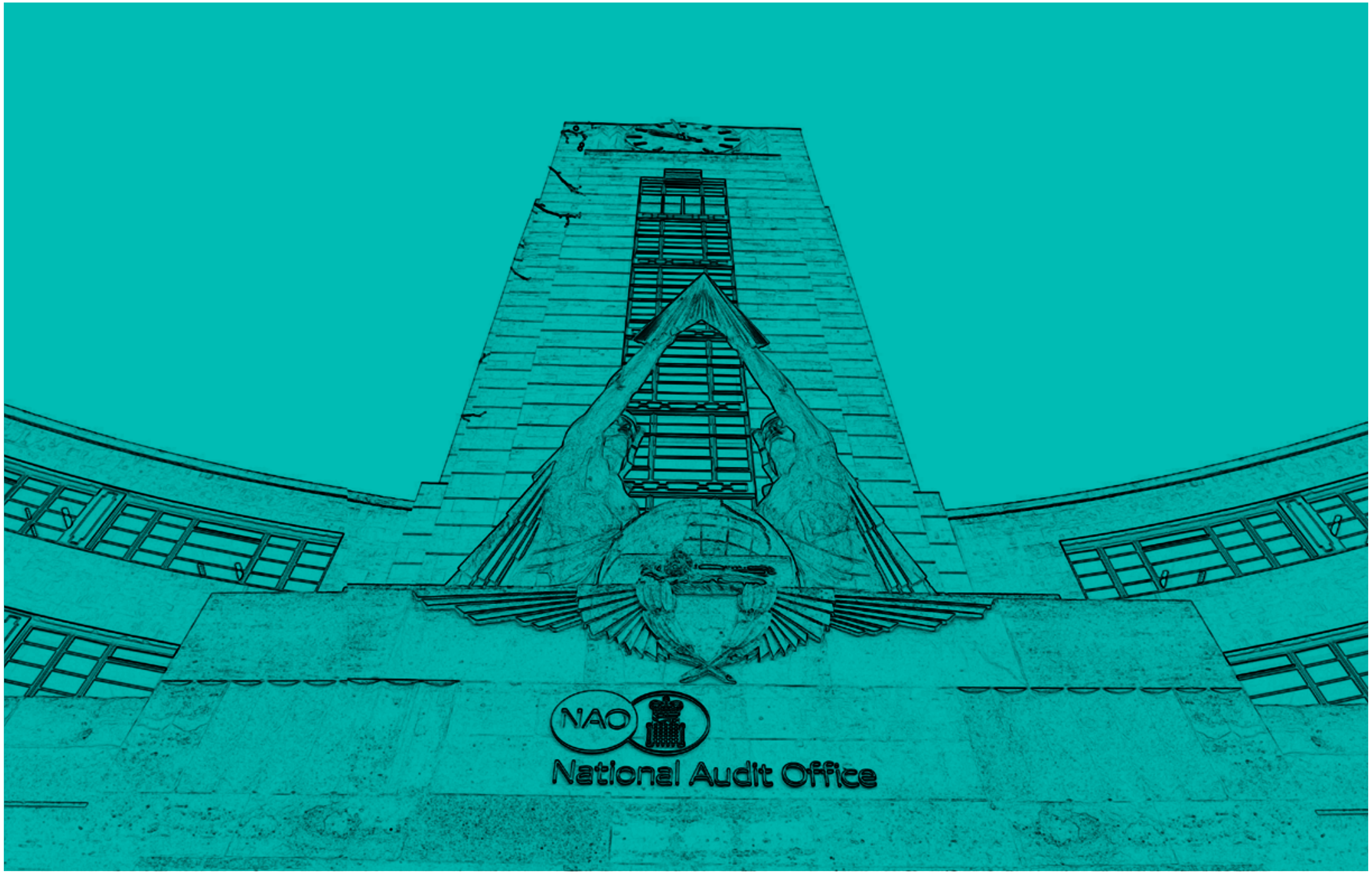
National Audit Office

HM Revenue & Customs

October 2016



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The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.

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Executive summary

This Departmental Overview looks at HM Revenue & Customs (HMRC) and summarises its performance during the year ended March 2016, together with our recent reports on it. The content of the report has been shared with HMRC to ensure that the evidence presented is factually accurate.

Part One sets out some **facts about HMRC and how it has performed against its responsibilities:**

- Total tax revenue has increased in each of the past five years. HMRC, in 2015-16, raised £536.8 billion of tax revenues.
- Over the period 2005-06 to 2013-14, the tax gap as a percentage of liabilities decreased from 8.4% to 6.4%.
- In 2015-16, HMRC secured compliance yield of £26.6 billion against a target of £26.3 billion.

Part Two sets out our **findings from our work on HMRC:**

- The C&AG qualified HMRC's Resource Accounts due to material levels of error and fraud in Personal Tax Credits.
- HMRC has 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 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 saw the quality of its service to personal taxpayers fall in 2014-15 and the first half of 2015-16. HMRC restored customer service performance in the second half of 2015–16 to previous levels and has maintained this improvement into 2016-17.

Part Three **looks ahead to the coming year.**

- HMRC aims to provide personalised online services for taxpayers and automate the processing of tax information where possible.
- HMRC plans to invest £1.8 billion in transformation over the next four years.
- HMRC expects the level of risk around its workforce planning to remain high in 2016-17, due to the size and complexity of the organisation and the demographics of its workforce.
- HMRC will be working with HM Treasury and the Department for Work & Pensions on the transition to Universal Credit.
- HMRC will be reorganising its local offices and replacing them with 13 new regional centres over the next five years.

About HM Revenue & Customs

£536.8 billion

amount collected by HMRC in 2015-16

£1.8 billion

amount HMRC expects to invest in transformation over the next four years

£26.6 billion

amount HMRC estimates it secured through its enforcement and compliance work in 2015-16 – against a target of £26.3 billion

£28.5 billion

amount HMRC paid out in Personal Tax Credits in 2015-16

167 offices

number of HMRC offices in 2015-16 – compared with 539 in 2005

66,900 to **58,600**

HMRC reduction in staff (FTE) from April 2011 to March 2016

45% employee engagement

this is a measure of an employee's attachment to their employer; 59% is the civil service average

£3.6 billion administration cost

of HMRC in 2015-16

Major developments in 2015-16

HMRC's modernisation programme

In November 2015, HMRC announced the next step in its 10-year modernisation programme. HMRC aims to become a smaller, more highly skilled operation offering modern, digital services. It plans to bring its employees together in 13 regional centres (see map), equipped with the digital infrastructure and training facilities needed to build a more highly skilled workforce. There will also be four specialist sites in Telford, Worthing, Dover and Gartcosh.

HMRC plans to open its first new regional centre in 2016-17 with the others opening over the following four years. HMRC plans to close 137 of its 170 offices by 2020-21.

Diverted Profits Tax

The Autumn Statement 2014 announced the introduction of the **Diverted Profits Tax** (DPT), effective 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. HMRC is beginning to see evidence of this behavioural change. No DPT revenue was collected in 2015-16.

Tax evasion

The Prime Minister announced in April 2016 a new Taskforce to tackle the economic and fiscal crime, regulatory misconduct, tax evasion and tax avoidance arising from the so-called 'Panama Papers'. The Taskforce is jointly led by HMRC and the National Crime Agency and includes the Serious Fraud Office and Financial Conduct Authority. The Taskforce will report its progress to the Chancellor and Home Secretary later in the year.

Banking surcharge

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 to pay this banking surcharge than institutions that currently pay the bank levy, which is based on annual balance sheet figures. The surcharge raised £0.3 billion in 2015-16.

Personal tax accounts

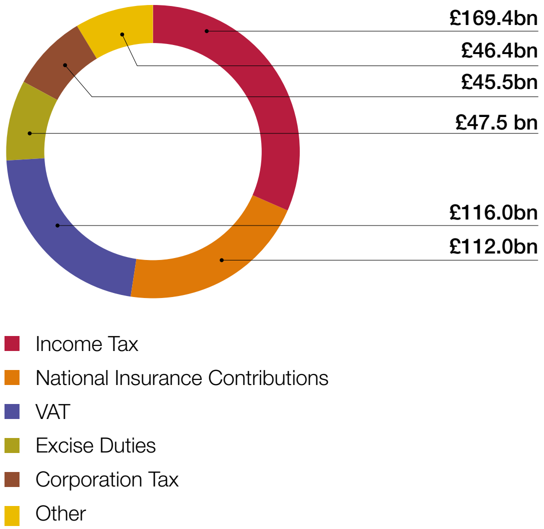
HMRC, in December 2015, introduced new online **personal tax accounts**, which allow anyone to see their tax and tax credits affairs in one place, similar to an online bank account. In July 2016, HMRC reported in its 2015-16 Annual Report and Accounts that more than 2.5 million people were already using the service.

Source: HM Revenue & Customs Annual Report and Accounts 2015-16

Where HMRC raises revenue

HMRC reported revenue of £536.8 billion in 2015-16, an increase of £19.1 billion (3.7%) on 2014-15. Most revenue was from Income Tax, National Insurance and VAT.

HMRC reported revenue 2015-16



Source: Comptroller and Auditor General, HM Revenue & Customs 2015-16 Accounts, Session 2015-16, National Audit Office, July 2016

Repayments

The total revenue of £536.8 billion was 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). HMRC receives the gross tax collectable and then repays those taxpayers whose tax liability is less than the tax they paid. 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. Of the repayments made in 2015-16, £79.9 billion (75.7%) related to VAT.

Tax gap

The tax gap is the difference between the amount of tax that HMRC should in theory collect against what is actually collected. HMRC publishes a tax gap estimate 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 2014-15, shows that over the past 10 years the tax gap value reduced from around £37 billion to around £36 billion, at a time when total revenues collected grew from around £405 billion in 2005-06 to £518 billion in 2014-15. In that period, the tax gap as a percentage of the total tax liabilities that should be collected reduced from 8.3% to 6.5%. The tax gap percentage provides a better insight into changing compliance levels because it takes into account the effects of inflation, economic growth and changes to tax rates.

Compliance yield

Compliance yield is an estimate of the additional revenues that HMRC 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.

In 2015-16, HMRC secured compliance yield of £26.6 billion against a target of £26.3 billion. The main components of compliance yield were:

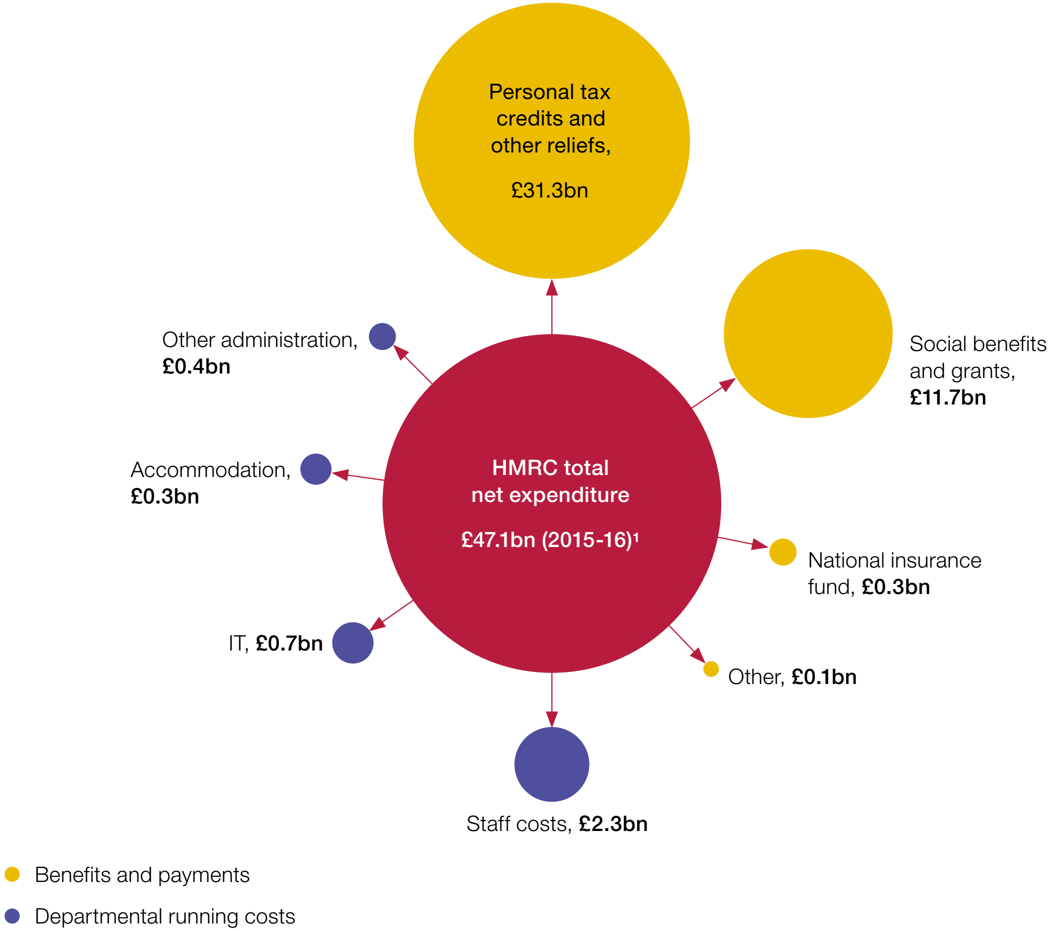
- **£9.0 billion** of cash collected;
- **£6.8 billion** of revenue loss prevented;
- **£6.2 billion** of future revenue benefit;
- **£2.4 billion** from accelerated payments; and
- **£2.1 billion** of product and process revenue.

More information on these terms, and compliance yield generally, is available in the C&AG's report on HMRC's 2015-16 Accounts.

Sources: Comptroller and Auditor General, HM Revenue & Customs 2015-16 Accounts, Session 2015-16, National Audit Office, July 2016

HMRC, Measuring tax gaps 2016 edition, Tax gap estimates for 2014-15, October 2016

Where HMRC spends its money



Note

1 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, is not included.

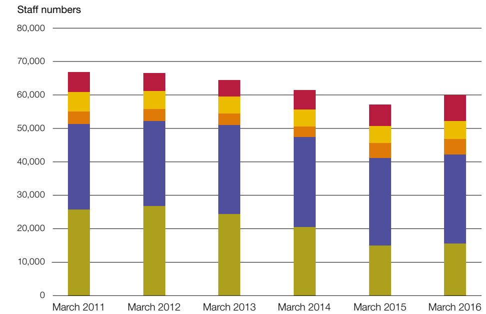
Source: HM Revenue & Customs Annual Report and Accounts 2015-16

Zoom In+

Figure 1

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**

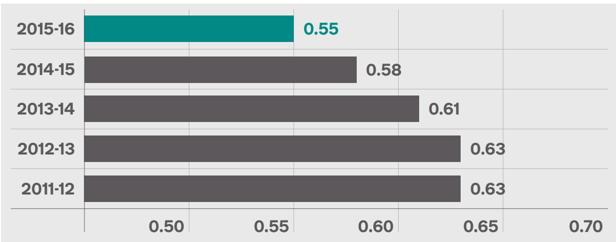
Source: HM Revenue & Customs Resource Accounts 2010-11 to 2015-16

Figure 1 note

The totals shown include staff of Civil Service Resourcing (CSR). CSR is hosted by HMRC but not part of the core department. CSR had some 1,200 staff at 31 March 16.

Cost of tax collection (pence per £ collected)

The cost of collecting taxes in the UK dropped from 0.63p per £1 in 2011-12 to 0.55p in 2015-16.



Source: HM Revenue & Customs Annual Report and Accounts 2015-16

Spending Review analysis – Delivering efficiency savings

Key points from the 2015 Spending Review:

- £717 million of sustainable resource savings a year by 2019-20, achieving £1.9 billion cumulative savings over the Spending Review period, representing a headline 21% reduction in baseline resource costs, delivered through digitisation of tax collection and a smaller but more highly skilled workforce;
- £1.3 billion reinvested to transform HMRC into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016-17, delivering an additional £1 billion of tax revenue by 2020-21 and sustainable efficiencies;
- £800 million confirmed funding for additional work to tackle evasion and non-compliance in the tax system, delivering an additional £7.2 billion over the next 5 years; and
- £400 million total reduction in business customer costs by 2019-20.

Key points from the 2013 Spending Review:

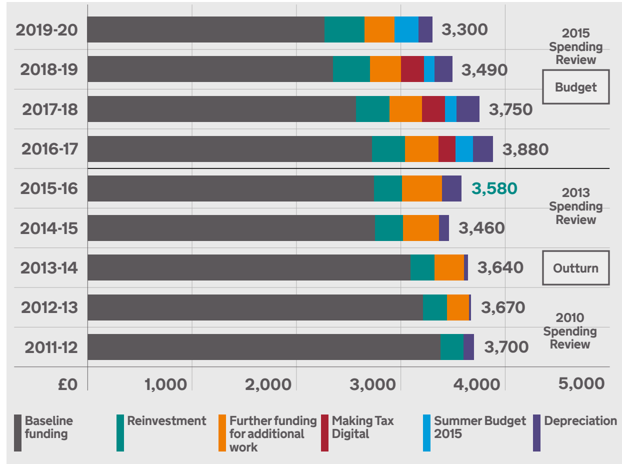
- a further increase in HMRC's target for additional revenues, including from tackling avoidance and evasion, to a total of £24.5 billion in 2015-16, £1 billion more than in 2014-15 and £10 billion more than in 2010-11; and
- a contribution to deficit reduction through the collection of an additional £95 million in tax credit debt on an innovative payment by results funding basis.

Key points from the 2010 Spending Review:

- £900 million of investment to address the tax gap and tackle tax avoidance and evasion, bringing in an additional £7 billion per year in tax revenues by 2014-15;
- £100 million to improve the operation of Pay As You Earn (PAYE) for both employers and individuals;
- measures to deliver £8 billion of tax credit fraud and error savings by 2014-15; and
- overall resource savings of 15%, including the additional investment, with efficiency savings of 25% through enhanced use of new technology, rationalising the HMRC estate and maximising savings from IT contracts.

HMRC's Single Departmental Plan 2015 to 2020 sets out how it plans to meet the obligations set in the Spending Reviews (see page 15).

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



Source: HM Revenue & Customs Annual Report and Accounts 2015-16

Our audit of HMRC's 2015-16 Annual Report and Accounts

Excerpts from HMRC's Governance Statement in its Annual Report and Accounts 2015-16

Since 2011-12, HM Treasury has required departments to include a Governance Statement within their Annual Report and Accounts. The Governance Statement outlines how the Accounting Officer has discharged their responsibilities to manage and control the organisation's resources during the year.

In the Statement, the Accounting Officer (Jon Thompson) noted HMRC had managed a number of issues that had posed a risk to delivery of its core work. The main risks had been in relation to customer service, workforce planning, error and fraud in tax credits and records retrieval.

The Accounting Officer also concluded that HMRC had a sound system of governance, risk management and internal control that supported HMRC's aims and objectives for 2015-16.

C&AG's opinions on HMRC's financial statement 2015-16

The C&AG concluded that the figures in HMRC's Trust Statement, which reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year, are true and fair and that HMRC has used income and expenditure for the purpose Parliament intended.

The C&AG qualified HMRC's Resource Accounts due to irregular expenditure in Personal Tax Credits (explained more on next page).

The C&AG, under the Exchequer and Audit Departments Act 1921, has to consider whether HMRC's revenue systems to collect taxes are adequate. The C&AG concluded 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.

Tax debt

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).

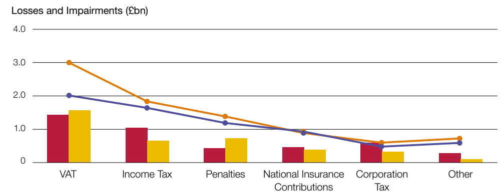
There is a risk that some of the £26.7 billion of receivables will not be collected (it may not be practical or may not be pursued on the grounds of value for money) or may prove not to be due. As a result, HMRC has estimated that it may not be able to collect £6.9 billion (2014-15: £8.5 billion) of these receivables. This impairs (reduces) the receivables balance to £19.8 billion (2014-15: £17.5 billion). The degree of this impairment varies across taxes. VAT and Income Tax carry the highest risks, which include VAT liabilities being uncollectable because of company insolvencies (see Figure 2).

Source: Comptroller and Auditor General, HM Revenue & Customs 2015-16 Accounts, Session 2015-16, National Audit Office, July 2016

Zoom In+

Figure 2
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

Fraud and error in tax credits (July 2016)

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.

The rate of error and fraud resulting in overpayments has fallen considerably since 2010-11. 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 to interventions that were increasingly designed to prevent error and fraud from entering the system. At the same time the number of error and fraud interventions increased significantly.

Source: Comptroller and Auditor General, HM Revenue & Customs 2015-16 Accounts, Session 2015-16, National Audit Office, July 2016

Qualification of HMRC's Resource Accounts

The C&AG qualified his regularity opinion on the 2015-16 Resource Accounts due to material levels of error and fraud in Personal Tax Credits. This is the fifth consecutive year in which the Resource Accounts have been qualified in this way. The regularity opinion concerns whether expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament.

HMRC estimates that the overall level of error and fraud that resulted in overpayments in Personal Tax Credits in 2014-15 increased to 4.8% 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 (see Figure 3).

NAO report: Fraud and error stocktake (July 2015)

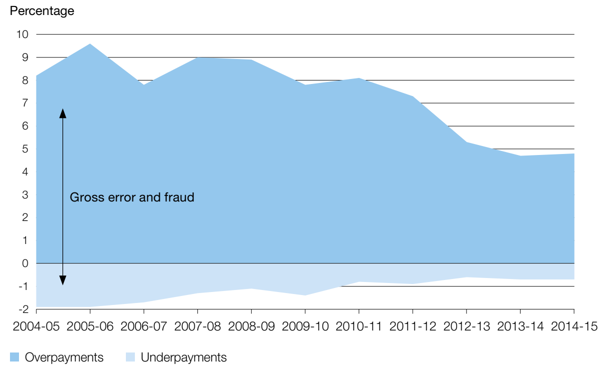
Our report gave an overview of progress in reducing fraud and error in benefits and tax credits. We found HMRC's progress in reducing error and fraud was encouraging, although in October 2015 the Committee of Public Accounts said high levels of benefits and Personal Tax Credits error and fraud remained unacceptable.

Zoom In+

Figure 3

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	Overpayments: Lower bound (%)	Overpayments: Central estimate (%)	Overpayments: Upper bound (%)	Underpayments: Lower bound (%)	Underpayments: Central estimate (%)	Underpayments: 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

Error and fraud as a percentage of finalised entitlement

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

Tax evasion, the hidden economy and criminal attacks (December 2015)

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.

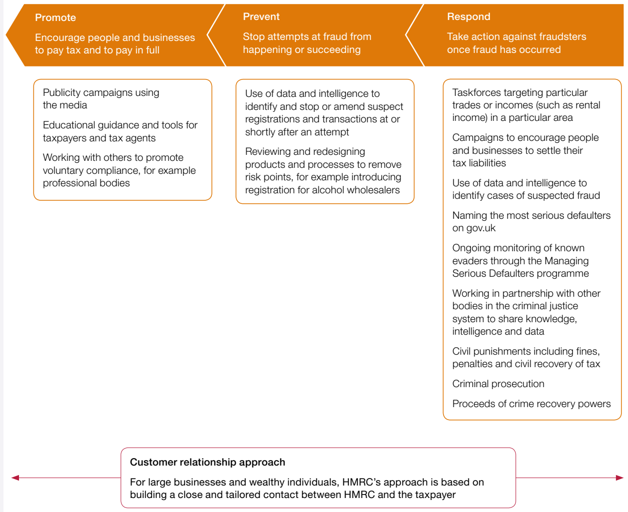
HMRC recognises that much of its activity to tackle tax fraud deals with problems after they have occurred ('respond'). HMRC is seeking to change its interventions so that more of them stop potential losses before they occur (Figure 4). HMRC has a behaviour change team which applies behavioural insights to try to 'nudge' people into more compliant behaviour. HMRC also uses publicity to encourage people to be honest, such as the evasion publicity campaign it ran in 2012-13.

Source: 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

Zoom In+

Figure 4
HMRC's strategy for tackling non-compliance

HMRC plans to increase the number and impact of its 'promote' and 'prevent' activities



Source: National Audit Office analysis of HM Revenue & Customs information

Quality of service for personal taxpayers (May 2016)

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 (Figure 5). HMRC has since recovered service levels.

When the Committee of Public Accounts reported on the issue, in July 2016, they concluded:

- HMRC acknowledged that the level of service it provided in 2014–15 and for periods of 2015–16 was unacceptable;
- following the recruitment of 2,400 staff, HMRC was able to recover customer service performance in the second half of 2015-16 to previous levels;
- HMRC had maintained this improvement, handling more than 90% of calls in April and May 2016, with an average waiting time of less than six minutes;
- the previous Committee had recommended that HMRC should set a more challenging, short-term target for call waiting times and a long-term target much closer to industry standards; and
- HMRC is now aiming to answer at least 90% of telephone calls, expects average waiting times to fall below five minutes and is seeking to reduce average waiting times still further.[1]

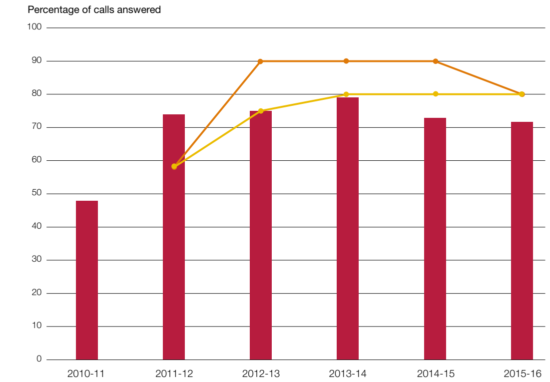
HMRC's current targets are to handle at least 85% of call attempts and answer calls within an average speed of six minutes.

1 HC Committee of Public Accounts, *Quality of service to personal taxpayers and replacing the Aspire contract*, Thirteenth Report of Session 2016-17, HC 78, July 2016.

Zoom In+

Figure 5
HMRC's telephone handling performance for all calls

In the last three years HMRC has not been able to meet original and revised call handling targets



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Calls handled (%)	48	74	75	79	73	72
Original target		58	90	90	90	80
Revised target		58	75	80	80	80

Notes
1 Internal targets for percentage of calls answered for 2010-11 have not been published externally.
2 Call handling performance is for all telephone lines including tax credits.

Source: National Audit Office analysis of HM Revenue & Customs' data

NAO Memorandum – Replacing the Aspire contract (June 2016)

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 reported 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.

We set out for the Committee of Public Accounts the main risks HMRC had identified it still needed to manage. These covered the costs and benefits of its programme, people, delivery and capability, legal, supply chain and governance.

We also highlighted three important activities that HMRC had to complete during the final phases of the Aspire contract:

- Determine the IT model it will adopt from 2020 onwards, and make the commercial and operational changes necessary to implement that model.
- Build the range of commercial and IT capability and capacity needed to replace Aspire while managing its other IT change programmes and business as usual.
- Close its IT skills gap. HMRC had identified a 25% gap in the skills of its IT workforce.

Employer compliance with the National Minimum Wage regulations (May 2016)

We examined HMRC's investigation into complaints about employers not complying 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. For cases opened and closed within the same financial year HMRC had, with extra resources, 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.

Civil penalties for non-compliance with the National Minimum Wage were introduced on 6 April 2009. Since then, penalties have increased every year (Figure 6). During 2009-10 to 2015-16, HMRC issued penalties totalling £5.6 million.

Figure 6

Arrears identified and penalties 2009-10 to 2015-16

	Closed cases	Arrears identified (£m)	Workers covered	Average arrears (£)	Penalties (£)
2009-10	3,643	4.39	19,245	228	111,183
2010-11	2,901	3.82	22,919	167	520,568
2011-12	2,534	3.58	17,371	206	766,807
2012-13	1,696	3.97	26,519	150	776,517
2013-14	1,455	4.65	22,610	205	815,269
2014-15	2,204	3.29	26,318	125	934,660
2015-16	2,667	10.3	58,080	177	1,679,240
Total	**17,100**	**34.0**	**193,062**	**176**	**5,604,244**

Source: Final government evidence to the Low Pay Commission's 2016 Report

Independent assessments of HMRC's performance

Infrastructure and Projects Authority

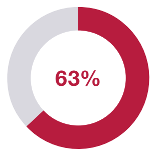
Project	Description	Whole-life cost (£m)	2014 Rating	2015 Rating
Customs Declaration Services (CDS) Programme	HMRC is intending to replace the current processing service for imports and exports to and from the UK – the CHIEF service, which is 23 years old. HMRC is seeking a replacement which is a robust, scalable and extensible set of import/export services, capable of delivering this critical function into the future.	71.16	n/a	
Columbus (formerly Aspire Replacement Programme)	Manage the safe exit of HMRC's ASPIRE IT contract that expires in June 2017 and its transition to the new system.	600	n/a	
Tax-Free Childcare (TFC)	The aim of TFC is to provide childcare accounts for all eligible children. HMRC is responsible for TFC delivery and for outcomes on customer service such as correct payments and data security.	241.83		

Successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas. Urgent action is needed to address these problems and/or assess whether resolution is feasible.

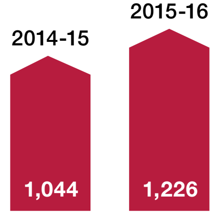
Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.

Key points from the Adjudicator's Office Annual Report 2015-16 about HMRC

Customers may complain to HMRC about the service they receive, for example due to unreasonable delays and mistakes. The Adjudicator's Office investigates complaints from individuals and businesses unhappy about HMRC's handling of those complaints. The Adjudicator provides an independent review of how HMRC has dealt with a complaint. It also seeks to help HMRC achieve a better understanding of customer needs and improve complaint handling.

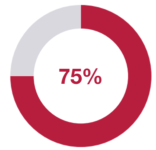


The number of personal tax complaints partially or substantially upheld **decreased to 63%**. For tax credits, the upheld rate decreased to 80.8%.



The Adjudicator **received 1,226 new complaints about HMRC in 2015-16, up from 1,044 in 2014-15**. The Adjudicator resolved 914, upholding approximately 73% either partially or substantially and mediated 11% of cases directly between customers and HMRC.

During 2015-16, the complexity of cases, particularly from HMRC Personal Tax and Enforcement and Compliance, increased as the numbers of incoming cases relating to these lines of business has fallen. This represents a **positive change**, which reflects an improvement in the quality of complaint handling by HMRC, with customers feeling the need to refer only the most complex and sensitive issues to the Adjudicator.



Approximately **75% of HMRC complaints referred to the Adjudicator are from benefits and credits customers about tax credits**. Figures indicate there was a clear improvement in this area during the final few months of 2015-16.

The Adjudicator noted that "it is very positive to see the improvement in complaint handling over the past year by [HMRC], demonstrating [its] willingness to learn from complaints".

HMRC's Single Departmental Plan 2015 to 2020

HMRC's vision, as published in its Single Departmental Plan 2015 to 2020, is:

"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."

HMRC may have to update its Single Departmental Plan in response to Brexit. The most likely area affected would be HMRC's objective of tackling avoidance and evasion (for example, in relation to potentially new border controls or changes to the VAT system).

HMRC objective	How it will be achieved	How progress will be monitored during 2016-17 ('targets')
Maximise revenues due and bear down on avoidance and evasion	• Well-designed tax policy[1] • Transformed compliance strategy ('promote, prevent, respond') • HMRC's digital strategy • Support the government's aim to reform international tax rules	Raising compliance revenue – £27 billion in compliance yield Increasing the number of criminal investigations into serious and complex tax crime – leading to 100 prosecutions a year (by end of Parliament) Tackling tax credits error and fraud – tax credits error and fraud no more than 5%
Transform tax and payments for its customers	• Introduction of digital tax accounts • Delivery of multi-channel digital services • Support for those unable to use digital services • Working with HM Treasury and Department for Work & Pensions on transition to Universal Credit	**Use of HMRC's digital services** 7 million customers using their personal tax accounts 80% customer satisfaction for digital services 95% of i-forms and secure emails replied to within 7 days **Improvement in customer services** 6 minutes average speed of answering a customer call 85% call attempts handled 80% of post responded to within 15 (working) days 22 days to handle new Tax Credit and Child Benefit claims **Reduce business costs** £400 million reduction in business customers' costs
Design and deliver a professional, efficient and engaged organisation	• Investment in its workforce • Modernising HMRC's IT • Providing modern offices, creating 13 new regional centres over the next five years	**Making sustainable savings** £1.9 billion cumulative savings over lifetime of Parliament mainly through digitisation of tax collection and the employment of a smaller but more highly skilled workforce £203 million of savings in 2016-17

1 HMRC, for example, on 17 August 2016 issued a consultation proposing a new penalty for those who enable **tax avoidance** and changes to the existing penalty legislation which applies to those who use avoidance which is defeated.

Making tax digital

In December 2015, HMRC set out, in Making tax digital, how it plans to transform the UK tax system by 2020 and modernise its administration of the tax system (Figure 7).

The new system has four foundations:

- **Tax simplified** – taxpayers will see the information that HMRC holds through their digital tax accounts, and be able to check at any time that their details are complete and correct.
- **Tax in one place** – taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking.
- **Making tax digital for businesses** – from April 2018, businesses will update HMRC at least quarterly.
- **Making tax digital for individual taxpayers** – digital interactions with HMRC at any time to suit individual taxpayers.

HMRC aims to provide personalised online services for taxpayers and automate the processing of tax information where possible. For example, HMRC plans to **pre-populate tax returns and online accounts** with real-time data.

Zoom In+

Figure 7
What making tax digital means for HMRC's customers

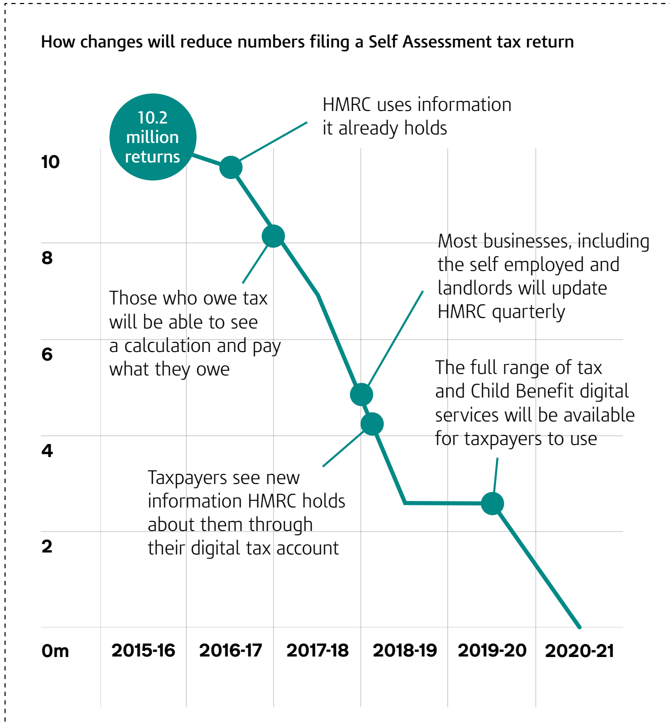
Examples of the ways that HMRC's plans will affect taxpayers

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

HMRC's transformation plans include a seven-day service by April 2017, improved online and telephone services with reduced call answering times, a new secure email service operated through online tax accounts, and a dedicated telephone line and online forum for start-up businesses.

Source: Comptroller and Auditor General, HM Revenue & Customs 2015-16 Accounts, Session 2015-16, National Audit Office, July 2016



Source: HM Revenue & Customs, *Making tax digital*

In August 2016 HMRC announced six consultations, each focusing on specific customer groups or specific elements of the Making Tax Digital reforms (for example, digital record-keeping for businesses and making better use of information).

Digital transformation – What's happening at HMRC

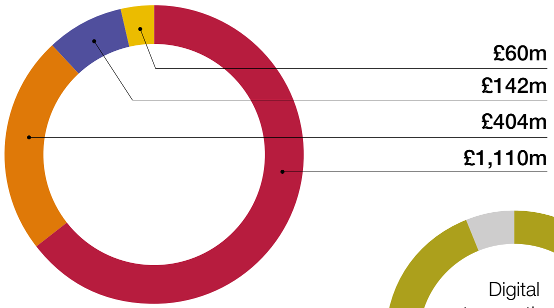
What HMRC is doing

Single Departmental Plan digital priorities include:

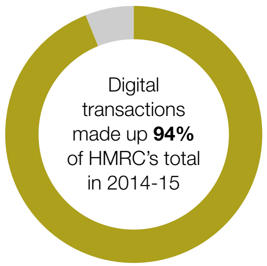
- providing all tax details in one place for individuals;
- enabling all businesses to update their tax position quarterly;
- developing analytics to support compliance checking; and
- ensuring third-party software can integrate securely with its systems.

HMRC offers **33 digital services** and processes **1,853 million digital transactions** per annum

HMRC's top four digital services in 2014-15



- Stamp Duty Reserve Tax
- PAYE transactions
- Customs transactions
- Payments received by HMRC



Source: www.gov.uk/performance

Key people in digital at HMRC

Nick Lodge, Director General Transformation

Mike Potter, interim Chief Digital Information Officer

Brigid McBride, interim Director Digital Transformation

The main departments and operational areas for digital are:

- New process and technology platforms
- The transformation portfolio
- The Columbus programme (Aspire replacement)

Initiatives to develop capability include:

- Revenue & Customs Digital Technology Services (RCDTS), HMRC's wholly owned digital company
- Six digital delivery centres
- External recruitment at all levels including leadership roles

Digital transformation – What's happening at HMRC *continued*

Risk assessment of major projects

- Customs declaration service
- Columbus (Aspire replacement)
- Tax-free childcare

Notes

- (Amber/red) Successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas. Urgent action is needed to address these problems and/or assess whether resolution is feasible.
- (Amber) Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.

Source: www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2016. Note the HMRC Transformation portfolio has not yet been assessed.

Costs and benefits

£1.3 billion investment in digital transformation over the next four years

Expected to deliver **£717 million** a year in government savings by 2019-20

General trends in digital across government

Business-wide transformation

Departments are having to think beyond specific projects and consider their longer-term operating models and the transformation portfolios and programmes needed to implement them.

Data strategy

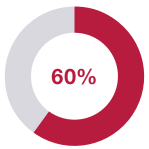
Departments will need to improve the internal use of data and exploit new techniques in analytics.

Cyber security and information assurance

As systems open up to the web, departments need to respond to threats from attack and theft and assess the quality of information that may be outside their immediate control.

Legacy systems

Departments will have to address the difficult issues of the old generation of technology and systems.



Transformation service delivery and ICT account for more than **60%** of major projects.

Workforce capability

To ensure standards of public service are maintained, major projects are delivered and cost reductions are sustainable, all departments must progress faster to develop strategic workforce plans that are integral to their function, reflect our diverse society, and ensure they recruit or develop the critical skills they need.[1]

Strategic workforce planning – minimising the 'capability gap'

Government needs to have the right people in the right place at the right time and at the right cost to carry out all that it needs to do. Strategic workforce planning is an ongoing process through which an organisation aligns its workforce – its capability – with its priorities to enable it to meet its legislative, regulatory or service requirements as well as its organisational objectives. Planning in this way helps departments identify whether they have a 'capability gap', such as a lack of staff with specialist skills. We found that in general departments are weak at strategic workforce planning and departments often lack comprehensive and reliable information on workforce skills. HMRC expects the level of risk around its workforce planning to remain high in 2016-17, due to the size and complexity of the organisation and the demographics of its workforce (45% of HMRC staff are aged 50 or over).

Changes in the workforce and its cost

Between 2010 and 2015, most departments reduced their staff numbers. The number of civil servants (full-time equivalent) reduced by 18%, from 492,010 to 405,570. HMRC staff numbers decreased by just over 12% between March 2011 (66,900) and March 2016 (58,600).

Between 2010 and 2014, HMRC reduced the annual salary cost of its workforce by £276 million. This was achieved by reducing the numbers of staff (saving £192 million or 10%) and average salaries (saving £84 million or 4%) (Figure 8).

Contained within these figures was a £72 million cost (4% of salary cost) resulting from an increase in the seniority of HMRC's grade mix.

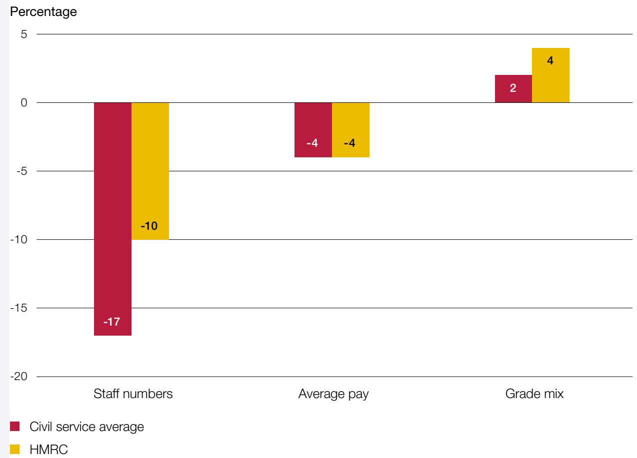
Use of consultants and temporary staff

Consultants and temporary staff can be an important source of capability for departments that are transforming how they do business. Yet, they can be twice as expensive as permanent staff. Departments need to use strategic workforce planning to drive down their dependency on consultants and temporary staff.

HMRC spent the equivalent of 1% of its permanent staff payroll costs (which were £2,146 million in 2014-15) on temporary staff.

Zoom In+

Figure 8
Factors' effects on annual salary cost of workforce, 2010–2014



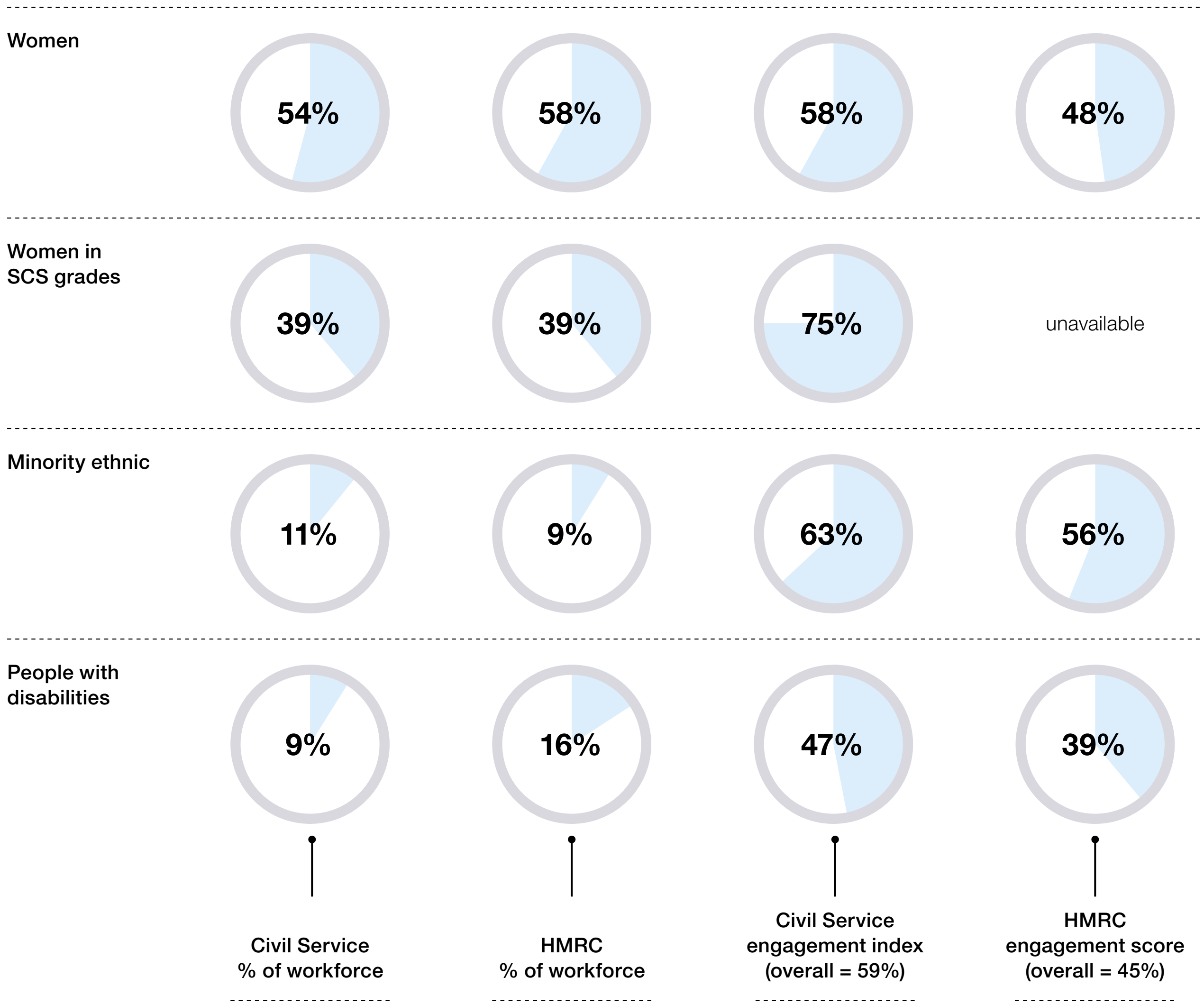
Source: Comptroller and Auditor General, *Central government staff costs*, HC 79, Session 2015-16, National Audit Office, June 2015

1 In 2015-16, the NAO published three cross-government reports relating to workforce capability – *Central government staff costs*; *Equality, diversity and inclusion in the civil service*; *Use of consultants and temporary staff*.

Workforce capability *continued*

Diversity, equality and inclusion

A diverse workforce includes people with a wide range of characteristics and experiences. This creates an inclusive and supportive work environment, which in turn is vital to improving capability. The civil service needs its people to feel motivated, able to contribute and confident that their talents will be used, regardless of background or working style. HMRC published its own equality and diversity objectives and information.



Source: National Audit Office analysis of Office for National Statistics, Civil Service People Survey 2015 and HM Revenue & Customs Workforce Diversity data for 2014-15

HM Revenue & Custom's related bodies

Valuation Office Agency

HMRC has one executive agency, the Valuation Office Agency, which provides the valuations and property advice required to support taxation and benefits.

The work of the Agency encompasses:

- compiling and maintaining lists of rateable values of the 1.9 million non-domestic properties in England and Wales, to support the collection of business rates;
- compiling and maintaining lists of council tax bands for 25 million domestic properties in England and Wales, to support the collection of council tax;
- determining local housing allowances across some 152 Broad Rental Market areas for Housing Benefit purposes, and around 147,500 Housing Benefit referrals each year for the Department for Work & Pensions and determining some 46,000 fair rent cases each year for the Department for Communities and Local Government;
- delivering a range of valuation and surveying services to customers in the wider public sector, including central and local government departments, as well as advice to ministers on valuation and property matters; and
- supporting HMRC's work on capital gains, inheritance tax and other areas of tax compliance.

For more information see the Agency's Annual Report 2015-16.

Revenue and Customs Digital Technology Services Limited (RCDTS)

HMRC is the parent of RCDTS Ltd, an arm's-length body created in 2015-16 and which started trading on 1 December 2015. RCDTS Ltd provides a managed IT service to HMRC. HMRC provides the funding for RCDTS Ltd.

Office of Tax Simplification

The Office of Tax Simplification (OTS) was formed in July 2010, with a remit to provide the government with independent advice on simplifying the UK tax system.

The OTS is an arm's-length body of HM Treasury. It has a small board led by an independent chairman and tax director, and supported by a secretariat of civil servants and private sector secondees (6 staff FTE).

Relevant National Audit Office publications

A Short Guide to HM Revenue & Customs
National Audit Office, July 2015

C&AG report to the Scottish Parliament on 26 November 2015 (HC 627) on HMRC's administration of the Scottish Rate of Income Tax (November 2015)

Her Majesty's Revenue & Customs Annual Report and Accounts 2015-16 (July 2015)

Replacing the Aspire contract (June 2016)

The quality of service for personal taxpayers (May 2016)

Ensuring employers comply with National Minimum Wage regulations (May 2016)

Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks (December 2015)

The administration of the Scottish Rate of Income Tax 2014-15 (November 2015)

Confirmed impacts: Increasing the effectiveness of tax collection (October 2015)

Fraud and error stocktake (July 2015)

Staff attitudes and engagement

The government conducted its Civil Service People Survey annually for the past five years, the most recent being carried out in October 2015.

The results are summarised in the table on the right. HMRC scored 45% for employee engagement in 2015, an improvement on its performance in 2014 when it scored 43%. The civil service average for employee engagement in 2015 was 58%. HMRC's scores across all the categories improved in 2015.

Results of HMRC People Survey 2015.

Attitudes of staff in 2015 compared with 2014 – HMRC

Key

- Results in 2015
- Increase since 2014
- Decrease since 2014
- No change

Category	Results in 2015	Change since 2014	Civil service average
My work	65%	+1	74%
Organisational objectives and purpose	79%	+1	83%
My manager	65%	+1	68%
My team	83%	+2	80%
Learning and development	50%	+4	49%
Inclusion and fair treatment	70%	+1	74%
Resources and workload	66%	+1	73%
Pay and benefits	21%	+1	30%
Leadership and managing change	30%	+2	43%

Engagement index 2015 and 2014

Civil service benchmark 2015 (58%)

Civil service benchmark 2014 (59%)

HMRC 2015	45%
HMRC 2014	43%

Sources: Civil Service People Survey 2015 and 2014