SoPS 4.2 Consolidated Fund income

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

Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement, see **page 160.**

Regularity of expenditure

HMRC understands and complies with the concept of regularity, which is fundamental to the right use of public funds*.

The term regularity is used to convey the idea of probity and ethics in the use of public funds – that is, delivering public sector values in the round and applying the seven principles of public life**.

Regularity specifically encompasses compliance with all relevant legislation, delegated authorities and the guidance set out in HM Treasury's Managing Public Money publication.

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

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

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

For details of Comptroller and Auditor General's qualified regularity opinion in respect of personal tax credits, see **page 157.**

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

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

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

The table below provides details of the Main Estimate for HMRC spending and the Supplementary Estimate which provides the final estimate (budget) shown. It then shows the actual spend (outturn) against the final budget. These disclosures have been subject to external audit.

Figure 63: Public spending control (£m)[1]

	Main Estimate	Supplementary Estimate (Adjustment)	Final Provision	2015-16 outturn
Resource DEL				
Voted				
HMRC administration	3,227	50	3,276	3,219
Departmental Unallocated Provision	35	-35	0	0
VOA administration	0	0	0	-1
Utilised provisions[2]	166	-132	35	30
Non-voted				
National Insurance Fund	297	0	297	329
Total spending DEL	**3,725**	**-117**	**3,608**	**3,576**
Resource AME				
Voted				
Child Benefit[3]	11,668	235	11,903	11,701
Providing payments in lieu of tax relief to certain bodies	105	1	106	75
HMRC administration	30	0	30	29
VOA – payments of rates to local authorities on behalf of certain bodies	74	0	74	67
VOA administration	0	2	2	3
Utilised provisions[2]	-167	132	-35	-30
Non-voted				
Personal tax credits	29,454	0	29,454	28,450
Other relief and allowances[4]	2,107	898	3,004	2,899
Total spending AME	**43,271**	**1,267**	**44,538**	**43,194**
Capital DEL				
HMRC administration	154	73	227	220
Departmental Unallocated Provision	1	-1	0	0
VOA administration	7	0	7	8
Total capital spending DEL	**163**	**72**	**234**	**228**
Capital AME				
Child Trust Fund	0	0	0	0
Total capital spending AME	**0**	**0**	**0**	**0**

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

Description of departmental reporting cycle

Our Main Estimate for 2015-16, which seeks parliamentary approval for the resources necessary to support the functions and objectives of HMRC, was published in July 2015 as part of the Central Government Supply Estimates – Main Supply Estimates. This document was published later than in previous years due to the general election and the need to reflect the Chancellor's announcement on 4 June 2015 to reduce public debt.

We also applied for a Supplementary Estimate, which adjusts these resources and details of which are available in the Central Government Supply Estimates – Supplementary Estimates, published in February 2016. These documents are in the public domain and can be accessed from the government website at www.gov.uk.

Losses and special payments

These losses and special payments relate to the Resource Accounts and have previously been disclosed in the Resource Accounts section of the Financial Statements. These disclosures have been subject to external audit.

Full details of revenue losses are in the department's Trust Statement, see **pages 170-171.**

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

Figure 64: Losses statement

	2015-16 Departmental group		2014-15 Departmental group	
	cases	£m	*cases*	£m
Personal tax credits remissions	*1,583,637*	75.0	*1,853,328*	120.5
Personal tax credits write-offs	*40,798*	43.6	*47,584*	50.0
Child Benefit irrecoverable overpayments	*41,965*	10.9	*37,743*	13.0
Others	*4,300*	0.4	*5,119*	0.4
Total	***1,670,700***	**129.9**	***1,943,774***	**183.9**

Details of cases more than £300,000

In 2015-16 there was £118.6 million remitted/written-off in respect of personal tax credit debt that was uncollectable. There were no targeted exercises conducted in 2015-16. In 2014-15 there was one targeted exercise which focused on money owed to HMRC which we had tried to collect through a collection campaign as well referring the debt to a Debt Collection Agency without success. This exercise resulted in £39.6 million being remitted/written-off.

In 2015-16 the department wrote-off £10.9 million of Child Benefit debt that was uncollectable.

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

Special payments

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

Figure 65: Special payments

	2015-16 Departmental group		2014-15 Departmental group	
	cases	£m	*cases*	£m
Payments and accruals	***29,395***	**3.9**	***26,100***	**5.2**

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

Included within special payments shown above are severance payments. These are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements, when leaving employment in the public service, whether they resign, are dismissed, or reach an agreed termination of contract. For 2015-16, the department made seven payments totalling £146,778 (2014-15: seven payments totalling £87,176) in respect of severance cases. The highest payment was £37,599 (2014-15: £33,276) and the lowest payment was £3,925 (2014-15: £2,000), the average payment was £20,968 (2014-15: £12,453).

Details of cases more than £300,000

£1.9 million – Compensation payments made under an HMRC undertaking to Court in respect of damages suffered. HMRC applied for and were granted a provisional liquidation order against a company by the High Court, which was then subsequently wound up. The Duty and VAT assessments on which the action was based were later withdrawn by HMRC and so the action found to be unjustified, with compensation then paid as a result. The payment was made with HM Treasury approval.

£0.6 million – Payments made to a liquidator under an HMRC indemnity for adverse costs. Proceedings were launched by the liquidators for the benefit of creditors in the liquidation, with HMRC being the principle creditor. The support provided to the liquidators was done so as part of HMRC's statutory responsibility to recover revenue for the UK where insolvency is a feature of the case. The payment made was made with HM Treasury approval.

Fees and charges

The fees and charges table lists the services HMRC provides to external and public sector customers, where the full cost to HMRC exceeds £1 million. In accordance with HM Treasury guidance on managing public money, it is HMRC's financial objective to recover the full cost of each service, unless otherwise stated. Disclosed in the table for each service is the income received by HMRC, the full cost incurred by HMRC, the amount of any surplus or deficit between the income received and the full cost and the corresponding figures for the prior year. Surpluses and deficits can arise for a number of reasons, including demand fluctuations or variations to HMRC costs during the year.

Figure 66: Analysis of income where full cost exceeds £1 million[1]

			2015-16 £m			2014-15 £m
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
Non-Domestic Rates and Council Tax	169.5	169.3	0.2	150.9	150.4	0.5
Statutory Valuation Team	11.8	11.2	0.6	11.2	10.7	0.5
Property Services	15.1	15.3	(0.2)	16.0	15.7	0.3
Local Housing Allowance and Fair Rents	11.6	11.7	(0.1)	15.0	14.9	0.1
Fees and charges raised by the core department						
Civil Service Resourcing[2]	63.0	62.0	1.0	42.2	42.0	0.2
UK Border Agency	20.2	20.2	–	19.9	19.9	–
Bank Charges via GBS	17.1	15.1	2.0	15.8	13.8	2.0
Single Tier Pension Reform	14.0	14.0	–	4.1	4.1	–
National Minimum Wage	12.1	11.9	0.2	8.8	8.8	–
Anti-Money Laundering Regime	9.7	8.8	0.9	8.7	8.2	0.5
Scotland Act Implementation[3]	8.7	8.7	–	2.5	2.5	–
Collection of Student Loans	6.4	6.4	–	6.6	6.6	–
Accommodation recharges	4.6	4.8	(0.2)	4.5	4.5	–
DWP Welfare Reform Agenda	1.6	1.6	–	2.3	2.3	–
Services provided to VOA	1.7	1.7	–	3.3	3.2	0.1
Statutory Shared Parental Pay and Leave	0.5	0.5	–	1.1	1.2	(0.1)
Total	**367.6**	**363.2**	**4.4**	**312.9**	**308.8**	**4.1**

1 These disclosures have been subject to external audit.
2 Civil Service Resourcing (CSR), which HMRC hosts on behalf of the Civil Service, is the professional resourcing and talent management service for the Civil Service, administering a centralised process across the end-to-end scope of resourcing activities, including recruitment, redeployment and the Civil Service Fast Stream. CSR is expected to expand significantly over the course of the upcoming financial years as it takes on the responsibility for all fast stream recruitment.
3 The Scotland Act 2012 gives the Scottish Parliament the power to set a rate of income tax from 2016-17 onwards. This tax will be accounted for within HMRC's Trust Statement. HMRC has incurred costs in establishing systems to identify these costs which are included in the Resource Accounts. Implementation income covers recovery of charges from the Scottish Government in respect of additional costs incurred by HMRC, of £8.4 million for the Scottish Rate of Income Tax (SRIT), £0.2 million for Stamp Duty Land Tax and £0.1 million for Scotland Programme Office. The SRIT element of the income consists of £1.3 million staff costs, £5.4 million IT costs and £1.7 million other costs. The cumulative total of SRIT income since 2013-14 is £10.9 million.

Remote contingent liabilities

These are remotely possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

The department has no quantifiable remote contingent liabilities.

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

Figure 67: Indemnities

	1 April 2015 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2016 £m	Amount reported to Parliament by departmental minute £m
Indemnities	7.9	0.7	–	(5.0)	3.6	–

The department has not entered into any guarantee of costs arrangements, where likelihood of realisation is considered remote, issued any letters of comfort, nor entered into any unquantifiable contingent liabilities.

Jon Thompson
Accounting Officer
6 July 2016

The Trust Statement 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 2016 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Foreword and Principal Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the HM Revenue & 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 2016 and of the net revenue 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 Performance and Accountability sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Further details arising from my examination can be found in my Report on the 2015-16 Accounts of HM Revenue & Customs, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1.

12 July 2016

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
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London
SW1W 9SP

The Resource Accounts: Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue & Customs' Departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and the Valuation Office Agency. The Departmental Group consists of the Department and one body (Revenue & Customs Digital Technology Services Limited) designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015. The financial statements comprise: the Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Basis for qualified opinion on regularity

Note 4 to the Resource Accounts records personal tax credit expenditure of £28.5 billion in 2015-16. Where error and fraud result in over or underpayment of personal tax credits, the transactions do not conform with the primary legislation which specifies the entitlement criteria for personal tax credits and the method used to calculate the amount to be paid, and the expenditure is irregular. In forming my opinion I have considered the materiality of the level of over and under payments in personal tax credits expenditure, in line with the scope of my audit.

The Department estimates that in 2014-15, error and fraud resulted in overpayments of between £1,260 million and £1,480 million (4.4% to 5.2%) and underpayments of between £170 million and £220 million (0.6% to 0.8%) of personal tax credits expenditure. The Department's best estimate of the level of fraud and error in personal tax credits relate to the prior year due to the time taken to finalise awards. There is no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2015-16, and so I have used the 2014-15 figures to inform my opinion, as the best estimate of the level of fraud and error in 2015-16 personal tax credits expenditure. I consider this level of error and fraud to be material to my opinion on the accounts.

I have therefore qualified my audit opinion on the regularity of personal tax credits expenditure because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated level of over and under payments in personal tax credits expenditure which do not conform with the relevant authorities.

Qualified opinion on regularity

In my opinion, except for the estimated 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 2016 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 departmental group's affairs as at 31 March 2016 and of its net operating expenditure 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 parts of the Remuneration and Staff Report and Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance, Accountability, Remuneration and Staff Report and Parliamentary Accountability sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and Parliamentary Accountability Disclosures 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 2015-16 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes, at paragraphs 4.5 to 4.7, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

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

12 July 2016

Contents

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2016 £bn	2015 £bn
Taxes and duties			
Income tax	2.1	169.4	163.1
Value Added Tax	2.2	116.0	113.9
Corporation Tax	2.3	45.5	41.4
Hydrocarbon oils duties	2.4	27.7	27.2
Stamp taxes	2.5	14.5	13.5
Alcohol duties	2.6	10.7	10.7
Tobacco duties	2.7	9.1	9.3
Other taxes and duties	2.8	29.0	27.2
Total taxes and duties		**421.9**	**406.3**
Other revenue and income			
National Insurance Contributions	3.1	112.0	108.0
Student Loan recoveries	3.3	1.9	1.8
Fines and penalties	3.4	1.0	1.6
Total other revenue and income		**114.9**	**111.4**
Total revenue		**536.8**	**517.7**
Expenditure			
Impairment charges	4.3	(2.2)	(6.1)
Movement in provisions	7.1	(0.2)	(6.6)
Total expenditure		**(2.4)**	**(12.7)**
Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(111.6)	(107.5)
Appropriation of revenue to Resource Account	3.2	(30.9)	(31.5)
Student Loan recoveries due to the Department for Business, Innovation and Skills	3.3	(1.9)	(1.8)
Taxation paid to Isle of Man	3.5	(0.1)	(0.2)
Total disbursements		**(144.5)**	**(141.0)**
Total expenditure and disbursements		**(146.9)**	**(153.7)**
Net revenue for the Consolidated Fund		**389.9**	**364.0**

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

The notes at pages 163 to 178 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2016 £bn	2015 £bn
Non-current assets			
Receivables falling due after one year	4.1	0.9	0.9
Current assets			
Receivables	4.1	18.9	16.6
Accrued revenue receivable	4.1	95.7	89.7
Total current assets		**114.6**	**106.3**
Total assets		**115.5**	**107.2**
Current liabilities			
Payables	5	16.8	17.4
Accrued revenue payable	5	31.2	29.8
Deferred revenue	5	1.5	1.0
Cash and other payables	5.1	1.6	1.3
Total current liabilities		**51.1**	**49.5**
Assets less current liabilities		**64.4**	**57.7**
Non-current liabilities			
Provision for liabilities	7	12.8	14.7
Net assets		**51.6**	**43.0**
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		43.0	53.0
Net revenue for the Consolidated Fund		389.9	364.0
Less amount paid to Consolidated Fund		(381.3)	(374.0)
Balance on Consolidated Fund account		**51.6**	**43.0**

Jon Thompson
Accounting Officer
6 July 2016

The notes at pages 163 to 178 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	Note	2016 £bn	2015 £bn
Net cash flow from operating activities	A	381.0	373.9
Cash paid to the Consolidated Fund		(381.3)	(374.0)
Increase/(decrease) in cash in this period	B	**(0.3)**	**(0.1)**

Notes to the Statement of Cash Flows

A: Reconciliation of net cash flow to movement in net funds

For the year ended 31 March	2016 £bn	2015 £bn
Net revenue for the Consolidated Fund	389.9	364.0
(Increase)/decrease in non-cash assets	(8.3)	(0.2)
Increase/(decrease) in current liabilities	1.3	3.9
Increase/(decrease) in provision for liabilities	(1.9)	6.2
Net cash flow from operating activities	**381.0**	**373.9**

B: Analysis of changes in net funds

For the year ended 31 March	2016 £bn	2015 £bn
Increase/(decrease) in cash in this period	(0.3)	(0.1)
Net funds as at 1 April (opening bank balance)	(1.3)	(1.2)
Net funds as at 31 March (closing bank balance)	**(1.6)**	**(1.3)**

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 2015-16 Financial Reporting Manual issued by HM Treasury
- International Financial Reporting Standards adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2015-16. 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 the difference between the amount of tax that should, in theory, be collected by HMRC (the theoretical liability), against what is actually collected. The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the department's compliance activities. The tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

The financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Student Loan recoveries, and revenue losses which are rounded to the nearest £1 million, due to the much smaller amounts of revenue accrued.

Further accounting policies are explained under the relevant notes (starting at note 2).

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 as agreed with HM Treasury. In addition, some repayments are accounted for on a cash basis. Accounting for these elements on a cash basis does not have a material impact on 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. Note 4 provides an explanation of accrued revenue receivable, note 6 describes the circumstances and approaches used where estimation of accruals is needed and note 7 provides an explanation of provisions and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

HMRC undertakes compliance work to collect or protect revenue as part of the commitment to narrow the tax gap. This includes work in tackling avoidance, evasion and criminal attack. Given the uncertainty of both the probability of economic flow and reliability of estimated figures, future revenue flows in relation to this activity are not recognised in the accounts until such time as a liability is assessed or established and/or reasonably certain.

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2016 £bn	2015 £bn
Self Assessment	27.6	23.0
Other income tax revenue (including PAYE)	141.8	140.1
Total	**169.4**	**163.1**

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.

Income tax accounted for 31.6% of total revenue and increased 3.9% compared to 2014-15. This increase in PAYE and SA receipts was largely as a result of growth in the economy leading to higher levels of employment and higher wages.

2.2 Value Added Tax

For the year ended 31 March	2016 £bn	2015 £bn
Gross revenue	195.9	191.3
Less: revenue repayable	(79.9)	(77.4)
Net revenue	**116.0**	**113.9**

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.

Value Added Tax accounted for 21.6% of total revenue and increased 1.8% compared to 2014-15, as a result of significant increases in receipts for the automotive, business services and utilities sectors. Additionally, the growth in wages has also led to an increase in household consumer spending on goods and services, increasing VAT receipts.

2.3 Corporation Tax

For the year ended 31 March	2016 £bn	2015 £bn
Total	**45.5**	**41.4**

The taxable event for Corporation Tax is the earning of assessable profit during the taxation period by the taxpayer.

Corporation Tax accounted for 8.5% of total revenue and increased 9.9% compared to 2014-15.

Legislation was introduced in the Finance (No.2) Act 2015 to introduce the Bank Surcharge. The measure imposes a surcharge of 8% on the profits of banking companies from 1 January 2016. Included in Corporation Tax for 2015-16 are Bank Surcharge receipts and an estimate of accrued revenue receivable totalling £0.3 billion.

2.4 Hydrocarbon oils duties

For the year ended 31 March	2016 £bn	2015 £bn
Total	**27.7**	**27.2**

The taxable event for Hydrocarbon oils duty is the date of production, date of import or movement of goods out of a duty suspended regime.

Hydrocarbon oils accounted for 5.2% of total revenue and increased 1.8% compared to 2014-15, due to a reduction in pump prices for the majority of the year, increasing the amount of fuel purchased. This has resulted in an increase in revenues.

2.5 Stamp taxes

For the year ended 31 March	2016 £bn	2015 £bn
Stamp Duty Land Tax	11.0	10.5
Stamp Duty Reserve Tax	2.6	2.6
Stamp Duty	0.7	0.3
Annual Tax on Enveloped Dwellings	0.2	0.1
Total	**14.5**	**13.5**

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 as the cash amount received. Repayments of Stamp Duty are made on a cash basis – these are recognised in the period the repayment is made.

Annual Tax on Enveloped Dwellings (ATED) – this tax relates to residential properties owned by 'non-natural' persons, for example, companies. The taxable event is based on the market value of the relevant property (or properties) being greater than £1 million at 1 April each year (reduced from £2 million in 2014-15).

Stamp taxes accounted for 2.7% of total revenue and increased 7.4% compared to 2014-15. The increase is primarily due to an increase in the number of property transactions and higher prices in both residential and commercial markets.

2.6 Alcohol duties

For the year ended 31 March	2016 £bn	2015 £bn
Wine, cider and perry	4.4	4.2
Beer	3.2	3.4
Spirits	3.1	3.1
Total	**10.7**	**10.7**

The taxable event for alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

Alcohol duties accounted for 2.0% of total revenue and remained static. Although there has been a small increase in consumer purchases for home consumption, this has been offset by a slight duty decrease for Spirits, Beers and Cider.

2.7 Tobacco duties

For the year ended 31 March	2016 £bn	2015 £bn
Cigarettes	7.9	8.1
Hand rolling tobacco	1.1	1.1
Cigars	0.1	0.1
Total	**9.1**	**9.3**

The taxable event for tobacco duties is the date of production, date of import or movement of goods out of a duty suspended regime.

Tobacco duties accounted for 1.7% of total revenue and decreased 2.2% compared to 2014-15, as a result of a continuing decline in the usage of tobacco products.

2.8 Other taxes and duties

For the year ended 31 March	Note	2016 £bn	2015 £bn
Capital Gains Tax[1]	2.8.1	7.3	5.7
Inheritance Tax[1]	2.8.2	4.1	3.8
Insurance Premium Tax	2.8.3	3.7	2.9
Air Passenger Duty		3.0	3.2
Customs Duties		2.9	3.2
Bank Levy		2.8	2.7
Betting and gaming duties	2.8.4	2.7	2.3
Climate Change Levy		1.8	1.8
Landfill Tax		0.9	1.1
Aggregates Levy		0.4	0.4
Capital taxes (UK Swiss Agreement)		-	0.1
Petroleum Revenue Tax	2.8.5	(0.6)	0.0
Total		**29.0**	**27.2**

1 Repayments for Capital Gains Tax and Inheritance Tax are made principally on a cash basis – these are recognised in the period the repayment is made.

Other taxes and duties accounted for 5.4% of total revenue and increased 6.6% compared to 2014-15. Significant year-on-year changes are further explained below:

2.8.1 Capital Gains Tax (CGT) increased by 28.1%. This was as a result of higher house prices and an increase in the volumes of house transactions on which CGT is chargeable.

2.8.2 Inheritance Tax (IHT) increased by 7.9%, as a result of the continuing rise in the value of assets commonly included in the estates of the deceased, such as property, savings and shares.

2.8.3 Insurance Premium Tax (IPT) increased by 27.6%, due to rises in the cost of insurance policy premiums and an increase in the standard rate of IPT which came into effect from the 1 November 2015.

2.8.4 Betting and Gaming increased by 17.4%, due to the Gambling Tax Reforms resulting in a higher number of suppliers paying UK tax.

2.8.5 Petroleum Revenue Tax (PRT) is a field based tax charged on the profits arising from oil and gas production, and seeks to obtain the government share of the extra amount earned from the production (economic rent). A continued fall in oil and gas prices combined with closures of oil fields, a decline in production from older oil fields and the change to permanently zero rated PRT for all chargeable periods ending after 31 December 2015 in the March 2016 Budget, has led to a decrease in revenue. These factors have contributed to lower profits and some losses, resulting in PRT repayments exceeding receipts in 2015-16.

3. Other revenue, income and disbursements (additional information)

3.1 National Insurance Contributions

For the year ended 31 March	Note	2016 £bn	2015 £bn
National Insurance Fund Great Britain (NIF GB)		87.0	84.0
National Insurance Fund Northern Ireland (NIF NI)		1.8	1.7
National Health Services (NHS)		23.2	22.3
Total National Insurance Contributions (NICs)		**112.0**	**108.0**
NIC losses	4.4	(0.4)	(0.5)
NICs due to NIF and NHS		**111.6**	**107.5**

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the NIF and the health services when received and not when accrued. Some elements are estimated (refer to note 6 for further information).

National insurance classes 1A, 1B and 3 receipts are recognised in the accounting period in which the contributions are allocated.

NICs accounted for 20.9% of total revenue and increased 3.7% compared to 2014-15. The increase is due to the growth in the economy which has led to higher levels of employment and growth in wages.

3.2 Appropriation of revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund tax credit payments which are accounted for within the Resource Accounts.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayer's Equity, **page 183.**

3.3 Student Loan recoveries

	2016 £m	2015 £m
Balance at 1 April	89	(115)
Receipts included in 'Other revenue and income'[1]	1,949	1,795
Payments made to the Department for Business, Innovation and Skills (BIS)	(1,830)	(1,540)
Adjustment for prior year estimates	-	(51)
Balance at 31 March — included in (receivables)/payables	**208**	**89**

1 This is the amount due to BIS and therefore reflected as a disbursement in the Statement of Revenue, Other Income and Expenditure.

HMRC collects Student Loans on behalf of the Department for Business, Innovation and Skills. The majority of Student Loans are collected through the PAYE tax system. An element of Student Loans are collected through the Self Assessment tax system, which are accounted for on an estimated basis. The balance at year end is shown as a payable (note 5 – other revenue payables).

3.4 Fines and Penalties

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.5 Taxation due to or from the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM). As the IoM agreed share was more than the revenue collected and retained by the IoM, this resulted in the UK making payments to the IoM to ensure the IoM received the correct revenue. This will be shown as a disbursement. Where the IoM collect and retain more than the sharing agreement the IoM will make payments to the UK. This will be shown as other revenue and income.

For 2015-16, payments to the IoM totalled £137 million (2014-15: £144 million).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2016 £bn	Accrued revenue receivable as at 31 March 2016 £bn	Total as at 31 March 2016 £bn	Total as at 31 March 2015 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	0.9	-	0.9	0.9
Non-current assets before impairment	**0.9**	**–**	**0.9**	**0.9**
Current assets				
Receivables and ARR due within one year:				
Income tax	5.4	33.6	39.0	36.3
Value Added Tax	7.4	29.6	37.0	37.5
Corporation Tax	2.8	13.5	16.3	14.0
National Insurance Contributions	3.6	12.1	15.7	14.6
Other taxes and duties	6.6	6.9	13.5	12.4
Current assets before impairment	**25.8**	**95.7**	**121.5**	**114.8**
Less impairment of receivable (note 4.2)	(6.9)	–	(6.9)	(8.5)
Total current assets after impairment	**18.9**	**95.7**	**114.6**	**106.3**
Total assets before impairment	**26.7**	**95.7**	**122.4**	**115.7**
Less impairment of receivable (note 4.2)	(6.9)	-	(6.9)	(8.5)
Total assets after impairment	**19.8**	**95.7**	**115.5**	**107.2**

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Receivables are shown net of impairments in accordance with the requirements of IAS 39.

Accrued revenue receivable represents amounts of taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables and collection is reasonably certain. A proportion of these amounts have been estimated (see note 6).

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 is excluded as it 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 undertakes a review of material postponed Corporation Tax cases and an amount of £1.4 billion (2014-15: £0.8 billion) has been included in accrued revenue receivables.

4.2 Impairment of receivables

For the year ended 31 March	2016 £bn	2015 £bn
Balance as at 1 April	8.5	6.6
Increase/(decrease) in impairment of receivables	(1.6)	1.9
Balance as at 31 March	**6.9**	**8.5**

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

Each year, HMRC review and enhance the impairments methodology based on the latest management information available to ensure a robust estimation process.

This year's impairments balance has reduced by 18.8% as a result of continued improvements to HMRC's debt collection performance, meaning that more debts are collected resulting in less impairments.

4.3 Breakdown of impairment charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables.

For the year ended 31 March	Note	2016 £bn	2015 £bn
Increase/(decrease) in impairment of receivables	4.2	(1.6)	1.9
Revenue losses	4.4	3.8	4.2
Total impairment charges		**2.2**	**6.1**

4.4 Revenue losses

For the year ended	Remissions 31 March 2016 £m	Write-offs 31 March 2016 £m	Total 31 March 2016 £m	Remissions 31 March 2015 £m	Write-offs 31 March 2015 £m	Total 31 March 2015 £m
Income tax	136	522	658	181	868	1,049
Value Added Tax	87	1,475	1,562	10	1,426	1,436
Corporation Tax	3	323	326	5	580	585
Alcohol duties	12	23	35	3	70	73
Tobacco duties	2	12	14	1	2	3
Capital Gains Tax	8	33	41	8	32	40
National Insurance Contributions	41	350	391	66	396	462
Fines and penalties	310	414	724	91	343	434
Other remissions and write-offs	5	19	24	7	148	155
Total revenue losses	**604**	**3,171**	**3,775**	**372**	**3,865**	**4,237**

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

Revenue losses — cases more than £10 million (included in revenue losses table)

There are 20 cases (27 cases in 2014-15) where the loss exceeded £10 million, totalling £790 million (£686 million in 2014-15). Specific details are shown below:

There were seven write-offs (eight cases in 2014-15) of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £308 million (£158 million in 2014-15). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were eight write-offs (18 cases in 2014-15) relating to Insolvency over £10 million each. They were for VAT, Corporation Tax, income tax, National Insurance Contributions, Customs Duty and Tobacco Duty including interest, surcharge and penalties totalling £145 million (£515 million in 2014-15).

There was one write-off case of £11 million relating to a VAT foreign registered company with no assets. The trader is untraceable and therefore enforcement action is not possible.

There was one remission case of £10.9 million relating to Excise Duty where there was a legitimate accidental loss by the trader. This was remitted in accordance with the legislation in the Customs & Excise Management Act 1979 (CEMA).

There was a bulk remission of £17.7 million for VAT in respect of 16,517 cases. These related to financial years 2012 and prior where collection action had been attempted and was unsuccessful. There was a low likelihood of recovery and they were therefore progressed on a value for money basis.

There was a bulk remission of £36.5 million for VAT in respect of 228 cases. This relates to historic supplies of residential care services and is in line with guidance originally given in Business Brief 28/04, where HMRC stated it would not pursue tax on these supplies.

There was a bulk remission for SA penalties of £260.4 million relating to 938,197 cases, where it had been identified customers had not filed returns for at least three consecutive years. These customers were therefore removed from the SA regime and are no longer liable for SA. This has contributed to the overall increase in revenue losses for fines and penalities (table 4.4).

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2016 £bn	Accrued revenue payable as at 31 March 2016 £bn	Deferred revenue as at 31 March 2016 £bn	Total as at 31 March 2016 £bn	Total as at 31 March 2015 £bn
Value Added Tax	2.4	11.6	-	14.0	13.3
Corporation Tax	8.7	0.7	0.2	9.6	10.1
Income tax	1.8	3.3	-	5.1	3.2
National Insurance Funds and the NHS	0.5	15.3	-	15.8	18.3
Other revenue payables	1.0	0.3	1.3	2.6	1.2
Payments on account	2.4	-	-	2.4	2.1
Current liabilities before cash and cash equivalents	**16.8**	**31.2**	**1.5**	**49.5**	**48.2**
Cash and other payables	1.6	**–**	**–**	1.6	1.3
Total current liabilities	**18.4**	**31.2**	**1.5**	**51.1**	**49.5**

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made. Accrued revenue payable is recognised when:

- amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax, income tax and other small taxes likely to be repayable by HMRC pending finalisation of taxpayer liabilities, and for expected Corporation Tax overpayments.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods. There are no payables which fall due after one year.

5.1 Cash and other payables

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised to issue but the money has not cleared through the banking process as of the 31 March.

6. Accruals measurement and accounting estimates

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, actual outcomes could differ from the estimates used.

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been made to support the accrued revenue receivable and payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates are consistent with those prepared for the March 2016 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility.

6.1 Uncertainty around the estimates

Statistical models are used to produce the estimates and these are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs. HMRC management believe that the levels of variation are acceptable, and any total understatement or overstatement is unlikely to exceed £4 billion, which does not affect significantly the reported position and is less than 1% of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This uncertainty is based on a combination of evidence from the performance of the models over previous years and takes into account the changes we've made to the models to reflect March 2016 Budget measures, the judgement of professional departmental economists, and statisticians having substantial experience of tax forecasting. The estimates process for each major tax stream is described in more detail below:

6.2 Income tax and National Insurance Class 1 collected under PAYE

Due to late or missing submissions and for receipts relating to prior periods where the split between IT and NICs cannot be identified, some estimation of PAYE is required.

Estimates are also required to recognise underpayments as receivables or overpayments as payables identified during the end of year reconciliation of individual taxpayer accounts. These amounts have been estimated based upon previous experience of the levels of underpayments and overpayments from previous reconciliations as there are no alternative sources of data to draw from.

6.3 Self Assessment income tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2015-16 where payment is not yet due at 31 March 2016. The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2015-16. Due to the nature of the Self Assessment regime, information from actual Self Assessment returns or associated tax payments relating to 2015-16 are not available at the point of estimation. The March 2016 Budget IT and NICs Class 4 Self Assessment forecast has been revised slightly to incorporate the latest head of duty analysis results (see below for more information); the class 4 NICs forecast is as published at March 2015 Budget, as changes due to the latest head of duty analysis are very small.

(ii) Deduction from the 2014-15 accrued tax liabilities of relevant payments by 31 March 2016. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total Self Assessment receipts of income tax, NICs Class 4 and Capital Gains Tax.

(iii) A further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January of a given year. The breakdown of the total between income tax and NICs is made by statistical estimation.

6.4 Value Added Tax

A large amount of the VAT accrued revenue receivable and payable is based on actual data and is not therefore subject to estimation uncertainty. It is necessary to estimate a small percentage as some returns relating to the current financial year are not available prior to publication of these accounts. An estimate is produced by calculating the value of these returns last year as a proportion of the total value of the returns in the preceding period last year. Those proportions are then applied to the value of returns for the corresponding period this year.

Such a methodology provides a reliable indication of future accrued revenue receivable and payable, though there remains an element of estimation uncertainty around them. The total estimation uncertainty for all tax streams has been disclosed in note 6.1.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments need to be made so as to reflect VAT that is accounted for outside the process described above. These adjustments relate to import VAT, repayments made to government departments and officers' assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains using the methodology described above.

6.5 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies pay their Corporation Tax liabilities in three instalment payments (TIPs). Therefore, separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts.

Accrued revenue payable has been estimated for expected overpayments based on historical trends.

North Sea companies

The majority of TIPs relating to 1 January to 31 March are not due in sufficient time for publication of the accounts and are therefore estimated. This estimate is primarily based on prior year outturn liabilities adjusted for forecast changes in North Sea companies' Corporation Tax liabilities.

7. Provision for liabilities and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

The contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC consider that there is only a possible rather than probable likelihood that they will be required to make a payment, or the amount cannot be reliably measured.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2015-16 £bn	Total 2014-15 £bn
Balance at 1 April 2015	7.2	7.5	14.7	8.5
Provided in the year	1.1	-	1.1	9.3
Provision not required written back	(0.5)	(0.4)	(0.9)	(2.7)
Provision utilised in the year	(1.9)	(0.2)	(2.1)	(0.4)
Balance at 31 March 2016	**5.9**	**6.9**	**12.8**	**14.7**

7.1 Expenditure – movement in provisions

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2015-16 £bn	Total 2014-15 £bn
Total provided in the year	1.1	-	1.1	9.3
Provision not required written back	(0.5)	(0.4)	(0.9)	(2.7)
Net movement	**0.6**	**(0.4)**	**0.2**	**6.6**

7.2 Legal claims

Provision for liability

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of litigation over several years. The department having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement discussions.

Provisions were reviewed during 2015-16. Of the sum of £7.2 billion provided last year £1.9 billion was paid out during the year and it was identified that £0.5 billion was no longer required. New provisions totalling £1.1 billion have been included, giving a carried forward balance of £5.9 billion – a £1.3 billion decrease on last year. The table above shows the provision we have made for more likely than not outcomes.

Contingent liabilities

HMRC currently has 23 cases estimated at £49.1 billion (24 cases £35.6 billion as at 31 March 2015) where the maximum potential tax revenue, before losses, capital allowances and other reliefs, is over £100 million. Each case may include a lead case with follower claimants and covers a range of heads of duty, including Corporation Tax, income tax and VAT.

The increase of £13.5 billion is due to the revision and reclassification of estimates for cases currently in litigation, taking into account court decisions during the year. In addition, the calculation of interest to estimated finalisation dates also increased the value.

7.3 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 losses are carried back to years in which assessable profits chargeable to PRT arose, working backwards until the losses are exhausted.

Decommissioning oil and gas fields is a complex and resource intensive process, where the decision to decommission is affected by various factors, amongst which are improvements in extraction techniques, availability of contractors and market prices. Oil and gas companies estimate the future cost of decommissioning their fields and this information is aggregated in the Oil and Gas UK Activity Survey data. The long lead in time means that plans for decommissioning activity over the five year period to 2020-21 are largely in place. This period also corresponds with forecasts of tax revenues produced by the Office for Budget Responsibility. However, such data is inherently uncertain given the different approaches companies may take to assessing their costs and the profile of decommissioning activity. Beyond 2020-21 the picture is even less clear.

The total decommissioning cost for UK/UK Continental Shelf oil and gas fields and upstream assets is estimated at £43.7 billion over the period 2016-17 to 2041-42. Of this amount, £23.7 billion relates to installations given development consent prior to 16 March 1993 (fields liable for PRT).

7.3.1 Provision for decommissioning

Industry data on decommissioning costs are assumed to be the best available, though where provisions are shown in company accounts, the considerable level of uncertainty inherent in the cost estimating process is made clear. HMRC's most recent analysis of the decommissioning costs for PRT fields (based on the Oil and Gas UK survey as well as annual totals from the OBR's 'Economic and Fiscal Outlook 2016' and the 'Fiscal Sustainability Report 2015') are £6.3 billion for the period 2016-17 to 2020-21 and £17.4 billion for years 2021-22 to 2041-42.

From this information, the impact of PRT oil and gas field decommissioning costs for the two periods is estimated to be a cost to the Exchequer of £1.7 billion and £5.2 billion respectively. This gives a total provision estimate of £6.9 billion which represents a small decrease on the 2014-15 provision estimate of £7.5 billion.

The provision is subject to a considerable level of uncertainty, being calculated using oil and gas survey information, itself an aggregation of industry acknowledged uncertain data. In addition to uncertainties around the cost of decommissioning, the timing of when those costs will be incurred is also uncertain and will be dependent on factors such as oil prices, which will have a bearing on how long a field will be able to generate profit and, therefore, on when it will be decommissioned.

The provision utilised in-year of £225 million is the Exchequer cost from decommissioning spend in 2015-16, which has been measured by identification of PRT repayments arising from the utilisation of decommissioning losses.

8. Certificates of tax deposits

	CTD issues 2015-16 £m	CTD redemptions 2015-16 £m	CTD total 2015-16 £m	CTD total 2014-15 £m
Receipts	1,502	1,413	2,915	1,460
Payments	(1,224)	(1,681)	(2,905)	(1,476)
Net receipts/(payments)	-	-	10	(16)
Balance at 1 April	-	-	(16)	-
Balance at 31 March – included in (receivables)/payables			**(6)**	**(16)**

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. 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.

Full information about the relevant taxes and liabilities can be found on the HMRC website: **www.gov.uk**

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables in the Statement of Financial Position in the Trust Statement.

9. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. The company's parent undertaking and controlling party is HMRC.

R.N. Limited also holds on behalf of HMRC, assets that have been assigned to HMRC in settlement of debts. These are not recognised in the Trust Statement until realised. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

10. Third party assets

The department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The department holds Euro deposits in relation to traders who have registered with HMRC to use the VAT Mini One Stop Shop (VAT MOSS) scheme. This entails the making of a single quarterly payment to HMRC who will then forward any relevant amounts onto the tax authorities in the member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. Neither the department nor the government have any beneficial interest in these funds.

11. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related party has undertaken material transactions with the department during the year.

12. Events after the reporting period

HMRC have considered the result of the referendum held on 23 June 2016 which was in favour of the UK leaving the European Union and whether the vote has any impact on these financial statements. We have concluded that this is a non-adjusting event. There are no other reportable adjusting or non-adjusting events after the reporting period. The financial statements were authorised for issue by the Accounting Officer on 12 July 2016.

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 2016 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 2015-16.

3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the department shall comply with the guidance given in the FReM (Chapter 8). The department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Michael Sunderland
Acting Deputy Director
Government Financial Reporting
HM Treasury

18 December 2015

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

This statement summarises the expenditure incurred and income generated on an accruals basis. Other comprehensive expenditure and income includes changes to the values of non-current assets that cannot yet be recognised as income or expenditure.

Consolidated Statement of Comprehensive Net Expenditure

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Personal tax credits	4.1	28,450.2	29,123.2
Corporation tax reliefs	4.4	2,895.5	1,988.8
Child Benefit		11,703.5	11,604.1
National Insurance Fund top-up		9,852.0	4,720.0
Staff and related costs		2,347.8	2,287.0
Service charges		674.0	649.0
Goods and services		413.6	323.9
Payments in lieu of tax relief and rates		147.3	176.2
Other cash expenditure		217.1	225.1
Non-cash items		341.5	354.7
Total operating expenditure	2	**57,042.5**	**51,452.0**
Total operating income	5	**(415.1)**	**(335.8)**
Net operating expenditure		**56,627.4**	**51,116.2**
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
(Gain) on:			
- revaluation of property, plant and equipment		(13.2)	(94.9)
- revaluation of intangible assets		(19.3)	(26.8)
Total comprehensive expenditure for the year		**56,594.9**	**50,994.5**

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2016

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

Consolidated Statement of Financial Position

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Non-current assets:			
Property, plant and equipment	6	536.9	530.1
Intangible assets	7	1,181.1	1,202.9
Receivables	11	1,631.0	1,740.6
Total non-current assets		**3,349.0**	**3,473.6**
Current assets:			
Inventories		2.0	2.3
Trade and other receivables	11	1,482.7	1,320.3
Cash and cash equivalents	12	38.9	25.7
Total current assets		**1,523.6**	**1,348.3**
Total assets		**4,872.6**	**4,821.9**
Current liabilities:			
Trade and other payables	13	(3,363.6)	(2,837.7)
Provisions	14	(81.1)	(101.2)
Total current liabilities		**(3,444.7)**	**(2,938.9)**
Total assets less current liabilities		**1,427.9**	**1,883.0**
Non-current liabilities:			
Payables	13	(307.8)	(311.2)
Provisions	14	(70.6)	(51.5)
Pension liability	15	(7.9)	(8.7)
Total non-current liabilities		**(386.3)**	**(371.4)**
Total assets less total liabilities		**1,041.6**	**1,511.6**
Taxpayers' equity and other reserves:			
General fund		911.7	1,319.3
Revaluation reserve		137.7	201.0
Pension reserve		(7.8)	(8.7)
Total equity		**1,041.6**	**1,511.6**

Jon Thompson
Accounting Officer
6 July 2016

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2016

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the department's future public service delivery. Cash flows arising from financing activities include Parliamentary Supply and other cash flows.

Consolidated Statement of Cash Flows

	Note	2015-16 £m	2014-15 £m
Cash flows from operating activities			
Net operating expenditure		(56,627.4)	(51,116.2)
Adjustments for non-cash transactions	2	341.5	354.7
(Increase)/decrease in trade and other receivables[1]		(62.5)	(529.7)
(Increase)/decrease in inventories		0.3	(0.1)
Increase/(decrease) in trade and other payables[1]		506.8	124.9
Use of provisions	14	(29.8)	(31.1)
Net cash outflow from operating activities		**(55,871.1)**	**(51,197.5)**
Cash flows from investing activities			
Additions to property, plant and equipment	6	(71.8)	(47.5)
Less additions to leased property, plant and equipment		35.1	7.2
Additions to intangible assets	7	(192.2)	(198.0)
Less additions to leased intangible assets		–	0.5
Proceeds of disposal of property, plant and equipment		0.2	0.6
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		**(228.7)**	**(237.2)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		24,931.7	19,719.5
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		30,873.1	31,432.8
From the National Insurance Fund		343.1	319.6
Net financing from the Contingencies Fund and the National Loans Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(32.2)	(33.6)
Net financing		**56,115.7**	**51,438.3**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**15.9**	**3.6**
Payments of amounts due to the Consolidated Fund		(2.7)	(0.5)
Excess cash paid to the Consolidated Fund		–	–
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**13.2**	**3.1**
Cash and cash equivalents at the beginning of the period	12	**25.7**	**22.6**
Cash and cash equivalents at the end of the period	12	**38.9**	**25.7**

1 Figures are net of items not passing through the Consolidated Statement of Comprehensive Net Expenditure.

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund, revaluation and pension reserves. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by other reserves and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The pension reserve represents changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities, such as financial assumptions, market expectations, mortality rates and projected salaries.

Consolidated Statement of Changes in Taxpayers' Equity

		Departmental group			
	Note	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m
Balance at 31 March 2014		**907.4**	**124.7**	**(37.7)**	**994.4**
Net Parliamentary funding – drawn down		19,719.5	–	–	19,719.5
Net Parliamentary funding – deemed[3]		22.5	–	–	22.5
Funding from Trust Statement[4]		31,432.8	–	–	31,432.8
National Insurance Fund		330.5	–	–	330.5
Supply (payable)/receivable adjustment		(23.9)	–	–	(23.9)
Payments to the Consolidated Fund		(2.2)	–	–	(2.2)
Net expenditure for the year		(51,116.2)	–	–	(51,116.2)
Other net comprehensive expenditure:					
Revaluation of property, plant and equipment		–	94.9	–	94.9
Revaluation of intangible assets		–	26.8	–	26.8
Transfer between reserves		47.0	(45.4)	(1.6)	–
Pension reserve actuarial (losses)/gains		–	–	(17.4)	(17.4)
Contributions to LGPS pension fund by DWP		–	–	48.0	48.0
Non-cash charges – auditor's remuneration	2	1.9	–	–	1.9
Balance at 31 March 2015		**1,319.3**	**201.0**	**(8.7)**	**1,511.6**

Continued

	Note	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m
					Departmental group
Balance at 31 March 2015		**1,319.3**	**201.0**	**(8.7)**	**1,511.6**
Net Parliamentary funding – drawn down		24,931.7	–	–	24,931.7
Net Parliamentary funding – deemed[3]		23.9	–	–	23.9
Funding from Trust Statement[4]		30,873.1	–	–	30,873.1
National Insurance Fund		331.0	–	–	331.0
Supply (payable)/receivable adjustment		(37.4)	–	–	(37.4)
Payments to the Consolidated Fund		(2.0)	–	–	(2.0)
Net expenditure for the year		(56,627.4)	–	–	(56,627.4)
Other net comprehensive expenditure:					
Revaluation of property, plant and equipment		–	13.2	–	13.2
Revaluation of intangible assets		–	19.3	–	19.3
Transfer between reserves		97.7	(95.8)	(1.9)	–
Pension reserve actuarial (losses)/gains		–	–	2.1	2.1
Contributions to LGPS pension fund by DWP		–	–	0.7	0.7
Non-cash charges – auditor's remuneration	2	1.8	–	–	1.8
Balance at 31 March 2016		**911.7**	**137.7**	**(7.8)**	**1,041.6**

1 The 31 March 2016 balance comprised £67.3 million in relation to tangible assets (31 March 2015 £126.8 million, 31 March 2014 £55.8 million) and £70.4 million in relation to intangible assets (31 March 2015 £74.2 million, 31 March 2014 £68.9 million).
2 The pension reserve is in respect of VOA employees who are members of the Local Government Pension Scheme (LGPS).
3 This is any Supply drawn down in the previous year but not spent at that year-end and, therefore, is available to be spent in this financial year.
4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement.

For further details about funding of personal tax credits and corporation tax reliefs please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, **page 160.**

The notes on pages 185 to 214 form part of these accounts.

Notes to the departmental Resource Accounts

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2015-16 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

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

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

1.2 Accounting convention

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

1.3 Basis of consolidation

This account consolidates the results of the bodies that fall within the departmental boundary as defined by the *FReM*. For HMRC these are the results of core department, VOA and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). All transactions between these three bodies are eliminated from the figures shown in the 'Departmental group' column.

1.4 Simplifying and streamlining

The layout of some statements and notes within these accounts has been revised to reflect changes due to implementation of the HM Treasury Simplifying and Streamlining Accounts project. These changes predominantly affect the Consolidated Statement of Net Expenditure and the Expenditure note. Where comparatives have been reclassified, the underlying figures are unchanged. This disclosure is in accordance with IAS 1.41.

1.5 Tax credits

1.5.1 Personal tax credits

Personal tax credits expenditure is recognised in the financial year in which claims are assessed and awards authorised. Authorisation is the point at which the obligation to pay personal tax credits arises; payments are provisional until entitlement is finalised after the financial year-end. Expenditure recognised during the financial year (1 April to 31 March) relates to provisional awards for the current award year (6 April to 5 April) and adjustments in respect of an estimate of the finalisation occurring following the year-end. The department's statisticians provide a range for the likely outcome of the finalisations and the mid-point of this range has been included as a receivable in the Account.

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments, however if we have an existing receivable balance for a customer the underpayment is offset against the receivable. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayments. Further details relating to the accounting for personal tax credits receivables are provided at note 1.16 and note 4.

Receivables which are deemed irrecoverable are written-off in accordance with the department's normal remission policy, and recorded as losses or remissions as appropriate in the Losses Statement.

1.5.2 Corporation tax reliefs

The value of corporation tax reliefs (see note 4.4) is estimated, based on the most recent data available. The basis of the estimation is, where available, derived from claims recorded on companies' returns for their accounting period which ended in the relevant HMRC financial year or based on other appropriate forecasting methodology. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end and consequently historic claims are utilised to project forward to the current year taking into account forecast growth rates and planned changes in relevant tax policy and rates.

1.6 Child Benefit

Child Benefit payments are accounted for from the time a claim for Child Benefit is approved.

Where under or overpayments are identified, adjustments are made to expenditure. Where possible, overpayments are recovered from future benefit entitlements. Receivables which are deemed irrecoverable are written-off in accordance with the department's normal remission policy, and recorded as losses or remissions as appropriate in the Losses Statement.

The Losses Statement is reported in the Accountability Section on **page 150.**

1.7 Non-Current assets

1.7.1 Depreciation/amortisation

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

Asset category – property, plant and equipment	Estimated useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Remainder of the lease
Office equipment	5 to 20 years
Computer equipment	5 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	15 years
Scientific aids	3 to 10 years
Asset category – intangible assets	**Estimated useful life**
Developed computer software	10 years unless known to be otherwise
Software licences	Period of the licence
Website development costs	10 years unless known to be otherwise

1.7.2 Review of useful economic life

The useful economic life of all assets are considered on an annual basis and changed if required.

1.7.3 Impairments

An impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

1.8 Property, plant and equipment

1.8.1 General

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses, in accordance with IAS 16 *Property, Plant and Equipment*. A £5,000 capitalisation threshold applies to all property, plant and equipment except for furniture, vehicles and IT hardware, which are capitalised regardless of cost and accommodation refurbishments which are capitalised once costs exceed £150,000. Assets capitalised under finance leases are recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract, in accordance with IAS 17 *Leases.*

On initial recognition assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets under construction are recorded at cost. Non-property assets are valued on a depreciated historical cost basis as a proxy for fair value had indices been applied, as they are of low value with short lives.

1.8.2 Property assets

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

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

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor departments by Mapeley STEPS Contractor Ltd in March 2001 under a 20 year PFI contract (see note 9.2). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The department has also capitalised other PFI property interests as finance leases being service concession arrangements under IFRIC 12. The department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

Property assets have been stated at fair value using professional valuation on a rolling five year programme, all assets will be professionally revalued within this time period.

1.8.3 IT assets

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

From 1 December 2015, RCDTS Ltd have taken over the provision of the management of Aspire third-party supplier contracts for IT hardware, software, service and consumables from our IT partners. As part of this service IT hardware assets are purchased by RCDTS Ltd on behalf of the department and are capitalised within these Accounts.

1.8.4 Tangible assets under construction

Assets under construction are separately reported in note 6. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.9 Intangible assets

1.9.1 Developed computer software

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

1.9.2 Intangible assets under construction

Intangible assets under construction relate to software development by the department, our IT Partners and RCDTS Ltd. The latter is in relation to IT software development for Case Management and Customs and International (Excite) services transferred over to RCDTS Ltd on 1 December 2015. Intangible assets under construction are separately reported in note 7. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.10 Pensions

1.10.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as alpha, are unfunded and contributory. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS.

1.10.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme.

Further information can be found within the Valuation Office Agency accounts (HC 468) that can be viewed at: **www.gov.uk/government/organisations/valuation-office-agency**

1.10.3 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme.

Further information will be found within the RCDTS Ltd accounts available at Companies House at: **www.gov.uk/governemnt/organisations/companies-house** by 31 December 2016

1.11 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the department provides for probable legal or constructive obligations which are of uncertain timing or amount at Consolidated Statement of Financial Position date, on the basis of the best estimate of the expenditure required to settle the obligation.

1.12 Early departure costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who have taken early departure or retirement under the Civil Service Compensation Scheme. The department has made provision in full for early retirement costs. The estimated risk-adjusted cash flows are discounted at 1.37% as set by HM Treasury (2014-15: 1.3%).

1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the department discloses possible legal or constructive obligations of uncertain value or timing at Consolidated Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation.

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately. In accordance with the requirements of *Managing Public Money.*

Remote contingent liabilities are reported in the Accountability Section on **page 153.**

Where the time value of money is significant, contingent liabilities are stated at discounted amounts, and the amount reported to Parliament separately noted.

1.14 Value Added Tax (VAT)

Most of the activities of the department are outside the scope of VAT. A proportion of the activities of the department will attract VAT, and output VAT will apply in these circumstances. The department also has recoverable and non-recoverable elements for input 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.

1.15 Impending application of newly issued accounting standards not yet effective

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

- IFRS 9 Financial Instruments, effective 1 January 2018 (not yet EU adopted). IFRS 9 addresses classification, measurement and impairment of financial assets and is still subject to analysis and consideration by HM Treasury with a view to include in the 2018-19 FReM.
- IFRS 15 Revenue, effective 1 January 2017 (not yet EU adopted). IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The disclosure requirements under the new Standard are more extensive than the current requirements included within IAS 18. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to include in the 2018-19 FReM.
- IFRS 16 Leases, effective 1 January 2019 (not yet EU adopted). IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months of less or the underlying asset has a low value. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to include in the 2018-19 FReM.

1.16 Critical accounting judgements and key sources of estimation

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

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

Personal tax credits expenditure

Personal tax credits consist of Child Tax Credits and Working 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. A range for the estimate of the results of the current year finalisation exercise is also provided. This estimate is based on a model used to forecast debt and factors in a number of assumptions including the expected effects of new policy. It is therefore subject to uncertainty and the estimate disclosed in note 4.2 represents the mid-point of the range (see note 1.5.1). Tax credits can comprise of an element that is treated as negative taxation which is when the extent of the relief is less than or equal to the recipient's tax liability. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Estimates for the split of Child Tax Credits and Working Tax Credits and the apportionment of costs to negative taxation and payments of entitlement are also provided. The apportionments are estimated by modelling the tax credits systems and financial data (see note 4).

Corporation tax reliefs

As stated in note 1.5.2, corporation tax reliefs are estimated by the department's statisticians. The models are based on a combination of projections utilising the most recent forecasts of economic variables on which future expenditure flows depend. Due to the areas of uncertainty involved, there will inevitably be differences between the estimated forecasts and actual future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models (see note 4.4).

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. We assess the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair view of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 11).

The impairment of personal tax credits receivables is estimated by using a model that tracks historic recoveries. The impairment rates are calculated for each receivables category, taking into account actual recovery rates. These rates are then applied to the gross carrying value of receivables for each category to provide an estimate of the recoverable amount.

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

Provisions and contingent liabilities

The department undertakes a quarterly review of provisions and contingent liabilities. These are estimated by appropriate business areas based on the likelihood of a liability materialising.

2. Expenditure

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Personal tax credits	4.1	**28,450.2**	**29,123.2**
Corporation tax reliefs	4.4	**2,895.5**	**1,988.8**
Child Benefit			
Child Benefit[1]		11,701.4	11,602.0
Guardian's Allowance (funded from National Insurance Fund)		2.1	2.1
		11,703.5	**11,604.1**
National Insurance Fund top-up[2]		**9,852.0**	**4,720.0**
Staff and related costs	Page 119		
Wages and salaries		1,779.7	1,743.2
Social security costs		125.8	123.7
Other pension costs		356.2	314.8
Less capitalised costs		(7.3)	(6.0)
Travel, subsistence and hospitality		60.6	57.6
Recruitment and training		26.7	21.6
Early severance schemes		6.1	32.1
		2,347.8	**2,287.0**
Service charges			
IT Public Private Partnership contract payments		497.2	499.6
Accommodation PFI and non-PFI contract payments		135.4	108.0
Indexation of liability on PFI deals		2.4	2.4
IT Public Private Partnership interest charges		5.4	3.8
Accommodation interest charges		33.6	35.2
		674.0	**649.0**
Goods and services			
Printing, postage, stationery and office supplies		66.0	68.8
Consultancy		2.5	2.8
Contracted out services		84.3	43.4
Publicity		6.4	10.6
Post Office services		7.6	11.6
Bank charges		24.6	20.6
IT services and consumables		95.1	40.9
Telephone expenses		65.1	62.2
Legal and investigation		42.8	43.4
Enforcement costs		19.2	19.6
		413.6	**323.9**

Continued

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Payments in lieu of tax relief and rates			
Life Assurance Premium Relief, MIRAS		1.6	8.6
Transitional payments to charities		45.0	42.6
Stakeholder pensions		30.0	55.0
Payments of local authority rates		70.7	70.0
		147.3	**176.2**
Other cash expenditure			
Accommodation expenses		85.8	103.8
National Insurance Fund other government department collection service		53.2	56.3
Shipbuilders' Relief		17.9	1.2
Hire of plant and machinery		0.3	0.4
Other operating leases		32.4	34.0
Payments to add capacity		–	2.7
Losses – excluding Child Benefit and tax credits		0.4	0.5
Special Payments		4.7	5.2
Other		22.4	21.1
		217.1	**225.2**
Non-cash items:			
Depreciation, amortisation and impairments			
Depreciation		75.6	69.7
Amortisation		229.4	206.1
Loss on impairment of non-current assets	8	2.0	6.0
		307.0	**281.8**
Provisions for liabilities and charges	14	**28.8**	**67.4**
Other non-cash			
Pension finance costs		1.9	1.6
Auditor's remuneration and expenses		1.8	1.9
(Profit)/loss on disposal of non-current assets		2.0	2.4
Net revaluation (gain)/loss		–	(0.4)
		5.7	**5.5**
Total non-cash items		**341.5**	**354.7**
Total operating expenditure		**57,042.5**	**51,452.1**

1 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. In accordance with government policy, it is estimated that £475 million (2014-15: £450 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2015-16. These income tax charges are accounted for in the Trust Statement.

2 Top-up payments were made to the National Insurance Fund as a result of the government convention that the balance on the fund will not be allowed to fall below one sixth of the annual benefit expenditure.

3. Statement of operating expenditure by operating segment

This note shows how current expenditure is apportioned against the main areas of business activity.

Each segment relates to a business activity reported to the Chief Executive and the Board in a document called the Financial Pack using relevant management information. This covers expenditure and income and is used by the Board to inform decisions.

3.1 Expenditure and income by reportable segment

			2015-16 £m			2014-15 £m
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
Reportable segment						
Enforcement and Compliance	1,055.9	53.6	1,002.3	1,018.0	30.8	987.2
Chief Digital and Information Officer	873.0	40.1	832.9	853.1	28.4	824.7
Personal Tax	556.7	21.4	535.3	543.7	12.9	530.8
Chief Finance Officer Group	388.8	25.6	363.2	382.4	23.3	359.1
Business Tax	224.6	4.6	220.0	203.0	2.4	200.6
Change Investment Funding	215.4	1.0	214.4	118.1	0.1	118.0
Benefits and Credits Delivery	146.2	0.3	145.9	154.7	0.5	154.2
Chief People Officer Group	94.0	0.8	93.2	130.8	1.5	129.3
Central Tax and Strategy	79.3	1.3	78.0	63.4	1.0	62.4
Legal	56.3	4.2	52.1	59.9	4.6	55.3
HMRC Central	34.8	–	34.8	44.0	1.4	42.6
HMRC Transformation	4.0	–	4.0	4.0	–	4.0
Data Management and Exploitation[1]	1.1	–	1.1	–	–	–
Civil Service Resourcing	62.0	63.0	(1.0)	42.0	42.2	(0.2)
Total	**3,792.1**	**215.9**	**3,576.2**	**3,617.1**	**149.1**	**3,468.0**

1 This segment was introduced in 2015-16. The activities undertaken by Data Management and Exploitation were previously reported under Enforcement and Compliance.

3.2 Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

Information on all other net expenditure is included in the table below. This information is reported to the Board, however it is not included in the Financial Pack as it is typically demand-led and therefore is not delegated.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2015-16 £m	2014-15 £m
Total net expenditure reported for operating segments	**3,576.2**	**3,468.0**
Valuation Office Agency	1.5	(1.4)
Payments in lieu of tax relief[1]	76.6	106.2
Payments of local authority rates	67.0	65.9
Child Benefit and Child Trust Fund	11,700.9	11,602.0
Personal tax credits	28,450.2	29,123.2
Corporation tax reliefs	2,895.5	1,988.8
IFRS elements not included in the management accounts	6.9	1.6
Remaining reconciling items	0.6	41.9
Non-budget voted NIF	9,852.0	4,720.0
Total net expenditure per the Consolidated Statement of Comprehensive Net Expenditure	**56,627.4**	**51,116.2**

1 Of the comparative value, £8.6 million was previously shown against 'Other income tax reliefs'.

4. Tax credits

Since 2011-12 both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can comprise of an element that is treated as negative taxation which is when the extent of the relief is less than or equal to the recipient's tax liability. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Under National Accounts, credits which are not integral to the tax system should be treated as public expenditure on social benefits.

4.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit.

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

Analysis of personal tax credits expenditure

	Child Tax Credit	Working Tax Credit	2015-16 £m Total tax credits	Child Tax Credit	Working Tax Credit	2014-15 £m Total tax credits
Tax credits treated as negative taxation	1,894.8	514.5	2,409.3	1,947.4	532.1	2,479.5
Tax credits treated as payments of entitlement	20,253.9	5,498.9	25,752.8	20,816.4	5,687.5	26,503.9
	22,148.7	**6,013.4**	**28,162.1**	**22,763.8**	**6,219.6**	**28,983.4**
Movement in impairment for receivables	137.6	31.9	169.5	(16.7)	(14.1)	(30.8)
Remissions/write-offs	82.7	35.9	118.6	117.6	53.0	170.6
Total tax credits	**22,369.0**	**6,081.2**	**28,450.2**	**22,864.7**	**6,258.5**	**29,123.2**

Please see note 1.16 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 Credit and Working Tax Credit.

Background about the operation of personal tax credits can be found at:
www.gov.uk/government/organisations/hm-revenue-customs

4.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

HMRC statisticians provide a range for the estimate of the results of the current year finalisation exercise. It is therefore subject to uncertainty and the estimate disclosed represents the mid-point of the range.

Personal tax credits receivables

	Note	2015-16 £m	2014-15 £m
Receivables as at 1 April		**6,925.5**	**6,485.8**
Adjustment to prior year finalisation estimate		(114.4)	(141.3)
Estimated overpayment of awards prior to finalisation[1]		800.0	850.0
Overpayments identified from change of circumstances in year		977.6	932.6
Recoveries made		(1,372.0)	(1,031.0)
Remissions/write-offs		(118.6)	(170.6)
Receivables as at 31 March		**7,098.1**	**6,925.5**
Provision for impairment for receivables		(4,234.5)	(4,065.0)
Net		**2,863.6**	**2,860.5**
Of which:			
Amounts expected to be recovered within one year	11	1,232.6	1,119.9
Amounts expected to be recovered in more than one year	11	1,631.0	1,740.6
Total		**2,863.6**	**2,860.5**

1 The range of the estimate is £600 million to £1,000 million (2014-15: £650 million to £1,050 million).

4.3 Personal tax credits error and fraud

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

In June 2016, HMRC completed its testing on finalised awards for 2014-15, based on a random sample of some 5,000 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.26 billion and £1.48 billion (4.4% to 5.2% of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments of awards to which claimants were entitled of between £0.17 billion and £0.22 billion (0.6% to 0.8% of the final award by value).

4.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. In order to claim a relief, a company must be undertaking specific activities and meet the criteria set out for that relief. Certain corporation tax reliefs are reported in these Resource Accounts as Annually Managed Expenditure (AME). This treatment has been agreed with HM Treasury and relates to reliefs where there is (or could be), by virtue of their design, a payable element that is in excess of any negative taxation. In this case both the payable element and the negative taxation element are reported in these Resource Accounts as detailed in the table below. Where a relief is integral to the tax system and is purely negative taxation it remains in the Trust Statement.

Corporation tax reliefs

			2015-16 £m			2014-15 £m
	Negative taxation	Payments of entitlement	Total	Negative taxation	Payments of entitlement	Total
Research and development tax credits – Large Companies 'Above the Line' (ATL)	322.2	1,034.1	1,356.3	306.5	502.9	809.4
Research and development tax credits – Small and Medium Enterprises	388.4	605.8	994.2	390.4	348.0	738.4
Film Tax Relief	–	326.8	326.8	–	257.4	257.4
Video Games Tax Relief	–	36.4	36.4	–	35.6	35.6
High-end Television Tax Relief	–	104.4	104.4	–	91.9	91.9
Children's Television Tax Relief[1]	–	6.3	6.3	–	–	–
Animation Tax Relief	–	10.9	10.9	–	7.3	7.3
Theatre Tax Relief	–	32.8	32.8	–	21.4	21.4
Land Remediation Relief	22.4	3.0	25.4	22.4	3.0	25.4
Vaccine Research Relief	2.0	–	2.0	2.0	–	2.0
Enhanced Capital Allowance	–	–	–	–	–	–
Total	**735.0**	**2,160.5**	**2,895.5**	**721.3**	**1,267.5**	**1,988.8**

1 This relief was introduced in 2015-16.

5. Income

Operating income is income which relates directly to the operating activities of the department. It principally comprises fees and charges to other government departments, agencies, non-departmental public bodies and external customers for services provided on a full-cost basis. It includes not only income allowed to be retained by the department but also any operating income which is required to be paid to the Consolidated Fund. VOA services relate to income generated by the agency for the provision of valuations and property advice required to support taxation and benefits. Operating income is stated net of VAT.

Operating income

	2015-16 £m Departmental group	2014-15 £m Departmental group
Administration services	118.5	85.1
Banking services	17.9	16.2
VOA services	198.9	184.0
Other income types	34.3	22.4
Subscriptions and fees	27.0	19.1
IT and telephony charges	18.5	9.0
	415.1	**335.8**
Of which:		
Income from services	335.3	285.2
Other operating income	79.8	50.6
Total	**415.1**	**335.8**

6. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2015	50.0	523.7	163.8	288.9	20.3	49.7	11.4	5.5	1,113.3
Additions	–	–	–	40.0	0.8	3.2	27.7	0.1	71.8
Disposals	–	(1.7)	(2.5)	(10.3)	(0.9)	(2.3)	–	(0.5)	(18.2)
Impairments	–	(1.4)	–	–	–	(0.1)	–	–	(1.5)
Reclassifications	–	–	5.2	8.0	–	0.2	(13.4)	–	–
Revaluations[2]	2.5	7.6	–	–	–	0.1	–	–	10.2
At 31 March 2016	**52.5**	**528.2**	**166.5**	**326.6**	**20.2**	**50.8**	**25.7**	**5.1**	**1,175.6**
Depreciation									
At 1 April 2015	–	(241.7)	(98.8)	(204.7)	(10.6)	(23.5)	–	(3.9)	(583.2)
Charged in year	–	(19.2)	(12.1)	(37.4)	(2.6)	(3.4)	–	(0.9)	(75.6)
Disposals	–	1.1	2.5	9.7	0.8	1.6	–	0.5	16.2
Impairments	–	0.9	–	–	–	–	–	–	0.9
Reclassifications	–	–	–	(0.5)	–	0.5	–	–	–
Revaluations[2]	–	3.0	–	–	–	–	–	–	3.0
At 31 March 2016	**–**	**(255.9)**	**(108.4)**	**(232.9)**	**(12.4)**	**(24.8)**	**–**	**(4.3)**	**(638.7)**
Carrying amount at 31 March 2015	50.0	282.0	65.0	84.2	9.7	26.2	11.4	1.6	530.1
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
The assets are financed as follows:									
Owned	52.5	–	58.1	56.9	7.8	26.0	25.7	0.8	227.8
Finance leased	–	–	–	36.8	–	–	–	–	36.8
PFI contracts	–	272.3	–	–	–	–	–	–	272.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
Of the total:									
Core department	52.5	271.9	55.6	88.8	7.8	23.5	24.9	0.8	525.7
Valuation Office Agency	–	0.4	2.5	4.6	–	2.5	0.8	–	10.9
Revenue and Customs Digital Technology Services Limited	–	–	–	0.3	–	–	–	–	0.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**

Continued

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2014	28.9	467.6	164.7	283.4	19.2	52.0	23.1	6.1	1,045.0
Additions	–	–	–	10.7	2.5	4.2	30.0	0.1	47.5
Disposals	–	(26.9)	(3.5)	(43.5)	(1.4)	(7.3)	–	(0.7)	(83.3)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	2.6	38.3	–	0.8	(41.7)	–	–
Revaluations[2]	21.1	83.0	–	–	–	–	–	–	104.1
At 31 March 2015	**50.0**	**523.7**	**163.8**	**288.9**	**20.3**	**49.7**	**11.4**	**5.5**	**1,113.3**
Depreciation									
At 1 April 2014	–	(235.3)	(89.5)	(217.1)	(9.5)	(25.9)	–	(3.4)	(580.7)
Charged in year	–	(19.9)	(12.8)	(30.1)	(2.3)	(3.4)	–	(1.2)	(69.7)
Disposals	–	22.3	3.5	42.5	1.2	5.8	–	0.7	76.0
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluations[2]	–	(8.8)	–	–	–	–	–	–	(8.8)
At 31 March 2015	**–**	**(241.7)**	**(98.8)**	**(204.7)**	**(10.6)**	**(23.5)**	**–**	**(3.9)**	**(583.2)**
Carrying amount at 31 March 2014	28.9	232.3	75.2	66.3	9.7	26.1	23.1	2.7	464.3
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**
The assets are financed as follows:									
Owned	50.0	–	65.0	63.8	9.7	26.2	11.4	1.6	227.7
Finance leased	–	–	–	20.4	–	–	–	–	20.4
PFI contracts	–	282.0	–	–	–	–	–	–	282.0
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**
Of the total:									
Core department	50.0	281.5	63.0	80.9	9.7	23.7	9.8	1.6	520.2
Valuation Office Agency	–	0.5	2.0	3.3	–	2.5	1.6	–	9.9
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**

1 See note 1.8.2 for the accounting policy for property assets.
2 See notes 1.2 and 1.8 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

7. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2015	33.5	2,807.5	9.1	172.0	3,022.1
Additions	0.1	0.2	–	191.9	192.2
Disposals	(5.0)	(27.7)	–	(0.3)	(33.0)
Impairments	–	(8.0)	–	–	(8.0)
Reclassifications	0.7	151.9	3.3	(155.9)	–
Revaluation[1]	–	52.6	–	–	52.6
At 31 March 2016	**29.3**	**2,976.5**	**12.4**	**207.7**	**3,225.9**
Amortisation					
At 1 April 2015	(29.1)	(1,787.6)	(2.5)	–	(1,819.2)
Charged in year	(2.0)	(225.8)	(1.6)	–	(229.4)
Disposals	5.0	25.5	–	–	30.5
Impairments	–	6.6	–	–	6.6
Reclassifications	–	–	–	–	–
Revaluation[1]	–	(33.3)	–	–	(33.3)
At 31 March 2016	**(26.1)**	**(2,014.6)**	**(4.1)**	**–**	**(2,044.8)**
Carrying amount at 31 March 2015	4.4	1,019.9	6.6	172.0	1,202.9
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
The assets are financed as follows:					
Owned	3.1	961.9	8.3	207.7	1,181.0
Finance leased	–	–	–	–	–
PFI contracts	0.1	–	–	–	0.1
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
Of the total:					
Core department	3.2	950.6	8.3	203.4	1,165.5
Valuation Office Agency	–	11.3	–	4.3	15.6
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2014	32.4	2,595.9	6.5	160.2	2,795.0
Additions	1.2	–	–	196.8	198.0
Disposals	(0.1)	(11.7)	–	(0.5)	(12.3)
Impairments	–	(28.2)	–	–	(28.2)
Reclassifications	–	181.9	2.6	(184.5)	–
Revaluation[1]	–	69.6	–	–	69.6
At 31 March 2015	**33.5**	**2,807.5**	**9.1**	**172.0**	**3,022.1**
Amortisation					
At 1 April 2014	(25.7)	(1,575.2)	(1.3)	–	(1,602.2)
Charged in year	(3.5)	(201.4)	(1.2)	–	(206.1)
Disposals	0.1	9.6	–	–	9.7
Impairments	–	22.1	–	–	22.1
Reclassifications	–	–	–	–	–
Revaluation[1]	–	(42.7)	–	–	(42.7)
At 31 March 2015	**(29.1)**	**(1,787.6)**	**(2.5)**	**–**	**(1,819.2)**
Carrying amount at 31 March 2014	6.7	1,020.7	5.2	160.2	1,192.8
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**
The assets are financed as follows:					
Owned	3.6	1,019.9	6.6	172.0	1,202.1
Finance leased	–	–	–	–	–
PFI contracts	0.8	–	–	–	0.8
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**
Of the total:					
Core department	4.4	1,005.0	6.6	168.7	1,184.7
Valuation Office Agency	–	14.9	–	3.3	18.2
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**

1 See notes 1.2 and 1.9 for the accounting policy regarding revaluation of intangible assets.

8. Impairments

The department has incurred the following impairments to non-current assets and assets held for sale during the financial year.

	2015-16 £m Departmental group	2014-15 £m Departmental group
Charged to Statement of Comprehensive Net Expenditure		
Property, plant and equipment	0.5	–
Intangible assets	1.5	6.1
Assets held for sale	–	–
Impairment charged	**2.0**	**6.1**
Transferred from revaluation reserve		
Property, plant and equipment	–	–
Intangible assets	0.1	–
Assets held for sale	–	–

See note 1.7.3 for the accounting policy for impairments.

9. Capital and other commitments

9.1 Commitments under leases

Leases are categorised as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidential to ownership, whereas an operating lease doesn't. The property leases vary in length and the department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired.

9.1.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department, property leased by the department direct from private landlords and the minor occupation of other government department buildings. The other commitments relate to a number of IT and vehicle leasing contracts.

Obligations under operating leases

	2015-16 £m Departmental group	2014-15 £m Departmental group
Land and buildings		
Due within one year	93.5	95.4
Due between one year and five years	315.9	328.9
Due later than five years	42.4	118.5
	451.8	**542.8**
Other		
Due within one year	7.7	7.2
Due between one year and five years	4.2	9.8
Due later than five years	–	–
	11.9	**17.0**

9.1.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position (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.

Obligations under finance leases

	2015-16 £m Departmental group	2014-15 £m Departmental group
Buildings		
Due within one year	2.7	3.0
Due between one year and five years	10.3	11.8
Due later than five years	1.7	4.5
	14.7	**19.3**

9.2 Commitments under PFI and other service concession arrangements

9.2.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

9.2.2 On-Statement of Financial Position

The following commitments are in respect of assets that have been brought onto the department's Statement of Financial Position (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 St. John's House, Bootle. They also include commitments for IT assets owned by Capgemini and Fujitsu to deliver the IT service contract.

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £635.0 million[1] (2014-15: £610.0 million).

1 This amount is included within the figures reported in note 2 as PPP and PFI service charges.

The substance of each contract is that the department has a finance lease and that payments comprise two elements – finance lease charges and service charges.

Details of the obligations for lease payments

	2015-16 £m Departmental group	2014-15 £m Departmental group
Minimum lease payments:		
Due within one year	62.4	56.1
Due between one year and five years	201.8	191.0
Due later than five years	342.2	384.1
Total minimum lease payments due in future periods	**606.4**	**631.2**

Details of the obligations for service elements

	2015-16 £m Departmental group	2014-15 £m Departmental group
Service elements due in future periods:		
Due within one year	412.4	489.7
Due between one year and five years	451.9	820.0
Due later than five years	367.0	428.7
Total service elements due in future periods	**1,231.3**	**1,738.4**
Total commitments	**1,837.7**	**2,369.6**

9.3 Capital commitments

The majority of capital commitments relate to the future cost of the development work raised under the IT service contract with the department's IT suppliers.

Contracted capital commitments at 31 March not otherwise included in these financial statements

	2015-16 £m Departmental group	2014-15 £m Departmental group
Property, plant and equipment	0.6	0.9
Intangible assets	39.5	41.8
	40.1	**42.7**

9.4 Other financial commitments

During 2015-16 the department had no non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements).

10. Assets held for sale

The department had no assets held for sale.

11. Trade receivables, financial and other assets

	2015-16 £m Departmental group	2014-15 £m Departmental group
Amounts expected to be recovered in more than one year:		
Personal tax credits[1]	1,631.0	1,740.6
	1,631.0	**1,740.6**
Amounts expected to be recovered within one year:		
Personal tax credits[1]	1,232.6	1,119.9
Child Benefit[2]	23.4	21.6
Trade receivables	8.6	5.6
Other receivables[3]	14.4	7.6
Deposits and advances	54.2	23.2
Value Added Tax	36.7	16.6
Prepayments – Child Benefit	41.2	68.2
Accrued income, other prepayments	71.6	57.6
	1,482.7	**1,320.3**

1 This figure is net of provision for impairment amounting to core department: £4,234.5 million (2014-15 core department: £4,065.0 million) (see note 4).
2 This figure is net of provision for impairment amounting to core department: £30.4 million (2014-15 core department: £19.8 million).
3 This figure is net of provision for impairment amounting to core department: £18.1 million, departmental group: £19.2 million (2014-15 core department: £16.2 million, departmental group: £16.5 million).

HMRC has funded RCDTS Ltd with £6.0 million for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.

12. Cash and cash equivalents

Cash and bank balances relate to the administering of the department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the department's Trust Statement. Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Cash and cash equivalents

	2015-16 £m Departmental group	2014-15 £m Departmental group
Balance at 1 April	25.7	22.6
Net change in cash and cash equivalent balances	13.2	3.1
Balance at 31 March	**38.9**	**25.7**
Of which balances were held at:		
Government Banking Service	37.6	24.7
Commercial banks and cash in hand	1.3	1.0
Balance at 31 March	**38.9**	**25.7**

13. Trade payables and other liabilities

The department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The department paid 99.7% (2014-15: 99.9%) of supplier invoices within 30 days.

The department aims to pay invoices within five days of receipt of goods and valid invoice. The department paid 95.8% (2014-15: 94.8%) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2015-16 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £11 (2014-15: £24).

The department's figures included above for prompt payment of invoices are not subject to audit.

Trade payables and other liabilities

	2015-16 £m Departmental group	2014-15 £m Departmental group
Amounts expected to be paid within one year:		
Personal tax credits	567.8	653.5
Child Benefit	9.1	8.7
Trade payables	74.7	57.0
Taxation and social security excluding VAT	38.7	37.6
IT Public Private Partnership	15.5	9.8
Accommodation PFI	12.4	11.7
Accommodation non-PFI	1.8	1.8
Other payables	5.8	0.8
Accruals – corporation tax reliefs	2,006.8	1,444.3
Accruals – Child Benefit	214.6	173.8
Deferred income, other accruals	378.0	413.0
Amounts issued from the Consolidated Fund for Supply but not spent at year end	37.4	23.9
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund		
received	1.0	1.8
receivable	–	–
	3,363.6	**2,837.7**
Amounts expected to be paid in more than one year:		
IT Public Private Partnership	24.1	13.7
Accommodation PFI	274.2	285.0
Accommodation non-PFI	9.5	12.5
	307.8	**311.2**

14. Provisions for liabilities and charges

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Provisions for liabilities and charges

		2015-16 £m Departmental group		2014-15 £m Departmental group
Balance at 1 April		**152.7**		**116.4**
Provided in the year	50.3		86.4	
Provisions not required written back	(21.7)		(19.6)	
Borrowing costs (unwinding of discounts)	0.2		0.6	
Net expenditure		28.8		67.4
Provisions utilised in the year		(29.8)		(31.1)
Balance at 31 March		**151.7**		**152.7**

14.1 Analysis of expected timing of discounted flows

	2015-16 £m Departmental group	2014-15 £m Departmental group
Not later than one year	81.1	101.2
Later than one year and not later than five years	67.9	50.1
Later than five years	2.7	1.4
Balance at 31 March	**151.7**	**152.7**

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	9.3	0.1	67.1	0.1	4.5	81.1
Later than one year and not later than five years	7.5	0.2	18.7	10.0	31.5	67.9
Later than five years	–	0.1	0.9	1.7	–	2.7
Balance at 31 March	**16.8**	**0.4**	**86.7**	**11.8**	**36.0**	**151.7**

14.2 Early departure costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and normal retirement date. The department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 1.37% in real terms, and updated annually to reflect the unwinding of the discount.

14.3 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £0.4 million was retained for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments.

14.4 Legal claims

A provision of £86.7 million (2014-15: £78.9 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, in excess of the de minimis limit for reporting of £0.1 million per claim, where legal advice indicates that it is probable that the claim will be successful and the amount 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 16.

14.5 Accommodation costs

A provision of £11.8 million (2014-15: £0.9 million) has been made for the costs of restoring premises to the physical condition specified in the lease contracts.

14.6 Other

Provisions relating to various other claims against the department amount to £36.0 million (2014-15: £43.2 million). The decrease from 2014-15 is predominantly due to the utilisation of £4.1 million for administrative and IT development costs for Tax Free Childcare benefit and two on-going Fraud Investigation Services cases.

15. Pension liability

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme.

The pension assets and liabilities, part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see **page 181**).

Further information can be found within the Valuation Office Agency accounts (HC 468).

The Valuation Office Agency accounts can be viewed at:
www.gov.uk/government/organisations/valuation-office-agency

16. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control. An example is legal action where the department may need to pay legal costs if it loses the case. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

The department has the following quantifiable contingent liabilities:

Shipbuilders' Relief – a contingent liability of £1.0 million (2014-15: £19.5 million) exists for potential future claims against the department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur.

Legal claims – a contingent liability of £92.9 million (2014-15: £68.1 million) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably.

Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.9 million, 72 cases (2014-15: £0.8 million, 81 cases).

Other – the department has a further number of contingent liabilities amounting to £11.3 million (2014-15: £10.0 million).

The department has not entered into any unquantifiable contingent liabilities.

17. Financial instruments

A financial instrument is a contractual obligation which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The department's financial instruments are not complex and it has no equity instruments.

The 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.

The department holds no collateral or other credit enhancement in respect of its financial assets. A review has been conducted of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure.

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. In respect of receivables and payables, these have not been discounted to present value as it has been concluded that the effect would not be material. When considering personal tax credits, there is also fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to receivables and payables can be seen in notes 11 and 13. Personal tax credits can be seen in more detail in note 4. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

18. Related-party transactions

The department is the parent of the Valuation Office Agency as well as Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). These bodies are both regarded as a related-parties with which the department has had various material transactions during the year.

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

RCDTS Ltd provides a managed IT service to HMRC, funding is provided from HMRC to RCDTS Ltd.

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

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

19. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency, its Annual Report and Accounts are published separately.

Revenue and Customs Digital Technology Services Limited is an Arms Length Body created in 2015-16 and started trading 1 December 2015.

20. Revenue and Customs Digital Technology Services Limited

This company is financed by HMRC and has been created solely to provide managed IT services which directly contribute to the support and key purpose of HMRC. It assists the department to ensure the effective operation and management of IT services.

The company accounts will be available at Companies House at:
www.gov.uk/government/organisations/companies-house by 31 December 2016

To illustrate the impacts of this wholly-owned subsidiary, a summary of the key figures relating to RCDTS Ltd are provided below.

	2015-16 £m
Non-current assets	0.3
Current assets	10.9
Current liabilities	(5.2)
Non-current liabilities	(6.0)
Net assets	**–**
Staff and related costs	6.2
Running costs	1.9
Other expenditure	–
Total operating expenditure	**8.1**
Total operating income	**(8.1)**
Net operating expenditure	**–**

21. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

22. Events after the reporting period date

HMRC have considered the result of the referendum held on 23 June 2016 which was in favour of the UK leaving the European Union and whether the vote has any impact on these financial statements. We have concluded that this is a non-adjusting event. There are no other reportable adjusting or non-adjusting events after the reporting period. The financial statements were authorised for issue by the Accounting Officer on 12 July 2016.

Glossary to the financial statements

Accrued Revenue Payable (ARP) – there are three distinct types of ARP. These comprise:

- firstly, amounts due to traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- secondly, amounts of receivables and accrued revenue receivable that will, when received, be passed to a third-party, for example national insurance contributions due to the National Insurance Funds and National Health Services
- thirdly, amounts in respect of Corporation Tax and income tax likely to be repayable by HMRC pending finalisation of tax payer liabilities.

Accrued Revenue Receivable (ARR) – ARR represents taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables.

Administration costs – these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

Amortisation – this is the measure of consumption of the value of intangible assets. It is recorded as operational expense on a systematic basis over their useful lives.

Annually Managed Expenditure (AME) – departments are allocated a separate annually managed spending limit (AME). This is demand-led and therefore more volatile than DEL (Departmental Expenditure Limit) expenditure. Examples include expenditure such as tax credits and Child Benefit.

Consolidated Fund – the Consolidated Fund is the government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

Consolidated Fund Extra Receipts (CFER) – this is income which the department is not entitled to retain and it is paid over to HM Treasury.

Consolidated Statement of Cash Flows (CSoCF) – a statement that reports the cash flows during the financial year from operating, investing and financing activities.

Consolidated Statement of Changes in Taxpayers' Equity (CSoCTE) – a statement which explains the movements in net assets between the beginning and end of a financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) – this is the performance statement, reporting a summary of expenditure, income, gains and losses for a financial year.

Consolidated Statement of Financial Position (CSoFP) – a statement which provides a snapshot of the assets, liabilities and reserves as at the beginning and end of a financial year.

Contingent liabilities – these are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

Current assets – these are assets reported on the CSoFP that include cash, or any asset that is expected to be converted to cash within one year from the reporting date.

Current liabilities – these are obligations that are expected to be settled within one year of the reporting date.

Deferred income – this is income that relates to a future financial year and will be recorded in the CSoCNE of that future year.

Deferred revenue – this includes duties and taxes received in the current year that relate to future accounting periods.

Departmental Expenditure Limit (DEL) – departments are allocated a spending budget. This amount, and how it is split between Government departments, is set at Spending Reviews on a three yearly basis. It comprises capital and resource elements. Resource DEL includes the running of the services and the everyday cost of resources such as staff. Capital DEL is for the purchase of non-current assets.

Depreciation – this is the measure of consumption of the value of property, plant and equipment. It is recorded as operational expense on a systematic basis over their useful lives.

Excess Vote – is the means by which Parliament retrospectively authorises departmental overspends in terms of resources or cash and infringements of agreed protocols.

Finalisation – this is the process, occurring after the financial year end, by which personal tax credit claimants confirm their actual income and other circumstances for the previous award year. The award is finalised for the award year that has ended and appropriate adjustments for under or overpayments of tax credits are made.

Force Majeure – a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, or an event described by the legal term 'act of god', occurs.

Financial Reporting Manual (FReM) – this is the HM Treasury technical accounting guide to the preparation of the annual report and accounts for government.

IAS – International Accounting Standards. These were issued by the predecessor to the IASB.

IASB – International Accounting Standards Board.

IFRS – International Financial Reporting Standards. These are issued by the IASB. The financial statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK based Generally Accepted Accounting Practice (UK GAAP).

IFRS Interpretations Committee (IFRIC) – body that develops guidance on appropriate accounting treatment of particular issues. They are approved by the IASB.

Impairment of receivables – is the process by which the collectability of receivables is assessed to determine a fair value for reporting purposes.

Indemnities – these will be ordered by the court, on behalf of the insolvency practitioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

Intangible assets – these are non-physical items used in the business that are expected to have a useful life in excess of one year, for example, website development costs and certain software licences.

Losses – these are receivables that are determined to be uncollectable and comprise of remissions and write-offs. Remissions are receivables that we have decided not to pursue, typically on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

Managing Public Money – this is a HM Treasury publication giving guidance on how to handle public funds.

Negative taxation – this is the element of tax relief payable that is less than or equal to the recipient's tax liability.

Net Cash Requirement – in the Estimate this represents the amount of funding that the department is entitled to draw down from the Consolidated Fund. The actual cash used during the year associated with resource or capital expenditure is described as the outturn Net Cash Requirement.

Non-current assets – these are assets reported on the CSoFP that are expected to be held for a period in excess of one year.

Non-current liabilities – these are obligations that are expected to be settled beyond one year of the reporting date.

Non-Voted expenditure – this is part of DEL and AME which is not authorised annually through the Supply Estimate. It occurs where Parliament has passed legislation that allows funding of a service on a continuing basis either directly from the Consolidated Fund or from other sources, e.g. the National Insurance Fund.

Payables – these are amounts recognised as owing by the department at the end of the reporting period but for which payment has not been made.

Payments of entitlement – this is the element of tax relief payable that is in excess of the recipient's tax liability, and is therefore in addition to any negative taxation element.

Private Finance Initiative (PFI) – is a method of establishing public-private partnerships (PPPs) by funding public infrastructure projects with private capital.

Programme expenditure – these are typically the costs that the department directly incurs in delivering its policy objectives. It includes the payments such as tax credits and Child Benefit. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

Provisions for liabilities – these are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

Public-Private Partnerships (PPPs) – are a form of PFI.

Receivables – these represent amounts recognised as being owed to the department at the end of the reporting period but for which payment has not been received. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

Receivable Days – the average number of days it takes to receive payment. The department calculates Receivable Days as, 'total receivables/total revenue x 365 days'.

Resource Accounts – the financial statements which report the cost of running the department and include payments of tax credits, Child Benefit and certain reliefs.

Statement of Parliamentary Supply (SoPS) – this is the primary parliamentary accountability statement and is unique to central government financial reporting. By expenditure category, it reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by Parliament through the Supply Estimates process.

Supply Estimates process – this is the means by which a government department seeks funds from Parliament and authority is given for departmental expenditure each year.

Suspended liability – a suspended liability is an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently included in the receivables but excluded from the debt balance as currently no recovery action can be taken.

Tax debt – Debt Management Directorate calculates and reports monthly the department's debt balance which consists of debts that are overdue or where recovery action can be taken at this time. This provides key operational information for the management of overdue, recoverable debt. This differs to the debt reported in the financial statements which is termed 'Receivables' and is defined earlier in this glossary.

Trust Statement – The financial statements which report the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

UK GAAP – the generally accepted accounting principles in the UK which are the body of accounting standards and guidance published by the Financial Reporting Council.

Voted expenditure – this is part of DEL and AME which is authorised annually through the Supply Estimate.

Statistical tables

Table 1: Total departmental spending (£000)

This table provides further detail by category on HMRC spending.

Table 1: Public Spending (£000)

	2010-11 Outturn	2011-12 Outturn	2012-13[1] Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans	Planned Profile
Resource DEL											
HMRC administration	3,345,192	3,311,468	3,289,624	3,292,167	3,106,554	3,219,241	3,564,144	3,431,282	3,170,858	2,978,928	
VOA administration	1,298	5,835	-1,978	-2,085	-2,420	-1,425	1	1	1	1	
Utilised provisions	48,381	47,599	40,954	33,160	31,057	29,793	24,400	30,000	30,000	30,000	
National Insurance Fund	411,362	340,644	334,541	322,125	328,902	328,579	293,800	290,000	287,000	284,000	
Total resource DEL	**3,806,233**	**3,705,546**	**3,663,141**	**3,645,367**	**3,464,093**	**3,576,188**	**3,882,345**	**3,751,283**	**3,487,859**	**3,292,929**	
Of which:											
Staff costs	2,421,423	2,373,043	2,270,672	2,260,253	2,171,463	2,250,106	2,318,000	2,308,000	2,198,000	2,052,000	
Purchase of goods and services	1,153,093	1,086,949	1,069,561	1,130,017	1,089,582	1,156,655	1,303,000	1,200,000	1,062,000	987,000	
Income from sales of goods and services	-310,604	-329,140	-313,498	-321,142	-342,428	-423,119	-425,000	-437,000	-446,000	-428,000	
Current grants to persons and non-profit bodies (net)	40,628	11,240	29,944	4,012	4,214	20,463	21,000	21,000	17,000	14,000	
Current grants abroad (net)	595	576	594	449	424	1,301	1,000	1,000	1,000	1,000	
Rentals	259,820	265,590	262,455	225,422	184,626	201,221	246,000	238,000	216,000	204,000	
Depreciation[2]	215,373	217,296	226,075	233,890	247,555	271,151	320,000	324,000	351,000	379,000	
Change in pension scheme liabilities	–	–	1,255	2,788	2,975	291	–	–	–	–	
Other resource	25,905	79,992	116,083	109,678	105,682	98,119	98,345	96,283	88,859	83,929	
	3,806,233	**3,705,546**	**3,663,141**	**3,645,367**	**3,464,093**	**3,576,188**	**3,882,345**	**3,751,283**	**3,487,859**	**3,292,929**	

Continued

Table 1: Public Spending (£000)

	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans
Resource AME										
Social benefits and grants	12,259,046	12,134,533	12,160,117	11,492,064	11,601,947	11,700,897	11,650,313	11,619,063	11,603,466	11,626,638
Tax Free Childcare	–	–	–	–	–	–	20,000	485,000	600,000	650,000
Providing payments in lieu of tax relief to certain bodies	176,852	101,532	57,134	76,396	99,703	75,399	120,079	130,075	130,071	135,068
HMRC administration	64,776	3,967	19,596	24,631	70,610	28,547	30,000	30,000	30,000	30,000
Payments to add capacity	–	–	–	–	2,732	–	–	–	–	–
VOA - Payments of rates to local authorities on behalf of certain bodies	39,603	47,537	55,747	60,085	65,939	66,995	76,160	77,620	79,430	81,460
VOA administration	5,126	1,139	-398	825	963	2,902	2,001	2,000	2,000	2,000
Utilised provisions	-185,491	-56,271	-41,500	-33,383	-31,068	-29,798	-24,430	-30,000	-30,000	-30,000
Personal tax credits	28,870,775	29,914,314	29,699,832	29,329,220	29,123,165	28,450,152	28,516,247	28,125,001	27,902,145	27,470,852
Other reliefs and allowances	492,718	634,429	739,496	1,624,497	1,997,314	2,898,728	2,576,211	2,634,741	2,678,616	2,732,340
Total resource AME	**41,723,405**	**42,781,180**	**42,690,024**	**42,574,335**	**42,931,305**	**43,193,822**	**42,966,581**	**43,073,500**	**42,995,728**	**42,698,358**
Of which:										
Purchase of goods and services	52,360	79,369	74,927	74,442	85,715	81,710	80,330	81,860	83,770	85,910
Income from sales of goods and service	-2,365	-2,846	-3,312	-3,702	-4,064	-3,774	-4,170	-4,240	-4,340	-4,450
Current grants to persons and non-profit bodies (net)	41,378,570	42,386,319	42,200,664	41,963,365	42,037,716	41,977,679	41,166,864	41,232,484	41,112,393	40,775,537
Subsidies to private sector companies	308,509	443,358	465,118	551,816	764,666	1,126,492	1,715,986	1,761,396	1,801,905	1,839,361
Depreciation[2]	40,054	-9,270	-489	2,859	2,072	131	1	–	–	–
Take up of provisions	136,108	14,376	3,829	20,219	69,501	30,771	30,000	30,000	30,000	30,000
Release of provision	-196,050	-142,802	-41,500	-33,383	-31,068	-29,798	-24,430	-30,000	-30,000	-30,000
Change in pension scheme liabilities	–	–	–	–	–	–	2,000	2,000	2,000	2,000
Other resources	6,219	12,676	-9,213	-1,281	6,767	10,611	–	–	–	–
	41,723,405	**42,781,180**	**42,690,024**	**42,574,335**	**42,931,305**	**43,193,822**	**42,966,581**	**43,073,500**	**42,995,728**	**42,698,358**
Resource budget										
Total resource DEL	3,806,233	3,705,546	3,663,141	3,645,367	3,464,093	3,576,188	3,882,345	3,751,283	3,487,859	3,292,929
Total resource AME	41,723,405	42,781,180	42,690,024	42,574,335	42,931,305	43,193,822	42,966,581	43,073,500	42,995,728	42,698,358
Total resource budget	**45,529,638**	**46,486,726**	**46,353,165**	**46,219,702**	**46,395,398**	**46,770,010**	**46,848,926**	**46,824,783**	**46,483,587**	**45,991,287**
Of which:										
Depreciation[2]	255,427	208,026	225,586	236,749	249,627	271,282	320,046	323,790	351,373	379,429

Continued

Table 1: Public Spending (£000)

	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans
Capital DEL										
HMRC administration	161,073	215,064	190,063	211,019	223,985	220,162	229,640	231,140	219,240	208,000
VOA administration	7,334	5,156	3,968	7,101	7,694	7,569	12,000	11,000	9,000	8,000
Total capital DEL	**168,407**	**220,220**	**194,031**	**218,120**	**231,679**	**227,731**	**241,640**	**242,140**	**228,240**	**216,000**
Of which:										
Purchase of assets	172,696	221,589	199,245	220,229	237,864	228,970	244,640	245,140	231,240	219,000
Income from sales of assets	-4,289	-1,369	-5,214	-2,109	-6,185	-1,239	-3,000	-3,000	-3,000	-3,000
	168,407	**220,220**	**194,031**	**218,120**	**231,679**	**227,731**	**241,640**	**242,140**	**228,240**	**216,000**
Capital AME										
Child Trust Fund	226,677	86,255	547	223	11	5	30	–	–	–
Utilised provisions	113,996	–	–	–	–	–	–	–	–	–
Total capital AME	**340,673**	**86,255**	**547**	**223**	**11**	**5**	**30**	**0**	**0**	**0**
Of which:										
Capital grants to persons and non-profit bodies (net)	340,673	86,255	547	223	11	5	30	–	–	–
	340,673	**86,255**	**547**	**223**	**11**	**5**	**30**	**0**	**0**	**0**
Capital budget										
Total capital DEL	168,407	220,220	194,031	218,120	231,679	227,731	241,640	242,140	228,240	216,000
Total capital AME	340,673	86,255	547	223	11	5	30	–	–	–
Total capital budget	**509,080**	**306,475**	**194,578**	**218,343**	**231,690**	**227,736**	**241,670**	**242,140**	**228,240**	**216,000**

1 Figures for 2012-13 have been restated to correct some spend classification misalignments reported in the 2014-15 accounts.
2 Includes impairments.

Table 2: Administration budget (£000)

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans	Planned Profile
Resource DEL											
HMRC administration	3,217,450	871,766	849,599	777,741	706,563	717,025	873,835	825,995	826,652	826,334	
Utilised provisions	48,381	40,850	32,971	26,156	18,831	13,642	8,400	14,000	14,000	14,000	
National Insurance Fund	-	48,953	64,838	60,254	71,647	61,223	56,000	54,274	52,174	51,474	
Total administration budget	**3,265,831**	**961,569**	**947,408**	**864,151**	**797,041**	**791,890**	**938,235**	**894,269**	**892,826**	**891,808**	
Of which:											
Staff costs	2,421,423	335,549	303,503	306,449	311,376	328,875	337,734	336,000	319,000	300,000	
Purchase of goods and services	643,079	413,024	391,306	401,842	354,374	417,815	521,677	509,000	524,000	537,000	
Income from sales of goods and service	-296,264	-88,623	-59,518	-68,469	-95,341	-126,465	-156,800	-178,000	-189,000	-196,000	
Current grants to persons and non-profit bodies (net)	-	1,999	2,001	2,981	3,027	1,920	2,737	3,000	3,000	3,000	
Rentals	259,820	178,377	195,916	139,403	116,203	90,869	128,563	120,000	124,000	127,000	
Depreciation	213,166	66,611	55,000	67,232	96,617	68,609	90,935	92,000	100,000	108,000	
Other resource	24,607	54,632	59,200	14,713	10,785	10,267	13,389	12,269	11,826	12,808	
	3,265,831	**961,569**	**947,408**	**864,151**	**797,041**	**791,890**	**938,235**	**894,269**	**892,826**	**891,808**	

HM Revenue & Customs 2015-16 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2015-16 Accounts of HM Revenue & Customs

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

12 July 2016

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £536.8 billion of tax revenue for 2015-16. We cover this in Part One. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in the Trust Statement are true and fair; and • HMRC has used income and expenditure for purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate subject to the observations in this report and our other reports to Parliament (Paragraphs 34 to 36).
Resource Accounts	The annual cost of running HMRC was £3.2 billion in 2015-16. HMRC paid £39.9 billion in benefits and credits, including £28.2 billion of Personal Tax Credits payments and £11.7 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG: • found the Resource Accounts are true and fair; but • found material levels of error and fraud in Personal Tax Credits expenditure (Part Four).
Annual Report	HMRC reported £26.6 billion compliance yield in 2015-16. We reviewed compliance yield data with the agreement of HMRC. Our conclusions about compliance yield are in Part One. We review whether HMRC is getting value for money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983. We refer to our recent work on value for money in this report.

Summary

HM Revenue & Customs' performance, 2015-16

1 This report is our commentary on HM Revenue and Customs' (HMRC's) performance in 2015-16. We report findings from all our statutory audits of HMRC this year including audits of HMRC's financial statements, the adequacy of its systems for collecting revenue and the value for money it achieved from its spending. Each audit comes under different legislation (see Coverage of this report, page R4).

2 Our audit of HMRC covers the tax revenues the government raises and the benefits HMRC pays out. HMRC raised £536.8 billion of tax revenues this year (some 80% of total revenues raised by government) and paid out £40 billion in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The annual cost of running HMRC, which is the second-largest government department in terms of staff numbers, was £3.2 billion in 2015-16.

3 Each year, we choose parts of HMRC's business to report on in more detail. Last year's report considered: how HMRC measures compliance yield; its assessment of the tax gap and tax risk; and its plans for tax administration.

4 This year's report has four parts:

- Part One considers HMRC's objective of maximising revenues and looks at the main components of the £536.8 billion raised during 2015-16 and the robustness of HMRC's estimate of £26.6 billion in compliance yield, the additional revenues it has generated through its compliance and enforcement activities;
- Part Two looks at HMRC's progress in transforming the way it administers taxation;
- Part Three considers how well HMRC manages tax reliefs; and
- Part Four examines progress in managing fraud, error and debt in Personal Tax Credits and Child Benefit and explains the basis of the Comptroller and Auditor General's qualification of his regularity audit opinion on HMRC's Resource Accounts.

Summary findings

5 HMRC's vision, as published in its *Single Departmental Plan*, is as follows: "We are the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system."[1]

Tax revenues and spending in 2015-16

6 The Trust Statement reports that HMRC's total revenue was £536.8 billion in 2015-16, an increase of £19.1 billion (3.7%) on 2014-15. HMRC records revenues in the Trust Statement on an accruals basis (tax due rather than actual cash received). Cash receipts in 2015-16 were £530.0 billion (£513.1 billion in 2014-15) (paragraphs 1.3 and 1.4).

7 HMRC increased its spending on administration from £3.1 billion in 2014-15 to £3.2 billion in 2015-16 (3.2%). Its ratio of revenue collected per £1 of administrative expenditure rose slightly from £166.95 in 2014-15 to £167.06 in 2015-16 (paragraph 1.19).

8 Compliance yield measures the effectiveness of HMRC's compliance and enforcement activities. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work (paragraph 1.23).

9 HMRC's estimate of compliance yield in 2015-16 was £26.6 billion, against a target of £26.3 billion. HMRC achieved the same amount of yield in 2014-15 against a target of £26.0 billion (paragraph 1.26).

10 Compliance yield gives HMRC a reasonable proxy for assessing the impact of its individual interventions and to support internal decisions about how to allocate resources. HMRC's methodology for measuring yield is adequate and our work has provided evidence that HMRC has effective processes in place to collate data and ensure quality. Where these processes uncover errors or gaps in supporting documentation, HMRC works to address these (paragraphs 1.34 to 1.41).

11 As a publicly reported measure, it is important that readers of HMRC's Annual Report are clear that compliance yield is not simply a cash figure. The compliance yield calculation draws on a range of different measures of revenue generated or losses prevented, all of which involve a degree of estimation and uncertainty. Also, the compliance yield total does not equate to revenues received during the year arising from HMRC's enforcement and compliance activities. HMRC has continued to improve the transparency of its reporting to clarify that compliance yield is not simply a cash figure (paragraphs 1.30 to 1.32, 1.39 and 1.40).

1 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated May 2016.

12 Building on our previous recommendations and those of the Committee of Public Accounts, **we recommend that HMRC:**

- undertakes research to consider whether its initial estimates of yield subsequently turn out to be accurate. Such checks would help to validate the amount of yield HMRC reports and support assertions that taxpayers had been more compliant due to their changed behaviour; and
- building on this research, uses the results to provide further explanation, for example in HMRC's Annual Report, about the inherent uncertainty associated with reported compliance yield. This would help to better inform readers of the estimations and assumptions that underlie HMRC's reporting of its performance.

Transforming tax administration

13 HMRC has stated that its vision is to have "one of the most digitally advanced tax administrations in the world". To achieve this aim, HMRC will be managing a complicated transformation over the next five years. It will make significant changes to a number of different areas of the organisation, with a number of the changes being dependent on others. HMRC has a strong rationale for its plans to use technology to modernise its services and reduce its costs which are closely aligned with the Department's strategic objectives. But we have commented in previous reports that they carry significant delivery risk. Success will depend on taxpayers choosing to use the new online services. HMRC will need to build public trust that the new digital systems are easy to use and secure (paragraphs 2.3 to 2.6).

14 When we reported last year, HMRC's plans were at an early stage. It was clear then that this transformation would be more complex and far-reaching than previous change programmes, and we said we would report on progress as the programme developed. Since our review last year, HMRC has (paragraph 2.7):

- made plans to spend more than £2 billion to achieve its vision over the next five years;
- agreed with HM Treasury the high-level outcomes it will achieve over the next four years and secured £1.3 billion of new investment funding to support the transformation over that period;
- launched digital tax accounts for individuals. HMRC has reported that more than one million customers had used the new accounts by April 2016;
- announced its plans to close 137 offices (90% of its locations) and the location of its 13 new regional hubs where almost all its staff will be based within the next ten years; and
- secured ministerial and supplier agreement for its plans to replace its IT services contract, Aspire, which it has revised to reduce the risk of carrying out too much change too quickly.

15 There is no single right answer about how a change programme of this magnitude should be managed. HMRC's approach looks credible and proportionate to the scale of the risks involved, and it has worked closely with HM Treasury and Cabinet Office to develop and refine its plans. It is too early to evaluate how well its approach is working, but HMRC needs to maintain a clear view of whether it is on track to achieve its strategic goals, monitoring its progress against a robust set of interim milestones. In such an extensive change programme, it would be easy for HMRC to lose sight of progress towards its vision through small changes to the timing or scope of projects which are mutually dependent. It has put in place a rolling programme of business planning and governance, seeking to learn and apply the lessons from its experience as projects mature. 2016-17 is the year of greatest activity in terms of both spending and the benefits HMRC expects to achieve from transformation. It will therefore be particularly important early in 2017-18 for HMRC to take stock of its progress, learn lessons and refresh its plans as necessary (paragraphs 2.13 to 2.15).

16 With such high levels of change we would expect any organisation to experience occasional setbacks and implementation difficulties, alongside the successes, as it designs and launches new services. When this has happened in the past, such as when HMRC created a national PAYE system, HMRC did not lose sight of its long-term objective and committed serious effort to stabilising the system and tackling a significant backlog of unresolved cases. As we said a year ago, HMRC will need such commitment and resilience if it is not to be deflected from delivering its strategic vision. One of the most critical tests of HMRC's approach will be how management responds when things do not go as expected (paragraph 2.16). We raise two areas of risk at this early stage:

- **Optimism bias in main assumptions:** HMRC's past experience demonstrates that there are serious risks should main assumptions underpinning its strategy not prove realistic. For example, the delivery of HMRC's vision relies on the critical assumption that taxpayers will move over to online services and reduce the demand for telephone and postal services. Our report on the Quality of Service for Personal Taxpayers described how in the last parliament HMRC misjudged the cumulative impact of the changes it was making and released customer service staff before it had reduced the demand from personal taxpayers for its telephone helpline. This impaired the quality of its service to personal taxpayers in 2014-15 and the first half of 2015-16, which then recovered following a range of interventions, including the recruitment of additional staff. HMRC has adjusted its future resource plans in light of this experience, and is now monitoring closely the way taxpayers respond to changes in the way services are provided (paragraph 2.19).

- **Understanding the costs and benefits to taxpayers:** HMRC has not yet estimated the costs for individual taxpayers or businesses of making the transition to online services, or sought to quantify the benefits they can expect. Most business customers will be required to update HMRC quarterly rather than annually about their tax affairs, and some may need to purchase new software that works with the new systems. Based on our consultation with stakeholder groups, we found that some businesses are sceptical of HMRC's evaluations of the costs and benefits of previous changes to the tax system.[2] HMRC plans to develop a fuller picture of what it will cost taxpayers and businesses to use the new systems over the next year (paragraph 2.20).

17 HMRC faces a challenge in being transparent about its plans, and could do more to help the public and Parliament understand what it is doing and where there is uncertainty. At this early stage, it is inevitable that HMRC's plans should contain uncertainty about exactly what will be delivered, by when and at what cost. It is using shorter-term milestones to monitor its progress, agreeing spending plans and performance targets with HM Treasury annually so that it can learn from experience and alter its plans as things change. This is a realistic and prudent approach, given the scale of what HMRC is doing and the inevitability that not everything will go according to plan (paragraphs 2.9, 2.21 and 2.22).

18 In managing change going forward, HMRC should prioritise:

- establishing leading indicators which will provide early warnings if progress is not as expected, and be prepared to adapt its plans when performance is not as expected; and

- developing its understanding of how projects rely on each other, so it can test how any changes will affect the expected costs and benefits of transformation to all its customers.

19 To ensure full accountability and transparency, we would expect HMRC to:

- continue to publish clear information about what it is spending on its transformation and what it expects to deliver, updating its plans and estimates of costs and benefits as things change; and

- make and publish its assessments of the expected costs and benefits of transformation to both individual taxpayers and businesses.

2 Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

Tax reliefs

20 Tax reliefs are integral to the tax system and an important tool for public policy, covering many areas of government activity. Since they reduce the amount of tax payable or generate a payment, they can be the focus of tax avoidance. In 2014, we reported twice on tax reliefs, highlighting the need for greater transparency about the costs and use of reliefs.[3] The Committee of Public Accounts concluded that HMRC needed to improve how it monitors and reports on tax reliefs.[4] In response to these recommendations, HMRC has made progress in addressing gaps in its management of reliefs:

- **HMRC has developed guidelines for managing tax reliefs based on a review of its existing practices.** These guidelines identify principles which, if implemented, would be an important step in improving the management of reliefs across HMRC. The guidelines recommend many aspects of good practice already used by HMRC, such as requiring new reliefs to be risk-assessed and reviewed regularly. While there is no international consensus among tax authorities on the way tax reliefs should be managed, HMRC's guidelines do not draw on wider analysis by the National Audit Office (NAO) or the Organisation for Economic Co-operation and Development (OECD) which identifies a wider range of approaches used by other countries (paragraphs 3.7 to 3.11).

- **It was unclear among those we spoke to that the guidelines were compulsory and no one is responsible for overseeing their implementation.** We recognise new guidance takes time to implement, but no team in HMRC had acted on the guidelines to develop a comprehensive list of the tax reliefs in each area. We looked at a sample of six tax reliefs affecting companies and individuals. While most of the teams managing these reliefs could demonstrate examples of good practice, none planned to change its approach to respond to the new guidelines (paragraphs 3.12 to 3.17).

- **We found examples of good practice in how HMRC monitors the cost of reliefs and responds to unexpected changes.** Some of the reliefs supporting economic growth were managed by specialist units, which checked claims and monitored costs over time. This meant HMRC was better able to detect unusual changes in the costs of these reliefs, look into them and respond appropriately. For example, the venture capital trusts team had identified that costs were increasing, found that companies were using the relief for low-risk investments, which did not meet the policy aim, and recommended changes to legislation (paragraphs 3.18 to 3.22).

3 Comptroller and Auditor General, *Tax reliefs*, Session 2013-14, HC 1256, National Audit Office, April 2014, and Comptroller and Auditor General, *The effective administration of tax reliefs*, Session 2014-15, HC 785, National Audit Office, November 2014.

4 HC Committee of Public Accounts, *The effective administration of tax reliefs*, Forty-ninth Report of Session 2014-15, HC 892, House of Commons, March 2015.

21 HMRC has committed to improving its reporting on tax reliefs, but still provides limited information about their cost and impact. In response to the Committee of Public Accounts' recommendations, HMRC expanded its annual publication of tax reliefs in December 2015. The publication now covers four years of cost data and includes some commentary on variances. However, HMRC's publication of 392 reliefs is shorter than the Office of Tax Simplification's list of 1,100 and excludes some reliefs which are significant in scale. It also excludes some significant corporation tax reliefs, such as group relief, which are published separately. While HMRC also publishes evaluations of some of the tax reliefs on its list, it does make this clear in its annual publication (paragraphs 3.29 to 3.33).

22 We consider HMRC's monitoring of tax reliefs is not yet systematic or proportionate to their value or the risks they carry. Reliefs reduce tax bills and may be exploited or used in ways which Parliament did not intend. With hundreds of reliefs to manage and reducing resources, HMRC must identify which reliefs need the most scrutiny according to risk. We compared the level of management and the cost of each relief in our sample. We found that HMRC closely manages some low-value reliefs for businesses. It does not always do so for higher-value personal tax reliefs, such as principal private residence relief, worth £18 billion in 2015-16. The cost of a relief is only one dimension of the risk to tax revenue and there may be good reasons to treat such reliefs differently. But HMRC could not show us that it had a consistent approach to assessing the degree of risk that each relief carries (paragraphs 3.23 to 3.28).

23 HMRC has committed to adopting best practice in the design, monitoring and evaluation of tax reliefs. It has made some improvements, but it could do more. **We recommend HMRC should:**

- **make clear that its good practice guidance for administering tax reliefs is compulsory.** In particular, all product and process owners should draw up a comprehensive list of reliefs and assess the associated risks. This will help HMRC check that oversight for each relief is suitable;

- **consider how best to provide a central role to oversee the management of tax reliefs.** This role should include further developing guidance and checking it is used appropriately across reliefs;

- **help its teams to make informed decisions about how each relief should be managed.** HMRC's guidance should set out how to decide the best approach to the administration of each relief, including advice on how to assess the risks they carry; and

- **publish all its information on the cost and impact of tax reliefs, including corporation tax reliefs, in a way which makes it more accessible.** To help Parliament understand whether they are working as intended, HMRC should include links to evaluations of tax reliefs where these have been published separately. HMRC should also seek to improve transparency by publishing its internal evaluations of tax reliefs unless there are good reasons not to.

Progress in reducing fraud and error in Tax Credits and Child Benefit

24 **The Comptroller and Auditor General has qualified his regularity audit opinion on the 2015-16 Resource Accounts because of material levels of fraud and error in the payments of Personal Tax Credits.** HMRC's central estimate of error and fraud resulting in overpayments in 2014-15 is 4.8% of total spending on Personal Tax Credits (4.7% in 2013-14) and its estimate of error resulting in underpayments is 0.7% of total spending on Personal Tax Credits. This equates to overpayments of £1.37 billion and underpayments of £0.19 billion. These estimates of error and fraud are the most recent available (paragraphs 4.8 to 4.11).

25 **HMRC has maintained the levels of error and fraud within Personal Tax Credits following the significant reductions achieved in previous years.** It has achieved this by designing and implementing interventions that enable it to identify and target high-risk cases. HMRC analysis shows that during 2014-15 it continued to reduce losses caused by children being incorrectly included in claims and by undeclared partners. However, HMRC's most recent analysis suggests it has not continued to reduce losses in other categories, particularly relating to earnings. The Department should continue to use its analysis of losses within risk categories to inform where best to focus intervention activity (paragraphs 4.9 to 4.17).

26 **HMRC will face further challenges in administering tax credits as claimants transfer to Universal Credit.** Uncertainties in the migration to Universal Credit will leave HMRC managing a diminishing but proportionally more complex caseload, with a reducing and potentially less stable workforce as staff transfer to the Department for Work & Pensions (DWP). In managing the transition, HMRC and DWP should work together to ensure that relevant lessons learned from the error and fraud response on tax credits, and particularly those on household composition (undeclared partner), are maintained under Universal Credit (paragraphs 4.26 to 4.30).

27 **HMRC estimates that overpayment of Child Benefit due to error and fraud was £170 million in 2015-16, equivalent to 1.4% of total spending on Child Benefit.** The vast majority of the estimated error and fraud in Child Benefit relates to customers not replying to requests for information during testing and who HMRC assumes to be non-compliant. HMRC is carrying out additional work to better understand the reasons for non-responses and believes this work is likely to reduce the estimate of error and fraud in Child Benefit. HMRC should develop a more rigorous approach to its testing and evaluation of error and fraud in Child Benefit to identify the true level of losses, the root causes of these and to identify the appropriate actions to reduce error and fraud (paragraphs 4.32 to 4.35).

Summary of findings from our value-for-money work

28 We published three value-for-money reports on HMRC in the past year: on fraud and error in benefits and tax credits; on tax evasion, the hidden economy and criminal attacks; and on customer service for personal taxpayers. We also produced a memorandum for the Committee of Public Accounts on HMRC's progress in replacing its major contract for IT services and a briefing on HMRC's role in enforcing compliance with the National Minimum Wage.[5]

Fraud and error stocktake

29 The government continues to lose large amounts of money because of error and fraud overpayments in welfare benefits and Personal Tax Credits and households continue to not get the support they are entitled to due to underpayments in benefits and Personal Tax Credits. Our stocktake report provided an overview of what HMRC is doing to tackle this problem. We found that HMRC's progress in reducing error and fraud was encouraging, although in October 2015 the Committee of Public Accounts said high levels of benefits and Personal Tax Credits error and fraud remained unacceptable. Part Four provides a further update since our stocktake and updated statistics on error and fraud in Personal Tax Credits and Child Benefit. Appendix Two notes HMRC's response to the Committee's recommendations and our assessment of progress against these recommendations.

Tax evasion, the hidden economy and criminal attacks

30 Our report described the risks to tax collection posed by the three main dimensions of tax fraud and how HMRC responds. HMRC estimates that losses to tax fraud amount to £16 billion each year, nearly half its estimate of the overall tax gap. We concluded that HMRC had started to take a more strategic view of its response to these risks, but needed to go further. It had begun to shift the balance of its work, placing increasing emphasis on measures to prevent non-compliance rather than relying so much on investigating it afterwards. HMRC was also working to improve the way it collects and analyses data. Alongside these positive steps, we encouraged HMRC to do more to strengthen the evidence that underpins its decisions. In April 2016, the Committee of Public Accounts said that HMRC's strategy for tackling tax fraud and its approach to prosecutions was unclear. It also recommended that HMRC should explain why the amount of tax it claims to have recovered from its compliance work rises sharply each year, but the size of the tax gap stays the same.

5 Comptroller and Auditor General, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015; Comptroller and Auditor General, *Tackling tax fraud: How HMRC responds to tax evasion, the hidden economy and criminal attacks*, Session 2015-16, HC 610, National Audit Office, December 2015; Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016; Comptroller and Auditor General, *Replacing the Aspire contract*, Session 2016-17, National Audit Office, June 2016; Comptroller and Auditor General, *Ensuring employers comply with National Minimum Wage regulations*, Session 2015-16, HC 889, National Audit Office, May 2016.

Quality of service for personal taxpayers

31 HMRC's strategy is to make technological improvements, such as increased automation and better online services, which will bring efficiencies and transform tax administration. Its plans in the last Parliament were to cut costs significantly over the past two years by reducing the number of staff in its personal tax teams as it moved demand from traditional services to digital transactions. We found that HMRC had maintained or improved customer service until the end of 2013-14, but then released staff before it had made all the changes needed to reduce demand. As a result, HMRC lived within its budget but saw the quality of its service to personal taxpayers collapse in 2014-15 and the first half of 2015-16. HMRC has since recovered service levels.

Replacing the Aspire contract

32 We provided the Committee of Public Accounts with a memorandum in June 2016 to update it on HMRC's progress in replacing its major contract for IT services, known as Aspire. HMRC is replacing the contract in phases, which it believes reduces the technical and operational risk and gives it the continuity it needs to transform its services while protecting tax revenue and customer service. The first phase commenced in 2015 and the last phase of the replacement is now due to be completed in 2020. We found that HMRC had taken some important steps forward since January 2015: taking over the contractual management of the two main subcontractors; agreeing to bring some services in-house before the contract end in June 2017, while extending some services beyond that date and re-procuring others; transferring a first tranche of more than 200 supplier staff and contractors to a newly created government company; and making 18 of 20 planned appointments to senior IT posts.

Employer compliance with the National Minimum Wage regulations

33 We examined HMRC's investigation of complaints about non-compliance with National Minimum Wage regulations. Since the government began enforcing the National Minimum Wage in April 1999, HMRC identified £68 million in arrears for more than 313,000 workers. With extra resources, HMRC had significantly reduced the average time taken to investigate complaints, to 82 calendar days in 2014-15. However, some complainants still had to wait more than 240 days to get their case resolved.

Conclusion

34 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2015-16 HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

35 Foremost among these observations from our work in the past year is the need for HMRC to preserve adequate levels of customer service (paragraph 31). HMRC has a strong rationale for its plans to use digitally enabled information to improve efficiency and deliver services in new ways. HMRC will need to move forward carefully, managing the risks associated with this strategy, if it is to maintain adequate service levels, keep down the costs to its customers and protect tax revenue. We also believe that, while HMRC has acted positively to identify and disseminate good practice in the way it administers tax reliefs, a more systematic and structured approach is necessary before it can have confidence that its management of reliefs is proportionate to the risks they carry (paragraphs 20 to 23).

36 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General has again qualified his regularity opinion on the Resource Accounts due to material levels of error and fraud in Personal Tax Credits. Although error and fraud have fallen since HMRC's changes in approach in 2009 and 2012 to the most recent central estimate of 4.8% for 2014-15, HMRC must continue its work to understand the reasons for the levels of loss. It must refine its interventions to reduce error and fraud, across Personal Tax Credits and Child Benefit. The migration of Personal Tax Credits to Universal Credit will bring further challenges to responding to error and fraud, and HMRC's response will need to develop as migration continues.

Part One

Performance in 2015-16

1.1 HM Revenue & Customs' (HMRC's) objectives for 2015-16 were to:

- maximise revenues;
- make sustainable cost savings; and
- improve the service that it gives its customers.[6]

1.2 This part considers HMRC's performance against the first of these objectives. This is measured by the revenues reported in HMRC's Trust Statement, and by compliance yield, which is disclosed in its Annual Report. This part also considers briefly the second objective based on HMRC's Resource Accounts. We examine the administration of HMRC in more detail in Part Two. We published a separate report on aspects of HMRC's customer service, the third objective, in May 2016.[7]

Revenues in 2015-16

Tax revenue

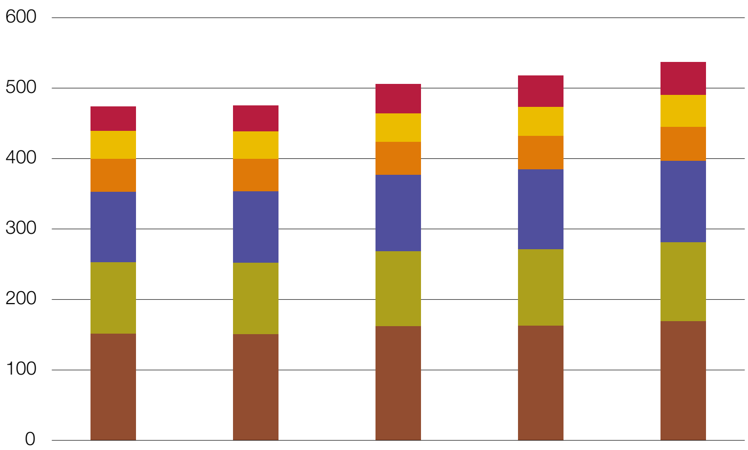
1.3 The total revenue HMRC reported in its Trust Statement in 2015-16 was £536.8 billion (£517.7 billion in 2014-15). HMRC prepares the Trust Statement on an accruals basis. This means that the revenue figure reported relates to tax due on earned income or activities during the financial year, regardless of when the cash is received. In 2015-16, HMRC received £530.0 billion in cash (£513.1 billion in 2014-15), net of cash repayments of £105.9 billion (£97.7 billion in 2014-15).[8]

1.4 The revenue of £536.8 billion (**Figure 1**) was 3.7% greater compared with 2014-15. The taxes that contributed to most of this increase were Income Tax and National Insurance Contributions, which together increased by £10.3 billion (3.8%); Corporation Tax, which increased by £4.1 billion (9.9%); and VAT, which increased by £2.1 billion (1.8%) (Figure 1). Capital Gains Tax and Insurance Premium Tax also recorded significant increases, by 28.1% (to £7.3 billion); and 27.6% (to £3.7 billion) respectively.

6 HM Revenue & Customs, *Business Plan 2014–2016*, April 2014.
7 Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.
8 National Audit Office analysis of HM Revenue & Customs' data.

Figure 1
Tax revenues 2011-12 to 2015-16

Total tax revenue has increased in each of the past 5 years



	2011-12	2012-13	2013-14	2014-15	2015-16
Other	34.2	36.5	41.6	44.1	46.4
Corporation Tax	40.1	39.2	40.3	41.4	45.5
Excise Duties	46.9	46.3	46.9	47.2	47.5
VAT	99.6	101.0	108.2	113.9	116.0
National Insurance Contributions	101.6	101.7	106.7	108.0	112.0
Income Tax	151.8	150.9	162.1	163.1	169.4
Total revenue	**474.2**	**475.6**	**505.8**	**517.7**	**536.8**

Source: HM Revenue & Customs' Trust Statements 2011-12 to 2015-16

Repayments

1.5 The total revenue figure of £536.8 billion is made up of gross revenues of £642.3 billion (£614.6 billion in 2014-15) and £105.5 billion of repayments to taxpayers (£96.9 billion in 2014-15).

1.6 HMRC receives the gross tax collectable and then repays those taxpayers whose tax liability is less than the tax they paid directly or via a third party. Of the repayments made in 2015-16, £79.9 billion (75.7%) related to VAT (**Figure 2** overleaf).[9]

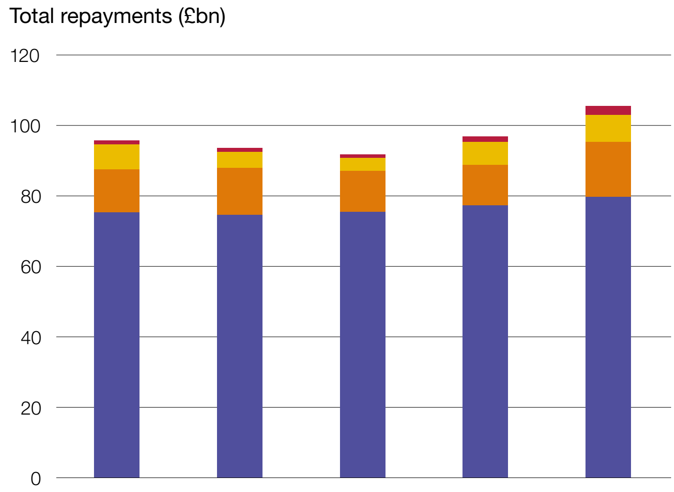
9 Note 2.2 to the Trust Statement.

1.7 Repayments are a necessary part of tax administration and can arise for a variety of reasons. For certain tax streams, primarily VAT, repayments are an integral part of the system and can be claimed on certain expenditure. In some tax streams, tax may be paid in advance and an adjustment later required when HMRC formally assesses the liability. Some repayments relate to tax received in previous years which is later found to have been assessed incorrectly. Income Tax repayments are common, for example, where taxpayers are given a temporary basic rate tax code which leads to them paying too much tax.

Figure 2

Repayments by tax type 2011-12 to 2015-16

Repayments are a necessary part of tax administration



	2011-12	2012-13	2013-14	2014-15	2015-16
Other	1.1	1.1	1.0	1.4	2.4
Corporation Tax	7.0	4.6	3.8	6.6	7.7
Income Tax/National Insurance Contributions	12.3	13.2	11.5	11.5	15.5
VAT	75.3	74.7	75.6	77.4	79.9
Total revenue	**95.7**	**93.6**	**91.9**	**96.9**	**105.5**

Source: HM Revenue & Customs' Trust Statements 2011-12 to 2015-16

Payments to other government departments

1.8 Some of the total revenue of £536.8 billion is collected on behalf of other government departments with the remaining receipts paid over to the Consolidated Fund. National Insurance Contributions of £112.0 billion (£108.0 billion in 2014-15) were collected on behalf of the National Insurance Fund and National Health Services, student loan repayments of £1.9 billion (£1.8 billion in 2014-15) were collected on behalf of the Department for Business, Innovation & Skills. Revenue of £30.9 billion (£31.5 billion in 2014-15) was transferred to HMRC's Resource Accounts to fund tax credits.

1.9 After taking these into account, together with HMRC's losses, impairments and movements in provisions (£2.4 billion (2014-15: £12.7 billion)), the net revenue of £389.9 billion (2014-15: £364.0 billion) was transferred to the Consolidated Fund. This is the government's current account, which is used to fund its chosen spending plans for the year. HMRC contributes around 88% of the total receipts recorded in the Consolidated Fund (excluding National Loans Fund receipts and repayments from the Contingencies Fund).

Debt and impairment

1.10 Of the total tax revenue of £536.8 billion (2014-15: £517.7 billion), HMRC had not yet received £122.4 billion – 22.8% of revenue (2014-15: £115.7 billion, 22.3%). This consisted of:

- £26.7 billion (2014-15: £26.0 billion) due from taxpayers but not yet received (receivables); and
- £95.7 billion (2014-15: £89.7 billion) of taxes not yet due from taxpayers, but earned in the financial year (accrued revenue receivable).[10]

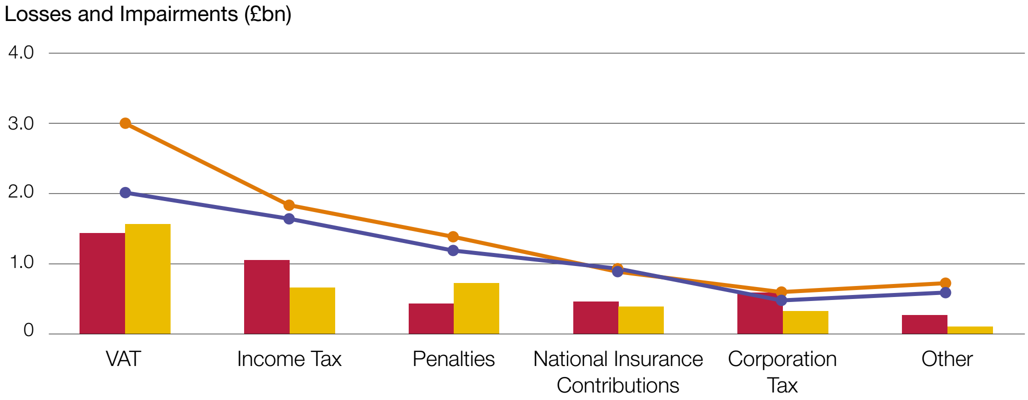
1.11 The £26.7 billion of receivables is where taxpayers have yet to make a payment but have a liability to pay at the end of the financial year. However, there is a risk that some of this revenue owed will not be collected or may prove not to be due. Accounting standards require that the Trust Statement reflects this risk. As a result, HMRC has estimated that it may not be able to collect £6.9 billion (2014-15: £8.5 billion) of these receivables. This impairs the overall receivables balance due from taxpayers to £19.8 billion (2014-15: £17.5 billion).[11] This impairment does not mean that HMRC will not collect these amounts, but reflects that there is a chance that it may not. The degree of impairment varies across taxes. VAT and Income Tax carry the highest risks, which include VAT liabilities being uncollectable because of company insolvencies (**Figure 3** overleaf).

10 Note 4 to the Trust Statement.
11 Note 4.1 to the Trust Statement.

Figure 3

Impairments and revenue losses 2015-16

VAT and income tax carry the highest risk that tax will not be collected



	VAT	Income Tax	Penalties	National Insurance Contributions	Corporation Tax	Other
Losses 2014-15	1.4	1.0	0.4	0.5	0.6	0.3
Losses 2015-16	1.6	0.7	0.7	0.4	0.3	0.1
Impairments 2014-15	3.0	1.9	1.4	0.9	0.6	0.7
Impairments 2015-16	2.0	1.7	1.2	0.9	0.5	0.6

Source: National Audit Office analysis of HM Revenue & Customs data

1.12 The £26.7 billion of tax owed at 31 March 2016 includes £13.0 billion of overdue, collectable and enforceable tax debt (£13.0 billion at 31 March 2015). During 2015-16, HMRC managed a total of £55.7 billion of new tax debt, which was £1.6 billion less than in the previous year. HMRC also collected £42.7 billion (£40.5 billion in 2014-15). These figures exclude values related to tax credit receivables, debt and cash collection, which are now accounted for in HMRC's Resource Accounts.[12]

Revenue losses

1.13 Receivables that have been impaired may still be collected, but in some cases HMRC assesses that the tax is unlikely to be collected. When this happens it is either written off, where there is no practical way to pursue it, or it is remitted, where HMRC decides not to pursue a tax liability on value-for-money or hardship grounds.

1.14 Revenue losses of £3.8 billion have been recognised in the 2015-16 Trust Statement (Figure 3). This total comprises £3.2 billion of write-offs and £0.6 billion of remissions. This represents a decrease of £0.4 billion in revenue losses from 2014-15. The most significant reductions in revenue losses were for Income Tax and National Insurance Contributions (£0.5 billion decrease in revenue losses), and Corporation Tax (£0.3 billion decrease in revenue losses). Both Fines & Penalties and VAT revenue losses increased in 2015-16, by £0.3 billion and £0.2 billion respectively. The main reasons for high-value (more than £10 million) tax revenue losses occurring are disclosed in Note 4.4 of the Trust Statement.

12 National Audit Office analysis of HM Revenue & Customs data.

Provisions and contingent liabilities

1.15 HMRC recognises a provision in the Trust Statement where it considers it probable that it will need to repay taxes already paid to it in this and previous financial years. HMRC includes two categories of such probable repayments:[13]

- **Legal claims** where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. But as at 31 March 2016 HMRC expects it will have to repay £5.9 billion (2014-15: £7.2 billion). In 2015-16, HMRC made repayments of some £1.9 billion with respect to legal provisions.

  HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax. Contingent liabilities increased by 37.9% to £49.1 billion at 31 March 2016 (2014-15: £35.6 billion) largely because HMRC revised its previous estimates of the calculation of interest that may need to be paid for those cases that make up the contingent liability balance.

- **Oil field decommissioning costs** where companies offset the costs of decommissioning oil and gas fields in the North Sea against tax they have previously paid on those fields. These costs can be carried back to earlier years indefinitely, in contrast to other taxes that are time-limited. HMRC has estimated that it will have to repay £6.9 billion as at 31 March 2016 (2014-15: £7.5 billion). In 2015-16, HMRC repaid £0.2 billion of Petroleum Revenue Tax (PRT) with respect to this liability.

  Included within the £105.5 billion repayments (Figure 2) is a further £1.3 billion of PRT that HMRC has repaid during the year relating to other losses relevant to oil and gas fields subject to PRT. These repayments are more than the gross PRT revenue of £0.7 billion recorded for 2015-16. This leads to the negative PRT net revenue figure of £0.6 billion disclosed in Note 2.8 of the Trust Statement.

13 Note 7 to the Trust Statement.

Tax developments during the year

1.16 The following developments are reflected in these financial statements:

- From 2015-16, the remit to levy **Landfill Tax** and **Stamp Duty Land Tax** in Scotland was devolved to the Scottish Parliament. Revenue Scotland now collects these devolved taxes, which are paid to the Scottish government. Some £416 million was collected in 2015-16 for Land and Buildings Transaction Tax and £143 million for Scottish Landfill Tax.[14]

- The Scotland Act 2012 introduced powers for the Scottish Parliament to apply a **Scottish Rate of Income Tax** (SRIT) to the non-savings, non-dividend income of Scottish taxpayers from 6 April 2016. HMRC will continue to collect income tax and will pay over to the Scottish government the amount of revenue it collects relating to the SRIT. HMRC will report the income tax collected relating to SRIT in the Trust Statement from 2016-17.[15]

- In implementing devolution, HMRC recovers any additional costs it incurs from the Scottish government. During 2015-16, it recovered some £8.7 million.[16]

- The Autumn Statement 2014 announced the introduction of the **Diverted Profits Tax** (DPT), effective from 1 April 2015. The aim of the tax is to deter multinational groups from diverting profits out of the UK. DPT is set at a higher rate (25%) than Corporation Tax to encourage businesses to change their arrangements and pay Corporation Tax in line with their economic activities. HMRC is beginning to see evidence of this behavioural change. The decision to issue a charging notice, the point at which the tax becomes collectable, must be approved by a DPT governance board. No DPT revenue was collected in 2015-16.

  The introduction of DPT may lead companies to restructure their tax affairs to pay additional Corporation Tax, rather than pay a higher rate under DPT. HMRC review of a small number of cases indicates an additional £10 million of Corporation Tax has already been received as a result of such restructuring. HMRC continues to review tax returns for the year to establish the full impact of DPT and has not yet included any inital estimate in its compliance yield figure for 2015-16.[17]

- From 1 January 2016, a new **banking surcharge** of 8% has been levied on the taxable profits of banking companies and building societies resident within the UK. HMRC expects a larger number of institutions will pay this banking surcharge than institutions that currently pay the bank levy. The surcharge raised £0.3 billion in 2015-16.

14 Revenue Scotland, *Land and Buildings Transaction Tax Monthly Statistics*, March 2016 and *Scottish Landfill Tax Statistics*, January to March 2016. Available at: www.revenue.scot/sites/default/files/LBTT%20Statistics%20010316%20%20310316.xlsx, www.revenue.scot/sites/default/files/SLfT%20Statistics%20-%20January%20to%20March%202016.xlsx

15 The Comptroller and Auditor General is required under statute to report to the Scottish Parliament on HM Revenue & Custom's administration of the SRIT. He published his first report to the Scottish Parliament on 26 November 2015 (HC 627). His next report is due in autumn 2016.

16 HM Revenue & Customs, *Annual Report and Accounts 2015-16*, p. 152.

17 HM Revenue & Customs, *Annual Report and Accounts 2015-16*, p. 27.

1.17 The Finance Act 2014 allowed HMRC to issue ‘accelerated payment notices’ requiring payment of tax or National Insurance, or both, that are in dispute as a result of taxpayers’ use of a tax avoidance scheme. Several conditions must be satisfied before a notice can be issued. For example, the arrangement used must be notifiable under the ‘disclosure of tax avoidance scheme’ regime or subject to a ‘general anti-abuse rule’ counteraction notice.

1.18 These ‘accelerated payments’ were included in the Trust Statement for the first time in 2014-15. Since then, HMRC has issued more than 46,000 notices. The 2015-16 Trust Statement included £2.1 billion of revenue recognised at the point when the ‘notice to pay’ was issued, which is before the enquiry or dispute has been resolved. Accelerated payments are not separately disclosed in the Trust Statement but are within the revenue for the related tax. The legal claims provision (paragraph 1.15) includes £240 million for accelerated payments that HMRC has received but which it assesses as likely to have to be repaid.[18]

18 This provision is not netted off the £2.1 billion revenue but is included in the movement in provisions figure and so is included as expenditure in the Trust Statement.

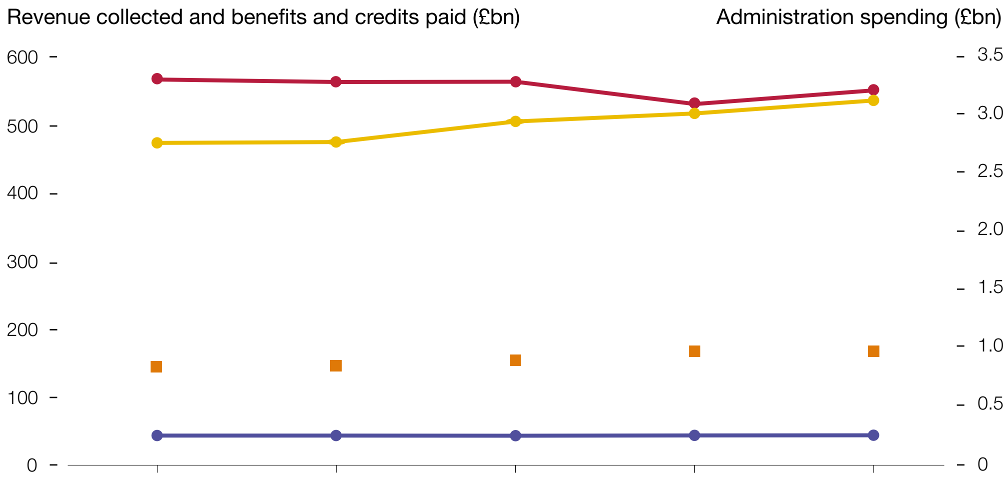
Cost of collecting revenues

1.19 HMRC collected more tax revenue in 2015-16 and continued to pay out similar levels of benefits and credits. As a result, the revenue collected per £1 of spending on administration has increased slightly to £167.06 (2014-15: £166.95) (**Figure 4**). HMRC's biggest cost is staff expenditure of £2.3 billion. The level of staff cost is relatively consistent with 2014-15 as are staff numbers (2015-16: 59,900; 2014-15: 57,100) (**Figure 5**).

Figure 4

Revenue collection, benefits and credits spend and administrative cost

HMRC collected more tax revenue in 2015-16 and continued to pay out similar levels of benefits and credits



	2011-12	2012-13	2013-14	2014-15	2015-16
HMRC administration spending (£bn)	3.3	3.3	3.3	3.1	3.2
Revenue (£bn)	474.2	475.6	505.8	517.7	536.8
Revenue collected per £1 administration spending (£)	143.20	144.58	153.64	166.95	166.75
Benefits and credits spending (£bn)	42.8	42.7	42.5	42.8	43.1

Notes

1 Benefits and credits spending includes Resource Accounts subheads: E Social benefits and grants, F Providing payments in lieu of tax relief to certain bodies, K Personal tax credits and L Other reliefs and allowances.

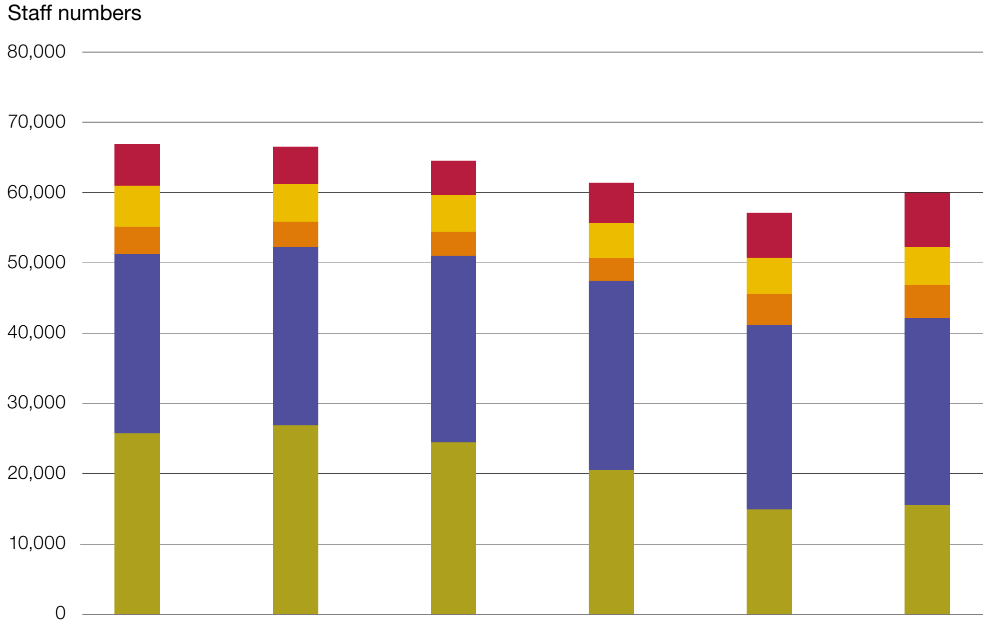
2 Administration spending is Resource Accounts subhead A HMRC administration.

Source: Analysis of HM Revenue & Customs' Resource Accounts and Trust Statement

Figure 5

Staff numbers (full-time equivalent)

Staff numbers (full-time equivalent) have increased slightly in 2015-16 having declined over the previous four years



	March 2011	March 2012	March 2013	March 2014	March 2015	March 2016
Other	5,901	5,279	4,865	5,747	6,358	7,356
Benefits and credits	5,834	5,301	5,157	4,983	5,193	5,459
Business Tax	3,877	3,695	3,410	3,160	4,415	4,583
Enforcement and compliance	25,475	25,334	26,601	26,923	26,222	26,798
Personal Tax	25,796	26,858	24,444	20,558	14,949	15,661
Total staff	**66,883**	**66,467**	**64,477**	**61,371**	**57,137**	**59,857**

Source: HM Revenue & Customs Resource Accounts 2010-11 to 2015-16

Other developments during 2015-16

1.20 In November 2015, HMRC announced that it would reduce its estate from 170 locations to 13 regional sites and four specialist sites by 2027. By 2021, 137 sites will be closed. We would expect to see the impact of this decision in future years' financial statements, for example the reduction in the number of buildings and associated changes to accommodation costs, and the recognition of the costs of staff leaving HMRC.

1.21 In July 2015, HMRC set up a new company, Revenue & Customs Digital Technology Service (RCDTS), a limited company set up, and wholly owned, by HMRC to support and deliver HMRC's digital and technology services. The services transferred to RCDTS in 2015-16 were previously supplied under the Aspire contract, the largest technology contract in government due to expire in 2017. On 1 December 2015, HMRC transferred 138 staff from Capgemini, who work under the Aspire contract, to RCDTS. These staff provide the same service to HMRC but through an HMRC-owned company rather than through external suppliers.

1.22 RCDTS's costs are consolidated into HMRC's Resource Accounts. Its main costs are permanent staff (£2.2 million) and spend on contractors (£3.9 million). Expenditure will increase in future years as more staff are transferred to RCDTS and it provides more services to HMRC. RCDTS's own detailed audited financial statements will be available in the autumn.

Compliance yield

1.23 Compliance yield is an estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented, from its compliance and enforcement activities. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work. Compliance yield is a more direct and timely measure of the impact of HMRC's compliance and enforcement work than the tax gap, which is subject to long reporting delays and other factors outside HMRC's control.[19]

1.24 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. They fall within three groups:

- **Promote:** where HMRC makes complying with tax law easier for the majority of its customers who are willing and able to comply with their tax obligations, for example by designing compliance into its systems and processes.
- **Prevent:** where HMRC stops non-compliance from entering the system.
- **Respond:** where there is non-compliance, HMRC detects it and corrects it.

19 The tax gap is HM Revenue & Customs' estimate of the difference between the amount it should theoretically be able to collect and what it actually collects. Estimating the tax gap is not an exact science but it broadly indicates the trend in tax compliance and HM Revenue & Customs' long-term performance in tackling non-compliance. Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Session 2014-15, HC 18, National Audit Office, July 2015, Part Two.

1.25 Building on our work in 2013-14 and 2014-15, we consider HMRC's progress in taking forward our recommendations and those of the Committee of Public Accounts.[20] We have not verified the accuracy of HMRC's figures.

HMRC's performance in 2015-16

1.26 In 2015-16, HMRC achieved £26.6 billion of compliance yield against a target of £26.3 billion. HMRC had achieved the same amount of yield in 2014-15 against a target of £26.0 billion.

1.27 HMRC split the total compliance yield reported in 2015-16 (£26.6 billion) into five categories (**Figure 6** overleaf):

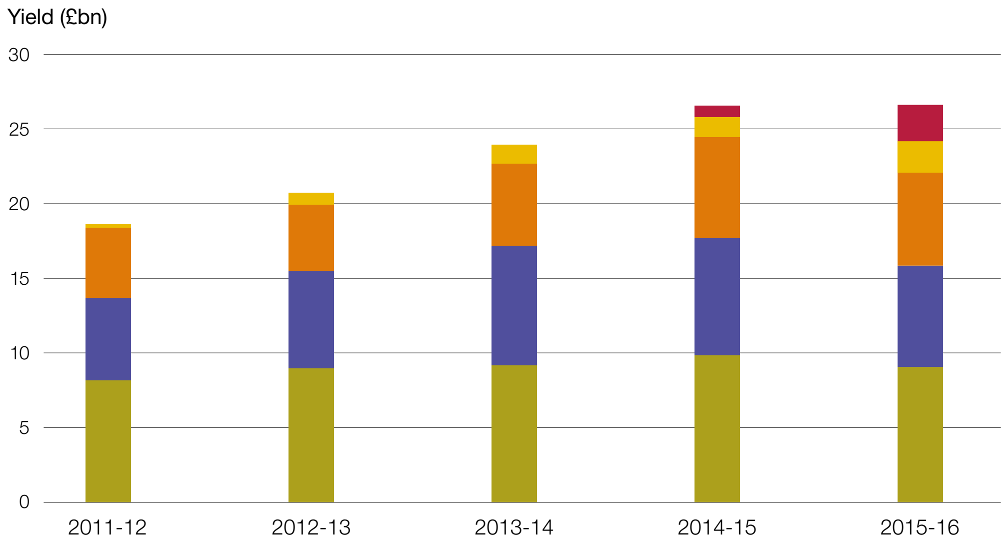
- **Cash collected** of £9.0 billion (34%), which is an estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.
- **Revenue losses prevented** of £6.8 billion (26%), which is tax revenue HMRC has protected each year either by refusing or reducing repayment claims because they are in error or fraudulent or by disrupting organised criminal activity.
- **Future revenue benefit** of £6.2 billion (23%), which is HMRC's estimate of the revenue benefits where it considers it has changed the behaviour of the taxpayers and can be claimed for up to five years.
- **Product and process yield** of £2.1 billon (8%), which is the annual impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.
- **Accelerated payments** of £2.4 billion (9%), which is the net amount of disputed tax (£2.1 billion) that users of avoidance schemes have paid upfront to, and have received back from, HMRC and £340 million of estimated behavioural impact.

20 Comptroller and Auditor General, *HM Revenue & Customs 2013-14 Accounts*, Session 2014-15, HC 19, National Audit Office, July 2014; HC Committee of Public Accounts, *HM Revenue & Customs performance in 2014-15*, Sixth Report of Session 2015-16, HC 393, November 2015; HC Committee of Public Accounts, *HMRC's progress in improving tax compliance and preventing tax avoidance*, Eighteenth Report of Session 2014-15, HC 458, November 2014.

Figure 6

Compliance yield reported by HMRC since 2011-12

HMRC reported £26.6 billion of compliance yield in 2015-16, more than in any previous year of the 2010 Spending Review period



Yield type	2011-12 (£m)	(%)	2012-13 (£m)	(%)	2013-14 (£m)	(%)	2014-15 (£m)	(%)	2015-16 (£m)	(%)
Accelerated payments	0	0	0	0	0	0	768	3	2,436	9
Product and process yield	240	1	794	4	1,233	5	1,335	5	2,110	8
Future revenue benefit	4,700	25	4,441	21	5,508	23	6,748	25	6,238	23
Revenue losses prevented	5,509	30	6,512	31	8,003	33	7,869	30	6,795	26
Cash collected	8,178	44	8,975	43	9,182	38	9,838	37	9,028	34
Total	**18,627**	**100**	**20,722**	**100**	**23,926**	**100**	**26,558**	**100**	**26,607**	**100**

Note

1 Percentages shown here do not all add to 100% due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

1.28 **Figure 7** shows examples of HMRC's compliance activities and how they result in different types of yield.

1.29 We and the Committee of Public Accounts have previously made a number of recommendations for improving the assessment and reporting of compliance yield (**Figure 8** on page R30).

Figure 7
Examples of HMRC's compliance yield activities

HMRC intervention	Reported yield
HMRC opened an enquiry into a trader's accounts having received evidence of under-declaration of imports in previous tax returns. HMRC worked with the trader to quantify the extent of under-reporting and calculated additional customs duties and VAT payable on the previously undeclared imports.	HMRC has reported cash collected yield of £202,000, representing the additional tax payable by the trader.
A taxpayer submitted a self-assessment return which included significant losses from a marketed tax avoidance scheme. The taxpayer claimed that no tax was payable as a result and applied for losses to be carried-back against income in the prior year. HMRC challenged the taxpayer's use of the tax avoidance scheme and the taxpayer ultimately accepted that losses arising from the scheme could not be used to reduce their tax liability.	HMRC's challenge of the tax avoidance scheme resulted in reported yield of: • £104,000 of **cash collected** as the tax and interest payable after removal of the artificial loss; and • £119,000 of **revenue loss prevented** as the amount of tax protected by rejection of the application to carry-back losses.
HMRC opened an investigation into a taxpayer, as information indicated that the taxpayer was failing to declare income and beneficial loans on their self-assessment returns. HMRC contacted the taxpayer to notify them that they were under investigation for tax fraud and offered a contractual disclosure facility. The offer was accepted by the taxpayer, who provided details of previously undeclared income. A contractual disclosure facility allows taxpayers to admit to past tax fraud and pay the tax due, plus interest and penalties, without the threat of a criminal prosecution provided they fully disclose their deliberate fraudulent behaviour.	HMRC's agreement of a contractual disclosure facility with the taxpayer resulted in reported yield of: • £734,000 of **cash collected** as the tax, interest and penalties payable under the facility; and • £484,000 of **future revenue benefit** over three years from the anticipated impact on the taxpayer's future behaviour.

Source: National Audit Office

Figure 8

Committee of Public Accounts' recommendations and the government's responses

HMRC should ensure the governance arrangements around its key performance indicators are sufficiently robust, and subject to adequate internal and external challenge, before they are reported publicly.

The government agreed with this recommendation. It said that HMRC's management checked the results and that there was scrutiny from HMRC's internal audit function and the National Audit Office. HM Treasury would also have greater oversight of HMRC's compliance yield results.[1]

Our comment on progress: HMRC has strengthened its internal review. Business areas review the processes for compiling their yield cases and consider periodic performance information so they can challenge the data and monitor trends. Internal audit includes reviews of how the yield is compiled as part of its annual programme of work (see paragraph 1.37). We review the robustness of the arrangements HMRC has in place (paragraphs 1.34 to 1.41).

HMRC should be more transparent about its compliance yield estimates in its external reporting. HMRC should continue to publish more detail about how it calculates yield, and should be clearer about how much it has actually collected in cash terms and explain how uncertainty affects its estimates.

The government agreed with this recommendation and recognised the need to provide more information to aid understanding of its complex performance. HMRC will continue to provide explanatory information whenever it publishes its compliance revenue outturns.[1, 2]

Our comment on progress: see paragraphs 1.30 and 1.31.

HMRC should maintain a comparable measure of compliance yield over time and report clearly the impact of any changes it makes to its methodology in its main accountability statements to Parliament.

The government disagreed with this recommendation, as it was not always considered to be practical to make comparisons over time. HMRC considers that assessing the effects of its compliance activities may change so significantly that it would be unable to maintain a comparable time series.[1, 2]

Our comment on progress: while HMRC disagreed with the recommendation, its 2014-15 Annual Report explained how its compliance yield target reflected its 2010 Spending Review settlement and subsequent fiscal events. The compliance yield target for 2015-16 was announced in the 2013 Spending Review with further increments added by subsequent fiscal events. HMRC's 2015-16 Annual Report explains the composition of its compliance yield targets since 2011-12 (page 15), its reporting of different yield types (page 13) and the impact of the proposed changes to the measurement of future revenue benefit from 2016-17 (page 12). Taken together, these disclosures show how the compliance yield measure compares over time.

HMRC should report its compliance yield in much clearer and simpler terms. It should state how much cash its compliance activity has recovered each year, alongside its estimates of future revenue and losses prevented. It should also report the range of uncertainty around its estimates.

The government did not accept the recommendation. HMRC's Annual Report sets out the different elements of compliance yield and acknowledges that calculating them requires a degree of estimation. HMRC is considering ways to report compliance yield more clearly and transparently, including developing the evidence base around the discount applied to the cash collected figure and allocating future revenue benefit estimates to the year of impact. HMRC considers that a range of uncertainty around estimates would add ambiguity and complexity, thus reducing transparency.[3,4]

Our comment on progress: see paragraphs 1.30 to 1.32

Notes

1 HM Treasury, *Treasury Minutes, Government responses on the Eighteenth, the Twenty-first to the Twenty-fourth, and the Thirty-third Reports from the Committee of Public Accounts: Session 2014-15*, Cm 9013, February 2015, pp. 3-4.

2 We made a similar recommendation in our 2014-15 report. Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Session 2014-15, HC 18, National Audit Office, July 2015, R9, paragraph 21.

3 HM Treasury, *Treasury Minutes, Government responses on the Fourth to the Eighth Reports from the Committee of Public Accounts: Session 2015-16*, Cm 9190, January 2016, p. 16.

4 In our 2014-15 report, we also recommended that HMRC should: strengthen its evidence base to support the discount factor it applies to its compliance yield cash collected figure; consider whether its assumptions supporting the scoring of accelerated payments remain relevant; and develop a way to score the tax collected in future years that is consistent between its future revenue benefit and product and process yield categories. Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Session 2014-15, HC 18, National Audit Office, July 2015, R9, paragraph 21.

Source: National Audit Office

1.30 In terms of reporting externally on compliance yield, for example in its Annual Report, HMRC continues to improve its disclosures to make clearer how its yield is calculated. In the '*cash collected*' category, HMRC refers to this as its estimate of additional money due to the Exchequer as a result of its compliance activities during the year. It also recognises that estimates are used as it cannot track the actual payments made by taxpayers as a result of each compliance intervention due to the multiple IT systems HMRC currently uses. HMRC is certain how much additional revenue is due as a result of its compliance activities. However, until it can bring together its records for all taxes, duties and payments into one customer-based record, HMRC cannot state with certainty the precise amount of cash it has collected due to its compliance activities. HMRC expects, within the Spending Review period ending in 2020, to be able to report on the precise amount of cash it has collected.

1.31 HMRC did not accept the Committee of Public Accounts' recommendation that it should provide more quantitative and narrative detail on the impact of its assumptions on the reported compliance yield. We acknowledge HMRC's concerns about the reporting of a range of uncertainties around the estimates it makes: however, we continue to believe that improving transparency and accountability outweighs the risk of added complexity. Such disclosures are important because of the amount of variation in the levels of estimation and uncertainty across the different yield types (**Figure 9** overleaf).

1.32 From 2016-17, following our recommendation, HMRC will report future revenue benefit in the year of impact rather than the year in which it is assessed. The new method is more consistent with the way the rest of compliance yield is reported, although there will still be a degree of uncertainty around the estimation. HMRC has published a technical paper to explain how its change to the scoring of future revenue benefit will affect its compliance yield results. The new approach will help to improve the transparency and internal consistency of HMRC's performance measurement framework.

1.33 In its April 2016 report on tackling tax fraud, the Committee of Public Accounts concluded the way HMRC reported its performance was too confusing and that the impact HMRC claimed for its work far exceeded any reduction in the tax gap. The Committee of Public Accounts recommended that "HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap. It should also publish this information in a way that is accessible for everyone to understand".[21] HMRC has not yet formally responded to this recommendation. However, its Annual Report includes a section covering both compliance yield and the tax gap, and explains how they interact.[22] It is not straightforward to link compliance yield to the tax gap and HMRC describes some of the reasons for this. HMRC also provides an example that describes the relationship between the tax gap and compliance yield for a specific case. This is a useful step in explaining the relationship, but it will take longer-term work to address the issues raised by the Committee of Public Accounts about how HMRC's reported headline performance measures relate to each other.

21 HC Committee of Public Accounts, *Tackling tax fraud*, Thirty-fourth Report of Session 2015-16, HC 674, April 2016.
22 HM Revenue & Customs, *Annual Report and Accounts 2015-16*, pp. 17–19.

Our assessment of the 2015-16 measure

1.34 Our 2014-15 report assessed the robustness of HMRC's methodology for the different types of yield.[23] We have summarised HMRC's progress this year against our previous assessment (Figure 9).

Figure 9

Our assessment of HMRC's scoring methodology

Yield type	Our assessment of HMRC's methodology in 2014-15	Developments in 2015-16
Cash collected £9.0 billion	Assessment of methodology: **Reasonable, but some weaknesses.** Recording cash collected is straightforward. The area for improvement is developing the evidence base for the 10% discount rate, which recognises that some tax liabilities will not be collected.	In 2015-16, HMRC continued to use the discount rate of 10% to recognise that some tax liabilities are not collected. HMRC is undertaking an exercise to strengthen the evidence to support this discount rate. A discount rate will become redundant once HMRC is able to track payments due from taxpayers to cash actually received (paragraph 1.30).
Revenue losses prevented £6.8 billion	Assessment of methodology: **Reasonable.** HMRC records losses prevented when it refuses or reduces repayment claims because they are incorrect or fraudulent. Such losses prevented make up around two-thirds of the total revenue losses prevented. The methodology for calculating such losses prevented is straightforward and well understood. The benefit to the Exchequer is clear and specific. The methodology for revenue losses prevented from the disruption of criminal activity contains some weaknesses. Amounts scored are based on cases where revenue would have been lost if the criminal activity had not been successfully disrupted. The scoring assumes that none of the revenue loss disrupted has been displaced to rival gangs or different criminal activities. HMRC could do more to validate this assumption.	There has been no change to the methodology since 2014-15.
Future revenue benefit £6.2 billion	Assessment of methodology: **Not straightforward and at risk of being subjective.** Whenever it concludes a compliance investigation, HMRC assesses whether, and for what period, it should record the future revenue benefits. HMRC recognises that the estimates of future revenue benefit entail a degree of uncertainty. It has established guidance that explains how its staff should estimate the yield. This guidance limits the number of years HMRC can score an impact, and requires evidence of the taxpayer's commitment to change and information to support amounts scored.	There has been no change to the methodology in 2015-16. In 2014-15, we recommended that HMRC develop a way to score the tax collected in future years that was consistent between its future revenue benefit and product and process yield categories.[1] In response, HMRC intends, from 2016-17, to report its future revenue benefit yield in the year of impact (paragraph 1.32). HMRC's preliminary analysis, available in its Annual Report, indicates that the impact of this new approach on the total reported compliance yield will not be significant. The new approach will ensure HMRC's performance measurement framework is consistent and more transparent.

23 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Session 2014-15, HC 18, National Audit Office, July 2015, R43, Figure 16.

Figure 9 *continued*

Our assessment of HMRC's scoring methodology

Yield type	Our assessment of HMRC's methodology in 2014-15	Developments in 2015-16
Product and process £2.1 billion	Assessment of methodology: **Reasonable.** The calculation of amounts is subject to external review by the Office of Budget Responsibility and supported by appropriate documentation.	There has been no change to the methodology.
Accelerated payments £2.4 billion (including £340 million of behavioural impacts)	Assessment of methodology: HMRC reports the cash amounts it has received under this scheme during the year and the cash amounts it has repaid. **This is a simple approach which does not involve any estimation.** There is no adjustment for the possibility that cash received in individual cases may have to be repaid in future years, or for the possibility that the final award to HMRC may be higher than the cash already received. HMRC will keep the way this scheme is scored under review. The calculation of the behavioural impact of the accelerated payments legislation is subject to review by the Office for Budget Responsibility.	There has been no change to the methodology. HMRC believes that reporting the yield based on the actual amount of cash collected, net of repayments, is reasonable as this is the actual impact on the Exchequer and is when the impact of the accelerated payment notices as a deterrent is realised. The application of estimates for amounts that may need to be repaid would detract from the impact achieved.

Note

1 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Session 2014-15, HC 18, National Audit Office, July 2015, R9.

Source: National Audit Office

1.35 We assessed HMRC's methodology for estimating compliance yield, including a sample of case files across its various lines of business. Our findings fell into four areas:[24]

- data quality;
- estimation and uncertainty;
- transparency in reporting; and
- internal consistency.

Data quality

1.36 HMRC's processes for assuring the robustness of the compliance yield measure are well developed and effective. HMRC guidance explains how its staff should measure different types of yield. HMRC has processes to check compliance with the guidance and to challenge the reasonableness of assumptions. However, HMRC's quality assurance processes are not equally well developed across its different compliance activities. The quality of data underpinning the reported yield varies considerably between different compliance teams within HMRC. This can introduce inconsistencies in the reporting of performance data and increase the risk of inaccurate results.

1.37 Internal audit carried out three compliance yield reviews in 2015-16. Their findings were consistent with our results.

24 We reviewed 74 cases across different teams (specialist and criminal investigations, counter avoidance, business tax and personal tax). This was not a statistically representative sample of the total population of compliance yield cases to enable us to conclude on the accuracy of the reported compliance yield.

Estimation and uncertainty

1.38 HMRC's reported compliance yield is an attempt to reflect the impact of all of its tax compliance activities. Compliance yield is important as an internal performance measure for HMRC so that the department can understand the impact of the resources deployed in different enforcement and compliance areas.

1.39 HMRC did not design compliance yield to be a cash-based measure and it necessarily includes a degree of estimation. HMRC measures the majority of its compliance yield based on individual compliance interventions, covering current and past non-compliance. HMRC's methodology and processes for estimating compliance yield are sound. However, the levels of estimation and uncertainty vary considerably across the different yield types. For example, while most revenue losses prevented are known amounts from refused repayment claims, some are related to the disruption of criminal activities, which are more uncertain. Future revenue benefit is an estimate and is scored where sufficient evidence exists that a compliance intervention will affect future tax returns. There is a level of uncertainty in these cases because HMRC cannot be sure how taxpayers will behave in future. HMRC does not routinely carry out retrospective checks on its compliance cases to confirm its activities have resulted in the expected cash collection, loss prevention or behavioural change.

Transparency in reporting

1.40 HMRC continues to improve the clarity and transparency of the way it reports compliance yield in its Annual Report, which includes:

- further details on HMRC's challenges in tracking payments made against its compliance interventions;
- a link to a technical paper that sets out changes to HMRC's methodology for reporting future revenue benefit and the likely impact of its new approach on the total reported compliance yield; and
- a section on the new Diverted Profits Tax – this tax is intended to combat artificial business structures created solely to minimise tax liabilities.

Internal consistency

1.41 HMRC's compliance work covers a wide range of activities, which are reflected in the different yield types. HMRC has improved the methodology for its performance reporting framework to allow the various types of yield to be scored consistently. From 2016-17, future revenue benefit will be scored in the year it relates to rather than the year in which the intervention took place. This is similar to the approach used in reporting product and process yield.

HMRC's objectives from 2016-17

1.42 HMRC has revised its framework of external and internal performance measures for 2016-17 and beyond so it aligns with its approach and structure arising from its transformation programme (see Part Two).[25] HMRC's three strategic objectives, and its broad approach to tracking performance against these, are summarised in **Figure 10**.

Figure 10

HMRC's objectives from 2016-17

Objective	Summary of HMRC's intended approach to tracking performance
Maximise revenues due and bear down on avoidance and evasion	Raising compliance revenue – a compliance yield target will be set each year as part of the Budget. Increasing the number of criminal investigations that HMRC can undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament. Tackling tax credits error and fraud – each year HMRC will set targets for the year ahead.
Transform tax and payments for customers	Delivery of multi-channel digital services. For example, HMRC intends that, by 2019-2020, most small businesses will interact with its systems directly via accounting software. Roll-out will be completed by 2020-21. Improving customer services – HMRC aims to track this across a range of customer-focused measures. These will include number of call attempts handled, call wait times and response times for handling post; service standards on accessibility, timeliness, quality and resolving issues on first contact for all contact channels and customer satisfaction for the digital experience. Reducing business costs. HMRC aims to reduce the annual cost of tax administration to businesses by £400 million by 2019-20.
Design and deliver a professional, efficient and engaged organisation	Making sustainable savings. HMRC aims to deliver sustainable cost savings of £717 million a year by the end of 2019-20 and a total of £1.9 billion in efficiency savings over the Parliament. This will come from digitising tax collection and employing a smaller but more highly skilled workforce. Engaging and developing HMRC's staff – HMRC aims to improve employee engagement and achieve the civil service employee engagement index benchmark, which in 2015 was 58%.

Source: HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated May 2016

25 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated May 2016. Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020

Part Two

HMRC's transformation plans

2.1 Last year we reported on HM Revenue & Customs' (HMRC's) plans to transform how it administers tax. We said that although plans were at an early stage it was clear that the scale of the transformation was significant and more complex and far-reaching than previous change programmes. We said we would report on progress as the programme developed.

2.2 In the past year, HMRC completed its preparations for transformation and is now implementing the changes. This part of the report covers:

- how HMRC's plans have developed since last year;
- how HMRC plans to manage its transformation;
- ongoing risks and challenges; and,
- arrangements for accountability and external scrutiny.

We will return to evaluate the effectiveness of HMRC's management of its change programme in future years, when the new processes are more established.

How HMRC's plans have developed since last year

2.3 HMRC's stated vision is to have "one of the most digitally advanced tax administrations in the world".[26] The vision is not just about more online services. HMRC will need to transform its whole organisation to achieve its aim, making significant changes in parallel. By 2021, it expects to employ 16% less staff who will mostly be working in 13 regional centres, a substantial rationalisation of its estate resulting in the closure of 137 of its locations (90%). More of its processes will be automated, and a higher proportion of its staff will undertake specialist work to challenge those taxpayers who seek to avoid or evade their tax liabilities. HMRC will fundamentally change how it buys its IT services as it replaces its Aspire contract. HMRC expects most taxpayers will be using new online systems to manage their tax affairs by 2020 (**Figure 11**).

26 HM Revenue & Customs, *Single Departmental Plan 2015–2020.* Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020

Figure 11
What making tax digital means for HMRC's customers

Examples of the ways that HMRC's plans will affect taxpayers

Now	By 2020, HMRC expects
Most interactions between customers and HMRC are on the phone or by post.	Nearly all customers will be maintaining their tax records and paying tax online, supported by webchat or secure email. Face to face and telephone support will still be available for those who need it.
Businesses tell HMRC about their tax position annually for most taxes, quarterly for VAT.	Most businesses will provide HMRC with quarterly updates about their financial position. Businesses will have a clearer picture of their tax liability during the year. Businesses will use digital tools to track income and expenditure throughout the year.
Employers provide HMRC with real-time information about employees' income. Individuals tell HMRC about their tax position annually, or when a taxable event occurs (such as inheritance or a capital gain). For some customers, it is time-consuming to correct overpayments and underpayments of tax.	Individuals will see information about all their taxes in one place, with real-time information for employees about income, benefits in kind and personal allowances. Fewer errors as more information is pre-populated by HMRC, and more accurate calculation of taxes each month for those with complex tax affairs.

Source: National Audit Office analysis of HM Revenue & Customs publications

2.4 HMRC's vision builds on earlier investments to join up services, simplify processes, make better use of data and use modern technology. In particular, its plans build on work undertaken over the last ten years to modernise the pay-as-you-earn (PAYE) system through which most of HMRC's customers pay their tax. In 2009-10, HMRC created a national PAYE system, which provided a single national dataset for employees' income tax and national insurance payments. In 2013-14 it launched Real Time Information to improve the timeliness and accuracy of its data on employees' income.

2.5 HMRC has strong reasons for wanting to develop and expand the use of digital tax accounts over the next few years. These plans are aligned with HMRC's strategic objectives to maximise compliance, increase efficiency and improve the experience of taxpayers and its earlier investments to automate and modernise the tax system.

2.6 Critical to implementing these plans successfully will be HMRC's ability to build public trust in its new digital services. This requires these services to be both easy to use and secure. As HMRC's data becomes increasingly digitised and integrated, the importance of protecting its systems against data loss and cyber attack also rises. HMRC is therefore investing resources and expertise in making its data more secure and ensuring access to sensitive tax data in particular is safeguarded. It must also demonstrate to taxpayers that its controls to verify each taxpayer's identity and protect the confidentiality of data are working effectively.

2.7 HMRC has been planning the next stage of its transformation for the past two years. Since our review last year it has:

- made plans to spend more than £2 billion to achieve its vision over the next five years;
- agreed with HM Treasury the high-level outcomes it will achieve over the next four years and secured £1.3 billion of new investment funding. HMRC expects to spend £1.8 billion on transformation in total over that period, with the balance of funding coming from existing budgets;
- launched digital tax accounts for individuals, giving customers access to the first phase of its online services. HMRC reported that over one million customers had used the new accounts by April 2016;
- announced its plans to close 137 offices (90% of its locations) and the location of its 13 new regional hubs and four specialist sites where almost all its staff will be based within the next ten years; and
- secured ministerial and supplier agreement for its plans to replace its IT services contract, Aspire, which it has revised to reduce the risk of carrying out too much change too quickly.[27]

2.8 To agree funding from HM Treasury for its plans, HMRC estimated the costs and benefits of transformation over the next five years. Its plans are based on investing at least £2 billion on its transformation over the next five years (**Figure 12**). Almost 90% of its investment is in three areas: making tax digital, improving compliance and its estates rationalisation. It expects this investment to reduce running costs by more than £700 million and increase tax revenues by £1 billion over the next five years.[28] HMRC expects three of its seven directorates to provide three-quarters of the planned efficiencies – enforcement and compliance, personal tax and information technology (**Figure 13** on page R40). HMRC expects almost half the savings in 2016-17 to come from the information technology (Chief Digital and Information Officer's directorate), primarily from replacing the Aspire contract.

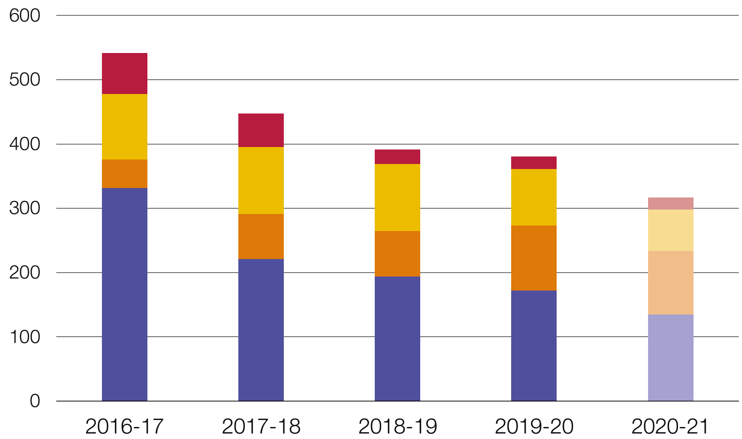
27 Comptroller and Auditor General, *Memorandum: Replacing the Aspire contract*, Session 2016-17, National Audit Office, June 2016.

28 These figures differ from HMRC's public statements about its settlement at the Autumn Statement, which covers a different time period (four years rather than five) and includes savings from a wider range of initiatives such as pay restraint and continuous improvement. Figures referred to here are based on HMRC's estimates of the costs and benefits of its transformation only.

Figure 12

HMRC's estimate of total spend on transformation to 2020-21

Most of HMRC's spend will be on digital transformation



	2016-17	2017-18	2018-19	2019-20	2020-21
Digital transformation	332	221	194	172	134
Estates	45	70	71	102	99
Supporting compliance	102	104	104	87	64
Other Programmes	63	52	22	20	19
Total	**542**	**447**	**391**	**381**	**316**

Notes

1 Spending plans for 2016-17 to 2019-20 have been agreed with HM Treasury. HMRC's estimates of spend in 2020-21 have yet to be agreed.

2 Supporting compliance involves changes to enable a more intelligence-led approach to compliance and enforcement.

3 Estates includes establishing 13 regional hubs and 4 specialist sites and transition support.

4 Digital transformation includes the modernisation of tax administration for individuals and businesses.

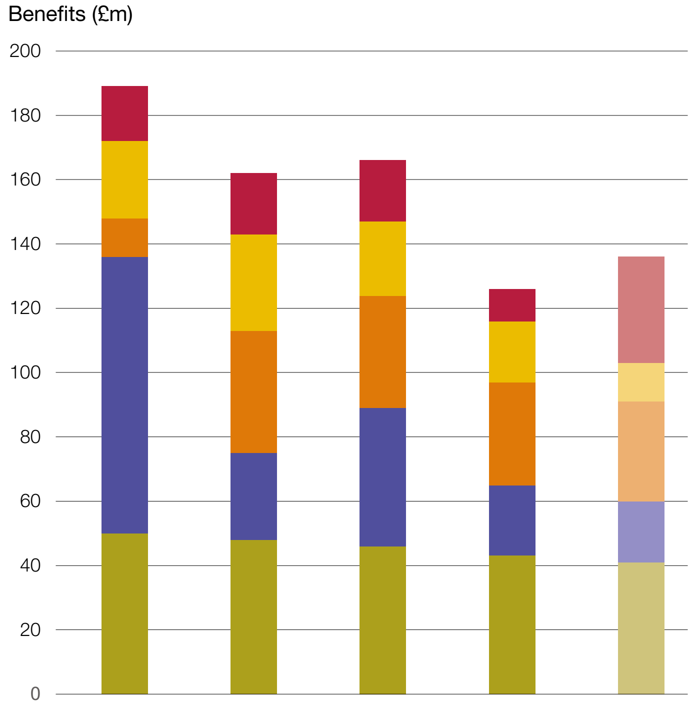
5 Other programmes include leadership development and support for the wider government agenda.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 13

Where HMRC expects savings from transformation to come from

Most of the expected savings will come from the Chief Digital and Information Officer's and the Enforcement and Compliance directorates



	2016-17	2017-18	2018-19	2019-20	2020-21
Chief Finance Officer	17	19	19	10	33
Personal Tax	12	38	35	32	31
Chief Digital and Information Officer	86	27	43	22	19
Enforcement and compliance	50	48	46	43	41
All other areas	24	30	23	19	12
Total	**189**	**162**	**166**	**126**	**136**

Notes

1 Efficiency savings for 2016-17 to 2019-20 have been agreed with HM Treasury. HMRC's estimates of efficiencies from transformation in 2020-21 have yet to be agreed.

2 All other areas includes the following directorates: Chief People Officer, Benefits and Credits, Legal, Business Tax, Central Tax and Strategy.

3 These figures are HMRC's estimates of the benefits of its £2 billion investment in its transformation over the next five years. They do not reconcile to HMRC's public statements about benefits in its settlement with HM Treasury which only covered four years and included savings from across HMRC's business, not just transformation.

Source: National Audit Office analysis of HM Revenue & Customs data

2.9 Predicting the costs, benefits and key milestones of a transformation like this over the longer term is inherently difficult because:

- significant changes will be made in parallel across the organisation and many are interdependent;
- the success of the plans depends on how taxpayers' behaviour changes in response to new services, which is difficult to predict;
- some factors affecting the speed of change are outside HMRC's control; and
- funding for future years depends on HMRC successfully generating savings in the earlier years.

2.10 HMRC's projections of spending on and savings from transformation are set out in Figures 12 and 13. We would expect these plans to change over time as HMRC takes account of progress against key milestones and learns from experience.

How HMRC plans to manage its transformation

2.11 When we reported on HMRC's management of its Aspire contract for IT services in 2014, we concluded that HMRC has a strong track record in delivering IT projects.[29] But this transformation will be more complex and challenging than any change HMRC has implemented before, and will require a different management approach. When we reported last year we identified managing the high levels of complexity and ambition in HMRC's plans as a major challenge. HMRC and HM Treasury have recognised and accept that the high level of complexity in an integrated organisation-wide change programme means HMRC's plans over the longer term are more uncertain than a more conventional and self-contained change programme would be.

2.12 HMRC has adapted its approach to leading and managing change to handle these higher levels of risk and uncertainty. Its leadership team has worked together to plan the transformation. There is strong engagement at a senior level. All members of the senior team are responsible for delivering and supporting transformation. It has also created a new role at board level, the Director General for Transformation, to be a focal point in its senior team for transformation. HMRC formed eight major programmes to deliver the changes, although it recognises that the programmes are heavily interdependent. HMRC is managing its investment in these programmes as a portfolio to help it prioritise its resources and manage risk. It has put in place a rolling programme of business planning and governance, seeking to learn and apply the lessons from its experience as projects mature.

2.13 There is no single right answer about how to manage a change programme of this magnitude. We consider that the responsibilities and governance arrangements put in place by HMRC, with the support of HM Treasury and Cabinet Office, look credible and proportionate to the risks involved. But it is too early to evaluate how HMRC's approach is working, as the new arrangements have only been operating for a few months.

29 Comptroller and Auditor General, *Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014

2.14 HMRC needs to maintain a clear view of whether it is on track to achieve its strategic goals. It must monitor its progress against a robust set of interim milestones. 2016-17 is the year of greatest activity in terms of both spending and the benefits HMRC expects to achieve. It will therefore be particularly important for HMRC to take stock of its progress early in 2017-18, and learn lessons and refresh its plans as necessary.

2.15 At this stage, HMRC has a relatively high-level view of how the progress of each individual change programme depends on other programmes. This increases the uncertainty about what might happen if a project with multiple dependencies is delayed. It may create additional and unpredictable costs and consequences as timetables for introducing new services and infrastructure change, as they inevitably will. In such an extensive change programme, it would be easy for HMRC to lose sight of progress towards its vision through small changes to the timing or scope of projects which are mutually dependent. HMRC is developing a more detailed view of these dependencies.

2.16 With such high levels of change we would expect any organisation to experience setbacks and difficulties with implementation as it designs and launches new services. When this has happened in the past, such as when HMRC created a national PAYE system, HMRC did not lose sight of its long-term objective. It committed serious effort to stabilising the system and tackling a significant backlog of unresolved cases. As we said a year ago, HMRC will need such commitment and resilience if it is not to be deflected from achieving its strategic vision. One of the most critical tests of HMRC's approach will be how management responds when things do not go as expected.

Ongoing risks and challenges

2.17 Our review last year identified three challenges HMRC would face delivering its transformation plans:

- transforming its business while changing how it buys its IT services under the programme to replace its existing contract for IT services, Aspire (see paragraph 2.18 below);
- the need to balance its ambitions with realism about its critical assumptions and make contingency plans (see paragraph 2.19); and
- developing the right management information to measure the costs and benefits of its investment (see paragraph 2.20).

2.18 HMRC has revised its approach to replacing its Aspire contract since we reported last year. It has agreed with ministers and Aspire suppliers to execute a phased approach to replacing Aspire that it judges will reduce the technical and operational risk and give it the continuity it needs to carry out its transformation plans, protect tax revenue and maintain customer service standards. The first phase commenced in 2015 and the last phase of the replacement is now due to be completed in 2020.[30]

30 See footnote 27.

2.19 HMRC's past experience demonstrates that there are serious risks if major assumptions underpinning its strategy do not prove realistic. For example, achieving HMRC's vision relies on the critical assumption that taxpayers will move over to online services and reduce the demand for telephone and postal services. In the last Parliament, HMRC made over-optimistic assumptions about how much change it could make all at once. To live within its spending plans, it released customer service staff before it had reduced the demand from personal taxpayers for contact by phone. This significantly impaired the quality of its service for some 18 months. HMRC has since recovered its overall service levels. It ended the year with calls answered at 72% of the total calls received over the year; and in the last quarter, it answered 87% of calls with an average speed of answer of less than six minutes. HMRC has adjusted its future resource plans in light of this experience. It is now monitoring closely the way taxpayers respond to changes in the way services are provided, including how demand for online and telephone services is changing. HMRC also needs to model the impact of different scenarios and monitor leading indicators of the success of its strategy. This is so that it can intervene early to ensure that any setbacks in implementing new services do not damage its service to customers or its ability to collect tax.

2.20 HMRC plans to develop a full picture of what it will cost taxpayers to use the new systems over the next year and its initial assessment will be published alongside the consultation documents this summer. HMRC has not yet estimated the costs for individual taxpayers or businesses of making the transition to online services or sought to quantify the benefits they can expect. Most business customers will have to update HMRC quarterly rather than annually about their tax affairs. They may need to buy new software that works with the new systems. The business community is sceptical of HMRC's evaluations of the costs and benefits of previous changes to the tax system. The business case for Real Time Information estimated that the new service would save businesses £300 million a year in compliance costs. HMRC established an Administrative Burdens Advisory Board to understand more about the costs and benefits to businesses of using real-time information. Working with this group of stakeholders led HMRC to reduce its estimate of the annual saving to businesses marginally to £292.5 million. Some businesses remain sceptical that access to real-time information has reduced their costs at all.[31]

Arrangements for accountability and external scrutiny

2.21 Few government departments have attempted this level of change across a whole organisation. At this early stage, it is inevitable that HMRC's plans should contain uncertainty about what will be delivered, by when and at what cost (paragraph 2.9). HMRC faces a challenge in being transparent about its plans, and could do more to help the public and Parliament understand what it is doing and where there is uncertainty.

2.22 HMRC is using shorter-term milestones to monitor its progress. It is agreeing spending plans and performance targets with HM Treasury annually so that it can learn

31 Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

from experience and alter its plans as things change. This is a realistic and prudent approach, given the scale of what HMRC is doing and the inevitability that not everything will go according to plan.

2.23 The process of governance and approvals by the centre of government is also designed to challenge and provide assurance about the value for money of HMRC's activities. The Infrastructure and Projects Authority, the part of Cabinet Office with responsibility for assuring government's major projects, will review progress on most, if not all, of HMRC's eight transformation programmes. HM Treasury will track HMRC's progress against its plans and will:

- challenge and approve spending on each programme, when business cases are submitted;
- monitor HMRC's performance compared to plans using a wider range of indicators than those HMRC reports publicly; and
- work with Cabinet Office, to test proposals for compliance with their spending controls (for example, on consultancy spend) and consider the case for exceptions where relevant.

2.24 The nature of public statements in successive Budgets and Autumn Statements about the scale of HMRC's investment and the expected benefits is that they have been incremental and partial, rather than describing the whole of HMRC's transformation plans in a single place. This process has made it difficult for Parliament or the public to understand or reconcile the data released in such statements, which risks creating confusion and obscuring accountability. For example, HMRC's public statements about the cost of transformation had focused on the new investment of £1.3 billion announced by the Chancellor in December 2015, and not the total expected cost of transformation, which is higher at £1.8 billion over the same period (paragraph 2.7). HMRC has clarified this in its Annual Report 2015-16, bringing together the total costs and benefits it expects from its investment in transformation in one place. We would expect HMRC to show in successive annual reports how its plans are evolving and what it has delivered in practice over the next four years.

Part Three

Improving the management of tax reliefs

3.1 Tax reliefs are integral to the tax system and an important tool for public policy, covering most areas of government activity. There are more than 1,100 tax reliefs and several different types.[32] Many have social or economic objectives, while others specify the boundaries and thresholds of tax. Tax reliefs' common characteristic is that they either reduce the tax payable or generate a payment. This can make them the focus of tax avoidance. Of 30 'spotlights on tax avoidance' published on HM Revenue & Custom's (HMRC's) website, 13 refer directly to a tax relief, while others may be linked to one or more reliefs that are not named.[33]

3.2 In 2014, we reported twice on tax reliefs, highlighting the need for greater transparency about the costs and use of reliefs.[34] We identified examples where HMRC proactively monitored and evaluated tax reliefs, but in general found that it did not test whether tax reliefs were achieving their aims. Without regular review of reliefs, significant risks might go undetected.

3.3 In 2015, the Committee of Public Accounts concluded that HMRC needed to improve how it monitors and reports on tax reliefs. It made five recommendations, two of which HMRC accepted. HMRC agreed to:

- draw up a set of principles to guide its management and reporting of tax reliefs that makes clear how it will carry out its responsibility to monitor, evaluate and assess tax reliefs; and
- regularly monitor variances between its forecasts of what tax reliefs will cost and what they actually cost. Where costs significantly exceed forecasts, it agreed to seek positive evidence the relief is working as intended and is not a target for tax avoidance.[35]

32 The Office of Tax Simplification identified 1,156 tax reliefs in a March 2015 publication. These relate to 23 different tax streams. The full list of tax reliefs is available here: https://taxsimplificationblog.files.wordpress.com/2015/03/ots-list-of-tax-reliefs-updated-to-march-2015.xls

33 HMRC publishes a series of 'spotlights', warning taxpayers about certain tax avoidance schemes. The series is available here: www.gov.uk/government/collections/tax-avoidance-schemes-currently-in-the-spotlight

34 Comptroller and Auditor General, *Tax reliefs*, Session 2013-14, HC 1256, National Audit Office, April 2014, and Comptroller and Auditor General, *The effective administration of tax reliefs*, Session 2014-15, HC 785, National Audit Office, November 2014.

35 HM Treasury, *Treasury Minutes: Government responses on the Thirtieth, the Thirty-fifth, the Thirty-seventh, and the Forty-first to the Fifty-third reports from the Committee of Public Accounts: Session 2014-15*, July 2015. See recommendations 1 and 3 of the Forty-ninth report.

3.4 HMRC also outlined plans to improve its reporting of tax reliefs, despite rejecting the Committee's recommendation to publish and maintain an up-to-date list of tax reliefs. HMRC said that it would provide more information on past changes to estimates, comparisons between forecasts and actual costs and commentary on significant variances for around 180 reliefs.[36]

3.5 This Part considers how HMRC is seeking to:

- develop good-practice guidance for managing tax reliefs;
- implement good practice in its administration of reliefs;
- ensure it manages tax reliefs proportionately; and
- improve its reporting on tax reliefs.

3.6 We examine the specific steps taken by HMRC in response to recent reports and we test progress and the adequacy of these responses using six case study reliefs (**Figure 14**).

Developing good-practice guidance for managing tax reliefs

3.7 In general, HMRC designs and delivers tax reliefs and manages the compliance risks associated with them as part of its administration of the whole tax system. For instance, it manages the risk that avoidance schemes target tax reliefs as part of its general counter-avoidance work, which considers all aspects of the tax system. Responsibility for administering tax reliefs lies with the relevant 'product and process owner'. A product and process owner is responsible for a specific area of tax. In some cases, they are responsible for a whole tax stream, such as capital gains tax; in others, for a relief or a group of reliefs within a wider area of tax, such as income or corporation tax. They are accountable for ensuring that the products they manage operate as effectively as possible to deliver HMRC's strategic objectives.

3.8 For each tax relief, the product and process owner is required to

- review the policy design;
- decide which administrative processes are needed to mitigate relevant risks; and
- ensure the reliefs are taken up by the right target population.

3.9 HMRC has said it is committed to adopting best practice in the design, monitoring and evaluation of tax, including tax reliefs. It recognises that good design of tax reliefs is important in ensuring that they work as intended, are protected from misuse and are efficient to manage.

36 HM Treasury, *Treasury Minutes: Government responses on the Fourth to the Eighth reports from the Committee of Public Accounts: Session 2015-16*, January 2016. See recommendations 3 and 4 of the Sixth report.

Figure 14
Six case study reliefs

Description	Objective	Age	Cost (2015-16 forecast)
Principal private residence relief exempts an individual's main home from capital gains tax	Support homeowners	Long-standing (40+ years)	£18 billion
Entrepreneurs' relief reduces capital gains tax to 10% for certain disposals (for instance, all or part of a business)	Encourage enterprise	Recently introduced (3–10 years)	£3 billion
Patent box gives companies a deduction which is equivalent to charging a reduced 10% rate of corporation tax on profits from patented inventions	Stimulate innovation	New relief (0–3 years)	£675 million
High-end TV tax relief allows producers to claim an additional deduction or a payable tax credit when computing taxable profits	Support UK TV industry	New relief (0–3 years)	£120 million
Investing in **Venture Capital Trusts** provides income tax relief on the amount invested, tax-free dividends and exemption of chargeable gains on disposal of shares	Encourage investment in small companies	Established (11–40 years)	£80 million
Interest paid on qualifying loans is eligible for income tax relief. Examples include loans to buy productive assets such as plant or machinery, an interest in a 'close' company, or to pay inheritance tax	Reduce barriers to finance for small business	Long-standing (40+ years)	Not known We estimate it cost £170 million in 2013-14[1]

Note

1 We used HMRC's data on interest deducted on self-assessment returns and the relevant income tax rate for each taxpayer to calculate our estimate for tax relief on qualifying loans interest.

Source: National Audit Office analysis of HM Revenue & Customs published information on tax reliefs and HM Revenue & Customs management information

3.10 HMRC set out good-practice principles for governing and administering tax reliefs in September 2015, within two months of accepting the Committee of Public Accounts' recommendation (**Figure 15**). This guidance adopts many of the features of good practice we would expect including:

- requiring all reliefs to be identified and risk-assessed;
- designing processes to provide useful information without undue cost; and
- reviewing and evaluating reliefs regularly (including how much they cost, take-up rates and whether they fulfil policy objectives).

3.11 Although HMRC's new guidance provides an important first step, we believe it requires further development. The Organisation for Economic Co-operation and Development (OECD) has undertaken work to identify best practice administration of tax reliefs. It concluded that the allocation and administration of tax expenditures should be reviewed in the same way as normal government spending. But there does not appear to be a consensus on the way reliefs should be managed, with countries adopting various different approaches. In past work we identified a number of good examples from administrations abroad.[37]

3.12 HMRC based its new guidance on what it felt was working well within the Department, without seeking to learn from its counterparts overseas. It has also not included in its guidelines some of the good practices that its teams already demonstrate. For example, some teams have established links with other government departments: the team administering high-end TV relief relies on the British Film Institute to determine which productions are eligible for the relief. Drawing on our previous work and its own good practice, we consider that HMRC could improve its guidance in each area (Figure 15).[38]

3.13 The extent to which product and process owners comply with the good-practice principles is likely to vary because:

- reliefs perform different functions and carry different risks;
- no-one has responsibility for monitoring implementation of the new guidance; and
- there was a lack of awareness among those we spoke to that the guidance was intended to be compulsory.

37 Comptroller and Auditor General, *The effective administration of tax reliefs*, Session 2014-15, HC 785, National Audit Office, November 2014, Part Four and Figure 22.

38 Comptroller and Auditor General, *Tax reliefs*, Session 2013-14, HC 1256, National Audit Office, April 2014, Appendix Three.

Figure 15

Evaluation of HMRC's guidance for managing tax reliefs

HMRC guidance sets out many of the characteristics we would expect for the effective administration of tax reliefs

Overall governance

- Maintain a list of tax reliefs contained in each tax product
- Identify key risks to the tax products, including where these relate to tax reliefs
- Articulate a clear policy objective for new tax reliefs and clear evaluation criteria at the outset
- Include tax reliefs within the regular review of the tax

Good practices not included

- Categorise reliefs to inform governance, resources and reporting requirements
- Establish links with related areas of government

Design

- Ask counter-avoidance specialists to check new reliefs for avoidance risk
- Engage with customers and stakeholders to anticipate demand, develop a user-friendly design, and promote take-up to the right target groups
- Reflect compliance risks in the Department's risk registers
- Where possible, design administative processes to provide useful information for future evaluation of the relief. Avoid unnecessary burdens on customers

Good practices not included

- Test a range of options for administration before choosing a tax relief
- Include a timeframe for review of the relief

Administration

- Determine appropriate administration of reliefs, including:
  - whether specialist units or compliance leads are necessary;
  - how to monitor the relief, and
  - the national approach to compliance for the relief.

Good practices not included

- Advise product owners of the factors they should take into account when deciding how to administer their relief
- Risks are regularly re-assessed and mitigated

Monitoring and evaluation

- Monitor impacts in relation to the initial objectives and estimated costs, including any incentive effects
- Identify threats including the abuse or misuse of the reliefs
- Agree with internal stakeholders which statistics and costs to publish
- Conduct ongoing reviews and periodic evaluations of the reliefs to monitor the costs, usage trends and policy objectives

Good practices not included

- Assess the value of tax at risk, quantifying where possible
- Investigate variances in the cost or use of reliefs

Note

1 HMRC notes there are examples of good practices which are already being implemented by some teams, but which are not included in its guidance. These include: links with related areas of government, discussion with product and process owners when analysts find significant differences in the cost of reliefs, risk assessment by policy teams.

Source: National Audit Office analysis of HM Revenue & Customs guidance

Progress implementing good practice

3.14 During our review in spring 2016, HMRC did not expect its formal product plans for each area of tax to reflect changes from the guidance. Product and process owners prepare annual plans each summer. We looked for signs of progress in improving how HMRC manages reliefs by:

- seeking evidence that product and process owners were developing lists of tax reliefs to inform annual planning; and
- examining a sample of six tax reliefs from three tax areas to find out whether changes had been made or were planned.

3.15 Under the new guidance HMRC asks product and process owners to maintain a comprehensive list of reliefs they are responsible for. In March 2016 we asked HMRC to provide the lists of tax reliefs produced by each product and process owner and found that no such lists had yet been developed. Each of our six sample reliefs was listed in existing product plans, but the purpose of these plans, and the extent to which they covered administration of reliefs, varied significantly:

- product and process owners for the corporation tax reliefs in our sample and for venture capital trusts had developed detailed plans setting out specific risks to the reliefs and timetables for stakeholder engagement. In this area product and process owners have responsibility for a single relief or group of closely related reliefs; and
- the product plan for the personal tax reliefs in our sample was focused on the strategic direction of capital gains tax as a whole. While it refers to principal private residence relief and entrepreneurs' relief, it is not intended as a plan for how to manage them; for instance, the risks listed are for the wider tax stream and do not include those specific to entrepreneurs' relief.

3.16 There may be good reasons for differences between plans, but the teams responsible could not explain them. We saw no evidence that product and process owners were intending to manage reliefs differently as a result of the guidance. We recognise that product and process owners may still be considering how to use the new guidance and that HMRC has not made it clear to product and process owners that it is compulsory. We would expect to see a more consistent application of the guidance emerge over the next 12 months, including the systematic listing of reliefs by each product and process owner.

3.17 We support HMRC's intention to make clear that the new guidance is compulsory for all product and process owners who administer tax reliefs. In particular, we consider it important that teams should compile a comprehensive list of those reliefs for which they have responsibility. Product and process owners should risk-assess their reliefs to help decide what administrative set-up and level of oversight is necessary. This assessment should also decide which aspects of good practice are most applicable to the reliefs they manage.

3.18 We found examples of good practice in how teams promote corporation tax reliefs and collect feedback on their use. HMRC has a detailed stakeholder engagement plan for patent box setting out how it intends to raise awareness among relevant companies, such as by attending trade fairs. Teams responsible for high-end TV relief and venture capital schemes regularly meet with stakeholders to hear how the reliefs have affected claimants' business decisions.

3.19 We identified good practice in monitoring cost trends, particularly where specialist units manage reliefs (**Figure 16** on pages R52 and R53). Specialist units for patent box, creative industry reliefs (including high-end TV) and venture capital schemes (including venture capital trusts) check all claims, or applications, giving them a good understanding of the movements in costs over time. HMRC responded quickly, proposing policy changes, after variations in the cost of venture capital trust reliefs alerted it to investments which did not meet the reliefs' objectives.

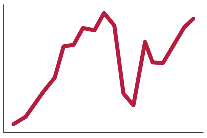
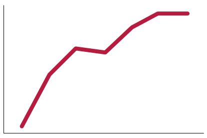
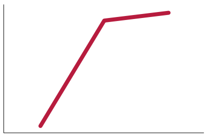
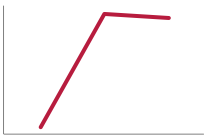
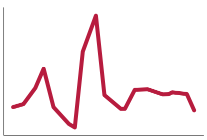
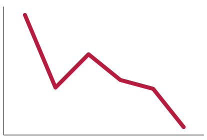
3.20 In previous reports, we raised concerns that entrepreneurs' relief was costing three times more than expected.[39] Since our last report, the government has introduced legislation to tackle specific areas of risk to entrepreneurs' relief, such as joint venture structures. It expected these changes to reduce the annual cost of the relief by £200 million by 2019-20. However, claimants complained the changes went too far, denying legitimate use of the relief to some taxpayers. The restrictions were partially reversed in 2016, including allowing taxpayers to claim the relief for joint ventures.

3.21 HMRC has limited independent evidence of how taxpayers are using entrepreneurs' relief, but is seeking to address this. Qualitative research it commissioned identified few cases where the relief had incentivised taxpayers to invest, but there was some evidence that entrepreneurs' relief was seen as a reward for investment and that it affected the timing of decisions. It was a qualitative study and was never intended to be statistically representative, being based on the opinions of 17 claimants and 11 tax agents. HMRC is planning a more extensive review in 2016-17, involving 1,700 claimants, taxpayers who may be eligible for the relief but do not claim it, and tax agents. But the evaluation results will only be available eight years after introducing the relief.

3.22 HMRC has various methods it can use in real-time to keep track of the cost of new reliefs in the corporation tax area. For example, we previously reported that patent box had made use of new techniques to manage the risk of unintended use and unexpected cost. These included reviewing claims for the relief by searching for key words and undertaking population-based analysis of claims at the end of the first full tax year. HMRC should consider whether such measures could be recommended in its guidance as examples of good practice for new reliefs.

39 See paragraphs 2.11 to 2.16 of Comptroller and Auditor General, *The effective administration of tax reliefs*, Session 2014-15, HC 785, National Audit Office, November 2014.

Figure 16
Monitoring cost trends

Tax relief (Forecast cost in 2015-16)	Trend	Policy owner's explanation
Principal private residence relief (£18 billion)	 1997-98 to 2015-16	Costs not monitored by policy team.
Entrepreneurs' relief (£3 billion)	 2008-09 to 2015-16	The increase in the cost is largely the result of equity price movements.
Patent box (£675 million)	 2013-14 to 2015-16	As this is a new relief there is a lack of steady-state data with which to compare current levels.
High-end TV tax relief (£120 million)	 2013-14 to 2015-16	Cost is much higher than forecast. The product owner attributes this to higher than expected take-up, rather than abuse.
Venture capital trusts (£80 million)	 1997-98 to 2015-16	The spike related to increased investments in low-risk sectors. The forecast drop for 2015-16 reflects recent restrictions.
Interest on qualifying loans (Not known. NAO estimate £170 million in 2013-14)	 2008-09 to 2013-14	Low interest rates and curbing abuse reducing the number and scale of claims.

Notes

1 Cost data taken from HMRC's annual publication on tax reliefs, except for tax relief for interest on qualifying loans.

2 We estimated the cost of tax relief for interest on qualifying loans using unpublished data provided by HMRC. We used interest deducted on tax reliefs and the number of claimants in each income band in 2011 (to estimate the tax rate to apply).

Source: National Audit Office analysis of HM Revenue & Customs data

Source of assurance	National Audit Office (NAO) assessment of relative quality of monitoring	Good-practice examples
Costs are estimated by the statistics team but trends are not monitored by policy team because estimates are based on house price trends, not tax returns.	Weak.	
None, costs are estimated by the statistics team but are not monitored by product owners on the grounds that costs simply reflect changes in asset prices.	Needs improvement.	An evaluation of the relief is planned.
Monthly discussions between product owner and specialist teams. Claims are checked and guidance reviewed for clarity, completeness and correctness.	Strong.	Involvement of specialist unit Engagement with stakeholders: publicising and explaining the relief and changes at trade fairs.
100% checking of claims and the cost is monitored by specialist units.	Strong.	Involvement of specialist unit Engagement with stakeholders to understand industry.
Cost of relief monitored by specialist unit but further investigation limited by poor data. Until data is digitised, HMRC relies on discussions with stakeholders.	Needs improvement.	Engagement with stakeholders: ongoing dialogue about whether potential investments qualify for relief. Recommended changes to legislation to exclude activities where relief no longer appropriate.
Total amount of interest deduction are collated by statistics team but amounts not compared over time.	Needs improvement.	Estimate the tax at risk. Included in the cap on income tax relief as a result of concerns about abuse.

Ensuring tax reliefs are managed proportionately

3.23 The sheer number of tax reliefs means it would be impractical for HMRC to administer each individually, and in many cases the costs of doing so could outweigh the benefits. HMRC manages reliefs as part of the wider tax system. It recognises that it must take a risk-based approach to manage reliefs proportionately, considering their cost and expected impact. HMRC's new guidance has focused on setting up arrangements for new tax reliefs. These tend to carry greater uncertainty and risk. But older tax reliefs can present risks too; changing trends can lead to increased take-up or they can become the focus of tax avoidance schemes. Long-standing reliefs such as share loss relief have been targeted by tax avoidance schemes in the past. Within our sample, we have also seen attempts to use qualifying loan interest relief to avoid tax.

3.24 HMRC's guidance does not help product and process owners determine which reliefs need closer oversight. This means decisions on how best to assign resources may be inconsistent. Within our sample of reliefs we looked for evidence that the information collected about reliefs is proportionate. We noted little oversight for capital gains tax reliefs, despite their significant values (**Figure 17**). We understand this largely reflects HMRC's approach to the wider regime. At £7.3 billion, capital gains tax revenue is relatively small, around 1% of total UK tax take. However, the amount of tax relief is at least three times the value of capital gains tax, with private residence relief estimated at £18 billion, and entrepreneurs' relief estimated at £3 billion in 2015-16. HMRC does not consider the cost of private residence relief to be a good indicator of the level of oversight needed because few homes fall within the scope of capital gains tax.

3.25 There is little oversight of principal private residence relief by policy teams. The relief exempts gains on individuals' main homes from capital gains tax. Individuals do not have to claim it, so HMRC cannot directly monitor its cost. HMRC estimates the cost of the relief using external data. It uses survey data to assess whether sufficient numbers of self-assessment returns have been submitted, but this data does not allow precise reconciliation. HMRC is reluctant to introduce comprehensive reporting requirements for all house sales because this would place a burden on taxpayers and its administration. Its compliance checks mainly focus on those already submitting self-assessment returns, and it has recently introduced a tick-box in order to identify claimants using principal private residence relief. HMRC also runs annual checks using third party data to identify high-risk cases and uses occasional campaigns to recover unpaid tax (for example, by prompting voluntary disclosures). These to date have yielded relatively little additional tax. HMRC believes that although principal private residence relief is a high-value relief, it is low-risk. By contrast, HMRC invests more in checking some smaller reliefs such as high-end TV tax relief. Worth just £120 million in 2015-16, a specialist unit checks every single claim.

Figure 17
The value of reliefs and the level of oversight

	Cost	Objectives	Administrative data			Costs		Risk of abuse		
	Cost in 2015-16	Objectives known	Cost of administering relief is known	Number of staff administering relief is known	Proportion of claims checked is known	Cost of tax relief is known or estimated	Cost of relief is forecast	Cost of abuse estimated	Value of tax at risk estimated	Success rate in investigations known
Private residence relief	£18bn	✔	✗	✗	✗	✔	Partly	✗	✗	✗
Entrepreneurs' relief	£3bn	✔	✗	✗	✗	✔	Partly	✗	✗	✗
Patent Box	£675m	✔	✔	✔	✔	✔	✔	✗	✗	✔
High-end TV relief	£120m	✔	✔	✔	✔	✔	✔	✗	✗	✗
Venture Capital Trusts	£80m	✔	Partly	Partly	✗	✔	Partly	✗	✗	✗
Interest on qualifying loans	£170m	✔	✗	✗	✗	✗	✗	Partly	Partly	Partly

Note

1 The cost of interest relief on qualifying loans is not known. We estimate it cost £170 million in 2013-14.

2 We asked each of the policy teams responsible for managing our sample tax reliefs whether they knew the success rate of investigations relevant to their reliefs. For most teams, this data was not readily accessible nor regularly monitored. HMRC told us that operational teams monitor compliance in different ways. HMRC tracks compliance cases for high-end TV separately, and uses wider compliance checks and campaigns for self-assessment returns, covering entrepreneurs' relief and principal private residence relief. For venture capital reliefs, HMRC relies instead on a prevention strategy.

Source: National Audit Office analysis of HM Revenue & Customs data

3.26 Given the scale of principal private residence relief, complexity of the rules and lack of reporting requirements, there is scope for wide-scale misuse to go undetected. The number of buy-to-let landlords has risen significantly in recent years. Eligibility for principal private residence relief is not always straightforward. There are several restrictions and related reliefs which allow individuals to claim relief for two homes concurrently. This means more scrutiny may be needed to ensure people are following the rules correctly.

3.27 In 2014, we commissioned the Tax Administration Research Centre (TARC) to help us to think more systematically about the risks presented by tax reliefs. TARC identified nine risks to tax reliefs.[40] For the reliefs in our sample, we focused on five risks about monitoring and evaluation of reliefs. We considered the extent to which the teams managing the reliefs had addressed each of these risks and identified varying degrees of mitigation (**Figure 18** on pages R58 and R59). We found HMRC mitigates risks well for high-end TV relief, patent box relief and venture capital trusts.

3.28 Awareness of the level of risk relevant to a particular relief should drive the amount of oversight it receives. Using a framework like this could help HMRC ensure it is managing its reliefs proportionately to the risks they present. HMRC may sometimes regard the risks as low in likelihood or unmanageable. But without guidance on factors to consider, there is scope for risks to be overlooked altogether, especially given pressure to reduce running costs.

Improving the reporting of tax reliefs

3.29 HMRC has committed to improving its reporting on tax reliefs. In response to the Committee of Public Accounts' recommendations it expanded its December 2015 publication on the cost of tax reliefs to cover four years, allowing more visibility of how costs changed over time.[41] Otherwise, HMRC has not significantly changed the scope or depth of its reporting. In response to the Committee's recommendations, HMRC agreed to publish monitoring information and explain changes to estimates and costs over time for around 180 reliefs.[42] HMRC has told us it has no plans to further improve its reporting.

3.30 HMRC's recent publication on tax reliefs did explain some cost changes, but this was not consistent or proportionate. It only included cursory commentary on cost changes for a minority of reliefs. HMRC explained a forecast £60 million drop in income tax relief for venture capital trusts, but not a £1.7 billion increase in principal private residence relief between 2014-15 and 2015-16.

40 We published the Tax Administration Research Centre's report as a technical paper alongside Comptroller and Auditor General, *Tax reliefs*, Session 2013-14, HC 1256, National Audit Office, April 2014. It is available at the following address: www.nao.org.uk/report/tax-reliefs-3/

41 HM Treasury, *Treasury Minutes: Government responses on the Thirtieth, the Thirty-fifth, the Thirty-seventh, and the Forty-first to the Fifty-third reports from the Committee of Public Accounts: Session 2014-15*, July 2015. See recommendation 3 of the Forty-ninth report.

42 See footnote 36.

3.31 While the number of reliefs has increased over time, the number HMRC reports on has stayed roughly the same. The Office of Tax Simplification listed more than 1,100 reliefs in force as at March 2015, whereas HMRC's publication had 392 in 2015-16, of which 174 had a cost estimate. HMRC's approach is to report in its annual publication the costs of all tax reliefs for which reliable data are available. It has not sought to increase the number of reliefs for which it collects cost data on the grounds that doing so would impose an administrative burden on taxpayers and HMRC. We could not find evidence that HMRC had weighed the costs and benefits of collecting and publishing such data. HMRC told us that it publishes data where these are available but some are dispersed in other publications. This includes certain large reliefs, such as group relief from corporation tax, which is published in annual statistics on corporation tax.

3.32 HMRC considers that it identifies the main tax expenditures in its annual publication of costs. Although it provides a loose definition for tax expenditures in its publication, HMRC has told the Committee of Public Accounts it does not recognise tax expenditures as a separate class of tax relief. Some of the reliefs it has listed as tax expenditures do not have a clear policy objective.

3.33 We also identified information which is published by HMRC separately from its annual publication of tax reliefs. For example, information about the estimated cost of some corporation tax reliefs is published elsewhere, as is research commissioned by HMRC to understand more about how certain reliefs are working. It would help Parliament and the public to understand more about the costs and benefits of reliefs if HMRC were to publish all this information in a more accessible way, for example expanding its annual publication to include links to relevant documents. Without knowing that an evaluation of a particular relief has been undertaken or where to look, it is currently very difficult for a member of the public to find such information.

Figure 18

Risks affecting tax reliefs and the level of mitigation observed in our review

The effectiveness with which risks are mitigated varies across reliefs

Risks affecting tax reliefs	Principal private residence relief	Entrepreneurs' relief	Patent Box
The relief does not deliver policy objective	n/a	Quantitative research on investment motivations is planned	Engagement with stakeholders to understand its use
The relief costs more than anticipated to administer	Minimal administration to avoid burden on taxpayers	Self-assessment process enables low-cost administration for compliant claimants	Dedicated unit with known costs to administer relief has strategy for helping claimants claim correctly
The relief is not taken up by intended beneficiaries	Taxpayers automatically receive relief and only declare when not eligible for relief	Typically, beneficiaries learn about this relief through their tax advisers	Stakeholder engagement plan to help right beneficiaries claim relief
The relief results in greater loss of revenue than anticipated	Costing model produces forecasts	Costs exceed budget forecasts. Limited investigation of the reasons so far but large-scale quantitative research is planned	Baseline cost available from tax information and impact notes
The relief is subject to abuse resulting in lost revenues	Compliance checks on self-assessment returns. No systematic checks where individuals do not submit returns. HMRC uses campaigns to recover unpaid tax	Monitoring of £10 million lifetime limit by HMRC's dedicated High Net Worth Unit	Dedicated unit checks all claims. Risks discussed regularly between product owner and specialist unit

- No mitigation: No evidence that the risk is being mitigated
- Limited mitigation: Some controls are in place, but these are not sufficient to mitigate the risk
- Some mitigation: Controls are in place that partly mitigate the risk
- Good mitigation: Comprehensive controls are in place to mitigate the risk
- Not applicable

Note

1 Risks identified in a technical paper by the Tax Administration Research Centre published alongside our *Tax Reliefs* report.

Source: National Audit Office analysis of HM Revenue & Customs data using Tax Administration Research Centre risks

High-end TV tax relief	Venture Capital Trusts (VCTs)	Relief for qualifying loans interest
Engagement with stakeholders to understand its use	Engagement with stakeholders to understand its use. Thorough evaluation planned for 2019	n/a
Dedicated unit with known costs to administer relief identifies claimants who need most help	Dedicated unit to administer relief and run helpline for VCTs, but not individual investors	Self-assessment process enables low-cost administration for compliant claimants
Close engagement with production companies to promote the relief	Close relationship with VCT industry including to promote the relief, but not with individual investors	Guidance and prompts in tax returns raise awareness for self-assessment customers. No promotion to target group because HMRC believes they are already aware of the relief
Baseline cost available from tax information and impact notes Forecast cost model available	Risk register demonstrates active awareness of unintended use of relief HMRC responded effectively to spikes in costs by changing legislation	The actual cost of the relief is not calculated or monitored
Dedicated unit checks all claims and maintains risk register	HMRC uses industry links to inform risk assessment and believes the VCT community is largely compliant	Abuse has been detected and action is being taken to challenge two large scheme users in the courts

Part Four

Benefits and credits

4.1 HM Revenue & Customs (HMRC) administers Personal Tax Credits and Child Benefit to support families with children and to help ensure that work pays more than welfare. In 2015-16 HMRC spent £39.9 billion on benefits and credits. Of this, £28.2 billion was spent on Personal Tax Credits and £11.7 billion was Child Benefit. Personal Tax Credits supported around 4.4 million families and around 7.4 million children. It represented 49% of total expenditure of £57 billion recorded in HMRC's 2015-16 Resource Accounts. Child Benefit supported around 13.2 million children, and represented 20.5% of expenditure.

4.2 This Part of our report covers:

- the qualification of the Comptroller and Auditor General's (C&AG's) opinion on the Resource Account due to irregular expenditure in Personal Tax Credits;
- the estimated level of error and fraud in Personal Tax Credits, including analysis of these losses by risk area;
- how HMRC is reducing error and fraud in Personal Tax Credits;
- the migration of Personal Tax Credits to Universal Credit; and
- error and fraud in Child Benefit.

Personal Tax Credits

4.3 Personal Tax Credits were introduced in April 2003. They aim to support families with children; tackle child poverty; and help to make sure that work pays more than welfare. The government is continuing to roll out Universal Credit. This will replace many of the current working-age benefits, including Personal Tax Credits, with a single means-tested payment. HMRC will be responsible for administering the Personal Tax Credits scheme until all existing customers have transitioned to Universal Credit. This is expected to be in 2021.

4.4 Personal Tax Credits are complex and rely on customers notifying HMRC of changes in their circumstances that affect their eligibility. Tax credits are awarded on an annual basis. HMRC makes a provisional award based on the information it holds. It makes in-year payments based on estimated figures and then calculates the final amount after the end of the year, once actual household income and circumstances are known. These complexities within Personal Tax Credits present challenges for HMRC when administering awards. They mean that overpayments and underpayments are part of the way the system works.

Qualification of the C&AG's audit opinion on the regularity of Personal Tax Credits expenditure

4.5 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence to give reasonable assurance that:

- the expenditure and income recorded in the financial statements have been applied for the purposes intended by Parliament; and
- the financial transactions recorded in the financial statements conform to the authorities that govern them (the C&AG's regularity opinion).

4.6 The Tax Credits Act 2002 specifies the eligibility criteria for Personal Tax Credits and the method HMRC should use to calculate the amounts to be paid. Where error and fraud result in overpayment or underpayment of benefit to an individual who is either not entitled to that benefit or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of HMRC's 2015-16 financial statements, the C&AG has qualified his opinion on regularity due to the material level of estimated error and fraud in Personal Tax Credit expenditure.

4.7 This is the fifth consecutive year in which HMRC's Resource Accounts have been qualified for irregular Personal Tax Credits expenditure. Between 2003-04, when the scheme started, and 2010-11, Personal Tax Credits were reported in HMRC's Trust Statement. The Trust Statement was qualified throughout this period. As a result, the C&AG has reported to Parliament on Personal Tax Credits every year since they were introduced.

Estimated level of error and fraud in Personal Tax Credits

4.8 HMRC's best estimate of the level of error and fraud in Personal Tax Credits for 2015-16 relates to error and fraud in 2014-15. This is because awards for 2015-16 have not yet been finalised, in accordance with the normal tax credits annual cycle. Finalisation of awards occurs between April and July following the end of the tax year or the following January for self-assessment customers. Following finalisation, testing is undertaken to inform the estimate of error and fraud.

4.9 HMRC estimates[43] that the overall level of error and fraud that resulted in overpayments[44] in Personal Tax Credits in 2014-15 increased to 4.8%[45] of total Personal Tax Credits expenditure (from 4.7% (restated) in 2013-14). HMRC estimates that the overall level of error resulting in underpayments in Personal Tax Credits in 2014-15 remained stable at 0.7% of total Personal Tax Credits expenditure (from 0.7% (restated) in 2013-14). This equates to overpayments of £1.37 billion and underpayments of £0.19 billion.

4.10 HMRC has restated 2013-14 overpayments from 4.4% to 4.7% and 2013-14 underpayments from 0.6% to 0.7%. HMRC attributes all of the 2013-14 restatement to factors within the normal cycle of Personal Tax Credits. This includes time taken for appeals, and the need to project the outcome of cases that were not closed at the time the estimate was produced.

4.11 As there is no more recent and sufficiently reliable evidence to estimate the level of overpayments and underpayments attributable to error and fraud, the estimate for 2014-15 is the best indication of error and fraud in Personal Tax Credits expenditure for 2015-16.

Personal Tax Credits error and fraud by risk area

4.12 The rate of error and fraud resulting in overpayments has fallen considerably since 2010-11 (**Figure 19**). This followed HMRC's change in strategy in 2009 to move its focus from compliance interventions that were largely designed to identify error and fraud after claims had entered the system ('pay now, check later') to interventions that were increasingly designed to prevent error and fraud from entering the system ('check first, then pay' approach). At the same time it restructured its approach to significantly increase the number of error and fraud interventions. HMRC has maintained this approach, but from 2012 it has also:

- increased capacity by using a private sector contractor;
- changed policy to reduce the risk of error and fraud in the process of administering Personal Tax Credits; and
- considered how it could best support customers, for example through assisting claimants accurately reporting childcare information while on the phone.

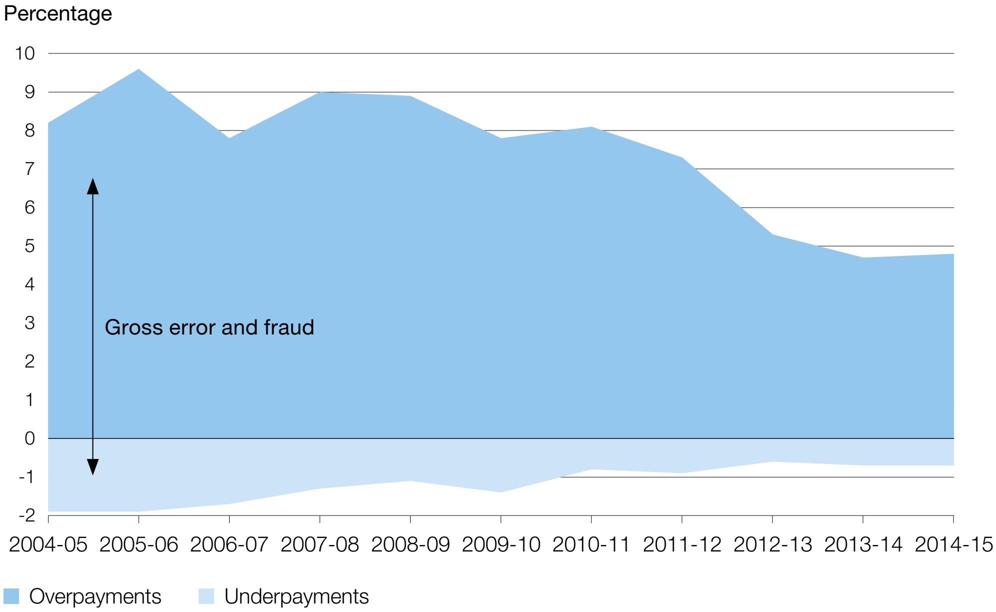
4.13 A key factor in HMRC's 2009 change in approach was the disaggregation, by risk type, of losses from overpayments in order to identify underlying causes of error. HMRC analyses the level of error and fraud resulting in overpayments of Personal Tax Credits against six main causes of loss.

43 Note 4.3 to the Resource Accounts.
44 HM Revenue & Customs' published statistics refer to error and fraud resulting in overpayments as error and fraud favouring the claimant and error resulting in underpayments as error favouring HM Revenue & Customs.
45 Error and fraud figures quoted within the main body of this chapter are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges are provided within the table in Figure 19.

Figure 19

HMRC's Personal Tax Credits overpayment and underpayment estimates from 2004-05 to 2014-15

Overpayments and underpayments by percentage of total Personal Tax Credits expenditure



EFAP year	Error and fraud as a percentage of finalised entitlement					
	Overpayments			Underpayments		
	Lower bound (%)	Central estimate (%)	Upper bound (%)	Lower bound (%)	Central estimate (%)	Upper bound (%)
2004-05	7.3	8.2	9.1	1.4	1.9	2.4
2005-06	8.5	9.6	10.6	1.4	1.9	2.4
2006-07	7.2	7.8	8.4	1.3	1.7	2.1
2007-08	8.3	9.0	9.7	1.0	1.3	1.6
2008-09	8.3	8.9	9.6	0.8	1.1	1.3
2009-10	7.0	7.8	8.6	0.9	1.4	2.0
2010-11	7.5	8.1	8.8	0.6	0.8	1.0
2011-12	6.6	7.3	7.9	0.6	0.9	1.2
2012-13	4.7	5.3	6.0	0.4	0.6	0.9
2013-14	4.2	4.7	5.2	0.6	0.7	0.9
2014-15	4.4	4.8	5.2	0.6	0.7	0.8

Notes

1 HMRC has set a new target for 2016-17 to keep error and fraud resulting in overpayments no higher than 5% of Personal Tax Credit spend.

2 HMRC has not set a target for reducing underpayments.

3 The 2013-14 error and fraud overpayment statistics have been restated by 0.3% to 4.7%.

4 The 2013-14 error and fraud underpayment statistics have been restated by 0.1% to 0.7%.

Source: HM Revenue & Customs Child and Working Tax Credits Annual Error and Fraud Statistics 2014-15

4.14 **Figure 20** shows HMRC's progress in reducing error and fraud losses against each of these factors since it introduced its new approach. HMRC has used this insight to restructure and target its range of intervention activities across the major risk areas. This is to both prevent and detect error and fraud, although the impact of more recent changes will not yet be reflected in the most recent error and fraud estimates.

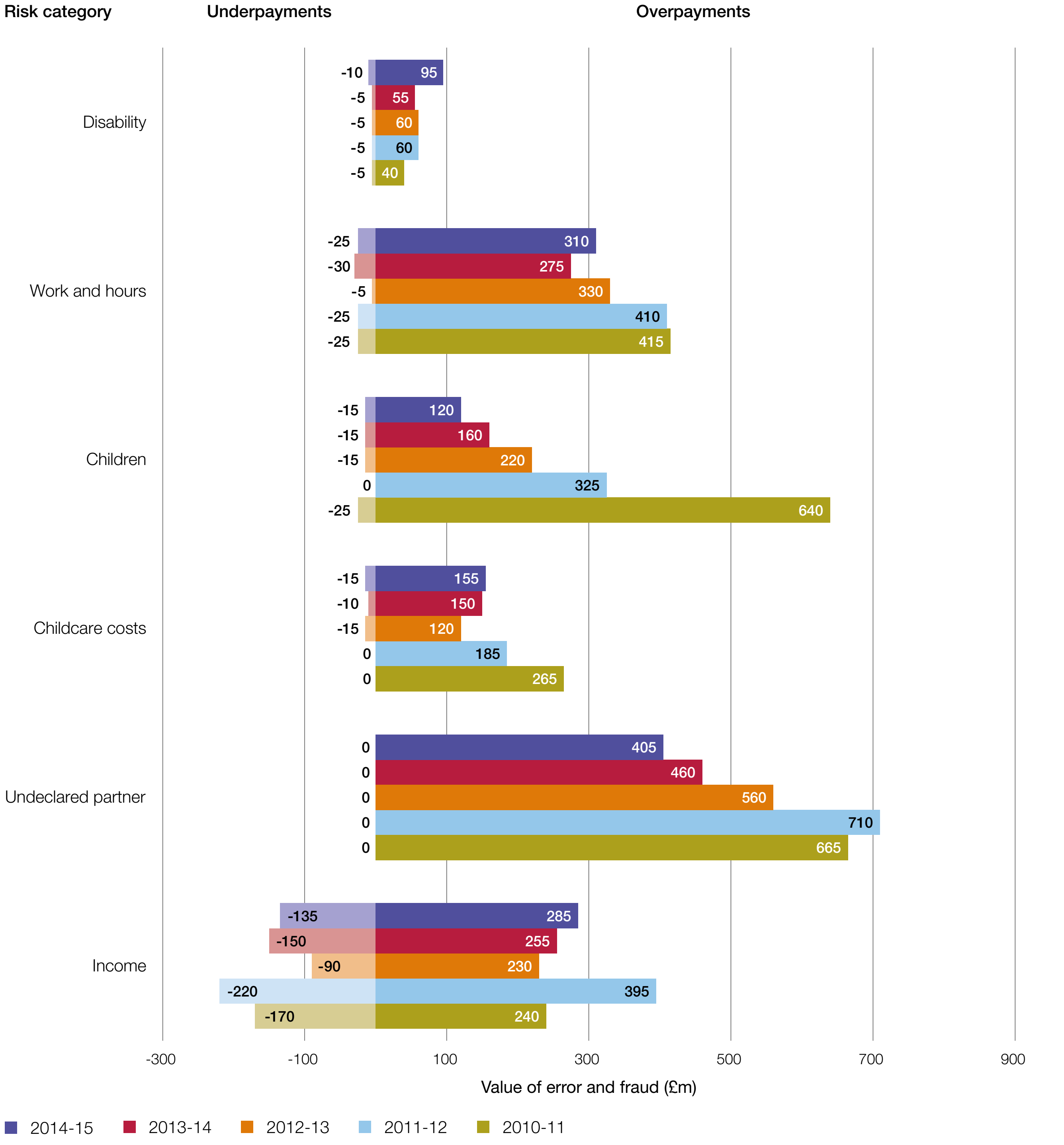
4.15 HMRC carries out an annual analysis in which it breaks down the main causes of error and fraud within each of the main risk areas. As Figure 20 shows, HMRC's initial assessment of the small increase in the total level of error and fraud in 2014-15 is an increase in the losses attributable to errors relating to income, hours worked and disability status risk categories. HMRC's analysis also shows the downward trend in losses attributable to errors in the undeclared partner risk category, following the introduction of checks using credit reference agency data, and the children risk category, as measures have been taken to combat the incorrect reporting of the full-time non-advanced education status of young people. HMRC also analyses the point at which the error and fraud enters the system; whether at the point of a new claim, a change of circumstances or on renewal. This analysis is deepened from time to time by new initiatives focusing on specific risks, such as its recent initiative to tackle the risks related to the low-income self-employed. This analysis is important in identifying options to further reduce error and fraud, to prioritise the most effective interventions and to inform a view of what level of loss reduction may be possible.

4.16 The rate of underpayments has remained the same since 2013-14. HMRC has not analysed underpayments in detail, although the evidence suggests that these are mainly due to errors relating to income.

4.17 Since 2009, HMRC has introduced several interventions and activities designed to address error and fraud at a risk level. **Figure 21** on page R66 gives examples of the interventions and activities HMRC has implemented to address error and fraud within Personal Tax Credits at a risk level. To tackle error and fraud, HMRC uses interventions targeted at specific risk categories, and separate interventions that address multiple risks.

Figure 20

HMRC's Personal Tax Credits overpayment estimates by risk type for 2010-11 to 2014-15



Notes

1 The 2013-14 error and fraud overpayment statistics have been restated by 0.3% to 4.7%.

2 The 2013-14 error and fraud underpayment statistics have been restated by 0.1% to 0.7%.

Source: HM Revenue & Customs, Child and Working Tax Credits Annual Error and Fraud Statistics, 2010-11 to 2014-15

Figure 21

Examples of HMRC's interventions and activities to address error and fraud at a risk level

Risk area	Estimated loss 2014-15 (£m)	(%)	HMRC's interventions by Risk Type (Single)
Undeclared partner Arises when a joint claim should have been made instead of a single claim	405	29.6	HMRC works with a credit reference agency to identify whether a single claimant has financial connections with another adult.
Income Arises when not all income is reported at finalisation	285	20.8	Exploiting data from Real Time Information (RTI) to identify changes in customers' income.
Work and hours Arises when claimants claim to be working more than they were	310	22.6	HMRC uses DWP information to identify claimants who have recently moved in and out of work, and on to benefits. Self-employed customers are required to demonstrate that they are operating on a commercial and profitable basis to claim Working Tax Credits.
Childcare costs Arises when incorrect costs are claimed for	155	11.3	Verifying registered childcare providers through accessing third-party data.
Children Arises when children or young people are incorrectly included on a claim	120	8.8	HMRC requires claimants to provide a declaration on education status of children aged between 16 and 19. It also sends letters to parents of 18-year-olds asking whether they remained in full-time education, amending the award if they fail to comply. HMRC also identifies discrepancies between claimants' tax credits and child benefit data.
Disability Arises when disability status is incorrectly reported	95	6.9	HMRC uses DWP data to identify customers incorrectly claiming the disability element of tax credits.
HMRC's interventions by risk type (multi)			A number of HMRC's interventions target more than one risk category on a personal tax credits claim: • Profiling detects claims on which a change of circumstance has not been reported, over a period of time in which it would have been expected to have occurred, with the customer being contacted to provide evidence. • Identifying claims with the most risk attached to them and requiring the customer to contact HMRC to confirm and update information before their claim can be renewed (low-risk cases are auto-renewed unless the customer has notified HMRC of a change). • Assessing the risk of new applications before processing, to highlight potentially erroneous or fraudulent income and work and hours information, and comparing this to data held on HMRC systems. • Exploiting HMRC data (from RTI and Connect) and DWP data to identify undeclared or understated income. • Providing interactive guidance for contact centre staff to help claimants calculate childcare costs, and prompt advisers to ask specific questions based on the information provided by customers.

Source: National Audit Office interpretation of HM Revenue & Customs' Logical plan 2015-16

HMRC's progress in reducing error and fraud within Personal Tax Credits

4.18 Our report *Fraud and error stocktake* reviewed the progress made by HMRC and the Department for Work & Pensions (DWP) in reducing error and fraud in Personal Tax Credits and welfare benefits.[46] The report concluded that HMRC's success in reducing error and fraud was encouraging. It suggested that HMRC's initiatives and a more structured approach were tackling overpayments effectively. The departments needed to build on recent efforts to develop a more integrated and systematic response to preventing error and fraud, and to track the impact of initiatives through to outcomes to achieve sustained and continuing reductions in error and fraud.

4.19 We identified the critical factors to assess the departments' responses to error and fraud. Starting with clear strategies at a benefit level based on an understanding of the causes of error and fraud, supported by appropriate governance, controls and interventions to reduce error and fraud can be designed into the framework for the credit or benefit, effectively implemented, and the impact evaluated. We believe that, over time, this understanding of the causes of error and fraud, with the evaluation of the efficacy of controls and interventions by benefit and cause of loss, will allow departments to identify a lowest feasible level of error and fraud by benefit.

4.20 Since we reported in 2015, HMRC has continued its efforts to tackle error and fraud. We have reviewed HMRC's response to reducing error and fraud, considering the strategy, design, implementation and evaluation of error and fraud activities (**Figure 22** overleaf).

4.21 As discussed in paragraphs 4.12 and 4.13, since 2009 HMRC has changed its approach to addressing error and fraud within Personal Tax Credits. HMRC has set a new target for 2016-17, up until all customers have moved to Universal Credit, to keep the level of error and fraud overpayments to a level no higher than 5%. When setting this target, HMRC has identified the main factor as the impact of the migration to Universal Credit, although it also takes account of a level of uncertainty in the impact of future policy changes on error and fraud. HMRC has not set a target for reducing error due to underpayments of Personal Tax Credits that, in 2014-15, are estimated to be 0.7% of finalised entitlement or £190 million.

4.22 HMRC aims to ensure customers understand what is required of them when making claims and that they act accordingly (Figure 22). HMRC aims to ensure contact with customers minimises disruption to awards, while being proportionate to the potential risk in each claim. Although the volume of interventions has increased through the Error and Fraud Adding Capacity (EFAC) project, HMRC ensures its private sector business partner, Concentrix, operates processes that mirror its own and are held to the specific service standards set out in the contract.

46 Comptroller and Auditor General, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015.

Figure 22

HMRC's response to reducing error and fraud

Establishing clear strategies and governance

HMRC's error and fraud strategy – The business plan and operational plans are informed by the most recent error and fraud data available to the Department. In-year performance against plan is monitored through intervention volumes and yields achieved.[1]

Prevent, Detect, Promote – increase interventions that address the prevention of error and fraud ('check first, then pay'), the detection of error and fraud already in the system, and the promotion of correct customer understanding and behaviour to minimise error and deter fraud.

Error and fraud targets – HMRC has agreed with ministers a target to maintain error and fraud at no more than 5%. This target applies to overpayments, there is no target to limit underpayments.

Increasing the number of targeted interventions – increasing the volume of intervention activity on awards and targeting these against awards with the highest levels of error and fraud.

Designing controls into the way departments work

Tailoring interventions to risks – the design and development of bespoke interventions to tackle error and fraud specific risk types across the full cycle of Personal Tax Credits.

Risk assessment and case profiling to target interventions – design is underpinned by risk assessment (identifying characteristics that give rise to loss) and case profiling (identifying characteristics within existing cases that indicate intervention is required).

Use of data – increased use of data-matching to support case profiling and support decision-making. HMRC is seeking to increase automated bulk data-matching with a greater number of sources.

Implementing controls and interventions effectively

Customer support – improving the information and support available to claimants to make it easier for them to comply with their obligations and capture changes in circumstance.

Dedicated teams – dedicated teams to design, implement and monitor the delivery of risk-based interventions in accordance with the operational plan. Examination, and where appropriate correction, of discrepancies between the information on a Personal Tax Credits claim and other data sources.

Increase in capacity – HMRC has increased capacity to review higher-risk cases through the use of private sector contractors under a payment by results model. The EFAC project is now expected to deliver £405 million in overall benefit.

Measuring and evaluating performance

Operational success measures – losses identified and prevented are measured for all interventions, including those targeted at specific risk and multi-risk interventions. This information supports the monitoring of the delivery of the operational plan and informs future planning including the prioritisation of intervention activity.

Error and fraud outcomes – the Error and Fraud Analysis Programme (EFAP) provides an annual estimate of error and fraud losses on finalised awards, including an analysis by risk type.

Matching intervention outputs and outcomes – the complexity of the tax credit programme makes it difficult to align the measure of 'losses prevented' (outputs) with the annual estimate of outcomes under EFAP. The inherent time-lag in producing the EFAP estimate also restricts the ability to inform planning.

Assessment of potential to reduce error and fraud – while HMRC uses its measures to identify options to further reduce error and fraud and prioritise the most effective interventions, it has not developed a view of what level of loss reduction may be possible.

Note

1 Yield represents HMRC's quantified estimate of Personal Tax Credit award that would have been paid had intervention not taken place.

Source: National Audit Office analysis

4.23 The EFAC project has added to the volume of interventions that are undertaken to tackle error and fraud. The original planned savings in 2014-15 were not achieved and HMRC changed the arrangement with Concentrix during the year and more benefits are now being realised. Savings of £147 million were achieved in 2015-16.

4.24 Where customers are unhappy with the outcome of interventions they can challenge the decisions of HMRC and Concentrix through the same internal appeals process and, where necessary, appeal via HM Courts and Tribunal Service (HMCTS). Around 0.13% of interventions result in appeals. More than half found in favour of the customer after previously requested information was given to HMRC.

Debt and recoveries of debt within Personal Tax Credits

4.25 The total value of Personal Tax Credits debt in 2015-16, before impairment, is £7.1 billion (£6.9 billion in 2014-15). Of this, £2.9 billion (£2.9 billion in 2014-15) is considered recoverable by HMRC.[47] In the C&AG's 2014-15 report, we reported that HMRC had begun to expand its capacity to recover Personal Tax Credits debts by making more use of private sector debt collection agencies (DCAs), and updating its IT systems to deduct a proportion of the payment from the new award of a claimant identified already having a debt on a previous award. These campaigns have continued throughout 2015-16. DCA (Extending Tax Credit) recoveries have totalled £116 million (HMRC bases the benefit of this measure on recoveries collected through DCAs plus recoveries collected by HMRC staff redeployed as a result of the use of DCAs). Recoveries through ongoing awards were £106 million. These two campaigns have contributed towards the total 2015-16 recoveries of £1.372 billion, some £314 million above HMRC's target. The transfer of customers, and any associated debt, to Universal Credit is discussed in paragraph 4.27.

Migration of Personal Tax Credits to Universal Credit

4.26 Under current plans, Universal Credit will fully replace Personal Tax Credits by 2021. New Personal Tax Credit applications will be replaced by Universal Credit applications in line with the DWP's Universal Credit migration timetable. HMRC ended some 33,000 claims by March 2016, as customers moved to Universal Credit. HMRC will continue to be responsible for administering Personal Tax Credits until all customers have moved to Universal Credit. Personal Tax Credits claims are expected to begin to fall significantly from October 2016 as claims are closed on a geographical basis. There will be no renewals of Personal Tax Credits after March 2021. Under current forecasts, HMRC expects 105,000 customers to move to Universal Credit in 2016-17. The migration of customers to Universal Credit will also result in a reduction of staff within HMRC, in line with the phased migration timetable, through to 2021.

47 Note 4.2 of the HMRC Resource Accounts 2015-16.

4.27 HMRC faces significant challenges as Personal Tax Credit customers move to Universal Credit. These challenges include, but are not limited to:

- uncertainty about the timing of customers transferring to Universal Credit;
- the need to finalise Personal Tax Credit claims during the year;
- developing and maintaining appropriate methods to measure error and fraud as the level of Personal Tax Credit claims falls;
- management of a caseload with more complex cases as those customers with cases that are more straightforward transfer to Universal Credit earlier; and
- ensuring that sufficient resources remain to intervene to prevent error and fraud in Personal Tax Credits in a cost-effective way.

4.28 HMRC's benefits and credits business plan sets the strategic direction for Personal Tax Credits in their current form. However, this plan and the underlying operational plans do not address all of the uncertainties that come with moving customers to Universal Credit. HMRC is now in the process of producing a comprehensive five-year strategy covering business-as-usual and the approach to, and uncertainties in, the move to Universal Credit. This will give it the opportunity to state what reductions in losses are achievable.

4.29 HMRC is working closely with DWP to agree how to recover Personal Tax Credit debt as customers move to Universal Credit. The debt associated with the 33,000 Personal Tax Credits claims stopped had not transferred to DWP as at the end of 2015-16. This will transfer in tranches throughout 2016-17. HMRC has developed an automated process that it expects will ensure the smooth transfer of debt to DWP.

4.30 When a customer moves to Universal Credit a new case will be created for the customer and any debt accumulated on the Personal Tax Credit case will be transferred to DWP separately. Only the minimum amount of personal information necessary will be transferred to DWP for each claimant. This will allow DWP to begin recovery action on any Personal Tax Credit associated debt.

Child Benefit

4.31 Child Benefit was introduced in phases between 1977 and 1979. DWP administered payments until 31 March 2003, when responsibility transferred to HMRC. Child Benefit expenditure has been reported within the HMRC (and its predecessor, the Inland Revenue) Resource Accounts since 2003-04.

4.32 As with Personal Tax Credits, HMRC also carries out work to estimate the level of error and fraud within Child Benefit. HMRC estimated that the overall level of error and fraud resulting in overpayments in Child Benefit amounted to 1.4% of total 2015-16 Child Benefit expenditure (1.5% in 2014-15) or up to £170 million (£175 million in 2014-15). Prior to 2014-15, estimates varied considerably, and methodology changed significantly from one year to another. It is therefore not possible to draw robust conclusions about trends in error and fraud in Child Benefit.

4.33 In evaluating error and fraud within Child Benefit, HMRC relies on the EFAP to produce annual estimates. A sample of ongoing Child Benefit cases are selected each year and the claimants are contacted to ask that they verify personal details and provide supporting evidence proving that the child exists, lives at the recorded address and, where the child is aged over 16, they are in full-time non-advanced education and undertaking an approved course.

4.34 The vast majority of error and fraud estimated for Child Benefit is as a result of Child Benefit customers not responding to these requests for information ('non response' cases). Without understanding the reason why customers do not respond, HMRC cannot fully understand the underlying causes of error and fraud. HMRC is contacting customers to analyse reasons why they have not responded and believes this is likely to reduce estimates of error and fraud in Child Benefit. However, this work is yet to be completed. Once completed, it will be important for HMRC to ensure that the results of this work feed into their strategy for reducing error and fraud within Child Benefit but should also inform how the estimate of error and fraud within Child Benefit can be enhanced allowing for meaningful year-on-year comparisons.

4.35 HMRC is addressing the challenge of error and fraud in Child Benefit through the re-platforming of the IT systems used in administrating the benefit and has increased compliance resources. The IT systems currently used to process Child Benefit have been in place for several decades. HMRC is due to re-platform the Child Benefit systems, with cases expected to transfer from the legacy systems to the new system, from August 2017 onwards. A new digital service project is also in progress that, once fully implemented, will allow claimants to apply for Child Benefit and notify changes in circumstance online. HMRC believes that these changes are likely to change the way that error and fraud is tackled within Child Benefit. It will also allow opportunities for a greater number of prevent and detect controls to be built into the system to improve compliance.

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between September 2015 and June 2016.

2 For Part One, and as part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the course of the financial audit.

3 As part of our audit of the adequacy and integrity of HMRC's revenue collection systems, we reviewed the systems for collecting revenue across all different tax streams, as well as HMRC's debt management system and the Real Time Information system introduced for PAYE.

4 Our findings on compliance yield in Part One were based on testing the controls for scoring and reporting of compliance yield, site visits to various lines of business across the three main directorates of HMRC, reviews of 74 case files (of different types – specialist and criminal investigations, counter-avoidance, business tax and personal tax), document reviews and interviews. To assess the robustness of HMRC's method of estimating yield, we considered whether the measure:

- is based on the best evidence available;
- is reported in a transparent way;
- allows comparison of HMRC's performance over time; and
- has robust processes to assure data quality.

5 As part of our assessment of how HMRC measures compliance yield, we reviewed its progress in implementing the National Audit Office's (NAO's) and the Committee of Public Accounts' previous recommendations and the disclosures in HMRC's Annual Report.

6 To provide the evidence for Part Two's consideration of HMRC's plans for transforming its tax administration, we reviewed the strategy, governance and risk management for HMRC's current portfolio of programmes and projects. We specifically examined its documentation in relation to performance, accountability and delivering change. We conducted interviews with key members of staff involved in these areas.

7 For our review of tax reliefs in Part Three, we examined HMRC's progress on implementing NAO's and the Committee of Public Accounts' previous recommendations. We reviewed HMRC's internal guidance for administering tax reliefs and interviewed the policy team members who prepared it. We chose six tax reliefs for more in-depth study. We interviewed product and process owners and analysts involved in their administration, reviewed documents that they prepared as part of their work and analysed data they held. We also drew on our previous work on tax reliefs, work carried out for us in 2014 by the Tax Administration Research Centre, and on the work of the Office of Tax Simplification to identify tax reliefs.

8 For Part Four, in addition to our financial audit work on Personal Tax Credits and Child Benefit, we reviewed HMRC's error and fraud statistics analysis and information on the performance of initiatives to reduce error and fraud in Personal Tax Credits and Child Benefit payments. We interviewed key staff and reviewed documents on HMRC's plans and strategies around tax credit debt and reviewed the performance of strategic initiatives such as the use of debt collection agencies.

9 We also reviewed:

- HMRC's internal audit reports to understand the management of risks and challenges; and
- HMRC's corporate publications on compliance performance and on measuring the tax gap.

10 We reviewed our reports and those of the Committee of Public Accounts on HMRC's performance in the past year, including reports on tackling tax fraud and customer service.

Appendix Two

HMRC's response to recommendations of the Committee of Public Accounts on fraud and error

1 Following a hearing on our fraud and error stocktake in July 2015, the Committee of Public Accounts (the Committee) made a number of recommendations to both HM Revenue & Customs (HMRC) and the Department for Work and Pensions (DWP) to address the findings of the report. Our assessment of HMRC's implementation of these recommendations is included below.

HMRC's response to the Committee's recommendations

Recommendation	Treasury Minute Response	Progress
The Committee recommended, in light of HMRC's lack of understanding of what further reductions in Personal Tax Credits error and fraud are possible, despite an encouraging recent reduction, HMRC should set regular targets for reducing error and fraud in Personal Tax Credits during the transition to Universal Credit, based on an assessment of how recent reductions were achieved for each major risk area and the level of further reductions that are achievable.	Accepted: there is a need to set a strategic and sensible plan to manage error and fraud that encapsulates the transition to Universal Credit. HMRC will consider this further and set out its plans in due course.	HMRC has set a new target for 2016-17 to keep error and fraud no higher than 5%. This target is above the central estimate of error and fraud within Personal Tax Credits for both 2014-15 (4.8%) and 2013-14 (4.7%). HMRC regards this as a realistic target given uncertainties looking ahead.
The Committee acknowledged that the likely impact of welfare reforms on error and fraud is promising, but that such reforms will not solve all the problems of tackling erroneous benefit payments. It recommended HMRC adopt a strategy to identify and minimise the key risks of error and fraud arising from implementing and operating major reforms, including setting targets for the levels of error and fraud that will arise.	Accepted: the risks of fraud and error arising from major reforms are considered during the conceptual design of new initiatives, ensuring focus is maintained during development and implementation to minimise any risks introduced.	HMRC uses its benefits and credits business plan and logical plan to provide its focus on reducing error and fraud. However, HMRC could benefit from producing a strategy that considers HMRC's response to the challenges that lie ahead as Personal Tax Credit customers transition to Universal Credit. HMRC is in the process of producing such a plan.

HMRC's response to the Committee's recommendations

Recommendation	Treasury Minute Response	Progress
The Committee noted that HMRC has made little progress in preventing error and fraud resulting in overpayments and underpayments from occurring. It made several recommendations:		
a) The Committee recommended that HMRC improves its understanding of the reasons why customers make mistakes, and uses this to develop stronger preventative measures.	**a)** Accepted: action is already taken to ensure there is a greater understanding of why claimants make mistakes. This includes HMRC's Error and Fraud Analytical Programme tracking exercise.	**a)** HMRC aims to identify the causes of customer error when designing its interventions. Developing a fuller understanding, and evaluation, of the impact of customer behaviour on error and fraud could help HMRC to further reduce error and fraud.
b) The Committee also recommended that HMRC sets targets for reducing underpayments, in order to galvanise efforts to tackle this neglected issue.	**b)** Not accepted: all fraud and error measures are designed to ensure payments are correct and the global underpayments level is stable. HMRC will continue to tackle the causes of underpayments, as part of the wider approach to ensure claimants are paid the amount that they are entitled to.	**b)** HMRC has stated that it will continue to tackle the causes of underpayments through internal quality targets to achieve 97% accuracy, but HMRC does not have a target for underpayments.
c) The Committee recommended that HMRC reports back in six months on progress it has made in relation to initiatives exploiting third-party data.	**c)** Accepted: HMRC already makes use of a large amount of data from other government departments and third parties, continually exploiting their data to identify and deliver improvements on fraud and error. HMRC will report to the Committee in six months on the progress of data initiatives.	**c)** Interventions are underpinned by detailed and informative risk assessments and profiling through enhanced data analytics, using data sourced from HMRC's own systems, and other government departments.
The Committee highlighted that HMRC has not sufficiently considered how its activities to tackle tax credits error and fraud might affect people, including more vulnerable customers. It recommended that HMRC work with the government-wide Fraud, Error and Debt Steering Group to commission an independent review of customers' experience of the tax credits process. The review should include the impact of using its private sector contractor and identify ways to reduce unnecessary burdens on people.	Not accepted: HMRC recognises the need to have regard to claimants' experience, through: • having commissioned a qualitative survey on claimants' understanding of the rules; • having investigated actions to make the process easier; • publishing an annual tax credit survey of customers, used to improve HMRC's understanding of claimants; and • reviewing its complaints, including those against the private sector contractor.	HMRC has undertaken some work to understand the impact on customers of its interventions and has used this information to inform its approach to call handling and in producing its strategy.

Source: HC Committee of Public Accounts, *Fraud and Error Stocktake*, Fourth Report of Session 2015-16, HC 394, October 2015

HM Treasury, *Treasury Minutes, Government responses on the Fourth to the Eighth reports from the Committee of Public Accounts: Session 2015-16*, Cm 9190, January 2016