HM Revenue
& Customs

Annual Report and Accounts 2013-14

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About us – who we are and what we do

The UK is the world's seventh largest economy and the third largest in the EU and we play our part by making it as easy as possible for industry and business to trade

We are an effective, efficient and impartial tax and payments authority. We collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

We are also one of the UK's biggest organisations, with around 61,000 full-time equivalent staff and revenues of more than £500 billion a year from 45 million individuals and 4.9 million business customers.

We contribute to the country's economic and social well-being. The UK is the world's seventh largest economy and the third largest in the EU and we play our part by making it as easy as possible for industry and business to trade.

Our key objectives, set by the government, are to:

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

To these, we have added a fourth objective: include and involve our people in how we meet these key objectives and ensure that we invest in their skills, capability and the experience they have of working in HMRC.

The Chancellor also instructs us to take a lead role in the design of tax policy, working in partnership with HM Treasury to make sure that it is designed in a way that reflects our experience of customers and their behaviour, as well as delivering the government's objectives for fairness and economic growth.

As part of the government's wider ambitions to support working families, we will be launching the new Tax-Free Childcare scheme in autumn 2015. We also work with a number of other government departments to help deliver their objectives, for example in collecting student loans and in enforcing the National Minimum Wage.

Our achievements in 2013-14

£505.8bn

Record amount of **tax revenue we brought in** and £30.2 billion more than in 2012-13

Record **compliance revenues** – £3 billion more than 2012-13

79%

The highest proportion of **customer calls** we have ever answered in a year

83%

Post we turned around within 15 working days – exceeding our target for the second year in a row

We gave up **60,000m²** of estate space in 2013-14 – the equivalent to eight football pitches

34,747,024

The **number of visits** to HMRC's online services in 2013-14 – a 6.6 per cent increase on the previous year

93.4%

The record number of **Self Assessment** returns sent to us by the 31 January deadline

159

HMRC supported the inclusion of strong customs co-operation and trade facilitation articles. 159 countries agreed the **World Trade Organisation's** first major multilateral trade deal in December 2013.

Number of individual employments moved onto **Real Time PAYE** reporting in 2013-14

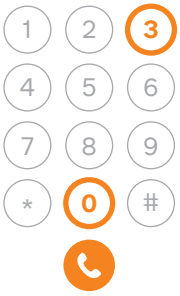
The lowest ever level of **tax credits error and fraud** in 2012-13, down from 8.1 per cent in 2010-11

30

The number of **avoidance cases we won** in tribunals and courts, protecting **£2.7 billion** of revenues

915

The total **number of prosecutions** from our own criminal investigations – up from 770



Call 03

We moved all our **helplines** to 03 numbers, which is cheaper for most of our customers

10m

Fewer sheets printed by our staff compared with 2012-13

£100,000+

The amount of money staff at HMRC raised for the BBC's **Children in Need** appeal – for the fifth year running

5,053 The number of days we gave in 2013-14 to **volunteering** in our local communities

Foreword

Lin Homer

Chief Executive and
Permanent Secretary

I am delighted to introduce this year's annual report and accounts, which sets out how we have performed during the last financial year.

The scale of our work is huge, as we serve almost every individual and every business in the UK. And our role - to collect the money that pays for the UK's public services and to help families and individuals with targeted financial support - is of crucial importance to the country.

This annual report reveals some really significant achievements we made during the past financial year, of which everyone in HMRC should be rightly proud. In 2013-14 we brought in £505.8 billion of total tax revenues - which is £30.2 billion more than in 2012-13 - and record compliance revenues of £23.9 billion, against £20.7 billion in 2012-13. At the same time, we continued to improve customer service and deliver sustainable cost savings.

We handled 79 per cent of customer calls to our contact centres - our best ever performance. We also exceeded our 80 per cent customer post target for the second year in a row, turning 83 per cent around within our target of 15 working days. We processed tax credits and Child Benefit claims and changes of circumstance in 15.3 days for UK claims and in 86.7 days for international claims - well within our target of 22 days and 92 days respectively. Tax credit error and fraud, at seven per cent, is at its lowest level ever, following a reduction for the second successive year.

And we achieved all this while delivering some major projects, such as Real Time Information for PAYE, which has been operational for more than a year, with 48 million individual employments now reporting in real time. We have also prepared for the launch of the new Tax-Free Childcare scheme in autumn 2015, as part of the government's wider ambitions to support working families.

On a number of separate occasions, the government has allowed us to reinvest some of the efficiency savings we are making so we can meet public expectations better on our performance and to collect tax at the best cost to the taxpayer. The government's decision to invest in us is a huge vote of confidence in HMRC and in how we go about our work.

The achievements we have made in recent years show that our people are serving the UK with expertise, commitment and increasing effectiveness. This doesn't mean, however, that we have reached where we need to be: we will continue to strive to do things better and smarter - for individual taxpayers, for businesses, for our people, and for the UK - building on our achievements in the last year and in the years before.

We have started a nationwide face-to-face conversation with our people about how we are building our future

Most taxpayers want to comply with their obligations - and we must make it as easy as possible for this honest majority to get their taxes and benefit claims right, so we can free up our compliance teams to focus on those who really are trying to cheat the system. These are the fundamental principles behind Your Charter, which explains what rights customers can expect from HMRC and what we expect in return.

The needs and expectations of our customers continue to change, and we must change as well, by truly putting customers at the heart of everything we do, showing that we are flexible and adaptable to changing needs. By offering them first-class online services - as they experience with the best online banks and retailers - we'll meet their rising expectations, harnessing digital technology and changing how we work as a result.

We know this will have big implications for our people: what it will feel like to work for HMRC; the types of jobs we'll be doing and the skills we need; and the kind of workplaces we'll be based in. That is why we have already started a nationwide face-to-face conversation with them about how we are building our future - ensuring that everyone has the chance to hear about our plans, to discuss the future and to have a say in how we build it.

Ministers have understandably placed high expectations on us. In 2015-16 we have been asked to make a further five per cent reduction to our budget through efficiency savings and pay restraint, and to bring in compliance revenues of £26.3 billion.

We have shown that we can meet their expectations and that we are an effective, efficient and impartial tax authority. Because, with the issue of tax very much in the public eye, we know how important it is to maintain public confidence in our integrity, impartiality and even-handedness. So we will also work hard to demonstrate that while we have necessarily different approaches to different customers, to reflect the type of risks they represent, we will always seek to collect the taxes that are due under the law from all taxpayers.

We have performed really well over the past financial year, creating solid foundations for the challenges that lie ahead. I know the scale of our ambition is not without risk - and I am the first to acknowledge that - but it is right that we have this ambition and clarity of purpose and direction in building our future for our customers and for the UK.

Lin Homer
Chief Executive and Permanent Secretary

Strategic report

Reviewing our performance

£23.9 billion

We secured record additional compliance revenues in 2013-14

Our people – in their own words

Ved Mangrolia

Specialist Investigations, Manchester

"As an Operational Support Team member working across taxes, my role helps our investigation teams to close the tax gap."

Maximising revenues

Our job is to help the honest majority to get their tax, Child Benefit and tax credits claims right and make it hard for the dishonest minority to cheat the system. The fact that the overwhelming majority of the UK's businesses and individuals are fundamentally honest and pay or claim what is due makes that job much easier for us.

Our strong performance in this financial year is a result of continuing to help customers get their tax and payments affairs right and further strengthening our grip on those who deliberately cheat the system through fraud, avoidance and evasion and by refusing to pay what they owe.

We tailor our approach according to risk and customer behaviours, making the most of new technology, intelligence and analytics. We make sure that people are paying the tax due, when it is due.

We generated additional compliance revenue from our work in 2013-14 of £23.9 billion, more than in any previous year and £3 billion more than we reported in 2012-13. This total includes:

- £9.182 billion cash collected
- £8.003 billion revenue protected
- £5.508 billion future revenue benefit
- £1.233 billion product and process yield.

These types of revenue are explained on page 11. We achieved this by:

- employing 2,000 expert tax specialists to work closely with the 2,000 largest businesses in the UK - those with an annual turnover of £600 million or assets worth £3 billion, providing us with 100 per cent coverage. In 2013-14, we secured more than £8 billion in additional compliance revenues from large businesses
- tackling tax avoidance schemes through the courts. Concentrating our work on marketed avoidance in a new counter-avoidance directorate is sharpening our focus on promoters and users of schemes
- tackling organised crime, protecting and preventing the loss of more than £1 billion
- securing £268 million in extra tax from the UK's 6,000 wealthiest individuals as a result of the work carried out by our High Net Worth Unit, which has more than 400 specialists dealing with customers who each have a net worth of £20 million or more

Our people – in their own words

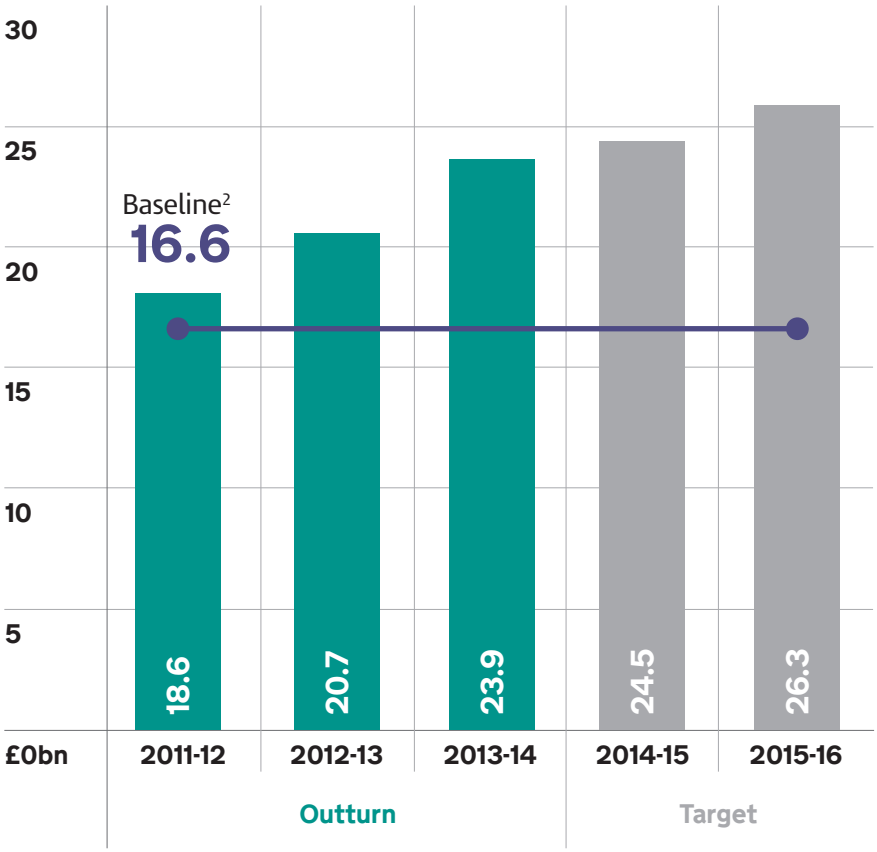
Suzanne Hurst

Special Investigations Assistant Director, Sheffield

"Our newly-created teams of 120 people became operationally effective within three months. During 2013-14 we delivered £294.7 million in revenues, against a target of £142 million."

- investigating cases that led to the prosecution of 915 individuals, predominately for tax-related crimes. Our investigations helped to secure a collective total of 378 years in custodial sentences during the past year
- continuing to close in on offshore tax evaders. New international agreements mean we are getting access to more information on offshore accounts than ever before
- using high-profile billboards, posters, digital and radio advertising campaigns to reinforce the message that we are closing in on undeclared income. Our evasion publicity campaigns aim to prompt voluntary disclosure of hidden income
- continuing to invest heavily in our data capabilities, including exploring new sources of data, such as data from Merchant Acquirers and the Land Registry, and training additional analysts to use Connect - our award-winning data analysis system.

Compliance yield reported by HMRC since the beginning of 2011-12 (£billion) (excluding exceptional items[1])



1 Exceptional items are identified as cases that are (a) an unusual occurrence that is unlikely to be repeated; (b) of such a size that to report it within our normal results would distort the underlying trend of performance; and (c) not included within HMRC's revenue targets, as it could not have been predicted.

2 The £16.6 billion baseline is a figure agreed with HM Treasury from which to negotiate targets. It has been uplifted to reflect an understatement in the original calculation. A number of technical adjustments are required to calculate the baseline, and so it is not a statement of the actual additional revenue generated in 2010-11.

Case study: Notification of Vehicle Arrivals (NOVA)

The Notification of Vehicle Arrivals (NOVA) online service, which started in April 2013, replaced an outdated manual process, making it much more difficult for fraudsters to bring cars into the UK and sell them on without accounting for the VAT. In its first year, nearly 128,000 vehicles were notified through the service, with an additional £115 million net revenue benefit achieved.

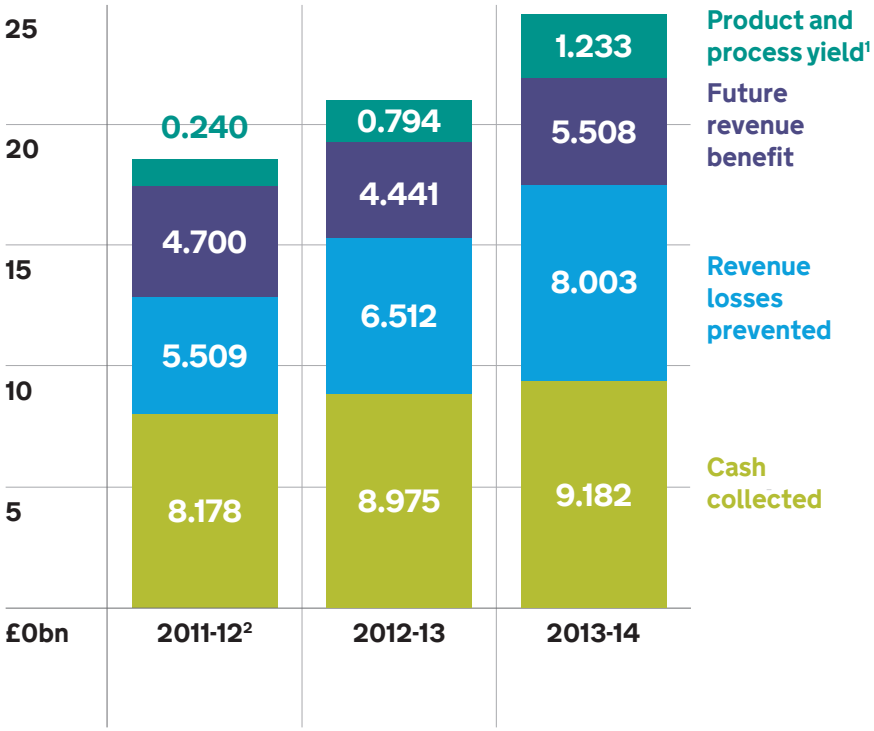
We have secured more than £60 billion in total compliance revenues since 2011-12, of which more than £23 billion came from large businesses. Between 2011-12 and 2015-16, we expect to secure more than £110 billion in additional compliance revenues.

The way we calculate our total compliance revenue (which was updated at the start of the Spending Review 2010 (SR10) period) is based on a number of key components that include:

- cash collected - measures the amount of additional compliance revenue when we identify past non-compliance. We apply a discount rate to reflect the fact that some of the amounts we identify will not be collected, due to insolvency for example
- future revenue benefit - assesses the effects of our work on future compliance behaviour
- revenue losses prevented - is the value of our activities where we have prevented revenue from being lost to the Exchequer, for example, stopping a fraudulent repayment claim
- product and process improvement - is an estimate of the impact in each year of legislative changes made in the SR10 period that close tax loopholes to reduce opportunities to avoid or evade tax.

Technical notes are available online, setting out how we calculate yield in more detail www.gov.uk/government/publications/business-plan-indicators

Total revenue secured by yield type (£billion)



1 The value of product and process yield is the in-year impact of all legislative changes implemented since 2011-12.
2 Prior year breakdown not available on a comparable basis.

Our people – in their own words

Andrew Dunster

VAT Assurance, Maidstone

"I help maximise revenues by tackling the non compliant and by improving customer service."

We continue to develop new ways of achieving successful compliance outcomes. That means making things as straightforward as possible for customers - delivering services in such a way that reduces opportunities for error and encourages accuracy. This is a significant shift from our current approach, which is much more about responding to error and evasion after it happens. To support this, we are also considering how to evolve and change the way in which we measure ourselves, to ensure that our targets support the delivery of these changes.

The National Audit Office (NAO) reviewed our methodology and processes for estimating and compiling yield in 2013-14 and concluded that they were sound and that the measure provides a reasonable proxy for the beneficial impacts of our compliance work. The NAO also found that we have improved the measure to better reflect changes in the nature of our compliance work and that we have taken a prudent approach, collecting relevant evidence before making changes and discounting our estimates appropriately where there is uncertainty. We have taken the NAO's findings into account in the way we have presented our performance this year.

As part of this year's audit activity, the NAO also identified that we should have increased our 2010-11 baseline by £1.9 billion more than we did, as a result of our actual performance and to make it consistent with the methodology introduced in the SR10 period. As a result of the NAO's findings, we have made this adjustment, to ensure that we can measure our performance since 2011-12 against a comparable baseline (see table below).

Effect of understated baseline on reported performance (£billion)

	2011-12	2012-13		2014-15
Original baseline	13	13	13	13
Targeted performance increment from SR10	2	4	5	7
2012 baseline adjustment to reflect new scoring rules for Future Revenue Benefit	1.7	1.7	1.7	1.7
Extra target increment added by subsequent fiscal events	0	0	0.3	1.4
Total performance expectation arising from funding received	**16.7**	**18.7**	**20**	**23.1**
Amount of stretch added to performance expectations[1]			**3.0**	**1.4**
Of which:				
– Amount that can now be attributed to baseline error			1.9	
– Other stretch			1.1	
Total performance expectation	**16.7**	**18.7**	**23**	**24.5**
Outturn	18.6	20.7	23.9	-
Total reported over-performance[2]	**1.9**	**2.0**	**0.9**	**-**

1 In 2013-14 our performance expectations were stretched by a total of £3 billion. We now know that £1.9 billion of this stretch can be attributed to baseline issues. The balance of £1.1 billion represents stretch over and above that which can be attributed to baseline issues. In 2014-15, our performance expectations have already been stretched by £1.4 billion. This is less than the baseline error that we have now identified. We will review whether further changes to our targets are needed.

2 In 2011-12 and 2012-13, we did not anticipate any over-performance when setting targets for the year. However, we can now identify that all of the over-performance ultimately reported in 2011-12, and all but £100 million of that reported in 2012-13, can be explained by the errors within our baseline.

Our people – in their own words

Sohan Singh

Specialist Investigations, Offshore, Birmingham

"I'm working with my team to make sure that offshore evaders voluntarily pay the tax due and remain compliant."

The effect of this under-statement in our baseline means that we should have assessed our performance during the SR10 period against the baseline of £16.6 billion. Our briefing to Ministers was based on our assessment at that time, and so some of the public announcements made about performance improvements drew upon our incorrect assessment of the baseline.

Our original settlement at SR10 required us to increase performance against our baseline in each year of the Spending Review period, rising to an extra £7 billion above baseline per year by 2014-15. The targets for each year were subsequently increased to reflect a change to our rules for scoring Future Revenue Benefit, and our targets for 2013-14 and 2014-15 were also further increased as a result of new funding at later fiscal events. Finally, as the SR10 period progressed and we exceeded our targets in 2011-12 and 2012-13, we offered to 'stretch' our performance expectations to reflect our performance forecasts.

Once we correct for baseline errors, the actual increments we have delivered above our baseline during the Spending Review period so far are:

The increments above our baseline that we have delivered over the SR10 period (£billion)

	2011-12	2012-13	2013 14
Outturn	18.6	20.7	23.9
Revised baseline	16.6	16.6	16.6
Improvement in SR10	**2.0**	**4.1**	**7.3**

Despite the baseline adjustment, we still met the additional compliance yield targets that the government set in SR10: in 2011-12 we delivered the expected £2 billion increase; in 2012-13 a £4.1 billion increase; and in 2013-14, we improved performance £7.3 billion against a targeted £5.3 billion.

The way in which we measure our performance is complex. There is a real tension between the need to ensure that our calculation methodologies reflect current evidence about the effects of our activity, and the need to provide a comparable and stable time series for our performance information. We have been aware of that point and have tried to address this risk when presenting data, by providing appropriate caveats in footnotes. In light of the error we have found in our baseline, we now recognise it would be inappropriate to compare directly compliance yield outturns as they have been measured since 2011-12 with earlier years. We have reviewed the caveats we use and will be drawing particular attention in the caveat to significant methodology changes, such as the changes in 2010. We also recognise the need to provide more information to aid understanding of our complex performance, and have therefore provided a more detailed breakdown of our compliance revenues in this year's Annual Report.

Our people – in their own words

Kevin Thompson

Personal Tax, Operations contact centre lead, East Kilbride

"My team helped employers understand the changes to Real Time Information for PAYE by taking the time to talk them through it on the phone."

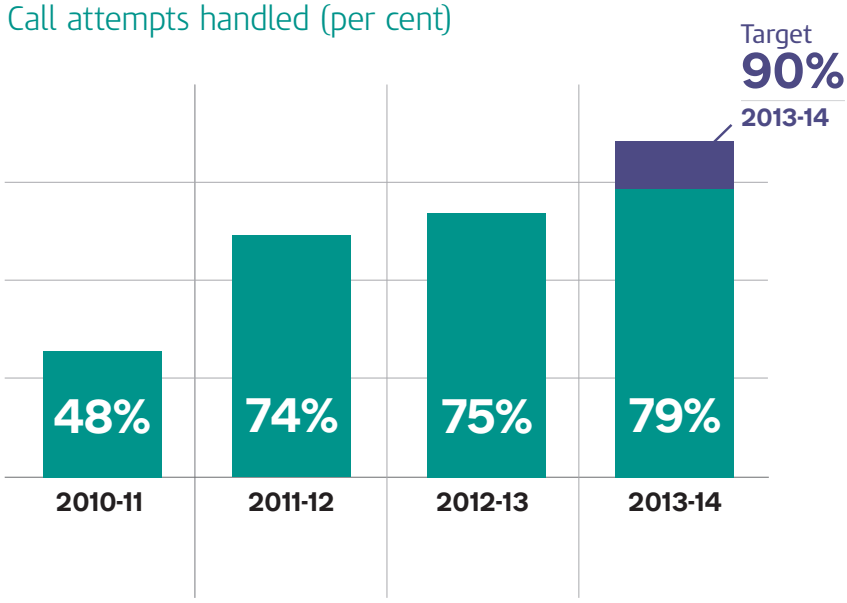
Improving customer services

We have progressively improved customer service levels. Although they are not yet where we want them to be, our collective efforts have recovered our phone and post performance from their low point in 2010-11 and improved significantly over the past three years. For the last two years, we have exceeded our customer service targets in the second half of the year, and it is now our ambition to offer a consistent level of service throughout the year and to manage our peak periods of demand better.

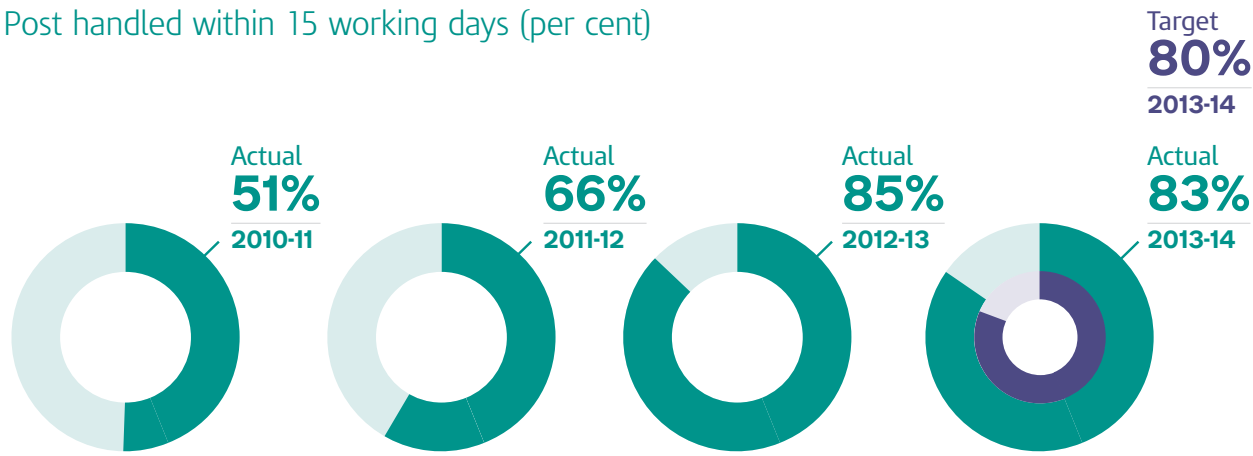
In 2013-14, we continued to make improvements against our customer service targets, by answering 79 per cent of call attempts to our contact centres and handling 83 per cent of post within 15 working days. We have maintained post handling above our target, while we improve our call handling performance towards the target of 90 per cent.

We also processed tax credits, Child Benefit claims and changes of circumstance in 15.3 days for UK claims and in 86.7 days for international claims - well within our target of 22 days and 92 days respectively.

Call attempts handled (per cent)



Post handled within 15 working days (per cent)



Our people – in their own words

Tarveen Singh

Business Customer and Strategy, Croydon

"I spend my time at work helping to improve the experience of our business customers by making tax easier, quicker and simpler."

We made a significant number of changes to our processes to improve the service that we give our customers, which included:

- introducing new speech recognition technology (known as Intelligent Telephony Automation, or ITA) in December 2013 (see case study below)
- launching the biggest modernisation of PAYE since its introduction in 1944, with the roll-out of Real Time Information (RTI) for PAYE in April 2013. RTI brings PAYE up to date with today's employment patterns, where people change jobs more frequently than in the past and can have more than one job or pension. A total of 48 million individual employments have moved to Real Time PAYE reporting in 2013-14
- reducing the cost to customers of contacting us by phone by moving from 0845 numbers to 03 phone numbers, which are far less expensive to call from mobile phones.

Case study

We installed a new telephone speech recognition system across our main helplines in December 2013. The system now handles about a million calls per week from customers. Called Intelligent Telephony Automation (ITA), the new system uses speech recognition to ask what the caller wants and provides the most appropriate response.

Elements of the security process are also automated before a caller is put through to an adviser. This means the adviser knows why the customer is calling and whether or not they have passed security, making the call shorter, and possibly saving the customer money. We now use ITA for calls made to all of our contact centres and in offices where staff switch between telephone and processing work, according to demand.

The feedback from customers and advisers alike has been very positive about ITA. The vast majority of calls are going smoothly through the system with customers automatically getting the information they need or being routed to an adviser able to deal with their specific enquiry.

The department delivered more than £235 million in efficiency savings in 2013-14

Reducing costs

We have achieved this improved performance while making significant cost reductions, year on year. We were set a target of a 25 per cent cost reduction over the 2010 Spending Review period, and a further five per cent in 2015-16 - and we are meeting those targets.

We have done this by streamlining our processes, allowing us to reduce our workforce, our estate and the cost of the services we buy. When HMRC was created in 2005, we had 96,000 full time equivalent (FTE) members of staff and 539 offices. By July 2014, following the closure of our Enquiry Centres, we expect to have fewer than 60,000 FTEs and 190 offices.

While HMRC received additional funding to tackle tax avoidance and evasion, we still had to reduce our costs and the Department delivered more than £235 million in sustainable cost savings in 2013-14. We made these savings in a number of ways, including:

- improving the effectiveness and efficiency of our processes and systems, which enabled us to reduce our overall employee numbers as part of our Spending Review targets. By the end of 2013-14, there were 61,370 full-time equivalent employees, which is a net reduction of 3,106 from 2012-13
- contributing to the government's objective of reducing its estate by vacating 60,000m² of space and saving £21 million in annual costs. One of the key projects was the full vacation of Somerset House in central London, which saved £4 million a year. For the fourth year running, HMRC has vacated more space than any other government department, according to figures from the Cabinet Office.

Our people - in their own words

Adam Grzegorski

Risk and Intelligence Service, Profile and Case Delivery, London

"It's nice to know that when I come to work, I'm using IT that helps stop tax evasion and protects the revenue we collect for the UK."

Case study

Since 2008, we have invested around £80 million in state-of-the-art technology called Connect, enabling us to bring in an additional £3 billion in tax revenues. Connect allows our compliance teams to search more than a billion pieces of data at the touch of a button, taking seconds to find evidence of potential evasion and fraud that would otherwise have taken skilled teams weeks to sift, sort and track down. This has enabled us to reduce the number of people we have working in our Risk and Intelligence function by 40 per cent while still increasing the compliance revenue they collect or protect. Connect has positioned HMRC at the forefront of tax administrations worldwide in the use of cutting-edge data analysis to drive customer compliance.

In summary: key performance indicators

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

Creating sustainable cost reductions

Unit costs (pence per £ collected/paid out)	2013-14	2012-13
Collecting Income Tax (Self Assessment and Pay As You Earn)	0.93	1.00
Collecting Corporation Tax	0.77	0.76
Collecting National Insurance Contributions	0.25	0.27
Collecting VAT	0.64	0.63
Administering personal tax credits	1.41	1.45
Administering Child Benefits	0.55	0.57

Maximising revenue collection

	2013-14	2012-13
Cash collected from compliance	£9.2bn	£9.0bn
Future revenue benefit	£5.5bn	£4.4bn
Revenue loss prevented	£8.0bn	£6.5bn
Product and process yield	£1.2bn	£0.8bn
Total revenue secured	£23.9bn[1]	£20.7bn
Payment on time - proportion of businesses and individuals who pay tax on time - using VAT as lead indicator	86.9%	86.7%

	2012-13	2011-12
Debt roll rate - proportion of tax debt (CT, SA, Employers' PAYE) cleared within 90 calendar days (%)	96.8%	95.4%
Personal tax credits error and fraud - estimated amount of incorrect payments after awards have been finalised	£2.01bn (7.0%)	£2.09bn (7.3%)

	2011-12	2010-11
Tax gap - difference between all the tax theoretically due and tax actually collected	7.0% (£35bn)	7.1% (£34bn)

Stabilising and improving customer service

	2013-14	2012-13
% of post cleared within 15 working days of receipt	82.6%	85.0%
% of post cleared within 40 working days of receipt	96.9%	97.1%
% of post cleared within 15 working days of receipt passing HMRC quality standards	91.3%	91.7%
% of post cleared within 40 working days of receipt passing HMRC quality standards	91.2%	91.8%
% of call attempts handled by our contact centres	79.2%	75.2%
% of return transactions carried out online (12 months to quarter end e-returns, SA, PAYE, VAT, CT and Stamp Duty Land Tax)	97.1%	92.8%
Increase/decrease (-) in cost for all customers dealing with us (compared to April 2011)	+£15.3m[2]	-£2.7m
Increase/decrease (-) in cost for business customers dealing with us (compared to April 2011)	+£44.3m	+£26.3m
Customers find us straightforward to deal with - all customers rolling annual score out of 100 (margin for error in brackets)	72.8 (±2.4)	73.0 (±2.6)

1 The figures do not include exceptional items. Exceptional items are identified as cases that are: (a) an unusual occurrence that is unlikely to be repeated; (b) of such a size that to report it within our normal results would distort the underlying trend of performance; and (c) not included within HMRC's revenue targets, as it could not have been predicted. Exceptional items generated £344 million additional compliance revenue in 2013-14, but have not been included in the performance against targets shown above to avoid distorting our performance.

2 The net increase to customer costs since April 2011 arises mainly from key policy measures announced by the government at the Budget and Autumn Statement. For example, Restrictions to Pensions Tax Relief (£80 million cost increase) and the Bank Levy (£20 million cost increase) have increased customer costs, but directly support measures to reduce the budget deficit. The Patent Box (£26 million cost increase) tax relief is a measure that has been welcomed by business and contributes to economic growth.

Our people - in their own words

Yasmin Khan

HR Diversity and Inclusion Team, Shipley

"I've been helping colleagues to build their confidence and capabilities, which leads them to provide a better service for our customers."

Our people

We need to build an HMRC for the future that involves and invests in our people. The expectations and demands placed on us from customers and from ministers will only increase over time and we need to rise to those challenges and become an organisation that is flexible and adaptable - with people who are ready to learn new skills and do new things.

Over the past year our people have played a central role in delivering record revenues, improving customer service and making sustainable cost reductions. As part of our government spending commitments, we are becoming a smaller and more highly-professional organisation, with fewer people working across fewer locations. In 2013-14 we continued our focus on reshaping and reducing our workforce, as well as beginning to consider how we can build more modern workplaces for our people.

Through redeployments, level moves and promotions, we made effective use of our staff's skills, including promoting more than 5,100 people into roles across the Department and moving 310 people across five different locations. Our focus has always remained on business delivery, so in 2013-14 we also recruited 512 people on fixed-term contracts, as well as recruiting 1,800 staff externally, bringing in new talent and skills to help us to meet our objectives.

As part of our focus on increasing our skills base, we also helped more than 1,000 people start their tax training for the first time and recruited 234 graduates onto our Tax Professional Development Programme.

We are committed to the learning and development of our people. In 2013-14 we invested more than 233,000 days of learning in our people. We also launched the Civil Service Competency Framework across the organisation, to underpin our skills development programme.

In addition, we successfully implemented new terms and conditions for new recruits, aligned with the Civil Service Reform Plan. Our continued investment in the Building Our Organisation programme ensured that we reduced the number of management layers in the organisation, as well as putting the right structures in place and the right people in our key leadership and management roles.

Engaging with our people remained a key priority in 2013-14. We continued to work to improve our results from the Civil Service People Survey with a variety of activities, including:

- extending site-based communications (face-to-face communications led by senior leaders) across the country
- embedding a People Impact Assessment to support change management
- improving our communications channels
- revising our leadership and management intranet site and continue rolling out our leadership events
- running a programme of innovative workshops for 150 senior leaders looking at the importance of trust in building engagement.

We delivered the third HMRC People Awards in 2013-14, with nominations increasing to 565

Our long standing commitment to representing the communities we serve was recognised in 2013-14 when HMRC was named one of the UK's top ten employers for race and gender equality and progression - for the second year running. Our confidence in this arena has grown following the success of our Embrace career management programme for Black, Asian and Minority Ethnic staff in Personal Tax, and we will now offer this opportunity across the Department.

In August 2013 our HR shared services were the first to be awarded the Cabinet Office's Achieving Customer Service Excellence award, evidence of the high-quality service we offer our own people. We delivered the third HMRC People Awards in 2013-14, with nominations increasing to 565. This initiative gives our staff the chance to recognise and celebrate the work of colleagues who demonstrate outstanding talent, innovation and achievement in HMRC.

We also developed additional resources to improve our leadership and management capability, as well as designing a number of ways in which people can progress their careers - from our Spring School and Leap programme for middle and junior grades to the Ascend programme for those aspiring to become part of the Senior Civil Service.

Our investment in talent and career progression has helped build more interesting, rewarding and challenging jobs for our people, so we can make HMRC a great place to work.

Our people - in their own words

Pam Mason

Personal Tax, Operations

"I enjoyed helping students to prepare for interviews for further education or employment."

Sustainability

The three pillars of sustainability - economic, social and environmental impact - apply to all aspects of our work. They are central to our role in collecting taxes and duties, administering tax credits and Child Benefit and how we engage with our customers, our people and local surroundings.

Progress against the targets set for us by government is reported quarterly to HMRC's Performance Committee, the Department for the Environment and Rural Affairs and the Cabinet sub-committee leading on the Greening Government Commitments (GGC). Our environmental data was externally verified by Carbon Smart in June 2014.

Meeting our targets

We continue to work towards achieving the 2010-15 targets contained in GGC for sustainable operations and procurement. As the final year of the targets approach, we are on track to make savings over and above the levels required for greenhouse gas emissions, waste, domestic flights and paper usage.

We have more than 500 green volunteers who encourage behaviour change in the office environment

Greening Government commitment

	2015 Government reduction target	Position at 31 March 2014
Greenhouse gas emissions	25%	33%
Waste	25%	50%
Water	$6m^3$ per FTE	$7.67m^3$ per FTE
Paper	10%	32%
Domestic flights	20%	32%

Improving water efficiency remains a challenge, albeit one that we have been tackling through active management of leaks and water surveys. Business travel is another area attracting close scrutiny, but it is also a necessity for us as a large operational department with offices spread throughout the UK.

While our travel requirements are increasing, in line with our commitment to deploy more staff on frontline activities and improve the visibility of our senior leaders, road travel is declining in favour of more sustainable options. For example, rail travel was up by nine per cent in 2013-14, and more than 260,000 audio conferences took place during the year.

Our successes include saving paper and cutting waste. Staff printed 10 million fewer sheets of paper this year. We also cut 500 tonnes from the amount of waste we send to landfill and we recycled all of our IT waste. Following the success of our internal 'swap shop' for office supplies, we are leading a pilot to encourage greater reuse of government assets.

Mainstreaming sustainability

We have mainstreamed sustainability by building it into our policies, stakeholder engagement and people initiatives. For example, sustainability assessments are included in all new policy initiatives; we ran an event for our stakeholders to reflect our move to improve transparency in our communications; and we have more than 500 green volunteers who encourage behaviour change in the office environment.

GOV.UK

More detailed information on our environment performance can be found in our sustainability accounts at http://bit.ly/1l4m21m

Sustainable estate

For the third year in a row, we have given up more space across our estate than any other government department and we continue to make use of our existing buildings when lease events arise, rather than move into new accommodation. While this means there have been no large refurbishments or life-cycle investments, we have processes in place to meet the Building Research Establishment Environmental Assessment Methodology (BREEAM) international sustainability benchmark for buildings, and Olympic standards should the need arise.

We created a wild-flower meadow on our site in Newcastle for pollinating insects

Our new environmental management system is helping to minimise the environmental impact at our sites. The environment standard ISO14001 has been awarded to our headquarters office at 100 Parliament Street, London and this certification is also maintained by our primary private sector provider.

The impact of extreme weather on our ability to deliver our services and enable staff to work in a safe environment is built into our planning and strategies. Data from the Environment Agency is helping us to identify and monitor offices which are at risk of flooding.

We created a new habitat for bees and other pollinating insects in the wild-flower meadow at our Benton Park View complex in Newcastle. Food waste from the kitchens at our offices in Bootle is now being used as a compost to improve soil quality in the garden areas.

Sustainable procurement

Our sourcing of materials and assets complies with government buying standards (GBS), although difficulties in accessing a sufficient supply of suitably recycled paper at an affordable price means that the majority of our printed products fail on that aspect of the paper GBS.

We continue to use the CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility) tool to manage supply chain risks, including sustainability. The last exercise indicated that the majority of our suppliers who took part had strategies in place to reduce their greenhouse gas emissions. The exercise currently being undertaken by Cabinet Office and Defra to collect 2013-14 emission data for the top 500 government suppliers will provide us with a baseline we can use to demonstrate reductions in future years.

This year we gave 5,053 days of employee time to community activity across the UK

Community issues

This year we committed funding of £3 million to the Voluntary and Community Sector (VCS) to help our customers understand and comply with their tax obligations and claim their correct entitlements. We also gave 5,053 days of employee time to community activity across the UK, in line with the encouragement we give to our employees to work with voluntary organisations and schools in the communities close to our offices and to participate in civic duties, for example as magistrates and school governors. Further work took place with UK and international agencies to develop and support effective civil governments overseas.

Our staff raised more than £100,000 in 2013 for the BBC's Children in Need appeal

In November 2013, for the fifth year in a row, our staff raised more than £100,000 for the BBC's Children in Need appeal. Volunteers at our Contact Centres in Liverpool, Manchester and Lillyhall also played their part in the campaign by taking £192,000 in telephone pledges from members of the public on the appeal night. Further donations totalling £966,000 were made by staff to the Charity for Civil Servants, the Lifeboat Fund and to other good causes of their choice through our on-line payroll giving arrangements.

In December 2013, HMRC was named the winner of the Best Public Sector Employer Campaign prize at the National Payroll Giving Excellence Awards and awarded a Gold Quality Mark from the Institute of Fundraising for the sixth year running, in recognition of the 13 per cent of our staff who donate to charity using payroll giving.

Diversity and inclusion

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 a high quality service.

In January 2014 we published our diversity data in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to develop under-represented groups and address equality issues in the workplace. In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

ene employers network for equality & inclusion

In 2013 We won the public sector category in the 2013 Employers' Network for Equality and Inclusion awards

Our progress on diversity issues has been recognised in a number of ways: Business in the Community named HMRC among the top ten employers for race and gender equality and progression in 2012 and 2013. *The Times* put the Department in the top 50 employers for women, also for the second year running. We also won the public sector category in the 2013 Employers' Network for Equality and Inclusion awards.

Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have an established team, dedicated to ensuring reasonable adjustments. We are raising awareness of mental health issues to ensure that sufficient support mechanisms are available to managers and staff, and we are offering development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds as well as other minority groups. We continue to improve access to our services for disabled customers and to raise awareness of their needs with our front line staff.

We are committed to improve female representation rates, particularly at senior levels. We have set ourselves a target of 42 per cent for women at senior civil servant (SCS) level, and as at 31 March 2014, the position was 39.9 per cent (see table on page 23). Last year, 55 per cent of the

staff we promoted were women, and women made up the majority of new entrants to our SCS. We have set out what our leaders, managers and staff need to do to achieve our target in our diversity and inclusion strategic action plan.

Number of male and female employees

	Female	Male	Total 31 March 2014
Directors	4	6	10
Senior managers	119	179	298
Employees	40,481	28,525	69,006[1]

1 Based on headcount (not full-time equivalent). Includes permanent and temporary employees.

Our people – in their own words

Joanne Wardhaugh

Specialist Investigations, Newcastle

"My team supports the economy – we're focusing on people who deliberately fail to pay the correct amount of tax, to make sure they start paying what they owe."

Additional financial information

Long-term liabilities

We have four Private Finance Initiative (PFI) contracts which are:

- Mapeley STEPS Contractor Ltd, relating to the private sector provision of serviced accommodation across the majority of the Departmental estate. The end year of the contract is 2021-22
- Exchequer Partnerships, relating to the provision of serviced accommodation at 100 Parliament Street. The end year of the contract is 2037-38
- Newcastle Estates Partnership, relating to the provision of serviced accommodation at a number of sites in the Newcastle upon Tyne area, including the redevelopment of the Benton Park View site. The end year of the contract is 2029-30
- Bootle PFI solutions 1998, relating to the provision of serviced accommodation at St John's House Bootle. The end year of the contract is 2025-26.

In addition, we have a significant IT Public Private Partnership (PPP) contract, which is included within the Resource Accounts. Called ASPIRE the contract is to deliver a significant proportion of HMRC's and VOA's IT infrastructure with Capgemini as the prime contractor and other outsourcing partners including Fujitsu.

In 2012, we completed a major renegotiation and restructuring of the contract to deliver significant price reductions, which we are now seeking to implement effectively over the remaining period of the contract.

Comparison of outturn against Estimate

The total resource outturn for the year was £46.220 billion, £1.181 billion (2.5 per cent) below the Estimate. The total capital outturn for the year was £218.3 million, £14.4 million (6.2 per cent) below the Estimate.

The variances which exceed ten per cent, and those that are also significant in terms of value, are explained on page 24.

Comparison of outturn against Estimate

	Outturn (£million)	Variance to Estimate (%)	Reason for variance
Resource Departmental Expenditure Limit (DEL)			
VOA administration	2.1	Net nil	Outturn was £2.1 million against a net nil budget. This represents a small surplus against operating income.
Utilised provisions	11.7	-26.1	Utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2013-14 becoming more protracted.
Resource Annually Managed Expenditure (AME)			
Providing payments in lieu of tax relief to certain bodies	53.1	-41.0	New relief - Gift Aid relief on Micro Donations. Actual claims in the first year of this relief were much lower than originally forecast.
HMRC administration	11.4	-31.7	Lower than expected need for new provisions.
Utilised provisions	13.5	-28.8	Utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2013-14 becoming more protracted.
Capital Annually Managed Expenditure (AME)			
Social benefits and grants	1.8	-90.0	Residual claims for Child Trust Fund endowments were lower than expected.

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

Consolidated Statement of Financial Position

Details of the Department's assets and liabilities are reported in the Consolidated Statement of Financial Position.

Cash flow

The net cash outflow for the year was £1.8 million, as detailed in the Consolidated Statement of Cash Flows.

The explanation of the variances between Estimate and cash requirement as shown are detailed in the Reconciliation of Net Resource Outturn to Net Cash Requirement. The main movements in working capital are:

- receivables varied by £401.6 million from the estimate, largely due to an increase in personal tax credit receivables of £459.4 million
- payables varied by £730.2 million from the estimate, due to the introduction of three new Corporation Tax reliefs in 2013-14.

Description of reporting entities

The entities that are consolidated within these accounts are as follows:

- supply-financed agencies - Valuation Office Agency
- non-departmental public bodies - none
- others - none.

Reconciliation of resource expenditure between Estimates, accounts and budgets (£million)

	2013 14	2012-13[1]
Net Resource Outturn (Estimates)	47,401.0	47,199.0
Total resource budget outturn	46,219.7	46,353.1
of which:		
Departmental Expenditure Limits (DEL)	3,645.4	3,663.1
Annually Managed Expenditure (AME)	42,574.3	42,690.0
Adjustments include:		
Child Trust Fund budgeted as Capital	0.2	0.5
Expenditure outside the budget - IFRS Asset costs	9.6	6.4
– Consolidated fund extra receipts	(0.9)	(0.3)
– Barter deal prepayment release	–	(48.7)
Net operating cost (Accounts)	**46,228.6**	**46,311.0**

1 Certain prior figures have been restated as per Resource Account note 25.

Managing risks to our performance

Our Governance Statement outlines the main risks to our performance and includes information on how we are managing them.

Description of departmental reporting cycle

We published our main estimate for 2013-14 in April 2013 as part of the *Central Government Supply Estimates - Main Supply Estimates*. We also applied for a supplementary estimate, details of which are available in the *Central Government Supply Estimates - Supplementary Estimates*, published in February 2014. These documents are in the public domain and can be accessed from the government website at www.gov.uk.

In June 2013 we produced a combined Annual Report and Accounts that reported on our performance. This report is available from The Stationery Office and the HMRC website: www.hmrc.gov.uk.

Lin Homer
Principal Accounting Officer
25 June 2014

Our people – in their own words

Berni McAuley

Taskforce Lead, Belfast

"As a taskforce lead I have a fabulous role, that gives me the opportunity to work with a diverse range of people in targeting high-risk areas of tax evasion."