

HM Revenue & Customs 2009–10 Accounts

- Consolidated Resource Accounts
- Trust Statement
- Report by the Comptroller and Auditor General

(For the year ended 31 March 2010)

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

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HM Revenue & Customs 2009–10 Accounts

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Statement on Internal Control

1. Scope of responsibility

- 1.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Revenue & Customs (HMRC) policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
- 1.2 As Chief Executive of HMRC I am accountable to the Chancellor and to the Exchequer Secretary to the Treasury, to whom the Chancellor has delegated responsibility for the day to day oversight of the Department. The Exchequer Secretary is kept informed of progress and significant issues facing the Department in the course of regular bilateral meetings that he has with me and the other Board members.
- 1.3 As Principal Accounting Officer for HMRC, I am supported by a number of Additional Accounting Officers. Each of these has clearly defined responsibilities outlined in their appointment letters. Their relationship with me is also clearly set out in separate Memoranda of Understanding.
- 1.4 The Valuation Office Agency (VOA) is an Executive Agency of HMRC. The Chief Executive of the VOA is an Additional Accounting Officer for the resources authorised by Parliament in relation to the VOA. The relationship between the VOA and HMRC is set out in the VOA's Framework Document, and in a separate Memorandum of Understanding between the VOA's Chief Executive and myself.

2. The purpose of the system of internal control

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to: identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in HMRC for the year ended 31 March 2010 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Governance

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

4. Risk Management

Capacity to handle risk

- 4.1 Following the recommendations made by the Capability Review and the Poynter Report in 2008, HMRC has been implementing a revised approach to risk management throughout the organisation. The approach affirms HMRC's commitment to take the right risks and opportunities to support the delivery of its business objectives. It also sets out the roles, responsibilities and expected behaviours of all members of the Department in doing this.

- 4.2 Over the past 12 months, significant progress has been made in implementing the revised approach. Each business area of the Department has a Lead Risk Champion, who works with the relevant senior management teams to lead the approach, and a Business Risk Partner, who oversees risk management activities. These stakeholders come together on a regular basis to ensure that the approach is implemented consistently across the Department, to learn from good practice, and to support the Executive Committee in effectively identifying and managing risks to the achievement of corporate objectives. A professional Corporate Risk Management function provides central support and guidance to enable staff to understand their respective roles and responsibilities for risk management under the revised approach. This has included producing a practical guide to risk management for all staff, and running risk workshops. It also acts as a challenge function to ensure risk governance processes are working across business areas, and provides risk reporting to the Executive and Performance Committees and the Board and the Audit & Risk Committee.
- 4.3 The implementation of the Department's revised approach to risk management is the subject of periodic review by Internal Audit. The most recent review recognises that significant progress has been made in the last 12 months, although further work remains to roll-out the revised approach and ensure it is embedded in all areas of the Department.

The risk and control framework

- 4.4 The Department's approach to risk management is set out in the Corporate Risk Management Strategy, which has been endorsed by the Executive Committee and the Audit & Risk Committee. The key components of the Strategy have been integrated into governance arrangements across the organisation, improving its risk management capability and bringing the approach in line with industry good practice.
- 4.5 HMRC applies a structured process for identifying, assessing, communicating, escalating and managing risk. The framework being used for this is consistent with the Committee of Sponsoring Organisations (COSO) – an established methodology for assessing risk and evaluating controls used in both the public and private sectors. It is also consistent with the guidance on risk management set out in the Treasury's Orange Book.
- 4.6 The approach involves both a top down strategic view of risk and the upward reporting or escalation of risks, with key reporting lines established at various levels of the organisation. Management teams regularly review their key risks, and consider whether any risks need to be escalated to the next management level based on pre-defined escalation criteria. Escalation of risks is through the monthly reporting cycle of performance and risk, recognising that more rapid 'fast track' escalation of risks may be required in certain circumstances. Departmental level risks are reviewed by the Performance Committee on a monthly basis. Every risk identified must have a clear accountable owner, who is responsible for reviewing mitigating actions to ensure the risk is being managed within acceptable levels.

Risk Appetite

- 4.7 Currently corporate risk appetite is defined implicitly by a number of different documents and processes. For example, guidance on the Department's various policies and procedures set the parameters within which individuals and managers should make decisions and take risks. Risk rules for compliance activity implicitly set the appetite for risks relating to collection of revenue and payment of benefits and credits, and Delegated Authority Levels reflect the appetite for risks relating to how the Department's finances are managed. The Department is currently developing a formal approach to risk appetite that will clearly articulate the action managers are expected to take on different types of risk.

Information Risk

- 4.8 During 2009-10, HMRC has continued to deliver on its commitment to implement recommendations contained in the Poynter Report. Independent acknowledgement of the progress to date has been made in the recent "Spot Check" audit by the Information Commissioner's Office which gave "reasonable assurance" that HMRC is on track to implement the Poynter recommendations although it acknowledged there is further work which the Data Security Programme will need to do to ensure compliance with the Information Commissioner's Enforcement Notice by 25 June 2011.
- 4.9 During the year, there has been significant expansion of the Department's Secure Electronic Transfer service, providing enhanced security for high volume electronic data transfers. Controls over the exceptional use of portable media remain in force and reliance on portable media continues to reduce. Pilot activities to improve user access management controls have been effective and will continue in 2010-11.
- 4.10 Protecting the confidentiality, integrity and availability of our customers' information remains a strategic objective, and information risks are captured and managed through risk registers and Directorate level Security Management Systems. An information management policy and strategy have been produced and an Information Charter has been published. There has been good progress in compiling information asset registers, reviewing and implementing record retention policies and securely disposing of those physical records no longer needed. As part of their working in improving Information Management across Government, the National Archives have recently completed an Information Management Assessment to help in the Department's work to promote effective records management. The report is due for publication during July, and will help to shape further plans for this area.
- 4.11 Governance and assurance have been improved. Incidents and the results of assurance activity are reviewed in regular performance meetings. The responsibilities of Data Guardians and Information Partners who work in business areas across HMRC have been clarified.
- 4.12 High levels of security awareness have contributed to a reduction in serious security incidents over the period, but acknowledged data quality issues continue to affect the Department's ability to reduce the frequency of lower impact, but still important, paper record based security incidents such as a letter going to the wrong address.
- 4.13 There has been significant investment in improving security controls, but areas remain where further improvement is required, and these have been prioritised in our Information Risk Report to the Cabinet Office. They include assurance over user access control to our information systems; the need to further expand our assurance over third party suppliers, who remain critical to the delivery of the Department's operations; and further strengthening controls to our online customer systems.
- 4.14 We will continue to take a risk based approach to security control improvement and investment in 2010-11.

5. Control

- 5.1 Key developments during the year included:

Departmental Strategy

- 5.2 In November 2009, the Executive Committee and the Board agreed a single, unified HMRC strategy that sets out how we will deliver our purpose and vision. That strategy is centred on understanding our customers and how they behave and therefore determines how we deliver services to them – how we will design our processes, contacts and interventions to meet customer needs and change behaviours. It is the basis of an overall HMRC change programme and we are now building the detailed delivery plan for 2011 and beyond. This plan will set out how we will

deliver our business in the most effective and efficient way for the customer and for the taxpayer whilst maximising revenue to the Exchequer. Delivery of the unified customer-centric business strategy is supported by strategies being developed by lines of business for specific customer groups.

- 5.3 The delivery plan – and the 2010-11 business plan – will also incorporate into a single document implementation of the agreed changes following the Capability Re-Review.

Economic Climate

- 5.4 The economic climate continues to pose a challenge to our business and our work on closing the tax gap. It affects attitudes to compliance. It has led to increased levels of criminality resulting in reduced cash flow to the Exchequer. It contributes to more payments being made late, with existing debts more difficult and costly to collect. We continue to deploy resources across a full range of interventions to disrupt fiscal crime and abuse and to level the playing field and provide assistance to honest businesses and individuals.

Criminal Attacks on our Systems

- 5.5 During the year HMRC has further developed its Counter Fraud Strategy to tackle increasingly sophisticated attacks across the tax and credits systems. A key aspect of our approach is to aim to design fraud out of our systems and build fraud awareness into all new systems. This approach, along with improved risk analysis and targeting has increased our effectiveness at detecting and preventing fraud.
- 5.6 Examples of our success include the disruption of a major criminal organisation behind a concerted attempt to make false Income Tax Self Assessment repayment claims. HMRC intelligence and operational activity also identified a real and increasing risk of the UK becoming a major target for a form of VAT repayment fraud in connection with trading of emissions allowances (often called 'carbon credits'). Close co-operation across operational and policy directorates enabled HMRC to swiftly tackle the fraud on two fronts; firstly introducing new legislation to improve design to stop further VAT losses; and secondly applying successful operational techniques to identify and implement proceedings to recover stolen VAT. This early action prevented substantial potential losses to the Exchequer and ensured that fraudulent trading did not undermine the legitimate market.

Debt

- 5.7 During the past year we have continued to implement a series of fundamental changes to our strategic approach to debt management and enforcement and have significantly improved our understanding of the constituent elements in our overall debt portfolio. The Trust Statement shows a receivables figure of £26.1 billion, £1.6 billion lower than last year. This represents a considerable achievement when set against higher levels of "new debt" and continuing difficult economic circumstances and has been achieved alongside significant efficiency savings.
- 5.8 In 2009-10, £6.3 billion was written off or remitted. Around £1.3 billion of this related to historical debt involving Missing Trader Intra-Community (MTIC) VAT fraud. We have seen pleasing reductions in the quantity of debt under six months old. Our approach now involves actively encouraging and supporting payment on time so preventing further debt arising, providing assistance to those in genuine short term difficulty where appropriate and taking firmer, faster action against those who fail to engage with us. We now prioritise debt pursuit and enforcement actions primarily by risk rather than value, and use targeted debt campaigns with collection strategies tailored specifically to each debtor and risk segment in order to use our available resource to maximum effect.
- 5.9 The Business Payment Support Service, which I reported on in last year's SIC, continues to provide help to viable businesses by allowing them to spread their tax payments over short periods in order to give them breathing space and time to recover.

Internal Fraud and Corruption

- 5.10 The Executive Committee commissioned a Strategic Risk Assessment (SRA) in 2007 to assess HMRC's understanding of corruption and internal fraud risks. This is the first time a major government Department has conducted a methodical review of the risks of corruption and internal fraud. The primary purpose of the assessment is to ensure that:
- Managers are aware of the risks in their area and take responsibility for mitigating them;
 - HMRC, as a highly professional organisation, has sufficient controls in place to safeguard the security of our customers' information, hence reducing the risk to internal fraud and corruption.
- 5.11 The key areas of risk identified for HMRC were information security (deliberate or malicious breaches of data security rules) and people issues (recruitment, vetting and management of staff in HMRC from an internal fraud and corruption perspective). The results of the SRA have contributed towards the overall UK threat assessment on internal corruption compiled by the Serious Organised Crime Agency.
- 5.12 Every HMRC business area now either has prevention plans in place or is in the process of developing these. Internal Audit will be examining the prevention plans for each Directorate and other measures taken by managers to learn lessons from past fraudulent activity and prevent future occurrences as part of a forthcoming review of internal fraud.

Business Continuity

- 5.13 In early 2009, we introduced full disaster recovery for National Tax Credit payments systems. We have closed our two oldest data centres and relocated essential services to modern data centres, which have further helped improve resiliency.
- 5.14 A Department-wide business impact assessment has been completed and our most critical processes identified. A subset of these processes has been assessed against a number of risk scenarios and an analysis of results presented to the Audit & Risk Committee.
- 5.15 There have been targeted improvements to the resilience and availability of key information processing environments and the Department completed preparations for reducing the potential impact of an influenza pandemic.
- 5.16 The risk profile for business continuity remains high and our risk assessments will be broadened during 2010 in order to determine where further investment would give greatest benefit.

Financial Capability

- 5.17 We continue to improve our financial controls following our disclosure in last year's statement of weaknesses in this area.
- 5.18 To improve our ability to link inputs to outputs better we now have dedicated service managers in the lines of business to influence behaviours and generate better value for money around consumption of our resources. We are also improving our analysis of expenditure and are at the early stages of introducing a single costing strategy. In the longer term, this will help us understand our costs in a different way and better inform future financial decisions.
- 5.19 To improve our financial planning we have introduced a financial model based on explicit, documented business rules agreed by the Executive Committee. This involves strict controls including validation and sign off by Finance Directors. All financial planning in 2010-11 will be based on deliberate choices on performance and strategic alignment rather than reactive cost containment.
- 5.20 Our forecasting and financial management information has improved significantly and we have received positive feedback from the Board who now receive a summary and monthly update on our

financial position. Forecasting has stabilised and is now underpinned by a control framework, including peer reviews, detailed sign off and various validation techniques.

5.21 To improve the financial management capability of our staff we have introduced high level training for senior managers focused on the need for accurate budgeting and forecasting and raising financial awareness. Financial management awareness is now included in our front-line manager training. We review levels of financial delegation on an ongoing basis to confirm that we are operating at optimum levels for the organisation.

Occupational Health & Safety

5.22 Last year we reported significant weaknesses in our management of Health & Safety (H&S) and that the Health & Safety Executive (HSE) were planning a management inspection of HMRC. From the first phase of their review, the HSE recognised that we have established a Departmental H&S management system, consistent with best practice and international standards. But on the ground, they have found examples of weak communication and inadequate application of risk assessments and controls. We continue to co-operate and engage fully with the review and are already acting on their interim findings.

5.23 We have continued to strengthen governance, including steps to:

- Monitor H&S performance at Board level, using selected measures from a range agreed by Performance Committee to apply at Department and line of business level. These include targets set for Directors General to achieve full and accurate statutory reporting of occupational injuries and cases of ill health and the completion of H&S training by managers and staff;
- Recruit Facility Management Specialists as part of improvements to discharge our duty of care through third parties;
- Implement a programme of H&S assurance at site level, certified through a comprehensive network of Senior Responsible Managers;
- Improve the reliability, value and availability of H&S management information on incidents, sickness absence and on our occupational health service. This enables our managers to deploy resources to best effect and for HMRC to foster co-operation with Trade Union colleagues on H&S matters.

United Kingdom Border Agency (UKBA)

5.24 Following Royal Assent in July of the Borders, Citizenship and Immigration Act 2009, HMRC's border functions and 4,841 associated staff have now formally transferred to UKBA. UKBA continues to be a key delivery partner for HMRC at the border and this relationship is managed through the Partnership Agreement with the Home Office that sets out the respective responsibilities. HMRC has in place a governance structure and delivery management team to manage the interface with the Agency. Annexes to the Partnership Agreement set out specific performance expectations in key areas which can be escalated to the joint HMRC/UKBA Partnership Committee if necessary.

Disclosures in the 2008-09 SIC

5.25 In the 2008-09 SIC we made disclosures on weaknesses in our controls covering MTIC, the re-finalisation of tax credit awards and tax credit guidance. During 2009-10, the level of risk has been similar to or less than in previous years, due to our mitigating action, and therefore does not warrant further disclosure this year.

6. Review of effectiveness

- 6.1 As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by NAO in management letters and other reports.
- 6.2 I discuss significant control issues with my executive team as they arise at our regular Executive Committee and Performance Committee meetings. Executive Committee meetings are informed by an assessment of our current exposure to strategic risk. Performance Committee meetings are further informed by monthly reports on performance. The focus of these is the progress being made to deliver our key targets and objectives and the issues and risks that could prevent this.
- 6.3 To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides me with an annual opinion, a summary of the findings from every internal audit review, and he alerts me to significant control issues as they arise. The Chairman of the Audit & Risk Committee, who is a non-executive Board member, provides the Board with a written report after each Audit & Risk Committee meeting.
- 6.4 A number of specific sources inform and contribute towards my review including:
- Individual statements from each member of the Executive Committee outlining the governance, risk and control arrangements in their business areas;
 - The Statement on Internal Control provided by the Chief Executive of the VOA and the review that underpins this;
 - The review that underpins the production of the National Insurance Fund Statements on Internal Control, which I sign separately;
 - NAO Reports and the Comptroller and Auditor General's Annual Report;
 - The Director Internal Audit's Annual opinion to the Audit & Risk Committee;
 - External reports on HMRC produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners;
 - Formal assurance I receive from the Senior Information Risk Owner (SIRO) that Information Risk has been appropriately managed in the conduct of HMRC business.
- 6.5 Taking these statements into account, and observations from the Director of Internal Audit, the Audit & Risk Committee and from NAO, I recognise that there are a number of material control weaknesses. Of those I have identified the most significant are detailed below. I am giving priority to the plans that we have put in place to address these weaknesses and to improve the overall control environment.

Data Quality and its impact on our readiness to change

- 6.6 The quality of the data we hold is an issue of long standing for HMRC. Duplicate, incorrect and unmatched data has resulted in backlogs that we have reported in previous SICs. This has had – and continues to have – a significant impact on our ability to benefit from process improvement and automation, and has created high profile issues for the Department. Addressing these underlying data quality issues will be integral to HMRC's future investment in IT. Clean underlying data will, for example, be an essential component within the delivery of the proposed Single Business Identifier announced as part of the Small and Medium Enterprise package in the March 2010 Budget – where we will link tax-regime data across businesses. In the meantime, I need to report on the following issues.

National Insurance and PAYE Service (NPS)

- 6.7 A significant control issue has arisen since the implementation of the National Insurance and PAYE Service (NPS) in July 2009. NPS, which uses a single record for each customer, is an important part of our modernisation of the PAYE system. Although data was successfully migrated from the old system, the quality of pre-NPS data and the strengthened validation on NPS have combined to create more exceptions and identify more data anomalies than were forecast.
- 6.8 As a result, the number of taxpayer Annual Notices of Coding (P2s) generated by the system almost doubled in January 2010 from the predicted 13 million. Data inconsistencies and other factors meant that a proportion of P2s were generated incorrectly. As soon as this became evident, a recovery programme was put in place to ensure that only correct P2s were issued to taxpayers and the correct codes were issued to employers to enable them to revise employee codes in time for the start of the new tax year (P9s). Wherever it was not possible to issue correct P9s by the end of the tax year, employers were briefed to continue to operate existing codes. The recovery programme has meant that we have cleansed significant numbers of customer records to help ensure customers will pay the correct tax from April 2010.
- 6.9 It is possible that problems will continue through the first year of operation, but further work is in hand and a scoping project has been set up to define the programme of work required, including improving data quality, identifying key work items and the optimal order they should be worked, and further enhancements to NPS. We remain confident that NPS represents a significant step forward in the modernisation of our systems and will deliver substantial benefits.

PAYE Open Cases

- 6.10 As at 31 March 2010, there were 18.2 million PAYE customer reviews (open cases) outstanding. This compares to around 20 million on hand that we reported in last year's SIC. We have begun to manually process the priority cases, focusing on two categories:
- 2007-08 under-payments;
 - Overpayments for low income customers.
- 6.11 We aim to clear 1.2 million cases in 2010-11 using this approach. In order to develop an approach that has the potential to deliver our objective of clearing all legacy open cases, we are considering the options available to clear larger numbers of cases by a combination of technical auto-clearances and manual working. We will be making decisions on the viability of these in summer 2010.

Non-Matching National Insurance (NI) Contribution Items

- 6.12 Last year I reported that the end of year information we receive from employers includes in some instances NI contributions information that cannot be matched to the relevant employee record because some employers have provided insufficient (or insufficiently clear) personal details about their employees. Where items cannot be matched, they are kept on a non-matched suspense file until they can be matched to the correct NI account.
- 6.13 For 2008-09, some 1.7 million new items were added to the suspense file – a reduction of 200,000 items on the previous tax year. A more detailed breakdown of the 1.7 million items is expected in mid-July, but scans performed for previous years indicate that around 85 per cent of non-matching items are below the relevant earnings threshold, meaning that individually they cannot affect contributor benefits. It is not possible to ascertain the number of individuals affected because one individual could have several unmatched items owing to incorrect information recorded by one or more employers on the End of Year Returns.
- 6.14 A strategy to educate employers has helped significantly in reducing the number of items being added to the suspense file. Based on the latest information available, the volume of non-matching items has steadily decreased over the last five years, from 5 per cent to 2.8 per cent.

6.15 We continue to undertake detailed analysis and we are working closely with key inter-Departmental stakeholders to develop further strategies to improve the quality of data submitted from employers. A review of non-matching items is approaching completion.

Tax Credit Error and Fraud

6.16 We measure the levels of error and fraud (excluding organised fraud) in Tax Credits each year. In July 2008, we published a target to reduce losses caused by error and fraud in tax credits to no more than five per cent of finalised entitlement by March 2011. When this target was set, the latest figures (2007-08) showed the existing level of error and fraud as between 7.9 and 9.2 per cent of the final award by value. The results of the Error and Fraud Analytical Programme (EFAP) for 2008-09 showed the level of error and fraud was between 8.3 per cent and 9.6 per cent of the final award by value.

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

6.18 We undertook a range of interventions during 2009-10, based on the four key themes of our strategy for meeting the target:

- *Support – helping customers get it right.* We proactively contacted customers who were identified as likely to have higher levels of error and checked through their claim details with them, educating them and helping them to stay on track in the future. We have also run communication and marketing activities to remind customers of their obligations;
- *Identifying and tackling non-compliance.* We use a range of data available to us to identify and tackle those who are deliberately trying to defraud the tax credits system. We match claim details in bulk to identify and correct discrepancies, therefore removing existing error and fraud from the system;
- *Prevention.* We have introduced measures to prevent new error from entering the system and to support post-award accuracy. We have introduced pre-capture checks to put claims on the right track from the earliest point;
- *Professionalism – getting the right people with the right skills in the right place.* We have placed PaceSetter techniques at the heart of our Error and Fraud activity through the roll out of PaceSetter in Compliance Operations and streamlining of our processes.

6.19 We set targets based on a robust set of measures providing an overarching link between our error and fraud interventions and the measure of error and fraud in EFAP. We set and achieved a yield target of £650 million by the end of March 2010. We have set ourselves further stretching targets for 2010-11. These give us confidence that we are working towards the five per cent target.

Our Leadership and Culture

6.20 To deliver our Purpose, Vision and Way, HMRC needs a high-performing culture and exemplary leadership. We aim to equip our leaders with the skills to get the best out of our people and to guide and support them through the changes we need to make as an organisation. We aim to achieve improved performance across our diverse workforce, and ensure that we have the right capability and leadership to deliver results and drive engagement and increased attendance.

6.21 We are also determined to ensure we have effective controls over such items as expense claim procedures as we move to increased levels of remote management with the contraction of our office structure. Recent internal audits revealed weaknesses in claims procedures, which have now been addressed, and we are working to improve our processes.

Employee Engagement

6.22 There is a risk that HMRC's ability to perform and change to deliver its Purpose and Vision will be seriously impacted by the low engagement of our workforce. There are a number of causes for this but the major one is our people lacking confidence in senior leadership and their management of

change. The Treasury Select Committee has expressed deep concern about employee engagement at HMRC and its effect on performance. They have called on us to re-double our efforts to re-engage with the workforce, and publish a clear and detailed plan to provide focus and direction to our actions.

- 6.23 The Executive Committee and other senior leaders are committed to taking action to improve employee engagement including addressing the causes of low morale and performance issues. Senior leaders are increasing their visibility and working to ensure people feel they have a voice through providing them with more opportunities to raise important issues at Town Hall events, Hot Seat forums and Staff Dial-Ins.
- 6.24 The Department's 2010-11 Business Plan includes a strategic objective to 'Create a working environment which motivates and develops our people to give of their best and take pride in working for HMRC in order to contribute to the transformation of our business.' Employee engagement is one of the key measures of this for the Department. In order to address these concerns HMRC is developing a portfolio of measures and to date it has started to develop an Engagement Strategy, a Corporate Action Plan and has also commissioned a key piece of research around colleague segmentation which will be incorporated into the engagement strategy during 2010-11. All of these measures look critically at the root causes of low engagement at HMRC and suggest innovative solutions for addressing this.

Sick Absence

- 6.25 The level of sickness absence in HMRC remains high. Our principal concerns about this are the overall cost to the business and the impact on our performance and reputation. We also accept there is a clear link between employee engagement and attendance.
- 6.26 We are working hard to tackle sickness absence. Stretching targets are included in Directorate business plans and an HMRC action plan has been drawn up. These are being overseen by the Performance Committee.
- 6.27 Initiatives we have introduced include:
- An Engagement Champions Steering Group has been established, chaired by a member of the Executive Committee. This uses a comprehensive engagement dashboard to identify areas of good practice with the potential to increase levels of engagement across lines of business;
 - New style guidance on sickness absence and managing poor attendance was introduced in February and has received good user feedback to date. This will be supported by communications about HMRC's attendance expectations and promotion of the support available to staff and managers.

Estates Strategy and Contract Management

- 6.28 NAO's Report 'HMRC's estate private finance deal eight years on' was published in December 2009 with a related Public Accounts Committee (PAC) hearing in January 2010. The report covered the performance of the 20-year contract with Mapeley STEPS Contractor Limited (Mapeley); the Department's management of changes in accommodation; and the Department's management of contract risks.
- 6.29 The report concluded that, of £1.2 billion savings, which could have been realised from the start of the contract, the Department is now in a position to realise £900 million with the difference between these two figures resulting from HMRC not taking full advantage of all vacation allowances as soon as they became available. Whilst HMRC accept that improvements can be made to optimise savings, the Department believes that the contract is a value for money means of managing the estate to best support operational requirements and any related movement of staff. The Department announced in January 2010 that it will be closing 130 offices for business and expects now to fully use the allowances available to it over the life of the STEPS contract.

6.30 We have already made significant progress in addressing a number of the NAO's recommendations, including:

- Developing a financial model to assess the impact of HMRC vacation plans;
- Thoroughly reviewing its STEPS business continuity plan in the event of a default by Mapeley;
- Continuing negotiations to resolve the outstanding contractual disputes flagged in the report;
- Implementing a structured Supplier Relationship Management approach, supporting both the management of the contract and the strategic relationship at Board level between HMRC and Mapeley.

6.31 The Department is also reviewing its contract management processes and is developing a separate estates strategy, which it will share with Mapeley.

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

Resource Accounts

Consolidated Resource Accounts for the year ended 31 March 2010

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The Annual Report

Introduction

1. These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2010 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts which can be viewed at www.voa.gov.uk.
2. HMRC is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of tax credits, Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grants. HMRC is also responsible for collecting repayments of student loans, enforcing payment of the national minimum wage and for providing the Government business link portal. More information about the Department's aim and strategic objectives can be found in the Management Commentary (see paragraphs 6 to 10).
3. HMRC has a close relationship with the Department for Work and Pensions (DWP) and its counterpart in Northern Ireland, the Department for Social Development (DSD), as they are responsible for the payment of benefits based on National Insurance Contributions. Administrative expenditure related to the collection of National Insurance Contributions and the associated income recovered from the National Insurance Funds is included in the Consolidated Operating Cost Statement.
4. Receipts and payments of direct and indirect taxes, National Insurance Contributions and payments of tax credits are accounted for in the Trust Statement which is on pages 105-134 of this publication.
5. Pension benefits are provided through the Civil Service pension arrangement (see note 1.14.1 and the Remuneration Report). Pension benefits are also provided through the Local Government Pension Scheme for staff that joined the VOA from The Rent Service in April 2009 (see paragraph 10 and note 1.14.2).

Management Commentary

Departmental aim and strategic objectives

6. The aim of HMRC is to administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.
7. We have further expressed this aim in our Purpose, Vision and Way document where we describe our purpose as being that:
 - We make sure that the money is available to fund the UK's public services;
 - We also help families and individuals with targeted financial support.
8. HMRC has the following Departmental Strategic Objectives (DSOs):
 - DSO 1. Improve the extent to which individuals and businesses pay the tax due and receive the credits and benefits to which they are entitled;
 - DSO 2. Improve customers' experience of HMRC and contribute to improving the UK business environment;
 - DSO 3. Improve our professionalism in dealing with: the security of our customers' information; our stakeholders; and our external impact;
 - DSO 4. Deliver an affordable and sustainable cost base providing value for money for the taxpayer;
 - DSO 5. Create a working environment which motivates and develops our people to give of their best and take pride in working for HMRC in order to contribute to the transformation of our business;

- DSO 6. Transform the performance of the Department through the exploitation of information and technology services.

As DSO 1 and DSO 2 impact on the expenditure of the Department, these have been subdivided into five Requests for Resources and are described in the 'Consolidated Statement of Operating Costs by Departmental Strategic Objectives' (see page 46).

9. Details of the VOA objectives and performance can be found in its Annual Report and Accounts, which is available from The Stationery Office and the VOA website (www.voa.gov.uk).

Machinery of Government Change

10. Two Machinery of Government Changes have been completed during 2009-10 (see note 34). The proportion of the HMRC department dealing with border activities was transferred to the Home Office, UK Border Agency in two phases in August and December 2009. In total 4,841 staff posts were transferred. This followed the necessary legislation being approved by Parliament in July 2009, transferring the border work and also providing the necessary authorities to enable the UK Border Agency to carry out work previously undertaken by HMRC.

The Rent Service, previously an agency within the Department for Work and Pensions, was transferred to the Valuation Office Agency (an agency within HMRC) from April 2009. This transferred 393 staff posts and the service provided to be managed and delivered by the Valuation Office Agency from the date of transfer.

Financial position and results for the year

Comparison Outturn against Estimate

11. Expenditure outturn for the year was £16,494.8m, £147.1m (0.9 per cent) below the Estimate. The variances which exceed 10 per cent are explained below as required by the *Government Financial Reporting Manual (FReM)*.
- Request for resources 1C (RfR 1C), Other administration costs in AME, was underspent by £3.0m. An increase in the valuation of 100 Parliament Street property created this benefit;
 - Request for resources 1E (RfR 1E), IFRS items outside Budget was underspent by £43.7m (37.9 per cent). The Estimate was prepared during a phase of clarification and the reduced outturn is a result of a smaller number of properties than expected being brought onto the Consolidated Statement of Financial Position under IFRS;
 - Request for resources 5A (RfR 5A), Children's benefits was underspent by £54.8m which is immaterial being 0.5 per cent of the £11,965.0m Estimate.

Consolidated Statement of Financial Position

12. The balances reported in the Consolidated Statement of Financial Position have been impacted following the change to reporting under International Financial Reporting Standards (IFRS) in 2009-10 (see paragraph 21).
13. Significant assets and liabilities include:
- property, plant and equipment £640.5m (note 14);
 - intangible assets £1,199.3m (note 15);
 - receivables £653.0m (falling due within one year) of which £488.9m relates to penalties (note 19);
 - payables (amounts falling due within one year) of £1,510.3m (note 21);
 - provisions of £355.9m mainly relating to early departure costs and Child Trust Fund liabilities (note 22).

Cash flow

14. The net cash outflow for the year was £12.8m as detailed in the Consolidated Statement of Cash Flows (see page 44).

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	Outturn 2009-10 £m	Outturn 2008-09 £m
Net Resource Outturn (Estimates)	16,494.8	15,929.5
<i>Adjustments to remove:</i>		
Provision voted for earlier years	–	–
<i>Adjustments to additionally include:</i>		
Non-voted expenditure in the OCS	1.9	1.9
Consolidated Fund Extra Receipts in the OCS	(3.9)	(16.2)
Other adjustments	–	–
Net Operating Cost (Accounts)	16,492.8	15,915.2
<i>Adjustments to remove:</i>		
Gains/losses from sale of capital assets	(3.7)	(11.3)
Capital grants	(306.3)	(179.2)
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
<i>Adjustments to additionally include:</i>		
Other Consolidated Fund Extra Receipts	0.5	13.9
Resource consumption of non-departmental public bodies	–	–
Unallocated resource provision	–	–
Other adjustments ¹	22,303.2	18,696.2
Resource Budget Outturn (Budget)	38,486.5	34,434.8
of which		
Departmental Expenditure Limits (DEL)	4,087.6	4,429.4
Annually Managed Expenditure (AME)	34,398.9	30,005.4

¹ The figure of £22,303.2m (2008-09: £18,696.2m) relates to the estimated Annually Managed Expenditure that is classified as non-voted by HM Treasury and which is accounted for in the Trust Statement. Tax credits make up the majority of this adjustment £21,856.3m (2008-09: £18,317.7m).

15. The Department has allocated a pay settlement worth 2.4 per cent per annum for 2008, 2009 and 2010 and this offer has been agreed with its trade unions.
16. Child Benefit and Child Trust Fund are accounted for within programme costs (see note 12) and the Consolidated Operating Cost Statement (see page 42). The Government announced that it will reduce then stop contributions to Child Trust Funds. This will have no impact on the level on Child Benefit or Child Trust Fund expenditure reported for 2009-10. However, in 2010-11, it is anticipated that Child Trust Fund expenditure will be considerably reduced, with any final residual Child Trust Fund expenditure being reported in 2011-12.
17. Health in Pregnancy Grant (HiPG) became payable from 6 April 2009 to women ordinarily resident in the UK, who have reached the twenty-fifth week of their pregnancy, are in receipt of medical advice and have an expected birth date on or after 6 April 2009. HiPG is accounted for within programme costs (see note 12) and the Consolidated Operating Cost Statement (see page 42). The Government proposal to abolish Health in Pregnancy Grant was announced in the budget statement on 22 June 2010 by the Chancellor of the Exchequer. This will have no impact on the level of Health in Pregnancy Grant expenditure reported for 2009-10. However, in 2010-11, it is anticipated that this expenditure will be reduced, with any final residual expenditure being reported in 2011-12.

18. Details of the Department's significant provisions are reported in note 22 (see page 72).
19. The Department has three significant Private Finance Initiative (PFI) contracts, which are included within these Resource Accounts:
- Mapeley STEPS Contractor Ltd contract for private sector provision of serviced accommodation across the majority of the Departmental estate for 20 years. This is a joint contract with the former two Departments and Valuation Office Agency;
 - Exchequer Partnerships contract for provision of serviced accommodation at 100 Parliament Street for 33 years;
 - Newcastle Estates Partnership contract for provision of serviced accommodation at a number of sites in the Newcastle upon Tyne area, including the redevelopment of the Benton Park View site. This contract has two elements, one which will run for 25 years and the other for 28 years.
20. In addition, the Department has a significant IT contract (non PFI), which is included within these Resource Accounts. Called "ASPIRE" the contract is to deliver a significant proportion of HMRC's and VOA's IT infrastructure with Capgemini as the prime contractor and other outsource partners including Fujitsu. Under the contract, Capgemini provides user services for desktop, business applications management, enhancements and development, and projects as well as integration services for new projects (including the testing of applications and infrastructure). Fujitsu covers Data centre operations, desktop installation and support, Input/Output services (i.e. scanning & processing, printing & distribution) and disaster recovery. Other suppliers included in the contract include Accenture and British Telecom.

International Financial Reporting Standards

21. All government departments are required to prepare accounts from 2009-10 in accordance with International Financial Reporting Standards. There are a number of areas where this change has had significant impact. Non-current assets used by contractors in delivering services to HMRC have been brought onto the Department's Consolidated Statement of Financial Position, most significantly property where it is provided through PFI contracts; IT assets through a Public Private Partnership service contract and other property assets where the leasing arrangements require the asset to be recognised on the Department's Consolidated Statement of Financial Position. In addition the Department recognised a material adjustment to accrue annual leave earned by staff but not yet taken. More detail on the impact of the adjustments made to restate the comparable figures reported in these accounts is set out at note 2.

Government Banking Service

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

Under GBS's agreement with RBS and Citi, customer balances are swept to zero at the end of each day and the money transferred to the Consolidated Fund. GBS customer balances are not included in HMRC's Statement of Financial Position on page 43, but are included in the accounts of the relevant government entities.

Personal data related incidents

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

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation. There were no such disclosures excluded 2009-10.

TABLE 1: SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2009-10

Statement on information risk

During 2009-10, HMRC has continued to deliver on its commitment to implement recommendations contained in the Poynter Report. Independent acknowledgement of the progress to date has been made in the recent "Spot Check" audit by the Information Commissioner's Office, which gave "reasonable assurance" that HMRC is on track to implement the Poynter recommendations, although it acknowledged there is further work which the Data Security Programme will need to do to ensure compliance with the Information Commissioner's Enforcement Notice by 25 June 2011.

During the year, there has been significant expansion of the Department's Secure Electronic Transfer service, providing enhanced security for high volume electronic data transfers. Controls over the exceptional use of portable media remain in force and reliance on portable media continues to reduce. Pilot activities to improve user access management controls have been effective and will continue in 2010-11.

Protecting the confidentiality, integrity and availability of our customers' information remains a strategic objective, and information risks are captured and managed through risk registers and Directorate level Security Management Systems. An information management policy and strategy have been produced and an Information Charter has been published. There has been good progress in compiling information asset registers, reviewing and implementing record retention policies and securely disposing of those physical records no longer needed. As part of their working in improving Information Management across Government, the National Archives have recently completed an Information Management Assessment to help in the Department's work to promote effective records management. The report is due for publication during July, and will help to shape further plans for this area.

Governance and assurance have been improved. Incidents and the results of assurance activity are reviewed in regular performance meetings. The responsibilities of Data Guardians and Information Partners who work in business areas across HMRC have been clarified.

High levels of security awareness have contributed to a reduction in serious security incidents over the period, but acknowledged data quality issues continue to affect the Department's ability to reduce the frequency of lower impact, but still important, paper record based security incidents such as a letter going to the wrong address.

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
January	Unauthorised disclosure.	Name, address, National Insurance number, date of birth, Child Benefit reference number.	2,323	Letters to individuals.

Further action on information risk

There has been significant investment in improving security controls, but areas remain where further improvement is required, and these have been prioritised in our Information Risk Report to the Cabinet Office. They include assurance over user access control to our information systems; the need to further expand our assurance over third party suppliers, who remain critical to the delivery of the Department's operations; and further strengthening controls to our online customer systems.

We will continue to take a risk based approach to security control improvement and investment in 2010-11.

TABLE 2: SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2009-10

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

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

Management

Ministers and senior managers

24. The Corporate Governance Report (see page 22) identifies those senior managers who are members of the Board.

Register of interests

25. Senior managers within HMRC, including the non-executives, are required to complete a declaration of any interests. Note 31 details any significant company directorships or other interests held by Board members which may have conflicted with their management responsibilities.

Diversity and equality

26. We want our workforce to reflect the diversity of our customers and we want to develop and use the collective experience of that diverse workforce to deliver high quality service.
27. Through promoting key messages in our Gender, Race and Disability Equality Schemes and progressing our Diversity Delivery Plan, we are addressing equality issues in the workplace. We have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences; comment on new initiatives and to ensure that everyone in the workforce is treated fairly and can give of their best.
28. Our progress on race has been recognised by the Equalities and Human Rights commission. We have also achieved forty-fifth place in the Stonewall Index of the top one hundred gay friendly employers, received a gold award from Opportunity Now for our commitment to creating an equal and inclusive workplace, and a silver award from the Employers' Forum on Age.
29. We continue to improve access to our services for disabled customers and to raise awareness of their needs with our front line staff.

Payment of suppliers

30. The Department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 99 per cent (2008-09: 96 per cent) of supplier invoices to time.

From 1 January 2009, in line with guidance from the Department for Business Innovation & Skills, the Department has aimed to pay invoices within 10 days of receipt of goods and valid invoice. The Department paid 94 per cent (2008-09: 86 per cent) of supplier invoices within 10 days. The legal requirement remains at 30 days.

Internal Communications

31. The Department has a policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Hot Seat – an opportunity to send questions and feedback to the senior managers, staff telephone conferences with top managers, email alerts, intranet news pages, team briefings, newsletters, staff surveys, staff magazines, “Town Hall” events, where the Chief Executive and other ExCom members meet and talk with staff around the country, “Back to the Floor” days for directors, and regular meetings and discussions with trade union representatives.

Public Sector Information Holders

32. To 31 December 2009 HMRC complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. From 1 January 2010 all HMRC information became covered by a Public Sector Information licence that has no charging implications.

Sustainable development

33. As the Department responsible for administering environmental taxes, HMRC has a direct role to play in combating climate change and protecting the environment. We have extended this role into our day to day operations by: reducing our paper usage through the provision of on-line filing for tax returns and encouraging customers to take the paperless route when seeking information; rolling out recycling arrangements for all our office waste; and promoting telephone and video conferencing as alternatives to business travel.
34. Our travel commitment has seen carbon emissions from air, road and rail journeys drop by over 10 per cent across all business areas. Low emission vehicles dominate our own fleet and this has been recognised with a Fleet Heroes award for the best public sector fleet of over 250 vehicles.
35. We have continued to develop more sophisticated environmental management systems to increase the accuracy of our energy consumption. Energy from IT equipment is being reduced through the introduction of new software to put machines into low power mode overnight. We also want to be sure that the carbon emissions in our supply chain are kept to a minimum. Through piloting the online tool CAESER (Corporate Assessment of Environment, Social and Economic Responsibility) we have started to assess the environmental commitment of our supply chain.
36. The enthusiasm of HMRC employees has been harnessed by the creation of green teams at many of our sites. These volunteers are actively engaged in promoting initiatives such as: our “Big Switch Off” campaign for lights and electrical appliances; car sharing schemes; and recycling office equipment. They are also supported by our Executive Committee Environment Champion.

Social and community issues

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

38. We invest approximately £2 million a year in partnerships with voluntary sector organisations which provide advice and support for disadvantaged communities. We also give more than six thousand days each year of employee time for work in the community. This includes working with voluntary organisations and participating in civic duties such as being magistrates and school governors, and on outreach programmes aimed at making contact with those people who need our help most but are reluctant to make contact with us. We work with UK and international agencies to develop and support effective civil governments overseas.
39. A selection of the community activities HMRC employees have taken part in this year includes:
- taking *Tax Matters*, a tax awareness package, into schools to raise the awareness of tax issues with teenagers;
 - signing up as mentors for PRIME (The Prince's Initiative for Mature Enterprise) and the National Mentoring Consortium to mentor Black, Asian and Minority Ethnic (BAME) university students;
 - helping young people on the Prince's Trust programme and also preparing homeless people in Stockton for the world of work;
 - joining the One Stop Shop campaign to become school governors;
 - raising £132,000 for the BBC's Children in Need appeal. Call centre staff gave up their own time to take telephone pledges on the night.

Auditors

40. The Comptroller and Auditor General audits these Resource Accounts in accordance with the Government Resources and Accounts Act 2000. The notional charge for these audit services for the Core Department as disclosed in these accounts is £0.7m (2008-09: £0.8m). In addition the Comptroller and Auditor General audits the Trust Statement and it has been agreed that it is also appropriate to reflect the cost of this audit in these Resource Accounts. For 2009-10 the cost of the audit of the Trust Statement amounted to £1.2m (2008-09: £1.2m). In 2009-10, additional audit work was undertaken relating to the implementation of IFRS. The IFRS audit costs in 2009-10 amounted to £0.1m. VOA incurred audit costs of £0.1m (2008-09: £0.1m). As a result the total audit fee reported in these Resource Accounts is £2.1m (2008-09: £2.1m). There was no non-audit work.
41. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

Corporate Governance Report

Period of Report

1. This report covers the period from 1 April 2009 to 31 March 2010.

Code of Good Practice on Corporate Governance in Central Government Departments

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

Ministerial arrangements

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

How we run HMRC

5. HMRC has a governance structure with a non-executive Chairman leading the Board and a Chief Executive running the Department. The top team is further strengthened by the appointment of the Permanent Secretary for Tax.

Chairman

6. Mike Clasper is the non-executive Chairman of the HMRC Board. The Board's main role is to develop and approve HMRC's overall strategy linked to business areas and their functions; approve final business plans, including the annual financial plan; and advise the Chief Executive on key appointments. It also performs an assurance role and advises on best practice.

Chief Executive

7. Lesley Strathie is the Chief Executive and Permanent Secretary of HMRC. As Principal Accounting Officer, Lesley is accountable to Parliament for the running and expenditure of the Department. She ensures that appropriate performance standards are set and that delivery plans are in place to ensure these are met. She is accountable to the Board for delivering the Departmental strategy and for the organisation's performance.

Permanent Secretary for Tax

8. Dave Hartnett is the Permanent Secretary for Tax. He is the senior tax professional in HMRC. Dave is accountable for the highest quality of tax policy and advice. He has a general oversight of all tax issues but does not have line management responsibility within lines of business. He is also the Deputy Chief Executive.

The Commissioners

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

10. The Commissioners are directly accountable to HM Treasury Ministers and Parliament and are required by the CRCA to comply with any directions of a general nature given to them by HM Treasury. In 2009-10 these were principally the Public Service Agreement targets and Annual Remit.
11. A list of the HMRC Commissioners during the reporting period is shown below:

	(Period – if not full year)
Dame Lesley Strathie DCB	from 24 July 2009
Dave Hartnett CB	
Melanie Dawes	from 24 July 2009
Mike Eland CB	
Bernadette Kenny	
Steve Lamey	

The Department's Senior Governance Structure

The Board

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

		(Period – if not full year)
Mike Clasper CBE	Non-executive Chairman	
Dame Lesley Strathie DCB	Chief Executive and Permanent Secretary	
Dave Hartnett CB	Permanent Secretary for Tax	
Simon Bowles	Chief Finance Officer	
Colin Cobain	Non-executive	
Melanie Dawes	Director General Business Tax	
Mike Eland CB	Director General Enforcement and Compliance	
Mike Falvey	Chief People Officer	from 15 February 2010
Mark Haysom CBE	Non-executive	
Philippa Hird	Non-executive	
Phil Hodgkinson	Non-executive	
Anthony Inglese CB	General Counsel and Solicitor	from 1 October 2009
Bernadette Kenny	Director General Personal Tax	
Steve Lamey	Director General Benefits and Credits	
Phil Pavitt	Chief Information Officer	from 1 October 2009
John Spence OBE	Non-executive	
Dame Sue Street DCB	Non-executive	
Cathy Wilcher	Chief People Officer	from 1 October 2009 to 27 November 2009

13. The responsibilities of the Board include:
- development and final approval of the overall strategy of HMRC and approval of final sub-strategies of lines of business and functions;
 - development and final approval of the HMRC Communications Strategy and sign-off significant HMRC communications identified within the Communications Strategy;
 - approval of final business plans (including the annual financial plan);
 - advice on the appointment of senior executives; and
 - participation in the appointment of, and advice on the ongoing competence of Board and Executive Committee members and other key appointments.

14. This year the annual evaluation of the performance of the Board was undertaken by a senior non-executive Board member. Every two years, the Board considers its remit, constitution and operating procedures.
15. The Board met twelve times during the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Executive Committee

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

(Period – if not full year)		
Dame Lesley Strathie DCB	Commissioner Chief Executive and Permanent Secretary	
Dave Hartnett CB	Commissioner Permanent Secretary for Tax	
Simon Bowles	Chief Finance Officer	
Melanie Dawes	Commissioner Director General Business Tax	
Mike Eland CB	Commissioner Director General Enforcement and Compliance	
Mike Falvey	Chief People Officer	from 15 February 2010
Anthony Inglese CB	General Counsel and Solicitor	
Bernadette Kenny	Commissioner Director General Personal Tax	
Steve Lamey	Commissioner Director General Benefits and Credits	
Phil Pavitt	Chief Information Officer	from 2 September 2009
Deepak Singh	Acting Chief Information Officer	to 18 September 2009
Cathy Wilcher	Chief People Officer	to 27 November 2009

17. The Executive Committee oversees the breadth of HMRC's work and is responsible for implementing performance improvement and change agendas. Its members have portfolios of responsibility that span each line of HMRC business and corporate service functions.
18. The Executive Committee meets regularly. From April 2009 to December 2009 it met twice a month. From January 2010, following the establishment of the Executive Committee Sub-Committees (see paragraphs 39 to 54), it met once a month. Terms of reference and summary minutes are published on the HMRC Internet site.
19. The Committee reviews its own effectiveness on a regular basis as part of the arrangements for each meeting and periodically by other means, for instance coaching, workshops, external scrutiny and formal review. A formal review of the effectiveness of the Executive Committee and its Sub-Committees is planned for September 2010.

Non-Executive Board Members

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

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

21. The non-executives were all appointed following recruitment exercises held in accordance with Cabinet Office guidance. On appointment, new non-executives undertake a structured induction process to provide an overview of Government and Whitehall as well as the organisation, responsibilities and strategic priority objectives of HMRC. Additional induction can be arranged as required by individuals.
22. All of the non-executive Board members are considered to be independent of HMRC, being neither Commissioners nor officers of HMRC. Arrangements are in place to safeguard taxpayer confidentiality by ensuring that they do not participate in decisions involving specific tax matters.
23. The non-executive Board members contribute to Board decisions and provide guidance and advice to the Executive team, support and challenge management about the Department's strategic direction and monitor and review progress. They do this primarily through their attendance at Board and sub-committee meetings but also through visits and meetings with staff.
24. The Chairman held meetings periodically with the non-executive Board members, as a group and individually, without the executives present.

Board Sub-Committees

25. The Board has three sub-committees; Audit and Risk; People; and Ethics and Responsibilities. The scope of the responsibility of the Board sub-committees encompasses all aspects of the business within HMRC and issues relating to the Valuation Office Agency as escalated. The Board agrees the terms of reference of the sub-committees and periodically reviews their work.

Audit and Risk Committee

26. The Audit and Risk Committee provides the Chairman, Principal Accounting Officer and the Board with independent advice and assurance on the effectiveness of the Department's governance, risk and control arrangements.
27. In fulfilling this role, the Audit and Risk Committee reviews significant issues identified by the Board, Executive Committee, Internal Audit and the National Audit Office (NAO), acting on behalf of the Comptroller and Auditor General as the appointed independent external auditor, and invites executive managers to attend and provide an account of action being taken to address these issues.
28. Specific areas that come within the remit of the Audit and Risk Committee include the provision of assurance to the Board and Principal Accounting Officer as to the veracity of the financial statements, the efficacy of risk management and the strength and appropriateness of control processes across HMRC.
29. During the reporting period the members of the Audit and Risk Committee were John Spence, Mark Haysom and Dame Sue Street.
30. During the year a number of standing invitees also attended Audit and Risk Committee meetings. These included the Chief Executive, Chief Finance Officer and other Executive Committee members, the Head of Corporate Risk Management, Director Internal Audit and representatives from NAO.
31. The Audit and Risk Committee Chairman evaluates the performance of the committee in regular meetings with Audit and Risk Committee members and reports on performance to the HMRC Chairman.
32. The Audit and Risk Committee met seven times during the reporting period and the Chair provided a written report to the Board after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

People Committee

33. The People Committee provides assurance to the Board on the effectiveness of people management; that HMRC are meeting their legislative responsibilities in relation to its people including Health and Safety, the Disability Discrimination Act and equal opportunities; and that the People Function priorities support the Department's strategic direction.
34. During the reporting period members of the People Committee were Mike Clasper, Colin Cobain and a co-opted member, Gary Kildare. Standing invitees were the Chief People Officer, General Counsel and Solicitor, Director Local Compliance and Director Customer Operations.
35. The People Committee met six times during the period and the Chair provided a report to the Board after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Ethics and Responsibilities Committee

36. The Ethics and Responsibilities Committee provides the Chairman, the Chief Executive (as Principal Accounting Officer) and the Board with independent advice and assurance that HMRC is acting responsibly and ethically on a range of stakeholder issues.
37. During the reporting period members of the Ethics and Responsibilities Committee were Philippa Hird, Phil Hodgkinson and a co-opted member, Chris Pond. Standing invitees were the Director General Benefits and Credits, Director Knowledge, Analysis and Information, Director Corporate Responsibility and Diversity and Director Individuals Customer Directorate.
38. The Ethics and Responsibilities Committee met four times during the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Executive Committee Sub-Committees

39. The Executive Committee agreed in September 2009 to set up a new governance structure to support its work and enhance evidence based decision making in key areas of responsibility. Five sub-committees were established as a result of the internal review of HMRC governance; Performance, Tax, Investment, Change Delivery and People Matters.

Performance Committee

40. The Performance Committee has oversight of the Department's performance, both in terms of immediate and future objectives. It also acts as the steering group and substantive delivery board across the Department's strategic objectives. It interrogates HMRC performance against targets; identifies exceptions; and looks at ways to improve performance in all areas including both customer service and value for money. Discussions are informed by a set of performance indicators agreed by the Committee.
41. During the reporting period, membership of the Performance Committee comprised every member of the Executive Committee (see paragraph 16). It was chaired by Lesley Strathie, Chief Executive.
42. The Performance Committee met monthly throughout the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Tax Committee

43. The Tax Committee supports the Executive Committee by pro-actively co-ordinating tax issues within HMRC across its lines of business. "Tax" for this purpose includes all tax, duties, credits, benefits and related matters dealt with by HMRC.
44. The Committee is chaired by the Permanent Secretary for Tax. Membership of the Committee consists of Director-level representatives of Executive Committee members.

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

Investment Committee

46. The Investment Committee makes investment decisions on behalf of the Executive Committee for all Departmental change initiatives. It decides on the appropriateness of all investments within HMRC that affect the Department's customers, lines of business, people, and IT systems. It has responsibility for investment decisions on whether to proceed with change initiatives and on the necessary release or withdrawal of funds. It determines the most appropriate portfolio of investments that will deliver against the strategic direction and priorities set by Executive Committee.
47. The Committee is chaired by the Chief Finance Officer. Membership of the Committee consists of Director-level representatives of Executive Committee members.
48. The Committee met five times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Change Delivery Committee

49. The Change Delivery Committee is responsible for ensuring the HMRC portfolio of investment programmes delivers the changes and benefits identified at their outset. It has responsibility for assuring delivery of the agreed portfolio of HMRC investment programmes on behalf of the Executive Committee, through its monitoring and management of the portfolio; and identifies issues arising from this monitoring and assurance work.
50. The Committee is chaired by the Chief Information Officer. Membership of the Committee consists of Director-level representatives of Executive Committee members.
51. The Committee met five times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

People Matters Committee

52. The People Matters Committee oversees the delivery of the Executive Committee's People Strategy and supports the Chief People Officer in designing and implementing HMRC's people processes. It has responsibility for refreshing and updating existing HR practices. It develops, challenges and proposes solutions for the Executive Committee where new initiatives are being developed. It agrees the priority and work plan for the HMRC people policy remit.
53. The Committee was chaired by the Chief People Officer until 30 November 2009. The General Counsel and Solicitor was interim Chair until the end of the reporting period. Membership of the Committee consists of Director-level representatives of Executive Committee members.
54. The Committee met five times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Structure of the Department

55. The organisational structure of HMRC is based around four operational groups, each led by a Director General. These are:
- **Benefits and Credits.** Responsible for ensuring families receive the benefits they are entitled to, that customers get it right first time and that losses from claimant error and fraud are reduced;
 - **Business Tax.** Responsible for ensuring businesses pay the right amount of tax while improving our customers' experience and the overall UK business environment;
 - **Enforcement and Compliance.** Responsible for ensuring that HMRC successfully collects the full and correct amount of money due from UK taxpayers. It is also responsible for investigating offences against the tax and duty system;
 - **Personal Tax.** Responsible for helping some 60 million individual customers across the UK to fulfil their tax obligations.
56. These are supported by the following cross-cutting functions:
- **Finance**
 - **Information**
 - **Legal**
 - **People**
 - **Permanent Secretary for Tax Group**

Relationships with Arm's Length Bodies

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

Remuneration Report

Remuneration Policy

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

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

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

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

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

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. The Senior Leadership Development Board meets each month to consider appointments, succession planning and development issues relating to the Senior Civil Service.

Unless otherwise stated, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the Civil Service Compensation Scheme can be found at www.civilservice.gov.uk.

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

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org

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

Remuneration:

Senior Officials	2009-10		2008-09	
	Salary £000	Benefits in kind (to the nearest £100)	Salary £000	Benefits in kind (to the nearest £100)
Mike Clasper CBE ¹	150-155	300	95-100 (145-150 full year equivalent)	100
Dame Lesley Strathie DCB	170-175	700	55-60 (165-170 full year equivalent)	100
Dave Hartnett CB	160-165	400	160-165	-
Melanie Dawes	135-140	500	125-130	100
Mike Eland CB	155-160	600	155-160	600
Bernadette Kenny	140-145	800	145-150	100
Steve Lamey	215-220	300	235-240	-
Simon Bowles ²	185-190	500	5-10 (180-185 full year equivalent)	-
Mike Falvey ³ (from 15 February 2010)	10-15 (170-175 full year equivalent)	-	-	-
Anthony Inglese CB	150-155	500	140-145	100
Phil Pavitt ⁴ (from 2 September 2009)	100-105 (175-180 full year equivalent)	1,500	-	-
Deepak Singh ⁵ (to 18 June 2009)	45-50 (160-165 full year equivalent)	19, 200	160-165	300
Cathy Wilcher ⁶ (to 27 November 2009)	130-135 (195-200 full year equivalent)	400	70-75 (185-190 full year equivalent)	-

¹ Mike Clasper was appointed on a three-year contract commencing on 1 August 2008. He was contracted to work a three-day week and his salary is disclosed accordingly. From 1 April 2010 he is contracted to work a two-day week.

² Simon Bowles was appointed on a three-year contract commencing on 17 March 2009.

³ Mike Falvey was appointed on a three-year contract commencing on 15 February 2010. He was paid by his former employer, the Department for Communities and Local Government, until 28 February 2010.

⁴ Phil Pavitt was appointed on a three-year contract commencing on 2 September 2009.

⁵ Deepak Singh was appointed on a three-year contract commencing on 19 June 2006. From 19 June 2009 he was appointed on a three-month contract and during this period Orwell Consulting Ltd were paid for his services as detailed on page 32.

⁶ Cathy Wilcher was appointed on a three-year contract commencing on 10 November 2008.

Bonuses Paid to Senior Officials (included within Salary)

	2009-10	2008-09
	Bonus £000	Bonus £000
Mike Clasper CBE	–	–
Dame Lesley Strathie DCB	–	–
Dave Hartnett CB	–	5–10
Melanie Dawes	10–15	10–15
Mike Eland CB	5–10	5–10
Bernadette Kenny	5–10	10–15
Steve Lamey	10–15	30–35
Simon Bowles	–	–
Mike Falvey	–	–
Anthony Inglese CB	10–15	5–10
Phil Pavitt	–	–
Deepak Singh	10–15	10–15
Cathy Wilcher	5–10	–

Non-Executive Board Members

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

	2009-10		2008-09	
	Fees £000	Benefits in kind (to the nearest £100)	Fees £000	Benefits in kind (to the nearest £100)
Colin Cobain	30–35	200	5–10 (25–30 full year equivalent)	100
Mark Haysom CBE	30–35	200	25–30	100
Philippa Hird	25–30	200	5–10 (25–30 full year equivalent)	100
Phil Hodgkinson	35–40	200	5–10 (30–35 full year equivalent)	100
John Spence OBE	35–40	200	30–35	100
Dame Sue Street DCB	25–30	200	5–10 (25–30 full year equivalent)	100

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2009-10 are based on 2008-09 performance and bonuses paid in 2008-09 are based on 2007-08 performance. This report is based on payments made by the Department and thus recorded in these accounts.

Fees

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue & Customs as a taxable emolument. The Senior Officials detailed above had benefits in kind in 2009-10 relating to hospitality provided at external development events. Mike Clasper and Lesley Strathie also had benefits in kind relating to hospitality provided at a non-executive Board meeting and a non-executive Board dinner. The non-executive Board members each had benefits in kind in 2009-10 relating to hospitality provided at a non-executive Board meeting and a non-executive Board dinner. Phil Pavitt also had benefits in kind relating to hotel accommodation. In reaching the end of a three-year employment contract, Deepak Singh was provided with a benefit in kind relating to Outplacement services.

Third party payments for services of a senior manager

For the period 19 June 2009 to 18 September 2009, £149,500 was paid to Orwell Consulting Ltd for the services of Deepak Singh (a director of that company) who held the position of Acting Chief Information Officer.

Pension Benefits

	Accrued pension at pension age as at 31 March 2010 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2010 (to the nearest £000)	CETV at 31 March 2009 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Mike Clasper CBE ¹	–	–	–	–	–	–
Dame Lesley Strathie DCB ²	80–85 (Plus 245–250 lump sum)	7.5–10.0 (Plus 27.5–30.0 lump sum)	1,660	1,376	195	–
Dave Hartnett CB ³	70–75 (Plus 160–165 lump sum)	5.0–7.5 (Plus 7.5–10.0 lump sum)	1,684	1,476	126	–
Melanie Dawes ²	30–35 (Plus 90–95 lump sum)	2.5–5.0 (Plus 10.0–12.5 lump sum)	465	385	53	–
Mike Eland CB ²	60–65 (Plus 190–195 lump sum)	2.5–5.0 (Plus 7.5–10.0 lump sum)	1,442	1,310	61	–
Bernadette Kenny ²	45–50 (Plus 145–150 lump sum)	2.5–5.0 (Plus 7.5–10.0 lump sum)	959	862	47	–
Steve Lamey ⁴	10–15	0–2.5	222	170	36	–
Simon Bowles ⁵	0–5	2.5–5.0	51	2	45	–
Mike Falvey ⁵ (from 15 February 2010)	10–15	0–2.5	97	– ⁸	1	–
Anthony Inglese CB ²	60–65 (Plus 180–185 lump sum)	2.5–5.0 (Plus 10.0–12.5 lump sum)	1,387	1,232	89	–
Phil Pavitt ¹ (from 2 September 2009)	–	–	–	–	–	–
Deepak Singh ⁴ (to 18 June 2009)	5–10	0–2.5	80 ⁶	67	9	–
Cathy Wilcher ⁵ (to 27 November 2009)	5–10	2.5–5.0	55 ⁷	12	31	–

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

² Member of the Classic Scheme.

³ Member of the Classic Plus Scheme.

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

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

⁶ CETV at 18 June 2009.

⁷ CETV at 27 November 2009.

⁸ CETV at 14 February 2010.

Civil Service Pensions

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

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

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

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

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

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

Statement of Accounting Officer's Responsibilities

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

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

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

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

For 2009-10 the Principal Accounting Officer was Lesley Strathie.

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

- Mike Eland, in respect of

Request for resources 1:

Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements;

Request for resources 5:

Payments of Child Benefit, Health in Pregnancy Grant, Child Trust Fund endowments and the associated non-cash items.

- Dave Hartnett, in respect of

Request for resources 3:

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

- David Park as Interim Additional Accounting Officer from 23 March 2009 to 31 July 2009. Jon Wrennall as Interim Additional Accounting Officer from 1 August 2009 to 31 August 2009 and Penny Ciniewicz who was appointed 1 September 2009 in respect of

Request for resources 2:

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

and other services for government departments and other public bodies by the Valuation Office Agency.

Request for resources 4:

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

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

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 1 to 11.

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

I certify that I have audited the financial statements of HM Revenue & Customs for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayer's Equity, the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Introduction, the Management Commentary (other than the Reconciliation of resource expenditure between Estimates, Accounts and Budgets) and the Corporate Governance Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
15 July 2010

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2009-10

Request for Resources	Note	Estimate			Outturn			2009-10 £m	2008-09 £m
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
RfR 1: Administration	3	4,499.5	(571.0)	3,928.5	4,406.8	(556.9)	3,849.9	78.6	4,306.8
RfR 2: Valuation Office Agency	3	230.1	(230.1)	–	227.7	(227.7)	–	–	–
RfR 3: Payments in lieu of tax relief	3	163.0	–	163.0	154.5	–	154.5	8.5	121.1
RfR 4: Payments of Local Authority Rates	3	35.5	(2.1)	33.4	34.2	(2.2)	32.0	1.4	29.1
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	3	12,517.0	–	12,517.0	12,458.4	–	12,458.4	58.6	11,472.5
Total resources	4	17,445.1	(803.2)	16,641.9	17,281.6	(786.8)	16,494.8	147.1	15,929.5
Non-operating cost A in A				3.8			0.5	3.3	(0.4)

Net cash requirement 2009-10

	Note	Estimate	Outturn	2009-10 £m	2008-09 £m
Net cash requirement	5	16,566.3	16,369.6	196.7	15,955.0

Summary of income payable to the Consolidated Fund

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

	Note	Income	Forecast 2009-10 £m	Income	Outturn 2009-10 £m
Total	6	(300.0)	(250.0)	(228.7)	(259.5)

Explanations of variances between Estimate and outturn are given in note 3 and in the Management Commentary.

The notes on pages 47 to 84 form part of these accounts.

Consolidated Operating Cost Statement

for the year ended 31 March 2010

	Note	2009-10 £m						Restated*	
		Core Department			Consolidated			2008-09 £m	
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Core Department	Consolidated
Administration Costs:									
Request for resources 1 & 2 –									
Staff costs	10	2,306.9			2,453.4			2,415.1	2,577.8
Other administration costs	11		1,781.2			1,845.6		1,848.2	1,913.5
Operating income	13			(531.4)			(745.7)	(547.0)	(778.5)
Programme Costs:									
Request for resources 1 & 2 –									
Staff costs	10	–			–			–	–
Programme costs	12		318.7			318.7		344.1	346.7
Income	13			(26.0)			(26.0)	(29.8)	(29.8)
Request for resources 3 –									
Payments in lieu of tax relief:									
Staff costs	10	–			–			–	–
Programme costs	12		154.5			154.5		121.1	121.1
Income	13			–			–	–	–
Request for resources 4 –									
Payments of Local Authority Rates:									
Staff costs	10	–			–			–	–
Programme costs	12		–			34.2		–	31.2
Income	13			–			(2.2)	–	(2.2)
Request for resources 5 –									
Child Benefit, Child Trust Fund and Health in Pregnancy Grant:									
Staff costs	10	–			–			–	–
Programme costs	12		12,460.3			12,460.3		11,474.4	11,474.4
Income	13			–			–	–	–
Totals		2,306.9	14,714.7	(557.4)	2,453.4	14,813.3	(773.9)		
Net Operating Cost	4		16,464.2			16,492.8		15,626.1	15,654.2

* Certain prior year figures have been restated as per note 2 and note 34.

The notes on pages 47 to 84 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2010

Note	2010 £m		Restated* 2009 £m		Restated* 2008 £m		
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated	
Non-current assets:							
Property, plant and equipment	14	629.8	640.5	702.0	709.5	772.8	779.8
Intangible assets	15	1,167.4	1,199.3	1,118.5	1,151.8	1,015.1	1,050.2
Financial assets	16	–	–	–	–	–	–
Receivables	19	–	–	–	–	0.5	0.5
Total non-current assets		<u>1,797.2</u>	<u>1,839.8</u>	<u>1,820.5</u>	<u>1,861.3</u>	<u>1,788.4</u>	<u>1,830.5</u>
Current assets:							
Inventories	18	2.7	5.4	3.3	7.5	5.0	8.7
Trade and other receivables	19	646.1	653.0	678.5	688.6	468.3	476.4
Other current assets		–	–	–	–	–	–
Financial assets	16	–	–	–	–	–	–
Cash and cash equivalents	20	26.5	38.5	48.6	51.3	57.2	68.0
Total current assets		<u>675.3</u>	<u>696.9</u>	<u>730.4</u>	<u>747.4</u>	<u>530.5</u>	<u>553.1</u>
Total assets		<u>2,472.5</u>	<u>2,536.7</u>	<u>2,550.9</u>	<u>2,608.7</u>	<u>2,318.9</u>	<u>2,383.6</u>
Current liabilities:							
Trade and other payables	21	(1,475.8)	(1,510.3)	(1,476.9)	(1,502.8)	(1,238.3)	(1,266.0)
Other liabilities		–	–	–	–	–	–
Total current liabilities		<u>(1,475.8)</u>	<u>(1,510.3)</u>	<u>(1,476.9)</u>	<u>(1,502.8)</u>	<u>(1,238.3)</u>	<u>(1,266.0)</u>
Non-current assets plus/ less net current assets/ liabilities		<u>996.7</u>	<u>1,026.4</u>	<u>1,074.0</u>	<u>1,105.9</u>	<u>1,080.6</u>	<u>1,117.6</u>
Non-current liabilities:							
Provisions	22	(340.6)	(355.9)	(281.1)	(296.1)	(277.9)	(296.0)
Pension liability	23	–	(33.3)	–	(16.9)	–	(1.3)
Other payables	21	(447.3)	(447.9)	(481.1)	(481.7)	(489.6)	(490.3)
Financial liabilities	16	–	–	–	–	–	–
Total non-current liabilities		<u>(787.9)</u>	<u>(837.1)</u>	<u>(762.2)</u>	<u>(794.7)</u>	<u>(767.5)</u>	<u>(787.6)</u>
Assets less liabilities		<u>208.8</u>	<u>189.3</u>	<u>311.8</u>	<u>311.2</u>	<u>313.1</u>	<u>330.0</u>
Taxpayers' equity:							
General fund		16.2	27.8	114.0	125.3	97.1	110.6
Revaluation reserve		192.6	194.8	197.8	202.8	216.0	220.7
Pension reserve		–	(33.3)	–	(16.9)	–	(1.3)
		<u>208.8</u>	<u>189.3</u>	<u>311.8</u>	<u>311.2</u>	<u>313.1</u>	<u>330.0</u>

* Certain prior year figures have been restated as per note 2 and note 34.

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

The notes on pages 47 to 84 form part of these accounts

Consolidated Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £m	Restated* 2008-09 £m
Cash flows from operating activities			
Net operating cost		(16,492.8)	(15,654.2)
Adjustments for non-cash transactions	11,12	523.3	471.9
(Increase)/Decrease in trade and other receivables		35.6	(211.7)
<i>less movements in receivables relating to items not passing through the OCS</i>		(30.8)	151.6
(Increase)/Decrease in inventories		2.1	1.1
Increase/(Decrease) in trade payables		(26.3)	228.2
<i>less movements in payables relating to items not passing through the OCS</i>		82.2	(128.8)
Use of provisions	22	(175.5)	(167.3)
Net cash outflow from operating activities		(16,082.2)	(15,309.2)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(27.1)	(103.6)
Purchase of intangible assets	15	(205.8)	(225.3)
Proceeds of disposal of property, plant and equipment		0.5	0.4
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		(232.4)	(328.5)
Cash flows from financing activities			
From the Consolidated Fund (Supply)- current year		16,354.6	15,951.7
From the Consolidated Fund (Supply)- prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the National Insurance Fund		1.9	1.9
Payments to the National Insurance Fund		–	–
Advances from the Contingencies Fund		–	–
Repayments to the Contingencies Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(52.9)	(5.3)
Transferred from/to HMRC in respect of transferred functions UKBA/The Rent Service		–	(297.8)
Net financing		16,303.6	15,650.5
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(11.0)	12.8
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		255.6	305.2
Payments of amounts due to the Consolidated Fund		(257.4)	(334.7)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(12.8)	(16.7)
Cash and cash equivalents at the beginning of the period	20	51.3	68.0
Cash and cash equivalents at the end of the period	20	38.5	51.3

* Certain prior year figures have been restated as per note 2 and note 34.

The notes on pages 47 to 84 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

	Note	Core Department				Consolidated			
		General Fund	Revaluation Reserve	Pension Reserve	Total Reserves	General Fund	Revaluation Reserve	Pension Reserve	Total Reserves
		£m	£m	£m	£m	£m	£m	£m	
Balance at 31 March 2008*		97.1	216.0	–	313.1	110.6	220.7	(1.3)	330.0
Changes in accounting policy		–	–	–	–	–	–	–	–
Restated balance at 1 April 2008		97.1	216.0	–	313.1	110.6	220.7	(1.3)	330.0
Changes in taxpayers' equity for 2008-09*									
Net gain/(loss) on revaluation of property, plant and equipment		–	(37.6)	–	(37.6)	–	(35.4)	–	(35.4)
Net gain/(loss) on revaluation of intangible assets		–	38.4	–	38.4	–	38.4	–	38.4
Net gain/(loss) on impairments of non-current assets		–	–	–	–	–	(0.4)	–	(0.4)
Release of reserves to the Operating Cost Statement		–	–	–	–	–	–	–	–
Non-cash charges – cost of capital	11,12	5.4	–	–	5.4	5.8	–	–	5.8
Non-cash charges – auditor's remuneration	11	2.0	–	–	2.0	2.1	–	–	2.1
Transfer between reserves		19.0	(19.0)	–	–	20.5	(20.5)	–	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	(15.6)	(15.6)
Net operating cost for the year		(15,626.1)	–	–	(15,626.1)	(15,654.2)	–	–	(15,654.2)
Total recognised income and expense for 2008-09*		(15,599.7)	(18.2)	–	(15,617.9)	(15,625.8)	(17.9)	(15.6)	(15,659.3)
Net Parliamentary Funding – drawn down		15,925.4	–	–	15,925.4	15,951.8	–	–	15,951.8
Net Parliamentary Funding – deemed		38.0	–	–	38.0	40.0	–	–	40.0
Transferred from/to HMRC in respect of transferred functions UKBA/The Rent Service		(298.2)	–	–	(298.2)	(299.0)	–	–	(299.0)
National Insurance Fund		1.9	–	–	1.9	1.9	–	–	1.9
Supply payable/(receivable) adjustment		(36.6)	–	–	(36.6)	(36.8)	–	–	(36.8)
CFERs payable to the Consolidated Fund		(13.9)	–	–	(13.9)	(17.4)	–	–	(17.4)
Balance at 31 March 2009*		114.0	197.8	–	311.8	125.3	202.8	(16.9)	311.2
Changes in taxpayers' equity for 2009-10									
Net gain/(loss) on revaluation of property, plant and equipment		–	7.6	–	7.6	–	8.3	–	8.3
Net gain/(loss) on revaluation of intangible assets		–	1.3	–	1.3	–	1.4	–	1.4
Net gain/(loss) on impairments of non-current assets		–	–	–	–	–	(2.1)	–	(2.1)
Release of reserves to the Operating Cost Statement		–	–	–	–	–	–	–	–
Non-cash charges – cost of capital	11,12	6.8	–	–	6.8	7.0	–	–	7.0
Non-cash charges – auditor's remuneration	11	2.0	–	–	2.0	2.1	–	–	2.1
Transfer between reserves		14.1	(14.1)	–	–	18.6	(15.6)	(3.0)	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	(14.4)	(14.4)
Net operating cost for the year		(16,464.2)	–	–	(16,464.2)	(16,492.8)	–	–	(16,492.8)
Contributions to LGPS pension fund by DWP	23	–	–	–	–	–	–	1.0	1.0
Total recognised income and expense for 2009-10		(16,441.3)	(5.2)	–	(16,446.5)	(16,465.1)	(8.0)	(16.4)	(16,489.5)
Net Parliamentary Funding – drawn down		16,319.0	–	–	16,319.0	16,354.6	–	–	16,354.6
Net Parliamentary Funding – deemed		36.6	–	–	36.6	36.8	–	–	36.8
National Insurance Fund		1.9	–	–	1.9	1.9	–	–	1.9
Supply payable/(receivable) adjustment		(13.5)	–	–	(13.5)	(21.8)	–	–	(21.8)
CFERs payable to the Consolidated Fund	6	(0.5)	–	–	(0.5)	(3.9)	–	–	(3.9)
Balance at 31 March 2010		16.2	192.6	–	208.8	27.8	194.8	(33.3)	189.3

* Certain prior year figures have been restated as per note 2 and note 34.

The notes on pages 47 to 84 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2010

	2009-10			Restated* 2008-09		
	£m		£m	£m		£m
	Gross	Net	Gross	Gross	Net	Net
	Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
Aim: To administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.						
Strategic Objective 1: Improve the extent to which individuals and businesses pay the tax due and receive the credits and benefits to which they are entitled.						
Strategic Objective 2: Improve customers' experience of HMRC and contribute to improving the UK business environment.						
We have subdivided these objectives into the following:						
RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.						
Strategic Objective 1	2,314.9	(478.5)	1,836.4	2,656.4	(499.4)	2,157.0
Strategic Objective 2	2,091.9	(78.9)	2,013.0	1,951.0	(77.4)	1,873.6
RfR 2: Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.						
	227.7	(231.1)	(3.4)	247.4	(248.3)	(0.9)
RfR 3: Providing payments in lieu of tax relief to certain bodies.						
	154.5	–	154.5	121.1	–	121.1
RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies.						
	34.2	(2.2)	32.0	31.2	(2.2)	29.0
RfR 5: Payments of Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grant.						
	12,460.3	–	12,460.3	11,474.4	–	11,474.4
Intra-departmental consolidation adjustment.	(16.8)	16.8	–	(16.9)	16.9	–
Net Operating Costs	17,266.7	(773.9)	16,492.8	16,464.6	(810.4)	15,654.2

A framework of operational and support activities are used to apportion current expenditure against the strategic objectives within RfR 1. This analysis by apportionment has used as many of the activities undertaken by the Department to support both of these strategic objectives. HMRC staff and expenditure, which previously allocated activities to strategic objective 3 in 2008-09 but did not transfer to the UK Border Agency, have accounted for all of their activities against either strategic objective 1 or 2 in 2009-10.

The intra-departmental consolidation adjustment is in respect of transactions between the Department and the Valuation Office Agency.

* Certain prior year figures have been restated as per note 2 and note 34.

The notes on pages 47 to 84 form part of these accounts.

Notes to the Departmental Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Consolidated Statement of Operating Cost by Departmental Strategic Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

The impact of the transition to IFRS is detailed in note 2.

1.1 Accounting convention

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

1.2 Basis of consolidation

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

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

1.3 Financial Instruments

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

In accordance with IAS 32 and IAS 39, the Department's financial assets are categorised as loans and receivables. These are initially measured at fair value at the inception of the contract and are subsequently carried at amortised cost.

Financial assets comprise cash and cash equivalents, trade receivables, deposits and advances and other receivables excluding Child Benefit, Child Trust Fund and Health in Pregnancy Grant.

Financial liabilities are initially measured at fair value at the inception of the contract and are subsequently carried at amortised cost. They comprise trade payables, other payables and the accrual for Flexible Early Severance.

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

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

1.4 Property, plant and equipment

1.4.1 General

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

1.4.2 Property assets

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

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

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

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

Accommodation refurbishments at note 14 reports expenditure in respect of major capital refurbishments and improvements of properties occupied but not owned. HMRC policy from April 2005 is to capitalise refurbishments when the project costs exceed £150,000.

1.4.3 IT assets

The IT non-current assets recognised by our IT partners Capgemini and Fujitsu and used in delivering the ASPIRE contract have been capitalised as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the Core HMRC Department and the Valuation Office Agency as they are used in common to deliver the service. These joint assets are held by the Core HMRC 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 HMRC Department and the Valuation Office Agency, there is no material impact on figures reported.

1.4.4 Furniture

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

1.4.5 Assets under construction

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

1.5 Depreciation

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

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

1.6 Intangible assets

1.6.1 Licences

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

1.6.2 Developed computer software

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

1.6.3 Intangible assets under construction

Intangible assets under construction are separately reported in note 15. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and amortisation commences.

1.7 Impairments of non-financial assets

In accordance with IAS 36 impairment losses are recognised when it is identified that the carrying amount of non-financial assets may not be recoverable in full. The amount of the impairment loss is the difference between the asset's carrying value and its recoverable amount. The amount of the impairment loss is taken against the revaluation reserve to the extent that a related revaluation gain exists; otherwise it is taken to the Consolidated Operating Cost Statement.

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

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

1.8 Inventories

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

1.9 Operating income

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

1.10 Administration and programme expenditure

The Consolidated Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in the *FReM* by HM Treasury.

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

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

1.11 Cash and cash equivalents

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

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General, where the charge is nil.

1.13 Foreign exchange

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

1.14 Pensions

1.14.1 Principal Civil Service Pension Scheme (PCSPS)

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

1.14.2 Local Government Pension Scheme (LGPS)

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

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

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

A formal valuation of the scheme's assets and liabilities for the purpose of setting employers' contributions is carried out every three years. The last formal valuation was as at 31 March 2010. The current employer contribution rate is 18.8 per cent of pensionable pay (18.8 per cent 2008-09).

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

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

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

1.15 Operating Leases

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

1.16 Employee Benefits

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

1.17 Provisions

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

1.18 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department makes provision in full for this cost when the early retirement is binding on the Department. The estimated risk-adjusted cash flows are discounted at 1.8 per cent as set by HM Treasury (2008-09 3.2 per cent).

1.19 Provision for doubtful debt

Under IAS 39 a specific provision for doubtful debt has been made in respect of legal costs that have been awarded to the Department. These costs arise as a result of legal proceedings against taxpayers for the recovery of outstanding tax liabilities. A further provision is made in respect of penalty receivables (note 1.21) to allow for the remission of uncollectable penalties and in respect of Child Benefit receivables (note 1.22) to allow for potentially irrecoverable amounts. All these provisions have been estimated having regard to the level of debts not recovered during 2009-10 and earlier years.

1.20 Value Added Tax

Most of the activities of the Department are outside the scope of VAT. A small proportion of the activities of the Department will attract VAT, and output VAT will apply in these circumstances. The Department also has recoverable and non-recoverable elements for input tax on purchases. Some input VAT on a restricted number of services is recovered under Section 41(3) of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41(3) 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.

1.21 Tax penalty income

Income arising from the levying of tax penalties is generally treated as Consolidated Fund Extra Receipts. However, HM Treasury has given authority for certain penalties relating to Income Tax, Corporation Tax and Capital Gains Tax, to be appropriated in aid by the Department, i.e. kept by the Department to fund the costs of collection.

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

1.22 Child Benefit

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

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

1.23 Child Trust Fund

Child Trust Fund (CTF) provides endowments, in respect of eligible children, to assist with the funding of long-term individual savings and investment accounts provided by approved financial institutions. Eligibility for an endowment arises when a claim for Child Benefit is approved. All eligible children born on or after 1 September 2002 are entitled to an initial endowment. This is normally satisfied by the issue of a voucher which is then used to open a CTF account with an approved financial institution. In addition to the initial endowment, children in families where the family income is below the income threshold for Child Tax Credit purposes in the tax year of birth will also qualify for a supplementary endowment.

From 1 September 2009, further endowments became due to all eligible children on reaching their seventh birthday. In addition, supplementary endowments will also be payable where the family income is below the income threshold for Child Tax Credit purposes in the tax year in which the child becomes seven years old. Both these endowments, when they are awarded, are advised by HMRC to the financial institution holding the CTF account so that the financial institution can claim the endowments. No liability to pay these two further endowment elements arose before 1 September 2009 when the first eligible children reached the age of seven.

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

1.24 Health in Pregnancy Grant

Health in Pregnancy Grant provides financial assistance to women to help meet the additional costs encountered during pregnancy. Eligibility for the grant arises when a woman is certified by a health professional as having reached at least her twenty-fifth week of pregnancy with an expected birth date on or after 6 April 2009. Claims, which became payable from 6 April 2009, should be received by HMRC within one month of the certification by the health professional. Payments due, where they remain unpaid, are recognised as either payables (amounts falling due within one year) or as a provision.

1.25 Third-party assets

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

The Department manages interest-bearing accounts containing seized money, and also holds non-monetary assets as physical evidence in connection with ongoing legal proceedings. These assets are held as part of the Department's law enforcement activities and as such do not form part of these accounts.

Details of these assets are reported in note 32.

1.26 Contingent liabilities

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

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

2. First-time adoption of IFRS

	General Fund £m	Revaluation Reserve £m	Total £m
Taxpayers' equity at 31 March 2009 under UK GAAP	(496.9)	(95.8)	(592.7)
Adjustments for:			
Loss arising from disposal of property refurbishments merged with revalued property assets IAS 16	13.3	–	13.3
Property leases added in accordance with IAS 17 IFRIC 4	(30.3)	(1.9)	(32.2)
Information Technology assets owned by Capgemini and Fujitsu but used in the delivery of an IT service contract IAS 17 IFRIC 12	(83.5)	–	(83.5)
Property provided through PFI contracts IAS 17 IFRIC 12	(179.1)	(109.1)	(288.2)
Liabilities in respect of the above assets brought onto the Consolidated Statement of Financial Position IAS 17	496.1	–	496.1
Accrual for the balance of annual leave earned by staff not taken IAS 19	131.5	–	131.5
Early retirement discounting adjustment IAS 19	(2.3)	–	(2.3)
Taxpayers' equity at 1 April 2009 under IFRS	(151.2)	(206.8)	(358.0)
			£m
Net operating cost for 2008-09 under UK GAAP (see note 4.1)			15,915.2
Adjustments for:			
Depreciation of IT assets added to the Consolidated Statement of Financial Position shown above, provided by Aspire in the IT service contract IAS 16			35.6
Depreciation of property added to the Consolidated Statement of Financial Position shown above IAS 16			28.6
Loss on the revaluation of property assets IAS 16			13.7
Loss arising from disposal of property refurbishments merged with revalued property assets IAS 16			(0.3)
Removal of capital repayments made in respect of IT and property assets brought onto the Consolidated Statement of Financial Position shown above IAS 17			(58.4)
Removal of a general bad debt provision IAS 18			0.1
Increased accrual for annual leave earned by staff not taken IAS 19			28.9
Early retirement discounting adjustment IAS 19			(1.6)
Reversal of an impairment of software assets not made to operating costs IAS 36			(0.4)
Net operating cost for 2008-09 under IFRS			15,961.4

The Department had no cash equivalents in addition to the cash balances of £51.3m reported under UK GAAP at 31 March 2009.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

3. Analysis of net resource outturn by section

						Outturn		Estimate		Restated*
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Estimate	Prior-year outturn	
										Net Total outturn compared with
										Prior-year outturn
Request for resources 1:										
A. Administration	4,088.1	146.3	0.7	4,235.1	(554.0)	3,681.1	3,703.1	22.0		3,849.9
B. e-filing incentive payments	-	-	100.1	100.1	-	100.1	110.0	9.9		181.5
C. Other administration costs in AME	-	(3.0)	-	(3.0)	-	(3.0)	-	3.0		13.2
D. Operational local clearance procedures	-	2.9	-	2.9	(2.9)	-	-	-		-
E. IFRS items outside Budget	-	71.7	-	71.7	-	71.7	115.4	43.7		-
Total	4,088.1	217.9	100.8	4,406.8	(556.9)	3,849.9	3,928.5	78.6		4,044.6
Request for resources 2:										
A. VOA Administration	227.6	-	-	227.6	(227.7)	(0.1)	-	0.1		-
B. VOA Fixed Asset Revaluation	-	-	-	-	-	-	-	-		2.5
C. IFRS items outside Budget	-	0.1	-	0.1	-	0.1	-	(0.1)		-
Total	227.6	0.1	-	227.7	(227.7)	-	-	-		2.5
Request for resources 3:										
A. Payments in lieu of tax relief	-	-	154.5	154.5	-	154.5	163.0	8.5		121.1
Request for resources 4:										
A. Payments of Local Authority Rates	-	34.2	-	34.2	(2.2)	32.0	33.4	1.4		29.1
Request for resources 5:										
A. Children's benefits	-	(17.3)	11,927.5	11,910.2	-	11,910.2	11,965.0	54.8		11,186.8
B. Child Trust Fund endowments	-	(9.0)	420.3	411.3	-	411.3	407.0	(4.3)		245.2
C. Health in Pregnancy Grant	-	(0.9)	137.8	136.9	-	136.9	145.0	8.1		40.5
Total	-	(27.2)	12,485.6	12,458.4	-	12,458.4	12,517.0	58.6		11,472.5
Resource Outturn	4,315.7	225.0	12,740.9	17,281.6	(786.8)	16,494.8	16,641.9	147.1		15,669.8

* Certain prior year figures have been restated as per note 2 and note 34.

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

- Request for resources 1C (RfR 1C), Other administration costs in AME, was underspent by £3.0m. An increase in the valuation of 100 Parliament Street property created this benefit;
- Request for resources 1E (RfR 1E), IFRS items outside Budget was underspent by £43.7m (37.9 per cent). The Estimate was prepared during a phase of clarification and the reduced outturn is a result of a smaller number of properties than expected being brought onto the Consolidated Statement of Financial Position under IFRS.

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

4.1 Reconciliation of net resource outturn to net operating cost

			2009-10 £m	2008-09 £m
	Note	Outturn	Supply Estimate compared with Estimate	Outturn
Net Resource Outturn	3	16,494.8	16,641.9	15,929.5
Non-supply income (CFERs)	6	(3.9)	–	(16.2)
Non-supply expenditure		1.9	–	1.9
Net operating cost		16,492.8	16,641.9	15,915.2

4.2 Outturn against final Administration Budget

		2009-10 £m	2008-09 £m
		Budget	Outturn
Gross Administration Budget		4,360.0	4,315.7
Income allowable against the Administration Budget		(377.9)	(375.5)
Net outturn against final Administration Budget		3,982.1	3,940.2

5. Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £m	Outturn £m	Net total outturn compared with Estimate: savings/ (excess) £m
Resource Outturn	3	16,641.9	16,494.8	147.1
Capital				
Acquisition of property, plant and equipment		273.0	255.8	17.2
Investments		–	–	–
Non-operating A in A				
Proceeds of asset disposals		(3.8)	(0.5)	(3.3)
Accruals adjustments				
Non-cash items	11, 12	(546.8)	(523.3)	(23.5)
Changes in working capital other than cash		87.9	(66.5)	154.4
Changes in payables falling due after more than one year	21	–	33.8	(33.8)
Use of provisions	22	114.1	175.5	(61.4)
Excess cash receipts surrenderable to the Consolidated Fund	6	–	–	–
Net cash requirement		16,566.3	16,369.6	196.7

Explanation of the variances between Estimate and cash requirement

- Proceeds of asset disposals varied by £3.3m (86.8 per cent) from the Estimate. This is due to a significant receipt in 2006-07 for the sale of a property being rolled over into the Estimate for 2007-08, 2008-09 and 2009-10.
- Changes in working capital other than cash varied by £154.4m (175.6 per cent) from the Estimate. The Estimate included provision for changes in payables falling due after more than 1 year. The majority of the variance £88.1m was caused by a large accrual of Child Benefit expenditure.

- Changes in payables falling due after more than one year varied by £33.8m from the Estimate. No separate Estimate was made for this item and Estimate provision was included in the working capital category.
- Use of provisions varied by £61.4m (53.8 per cent) from the Estimate. This was due to an increase in Child Trust Fund utilisations resulting from a supplementary payment for those children reaching the age of 7 and as a result of offering more staff early retirement.

6. Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2009-10		Outturn 2009-10	
		Income	£m <i>Receipts</i>	Income	£m <i>Receipts</i>
Operating income and receipts – excess A in A		–	–	(3.4)	<i>(3.4)</i>
Other operating income and receipts not classified as A in A		–	–	(0.5)	<i>(0.5)</i>
		–	–	(3.9)	<i>(3.9)</i>
Non-operating income and receipts – excess A in A	8	–	–	–	–
Other non-operating income and receipts not classified as A in A	9	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		(300.0)	<i>(250.0)</i>	(224.8)	<i>(255.6)</i>
Excess cash surrenderable to the Consolidated Fund	5	–	–	–	–
Total income payable to the Consolidated Fund		(300.0)	<i>(250.0)</i>	(228.7)	<i>(259.5)</i>

7. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2009-10 £m	Restated* 2008-09 £m
Operating income	13	(773.9)	(810.4)
Adjustments for transactions between RfRs		(16.8)	(16.9)
Gross income		(790.7)	(827.3)
Income authorised to be appropriated in aid		(786.8)	(809.9)
Operating income payable to the Consolidated Fund	6	(3.9)	(17.4)

* Certain prior year figures have been restated as per note 34.

8. Non-operating income – Excess Appropriations in Aid

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

9. Non-operating income not classified as Appropriations in Aid

The Department has no non-operating income not classified as A in A.

10. Staff numbers and related costs

Staff costs comprise:

			2009-10 £m	Restated* 2008-09 £m
	Total ¹	Permanently employed staff	Others	Total
Wages and salaries	1,960.3	1,942.4	17.9	2,052.3
Social security costs	138.7	137.7	1.0	145.2
Other pension costs	355.5	352.5	3.0	380.9
Sub Total	2,454.5	2,432.6	21.9	2,578.4
Less recoveries in respect of outward secondments	(3.4)	(3.4)	–	(2.9)
Total net costs²	2,451.1	2,429.2	21.9	2,575.5
Of which:				
Core Department	2,304.6	2,285.4	19.2	2,412.8

¹ Staff consist entirely of officials.

² Of the total, £1.1m (2008-09: £0.5m) has been charged to capital.

* Certain prior year figures have been restated as per note 2 and note 34.

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

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

For 2009-10, employers' contributions of £353,665,000 were payable to the PCSPS (2008-09: £380,163,344) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010-11, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £730,117 (2008-09: £686,464) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £52,783, 0.8 per cent of pensionable pay (2008-09: £50,192, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the **partnership** pension providers at the date of the Consolidated Statement of Financial Position were nil. Contributions prepaid at that date were nil.

125 persons (2008-09: 186 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £186,239 (2008-09: £301,716).

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Details of this scheme can be found in note 1.14.2 and note 23.

Average number of persons employed

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

Departmental Strategic Objective	2009-10		Restated*
	Total	Permanently employed staff	2008-09
			Number
			Number
RfR 1: Administration			
Strategic Objective 1	37,033	36,652	42,187
Strategic Objective 2	35,113	34,752	33,504
RfR 2: Valuation Office Agency	4,060	4,031	4,234
RfR 3: Payments in lieu of tax relief	2	2	2
RfR 4: Payments of Local Authority Rates	3	3	2
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	1,522	1,522	1,461
Staff engaged on capital projects	25	25	8
Total	77,758	76,987	81,398
Of which:			
Core Department	73,695	72,953	77,162

This analysis is approximate, because in practice many activities undertaken by the Department support both of the strategic objectives within RfR 1.

* Certain prior year figures have been restated as per note 34 .

11. Other Administration Costs

	2009-10 £m		2008-09 £m	
Note	Core Department	Consolidated	Core Department	Consolidated
Rentals under operating leases:				
Hire of plant and machinery	1.8	1.8	2.4	2.4
Other operating leases	<u>23.3</u>	<u>23.5</u>	<u>24.8</u>	<u>25.1</u>
	25.1	25.3	27.2	27.5
Interest charges:				
Finance lease contracts	<u>58.8</u>	<u>58.8</u>	<u>63.5</u>	<u>63.5</u>
	58.8	58.8	63.5	63.5
PFI service charges:				
Contract payments	202.6	216.1	177.1	194.8
Indexation of liability on PFI deals	<u>2.3</u>	<u>2.3</u>	<u>6.0</u>	<u>6.0</u>
	204.9	218.4	183.1	200.8
Non-cash items:				
Depreciation	43.3	46.2	109.8	117.4
Amortisation	146.7	151.0	138.1	138.1
Profit on disposal of property, plant and equipment	(0.4)	(0.4)	–	–
Loss on disposal of property, plant and equipment	3.5	4.1	9.5	11.1
Net revaluation loss	–	–	13.6	13.7
Net loss on impairment of non-current assets	–	4.4	–	–
Cost of capital charges	34.0	34.2	32.1	32.6
Auditor's remuneration and expenses ¹	2.0	2.1	2.0	2.1
Amounts provided for liabilities and charges	22 (2.8)	(4.2)	3.9	4.0
Amounts provided for early departure costs	22 94.3	100.9	42.4	45.8
Other Pension Finance Costs	23 –	3.0	–	(1.1)
Unwinding of discount on provisions	22 <u>4.8</u>	<u>5.0</u>	<u>1.2</u>	<u>1.4</u>
	325.4	346.3	352.6	365.1
Other expenditure:				
Travel, subsistence and hospitality	70.0	75.6	90.2	96.7
Accommodation expenses	133.4	143.0	160.9	174.3
Administrative staff related costs	0.7	1.9	4.9	5.6
Printing, postage, stationery and office supplies	103.3	104.9	107.3	109.1
Telephone expenses	58.5	58.9	45.3	45.5
IT services and consumables	513.5	524.1	531.7	543.6
Legal costs	–	(0.1)	–	(0.1)
Consultancy ²	45.2	46.5	64.3	64.6
Contracted out services	34.0	34.5	32.8	35.6
Publicity	14.9	17.5	20.5	22.3
Post Office services	21.4	21.4	24.4	24.4
Bank charges	13.4	13.4	19.7	19.7
Other miscellaneous expenditure	<u>158.7</u>	<u>155.2</u>	<u>119.8</u>	<u>115.3</u>
	<u>1,167.0</u>	<u>1,196.8</u>	<u>1,221.8</u>	<u>1,256.6</u>
Total	1,781.2	1,845.6	1,848.2	1,913.5

¹ These are notional amounts and there was no non-audit work. In 2009-10, a specific one-off expense of £130,000 was incurred for audit work relating to the adoption of IFRS.

² Consultancy costs amounting to £1.0m (2008-09: £1.1m) have been capitalised as part of the cost of developing fixed assets. The total amount of consultancy expenditure for 2009-10 was £47.5m (2008-09: £65.7m).

* Certain prior year figures have been restated as per note 2 and note 34.

12. Programme Costs

Note	2009-10 £m		Restated* 2008-09 £m	
	Core Department	Consolidated	Core Department	Consolidated
Child Benefit, Child Trust Fund and Health in Pregnancy Grant				
	11,927.5	11,927.5	11,204.4	11,204.4
	1.9	1.9	1.9	1.9
	306.3	306.3	188.3	188.3
	133.6	133.6	–	–
	12,369.3	12,369.3	11,394.6	11,394.6
Payments in lieu of tax relief				
	5.4	5.4	6.0	6.0
	104.1	104.1	65.1	65.1
	45.0	45.0	50.0	50.0
	154.5	154.5	121.1	121.1
Payments of Local Authority Rates				
	–	34.2	–	31.2
	–	(2.2)	–	(2.2)
	–	32.0	–	29.0
Other Programme Costs				
	98.7	98.7	181.4	181.4
	56.6	56.6	63.0	63.0
	18.6	18.6	13.7	13.7
	35.9	35.9	35.8	35.8
	6.8	6.8	8.1	8.1
	4.4	4.4	–	–
	12.0	12.0	19.2	19.2
	(26.0)	(26.0)	(29.8)	(29.8)
	207.0	207.0	291.4	291.4
Non-cash items				
	64.3	64.3	3.0	3.0
	0.8	0.8	–	–
	(3.0)	(3.0)	7.0	7.0
	–	–	6.2	8.8
	(27.2)	(27.2)	(26.7)	(26.7)
	8.5	8.5	–	–
	22			
	114.0	114.0	65.9	65.9
	4.2	4.2	40.6	40.6
	15.1	15.1	6.7	6.7
	176.7	176.7	102.7	105.3
Total	12,907.5	12,939.5	11,909.8	11,941.4

* Certain prior year figures have been restated as per note 2 and note 34.

13. Income

Core Department	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	2009-10	Restated*
						£m	2008-09 £m
						Total	Total
Administration Services	(51.6)	-	-	-	-	(51.6)	(19.1)
Banking Services	(17.3)	-	-	-	-	(17.3)	(16.5)
Other Income Types	(7.7)	-	-	-	-	(7.7)	(38.1)
Penalties	(62.7)	-	-	-	-	(62.7)	(78.7)
Administration Charges to the National Insurance Fund	(376.2)	-	-	-	-	(376.2)	(378.1)
Subscriptions and Fees	(25.0)	-	-	-	-	(25.0)	(28.3)
IT and Telephony Charges	(16.9)	-	-	-	-	(16.9)	(18.0)
VOA Services	-	-	-	-	-	-	-
	(557.4)	-	-	-	-	(557.4)	(576.8)
Consolidated	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	Total	Total
Administration Services	(47.9)	-	-	-	-	(47.9)	(13.5)
Banking Services	(17.3)	-	-	-	-	(17.3)	(16.5)
Other Income Types	(7.7)	-	-	(2.2)	-	(9.9)	(40.3)
Penalties	(62.7)	-	-	-	-	(62.7)	(78.7)
Administration Charges to the National Insurance Fund	(376.2)	-	-	-	-	(376.2)	(378.1)
Subscriptions and Fees	(25.0)	-	-	-	-	(25.0)	(28.3)
IT and Telephony Charges	(15.5)	-	-	-	-	(15.5)	(18.0)
VOA Services	-	(219.4)	-	-	-	(219.4)	(237.1)
	(552.3)	(219.4)	-	(2.2)	-	(773.9)	(810.5)

The analysis in the above table is now in accordance with IAS 18.

Of total operating income received, the following relates to services provided to external and public sector customers where full cost exceeds £1.0m. In each case the financial objective is to recover the full costs of the service.

	2009-10 £m			Restated* 2008-09 £m		
	Income	Full Cost	Surplus/ (deficit)	Income	Full Cost	Surplus/ (deficit)
Fees & Charges raised by the Valuation Office Agency (VOA)						
Rating and Council Tax	(174.4)	172.0	2.4	(178.7)	180.0	(1.3)
Other valuation work	(45.9)	44.9	1.0	(58.6)	56.4	2.2
Work on behalf of HMRC	(10.8)	10.7	0.1	(11.1)	11.1	–
Fees & Charges raised by the Core Department						
International Assistance ¹	(1.4)	3.0	(1.6)	(1.4)	3.5	(2.1)
Money Laundering Regime	(6.6)	6.7	(0.1)	(4.4)	5.9	(1.5)
Bank charges via OPG	(6.9)	6.8	0.1	(7.6)	8.2	(0.6)
Bank charges via GBS	(5.0)	6.6	(1.6)	–	–	–
National Minimum Wage	(7.7)	7.7	–	(7.5)	7.5	–
Collection of Student Loans	(5.0)	5.0	–	(4.9)	4.9	–
DWP Welfare Reform Agenda	(2.9)	2.9	–	(3.3)	3.3	–
DWP Employment Support Allowance IT	(0.9)	0.9	–	(8.0)	8.0	–
DWP Pensions Reform Delivery Programme	(12.9)	12.9	–	(5.4)	5.9	(0.5)
Services provided to the Valuation Office Agency	(5.1)	5.1	–	(5.5)	5.5	–
Charges to the National Insurance Fund	(376.2)	345.6	30.6	(378.1)	346.2	31.9
Method of Payment Reform Programme	(2.1)	2.1	–	(2.2)	2.1	0.1
Valuation of Household Income	(2.0)	2.1	(0.1)	–	–	–
UK Border Agency	(19.2)	19.2	–	–	–	–
Child Maintenance and Enforcement Commission	(1.6)	1.5	0.1	–	–	–
DWP Recruitment Service	(1.3)	1.4	(0.1)	–	–	–
Total	(687.9)	657.1	30.8	(676.7)	648.5	28.2

¹ For this service it is not the financial objective to recover the full costs.

* Certain prior year figures have been restated as per note 34.

14. Property, plant and equipment

	Land ¹	Buildings ¹	Accommodation Refurbishments ¹	Office & Computer Equipment	Vehicles	Furniture & Fittings ²	Assets under Construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation									
At 1 April 2009*	23.5	634.3	117.6	401.3	19.2	72.4	53.8	11.6	1,333.7
Additions	–	–	0.5	28.2	1.1	1.8	18.0	0.4	50.0
Disposals	–	(30.5)	(0.2)	(35.8)	(4.8)	(12.0)	–	(5.3)	(88.6)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	0.3	26.9	–	–	4.6	(33.6)	1.8	–
Revaluation ³	0.5	1.5	0.2	5.7	2.2	–	–	–	10.1
At 31 March 2010	24.0	605.6	145.0	399.4	17.7	66.8	38.2	8.5	1,305.2
Depreciation									
At 1 April 2009*	–	(233.9)	(60.5)	(271.6)	(13.6)	(37.0)	–	(7.6)	(624.2)
Charged in year	–	(27.4)	(10.3)	(65.2)	(2.2)	(3.6)	–	(1.8)	(110.5)
Disposals	–	13.6	–	35.3	4.3	10.1	–	5.3	68.6
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluation ³	–	1.6	–	(0.2)	–	–	–	–	1.4
At 31 March 2010	–	(246.1)	(70.8)	(301.7)	(11.5)	(30.5)	–	(4.1)	(664.7)
Net book value at 31 March 2010	24.0	359.5	74.2	97.7	6.2	36.3	38.2	4.4	640.5
Net book value at 31 March 2009*	23.5	400.4	57.1	129.7	5.6	35.4	53.8	4.0	709.5
Asset financing:									
Owned	24.0	–	74.2	29.3	6.2	36.3	38.2	4.4	212.6
Finance leased	–	–	–	68.4	–	–	–	–	68.4
On-Statement of Financial Position PFI contracts	–	359.5	–	–	–	–	–	–	359.5
Net book value at 31 March 2010	24.0	359.5	74.2	97.7	6.2	36.3	38.2	4.4	640.5
Cost or valuation									
At 1 April 2008*	26.8	730.7	121.1	363.1	18.1	84.5	32.0	16.5	1,392.8
Additions	–	–	0.2	53.4	3.4	3.2	43.4	–	103.6
Disposals	–	(4.1)	(13.9)	(20.3)	(3.1)	(16.9)	–	(9.0)	(67.3)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	6.4	10.6	0.1	–	1.6	(21.6)	2.9	–
Revaluation ³	(3.3)	(98.7)	(0.4)	5.0	0.8	–	–	1.2	(95.4)
At 31 March 2009*	23.5	634.3	117.6	401.3	19.2	72.4	53.8	11.6	1,333.7
Depreciation									
At 1 April 2008*	–	(243.7)	(66.2)	(226.2)	(13.9)	(49.5)	–	(13.5)	(613.0)
Charged in year	–	(30.3)	(8.8)	(65.2)	(2.5)	(3.4)	–	(3.0)	(113.2)
Disposals	–	3.6	13.8	19.9	2.8	15.6	–	8.9	64.6
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	(0.2)	0.2	–	–	–	–	–	–
Revaluation ³	–	36.7	0.5	(0.1)	–	0.3	–	–	37.4
At 31 March 2009*	–	(233.9)	(60.5)	(271.6)	(13.6)	(37.0)	–	(7.6)	(624.2)
Net book value at 31 March 2009*	23.5	400.4	57.1	129.7	5.6	35.4	53.8	4.0	709.5
Net book value at 31 March 2008*	26.8	487.0	54.9	136.9	4.2	35.0	32.0	3.0	779.8
Asset financing:									
Owned	23.5	–	57.1	49.0	5.6	35.4	53.8	4.0	228.4
Finance leased	–	–	–	80.7	–	–	–	–	80.7
On-Statement of Financial Position PFI contracts	–	400.4	–	–	–	–	–	–	400.4
Net book value at 31 March 2009*	23.5	400.4	57.1	129.7	5.6	35.4	53.8	4.0	709.5
Analysis of property, plant and equipment									
The net book value of property, plant and equipment comprises:									
Core Department at 31 March 2010	24.0	358.7	71.0	95.2	6.2	34.2	36.1	4.4	629.8
Valuation Office Agency at 31 March 2010	–	0.8	3.2	2.5	–	2.1	2.1	–	10.7
Core Department at 31 March 2009*	23.5	399.5	56.2	127.6	5.6	33.6	52.0	4.0	702.0
Valuation Office Agency at 31 March 2009*	–	0.9	0.9	2.1	–	1.8	1.8	–	7.5
Core Department at 31 March 2008*	26.8	485.9	53.7	134.4	4.2	33.0	31.8	3.0	772.8
Valuation Office Agency at 31 March 2008*	–	1.1	1.2	2.5	–	2.0	0.2	–	7.0

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

² See note 1.4.4 for the accounting policy for furniture.

³ See notes 1.1 and 1.4 for the accounting policy regarding revaluation of property, plant and equipment.

* Certain prior year figures have been restated as per note 2 and note 34.

Freehold Land and Buildings 100 Parliament Street

The accounting treatment adopted by HM Revenue & Customs is consistent with that of HM Treasury in respect of our joint arrangement for the land and building on the site. A full valuation, undertaken in March 2010 on the basis of existing use, established the value as being £96.1m, with the last interim valuations having been carried out in March 2009 and January 2008, respectively. Valuations were performed by the Valuation Office Agency, an executive agency of HMRC, whose services include providing valuation and estate surveying services to government departments.

Leased Land and Buildings

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

15. Intangible assets

	Licences	Software	Assets under Construction	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 April 2009*	38.3	1,697.9	237.4	1,973.6
Additions	2.0	2.6	201.2	205.8
Disposals	(2.7)	(24.0)	–	(26.7)
Impairments	–	(13.1)	–	(13.1)
Reclassifications	–	255.9	(255.9)	–
Revaluation ¹	–	1.4	–	1.4
At 31 March 2010	37.6	1,920.7	182.7	2,141.0
Amortisation				
At 1 April 2009*	(23.4)	(798.4)	–	(821.8)
Charged in year	(3.4)	(148.4)	–	(151.8)
Disposals	2.7	22.7	–	25.4
Impairments	–	6.5	–	6.5
Reclassifications	–	–	–	–
Revaluation ¹	–	–	–	–
At 31 March 2010	(24.1)	(917.6)	–	(941.7)
Net book value at 31 March 2010	13.5	1,003.1	182.7	1,199.3
Net book value at 31 March 2009*	14.9	899.5	237.4	1,151.8
Cost or valuation				
At 1 April 2008*	27.3	1,548.8	173.1	1,749.2
Additions	11.1	1.5	212.7	225.3
Disposals	(0.1)	(37.7)	–	(37.8)
Impairments	–	(29.0)	–	(29.0)
Reclassifications	–	148.4	(148.4)	–
Revaluation ¹	–	65.9	–	65.9
At 31 March 2009*	38.3	1,697.9	237.4	1,973.6
Amortisation				
At 1 April 2008*	(19.2)	(679.8)	–	(699.0)
Charged in year	(4.3)	(141.0)	–	(145.3)
Disposals	0.1	28.1	–	28.2
Impairments	–	19.8	–	19.8
Reclassifications	–	–	–	–
Revaluation ¹	–	(25.5)	–	(25.5)
At 31 March 2009*	(23.4)	(798.4)	–	(821.8)
Net book value at 31 March 2009*	14.9	899.5	237.4	1,151.8
Net book value at 31 March 2008*	8.1	869.0	173.1	1,050.2

Analysis of intangible assets

The net book value of intangible assets comprises:

Core Department at 31 March 2010	13.5	981.7	172.2	1,167.4
Valuation Office Agency at 31 March 2010	–	21.4	10.5	31.9
Core Department at 31 March 2009*	14.9	870.7	232.9	1,118.5
Valuation Office Agency at 31 March 2009*	–	28.8	4.5	33.3
Core Department at 31 March 2008*	8.1	837.6	169.4	1,015.1
Valuation Office Agency at 31 March 2008*	–	31.4	3.7	35.1

¹ See note 1.1 for the accounting policy regarding revaluation of intangible assets.

* Certain prior year figures have been restated as per note 2 and note 34.

16. Financial Instruments

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

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

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

16.a Credit Risk

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

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

16.b Collateral and other credit enhancements obtained

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

16.c Market risk

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

16.d Embedded Derivatives

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

16.e Fair Value

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

16.f Capital disclosures

This section is not applicable to the Department.

16.1 Investments in other public sector bodies

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

17. Impairments

		Impairment taken through the Revaluation Reserve £m		Impairment charged to the Consolidated Operating Cost Statement £m	
	Note	Core Department	Consolidated	Core Department	Consolidated
Property, plant and equipment	14	-	-	-	-
Intangible assets	15	-	2.1	-	4.4
Impairment charged for the year ended 31 March 2010		-	2.1	-	4.4
			£m		£m
		Core Department	Consolidated	Core Department	Consolidated
Property, plant and equipment	14	-	-	-	-
Intangible assets	15	-	0.4	6.2	8.8
Impairment charged for the year ended 31 March 2009		-	0.4	6.2	8.8

18. Inventories

	2009-10 £m		2008-09 £m		2007-08 £m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Inventories	2.7	5.4	3.3	7.5	5.0	8.7
	2.7	5.4	3.3	7.5	5.0	8.7

19. Trade receivables and other current assets

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:						
Trade receivables	–	7.5	–	9.0	–	9.0
Deposits and advances	44.2	42.4	24.7	24.0	28.3	24.5
Value added tax	16.1	16.1	17.5	17.1	16.3	16.3
Other receivables – excluding Child Benefit, CTF and HiPG	11.9	12.2	23.3	24.9	20.5	22.3
Other receivables – Child Benefit, CTF and HiPG	10.7	10.7	16.7	16.7	12.0	12.0
Prepayments and accrued income – excluding Child Benefit and CTF	19.5	20.4	13.8	14.4	20.2	21.3
Prepayments and accrued income – Child Benefit and CTF	54.8	54.8	67.1	67.1	34.3	34.3
Penalties	488.9	488.9	515.4	515.4	336.7	336.7
Amounts due from the Consolidated Fund in respect of Supply	–	–	–	–	–	–
	646.1	653.0	678.5	688.6	468.3	476.4
Amounts falling due after more than one year:						
Other receivables	–	–	–	–	0.5	0.5
	–	–	–	–	0.5	0.5

19.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2009-10	Restated* 2008-09	Restated* 2007-08	2009-10	Restated* 2008-09	Restated* 2007-08
	£m	£m	£m	£m	£m	£m
Balances with other central government bodies	53.7	34.1	33.5	–	–	–
Balances with local authorities	2.6	2.4	2.2	–	–	–
Balances with NHS Trusts	7.0	2.9	2.1	–	–	–
Balances with public corporations and trading funds	1.6	0.1	–	–	–	–
<i>Subtotal: intra-government balances</i>	64.9	39.5	37.8	–	–	–
Balances with bodies external to government	588.1	649.1	438.6	–	–	0.5
Total debtors at 31 March	653.0	688.6	476.4	–	–	0.5

CFER penalties not yet collected from taxpayers are reported as a receivable in the Consolidated Statement of Financial Position, matched by a corresponding payable to the Consolidated Fund (see note 21). Within this note they are included in the balance related to 'Penalties'.

* Certain prior year figures have been restated as per note 2 and note 34.

20. Cash and cash equivalents

	2009-10		2008-09		2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Balance 1 April	48.6	51.3	57.2	68.0	75.2	83.7
Net change in cash and cash equivalent balances	(22.1)	(12.8)	(8.6)	(16.7)	(18.0)	(15.7)
Balance at 31 March	26.5	38.5	48.6	51.3	57.2	68.0
The following balances at 31 March were held at:						
Office of HM Paymaster General	33.1	45.1	33.0	35.7	35.4	46.2
Government Banking Service	0.2	0.2	–	–	–	–
Commercial banks and cash in hand	(6.8)	(6.8)	15.6	15.6	21.8	21.8
Balance at 31 March	26.5	38.5	48.6	51.3	57.2	68.0

21. Trade payables and other current liabilities

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:						
Other taxation and social security	(48.6)	(48.6)	(51.9)	(51.9)	(54.5)	(54.5)
Trade payables	(120.0)	(123.5)	(149.8)	(154.5)	(147.5)	(149.8)
Other payables – excluding Child Benefit, CTF and HiPG	(2.2)	(3.0)	(1.0)	(2.0)	(2.0)	(2.2)
Other payables – Child Benefit, CTF and HiPG	(189.1)	(189.1)	(173.9)	(173.9)	(143.5)	(143.5)
Accruals and deferred income – excluding Child Benefit and CTF	(358.7)	(377.0)	(393.0)	(410.6)	(300.5)	(314.9)
Accruals and deferred income – Child Benefit and CTF	(272.4)	(272.4)	(167.1)	(167.1)	(195.6)	(195.6)
Pension Contributions	–	–	–	–	–	–
Current part of finance leases	(46.4)	(46.4)	(49.0)	(49.0)	(45.6)	(45.7)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(13.5)	(21.8)	(36.6)	(36.8)	(38.0)	(40.0)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund						
received	(13.1)	(16.7)	(12.0)	(14.5)	(19.2)	(28.0)
receivable	(411.8)	(411.8)	(442.6)	(442.5)	(291.9)	(291.8)
	(1,475.8)	(1,510.3)	(1,476.9)	(1,502.8)	(1,238.3)	(1,266.0)
Amounts falling due after more than one year:						
Other payables, accruals and deferred income	–	–	–	–	–	–
Finance leases	(447.3)	(447.9)	(481.1)	(481.7)	(489.6)	(490.3)
	(447.3)	(447.9)	(481.1)	(481.7)	(489.6)	(490.3)

21.1 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2009-10	Restated*	Restated*	2009-10	Restated*	Restated*
	£m	2008-09 £m	2007-08 £m	£m	2008-09 £m	2007-08 £m
Balances with other central government bodies	(553.5)	(589.1)	(448.9)	-	-	-
Balances with local authorities	(0.2)	(0.8)	(0.5)	-	-	-
Balances with NHS Trusts	-	(0.1)	(0.1)	-	-	-
Balances with public corporations and trading funds	(7.2)	-	-	-	-	-
<i>Subtotal: intra-government balances</i>	<i>(560.9)</i>	<i>(590.0)</i>	<i>(449.5)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Balances with bodies external to government	(949.4)	(912.8)	(816.5)	(447.9)	(481.7)	(490.3)
Total creditors at 31 March	(1,510.3)	(1,502.8)	(1,266.0)	(447.9)	(481.7)	(490.3)

CFER penalties not yet collected from taxpayers are reported as a receivable (see note 19) in the Consolidated Statement of Financial Position matched by a corresponding payable. Within this note they are included in the balance 'Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund: receivable'.

* Certain prior year figures have been restated as per note 2 and note 34.

22. Provisions for liabilities and charges

	Early departure costs	Child Trust Fund	Health in Pregnancy Grant	Legal claims	Accommodation costs	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Core Department							
Balance at 1 April 2008*	(127.9)	(122.9)	–	(19.6)	(1.0)	(6.5)	(277.9)
Provided in the year	(42.4)	(80.6)	(40.6)	(12.5)	(6.5)	(1.1)	(183.7)
Provisions not required written back	–	14.7	–	6.1	0.1	0.2	21.1
Provisions utilised in the year	44.3	108.1	–	5.2	0.2	2.8	160.6
Unwinding of discount	(1.2)	–	–	–	–	–	(1.2)
Balance at 1 April 2009*	(127.2)	(80.7)	(40.6)	(20.8)	(7.2)	(4.6)	(281.1)
Provided in the year	(94.3)	(114.0)	(10.6)	(18.3)	1.6	(2.2)	(237.8)
Provisions not required written back	–	–	6.4	4.9	0.3	1.1	12.7
Provisions utilised in the year	46.6	80.7	34.2	5.8	1.6	1.5	170.4
Unwinding of discount	(4.8)	–	–	–	–	–	(4.8)
Balance at 31 March 2010	(179.7)	(114.0)	(10.6)	(28.4)	(3.7)	(4.2)	(340.6)
Consolidated	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2008*	(140.6)	(122.9)	–	(24.6)	(1.0)	(6.9)	(296.0)
Provided in the year	(45.7)	(80.6)	(40.6)	(15.2)	(6.5)	(1.1)	(189.7)
Provisions not required written back	–	14.7	–	8.7	0.1	0.2	23.7
Provisions utilised in the year	49.8	108.1	–	6.0	0.2	3.2	167.3
Unwinding of discount	(1.4)	–	–	–	–	–	(1.4)
Balance at 1 April 2009*	(137.9)	(80.7)	(40.6)	(25.1)	(7.2)	(4.6)	(296.1)
Provided in the year	(100.9)	(114.0)	(10.6)	(19.6)	1.6	(2.2)	(245.7)
Provisions not required written back	–	–	6.4	7.6	0.3	1.1	15.4
Provisions utilised in the year	51.1	80.7	34.2	6.4	1.6	1.5	175.5
Unwinding of discount	(5.0)	–	–	–	–	–	(5.0)
Balance at 31 March 2010	(192.7)	(114.0)	(10.6)	(30.7)	(3.7)	(4.2)	(355.9)

* Certain prior year figures have been restated as per note 2 and note 34.

Analysis of expected timing of discounted flows

	£m	£m	£m	£m	£m	£m	£m
Core Department							
In the remainder of the Spending Review Period (to 31 March 2011)	(56.5)	(114.0)	(10.6)	(27.5)	(3.7)	(4.2)	(216.5)
Between 1 April 2011 and 31 March 2016	(111.4)	–	–	(0.9)	–	–	(112.3)
Between 1 April 2016 and 31 March 2021	(11.8)	–	–	–	–	–	(11.8)
Thereafter	–	–	–	–	–	–	–
Balance at 31 March 2010	(179.7)	(114.0)	(10.6)	(28.4)	(3.7)	(4.2)	(340.6)
Consolidated	£m	£m	£m	£m	£m	£m	£m
In the remainder of the Spending Review Period (to 31 March 2011)	(63.0)	(114.0)	(10.6)	(29.8)	(3.7)	(4.2)	(225.3)
Between 1 April 2011 and 31 March 2016	(117.5)	–	–	(0.9)	–	–	(118.4)
Between 1 April 2016 and 31 March 2021	(12.2)	–	–	–	–	–	(12.2)
Thereafter	–	–	–	–	–	–	–
Balance at 31 March 2010	(192.7)	(114.0)	(10.6)	(30.7)	(3.7)	(4.2)	(355.9)

22.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by HM Treasury discount rate of 1.8 per cent in real terms.

22.2 Child Trust Fund

The Child Trust Fund Act (2004) established tax-free savings and investment accounts for eligible children born on or after 1 September 2002. The Government makes payments into a Child Trust Fund account for each eligible child, enabling the accumulation of assets to be made available upon attaining the age of 18. A provision of £114.0m has been included in the 2009-10 Resource Accounts as at 31 March 2010 for amounts that will become payable in respect of children born up to 31 March 2010 (2008-09: £80.7m). This provision includes £71.2m (2008-09: £68.1m) for supplementary endowments expected to be payable in respect of children in families where the family income is below the income threshold for Child Tax Credit purposes.

22.3 Health in Pregnancy Grant

The Health and Social Care Act (2008) established entitlement to Health in Pregnancy Grant which provides financial assistance to women to meet the additional costs encountered during pregnancy. Payable from 6 April 2009, a provision of £10.6m (2008-09: £40.6m) has been included as at 31 March 2010 where entitlement criteria have already been satisfied.

22.4 Legal claims

A provision of £30.7m (2008-09: £25.1m) has been made for costs relating to various legal claims against the Department. The provision reflects all known claims where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 29.

22.5 Accommodation costs

A provision of £3.7m has been made (2008-09: £7.2m) mainly for buildings-related claims giving rise to probable liabilities under tenancy agreements where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 29.

22.6 Other

Provisions relating to various other claims against the Department amount to £4.2m (2008-09: £4.6m).

23. Pension liability

This pension liability, part of the Local Government Pension Scheme (LGPS), is in respect of staff previously employed by the Rent Service but now employed by the VOA. For the purposes of International Accounting Standard 19, the VOA commissioned a qualified independent actuary to carry out an assessment of the LGPS as at 31 March 2010. The results of the actuarial assessment are shown below.

Financial Assumptions	31 March 2010 % per annum	31 March 2009 % per annum
Inflation/Pension Increase Rate	3.9%	3.1%
Salary Increase Rate	5.4%	4.6%
Expected Return on Assets	6.8%	6.4%
Discount rate	5.5%	6.9%

Assets	Expected Return on Assets	Fund value at 31 March 2010 £m	Fund value at 31 March 2009 £m
Equities	7.5%	63.0	40.2
Target Return Funds	4.5%	9.0	7.1
Alternative Assets	6.5%	12.6	17.6
Cash	3.0%	4.5	5.6
Corporate Bonds	5.5%	0.9	–
Total		90.0	70.5

Net pensions deficit as at	31 March 2010 £m	31 March 2009 £m
Fair Value of Employer Assets	90.0	70.5
Present Value of Scheme Liabilities	123.0	87.0
Present Value of Unfunded Liabilities	0.3	0.4
Total value of Liabilities	123.3	87.4
Net Pension Deficit	(33.3)	(16.9)

Recognised in the Operating Cost Statement	31 March 2010		31 March 2009	
	£m	% of pay	£m	% of pay
Current Service Cost	0.8	13.6%	1.1	15.9%
Interest Cost	5.9	101.0%	6.0	85.8%
Expected Return on Employer Assets	(4.5)	–76.5%	(6.0)	–86.4%
Past Service Cost/(Gain)	–	0.0%	1.0	14.7%
Losses/(Gains) on Curtailments and settlements	1.9	32.1%	4.2	59.5%
Total	4.1	70.2%	6.3	89.5%
Actual Return on Plan Assets	20.6		(18.1)	

Recognised in Statement of Changes in Taxpayer's Equity	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m
Actuarial Gains/(Losses)	(14.4)	(16.4)	3.1	3.7	(0.6)
Increase/(Decrease) in Irrecoverable Surplus from Membership	–	–	–	–	–
Actuarial Gains/(Losses) recognised in Statement of Changes in Taxpayer's Equity	(14.4)	(16.4)	3.1	3.7	(5.7)
Cumulative Actuarial Gains and Losses	(31.3)	(16.9)	(0.5)	(3.6)	(7.3)

	31 March 2010	31 March 2009			
	£m	£m			
Statement of Financial Position					
Fair Value of Employer Assets	90.0	70.5			
Present Value of Funded Liabilities	(123.0)	(87.0)			
Net (Under)/Overfunding in Funded Plans	(33.0)	(16.5)			
Present Value of Unfunded Liabilities	(0.3)	(0.4)			
Unrecognised past service cost	–	–			
Net Asset/(Liability)	(33.3)	(16.9)			
Amount in the Statement of Financial Position					
Liabilities	33.3	16.9			
Assets	–	–			
Net Asset/(Liability)	33.3	16.9			
Reconciliation of Defined Benefit Obligation					
	31 March 2010	31 March 2009			
	£m	£m			
Opening Defined Benefit Obligation	87.4	85.1			
Current Service Cost	0.8	1.1			
Interest Cost	5.9	6.0			
Contributions by Members	0.4	0.5			
Actuarial Losses/(Gains)	30.4	(8.1)			
Past Service Costs/(Gains)	–	1.0			
Losses/(Gains) on Curtailments	1.9	4.2			
Liabilities Extinguished on Settlements	–	–			
Liabilities Assumed in a Business Combination	–	–			
Exchange Differences	–	–			
Estimated Unfunded Benefits Paid	–	–			
Estimated Benefits Paid	(3.5)	(2.4)			
Closing Defined Benefit Obligation	123.3	87.4			
Reconciliation of Fair Value of Employer Assets					
	31 March 2010	31 March 2009			
	£m	£m			
Opening Fair Value of Employer Assets	70.5	83.8			
Expected Return on Assets	4.5	6.1			
Contributions by Members	0.4	0.5			
Contributions by the Employer ¹	2.1	7.1			
Contributions in respect of Unfunded Benefits	–	–			
Actuarial Gains/(Losses)	16.0	(24.6)			
Assets Distributed on Settlements	–	–			
Assets Acquired in a Business Combination	–	–			
Exchange Differences	–	–			
Unfunded Benefits Paid	–	–			
Benefits Paid	(3.5)	(2.4)			
Closing Fair Value of Employer Assets	90.0	70.5			
Amounts for the Current and Previous Accounting Periods					
	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006
	£m	£m	£m	£m	£m
Fair Value of Employer Assets	90.0	70.5	83.9	51.4	45.9
Present Value of Defined Benefit Obligation	(123.3)	(87.4)	(85.1)	(55.7)	(54.8)
Surplus/(Deficit)	(33.3)	(16.9)	(1.2)	(4.2)	(8.9)
Experience Gains/(Losses) on Assets	16.0	(24.6)	27.7	0.4	5.8
Experience Gains/(Losses) on Liabilities	14.8	–	(35.9)	(0.1)	–

¹ Contributions by the Employer for 2009-10 includes £1.0m of contributions made to the scheme by the Department for Work and Pensions regarding additional pension costs for employees of The Rent Service who took early retirement in the year before that agency merged with the VOA.

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

24. Note to the Consolidated Statement of Operating Costs by Departmental Strategic Objectives

Programme grants and other current expenditures have been allocated as follows:

	2009-10	Restated*
	£m	2008-09
		£m
RfR 1: Administration		
Strategic Objective 1	201.7	262.4
Strategic Objective 2	90.9	52.0
RfR 2: Valuation Office Agency	0.1	2.5
RfR 3: Payments in lieu of tax relief	154.5	121.1
RfR 4: Payments of Local Authority Rates	32.0	29.0
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	12,460.3	11,474.4
Total	12,939.5	11,941.4

A framework of operational and support activities are used to apportion programme grants and other current expenditure against the strategic objectives within RfR 1. This analysis by apportionment has used as many of the activities undertaken by the Department to support both of these strategic objectives. HMRC staff and expenditure, which previously allocated activities to strategic objective 3 in 2008-09 but did not transfer to the UK Border Agency, have accounted for all of their activities against either strategic objective 1 or 2 in 2009-10.

* Certain prior year figures have been restated as per note 2 and note 34.

25. Capital commitments

	2009-10		Restated*		Restated*	
	£m		2008-09		2007-08	
	Core		Core		Core	
	Department	Consolidated	Department	Consolidated	Department	Consolidated
		£m		£m		£m
Contracted capital commitments at 31 March not otherwise included in these financial statements						
Property, plant and equipment	2.6	2.6	–	0.2	–	0.1
Intangible assets	92.2	92.9	279.1	280.8	497.4	497.4

* Certain prior year figures have been restated as a consequence of the introduction of IFRS (note 2) and the effects of transfer of function (note 34).

26. Commitments under leases

26.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods. These payments relate to property leased by Mapeley from third-party landlords on behalf of the Department; property leased by the Department directly from private landlords and the minor occupation of other government department buildings. The category of Other reports commitments under a number of IT and vehicle leasing contracts.

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Obligations under operating leases comprise:						
Land						
Not later than one year	-	-	-	-	-	-
Later than one year and not later than five years	-	-	-	-	-	-
Later than five years	-	-	-	-	-	-
	-	-	-	-	-	-
Buildings						
Not later than one year	133.2	145.9	136.9	150.6	136.9	153.4
Later than one year and not later than five years	605.3	619.4	605.3	626.0	605.3	629.6
Later than five years	1,090.0	1,092.4	1,223.3	1,228.3	1,360.2	1,367.3
	1,828.5	1,857.7	1,965.5	2,004.9	2,102.4	2,150.3
Other						
Not later than one year	49.9	50.0	10.1	10.1	9.7	9.7
Later than one year and not later than five years	58.5	58.5	11.3	11.3	21.9	22.0
Later than five years	-	-	-	-	-	-
	108.4	108.5	21.4	21.4	31.6	31.7

26.2 Finance leases

The following liabilities in respect of assets that have been brought onto the Department's Consolidated Statement of Financial Position under IAS 17. Total future minimum lease payments under finance leases are given in the table below. These 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.

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Obligations under finance leases comprise:						
Buildings						
Not later than one year	33.6	33.6	30.4	30.4	29.9	29.9
Later than one year and not later than five years	148.5	148.6	145.8	145.9	143.7	143.8
Later than five years	830.6	830.6	866.8	866.8	899.4	899.4
	1,012.7	1,012.8	1,043.0	1,043.1	1,073.0	1,073.1
Less interest element	(386.1)	(386.2)	(409.9)	(409.9)	(434.5)	(434.5)
	626.6	626.6	633.1	633.2	638.5	638.6
Other						
Not later than one year	-	-	-	-	-	-
Later than one year and not later than five years	-	-	-	-	-	-
Later than five years	-	-	-	-	-	-
	-	-	-	-	-	-
Less interest element	-	-	-	-	-	-
	-	-	-	-	-	-

* Certain prior year figures have been restated as a consequence of the introduction of IFRS (note 2) and the effects of transfer of function (note 34).

27. Commitments under PFI and PPP contracts

27.1 Off-Statement of Financial Position

The Department has no off-Statement of Financial Position PFI contracts. The VOA's off-Statement of Financial Position PFI commitments are disclosed in note 26.1 Operating leases.

27.2 On-Statement of Financial Position

The following liabilities in respect of assets that have been brought onto the Department's Statement of Financial Position under IAS 17 and IFRIC 12. They comprise commitments relating to Mapeley-owned properties, seven individual property PFI arrangements with contractors, the Newcastle estate developments held in partnership with the DWP and commitments for IT assets owned by Capgemini and Fujitsu to deliver the IT service contract. 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 which are set out in the table below.

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Total obligations under on-Statement of Financial Position service concession arrangements for the following periods comprise:						
Not later than one year	568.5	568.7	591.4	591.6	557.5	557.7
Later than one year and not later than five years	2,124.8	2,125.5	2,188.6	2,189.2	2,231.3	2,231.9
Later than five years	1,997.6	1,998.7	2,502.4	2,503.7	2,920.0	2,921.4
	4,690.9	4,692.9	5,282.4	5,284.5	5,708.8	5,711.0
Less interest element	(46.4)	(47.7)	(50.5)	(51.9)	(55.0)	(56.5)
	4,644.5	4,645.2	5,231.9	5,232.6	5,653.8	5,654.5

27.3 Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of on-Statement of Financial Position PFI and PPP transactions (there were no off-Statement of Financial Position transactions) was £535.8m (2008-09: £549.3m): and the payments to which the Department is committed, analysed by the period during which the commitment expires, are as follows.

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Not later than one year	522.5	522.5	542.6	542.6	511.7	511.8
Later than one year and not later than five years	2,024.0	2,024.2	2,076.1	2,076.2	2,115.8	2,116.0
Later than five years	1,836.8	1,837.2	2,317.6	2,318.0	2,723.3	2,723.7
	4,383.3	4,383.9	4,936.3	4,936.8	5,350.8	5,351.5

* Certain prior year figures have been restated as a consequence of the introduction of IFRS (note 2) and the effects of transfer of function (note 34).

28. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for various services. The payments to which the Department is committed, analysed by the period during which the commitment expires, are as follows.

	2009-10		Restated* 2008-09		Restated* 2007-08	
	£m		£m		£m	
	Core Department	Consolidated	Core Department	Consolidated	Core Department	Consolidated
Not later than one year	6.6	6.6	0.9	0.9	–	–
Later than one year and not later than five years	2.9	2.9	0.8	0.8	0.5	0.5
Later than five years	–	–	–	–	–	–
	9.5	9.5	1.7	1.7	0.5	0.5

28.1 Financial Guarantees, Indemnities and Letters of Comfort

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

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

	1 April 2009	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2010	Amount reported to Parliament by Departmental Minute
	£m	£m	£m	£m	£m	£m
Guarantees	-	-	-	-	-	-
Indemnities	2.8	0.6	-	(0.1)	3.3	-
Letters of Comfort	-	-	-	-	-	-

The Department has not entered into any unquantifiable contingent liabilities.

* Certain prior year figures have been restated as a consequence of the effects of transfer of function (note 34).

29. Contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities:

- Shipbuilders' Relief – a contingent liability of £93.2m (2008-09: £88.5m) exists for potential claims against the Department;
- Legal Claims – a contingent liability of £52.3m (2008-09: £25.4m) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the Department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably;
- Specialist Investigations has reported a new contingent liability in respect of a Missing Trader Intra Community Fraud (MTIC) case totalling £9.7m in 2009-10;
- Action where appointed liquidators have been guaranteed costs with a view to recovery of outstanding tax liabilities £1.1m, 141 cases (2008-09: £1.0m, 142 cases);
- The Department has a further number of contingent liabilities amounting to £6.0m (2008-09: £3.7m).

30. Losses and special payments

30(a) Losses Statement

	2009-10		2008-09	
	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>
Losses are made up of:				
Child Benefit irrecoverable overpayments	67,166	14.0	32,009	7.2
Law costs remissions	32,952	4.2	41,149	5.7
Tax penalty remissions	34,379	15.3	30,680	12.6
Others	2,480	1.4	3,917	0.7
Total	136,977	34.9	107,755	26.2

Details of cases over £250,000

£0.4m – Write-off of law costs awarded that are now irrecoverable.

30(b) Special Payments

	2009-10		2008-09	
	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>
Payments and accruals	13,629	4.8	17,347	8.4
New provisions	1	0.7	4	1.1
Increase in existing provisions		–		–
Write back of provisions		(1.4)		(0.8)
Total	13,630	4.1	17,351	8.7

Details of cases over £250,000

£1.2m – Ex-gratia payment in respect of delayed payments of Age Related Rebates arising from the late processing of electronically submitted pension forms.

£0.3m – Ex-gratia payment in respect of delayed payments of Age Related Rebates arising from the late processing of electronically submitted pension forms.

£0.3m – Ex-gratia payment in respect of a loss caused by incorrect advice in relation to a tax policy.

HMRC receives two types of penalty income: Appropriations in Aid (A in A) penalties that can be applied to fund operational activities and Consolidated Fund Extra Receipts (CFER) penalties that the Department must surrender direct to the Exchequer. A in A penalties are recorded within the Consolidated Operating Cost Statement (OCS) and any related remissions appear within the losses note above. CFER penalties are recorded within note 6 to the accounts. They are not related to operating activities so are not proper to the OCS and the related losses do not appear within the body of this note. The Department wrote-off £240.5m of CFER fines and penalties in 2009-10 (2008-09: £148.6m).

31. Related-party transactions

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

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

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

Acting Chief Information Officer Deepak Singh was a director of Orwell Consulting Ltd to whom the Department paid £149,500 in 2009-10.

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

32. Third-party assets

32.1 EU Funds

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

The Department also holds Euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states.

These E-service traders can register with any EU country and then make monthly declarations to that country of their sales in the EU and the amount of VAT due to each EU member state. Each E-service trader registered in the UK makes payment to HMRC for the total amount of VAT due from them for all their EU customer sales. The individual Euro payments are held collectively at the bank until instructed each month by the Department to send payment to each of the respective EU member states.

Neither the Department nor the Government generally have any beneficial interest in these funds, which are held in separate bank accounts. They are set out in the following table.

	31 March 2009	Gross inflows	Gross outflows	31 March 2010
Monies on deposit				
Euro deposits – EC Twinning Projects	€ 0.2m	0.4m	0.6m	–
Euro deposits – VAT on E-services	€ –	42.3m	42.3m	–

32.2 Seized monies and other assets

The Department manages Sterling and US dollar interest-bearing accounts containing seized monies. The Operating Protocol between the UK Border Agency (UKBA) and HMRC states that goods are seized by the UKBA but HMRC has responsibility for the proceeds. The Department also holds cash and other significant non-monetary assets retained as physical evidence in connection with ongoing legal proceedings. These are not Departmental assets but are held as part of the Department's law enforcement activities and as such do not form part of these accounts. Once legal proceedings have been completed any seized cash is either forfeited to the Home Office, confiscated by the court or, if the defendant is found not guilty, returned.

Where seized assets are forfeited to HMRC without legal proceedings, proceeds from the sale are paid to the Exchequer as Consolidated Fund Extra Receipts (CFER) within 'Other amounts collectable on behalf of the Consolidated Fund' (note 6).

The assets held at the date of the Consolidated Statement of Financial Position to which it was practical to ascribe monetary values comprised monetary assets such as bank balances and monies on deposit. They are set out in the following table.

	31 March 2009	Gross inflows	Gross outflows	31 March 2010
Monies on deposit				
Sterling deposits	£ 16.2m	19.4m	14.2m	21.4m
US Dollar deposits	\$ 1.0m	–	–	1.0m

Other significant assets held at the date of the Consolidated Statement of Financial Position to which it was not practical to ascribe monetary value comprised:

	31 March 2009	31 March 2010
	Number	Number
Motor vehicles	889	1,090
Vessels	4	4

33. Entities within the departmental boundary

The entities within the boundary during 2009-10 were as follows:

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

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

34. HM Revenue & Customs – Transfer of functions

The UK Border Agency was created in April 2008 in shadow form. 4,841 staff and £316.0m funding transferred to the Home Office with effect from April 2009. The legislation was approved by Parliament in July 2009.

The Rent Service, previously an agency within the Department for Work and Pensions (DWP) was transferred to the Valuation Office Agency (an agency within HMRC) from April 2009. This transferred 393 staff posts. No vote funding was received as the agency is self-funded but £0.2m capital funding was received from DWP.

Restatement of Consolidated Operating Cost Statement at 31 March 2009

	Restated accounts at 31 March 2009*	Function transferred UKBA	Function transferred Rent Service	Restated at 31 March 2009
	£m	£m	£m	£m
Net administration costs	3,988.3	(275.4)	–	3,712.9
Net programme costs	11,973.1	(31.8)	–	11,941.3
Net operating cost	15,961.4	(307.2)	–	15,654.2

Restatement of Consolidated Statement of Financial Position at 31 March 2009

	358.0	(31.2)	(15.6)	311.2
Net Assets as at 31 March 2009				

* Certain prior year figures have been restated as per note 2.

35. Events after the reporting period

The Government plans to introduce a number of changes concerning tax and benefit schemes early in their term of office, for example it is proposed to amend rules concerning Child Trust Funds. These changes are expected to affect the accounting of IT software assets held by the Department, requiring the current economic lives to be re-assessed. However, these changes will not be made before the required legislation has been approved by Parliament and as a result no change is reflected in these accounts.

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that HMRC provides to employees.

The financial statements were authorised for issue by the Principal Accounting Officer on 15 July 2010.

36. Standards in issue but not yet effective

This account has been prepared following the 2009-10 *Financial Reporting Manual*. This manual typically applies the standards and interpretations that are effective for the accounting period to which it refers. 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 and revised standards may affect HMRC Resource Accounts when they are adopted by the *Financial Reporting Manual*:

- IFRS 9 Financial Instruments;
- IAS 17 Leases;
- IAS 24 Related Parties.

The impact of these new and revised standards will not be known until they have been interpreted in the *Financial Reporting Manual*.

IFRS 8 Operating Segments was revised in April 2009. Though the revision is effective only for accounting periods beginning after January 2010, it has been early adopted within the 2009-10 *Financial Reporting Manual* and is applied in these Resource Accounts.

In addition, several changes will be made to the *Financial Reporting Manual* for 2010-11, and may affect HMRC Resource Accounts as follows:

- Impairments caused by consumption of economic benefits will be charged to operating costs;
- HMRC will no longer recognise a notional cost of capital charge (2009-10: £7.0m).

Accounts Direction given by HM Treasury in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000 and with Section 2 (3) of the Exchequer and Audit Departments Act 1921

The Accounts Direction given by HM Treasury in accordance with section 5 (2) of the Government Resources and Accounts Act 2000 and with section 2 (3) of the Exchequer and Audit Departments Act 1921, covering both the Resource Accounts and the Trust Statement is shown on page 134.

Annex to the Resource Account 2009-10

(This Annex is not subject to audit)

Table 1 – Total Departmental Spending (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Resource budget							
Resource DEL							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	3,951	4,059	4,228	4,026	4,092	4,067	3,738
Total resource budget DEL	3,951	4,059	4,228	4,026	4,092	4,067	3,738
Resource AME							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	21,748	23,075	24,817	26,430	30,038	34,419	35,780
Total resource budget AME	21,748	23,075	24,817	26,430	30,038	34,419	35,780
Total resource budget	25,699	27,135	29,045	30,456	34,130	38,486	39,518
<i>of which: depreciation</i>	291	159	186	194	218	226	242
Capital budget							
Capital DEL							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	401	354	299	244	278	254	212
Total capital budget DEL	401	354	299	244	278	254	212
Capital AME							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	–	444	256	212	296	389	200
Total capital budget AME	–	444	256	212	296	389	200
Total capital budget	401	798	556	456	575	643	412

Table 1 – Total Departmental Spending (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Total departmental spending†							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	25,809	27,773	29,414	30,718	34,487	38,902	39,687
Total departmental spending†	25,809	27,773	29,414	30,718	34,487	38,902	39,687
<i>of which:</i>							
Total DEL	4,123	4,254	4,341	4,093	4,169	4,095	3,707
Total AME	21,686	23,519	25,073	26,625	30,318	34,808	35,980

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

Notes

1. These figures include a Machinery of Government change in respect of the Rent Service joining the Valuation Office Agency and do not include the transfer of UK Border Agency (UKBA) from HMRC to the Home Office.
2. Figures across all years reflect the Clear Line of Sight (CLoS) budgeting changes in particular the removal of the distinction between near-cash and non-cash resource DEL, the cost of capital from the budgeting regime and the reclassification of movement in provisions from DEL into AME. The outturn figure is an estimated amount that was provided prior to year end and will differ from the final outturn in the Resource Accounts.

Table 2 – Resource budget DEL and AME (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Resource DEL							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	3,951	4,059	4,228	4,026	4,092	4,067	3,738
<i>of which:</i>							
To improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled.	3,471	2,761	3,660	3,038	2,283	2,091	1,919
To improve customers' experience of HMRC and contribute to improving the UK business environment.	486	1,318	569	996	1,813	1,983	1,819
Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.	(6)	(19)	(1)	(8)	(4)	(7)	–
Total resource budget DEL	3,951	4,059	4,228	4,026	4,092	4,067	3,738
<i>of which:†</i>							
Pay	2,372	2,548	2,704	2,654	2,610	2,532	2,310
Procurement	1,363	1,333	1,374	1,222	1,251	1,276	1,163
Current grants and subsidies to the private sector and abroad	–	–	7	–	19	9	–
Current grants to local authorities	–	–	–	–	–	–	–
Depreciation	229	159	186	177	202	226	242
Resource AME							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	21,748	23,075	24,817	26,430	30,038	34,419	35,780
<i>of which:</i>							
To improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled; and to improve customers' experience of HMRC and contribute to improving the UK business environment.	59	264	318	160	211	120	20

Table 2 – Resource budget DEL and AME (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Resource AME							
Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.	(1)	15	(5)	(1)	1	–	–
Providing payments in lieu of tax relief to certain bodies and expenditure on tax credits.	11,837	13,206	14,333	15,552	18,592	22,165	23,398
Making payments of rates to Local Authorities on behalf of certain bodies.	32	29	29	30	29	33	40
Making payments of Child Benefit, Child Trust Fund endowments, Health in Pregnancy Grant and Saving Gateway.	9,821	9,561	10,141	10,689	11,205	12,101	12,322
Total resource budget AME	21,748	23,075	24,817	26,430	30,038	34,419	35,780
<i>of which:†</i>							
Pay	–	–	–	–	–	–	–
Procurement	32	29	46	41	35	44	40
Current grants and subsidies to the private sector and abroad	21,421	23,195	24,748	26,320	29,974	34,362	35,720
Current grants to local authorities	–	–	–	–	–	–	–
Depreciation	62	–	–	17	16	–	–
Total resource budget ††	25,699	27,135	29,045	30,456	34,130	38,486	39,518

† The economic category breakdown of resource budgets only shows the main categories, so may not sum to the total. The breakdown may even exceed the total where further income scores in resource budgets.

†† The total resource budget is the sum of the total resource budget DEL and the total resource budget AME.

Notes

- Figures across all years reflect the Clear Line of Sight (CLoS) budgeting changes in particular the removal of the distinction between near-cash and non-cash resource DEL, the cost of capital from the budgeting regime and the reclassification of movement in provisions from DEL into AME. The outturn figure is an estimated amount that was provided prior to year end and will differ from the final outturn in the Resource Accounts.
- Saving Gateway will not now be introduced.

Table 3 – Capital Budget DEL and AME (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Capital DEL							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	401	354	299	244	278	254	212
<i>of which:</i>							
To improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled.	343	231	248	176	151	123	104
To improve customers' experience of HMRC and contribute to improving the UK business environment.	48	110	39	58	120	117	99
Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.	10	13	12	10	7	14	9
Total capital budget DEL	401	354	299	244	278	254	212
<i>of which:</i>							
Capital expenditure on non-current assets net of sales†	401	354	298	244	278	254	209
Capital grants to the private sector and abroad	–	–	2	–	–	–	–
Net lending to private sector	–	–	–	–	–	–	–
Capital support to Public Corporations	–	–	–	–	–	–	–
Capital support to Local Authorities	–	–	–	–	–	–	–
Capital AME							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	–	444	256	212	296	389	200
<i>of which:</i>							
Making payments of Child Benefit, Child Trust Fund endowments, Health in Pregnancy Grant and Saving Gateway.	–	444	256	212	296	389	200
Total capital budget AME	–	444	256	212	296	389	200

Table 3 – Capital Budget DEL and AME (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Total capital budget	401	798	556	456	575	643	412
<i>of which:</i>							
Capital expenditure on non-current assets net of sales†	401	354	298	244	278	254	209
Less depreciation††	291	159	186	194	218	226	242
Net capital expenditure on property, plant and equipment	110	194	111	50	61	28	(33)

† Expenditure by the Department and NDPBs on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.

†† Included in Resource Budget.

Notes

1. Figures across all years reflect the Clear Line of Sight (CLoS) budgeting changes in particular the removal of the distinction between near-cash and non-cash resource DEL, the cost of capital from the budgeting regime and the reclassification of movement in provisions from DEL into AME. The outturn figure is an estimated amount that was provided prior to year end and will differ from the final outturn in the Resource Accounts.
2. Saving Gateway will not now be introduced.

Table 4 – Capital employed (£m)	2004–05 Outturn (UK GAAP)	2005–06 Outturn (UK GAAP)	2006–07 Outturn (UK GAAP)	2007–08¹ Outturn (IFRS)	2008–09¹ Outturn (IFRS)	2009–10 Outturn (IFRS)	2010–11 Plans (IFRS)
Assets and liabilities in the Statement of Financial Position at year end							
Assets							
Non-current assets	966	1,235	1,305	1,830	1,861	1,840	1,778
Property, Plant and Equipment	949	1,224	1,297	780	709	640	562
<i>of which:</i>							
Land				27	23	24	24
Buildings	90	94	91	487	400	360	333
Accommodation Refurbishments	94	81	82	55	57	74	70
Office & Computer Equipment	79	94	77	137	130	98	53
Vehicles	15	13	9	4	6	6	5
Furniture & Fittings	58	57	56	35	35	36	33
Assets under Construction	143	271	225	32	54	38	40
Scientific Aids	39	43	21	3	4	4	4
Vessels ²	21	21	19	–	–	–	–
Developed Computer Software ³	410	550	717	–	–	–	–
Intangible	17	11	8	1,050	1,152	1,200	1,216
<i>of which:</i>							
Software Licences	17	11	8	8	15	14	11
Developed Computer Software ³	–	–	–	869	900	1,003	962
Assets under Construction	–	–	–	173	237	183	243
Receivables falling due >1 year	216	195	180	1	–	–	–
Current Assets	406	448	538	553	748	697	709
Liabilities							
Current Liabilities	(1,153)	(1,165)	(1,132)	(1,266)	(1,503)	(1,510)	(1,557)
Non-current liabilities	(182)	(186)	(189)	(492)	(499)	(481)	(490)
Provisions	(332)	(244)	(258)	(296)	(296)	(356)	(363)
Capital employed within Department	(79)	283	444	330	311	190	77

¹ Certain figures have been restated for Machinery of Government changes.

² A Machinery of Government change resulted in all vessels being transferred to the UK Border Agency (UKBA).

³ Developed Computer Software has been reclassified as intangible assets under IFRS.

Note:

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

Table 5 – Administration Costs (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Estimated Outturn	2010–11 Plans
Administration Expenditure:							
Paybill	2,458	2,558	2,705	2,656	2,612	2,535	–
Other	1,684	1,753	1,757	1,679	1,807	1,797	–
Total administration expenditure:	4,142	4,311	4,463	4,335	4,419	4,332	3,955
Administration income	(250)	(333)	(275)	(340)	(407)	(392)	(289)
Total administration budget	3,892	3,978	4,188	3,995	4,013	3,940	3,666
Analysis by activity:							
To administer the tax system efficiently and in an even-handed way, making it easy for customers to get things right, helping individuals to get targeted financial support and other entitlements.	3,419	2,706	3,625	3,014	2,239	2,026	1,784
To improve customers' experience of HMRC and contribute to improving the UK business environment.	479	1,291	564	989	1,778	1,921	1,882
Undertaking rating and council tax valuation work in England and Wales and providing valuation and property management services to central government and other bodies where public funds are involved.	(6)	(19)	(1)	(8)	(4)	(7)	–
Total administration budget	3,892	3,978	4,188	3,995	4,013	3,940	3,666

Notes

- Figures across all years reflect the Clear Line of Sight (CLoS) budgeting changes in particular the removal of the distinction between near-cash and non-cash resource DEL, the cost of capital from the budgeting regime and the reclassification of movement in provisions from DEL into AME. The outturn figure is an estimated amount that was provided prior to year end and will differ from the final outturn in the Resource Accounts.
- A further difference arises due to National Insurance Fund expenditure and income being reported as Administration in the Resource Accounts, and Programme in these tables.

Table 6 – Staff Numbers	2004–05¹ Outturn	2005–06¹ Outturn	2006–07 Outturn	2007–08 Outturn	2008–09¹ Outturn	2009–10 Outturn
Core Department:						
Permanent Staff	99,179	94,225	86,436	83,079	77,162	72,953
Others			4,937	2,690		742
Total	99,179	94,225	91,373	85,769	77,162	73,695
Valuation Office Agency:						
Permanent Staff	4,730	4,921	4,401	4,065	4,236	4,034
Others	222	163	27	31		29
Total	4,952	5,084	4,428	4,096	4,236	4,063

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

Note:

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

Table 7 – Identifiable expenditure on services by country and region (£m)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Plans	2010–11 Plans
North East	990	1,072	1,124	1,188	1,363	1,527	1,579
North West	2,665	2,904	3,073	3,293	3,777	4,231	4,376
Yorkshire and the Humber	1,946	2,149	2,279	2,401	2,758	3,090	3,196
East Midlands	1,554	1,723	1,830	1,912	2,194	2,453	2,534
West Midlands	2,051	2,266	2,400	2,557	2,934	3,287	3,398
East	1,799	1,981	2,119	2,218	2,533	2,824	2,911
London	2,130	2,841	3,086	3,477	4,001	4,476	4,619
South East	2,659	2,804	2,978	3,105	3,535	3,936	4,052
South West	1,972	1,854	1,956	2,030	2,326	2,598	2,682
Total England	17,765	19,596	20,845	22,181	25,421	28,423	29,348
Scotland	1,779	1,934	2,022	2,125	2,453	2,725	2,814
Wales	1,118	1,215	1,275	1,356	1,556	1,744	1,804
Northern Ireland	725	779	824	890	1,017	1,137	1,176
UK identifiable expenditure	21,387	23,524	24,965	26,552	30,447	34,030	35,142
Outside UK	33	104	62	37	35	39	42
Total identifiable expenditure	21,421	23,628	25,027	26,589	30,482	34,069	35,184
Non-identifiable expenditure	4,169	4,291	4,398	4,225	4,249	4,010	3,845
Total expenditure on services	25,590	27,920	29,425	30,814	34,731	38,079	39,029

Table 8 – Identifiable expenditure on services by country and region, per head (£ per head)	2004–05 Outturn	2005–06 Outturn	2006–07 Outturn	2007–08 Outturn	2008–09 Outturn	2009–10 Plans	2010–11 Plans
North East	389	420	440	463	529	593	612
North West	391	425	448	480	549	610	628
Yorkshire and the Humber	384	421	443	464	529	586	601
East Midlands	362	398	419	435	495	546	559
West Midlands	385	424	447	475	542	604	622
East	326	356	378	392	442	490	500
London	288	381	411	460	525	583	597
South East	327	343	362	374	422	468	479
South West	391	364	382	392	447	494	505
England	355	388	411	434	494	549	562
Scotland	350	380	395	414	475	525	540
Wales	379	411	430	455	520	582	599
Northern Ireland	424	452	473	506	573	636	653
UK identifiable expenditure	357	391	412	435	496	551	565

Table 9 – Identifiable expenditure on services by function, country and region, for 2008-09 (£m)	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West
General public services									
Executive and legislative organs, financial and fiscal affairs, external affairs	5.8	16.9	12.5	11.3	13.3	17.0	34.0	27.9	13.7
General services	1.9	5.7	4.4	3.2	6.3	5.1	15.8	9.5	6.3
Total general public services	7.7	22.6	17.0	14.5	19.6	22.1	49.8	37.4	20.0
Economic affairs									
Mining, manufacturing and construction	–	–	–	–	–	–	–	–	–
R&D economic affairs	5.0	14.6	10.8	9.7	11.5	14.6	29.1	23.6	11.8
Total economic affairs	5.0	14.6	10.8	9.7	11.5	14.6	29.1	23.6	11.8
Environment protection									
Environment protection n.e.c.	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Total environment protection	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Social protection									
Old Age	1.9	5.3	4.2	3.9	4.5	5.1	5.6	7.6	4.5
<i>of which: pensions</i>	<i>1.9</i>	<i>5.3</i>	<i>4.2</i>	<i>3.9</i>	<i>4.5</i>	<i>5.1</i>	<i>5.6</i>	<i>7.6</i>	<i>4.5</i>
Family and children	474.1	1,331.6	972.8	823.1	1,061.3	1,063.4	1,476.4	1,547.6	913.5
<i>of which: family benefits, income support and tax credits</i>	<i>474.1</i>	<i>1,331.6</i>	<i>972.8</i>	<i>823.1</i>	<i>1,061.3</i>	<i>1,063.4</i>	<i>1,476.4</i>	<i>1,547.6</i>	<i>913.5</i>
Housing	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Social exclusion n.e.c.	873.7	2,402.0	1,752.7	1,342.1	1,837.1	1,427.5	2,438.6	1,917.9	1,375.6
<i>of which: family benefits, income support and tax credits</i>	<i>873.7</i>	<i>2,402.0</i>	<i>1,752.7</i>	<i>1,342.1</i>	<i>1,837.1</i>	<i>1,427.5</i>	<i>2,438.6</i>	<i>1,917.9</i>	<i>1,375.6</i>
Social protection n.e.c.	0.2	0.5	0.4	0.3	0.4	0.5	1.0	0.8	0.4
Total social protection	1,349.9	3,739.5	2,730.1	2,169.5	2,903.3	2,496.4	3,921.8	3,474.0	2,294.1
TOTAL HM REVENUE & CUSTOMS	1,362.6	3,776.7	2,757.9	2,193.8	2,934.5	2,533.2	4,001.0	3,535.2	2,326.0

Table 9 – Identifiable expenditure on services by function, country and region, for 2008-09 (£m)	England	Scotland	Wales	Northern Ireland	UK identifiable expenditure	Outside UK	Total identifiable expenditure	Not identifiable	Totals
General public services									
Executive and legislative organs, financial and fiscal affairs, external affairs	152.6	14.7	6.3	4.2	177.8	–	177.8	4,249.1	4,426.9
General services	58.1	3.8	2.5	0.6	65.0	–	65.0	–	65.0
Total general public services	210.7	18.5	8.9	4.8	242.8	–	242.8	4,249.1	4,491.9
Economic affairs									
Mining, manufacturing and construction	–	15.5	–	–	15.5	–	15.5	–	15.5
R&D economic affairs	130.6	12.4	5.5	3.5	152.0	–	152.0	–	152.0
Total economic affairs	130.6	27.9	5.5	3.5	167.5	–	167.5	–	167.5
Environment protection									
Environment protection n.e.c.	0.9	0.1	0.0	0.0	1.0	–	1.0	–	1.0
Total environment protection	0.9	0.1	0.0	0.0	1.0	–	1.0	–	1.0
Social protection									
Old Age	42.6	4.0	2.1	1.1	49.8	0.2	50.0	–	50.0
<i>of which: pensions</i>	<i>42.6</i>	<i>4.0</i>	<i>2.1</i>	<i>1.1</i>	<i>49.8</i>	<i>0.2</i>	<i>50.0</i>	–	<i>50.0</i>
Family and children	9,663.8	900.0	554.5	372.1	11,490.4	13.0	11,503.4	–	11,503.4
<i>of which: family benefits, income support and tax credits</i>	<i>9,663.8</i>	<i>900.0</i>	<i>554.5</i>	<i>372.1</i>	<i>11,490.4</i>	<i>13.0</i>	<i>11,503.4</i>	–	<i>11,503.4</i>
Housing	0.6	0.1	0.0	0.0	0.7	–	0.7	–	0.7
Social exclusion n.e.c.	15,367.2	1,502.2	985.2	635.3	18,489.9	21.7	18,511.5	–	18,511.5
<i>of which: family benefits, income support and tax credits</i>	<i>15,367.2</i>	<i>1,502.2</i>	<i>985.2</i>	<i>635.3</i>	<i>18,489.9</i>	<i>21.7</i>	<i>18,511.5</i>	–	<i>18,511.5</i>
Social protection n.e.c.	4.6	0.4	0.2	0.1	5.4	–	5.4	–	5.4
Total social protection	25,078.8	2,406.7	1,542.0	1,008.6	30,036.1	34.9	30,070.9	–	30,070.9
TOTAL HM REVENUE & CUSTOMS	25,420.9	2,453.1	1,556.5	1,016.9	30,447.4	34.9	30,482.2	4,249.1	34,731.4

DSO Indicator table

Indicator	Indicator belongs to:	Statement on data															
1. Reduce losses by £7bn over the CSR07 period. This will require HMRC to close the annual tax gap by at least an additional £4bn in 2010-11.	DSO 1 – Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they were entitled.	Latest estimates suggest that in 2008-09 the tax gap grew by £2.3bn from the baseline year 2007-08. £1.6bn was due to an increase in debt as cash flow slowed during the recession. Indications for 2009-10 are that the VAT gap is reducing but has not yet returned to 2007-08 levels.															
2. Increase the proportion of individuals and businesses that pay their tax due in 2010-11 by 1 per cent.		The proportion of UK taxpayers who are willing and able to pay their taxes has increased from the 2008 baseline of 49.1 per cent, to 51.6 per cent as at the latest measure in March 2010. This means there are over 1.25m more individuals and business willing and able to pay their taxes than 2 years ago.															
3. Protect tax revenues by reducing the proportion of tax debts remaining by: 8 per cent at 30 days and 13 per cent at 90 days compared with 2008-09.		HMRC is not due to begin reporting on this target until 2010-11. Debts becoming collectible in April 2010 will not be 30 days old until after end May 2010. We began the analysis for the first 30 day roll rate report for 2010-11 in mid June; the report is expected to be published later this month. The target will be baselined against 2008-09 data.															
4. Reduce the level of tax credit error and fraud to 5 per cent by 2010-11.		Because this is an absolute measure (5 per cent of finalised entitlement) no baseline is needed. The latest annual assessment for 2008-09 published in July 2010 shows a central estimate for the level of error and fraud of between 8.3 per cent and 9.6 per cent from 9 per cent in 2007-08.															
5. Sustain the levels of Child Benefit (CB) and Child Tax Credit (CTC) at current levels and to increase the take up of Working Tax Credit (WTC) by 2010-11.		<table border="1"> <thead> <tr> <th></th> <th>2006-07</th> <th>2007-08</th> </tr> </thead> <tbody> <tr> <td>CTC</td> <td>81%</td> <td>81%</td> </tr> <tr> <td>CB</td> <td>96%</td> <td>97%</td> </tr> <tr> <td>WTC</td> <td>57%</td> <td>57%</td> </tr> <tr> <td>WTC only</td> <td>20%</td> <td>21%</td> </tr> </tbody> </table>		2006-07	2007-08	CTC	81%	81%	CB	96%	97%	WTC	57%	57%	WTC only	20%	21%
		2006-07	2007-08														
CTC	81%	81%															
CB	96%	97%															
WTC	57%	57%															
WTC only	20%	21%															
6. Work with UKBA to ensure they deliver all border revenue targets specified in the Home Office/HMRC partnership agreement.	<table border="1"> <thead> <tr> <th></th> <th>2008-09</th> <th>2009-10</th> </tr> </thead> <tbody> <tr> <td>Cigarettes (number of sticks)</td> <td>0.796bn</td> <td>0.541bn</td> </tr> <tr> <td>Hand rolling tobacco (tonnes)</td> <td>234</td> <td>353</td> </tr> <tr> <td>Alcohol (number of interceptions of high risk consignments)</td> <td>284</td> <td>631</td> </tr> <tr> <td>Alcohol (number of seizures of commercial consignments)</td> <td>53</td> <td>52</td> </tr> </tbody> </table>		2008-09	2009-10	Cigarettes (number of sticks)	0.796bn	0.541bn	Hand rolling tobacco (tonnes)	234	353	Alcohol (number of interceptions of high risk consignments)	284	631	Alcohol (number of seizures of commercial consignments)	53	52	
	2008-09	2009-10															
Cigarettes (number of sticks)	0.796bn	0.541bn															
Hand rolling tobacco (tonnes)	234	353															
Alcohol (number of interceptions of high risk consignments)	284	631															
Alcohol (number of seizures of commercial consignments)	53	52															
1. Improve the customer experience that the tax system is simple and even-handed across all customer groups, by at least 3 percentage points (or up to 90 per cent for any group) by 2011.	DSO 2 – Improve customers' experiences of HMRC and improve the UK business environment.	The baseline score in June 2008 was 72.8 and covered service delivered during the first six months of the year. The latest score is 76.0 and is based on service delivered in the six months to March 2010.															
2. Reduce the administrative burden which the UK tax administration imposes on UK businesses by at least 10 per cent by 2010-11.		The 10 per cent reduction by the end of 2010-11 represents a monetary reduction of £510m per annum from a baseline of £5.1bn. The latest position is that we have achieved £564m per annum (up from £540m in 2009) of administrative burden reductions from the total administrative burden baseline.															

CSR07 Efficiency Programme table

HMRC – CSR07 Value for Money (VfM) Programme

The CSR07 VfM programme was a CSR07 commitment to an overall target across Government of £35bn savings for that spending review period.

HMRC's CSR07 settlement included a target of £674m VfM savings by the end of 2010-11. Budget 2009 increased this to £754m, with £80m savings to be recycled into frontline activities.
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In the two years ended 31 March 2010 HMRC has achieved £480m VfM savings, which have been subject to audit and validation.
--

These figures do not include any over delivery of SR04 efficiency savings.
--

Outstanding Committee of Public Accounts (PAC) recommendations

From 01 April 2009 to 31 March 2010 the PAC has published four reports on HM Revenue & Customs. They are:-
2008-09 26th Report (HC216): Management of Tax Debt published 9th June 2009.
2008-09 38th Report (HC336): Control & Facilitation of Imports published 21st July 2009.
2009-10 11th Report (HC141): Dealing with the obligations of older persons published on 25th February 2010.
2009-10 24th Report (HC389): Handling Telephone Enquiries published on 25th March 2010.
There are no outstanding PAC recommendations in respect of the reports.

Complaints to the Parliamentary Ombudsman in 2009-10

Number of complaints accepted for investigation	8
Number of investigations reported on	26
Number of cases upheld in full	14 (54%)
Number of cases upheld in part	7 (27%)
Number of cases not upheld	5 (19%)
Number of HMRC cases received by the Ombudsman	1896
Number of Ombudsman recommendations complied with	*
Number of Ombudsman recommendations not complied with	*
<p>Context</p> <p>Most complaints are dealt with by HMRC, with a small proportion being referred via MPs to the Parliamentary & Health Service Ombudsman (PHSO). In 2009-10 HMRC received 73,455 complaints compared to 87,279 in 2008-09.</p> <p>The PHSO will normally look at a complaint only once it has been considered by the Adjudicator. The Adjudicator acts as a fair and unbiased referee looking into complaints about HMRC. In 2008-09, the Adjudicator took on 2,133 cases for investigation. 1,681 investigations were completed of which 34 per cent were upheld either wholly or in part.**</p>	

* This information will be available later in 2010.

** The 2010 Adjudicator's Annual Report is to be published in September 2010.

Trust Statement

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Principal Accounting Officer's Foreword to the Trust Statement

Scope

HM Revenue and Customs (HMRC) is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of tax credits, Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grants. HMRC is also responsible for collecting repayments of student loans, enforcing payment of the national minimum wage and for providing the Government business link portal. The Trust Statement reports the revenues and expenditures and assets and liabilities related to the taxes and duties for the financial year 2009-10 and reports the full year's activity of HMRC. The costs of running HMRC, and payments of Child Benefit and Child Trust Fund, are reported in the Departmental Resource Accounts.

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

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

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

The general direction and priorities for HMRC were set out in the remit letter issued to the Chief Executive by the Chancellor of the Exchequer in July 2009. HMRC's aim and objectives are stated in the Annual Report to the Resource Accounts, which also provide details of its Management, and includes a Management Commentary.

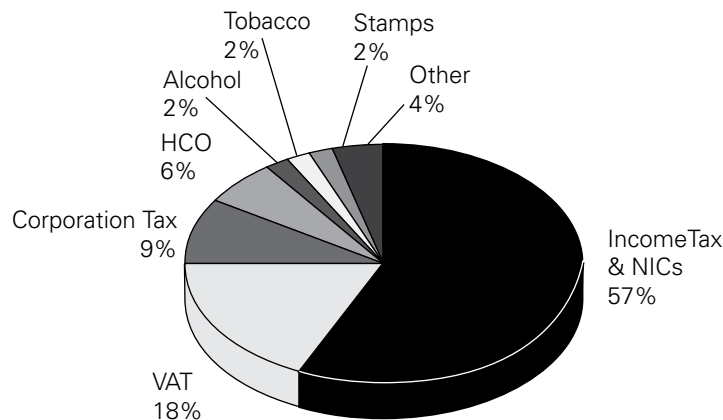
Financial Review of 2009-10 Trust Statement

1. Total Revenue

The total revenue accruing to the Department is £436.3 billion; a decrease of £4.7 billion (1.1 per cent) on last year. This is mainly due to lower Capital Gains Tax, and Corporation Tax, partly offset by increases in Hydrocarbon Oils, Tobacco and National Insurance Contribution receipts and accrued Bank Payroll Tax.

For comparative purposes, this total figure excludes a £1.2 billion accounting adjustment which corrects an overstatement of the same amount in an earlier year. The amount to be corrected was not material therefore a prior year adjustment has not been made.

Taxes and duties as a percentage of total revenue



The eight taxes and duties specifically named above (Income Tax & National Insurance Contributions [IT & NICs] being reported together) between them account for 95.7 per cent of HMRC revenue in 2009-10

Total revenue accruing to the Department is shown before deduction of revenue losses, decrease in provision for doubtful debt and the movement in the provision for liabilities provided in the year. In order to analyse revenue from taxes and duties after these changes, the Statement of Revenue and Expenditure should be viewed in conjunction with notes 8 and 9.

	2009-10
	£ billion
Total Revenue	436.3
Revenue Losses and decrease in Provision for Doubtful Debts (Note 8)	(6.0)
Provision for Liabilities (Note 9)	2.1
Total Revenue less items noted above	432.4

2. Comparison by Tax Type

2.1 Income Tax & National Insurance Contributions

Income Tax and NICs accounted for 57.1 per cent of total revenue at £249.0 billion; £1.4 billion (0.6 per cent) higher than 2008-09.

The main reason for a minimal increase is primarily due to the economic downturn. This was seen in cash receipts which decreased by £10.2 billion from 2008-09 to 2009-10 with large falls across most sectors, especially manufacturing and construction. However, there has been a gradual increase in cash receipts in the latter part of the year indicating an economic recovery. This is reflected in the year-end accrual adjustment for receivables and accrued revenue receivables which increased total revenue by £6.2 billion compared to a decrease in total revenue of £4.7 billion in the prior year, a net movement of £10.9 billion.

2.2 Value Added Tax

Value Added Tax accounts for 17.7 per cent of total revenue at £77.1 billion; £1.4 billion (1.8 per cent) lower than 2008-09.

The key reason for this is the ongoing effect of the economic downturn and the temporary reduction in the VAT rate to 15% in December 2008 and back to 17.5% from 1st January 2010. This resulted in a reduction in VAT receipts for the first 9 months of the year but this position has begun to change with a growth in the receipts in the last Quarter of the year.

2.3 Corporation Tax

Corporation Tax accounts for 8.7 per cent of total revenue at £37.9 billion; £3.9 billion (9.3 per cent) lower than in 2008-09.

The reduction is mainly due to the economic downturn, with companies' taxable profits significantly reduced for this reporting period. The decrease in onshore receipts was mostly accounted for in the Financial and (to a lesser extent) Industrial & Commercial sectors. Offshore receipts were lower reflecting lower oil and gas prices.

In-year repayments in 2009-10 have dropped off markedly due to a partial recovery in the economic climate and this is reflected in the higher accrued revenue receivable balance at 31 March 2010.

2.4 Hydrocarbon Oils Duties

Hydrocarbon Oils Duties account for 6.0 per cent of total revenue at £26.3 billion; £1.6 billion (6.5 per cent) higher than 2008-09.

The increase is mainly due to duty rate rises.

2.5 Alcohols

Alcohol Duties account for 2.1 per cent of total revenue at £9.2 billion; £0.7 billion (8.2 per cent) higher than in 2008-09.

The increase is mainly due to a combination of duty rate rises, growth in the UK market resulting from less foreign shopping by UK consumers and an early Budget in 2010 bringing forward increased trade activity in anticipation of duty rate increases.

2.6 Tobacco

Tobacco Duties account for 2.2 per cent of total revenue at £9.4 billion; £1.5 billion (19.0 per cent) higher than in 2008-09.

The increase is mainly due to a combination of duty rate rises, growth in the UK market resulting from less foreign shopping by UK consumers and an early Budget in 2010 bringing forward increased trade activity in anticipation of duty rate increases.

2.7 Stamp Taxes

Stamp Taxes account for 1.9 per cent of total revenue at £8.1 billion; £0.5 billion (6.6 per cent) higher than in 2008-09.

The increase is mainly due to recovery in the UK property market.

2.8 Other Taxes & Duties

The remaining minor taxes and duties account for 4.3 per cent of the total revenue at £18.1 billion; £5.5 billion (23.3 per cent) lower than in 2008-09.

Capital Gains Tax: there was a significant fall of £6.3 billion (76.8 per cent), primarily due to a drop in the number of disposals in 2008-09 – as individuals brought forward their asset disposals to benefit from the CGT reforms in the 2007 Pre-Budget Report which allowed for a lower CGT rate from Oct 2007 to April 2008 – as well as the poor performance of the equity and property markets at that time.

Bank Payroll Tax: the accrued revenue receivable figure of £2.5 billion has been estimated using a statistical model based on projections of the revenue flows.

3. Movement in Accrual Adjustments

3.1 Receivables and Accrued Revenue Receivable (Note 6)

The total of receivables and accrued revenue receivable (ARR) – before the provision for doubtful debt – increased by £14.0 billion (15.1 per cent) between 31 March 2009 and 31 March 2010 to £106.8 billion.

Receivables decreased by £1.6 billion (5.8 per cent) compared to a prior year increase of £2.7 billion (10.8 per cent). This was mainly due to improved debt collection performance which includes:

- collecting more in debt receipts
- improved debt collection rates from 75.1% in 2008-09 to 78.5% in 2009-10; and
- removing non collectible debt by write off, remission and adjustment

Accrued revenue receivable increased by £15.6 billion (24.0 per cent) to £80.7 billion. These increases mainly relate to VAT (£4.3 billion), Income Tax & National Insurance Contributions (£5.7 billion), and CT (£2.0 billion). The increases are consistent with signs of economic recovery, raising the ARR levels close to those seen at 31 March 2008 (£80.6 billion). The additional £2.5 billion Bank Payroll Tax also contributed to this increase.

3.2 Provision for Doubtful Debt (Note 8.4)

	2009-10 £ billion	2008-09 £ billion
Receivables	26.1	27.7
Provision	10.9	11.2

Provision for doubtful debt decreased by £0.3 billion (2.7 per cent). The decrease takes account of the £1.6 billion drop in receivables which was offset by an increase due to the change in the way the provision is calculated. This change resulted from the production of more reliable management information which enhances the accuracy and credibility of the Provision figure.

The provision for doubtful debt is calculated to provide a fair value of receivables in the Trust Statement, in effect reducing receivables to a value that is likely to be collected and providing for non collectible debt.

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

3.3 Provision for Liabilities (Note 9)

The provisions to be included in Note 9 were reviewed during 2009-10. This detailed review of existing cases already included in the provision resulted in an additional £0.3 billion being provided and £2.4 billion being written back as a result of estimates being revised. The positive effect on net revenue is £2.1 billion for 2009-10 compared to a negative net impact on revenue of £7.2 billion for 2008-09.

3.4 Payables, Accrued Revenue Payable & Deferred Revenue (Note 7)

The total of payables, accrued revenue payable (ARP) and deferred revenue increased by £4.4 billion (11.3 per cent) mainly due to an increase of £3.1 billion for payables and ARP for the National Insurance Funds (NIF) and the NHS. This was due to an increase in both cash and accrued revenue from National Insurance Contributions (NICs) compared to the same period last year, driven by the economic recovery. NICs are paid over to the NIF and NHS when received and not when accrued.

3.5 Revenue Losses (Note 8.2)

Revenue losses increased by £1.8 billion (39.1 per cent); from £4.6 billion in 2008-09 to £6.4 billion in 2009-10. However losses in 2008-09 were low and the increase was less when compared to 2007-08 (8.5 per cent)

Part of the increase resulted from special exercises to write-off irrecoverable debt, for example an exercise to clear £0.7 billion of Missing Trader Inter Community Fraud (MTIC) Debt. The remainder was fully anticipated following the economic downturn with increasing insolvency levels, and was reflected in the 2008-09 provision for doubtful debt.

4. Comparison of Movement over the last 6 years

	2009-10 £ billion	2008-09 £ billion	2007-08 £ billion	2006-07 £ billion	2005-06 £ billion	2004-05 £ billion
Total revenue	436.3	441.0	461.6	441.3	409.3	382.9
Variance to prior year	(4.7)	(20.6)	20.3	32.0	26.4	-
Variance to prior year (%)	(1.1%)	(4.5%)	4.6%	7.8%	6.9%	-

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

5. Tax Credits

Tax credits accrued payments when compared to last year were £3.1 billion (13.1 per cent) higher due to:

- Policy changes which increased the value of the child element above average earnings;
- Higher expenditure on in-work families;
- Increase in the number of out of work families receiving tax credits.

Basis for the Preparation of the Trust Statement

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

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

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

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

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the (tax return) period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

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

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

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

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

The accuracy of the estimates included in the 2008-09 Trust Statement has been reviewed as more recent data has become available, and I can confirm that they were within the levels of overall uncertainty quoted there.

Accrued revenue receivable is separately estimated for each revenue stream and component of income tax. The estimates used are those prepared for March Budget 2010 on the basis of the economic assumptions provided by HM Treasury. The most important of these assumptions were that profits from self-employment rose by 1 per cent in 2009-10 and dividend income rose by 13 per cent, while savings income fell by 76 per cent.

In respect of indirect taxes, accrued revenue receivable and accrued revenue payable are estimated for VAT, as the amounts involved are material. Estimation techniques are not required for other indirect taxes and duties where actual data is available.

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

Legal Proceedings

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

HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. The Department makes provision for these proceedings, which

occur in the normal course of business, as summarised in Note 1, 'Statement of Accounting Policies' and Note 9, 'Provision for Liabilities'. HMRC may make additional significant provisions for such legal proceedings as required in the event of further developments in these matters, consistent with generally accepted accounting principles. Litigation is inherently unpredictable and, depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. At 31 March 2010, HMRC's aggregate provision for legal and other disputes was £4.9 billion. The ultimate liability for legal claims may vary from the amounts provided and depends upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Other cases, where it is probable that HMRC will be required to settle the obligation and is unable to reliably estimate the amount, or where it is possible that HMRC will be required to settle the obligation, are classed as contingent liabilities – see Note 10.

Auditors

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

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

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

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

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

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

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

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for the financial year 2009-10. In conforming with HM Treasury direction (see page 134 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

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

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

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

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

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

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 1 to 11.

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

I certify that I have audited HM Revenue & Customs' (the Department's) Trust Statement for the year ended 31 March 2010 under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. The Trust Statement comprises the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The Trust Statement has been prepared under the accounting policies set out within the notes to the Statement.

Respective responsibilities of the Principal Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Qualified opinion on regularity

The Trust Statement records £26.8 billion of tax credits in 2009-10. As shown in Note 3.3 to the Trust Statement, the Department's latest estimate is that in 2008-09 error and fraud resulted in overpayments of between £1.95 billion and £2.27 billion (8.3 per cent to 9.6 per cent) of the final award by value to which claimants were not entitled. Note 3.3 also shows that the Department estimates that error led to underpayments of between £0.20 billion and £0.31 billion (0.8 per cent to 1.3 per cent) of the final award by value. Where fraud and error result in over or underpayment of tax credits the transactions are not in conformity with the Tax Credit Act 2002 and related regulations which specify the criteria for entitlement to tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the tax credit awards made in 2009-10 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2009-10. Accordingly, I have been unable to confirm that, in all material respects, tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament. I have therefore qualified my audit opinion on the regularity of tax credits because of the probable level of overpayments attributable to fraud and error which have not been applied to the purposes intended by Parliament; and because of the probable level of under and over payments in tax credits expenditure which are not in conformity with the relevant authorities.

In my opinion, except for the probable level of error and fraud in tax credits, in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the HM Revenue and Customs Trust Statement gives a true and fair view, in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs as at 31 March 2010 relating to the collection and allocation of taxes, duties, national insurance contributions, tax credits and student loan recoveries and related expenditures administered by the Department, and the revenue income and expenditure and cash flows for the year then ended; and
- the Trust Statement has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

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

In forming my opinion on the truth and fairness of the Trust Statement, which is not qualified, I have considered the adequacy of the disclosures made in Notes 6 and 7 on the estimates of accrued tax revenue receivable of £80.7 billion and accrued revenue payable of £23.6 billion at 31 March 2010. As described in Note 6.1.4, the Department considers that the combined accrued revenue receivable and accrued revenue payable at 31 March 2010 are subject to maximum likely uncertainty of £4 billion in either direction, equivalent to less than one per cent of total revenue reported in the Statement of Revenue and Expenditure. The significant uncertainty is adequately disclosed in the Trust Statement.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

Details of these matters are set out in paragraphs 4.5 to 4.7 of my Report on HM Revenue and Customs 2009-10 Accounts.

Amyas C E Morse
Comptroller and Auditor General
15 July 2010

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

Statement of Revenue and Expenditure for the year ended 31 March 2010

	Notes	2009-10 £ billion	2008-09 £ billion
Taxes and Duties			
Income Tax		150.0	149.6
Value Added Tax	2.1	77.1	78.5
Corporation Tax		37.9	41.8
Hydrocarbon Oils Duties	2.2	26.3	24.7
Tobacco Duties	2.3	9.4	7.9
Alcohol Duties	2.4	9.2	8.5
Stamp Taxes	2.5	8.1	7.6
Other Taxes and Duties	2.6	16.9	23.6
Total Taxes and Duties		334.9	342.2
Other Revenue			
National Insurance Contributions	4.1	99.0	98.0
Student Loan Recoveries	4.3	1.1	0.8
Taxation due from IOM	5	0.1	-
Total Other Revenue		100.2	98.8
Total Revenue		435.1	441.0
Less Expenditure			
Tax Credits	3.1	(26.8)	(23.7)
Bad and Doubtful Debts	8.1	(6.0)	(7.9)
Provision for Liabilities	9	2.1	(7.2)
Total Expenditure		(30.7)	(38.8)
Less Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	4.1	(98.1)	(97.5)
Student Loan Recoveries due to the Department for Business, Innovation and Skills	4.3	(1.1)	(0.8)
Total Disbursements		(99.2)	(98.3)
Total Expenditure and Disbursements		(129.9)	(137.1)
Net Revenue for the Consolidated Fund		305.2	303.9

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

The notes at pages 120 to 133 form part of this statement.

Statement of Financial Position as at 31 March 2010

	Notes	31 March 2010 £ billion	31 March 2009 £ billion
Non-current assets			
Receivables falling due after more than one year	6	1.6	1.4
Current Assets			
Receivables	6	13.6	15.1
Accrued Revenue Receivable	6	80.7	65.1
Prepayments		0.3	–
Cash		0.2	0.7
Total Current Assets		94.8	80.9
Total Assets		96.4	82.3
Current Liabilities			
Payables	7	19.3	15.9
Accrued Revenue Payable	7	23.6	22.4
Deferred Revenue	7	0.6	0.8
Other Payables at Bank		0.9	0.9
Total Current liabilities		44.4	40.0
Net Assets (Non-current assets plus Current Assets less Current Liabilities)		52.0	42.3
Non-current Liabilities			
Provision for Liabilities	9	4.9	8.5
Assets less Liabilities		47.1	33.8
Movements on Consolidated Fund Account:			
Balance on Consolidated Fund Account as at 1 April		33.8	53.5
Net Revenue for the Consolidated Fund		305.2	303.9
Less amount paid to Consolidated Fund		(291.9)	(323.6)
Balance on Consolidated Fund Account as at 31 March		47.1	33.8

Dame Lesley Strathie DCB

Principal Accounting Officer

8 July 2010

The notes at pages 120 to 133 form part of this statement.

Statement of Cash Flows for the year ended 31 March 2010

	Notes	2009-10 £ billion	2008-09 £ billion
Net Cash Flow from Revenue Activities	A	291.4	323.6
Cash paid to Consolidated Fund		(291.9)	(323.6)
Decrease in Cash in this period	B	(0.5)	-

Notes to the Statement of Cash Flows

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

	2009-10 £ billion	2008-09 £ billion
Net revenue for the Consolidated Fund	305.2	303.9
(Increase)/Decrease in Non-cash Assets	(14.6)	16.1
Increase/(Decrease) in Liabilities	4.4	(2.7)
(Decrease)/Increase in Provision for Liabilities	(3.6)	6.3
Net Cash Flow from Revenue Activities	291.4	323.6

B: Analysis Of Changes in Net Funds

	2009-10 £ billion	2008-9 £ billion
Decrease in Cash in this period	(0.5)	-
Net Funds as at 1 April (Opening Cash at Bank)	(0.2)	(0.2)
Net Funds as at 31 March (Closing Cash at Bank)	(0.7)	(0.2)

Notes to the Trust Statement

1 Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921;
- the 2009-10 Financial Reporting Manual issued by HM Treasury; and
- the accounting policies detailed below.

The accounting policies have been developed by HM Revenue & Customs (HMRC) in consultation with HM Treasury and have been reviewed during 2009-10 to ensure compliance with International Financial Reporting Standards (IFRS). These policies have been applied consistently in dealing with items considered material in relation to the accounts. As a result of this review, changes have been made to the naming conventions of some accounting terms and statements. For example, the 'Balance Sheet' is now called the 'Statement of Financial Position'; 'Debtors' and 'Creditors' are now referred to as 'Receivables' and 'Payables' respectively.

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

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

1.2 Accounting Convention

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

1.3 Revenue Recognition

Taxes and Duties Recognised on an Accruals Basis

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. Note 6 provides an explanation of accrued revenue receivable.

Taxable events for the material tax streams are as follows:

- Income Tax – earning of assessable income during the taxation period by the taxpayer
- Value Added Tax – undertaking of taxable activity during the taxation period by the taxpayer
- Corporation Tax – earning of assessable profit during the taxation period by the taxpayer
- Excise duties – movement of goods out of a duty suspended warehouse
- Hydrocarbon Oils Duty – production of taxable goods
- Stamp Taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) – purchase of property or shares

- Inheritance Tax – the date of agreement of assessment, after death or other chargeable transfer of value
- Capital Gains Tax – disposal of a chargeable asset leading to a taxable gain

Revenues are deemed to accrue evenly over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Repayments of indirect taxes, for example VAT and Hydrocarbon Oils, are accounted for on an accruals basis.

Taxes Recognised on a Cash Basis

Taxes are recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received for those taxes and duties listed in Note 1.2.

Income Tax is accounted for on an accruals basis except for overpayments. These are recognised in the period the repayment is made.

Tax Credits

Tax credits are recognised in the year in which they are assessed and authorised by HMRC. Authorisation is the point at which the obligation to pay the tax credit arises.

Payments of tax credits are provisional until entitlement is finalised after the financial year end. Under-payments are accounted for on a cash basis in the year of payment. Over-payments are recovered from future tax credit awards or through repayments by claimants.

National Insurance Contributions

National Insurance Contributions are collected by HMRC on behalf of the National Insurance Funds of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the Funds and the Health Services when received. For 2009-10 an allocation has been made between income tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The estimates are re-assessed when the end of year returns are available and a compensating correction is made in the next year's Trust Statement. At year end, the difference between the revised estimated NIC receipts and amounts which have been paid over to National Insurance Funds and NHS funds is recognised as a payable or receivable as appropriate. Amounts due from taxpayers to HMRC but not received at the end of the reporting period are included as receivables in Note 6 and as accrued revenue payable in Note 7 in respect of the Funds and Health Services.

Student Loan Recoveries

HMRC collects Student Loans that are recovered through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS)¹. Student loan recoveries are accounted for on the basis of estimated cash collected during the year. The actual amounts recovered during the year are only known after the year end when employers submit their annual returns. Estimates of receipts are made in year using an estimation model and at year end are updated based on the latest figures of employer returns processed. At the year end the difference between estimated receipts (recoveries) and pay-over to BIS is shown as a debtor or creditor. Differences between estimated and actual recoveries are adjusted and accounted for in the following year.

1.4 Receivables

Receivables are shown net of a provision for doubtful debts.

¹ On 5th June 2009 DIUS and BERR merged to become the new Department for Business, Innovation and Skills (BIS)

1.5 Provisions and Contingent Liabilities

Provisions for legal claims are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation and is unable to reliably estimate the amount, or where it is possible that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the Department.

2 Taxes and Duties Due

2.1 Value Added Tax

	2009-10 £ billion	2008-09 £ billion
Gross VAT Revenue	129.2	139.6
Less: Revenue Repayable	(52.1)	(61.1)
Net VAT Revenue	77.1	78.5

VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.2 Hydrocarbon Oils Duties

	2009-10 £ billion	2008-09 £ billion
Road Fuel	25.7	24.1
Rebated Fuel	0.6	0.6
Total	26.3	24.7

2.3 Tobacco Duties

	2009-10 £ billion	2008-09 £ billion
Cigarettes	8.6	7.3
Hand rolling tobacco	0.7	0.5
Cigars	0.1	0.1
Total	9.4	7.9

2.4 Alcohol Duties

	2009-10 £ billion	2008-09 £ billion
Beer	3.2	3.1
Wine Cider and Perry	3.3	3.0
Spirits	2.7	2.4
Total	9.2	8.5

2.5 Stamp Taxes

	2009-10 £ billion	2008-09 £ billion
Stamp Duty Land Tax	5.1	4.4
Stamp Duty Reserve Tax	2.8	2.9
Stamp Duty	0.2	0.3
Total	8.1	7.6

2.6 Other Taxes and Duties

	Note	2009-10 £ billion	2008-09 £ billion
Customs Duties		2.7	2.6
Bank Payroll Tax	2.7	2.5	-
Inheritance Tax		2.5	2.5
Insurance Premium Tax		2.2	2.3
Capital Gains Tax		1.9	8.2
Air Passenger Duty		1.9	1.9
Betting And Gaming Duties		1.4	1.5
Landfill Tax	2.8	1.0	1.0
Petroleum Revenue Tax		1.0	2.5
Climate Change Levy		0.7	0.8
Aggregates Levy		0.3	0.3
Other Revenue		(1.2)	-
Total Revenue Due		16.9	23.6

The amount of £1.2 billion for "Other Revenue" adjusts the payments on account position brought forward from the 2006-07 Trust Statement (see also Note 7). Improved management information highlighted the need for the correction, which has not been made retrospectively on the grounds of materiality. Payments on account occur when a taxpayer makes a payment to HMRC before a charge is raised. Such funds are shown in the Statement of Financial Position as payables and are only transferred to Revenue when liability has been established.

2.7 Bank Payroll Tax

Bank Payroll Tax was introduced by the Finance Bill 2010. It had effect for the period 9 December 2009 – 5 April 2010 and is payable on or before 31 August 2010. The accrued revenue figure included in the table in Note 2.6 is estimated to be the gross yield from the tax and does not include any adjustment for potential impact on other taxes.

2.8 Landfill Tax

The Landfill Tax revenue of £1,023 million (2008-09: £985 million) is net of £63 million (2008-09: £61 million) contributions made to Environmental Bodies by landfill operators, under the Landfill Communities Fund (formerly the Landfill Tax Credit Scheme.)

Landfill Tax was introduced on 1 October 1996 as a tax on the disposal of waste through landfill. It is levied on landfill operators by weight of refuse disposed in landfill sites. The Landfill Communities Fund was introduced at the same time as the tax. It allows operators to claim tax credits for contributions they make to approved Environmental Bodies for environmental improvement works in the vicinity of landfill sites. The recipients spend the contributions which meet one of the objectives specified in the Landfill Tax Regulations. Operators can contribute up to 6 per cent of their landfill tax liability and reclaim 90 per cent of the contributions they make as a tax credit. ENTRUST is a not-for-profit private sector company which acts as regulator of the Landfill Communities Fund and is an arm's length body of HMRC.

3 Tax Credits

3.1 Analysis of Tax Credit Expenditure:

	Child Tax Credits 2009-10 £ billion	Working Tax Credits 2009-10 £ billion	Total Tax Credits 2009-10 £ billion	Child Tax Credits 2008-09 £ billion	Working Tax Credits 2008-09 £ billion	Total Tax Credits 2008-09 £ billion
Tax Credits treated as Negative Taxation	3.8	1.6	5.4	3.6	1.7	5.3
Tax Credits treated as Payments of Entitlement	15.2	6.2	21.4	12.6	5.8	18.4
Total Tax Credits	19.0	7.8	26.8	16.2	7.5	23.7

To be consistent with the Organisation for Economic Co-operation and Development's classification rules and international practice for the calculation of net taxes and social security contributions, the tax credits payments figure in the Statement of Revenue and Expenditure is analysed here. It is disclosed as Negative Taxation to the extent that the tax credits are less than or equal to the recipient family's income tax liability and as Payments of Entitlement where tax credits exceed the recipient family's income tax liability.

The division of amounts between Child and Working Tax Credits has been estimated using a 10 per cent sample of individuals. This provides a large sample size and therefore a robust estimate of the expenditure split.

3.2 Tax Credit Receivables

	Note	2009-10 £ billion	2008-09 £ billion
Receivables as at 1 April	6	4.3	4.3
Overpayments identified on finalisation of awards		0.5	0.5
Overpayments identified from change of circumstances in year		0.9	0.7
Recoveries made		(0.8)	(0.9)
Remissions/Write-offs	8.2	(0.4)	(0.3)
Receivables as at 31 March	6	4.5	4.3
Provision for doubtful debts		(2.5)	(2.3)
Net		2.0	2.0

As a result of the finalisation exercise undertaken in 2009-10 further overpayments relating to tax credits paid in 2008-09 totalling £389 million were identified. Adjustments made to payments in 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 resulted in a net £68.6 million overpayment. These have been accounted for in 2009-10.

In accordance with the accounting policy for tax credits (Note 1.3), amounts under or over paid in 2009-10 and identified during the finalisation exercise being undertaken in 2010-11 are not included in the above figures. It is expected that the value of under and over payments arising from the 2009-10 finalisation exercise will be of the same order as those for the 2008-09 exercise.

Remissions and write-offs in 2009-10 include £21.5 million written off in respect of organised fraud identified during the year.

3.3 Tax Credits Error and Fraud

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

In June 2010, HMRC completed its testing on finalised awards for 2008-09, based on a sample of some 4,165 random enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.95 billion and £2.27 billion (8.3 per cent to 9.6 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments of between £0.20 billion and £0.31 billion (0.8 per cent to 1.3 per cent of the final award by value) not being paid to claimants to which they were entitled.

4 Other Revenue

4.1 National Insurance Contributions

	Note	Net Revenue 2009-10 £ billion	Net Revenue 2008-09 £ billion
Revenue		99.0	98.0
Remissions and Write-offs	8.2	(0.9)	(0.5)
Net Revenue due to the National Insurance Funds and National Health Services for the year		98.1	97.5

	Net Revenue 2009-10 £ billion	Cash Paid to NIFs/NHS 2009-10 £ billion
National Insurance Fund – Great Britain	74.8	72.2
National Insurance Fund – Northern Ireland	1.5	1.4
National Health Services (NHS)	21.8	21.4
Totals	98.1	95.0

Balances owing to/(due from) the National Insurance Funds (NIF) and NHS as at 31 March 2010 were:

- NIF Great Britain: £4.0 billion (opening balance at 1 April 2009: £2.8 billion)
- NIF Northern Ireland: (£0.4 billion) (opening balance at 1 April 2009: (£0.4 billion))

The combined balance of £3.6 billion is included within payables (Note 7).

National Insurance Contributions are paid over to the National Insurance Funds and National Health Services when received and not when accrued.

Almost all Pay-as-You-Earn (PAYE) payments are made as combined payments of income tax and Class 1 National Insurance Contributions without any notification at the time of the breakdown between the two. For 2009-10 an allocation has been made between income tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The estimates are re-assessed when the end of year returns are available and a compensating correction is made in the next year's Trust Statement.

4.2 Certificates of Tax Deposit

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities that are listed in the current Prospectus (details can be found at www.hmrc.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables on the Statement of Financial Position in the Trust Statement.

	CTD Issues 2009-10 £ million	CTD Redemptions 2009-10 £ million	CTD Total 2009-10 £ million	CTD Total 2008-09 £ million
Receipts	336	653	989	1,908
Payments	(336)	(648)	(984)	(1,921)
			5	(13)
Balance at 1 April			(11)	2
Balance at 31 March – Included in receivables			(6)	(11)

4.3 Student Loan Recoveries

	2009-10 £ million	2008-09 £ million
Receipts	1,109	785
Payments	(1,100)	(765)
Balance	9	20
Balance at 1 April	9	(11)
Balance at 31 March – Included in payables	18	9

The Department recovers Student Loans through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS)², from those former students eligible to make repayments. Student Loan recoveries are estimated on the basis of the end of year employer returns processed before the Trust Statement is certified. The actual value of Student Loan recoveries is established later in the year, and the difference between the estimate and the actual receipts is adjusted in the Trust Statement for the following year.

There is a net underpayment of £18 million to BIS at 31st March 2010 which, with HM Treasury authorisation, will be rectified by increasing payments to BIS during 2010-11. Any adjustments to the annual figures will be reflected in next year's Trust Statement.

5 Taxation Revenue due from the Isle of Man

	2009-10 £ million	2008-09 £ million
Opening Receivable (amount due from IoM in respect of prior year)	(34)	(417)
IoM Share of Revenue receipts	333	376
Less: Payments made to IoM during the year	(28)	(39)
Less: Revenue collected and retained in IoM	(418)	(418)
Plus: Payments received from IoM	127	464
Balance at 31st March included in receivables	(20)	(34)

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM) Governments whereby VAT and certain Customs and Excise duties are pooled and shared on an agreed basis.

On 1 April 2007 a revised revenue sharing arrangement based on Gross National Income and forecast receipts came into force and on 5 August 2008 this arrangement was further revised to take account of revenue collected and retained by the IoM resulting in advance monthly payments being made to the IoM or the UK as appropriate. At the end of the year the IoM's annual share of revenue is calculated and adjusted by: the monthly payments made; the amounts collected and retained in the IoM; and any final adjustments in respect of previous years to arrive at the net amount due to/from IoM.

² On 5th June 2009 DIUS and BERR merged to become the new Department for Business, Innovation and Skills (BIS)

The revenue included in the Statement of Revenue and Expenditure relates to payments received from the Isle of Man, less payments made during the year adjusted by the movement in the opening and closing receivables balance.

6 Receivables and Accrued Revenue Receivable

	Receivables as at 31 March 2010 £ billion	Accrued Revenue Receivable as at 31 March 2010 £ billion	Total as at 31 March 2010 £ billion	Total as at 31 March 2009 £ billion
Receivables and Accrued Revenue Receivable due within one year:				
Income Tax	6.7	26.1	32.8	28.5
Value Added Tax	6.8	22.1	28.9	25.4
Corporation Tax	2.8	13.0	15.8	14.4
Hydrocarbon Oils Duties	-	1.3	1.3	1.3
Tobacco	-	1.3	1.3	0.7
Alcohol Duties	0.1	0.7	0.8	0.7
Stamp Taxes	0.2	0.4	0.6	0.4
Bank Payroll Tax	-	2.5	2.5	-
Other Taxes and Duties	0.8	1.8	2.6	3.2
Tax Credit Overpayments	3.2	-	3.2	3.0
National Insurance Contributions	3.5	11.5	15.0	13.1
Totals before Provision	24.1	80.7	104.8	90.7
Less Provision	(10.5)	-	(10.5)	(10.5)
	13.6	80.7	94.3	80.2
Receivables due after more than one year:				
Inheritance Tax	0.7	-	0.7	0.8
Tax Credit Overpayments	1.3	-	1.3	1.3
Totals before Provision	2.0	-	2.0	2.1
Less Provision	(0.4)	-	(0.4)	(0.7)
	1.6	-	1.6	1.4
Totals before Provision	26.1	80.7	106.8	92.8
Less Provision (Note 8.4)	(10.9)	-	(10.9)	(11.2)
Total	15.2	80.7	95.9	81.6

Receivables represent amounts due from taxpayers or traders in respect of established liabilities for which, at the end of the reporting period, payments had not been received. A proportion of the receivables balance relates to revenue that is not yet overdue for payment. For example, VAT returns received prior to the Statement of Financial Position date, where electronic payment is due during the first week in April, and some assessments issued to taxpayers where a period of time (generally 30 days) is allowed for payment to be made.

Accrued revenue receivable represents taxes and duties relating to the financial year that are not yet due or received from taxpayers where these have not been included in receivables. The majority of these amounts have been estimated using statistical models based on projections of the most recent revenue flows and forecasts of economic variables on which future revenue flows depend.

An amount of £1.6 billion is included in the Corporation Tax accrued revenue receivable figure in respect of liabilities stoodover (postponed) by HMRC pending finalisation of enquiries. Accrued revenue receivable has only been recognised in cases where there is clear evidence that the amount is due to HMRC.

6.1 Accounting Estimates

Estimates have been provided to support the accrued revenue receivable balances and accrued revenue payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

Estimates have been provided to support the accrued revenue receivable balances for Income Tax collected under PAYE, self assessment, Company Income Tax and Tax Deducted from Savings Income; Corporation Tax, Value Added Tax, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Bank Payroll Tax and National Insurance Contributions (Class 1 collected through PAYE and Class 4 collected through self assessment). Accounting estimates have also been provided to support the Value Added Tax and National Insurance Contributions accrued revenue payable balances.

Descriptions of the estimation techniques and details of the underlying assumptions have not been provided for Income Tax collected under PAYE, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Company Income Tax and Tax Deducted from Savings Income as the estimated monetary amounts are either relatively small or not deemed to be particularly sensitive to changes in the underlying assumptions.

6.1.1 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts. The principal assumptions are shown below:

	2009-10 (per cent)	2008-09 (per cent)
Proportion of Corporation Tax liability remitted with first QIP	29.2	29.0
Proportion of Corporation Tax liability remitted with second QIP	21.9	22.3
Proportion of Corporation Tax liability remitted with third QIP	25.3	26.4
Adjustment for overpayment of Corporation Tax liabilities	(10.0)	(10.0)
Adjustment for late payment of Corporation Tax liabilities	6.5	6.0

The proportions of Corporation Tax liability remitted with the first, second and third QIPs are now being separately calculated for each relevant accounting period. The proportions shown above are the overall weighted averages.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities. The annual growth rates applied are based on the economic assumptions that are provided by HM Treasury and used to forecast Corporation Tax revenues for the March 2010 Financial Statement and Budget Report, and are shown below:

	<u>2009-10¹</u> <u>(per cent)</u>	<u>2008-09²</u> <u>(per cent)</u>
Annual Growth in Corporation Tax liabilities		
Onshore companies	13.6	(7.2)

¹ This is the growth rate used in the 2009-10 Trust Statement and relates to the growth in 2010 liabilities.

² This is the growth rate used in the 2008-09 Trust Statement and relates to the growth in 2009 liabilities.

North Sea companies

The accrued revenue receivable for 2009-10 is almost entirely attributable to companies with accounting periods ending December 2010. These are accounting periods for which no TIPs have been received and so the estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities. The growth rate used for 2009-10 is shown below:

	<u>2009-10¹</u> <u>(per cent)</u>	<u>2008-09²</u> <u>(per cent)</u>
Annual Growth in Corporation Tax liabilities		
North Sea companies	21.3	(45.1)

¹ This is the growth rate used in the 2009-10 Trust Statement and relates to the growth in 2010 liabilities.

² This is the growth rate used in the 2008-09 Trust Statement and relates to the growth in 2009 liabilities.

6.1.2 Self Assessment Income Tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2009-10 where payment is not yet due at 31 March 2010. The estimation process has three stages:

- (i) estimation of accrued tax liabilities for 2009-10. The estimates used are those prepared for Budget 2010 on the basis of the economic assumptions provided by HM Treasury. The most important of these assumptions were that profits from self-employment rose by 1 per cent in 2009-10 and dividend income rose by 13 per cent, while savings income fell by 76 per cent;
- (ii) deduction from the 2009-10 accrued tax liabilities of relevant payments by 31 March 2010. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total self assessment receipts of income tax, NICs Class 4 and capital gains tax between these three components. The breakdown is estimated from separate information on self assessment liabilities;
- (iii) a further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between income tax and NICs is made by statistical estimation.

6.1.3 Value Added Tax

VAT registered businesses in the UK are required to submit VAT returns either monthly, quarterly or annually one month in arrears of the end of the relevant accounting period. Consequently, some, but not all, information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts.

To facilitate the creation of estimates for the remaining elements, historical time-series have been created to show the accrued revenue by month. Established statistical forecasting techniques have then been applied to construct estimates for the more recent periods based on the resulting trends. These have been combined with actual return data and adjusted to account for any payments or repayments relating to these returns that were made prior to the financial year end. This provides an estimate of accrued revenue receivable and payable via the regular return process. The statistical models selected on the basis of historical data provide a reliable indication of future accrued revenue receivable and payable.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments have been made to reflect VAT that is accounted for outside the process described above. The principal adjustments relate to import VAT, repayments made to government departments and Officers'

Assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains.

6.1.4 Uncertainty Around the Estimates

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

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

7 Payables, Accrued Revenue Payable and Deferred Revenue

A breakdown of Payables, Accrued Revenue Payable and Deferred Revenue falling due within one year is as follows:

	Payables as at 31 March 2010 £ billion	Accrued Revenue Payable as at 31 March 2010 £ billion	Deferred Revenue as at 31 March 2010 £ billion	Total as at 31 March 2010 £ billion	Total as at 31 March 2009 £ billion
Value Added Tax	1.8	8.0	–	9.8	9.2
Corporation Tax	12.1	0.6	0.2	12.9	13.2
National Insurance Funds and the NHS	3.6	15.0	–	18.6	15.5
Other Revenue Payables	0.6	–	0.4	1.0	1.1
Payments on Account	1.2	–	–	1.2	–
Sundry Payables	–	–	–	–	0.1
Total	19.3	23.6	0.6	43.5	39.1

Payables are amounts recorded as due at the end of the reporting period but payment has not been made in full.

There are three distinct types of accrued revenue payable. These comprise, firstly, amounts due to VAT traders that have an established revenue liability relating to the financial year, but the date the claim is received is after the end of the reporting period; secondly amounts of receivables and accrued revenue receivable that will when received be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services; thirdly amounts in respect of Corporation Tax likely to be repayable by HMRC pending finalisation of enquires.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods.

There are no Payables which fall due after one year.

8 Bad and Doubtful Debts

8.1 Breakdown of Bad and Doubtful Debts

	Notes	2009-10 £ billion	2008-09 £ billion
Revenue Losses	8.2	6.3*	4.6
(Decrease)/Increase in Provision for Doubtful Debts	8.4	(0.3)	3.3
Total Bad and Doubtful Debts		6.0	7.9

*This figure differs from the rounded total in table 8.2 due to presentational rounding.

Bad and Doubtful Debts are made up of revenue losses and the movement in the provision for doubtful debts. The analysis of revenue losses is shown below:

8.2 Revenue Losses

	Remissions 2009-10 £ million	Write-offs 2009-10 £ million	Total 2009-10 £ million	Remissions 2008-09 £ million	Write-offs 2008-09 £ million	Total 2008-09 £ million
Income Tax	91	892	983	54	646	700
Value Added Tax	32	3,117	3,149	23	2,246	2,269
Corporation Tax	5	725	730	3	596	599
Alcohol Duties	24	28	52	-	71	71
Capital Gains Tax	2	27	29	4	56	60
Tobacco Duties	19	2	21	-	14	14
National Insurance Contributions	50	870	920	36	480	516
Tax Credits	407	30	437	264	23	287
Other Remissions and Write-offs	17	29	46	2	39	41
Total Revenue Losses	647	5,720	6,367	386	4,171	4,557

Remissions are debts capable of recovery but HMRC has decided not to pursue the liability, for example, on the grounds of value for money or official error. 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.

8.3 Revenue Losses – Cases over £10 million

There were 69 cases (40 cases in 2008-09) where the loss exceeded £10 million, totalling £1.9 billion. Specific details are shown below:

There were 4 write-offs relating to the Proceeds of Crime Act, over £10 million each, totalling £48.5 million (£46.5 million Excise duties and £2 million VAT). Following legal proceedings, confiscation orders were raised against the individuals involved in each of the 4 cases. The confiscation proceedings have now concluded, realising all identified assets, and proceeds have been paid to the Ministry of Justice.

There were 50 write-offs of VAT and interest relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £1.3 billion. All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 13 write-offs relating to insolvency over £10 million each. They were for VAT, Corporation Tax and interest totalling £181 million.

There was a bulk remission of £133 million in respect of 162,293 tax credits overpayments. This related to aged debts that were considered irrecoverable and not cost effective to pursue.

National Insurance Contribution losses in Note 8.2 include a total of £222 million of Class 2 contributions no longer collectable as they had become time barred. Of this amount, £29 million (2008-09: £12 million) was a result of the annual exercise to clear time barred debts and £193 million resulted from a special exercise to clear aged irrecoverable debt.

8.4 Provision for Doubtful Debts

	2009-10 £ billion	2008-09 £ billion
Balance as at 1 April	11.2	7.9
(Decrease)/Increase in Provision for Doubtful Debts	(0.3)	3.3
Balance as at 31 March	10.9	11.2

Receivables in the Statement of Financial Position are reported after the deduction of the Provision for Doubtful Debt (PDD) which is estimated based on HMRCs analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The PDD is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non collectable debt.

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

9. Provision for Liabilities

	Legal Claims 2009-10 £ million	Legal Claims 2008-09 £ million
Balance at 1 April	8,545	2,220
Provided in the year	339	7,230
Provision not required written back	(2,440)	-
Provision utilised in the year	(1,525)	(905)
Balance at 31 March	4,919	8,545

HMRC is involved in a number of legal and other disputes. Provisions for legal and other disputes relate to claims by taxpayers against HMRC. The Department, having taken legal and other specialist advice, has established provisions having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements.

The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

It is in the nature of HMRC's business that a number of these matters may be the subject of negotiation and litigation over several years.

The information usually required by IAS 37 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the legal claims against the Department.

10 Contingent Liabilities

10.1 Taxes subject to legal challenge

HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. Depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

There are many risks and uncertainties in assessing both the number and value of contingent liabilities; this assessment is drawn up using the Department's experience of litigation and forming judgements on our chances of success. Legal cases are unpredictable and no assurance can be given that the amount will not exceed that shown below.

The total meeting the criteria for contingent liabilities is estimated at £5.5 billion.

10.2 Consequences of oil field decommissioning on Petroleum Revenue Tax

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with oil and gas fields subject to PRT to be carried back indefinitely. As a result, there is always the possibility the field decommissioning costs will be set-off against the assessable profit arising for any chargeable period during the life of the field. The set-off must be made first against the assessable profit arising in the latest possible chargeable period with, thereafter, any balance of the loss offset against the profit of previous periods, working backwards until it is exhausted. As a result, the PRT charges for the period to which the losses get carried back may be less than originally measured and any accrued revenue receivable for those periods will be less than originally thought.

The cost of decommissioning remains uncertain since it will be determined by the domestic and international obligations that prevail when abandonment takes place. The majority of expenditure is likely to be spread over the next 25–30 years or so but this depends on the extent to which the North Sea output can be sustained, so the timing is uncertain.

Estimates of cost vary; a technical presentation given by Department of Energy and Climate Change (DECC) in October 2009 (Regulations in the North Sea) suggested a cost of between £23 billion and £25 billion at today's prices in respect both of fields subject to PRT and those not, with just over half of all decommissioning costs estimated to fall on fields subject to PRT.

11 PAYE Open Cases

At 31 March 2010 there were 18.2 million open cases (un-reconciled PAYE cases) relating to 2007-08 and preceding tax years, affecting 15.4 million customers. Currently there are no accurate estimates of the amounts due to the Department or to be repaid to customers. The Department is in the process of reviewing these cases and considering future actions.

12 Related-Party Transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related parties have undertaken material transactions with the Department during the year.

13 Events after the reporting period

An adjusting event occurred after the reporting period when the Finance Bill 2010 received Royal Assent on 8 April 2010. Bank Payroll Tax was introduced by the bill and accrued revenue is reflected in the Trust Statement (see Note 2.7).

Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 5(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000 AND WITH SECTION 2(3) OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921

1. Her Majesty's Revenue & Customs (HMRC) shall prepare **Resource Accounts** for the year ended 31 March 2010 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2009-10.
2. The Resource Accounts shall be prepared so as to give a true and fair view of the state of affairs as at 31 March 2010 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended. The Resource Accounts 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.
3. If, in 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.
4. HMRC shall prepare a **Trust Statement** for the financial year ended 31 March 2010 which shall give a true and fair view of the state of affairs relating to the collection and allocation of taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries and any other revenues and related expenditures administered by the Department and the revenue income and expenditure and cash flows for the financial year then ended.
5. When preparing this Statement, HMRC shall have regard to the guidance given in the attached Appendix to this Direction. HMRC shall also agree the format of the Principal Accounting Officer's Foreword to the Trust Statement and the supporting notes (including the accounting policies particularly with regard to revenue recognition) with HM Treasury. Regard shall also be given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance as issued by HM Treasury, the principles underlying UK Generally Accepted Accounting Practice and, for tax credits, guidance issued by the Organisation for Economic Co-operation and Development.
6. The Resource Accounts, together with the Trust Statement, shall be transmitted to the Comptroller and Auditor General for the purpose of his audit examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
7. The Resource Accounts and Trust Statement, together with this direction, (but with the exception of the appendix), shall be laid before Parliament in one volume containing both financial statements and the Report produced by the Comptroller and Auditor General under section 2(2) of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.
8. This Direction supersedes the Direction dated 2 September 2008.

Chris Wobschall

Head of Assurance and Financial Reporting Policy

HM Treasury

17 February 2010



National Audit Office

HM Revenue & Customs 2009-10 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2009-10
Accounts of HM Revenue & Customs

20 July 2010

Issued under Section 2 of
the Exchequer and Audit
Departments Act 1921

Amyas Morse

Comptroller and
Auditor General

15 July 2010

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Summary

Scope of the audit

1 Section 2 of the Exchequer and Audit Departments Act 1921 requires the Comptroller and Auditor General (C&AG) to examine the accounts of HM Revenue & Customs (the Department) to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. The C&AG is also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. The C&AG's audit opinion on the Trust Statement account and this report together satisfy that requirement.

2 We have examined the Department's activities and principal tax streams, and obtained evidence on the adequacy and operation of its regulations and procedure. This report sets out our overall conclusions from this examination, and our findings and recommendations in three areas which were a priority for the Department in 2009-10:

- the collection of PAYE (Part 2);
- debt management (Part 3); and
- Tax Credits (Part 4).

3 There are three broader issues that have influenced the Department's administration of tax in 2009-10:

- the **recession**, which has increased the value of tax debt to be recovered;
- the pressure on the Department to **increase efficiency** and **reduce its cost base**, which has required it to streamline many processes; and
- the **effectiveness of information systems** in providing information which enables it to manage tax collection effectively, for example by automatically linking a taxpayer's debts for all taxes. This is particularly important because the Department is increasingly adopting a customer **segmentation** approach, which identifies different types of taxpayer and adopts tailored approaches to communication and tax collection for each type. This requires sophisticated systems which provide a 'whole of customer' view of a taxpayer's position and the Department's interaction with them.

4 Our conclusions on the Department's overall management of the tax systems are based on our examination under Section 2 of the Exchequer and Audit Departments Act 1921, our value for money studies under the National Audit Act 1983, and consideration of the Department's Statement on Internal Control. Since our previous report on the Department's Accounts,¹ we have completed five value for money studies, resulting in the following reports:

- Review of errors in Guaranteed Minimum Pension payments (HC 878 of 2008-2009).
- Dealing with the tax obligations of older people (HC 961 of 2008-2009).
- HM Revenue & Customs' estate private finance deal eight years on (HC 30 of 2009-2010).
- Handling telephone enquiries (HC 211 of 2009-2010).
- The efficiency of National Insurance administration (HC 184 of 2010-2011).

5 We have begun work on two further value for money studies, to be published later in 2010, on the management of civil investigations, and working with tax agents. As part of a wider programme of work to validate the value for money savings reported by major government departments, we are undertaking a review of the Department's efficiency savings.

Conclusion

6 Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, we conclude that, in 2009-10, HM Revenue & Customs has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes and tax credits in this report.

The collection of PAYE

7 In June 2009, the Department implemented a new National Insurance and PAYE Service (the new Service). This brought together its existing PAYE records with the National Insurance Recording System, allowing it to combine all information on individuals' employment and pension income in a single record for the first time.

¹ *HM Revenue and Customs 2008-09 Accounts*, HC 464 Session 2008-2009.

The implementation of the National Insurance and PAYE Service

8 The introduction of the new Service has been difficult. The Department originally planned to implement it in June 2008 but this was twice deferred; first to complete aspects of its development and second to satisfy itself that the system infrastructure would meet operational demands. The Department estimates that as a result of the deferral it incurred a further £33 million of costs and was unable to realise £55 million of planned efficiency savings during 2008-09 and 2009-10. In addition, it estimates that changes to system requirements and implementation costs, including those to meet revised security guidelines, have added a further £78 million. The Department's latest business case now estimates the total cost of the project at £389 million, with expected savings of around £532 million over five years.

9 The re-phased implementation began in June 2009, with the full system functionality completed in April 2010 following the final software release. Although the initial implementation went well, problems in the quality of the Department's employment data and operation of the new Service have contributed to subsequent difficulties in processing:

- up to seven million potential over and underpayments of tax have yet to be processed as a result of delays in loading 2008-09 end of year returns onto the new Service. In addition, erroneous employment records have been generated due to the new Service's inability to match some of the end of year returns to existing records;
- work items (processing exceptions requiring manual review) were created at a much faster rate than the Department's operational team were ready to handle. To avoid breaching its 12.5 million capacity limit, the seven million potential over and underpayment items relating to the 2008-09 end of year processing were removed from the Department's new work management system. It now plans to begin the reconciliation of 2008-09 over and underpayments in August 2010; and
- significantly more amendments to tax codes were calculated than expected when the new Service first supported the annual generation of tax codes used by employers to calculate tax deductions from pay. The Department found that the new Service had the potential to generate up to 25 million coding notices, almost double the 13 million anticipated. A significant number of the amended codes were incorrect.

10 The Department only fully appreciated the extent of the data inaccuracies once the problem with the annual coding emerged in January 2010. It took action to prevent the notification of the majority of these codes to individuals and to ensure that none were issued to employers without checking and correction. Its recovery programme involved the review of over nine million records potentially at risk. It also deferred the automated reconciliation and clearance of the 2008-09 and 2009-10 end of year tax returns to carry out further checks on two million records that were potentially in error. The underlying problems with the new Service's functionality will only be fully rectified with further changes to the software supporting the annual coding and end of year reconciliation processes, which the Department intends to have in place for 2011.

11 The phased release of the new Service also meant that the functionality to support the automated reconciliation of individuals' PAYE records was not available to the Department between July 2009 and April 2010. Although it set up a process to manually work open cases going out of date, it was not able to work the bulk of the backlog of 18.2 million un-reconciled cases from 2007-08 and previous tax years affecting around 15 million people. Many of whom may not be aware that they have overpaid tax and are due a refund or, where they have underpaid, that they are liable to make further payments. The amounts involved are substantial, which early analysis suggests could in aggregate lead to tax repayments and recoveries of £3.0 billion and £1.4 billion respectively.

Action being taken by Department

12 The Department is undertaking a review of the annual coding exercise to identify lessons learned and further actions not addressed by its recovery programme. It has also launched a follow-up programme to stabilise the new PAYE service, including further modification to aspects of the computer system and operational practices, with the aim of balancing the delivery of the PAYE operational workload. It is considering a proposal to manage clearance of legacy open cases, those relating to 2007-08 and prior years, which predate the implementation of the new Service.

Recommendations

- a** **The Department has a programme underway to stabilise service delivery. It is examining the root causes of data quality issues in the new Service, their impact, and approaches to their resolution.** To minimise the risk of inaccurate or incomplete data entering the new Service, it should:
- review the systems for capturing and processing data before it enters the new Service and assess the scope for improving data quality through more stringent validation;

- review the standards for the quality of data submitted by employers and other stakeholders, take steps to educate and support them in their achievement, and identify those who persistently fail to comply for targeted follow up;
 - set targets for the lead time allowed to clear critical work items taking account of the risks to the accuracy of employment data; and
 - to minimise the impact of over and underpayments of tax identified through the end of year reconciliation process, set targets for the accuracy of tax codes issued to individuals and their employers.
- b The Department is proposing to review its PAYE operating model as part of its programme to stabilise the new Service. The uncertainty over the PAYE operating model and the backlog of open cases make it difficult for it to forecast the overall workload and the operational resources required to deal with it.** It is imperative that the Department stabilises the performance of the new Service so that work items are cleared promptly and, at the very least, are not carried over into the following tax year. The Department should also set a clear timetable for completing this work and clearing the backlog of open cases.
- c The Department previously planned to reach a steady state in the clearance of open cases by 2010 where open cases were cleared for each tax year and there were no backlogs for earlier years. Based on its latest plans, the backlog of open cases will take a further four years to clear.** The Department should:
- prioritise the clearance of cases where it believes the taxpayer has overpaid tax;
 - examine the scope for accelerating the clearance of the backlog through the use of automated solutions rather than manual working; and
 - re-assess the scope to identify and exclude underpayments of tax where recovery is unlikely to represent value for money.

Debt Management

13 Over the last year the Department's Debt Management and Banking Directorate (the Directorate) has increased the value of debt recoveries by £5.6 billion to £67.9 billion, despite the recession making debts more difficult to recover. At the end of March 2010 the total level of receivables² in the Department's accounts was £26.1 billion, compared to £27.7 billion as at 31 March 2009.

² Receivables in the Trust Statement represent amounts due from taxpayers in respect of established liabilities at the end of the reporting period for which payment has not been received. Debt is passed to the Directorate at the point when payment is overdue.

14 The Department has continued to develop its approach to collecting debt. It has a range of activities underway including a number in response to recommendations we have previously made on improving debt management, such as the strengthening of risk profiling and managing debt through a single system. The Department has also introduced new payment methods and trialled the use of private sector debt collection agencies.

15 During 2009-10, it introduced a campaigns-based approach to debt collection in each of the major taxes. Each campaign is individually designed, tailoring and coordinating recovery actions to the Department's analysis of the debt and debtor behaviour, including the earlier identification of cases for enforcement. In 2009-10, as the new approach began to be rolled-out, campaigns collected £2.8 billion, representing less than 5 per cent of all debt collected in the year. The Department is extending the campaigns-based approach rapidly and plans to implement it across all taxes by October 2010.

16 The Department's evaluation of these initial campaigns suggests an improvement in the rates of collection and staff productivity compared with its traditional debt collection processes. However, the information currently available to management does not readily allow comparison of performance between campaigns or with the previous debt collection approach.

17 The Department's management information systems do not currently provide the necessary analysis of debt and customer behaviours to support the campaigns-based approach. It currently relies on ad hoc data analysis to support the planning and delivery of individual campaigns, but this does not allow it to analyse debt and monitor performance in real-time and thus limits its flexibility to reconfigure campaigns and redeploy resources where its risk assessment changes. It currently plans to implement enhancements to its information systems in 2011-12 to support its analysis of debtors and management of campaigns.

18 In addition to improving its approach to collection, the Department has continued to assist taxpayers by providing faster access to time to pay decisions. Between November 2008 and March 2010, its Business Payment Support Service agreed over 300,000 time to pay arrangements valued at some £5.2 billion. It has estimated that businesses are paying over 90 per cent of time to pay arrangements on time.

Recommendations

- d The Department has developmental work underway in a number of areas to further improve its management of debt.** It should continue with its plans and, in particular, press ahead with work to establish a mechanism to systematically measure the performance of campaigns. It should:
- establish a consistent set of measures, including their cost and effectiveness, to allow comparisons to be made across campaigns and over time. These measures should also link with the Department's new top-level debt management targets of the value of debt overdue by 30 and 90 days, and to the clearance of aged debt;
 - set specific targets when planning individual campaigns. These targets can then be used to assess the performance of each campaign and of the campaigns-based approach; and
 - introduce a process to assure the data supporting the set of measures.
- e The Department is extending the campaigns-based approach to embrace all of its debt collection activity. It is undertaking a number of initiatives to support the roll-out of the approach and produces detailed plans for each individual campaign.** To ensure that it can resource the larger number of campaigns appropriately, it should put together an overall plan showing the number and type of staff skills, training and management oversight required across all campaigns and regularly review this plan as campaigns are running.

Tax Credits

Error and fraud

19 In 2009-10, the Department paid a net £27.3 billion in Child and Working Tax Credits to more than six million families. It estimates that error and fraud resulted in payments of between £1.95 billion and £2.27 billion being made to claimants incorrectly and between £0.20 billion and £0.31 billion not being paid to claimants due to error. The levels of error and fraud are material within the context of the £27.3 billion spent on tax credits. As this expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002, the Comptroller & Auditor General has qualified his opinion on the regularity of the tax credits expenditure reported in the 2009-10 Trust Statement.

20 The Department has a target to reduce error and fraud to not more than 5 per cent of the value of finalised entitlement by March 2011. Because of the time lag in producing error and fraud estimates, the Department will not be able to assess if it has achieved this target until the summer of 2012. To provide a measure of its progress, it has set

targets for the amount of error and fraud it needs to prevent each year. It calculated that it needed to prevent £650 million of error and fraud by the end of March 2010. It aims to prevent £1 billion of error and fraud by March 2011 and £1.4 billion by the time the awards for 2010-11 are finalised in July 2011.

21 In April 2009, the Department launched a new strategy for reducing error and fraud, targeting claims where error and fraud is most prevalent. This included improving support to claimants, new approaches to identifying and preventing error and fraud from entering the system, and enhanced risk assessments. There is evidence that the new approaches are beginning to deliver positive results. Taken together, the Department estimates that its interventions on individual awards led to a reduction of error and fraud of £569 million in 2009-10; this compares with £253 million in 2008-09. It is continuing to develop its measurement of intervention yield and strengthen its assurance activities to increase the consistency and accuracy of measurement.

22 In aggregate, the Department estimates it prevented error and fraud of £656 million, in excess of its target of £650 million. This estimate includes the Department's assessment of the impact of its communications (£30 million) and the wider deterrent effect of its interventions (£57 million) both of which are difficult to measure objectively.

Recovery of overpayments

23 The adjustment of tax credits awards at the end of each year to reflect claimants' actual circumstances can result in over and underpayments. While the annual level of tax credits overpayments continues to fall, the Department has been less successful in recovering the backlog of overpayments from previous years. At the end of March 2010, the amounts to be recovered by the Department had increased to £4.5 billion, of which £1.3 billion is being recovered by adjusting ongoing awards. Of the balance, £2.4 billion relating to awards that are no longer in payment has been passed to the Debt Management and Banking Directorate to be recovered directly and a further £0.8 billion is yet to be transferred, in some cases because the overpayment is disputed.

24 The Department's collection rate for tax credits debt is substantially lower than for tax debts. In 2009-10, direct recoveries were £202 million, less than 10 per cent of the total value of the £2.4 billion of tax credits debt with the Directorate. This is partly because of the financial difficulties which claimants face and their inability to repay, and partly because of the Department's debt collection priorities which have led the Directorate to focus its recovery action on higher value tax debts, rather than the comparatively lower value tax credits debt. The Department continues to work to identify and clear all of the debt which it is uneconomic to collect from its debt system.

Recommendations

- f The Department currently has little information to assess the relative vulnerability of each stage of the tax credits process to error and fraud.** To assist in the targeting and design of future interventions in those areas of greatest risk, it should undertake further analysis to understand the root causes of error and fraud and where and how these enter the system.
- g The accurate measurement of error and fraud prevented across the wide range of interventions is essential to assessment of the delivery of the Department's strategy.** The Department needs to put in place improved guidance and quality control procedures to improve the accuracy and reliability of intervention yields.
- h The Department is taking steps to improve its analysis of tax credits debt to give a better measure of the claimant's ability to repay. It will use this analysis to support the targeting of its collection of debt arising from the 2010 renewals process.** The Department should:
- set a clear timetable for extending its analysis of tax credits debtors' ability to pay to cover all debt currently identified for direct recovery;
 - use this analysis to help it to identify those debts which are uncollectible or uneconomic to collect for write-off; and
 - bring all remaining tax credits debt into active recovery by extending the campaigns-based approach to include debts outstanding from previous years.

Part One

Introduction

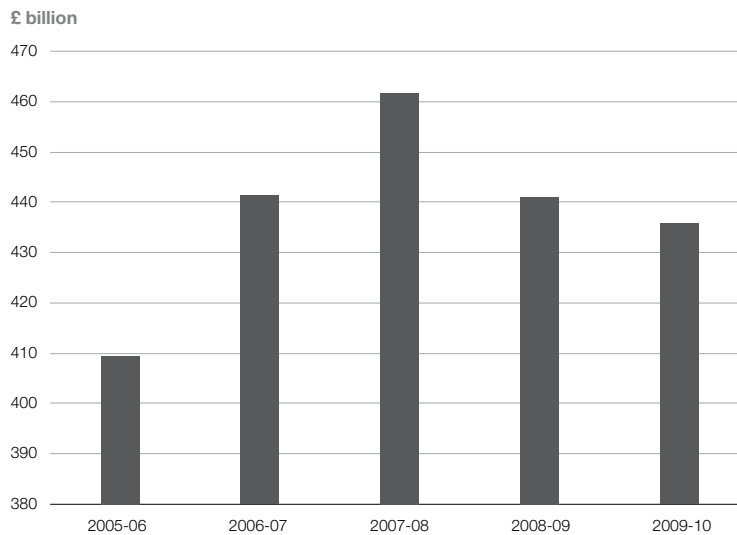
Tax revenues in 2009-10

1.1 In 2009-10, total revenues accruing to the Department were £435.1 billion, £5.9 billion (1.3 per cent) lower than in 2008-09.³ **Figure 1** shows the tax revenues reported in the Department's Trust Statement in the last five years.

1.2 **Figure 2** overleaf shows the changes in tax revenues between 2008-09 and 2009-10. The largest decreases in revenues were in Corporation Tax, Capital Gains Tax and Petroleum Revenue Tax. These were partly offset by increases in Hydrocarbon Oils Duties and Tobacco Duties.

Figure 1

Total revenue 2005-06 to 2009-10



Source: HM Revenue & Customs

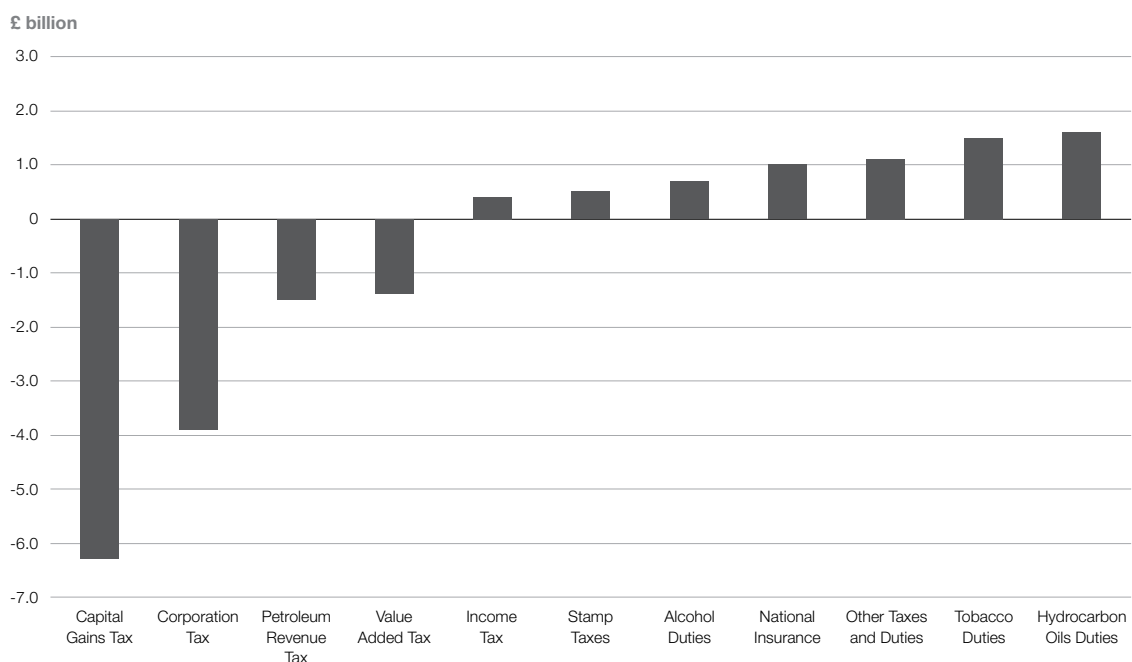
³ From 2009-10, tax credits expenditure is no longer classified in the Statement of Revenue & Expenditure between negative taxation and payments of entitlement. To ensure comparability with 2009-10, prior year revenue figures have been restated to exclude tax credits expenditure previously classified as negative taxation.

1.3 Accrued Revenue Receivable, the tax and duties relating to the financial year but not yet due to be paid, was £15.6 billion (24 per cent) higher at 31 March 2010 than at 31 March 2009. This reflects the improving economic situation. Although the economic downturn led to cash receipts for Income Tax being lower than in 2008-09, this was offset by the increase in accrued revenue receivable meaning that overall Income Tax revenue changed little. The reasons for the main changes in revenues are:

- **Capital Gains Tax: £6.3 billion (77 per cent) decrease.** The decrease is due to taxpayers having brought forward disposals in prior years to take advantage of temporarily lower rates, and to falls in asset values affecting the volume and value of disposals.
- **Corporation Tax: £3.9 billion (9 per cent) decrease.** The decrease is due to lower profits as a result of the economic downturn, mainly in the offshore sector, where production levels and gas and oil prices were lower, and in the financial sector.

Figure 2

Changes in 2009-10 tax revenues compared to 2008-09



Source: HM Revenue & Customs

- **Petroleum Revenue Tax: £1.5 billion (60 per cent) decrease.** The decrease is due to lower gas and oil prices, and lower production volumes.
- **Value Added Tax: £1.4 billion (1.8 per cent) decrease.** The decrease in revenue is due to the temporary reduction in the VAT rate from 17.5 per cent to 15 per cent from 1 December 2008 to 1 January 2010.
- **Tobacco Duties: £1.5 billion (19 per cent) increase:** The increase is mainly due to an increase in the duty rate, a fall in the amount of foreign travel and the euro exchange rate reducing the incentives for cross-border travel and fraud.
- **Hydrocarbon Oils Duties: £1.6 billion (6 per cent) increase:** The increase is primarily due to increases in the duty rate.

1.4 Receivables, amounts due from taxpayers but not yet paid, decreased by £1.6 billion (5.8 per cent) to £26.1 billion, reflecting the Department's improved performance in collecting debt.

The Department's objectives for 2009-10

1.5 Departmental Strategic Objectives (DSOs) set out for Parliament and the public what government departments will deliver in return for their funding. DSOs are underpinned by key indicators for measuring progress, against which Departments publish their performance. The Department has two DSOs for the Spending Review period 2008-09 to 2010-11:

- DSO 1: Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled; and
- DSO 2: Improve customers' experiences of the Department and improve the UK business environment.

1.6 In its 2009-10 Business Plan, the Department set out four further enabling objectives, and the actions that it would take in 2009-10 to achieve all six objectives. The four enabling objectives were: improving professionalism; delivering an affordable and sustainable cost base; motivating and developing staff; and exploiting information and technology services.

1.7 In addition to these objectives, the Chancellor of the Exchequer sets out his strategic priorities for the Department in an Annual Remit letter. In his letter for 2009-10, the Chancellor acknowledged the progress the Department had made in setting its strategic direction with the new DSOs and 2009-10 Business Plan. He set the following priorities for the year:

- protecting tax revenues in the economic downturn by reducing debt, and tackling abusive avoidance, evasion and non-compliance;
- reducing tax credit fraud and error and improving the take-up of working tax credit;
- implementing the 'Modernising PAYE Processes for Customers' (MPPC) programme;
- implementing the remaining recommendations of the Poynter Review on data security; and
- achieving value for money savings by delivering workforce change.

1.8 As well as delivering the Chancellor's priorities in 2009-10, the Department had to fulfil its commitment to a 5 per cent year on year real terms reduction in funding over the period 2008-09 to 2010-11. It is aiming to deliver efficiency savings across its three principal areas of costs: staff, accommodation and IT. It reduced its staff from 84,000 to 69,300 in the two years to April 2010. As well as reductions in staff numbers, its plans for workforce change include redeploying staff, ensuring they have appropriate skills, and improving employee attendance and engagement. We are undertaking a review of the Department's savings as part of a wider programme of work to validate the value for money savings reported by major government departments.

1.9 The Department also continued with its Transformation Programme in 2009-10. The Programme includes expanding the take-up of online services, launching an integrated National Insurance and PAYE Service; improving the tools and processes used in compliance and enforcement; reducing the size of its estate; delivering retail banking to all government departments; and delivering a single government website for businesses. In 2010-11, the Department's strategy is to focus on understanding different groups of taxpayers and tailoring its engagement with them according to their willingness and ability to meet their obligations.

Changes in the Department's powers and scope

1.10 In 2009-10, there were two major changes affecting the Department's powers and scope: the formal creation of the UK Border Agency, and the start of a new penalty and compliance checking regime for the largest taxes. A new tax, the bank payroll tax, was also introduced in December 2009.

Powers Review

1.11 The Department's review of its powers, deterrents and safeguards (the Powers Review) started in 2005 following the merger of the Inland Revenue and HM Customs & Excise. The aim of the Powers Review is to modernise tax penalties, compliance checks, and the Department's investigative powers, and to align them across taxes.

1.12 The new penalties regime applies to returns due on or after 1 April 2009 for Income Tax, VAT, PAYE, National Insurance contributions, Corporation Tax, Capital Gains Tax and the Construction Industry Scheme. A new compliance checking framework also began for the largest taxes on 1 April 2009. This introduced new inspection and information powers, and aligned record-keeping requirements. It also aligns the time limits for compliance checks and claims to four years for these taxes. The penalty regime and compliance checking framework were extended to most other taxes and duties from 1 April 2010.

1.13 The Powers Review has also introduced measures to make debt collection more efficient, and simplified and harmonised the interest chargeable on late payment of tax.

UK Border Agency

1.14 During 2009, the UK Border Agency, an agency of the Home Office, took on statutory responsibility for protecting the UK's borders against illicit and harmful trade, with 4,841 of the Department's staff formally transferring to the new agency.

Bank payroll tax

1.15 Legislation in the Finance Act 2010 introduced a new bank payroll tax. The gross receipts are forecast to be £2.5 billion before taking into account the potential impact on other tax revenues. This tax is payable at a rate of 50 per cent by banks on banking employees' bonuses exceeding £25,000. The tax applied to all discretionary and contractual bonuses from the time of its announcement, on 9 December 2009, to 5 April 2010. Payment is due on 31 August 2010.

Part Two

The collection of PAYE

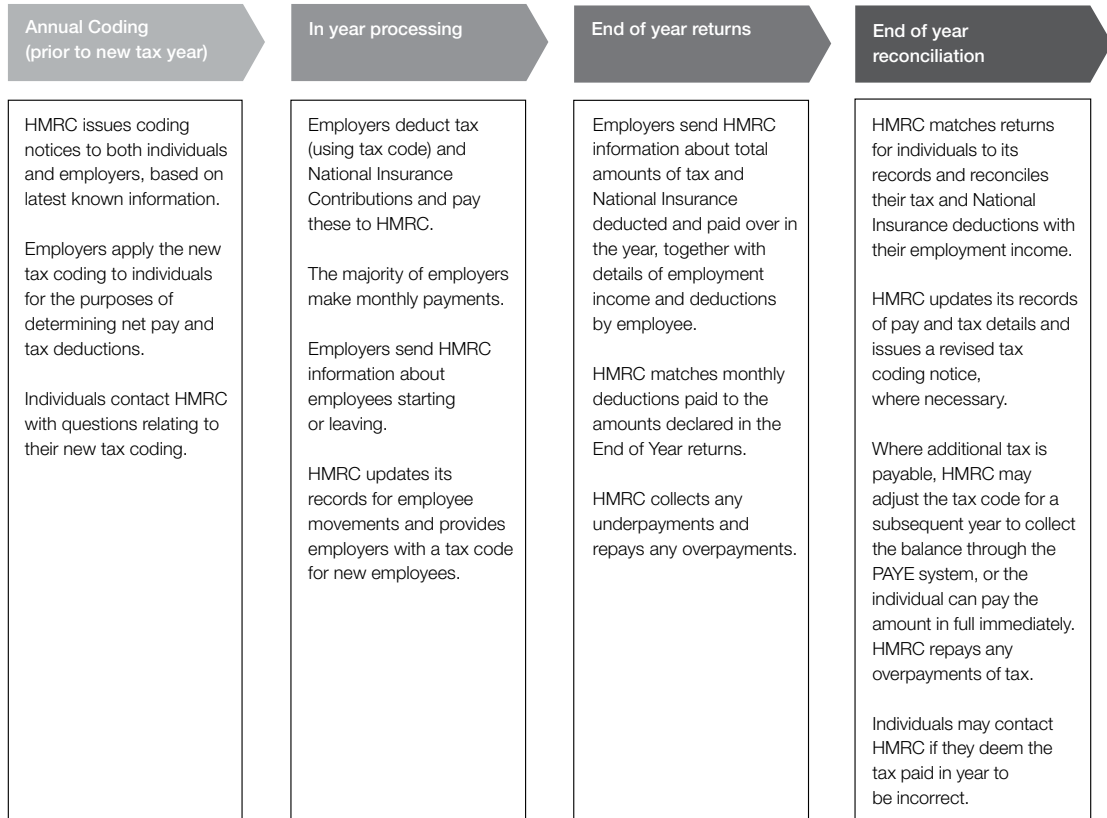
Introduction

2.1 In 2009-10, the Department collected £150.0 billion in Income Tax and £99.0 billion in National Insurance contributions (NICs), through Pay as You Earn (PAYE) and Self Assessment. Under PAYE, employers deduct Income Tax and NICs from employees' pay and pay it directly to the Department. This Part of our report considers the recent changes the Department has made to the computer systems to support the collection of PAYE.

The PAYE Process

2.2 Employers and pension scheme administrators (collectively referred to as employers) are responsible for administering PAYE schemes on behalf of the Department by ensuring that the correct amounts of tax and NICs are deducted from employees' earnings and paid over to the Department each month. The Department issues a tax code for each employee, so that employers can calculate how much tax to deduct. Tax codes are determined by individual taxpayers' circumstances and are revised to reflect relevant changes notified to the Department. While employers submit monthly returns of total deductions from employees and payments made to the Department, it is only when they submit their annual returns that they provide information on total earnings, tax deducted, NICs and statutory payments under each PAYE scheme and for individual employees. These enable the Department to update the individual's record and reconcile their earnings to the tax and National Insurance paid to identify any over or underpayments. **Figure 3** outlines the main stages in the PAYE process.

Figure 3
Key stages in the PAYE Annual Cycle



Source: HM Revenue & Customs

The challenges of administering PAYE

2.3 We have previously reported on the challenges the Department faces in administering PAYE in the modern employment environment.⁴ The Department's former PAYE computer systems were designed at a time when it was usual for people to have one source of employment and not change employer very frequently. The systems therefore structured records around employments rather than individual taxpayers, and these were held in 12 regional databases which were assigned to specific tax offices. Working patterns have changed, with many taxpayers having more than one job or frequently moving jobs (such as students), and the number of people with multiple sources of income (such as working pensioners) has increased. As the Department's records of some individuals' employments have become spread across more than one of its regional databases, it became increasingly difficult for it to bring together a complete picture of an individual's employments identifying all relevant sources of income, increasing the risk of people paying the incorrect amount of tax.

2.4 The challenges in processing PAYE have contributed to an increase in the volume of cases identified through the Department's end of year reconciliation process that require manual checking. 'Open cases' arise where the PAYE system identifies discrepancies in taxpayer records or where end of year returns are not matched to an existing record. Delays in clearing these records can mean delays in notifying taxpayers if additional tax is payable or refunds are due. At the end of March 2010, there were 18.2 million open cases relating to the 2007-08 and preceding tax years, affecting an estimated 15.4 million customers. The extent of over and underpayments of tax in this population can only be determined when the open cases are worked. However, early analysis by the Department suggests that around half of all these cases are likely to involve an over or underpayment of tax and in aggregate these may lead to repayments and recoveries of the order of £3.0 billion and £1.4 billion respectively.

The New PAYE Service

2.5 In June 2009, the Department implemented the new National Insurance and PAYE Service (the new Service) which involved a major upgrade to its PAYE systems, bringing together the National Insurance Recording System and its existing PAYE employment records to combine all information on individuals' employment and pension income. The new Service represents the final stage in a long term programme to modernise the collection of PAYE with the objective of improving the quality of processing, customer service and accuracy of tax collected, which began when online filing of employers' end of year returns started in 2005.

⁴ Report by the Comptroller and Auditor General, on *HM Revenue & Customs 2005-06 Accounts*, HC 1159, Session 2005-2006.

2.6 The new Service introduces a single record for an individual's PAYE pay and tax details irrespective of the number of sources of income they have, which should result in more accurate tax codes and reduce the likelihood of individuals over or underpaying tax. In addition, replacing 12 regional databases with a single national database allows the Department to deal with the majority of enquiries at first point of contact and to manage demand for operational services nationally rather than by region.

2.7 A key function of the new Service is its workflow management system, which allows the Department to identify processing exceptions for manual review by staff. For the first time, the new Service provides the Department with a national picture of such exceptions which it can prioritise and assign to the processing offices that have the capacity to deal with them.

2.8 The new Service also offers efficiency savings. In its business case the Department planned to reduce the number of staff engaged on PAYE processing by the equivalent of 2,034 full time posts. Overall, based on its revised business case, the Department expects to save around £532 million over five years, and to recover its investment of £389 million by 2013.

Delays in implementation

2.9 The Department originally planned to implement the new Service in June 2008 but deferred its implementation twice, first to October 2008 and then to spring 2009. The first deferral was to allow the Department to complete the development of key aspects of the system. The second deferral was caused by uncertainty about the system's ability to support expected volumes of transactions. The Department took the view that it was better to defer implementation again than to put the operation of PAYE at risk. As a consequence, end of year returns for the 2007-08 tax year were processed by the predecessor system rather than the new Service.

2.10 The Department revised its business case to reflect the impact of its decision to defer implementation of the new Service and other project changes. It estimates that as a result of the deferral it incurred a further £33 million of costs and was unable to realise £55 million of planned efficiency savings during 2008-09 and 2009-10. In addition, it estimates that changes in system requirements and implementation costs, including those to meet revised security guidelines, have added a further £78 million to the cost of the project.

2.11 Following the second deferral, the Department made significant changes to the way the PAYE modernisation programme was governed. It recruited a new programme director, introduced a new programme governance structure, changed the risk and stakeholder management processes, and appointed consultants to provide assurance on specific aspects of the new Service. To reduce the risk to implementation and minimise the disruption to PAYE processing, the consultants advised that the timetable for the implementation should be broken down into more manageable stages. The Department therefore chose a phased approach based on three system releases, with the aim of delivering the maximum functionality in the first release.

2.12 The first release in June 2009 delivered core PAYE functionality which included the creation and maintenance of taxpayer and employment details, tax code calculations and aspects of end of year processing. It also involved the migration of data into the new Service and the transfer of users to the new system. Two further phases in November 2009 and April 2010 completed the release of the system software, including more complex functionality for end of year reconciliations and real time management information.

2.13 One consequence of the decision to phase the implementation of the new system and defer the end of year reconciliation functionality was that, between June 2009 and April 2010, the Department did not have the system capability to work the backlog of 18.2 million un-reconciled cases from previous tax years. Although it set up a process to manually work open cases relating to 2003-04 before the statutory deadline for their clearance passed.

2.14 The Department's decision to defer the implementation of the new Service from October 2008 to June 2009 was justified. Aside from the concerns around the capacity to support the expected volume of transactions, there is further evidence to suggest that the system was not ready for implementation in October 2008. At the time the decision was taken in June 2008 to defer implementation, the Department understood that system software was fully developed and ready for implementation. However, subsequent system and business testing in the run-up to implementation identified over 4,600 defects in the system software and 109 omissions from the original specification. The resolution of these issues within the revised timetable placed additional demands on the programme, although all identified system omissions and all but 57 of the lower priority defects were resolved prior to the system being implemented in June 2009.

2.15 The Department assessed the severity of these remaining defects in terms of their impact on customers and on the operation of the system. In the light of this analysis it decided to proceed with the implementation rather than delay it any further. It introduced manual workarounds to address these known weaknesses until the required enhancements to the system could be implemented in the later releases. It estimated that these workarounds would delay its planned redeployment and release of up to 500 operational staff.

2.16 The Department planned and tested the transfer of data to the new Service through a series of trials, before migrating all data in June 2009. The data transfer involved the alignment of 54.3 million live taxpayer PAYE records across the 12 regional databases into 45.4 million distinct customer employment records on the new database.

2.17 The integrity of the information held on individual employments was not validated prior to migration. While the Department accepted that further work to update and correct some employment data in the period following implementation would be required, it assumed that the exceptions processes it had put in place would be sufficient to correct data inaccuracies as it received up to date information from employers. However, evidence from the initial operation of the new Service suggests that the Department did not fully appreciate the extent of risk from data inaccuracies or its implications for the delivery of PAYE.

Operation of the New Service

Roll-out of the New Service

2.18 The implementation of the new Service was a significant undertaking, involving the progressive roll-out to 650 locations and 23 business units across the country over several months and the transfer of 28,500 staff onto the system. The Department also delivered a training programme for all system users in advance of the new Service's implementation and established arrangements to ensure that teams had technical support and guidance through the transition.

2.19 The initial implementation went well with the new Service operating as intended and staff being able to use its online functions without any major issues. The Department's transition team, which was established to support staff through the initial implementation period and respond to any issues arising from live operation, was disbanded several weeks ahead of schedule. It was only later that the Department began to experience difficulties with the late running of the processing of 2008-09 returns, a build up in work items, and the problems with 2010-11 annual coding. These issues are considered in the following paragraphs.

Processing 2008-09 Returns

2.20 Delays in loading and reconciliation of end of year returns have prevented the processing of over and underpayments of tax for the 2008-09 tax year. The Department had planned to process the returns for the 2008-09 tax year in the summer of 2009, but software problems prevented posting of 2008-09 data to the new Service until November 2009. In previous years, end of year processing would usually start in April and be largely complete by October.

2.21 As the full system functionality, including the capability to automatically clear certain reconciling items, would not be available until April 2010, the Department had intended to work these items manually. However, when the Department was able to run the reconciliation of 2008-09 returns in mid-December, it identified in excess of seven million over and underpayments. Because of the delays in processing, it had effectively lost the opportunity to work these cases and make any necessary corrections to its PAYE data before it was due to run the 2010-11 annual coding exercise. As a consequence, in January 2010, it decided to defer the reconciliation of these items until the automatic clearance capability was available. These items will now be processed from August 2010, although it is not yet clear how many cases will clear automatically and how many will be left for manual working.

2.22 In addition to contributing to the delays in finalising the 2008-09 tax year, the problems in matching end of year returns with employment data led to the system generating erroneous employment records. This is because, unlike the predecessor system, the new Service automatically creates an employment where it receives information it cannot match to an existing record. In some instances, most notably when an occupational pension is reported to the Department for the first time, the new Service will create a work item which has to be examined promptly to safeguard against subsequent errors in processing. However, in most instances, the creation of a new employment is not flagged as a work item in the new Service. This means that erroneous employments could have been created in the new Service which were not identified for further review.

Managing Work Items

2.23 The new Service's work management system identifies exceptions and other actions (work items) arising from PAYE processing which require resolution by operational staff. Unlike its predecessor system, the new Service allows management to prioritise work items and allocate staff according to national priorities. There are currently almost 150 different types of work items relating to a range of exceptions, for example:

- discrepancies between employers' records and those held on the system;
- discrepancies arising on the validation of tax details;
- over and underpayments of tax outside system tolerances; and
- where it automatically creates a new employment, for example, on receipt of an end of year return for an employment not previously identified on the system.

2.24 In the period up to December 2009 the Department found that work items were being created at a much faster rate than it was able to work. There was a risk that the 12.5 million capacity for open (unworked) items in the work management system would be breached. This risk materialised when the Department eventually processed 2008-09 returns data on the new Service generating an additional seven million items. This led it to remove these items from the work management queue and reschedule them for processing in August 2010. Following this, the total number of open work items has fallen to, and has stayed within the range of 6 to 8 million, and within the capacity of the work management system.

2.25 Not all exceptions identified by the new Service are flagged as work items. In May 2009, the Department introduced a mechanism which allows it to prevent certain lower priority exceptions from entering the work item queue. The Department does not have a precise figure, but estimates that approximately 10 million lower priority exceptions in the period up to March 2010 were prevented from entering the work item queue. The Department estimates that half of the exceptions relate to the initial transfer of data into the system.

2.26 Accurate employment data is fundamental to the effective working of the new Service. The delay in clearing some of these work items increases the risk of inaccurate employment data in the system. In certain circumstances these inaccuracies could potentially lead to errors in tax codes being operated by an employer, or errors in repayments or demands for payment being issued by the Department.

2010-11 Annual Coding

2.27 In January 2010, the Department began to issue annual coding notices for the 2010-11 tax year, informing individuals and their employers how much tax-free income they are entitled to. This was the first time that the new Service had supported annual coding, and the Department had previously estimated that it might issue around 13 million coding notices to individuals, approximately 10 per cent more than in previous years. In the event, the Department found that the new Service had produced significantly more amended tax codes than expected, with the potential to generate up to 25.8 million coding notices, almost double the amount anticipated. A significant number of the codes generated were incorrect.

2.28 The Department was not fully aware of the extent and nature of the errors in coding notices until it started to receive more calls to its contact centres. Individuals were reporting that they had received coding notices containing incorrect allowances, or relating to jobs held years before or jobs never held, and duplicating previous notices. At its peak, the Department received over 18,000 telephone calls per day relating to erroneous coding notices. The errors affected taxpayers in groups with more complex tax affairs, including those with more than two jobs and many pensioners. The errors arose where the Department's and employers' records did not match, and to a lesser extent from processing failures which led to notices being generated for invalid employments and incorrect coding calculations.

2.29 In January 2010, the Department established a recovery programme to identify and prevent the issue of any further incorrect coding notices to individuals and ensure that corrected coding notices were issued to employers in time for the 2010-11 tax year. At that point it had already issued 3.2 million coding notices that were at risk of being incorrect to 2.3 million individuals, but was able to stop a further 3.8 million individuals from receiving a coding notice at risk of being incorrect by intervening to prevent their despatch pending investigation. It also launched a programme of communications with stakeholders.

2.30 The Department reviewed the 45 million employment records on its database and identified 9.3 million records potentially at risk of error. It took steps to ensure that no codes for these customers were issued to employers before they had been checked and, if necessary, corrected. It also prioritised the clearance of records identified as being at risk. By the end of March 2010, it had reviewed 6.6 million records, either through an automated process or, where automated repair was inappropriate, by manual investigation. Where an error in coding was identified a corrected notice was

issued to the employer in advance of the new tax year. At its peak, in addition to the 1,600 already dealing with work items, the Department diverted a further 2,400 staff away from its usual operations supporting personal tax customers to assist in the recovery programme.

2.31 For those employments where a notice was not issued, it asked employers to operate the previous year's code until advised otherwise. The Department has reviewed all at risk cases and is nearing completion of its programme to issue revised coding notices where required.

End of Year Processing

2.32 In the light of the errors in annual coding, the Department recognised that data inaccuracies could lead to further errors in processing and work items. It was concerned that any further errors in data could adversely affect the end of year reconciliation. As a precaution it performed further scans of the database to identify any records where the now known data issues could affect the end of year reconciliation. At the end of June 2010, the Department had identified a further two million records at risk and needing review. It plans to start its bulk processing of the end of year reconciliation for 2008-09 returns in August 2010, after these potentially erroneous records have been identified and corrected or excluded from the end of year reconciliation.

Accuracy of Processing

2.33 The new Service offers the Department the potential to raise processing accuracy due to the increased proportion, around 90 per cent, of work items being cleared automatically under the new Service, compared with around 70 per cent in the former PAYE system. The Department's quality monitoring shows that in 2009-10 it achieved an overall accuracy rate of 95.3 per cent in processing PAYE work items against a target of 96.5 per cent. This compares with 96.2 per cent achieved in 2008-09.

2.34 The principal reason for the failure to achieve the target was a fall in the accuracy of manual processing, which fell to 80 per cent for the year as a whole compared to a target of 89 per cent. The Department considers this dip is mainly because of the scale of the culture shift required for staff to adjust to new ways of working and follow the new processing guidance. In the period following the implementation of the new Service, the accuracy of manual processing fell to its lowest level of 71.8 per cent in November 2009, before returning to 84.1 per cent by March 2010, in line with the level achieved prior to the new Service's implementation. This improvement is partly explained by the prioritisation of specific work items to support annual coding recovery.

2.35 The Department estimates that PAYE processing errors resulted in £132 million of underpayments (compared to £114 million in 2008-09) and £238 million of overpayments (£96 million in 2008-09).

Action being taken by Department

2.36 The Department is undertaking a review of the annual coding exercise to identify lessons learned and further actions not addressed by its recovery programme. The review examines the root causes for the problems; their impact on customers; compliance with established process and policies; the governance process and its application; and the financial impact of cost overruns, delayed benefits and recovery costs.

2.37 The Department closed its PAYE modernisation programme in June 2010. In its place it has launched a successor programme to stabilise the PAYE service delivery. The Programme's three key elements and their objectives are:

- Operational Delivery: to maintain the balanced delivery of the PAYE operational workload, including recovery, to minimise stakeholder impacts and implement working practice changes that optimise the use of resources;
- Stabilisation: to ensure the successful and complete recovery for all PAYE business events, and identify and implement, in 2010-11, solutions that eliminate the root causes of PAYE processing errors; and
- Enhancement: to enhance Personal Tax Group operations to permit a flexible and balanced delivery to customers.

2.38 The Department has set up a project to manage clearance of legacy open cases, those relating to 2008-09 and predating the new Service implementation. Due to the difficulties encountered in implementing the new Service, it has resumed work on open cases in June 2010, focusing on overpayments, but only expects to clear 1.2 million cases by March 2011. It is considering the options available to clear larger numbers of open cases by a combination of automated clearance and manual working. It is also exploring the option of not working lower priority cases, although it will continue to give priority to cases where a customer has potentially overpaid tax.

Part Three

Debt Management

Introduction

3.1 In his July 2009 remit letter to the Accounting Officer, the Chancellor of the Exchequer stated that “during the economic downturn it is vital that HMRC focus on safeguarding the flow of revenue to the Exchequer.” He asked that “steps be taken to actively manage and reduce the £27.7 billion stock of tax debt over the year.”

3.2 In November 2008 we reported⁵ that the Department needed to improve its debt management by: strengthening risk profiling; managing debt through a single system; linking and pursuing together debts owed by an individual taxpayer on different taxes; using more innovative methods for communicating with customers; and improving the efficiency of its telephone centre operation. Our Report on the Department’s 2008-09 Accounts⁶ also highlighted the growth in tax debt and the need for the Department to actively manage debt in the face of the increased risk of default by tax debtors during the recession. The Department has developmental and other work underway, and this part of the Report examines the steps it is taking in revising its approach to debt management.

2009-10 performance

3.3 At the end of March 2010, the receivables⁷ balance in the Department’s Trust Statement was £26.1 billion, compared to £27.7 billion as at 31 March 2009. **Figure 4** shows key collection statistics for 2009-10 and 2008-09. The Department did not have a formal debt performance target for 2009-10. We have previously recommended that the Department should measure the value of debt overdue by 30 and 90 days in line with a standard debt management industry performance indicator. It has now introduced a target based on such measures:

In 2010-11, to reduce the proportion of tax debt remaining by 8 per cent at 30 days and 13 per cent at 90 days compared with 2008-09.

Overall performance will be measured based on the aggregate of performance on Corporation Tax, PAYE and Self Assessment debts. VAT debt will be covered by the new measure following its transfer to the core debt management system.

⁵ *HM Revenue & Customs Management Of Tax Debt*, HC 1152 Session 2007-2008.

⁶ *HM Revenue & Customs 2008-09 Accounts*, HC 464 Session 2008-2009.

⁷ Receivables in the Trust Statement represent amounts due from taxpayers in respect of established liabilities at the end of the reporting period for which payment has not been received. Debt is passed to the Directorate at the point when payment is overdue.

Figure 4

Debt collection in 2009-10 compared to 2008-09

	2009-10 (£b)	2008-09 (£b)
Total revenue	435.1	441.0
Collection		
Debt passed to the Directorate for collection	86.5	83.0
Debt cleared by the Directorate	86.4	78.7
Cleared by:		
Collected	67.9	62.3
Revenue losses written-off or remitted	6.3	4.6
Amendments, cancellations and other adjustments	12.2	11.8
Receivables balance in the Trust Statement		
Receivables balance as at 31 March	26.1	27.7
Provision for doubtful debt	10.9	11.2
Net receivables balance as at 31 March	15.2	16.5

Source: HM Revenue & Customs

3.4 The Department's Debt Management and Banking Directorate (the Directorate) is responsible for the pursuit of debt. In 2009-10, £86.5 billion of debt was passed to it, an increase of £3.5 billion over the previous year. It collected £67.9 billion, £5.6 billion more than in 2008-09.

3.5 Not all debt passed to the Directorate is collected:

- The Department writes-off tax which cannot be collected, for example where the taxpayer cannot be traced or becomes bankrupt. It also has the discretion to remit (not to pursue) tax, for example on the grounds of hardship. In 2009-10, the Department wrote-off or remitted £6.3 billion as revenue losses. This is £1.7 billion higher than in 2008-09 because of a special exercise to clear aged irrecoverable debt and the impact of an increase in insolvency levels following the economic downturn.
- Some tax liabilities passed to the Directorate are cleared from the debt system without collection or having been written-off as a revenue loss. This can occur where debts are subsequently amended or cancelled as further information is received to confirm a taxpayer's final liability, for example where an estimated liability is revised by information contained in a tax return. In 2009-10, the Department cleared £12.2 billion of tax as result of amendments and cancellations.

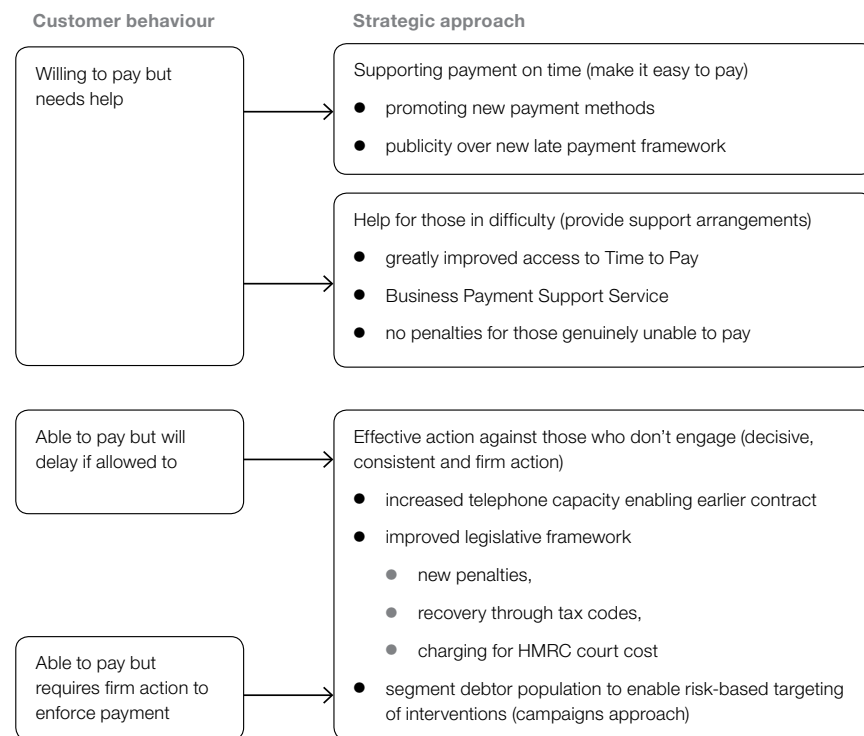
3.6 The Department's provision for doubtful debt at 31 March 2010 of £10.9 billion included estimates for those debts that may be subsequently written-off or remitted and for other clearances resulting from amendment or cancellation.

Improving debt management

The Debt Management Strategy

3.7 During 2009-10, the Department began to implement a revised debt management strategy based on the segmentation of customers according to risk and previous behaviours, and tailoring and targeting its collection activities to increase the likelihood of recovery and to improve the speed of collection and reduce costs (**Figure 5**). Previously the Directorate followed a standard debt collection process with automated debt reminders being initiated in the individual tax systems before being passed to the Directorate for pursuit through telephone calls, in writing and through visits. This approach to debt collection was generally adopted regardless of the type of debt, with limited differentiation by value and risk of non-payment.

Figure 5
Components of the Debt Management Strategy



Source: HM Revenue & Customs

3.8 The principles of the revised strategy are to: help prevent taxpayers getting into debt by supporting them better before their tax liabilities become overdue, and tailoring communications with them so that any queries are resolved and debt is paid without the need for further multiple contact. As part of this revised approach, the Department is improving its debt collection processes through:

- developing a better understanding of taxpayer behaviour;
- adopting a campaigns-based approach;
- improving its information systems;
- developing its channels of customer contact, particularly telephony; and
- improving the quality of its information on debt balances.

Better understanding of taxpayer behaviour

3.9 To better understand taxpayer behaviour and ability to pay, the Department is building its capacity to identify, link and analyse each taxpayer's debts, previous behaviours (payment history) and the actions taken to collect previous debts. This will allow it to build up a historic profile of each taxpayer, across all debts, and to assess their ability to pay, risks of non-payment and insolvency, and which debt pursuit actions are likely to be most effective.

3.10 To date the Department has had to resort to ad hoc interrogations of its debt management system to support this analysis. This approach is inflexible and costly. The Department is developing its capability to routinely analyse debt balances and debtor behaviours. It aims to have this enhanced analytical capability in place for 2011-12.

The campaigns-based approach

3.11 During 2009-10, the Department introduced a campaigns-based approach to debt collection across the major taxes. A campaign is an individually designed, time limited set of actions taken on a particular tax stream's overdue debts. The debt recovery actions for each debt in a campaign are tailored to its nature, previous debtor behaviours and the resources available to undertake the work (**Figure 6** overleaf). The Department planned the campaigns to ensure it had sufficient capacity to take appropriate recovery actions at the time they would be most effective. This included planning the number of debts included in the campaign to ensure that subsequent actions could be sustained through the campaign.

Figure 6

The campaigns-based approach compared to the traditional debt collection approach

Traditional approach	Campaigns-based approach
The pursuit process follows a predictable sequence and is the same for all customers.	The pursuit process is tailored to the nature of the debt and the customer's characteristics and past behaviour. A customer who has never been in debt before is subject to a different approach to a customer who never pays until threatened with enforcement.
The content of letters and phone calls is the same for all customers.	The content of letters and phone calls are tailored, as above.
The length of time between interventions is consistent and predictable.	The length of time between interventions is generally significantly faster paced than before and is aligned with the Department's new debt collection targets at 30 and 90 days, but again is tailored depending on the customer's past behaviour.
Sometimes significant intervals between the Department saying it will take action and it carrying out the action.	The sequence of actions takes place and escalates more quickly than previously.
Limited reference is made to the customer's payment behaviour and its consequences.	Letter and telephone contact make customers aware of the consequences of their actions: <ul style="list-style-type: none"> ● emphasise the customer's responsibility to pay on time or contact the Department before the due date if they cannot do so; and ● letters are designed to prompt high levels of immediate payment or inbound phone contact.
No set time to conclude debt pursuit activity.	Campaigns have an end date by which time the Department aims to have worked all cases to a conclusion.

Source: HM Revenue & Customs

3.12 The Department will measure the success of campaigns by the achievement of successful outcomes, which are collecting the debt, agreeing an instalment arrangement, or cancelling, correcting or writing-off uncollectible debt as appropriate. Its evaluation of the performance of the first completed campaigns suggests improvements in debt collection performance and in staff productivity. For example, the initial Self Assessment campaign collected 85 per cent of the debt balance compared to 57 per cent over the same period the previous year, and used 64 staff compared to some 260 staff in 2008.

3.13 The measures used to support the evaluation of the initial campaigns vary between taxes and, in some instances, are based on data captured locally by the collection offices running them. As a result, the information available to management does not readily allow full comparison of performance between campaigns or with the previous debt collection approach.

3.14 The Department commissioned a more in-depth evaluation of the first campaign on Self Assessment Income Tax. This identified the key success factors of the campaign as: effective capacity planning to maintain the campaign; proactive performance management; and the training and coaching of staff. It identified the main challenge for the Department as replicating these drivers of success when implementing and embedding new ways of working across 6,000 debt collection staff spread across 80 offices.

3.15 In 2009-10, as the new approach began to be rolled-out, campaigns collected £2.8 billion, representing less than 5 per cent of all debt collected in the year. The Department is extending this approach rapidly in 2010-11. Since April 2010, it has run campaigns across all major tax collection systems: PAYE, Corporation Tax, Self Assessment and Value Added Tax. By October 2010 it plans to extend the approach to cover new and legacy debt across all taxes. From June 2010, it has also established specialist debt offices to process revenue losses and to monitor time to pay arrangements.

Improving debt management information systems

3.16 The Department's ability to improve its productivity and flexibility is constrained by the limitations of its information systems. The Department's core debt management system supports a number of functions: the recording of debtors' financial data, letter production, telephony, and workflow management. The fully integrated design of the system makes it more difficult for the Department to separate such debt collection functions to manage customer contact more flexibly, as required under a campaigns-based approach. The system offers some capability to analyse debtor behaviour and to prioritise interventions, but this too is limited.

3.17 The Department is improving its ability to link individual taxpayer debts across tax streams, by incorporating VAT debt currently held on a separate system into its main debt management system. This will allow it to build up a more complete picture of a taxpayer's indebtedness to the Department, prior behaviours and ability to pay. It had originally planned this transfer for October 2010 but this is now scheduled for April 2011 following a reassessment of system requirements and to mitigate risk.

3.18 To maximise the potential of a campaigns-based approach, the Department needs to assess regularly a debtor's financial position and response to particular interventions. Currently, this analysis is performed by specialists working with limited data drawn from the debt management system. The inability to analyse debt in real time limits the Department's capability to reconfigure campaigns and reallocate resources. The Department plans to introduce enhanced analytics and campaign management systems from April 2011, but recognises that there are risks to the timely delivery of these systems.

3.19 To support the campaigns-based approach, the Department has increased the number of telephone staff and extended telephone call centres' opening hours to pursue debt. Between August 2009 and March 2010, eight sites, with 880 staff were reallocated into telephone-based debt pursuit. The Department also intends to replace the current telephony system by 31 December 2010 to allow automated switching between inbound and outbound calls and therefore automatically respond to changing volumes of inbound calls throughout the day.

Ensuring the debt balance represents collectible debt

3.20 As stated in paragraph 3.5, not all debt included in the debt balance falls to be pursued. To help ensure debt collection activity is directed at debt that is legally due, the Department aims to introduce revised processes to identify and remove debts from the debt balance that should not be pursued and, where possible, prevent these items being created. **Figure 7** gives examples of some of the causes of uncollectible debt and the actions being taken to prevent it.

Providing support to debtors

3.21 The Department is also providing support to debtors by making it easier for them to pay and, in some cases, allowing them more time to pay.

Making it easier to pay

3.22 The Department has introduced new payment methods to enhance customer choice and convenience. In November 2008 it introduced payment by credit card and debit card. It is enhancing the ability to pay by direct debit and piloting the collection of small non-income tax debts by adjusting a taxpayer's PAYE tax coding.

Figure 7

Some causes of uncollectible debt and actions taken to prevent it

Potential cause of uncollectible debt	Actions being planned and taken
New companies registered or new employee schemes set up but with no data from taxpayer to indicate activity or having any employees. Penalties and charges automatically issued.	<ul style="list-style-type: none"> ● Identify companies with no activity and make the associated tax record dormant, issuing appropriate notification to the company. ● Identify employer schemes where there is no activity and flag the tax record to prevent automatic penalties and charges being issued.
Time lags with data can mean that determinations or penalties are sometimes raised even when companies, employer schemes or self-employment had ceased operation – some of which might have already been notified to Companies House or the Department.	<ul style="list-style-type: none"> ● Investigating ways of linking data feeds from Companies House to the Corporation Tax system to ensure timely notification of company changes and update details when a company is dissolved. ● Improve handling of company cessation notifications within the department.
To encourage taxpayers to file overdue returns, the Department can raise its own assessments of the tax due. The assessment shows as a debt, which may subsequently be revised downwards once a return is filed with the actual tax liability.	<ul style="list-style-type: none"> ● Issue guidance to explain the impact of tax assessments raised by wider Enforcement and Compliance staff and how they can work with the Directorate to minimise uncollectible debt.

Source: HMRC Uncollectible Debt Project

Allowing more time to pay under the Business Payment Support Service

3.23 The Department can grant taxpayers more time to pay their debts where this improves the likelihood of the tax ultimately being collected and is cost-effective. To help businesses in temporary financial difficulty during the recession to gain faster access to time to pay decisions, the Department launched its Business Payment Support Service in November 2008.

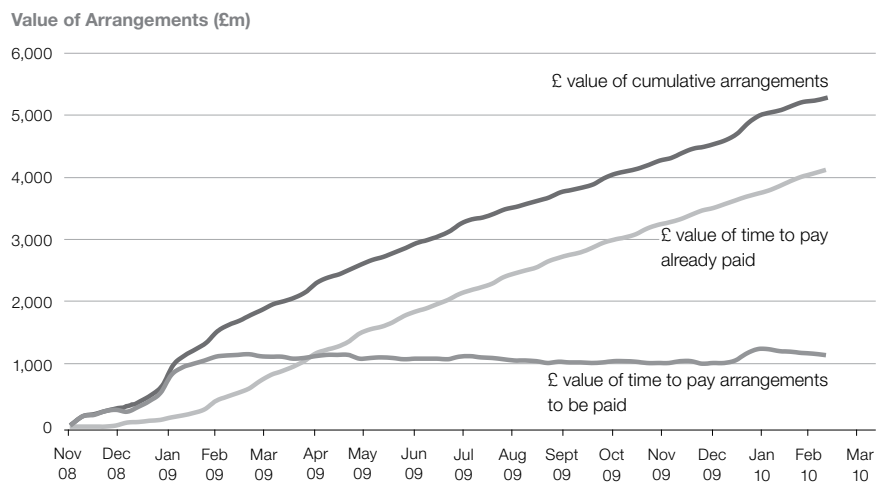
3.24 Between November 2008 and March 2010, the Department has agreed over 300,000 time to pay arrangements valued at some £5.2 billion. As **Figure 8** shows, between March 2009 and March 2010 the value of arrangements to be paid remained relatively steady at just over £1 billion.

3.25 The Department's debt systems do not allow it to monitor separately rates of default for the Business Payment Support Service. However, it has conducted four separate reviews of time to pay arrangements over the duration of the scheme and estimated that businesses are paying over 90 per cent of arrangements on time.

3.26 The Department's review of time to pay arrangements also suggests the service has not been subject to abuse by businesses; visits to over a thousand businesses identified only eleven cases where it now considers support granted under the service was inappropriate.

Figure 8

Value of cumulative and net Business Payment Support Service time to pay arrangements (to March 2010)



Source: HM Revenue & Customs

Enhancing capacity and capability

3.27 In our 2008 report on Debt Management,⁸ we recommended that the Department “explore the benefits and risks of ... using private debt collection agencies to collect some types of debt”. In May 2009, the Department launched a small scale trial to establish the feasibility and impact of using agencies to give it additional capacity and capability to recover debts. The trial was also designed to identify private sector expertise in handling certain types of debt which the Department could then use.

3.28 The trial used two separate agencies to work sample packages of debt. The Department wrote to customers at the start of the process to inform them that their debt was to be passed to a debt collection agency. The Department estimates that around 14 per cent of the debt to be passed to the agencies was cleared as a result of this initial letter.

3.29 The Department’s subsequent evaluation of the trials concluded that they were a success and that agencies have the necessary capabilities to collect a significant level of tax debt that would not otherwise be recovered across a range of taxes. The cost of recovering debt varied significantly. The larger Self Assessment packages achieved a greater return – between £4.40 and £6.10 per pound spent – than the smaller packages of Pay As You Earn and National Insurance debt.

3.30 The Budget on 22 June 2010 announced that the Department will continue the use of private sector debt collection agencies following the trials.

Part Four

Tax Credits

Introduction

4.1 Child and Working Tax Credits (tax credits) offer financial support to more than six million families, supporting around 10 million children. Tax credits form part of the personal tax system. The Department accounts for this expenditure in its Trust Statement for taxes, duties and other revenues and related expenditure. It spends around £27 billion on tax credits each year. **Figure 9** compares tax credits paid in 2009-10 with the previous year.

4.2 Tax credits were introduced in April 2003 as part of wider reforms of the tax and benefits system, to relieve child and in-work poverty. Child Tax Credits provide families with children with financial support based on the number of children and any disabilities they may have. They are available to those aged 16 or over, whether working or not, who are responsible for at least one child. Working Tax Credits support working people by topping-up earnings; the amount depends on factors such as age and the number of hours worked, with additional support for eligible childcare costs or where a member of the household is disabled.

Figure 9
Tax credits overview

	2009-10 (provisional)	2008-09
Families benefiting ¹	6.1 million	5.9 million
Entitlements paid, net of overpayments recovered in the year ²	£27.3 billion	£24.1 billion
Final value of awards ³	Not yet known	£23.6 billion

NOTES

- 1 Figures represent the average number of families benefiting from tax credits.
- 2 The Department makes a final assessment of awards after the end of the year when the claimant's actual income and circumstances are known.
- 3 Actual information for 2009-10 will be available in May 2011, after awards have been finalised.

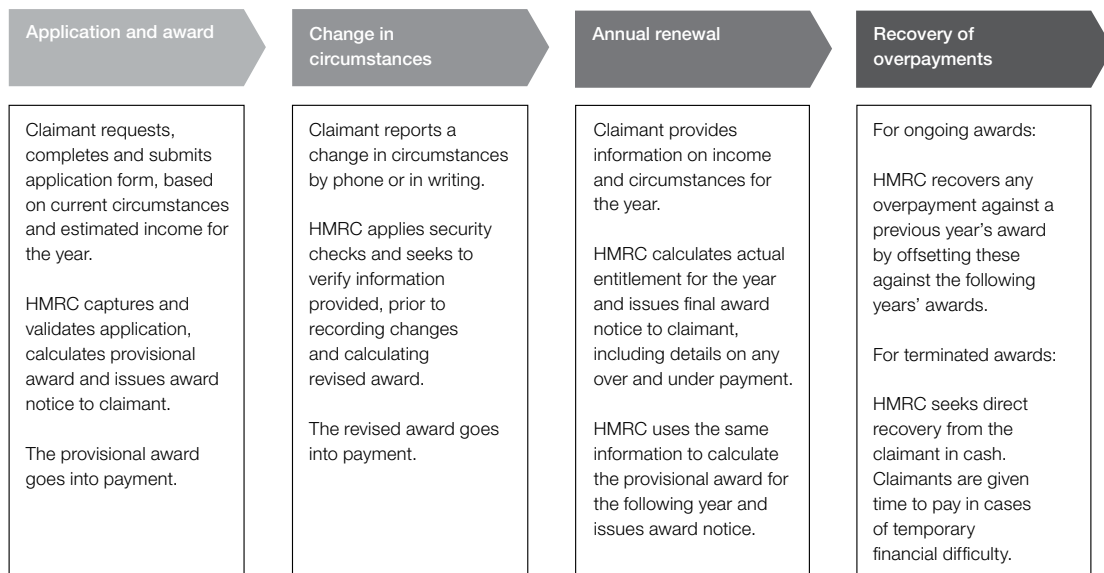
Source: HM Revenue & Customs

4.3 The tax credits scheme is designed to be flexible and to react to the changes in claimants' circumstances. Awards are initially assessed and paid on a provisional basis and then adjusted at the end of year once claimants' actual circumstances are known, giving rise to over and under payments (**Figure 10**). The process is complex, however, and claimants have not always understood their obligations to tell the Department when their circumstances change and to report their actual income and circumstances at the end of the year. Claimants also make genuine errors in their applications which result in incorrect awards, for example because they misunderstand what should be reported as income, or calculate childcare costs incorrectly.

4.4 We reported on tax credits in our Report on the Department's 2008-09 Accounts, and in earlier years. Our examination of tax credits in 2009-10 builds on the work we have undertaken in previous years and in this chapter we report on the Department's progress in:

- reducing error and fraud; and
- recovering tax credits overpayments.

Figure 10
Tax credits process



Source: HM Revenue & Customs

Reducing error and fraud

4.5 In July 2008, the Department announced a target to limit tax credits error and fraud to no more than 5 per cent of the value of finalised entitlement by March 2011. The Department's latest estimate, based on finalised awards for 2008-09, indicates that error and fraud resulted in between £1.95 billion and £2.27 billion (8.3 per cent to 9.6 per cent of the final award). This compares with between £1.65 billion and £1.93 billion (8.3 per cent to 9.7 per cent) in 2007-08⁹. In addition, the Department estimates that error led to between £0.20 billion and £0.31 billion (0.8 per cent to 1.3 per cent of the final award) not being paid to claimants (**Figure 11**).

Figure 11

HM Revenue & Customs' estimates of error and fraud

	2008-09	2007-08 Restated ³	2006-07
Value of finalised awards	£23.6 bn	£19.9 bn	£18.2 bn
Error and fraud favouring the claimant¹ (Overpayments)			
Estimated Range ²			
Percentage	8.3%-9.6%	8.3%-9.7%	7.2%-8.4%
Estimated Range			
Value	£1.95 bn-£2.27 bn	£1.65 bn-£1.93 bn	£1.31 bn-£1.54 bn
Error favouring HMRC¹ (Underpayments)			
Estimated Range ²			
Percentage	0.8%-1.3%	1%-1.6%	1.3%-2.1%
Estimated Range			
Value	£0.20bn-£0.31 bn	£0.20 bn-£0.32 bn	£0.24 bn-£0.39 bn

NOTES

- 1 The Department estimates levels of error and fraud based on the examination of a random sample of 4,165 finalised awards under its annual Error and Fraud Analysis Programme. As awards for 2009-10 are not due to be finalised until July 2010 and in some cases later, the Department will not be able to complete its error and fraud analysis of these awards until early 2011.
- 2 The estimated percentages show the central ranges of error and fraud as a percentage of finalised tax credits entitlement, rather than the midpoints. The Department publishes Child and Working Tax Credits Error and Fraud Statistics each year from where further details may be obtained: <http://www.hmrc.gov.uk/stats/personal-tax-credits/menu.htm>.
- 3 Figures restated to reflect actual rather than projected results.

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

⁹ The estimate of error and fraud in 2007-08 has been revised to reflect actual rather than estimated results, following the completion of its examination of all cases in its Error and Fraud Analysis Programme. As a result, the Department's previous estimate for overpayments of between 7.9 to 9.2 per cent has been revised to between 8.3 to 9.7 per cent. Similarly, its estimate of underpayments has been revised from 0.8 to 1.4 per cent to between 1.0 to 1.6 per cent.

4.6 The levels of error and fraud are material within the context of the £27.3 billion spent on tax credits. As this expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002, the Comptroller & Auditor General qualified his opinion on the regularity of the tax credits expenditure reported in the 2009-10 Trust Statement.

4.7 As we have reported previously, the Department's estimates of error and fraud are based on an examination of finalised awards and exclude the costs of identify theft cases, which are measured separately and dealt with by its specialist Organised Fraud Team. The Department estimates that the work of this team has identified, and prevented, fraudulent awards amounting to £106 million during 2009-10 (£32 million in 2008-09). Most of the increase in the value of fraud prevented is attributable to improved targeting of higher risk applications.

The strategy for reducing error and fraud

4.8 The Chancellor's annual remit letter to the Accounting Officer in July 2009 stated that the increase in tax credits error and fraud was disappointing, illustrating the scale of the challenge facing the Department to reduce the level of error and fraud to 5 per cent by March 2011. He asked the Department to urgently revisit its strategy for meeting the target to ensure that the right interventions in the right quantities were being made to bring achievement of the target on track.

4.9 In April 2009, the Department launched a new strategy to reduce the level of error and fraud in tax credits. It also brought its tax credits processing and compliance teams together under the same management to make best use of its resources in delivering the strategy.

4.10 The new strategy is based on getting a better understanding of tax credits claimants and their behaviours to support a tailored approach to reducing error and fraud. It includes:

- better support to claimants by providing help with the application process and when reporting changes of circumstances;
- preventing error and fraud by identifying non-compliance at the earliest opportunity and responding appropriately; and
- tackling non-compliance through improving risk management processes and tools to maximise the impact of compliance interventions.

Another aspect of the strategy is to improve professionalism by ensuring that staff working on tax credits have the right skills to do the job.

Better support to claimants

4.11 The Department has offered more support to claimants to help them get their claims right by assisting them through the claim and renewals process and by contacting existing claimants to confirm that information held is accurate. In 2009-10 it contacted nearly half a million claimants to confirm the accuracy of its information as part of its 'health check' programme, focusing on those categories of claim where error and fraud is most prevalent – childcare costs and declaration of partners. The Department estimates these interventions to confirm the accuracy of information held have prevented £36 million of error and fraud. Other support activities prevented a further £3 million of error. It is now extending its interventions to focus on other elements of claims, including overstated working hours, non-allowable disability claims, and ineligible children.

Preventing Error and Fraud

4.12 The Department has increased its focus on preventing error and fraud from entering the system at the application, change of circumstances and renewals stages. Primarily, it undertakes pre-award checks of data provided, to confirm its accuracy before it enters the system. Additionally, since December 2009, it has introduced new checks to ensure that the details provided by claimants are correct before the claims are processed ('check now, then pay'). In 2009-10, pre-award checks prevented £173 million of error and fraud from entering the tax credits system. In 2010-11, the Department is extending its checking of changes of circumstances reported to contact centres to cover a wider range of risk categories as well as extending its checking of annual renewals.

Tackling Non-Compliance

4.13 The Department continues to identify tax credits claims for compliance and other enquiries based on specified verification and risk scoring criteria applied at the time awards are processed. The majority of awards checked through these processes are identified using risk scoring and profiling techniques and examined post payment by comparing tax credits data to other systems and targeting specific areas of concern including income discrepancies. As a consequence of these improved risk management processes, £356 million of error and fraud was identified in the system in 2009-10. In these circumstances the Department will correct the awards and take steps to recover any overpayments.

4.14 Taken together, the Department estimates that its interventions on individual awards led to a reduction of error and fraud of £569 million in 2009-10, this compares with £253 million in 2008-09 (**Figure 12** overleaf).

Figure 12
HM Revenue & Customs' Error and Fraud Interventions 2009-10

Interventions	2009-10		2008-09	
	Number (thousand)	Impact (£ million)	Number (thousand)	Impact (£ million)
Better Support to Claimants ¹	524	40	38	5
Preventing Error and Fraud ¹	104	173	57	96
Tackling Non-Compliance ¹	653	356	28	152
Total	1,281	569	123	253

NOTE

¹ Each category includes an amount arising from interventions undertaken by the Compliance, Operations and Customer Contact Directorates.

Source: HM Revenue & Customs and National Audit Office

4.15 The Department continues to impose a financial penalty when it concludes that there has been a deliberate attempt to over-claim, or where the claimant has been negligent and provided the wrong information. In 2008-09 the Department introduced a new penalty regime which aimed to align the penalty with the seriousness of the underlying claimant behaviour, distinguishing between genuine mistakes for which there is no penalty, failure to take reasonable care, and deliberate error. During 2009-10, 1,221 penalties were raised, amounting to £1.8 million.

Measuring performance

4.16 The measurement of error and fraud through the Department's Error and Fraud Analysis Programme can only begin after awards are finalised several months after the end of each financial year and cannot therefore provide management with the real time information it needs to assess progress towards its 5 per cent target.

4.17 We have previously recommended that the Department should develop its performance reporting to obtain information that allows it to monitor progress sooner. The Department has now developed proxy indicators to allow it to track progress in reducing error and fraud through the year. The proxy indicators measure the amount by which each award is reduced as a result of the Department's interventions as well as an assessment of the wider deterrent effect. Its interim targets are to achieve £650 million in yield by the end of March 2010, £750 million by July 2010, £1 billion by the end of March 2011 and £1.4 billion by the end of July 2011. The Department continues to monitor its range of interventions to ensure that it can meet its overall target for reducing the level of error and fraud.

4.18 In 2009-10, the Department estimated that it had prevented error and fraud of £656 million, in excess of its target of £650 million. In addition to the estimated £569 million arising from interventions undertaken during the year, it included assessments of the impact of its communications (£30 million) and the wider deterrent effect of its interventions (£57 million, a 10 per cent uplift of the yields arising from interventions) both of which are difficult to measure objectively.

4.19 The Department is continuing to develop its measurement of intervention yield and strengthen its assurance activities to increase the consistency and accuracy of measurement. It recognises that it faces a challenge to measure the impact of the increased number of interventions delivered across a wider range of staff, including those in operations and customer contact centres, rather than by compliance specialists. The Department's own quality assurance activities have identified scope for improving the accuracy of its measurement of interventions through improved training and guidance.

Recovering tax credits overpayments

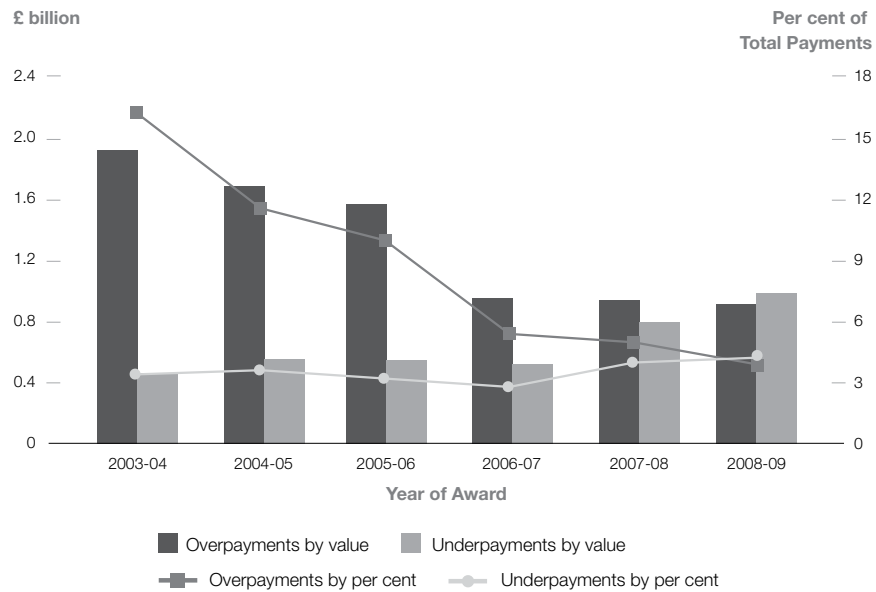
4.20 Overpayments and underpayments are an inherent feature of the tax credits regime because payments are based on claimants' income for the previous year. Claimants' final entitlement, based on their actual income and circumstances in the year, is calculated only after the end of each year.

4.21 The Department has sought to minimise the level of overpayments and hence the amounts that have to be recovered. In 2008-09, overpayments caused by adjustments to awards were £917 million, continuing the reduction in overpayments since the measures announced in the 2005 Pre Budget Report took effect (**Figure 13** overleaf). The principal measure reducing overpayments was the April 2006 increase in the level of income rises disregarded on finalisation of awards, from £2,500 to £25,000.

4.22 Underpayments have, over the last three years, risen from £525 million to £992 million and are now at a level greater than overpayments. The increase in underpayments at year ends results from the decision to withhold arrears of underpayments until after the entitlement has been confirmed as a result of the awards finalisation process.

4.23 The overall level of tax credits debt has increased gradually in recent years. At the end of March 2010, the Department had £4.5 billion of overpayments to be recovered, compared with £4.4 billion at March 2009.

Figure 13
Tax credits overpayments and underpayments to 31 March 2009



NOTES

- 1 In accordance with the Department's normal approach, this figure excludes remissions and overpayments recovered in the year they were made.
- 2 Tax Credits awards for 2009-10 are not all due to be finalised until the end of January 2011. The Department will publish overpayment statistics for these awards in May 2011.

Source: HM Revenue & Customs

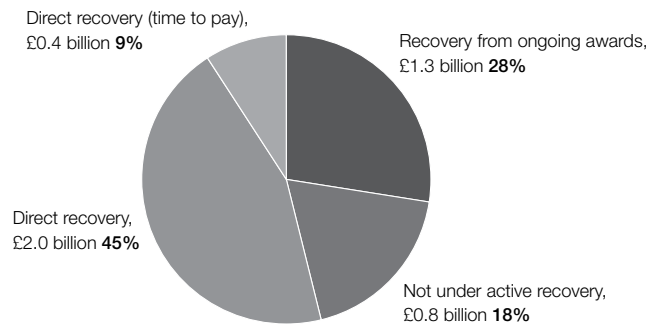
4.24 The Department recovers tax credits overpayments in two ways. If the overpayment relates to an ongoing award, recovery is made by reducing the level of payments in the following year (cross-year recovery). This adjustment is made automatically when the award for the subsequent year is calculated, subject to limits designed to protect low income families. Where claimants' circumstances have changed, resulting in them either receiving a new award, for example because they have a new partner, or no tax credits at all, the Department passes the debt over to its Debt Management and Banking Directorate (the Directorate) for recovery (direct recovery). These recoveries are either through lump sum payments or by agreed time to pay arrangements, where the Department allows claimants to make repayments in instalments over a 12 month period. It may also allow extended time to pay or defer collection in cases of temporary financial difficulty.

4.25 Of the £4.5 billion tax credits debt at 31 March 2010, £1.3 billion was being recovered through cross-year recovery from ongoing awards. A further £2.4 billion was with the Directorate for direct recovery, of which £0.4 billion (17 per cent) was being recovered under time to pay arrangements, whilst £2 billion was awaiting further recovery action. The remaining £0.8 billion was not being actively recovered either because collection had been suspended as claimants had disputed the overpayments or because overpayments related to awards that had not been finalised (**Figure 14**).

4.26 Although overpayments have fallen since the early years of the scheme, the levels of debt clearances are still insufficient to reduce the overall stock of tax credits debt. In 2009-10, the Department cleared £1 billion of tax credits debt. This included £372 million recovered from ongoing awards and £437 million cleared by remissions (debts waived where claimants have no means to pay) and write-offs (where debts cannot be recovered). Direct recoveries were £202 million, less than 10 per cent of the total value of the £2.4 billion of tax credits debt with the Directorate.

4.27 In 2009-10, the Department ran its first campaign for the direct recovery of debt identified as part of the 2009 annual renewals process. However, the start of the campaign was delayed with only half of planned debt recovery actions taking place before the end of March 2010. As a consequence, work on the campaign is continuing. The Department has taken steps to improve its analysis of debts by the household's ability to pay, and will use this approach in targeting its debt identified by the 2010 renewals process.

Figure 14
Tax credits debt at 31 March 2010 by method of recovery



Source: HM Revenue & Customs

Uncollectible debt

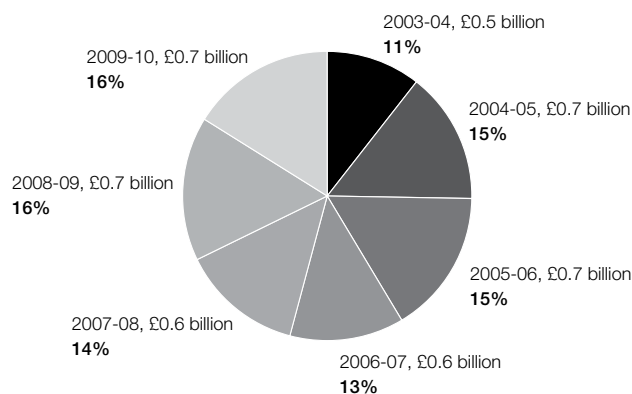
4.28 Over two thirds of tax credits debt is more than two years old (**Figure 15**). The Department's inability to make substantive progress in clearing the stock of tax credits debt relating to the early years of the scheme increases the uncertainty of its eventual collection. Since April 2003, the Department has written off £1.7 billion of tax credits overpayments and it currently estimates that the collection of a further £2.5 billion is doubtful.

4.29 The Department may remit tax credits debts where the cost of collection exceeds the value of the debt. It is also proposing to write-off and remit some debts which are difficult to enforce and which have not been actively pursued, and has recently remitted those cases processed outside the tax credits computer system which led to annual renewals not being managed in strict accordance with the Tax Credits Act 2002. Last year we reported that it initially proposed to remit £235 million of debts in the categories described. However, work to ensure that only appropriate debts were included within the categories as well as resource constraints has meant that clearance has been delayed.

4.30 Due to debt system constraints, the Department has only had limited analysis of the composition of tax credits debt under direct recovery in terms of ability to pay or when collection action was last taken. Its current work to improve its analysis of tax credits debtors' ability to repay should allow it to identify more clearly those cases which are uncollectible or uneconomic to collect for write-off.

4.31 The Department has rejected calls for a general amnesty on historical debt on the grounds that it must ensure equity and fairness to both the taxpayer and those tax credits claimants who have been paid the correct amount or have repaid overpayments.

Figure 15
Tax credits debt by year of award



Source: HM Revenue & Customs

Strategy for recovery of tax credits debt

4.32 In 2009-10, the Department prepared a Tax Credits Debt Tactical Delivery Plan, which was designed to reduce tax credits debt. The plan included objectives to reduce the amount of tax credits debt by £0.2 billion to £4.3 billion by March 2011, and reduce the level of tax credits debt going forward. During 2010-11, it is working to:

- stem the creation of debt by reducing the amount of error and fraud entering the system and by better understanding and measuring the impact of other interventions that reduce overpayments;
- develop a more active approach to engaging with claimants with a tax credits debt and support Debt Management and Banking in its 2010 Debt Campaign; and
- review and write-off uneconomic and unenforceable debts where there is no possibility of collection by March 2011.

4.33 In the longer term, alternative methods of recovery will be considered, including:

- working with the Department for Work and Pensions to trial the voluntary recovery of small overpayments from certain benefits; and
- extending the recovery of debts from ongoing tax credits awards to include any debts the claimant may have from previous awards. However, this will not be possible without a modification to the tax credits computer system; the soonest this can start to be developed for implementation is 2011-12.



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