



HM Revenue  
& Customs

# Annual Report and Accounts 2015-16

Governance statement, Directors report and statistical tables

# Accountability – how we are managed and scrutinised



## Governance Statement

### Foreword by Ian Barlow, Lead Non-Executive

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

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

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

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

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

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

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

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

Ian Barlow  
Lead Non-Executive

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# How we are structured

## Ministerial arrangements

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

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

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

## Commissioners

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

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

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

## Executive Chair and Chief Executive

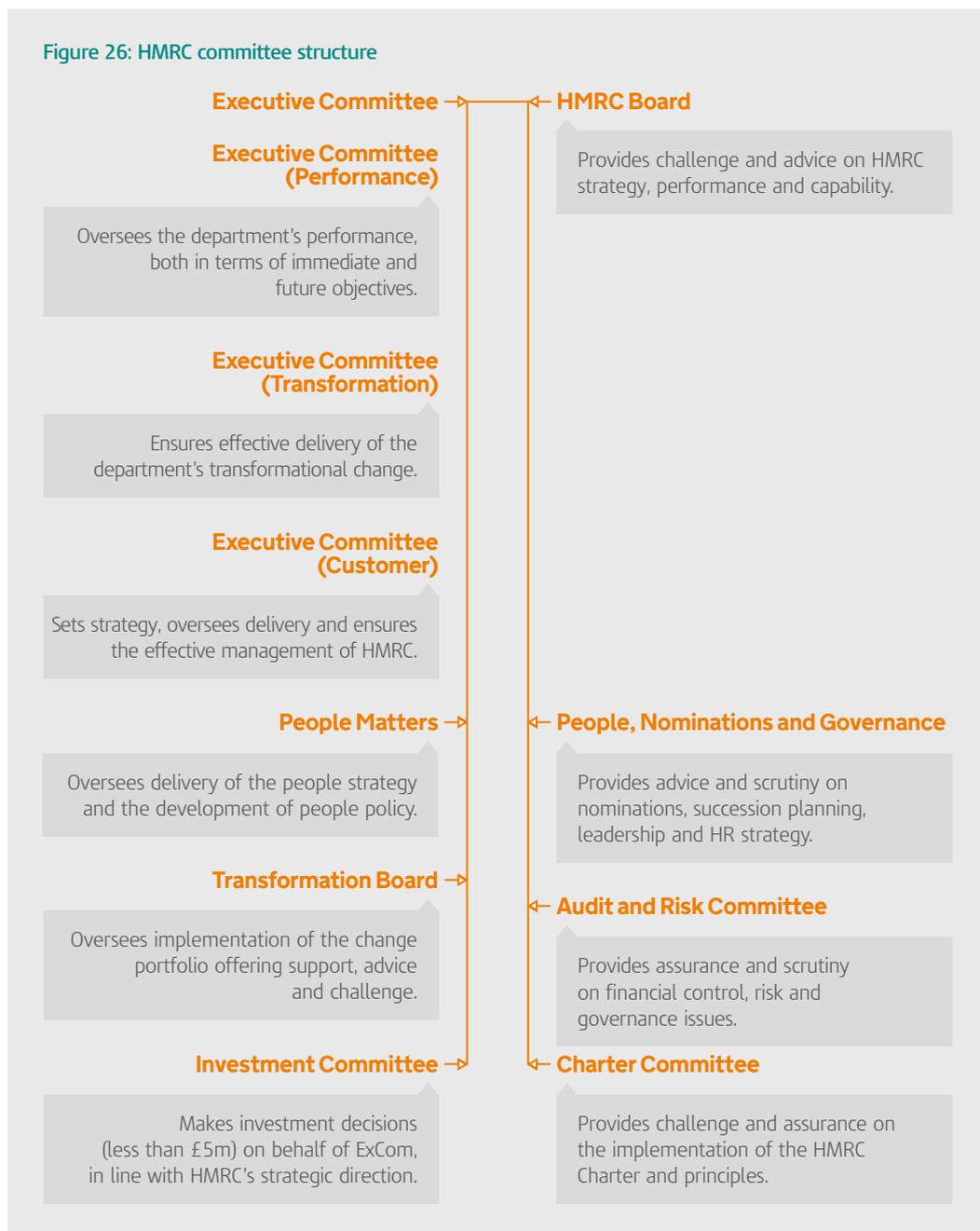
The role of Executive Chair was agreed by the Cabinet Office and HM Treasury to be appropriate given the non-ministerial status and scale of the department, the nature of the business, and the level of Board oversight.

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

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

### Tax Assurance Commissioner

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



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

## Executive Committee (ExCom)



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



**Edward Troup**

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



**Jon Thompson**

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



**Jennie Granger**

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



**Ruth Owen**

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



**Jim Harra**

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



**Nick Lodge**

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



**William Hague**

Chief People Officer and member of the Board



**Mark Dearnley**

Chief Digital and Information Officer and member of the Board



**Justin Holliday**

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



**Gill Aitken**

General Counsel and Solicitor



**Penny Ciniewicz**

Chief Executive of the Valuation Office Agency



**Stephen Hardwick<sup>1</sup>**

Director of Corporate Communications

<sup>1</sup> Stephen Hardwick is a standing invitee at ExCom.

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

## Non-Executives



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



**Ian Barlow**

Lead Non-Executive and Board member



**John Whiting**

Non-Executive Board member



**Edwina Dunn<sup>1</sup>**

Non-Executive Board member



**Simon Ricketts**

Non-Executive Board member



**Mervyn Walker**

Non-Executive Board member



**Joanna Baldwin**

Non-Executive Board member



**Alice Maynard<sup>2</sup>**

Non-Executive Board member



**Leslie Ferrar**

Non-Executive and Board sub-committee member



**Diane Herbert**

Non-Executive and Board sub-committee member



**Paul Smith**

Non-Executive and Board sub-committee member

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

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## Roles and responsibilities

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

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

The Board provides:

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

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

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

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

### Board sub-committees

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

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

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

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

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

Audit and Risk Committee	
Chair	John Whiting (Non-Executive)
Roles and responsibilities	<p>Provides assurance to the Board and the Principal Accounting Officer on the accuracy of financial statements and the strength of risk management and control processes across HMRC. Its scope covers all aspects of HMRC business and those relating to the Valuation Office Agency (VOA), as escalated. The Chair of the Audit and Risk Committee will attend at least one meeting annually of the VOA Audit and Risk Assurance Committee.</p> <p>Advises the Board and the Principal Accounting Officer on:</p> <ul style="list-style-type: none"> <li>• assurance processes and actions in relation to management of risks in an HMRC context</li> <li>• strategic processes for risk, control and governance, the accounting policies, the accounts, and the annual report of the organisation. This includes the Resource Accounts, Trust Statement and the National Insurance Fund Accounts</li> <li>• the planned activity and results of both internal and external audit</li> <li>• the adequacy of management response to issues identified by audit activity</li> <li>• when necessary, proposals for tendering audit services from contractors who provide audit services to the department</li> <li>• anti-fraud policies, whistle-blowing processes and arrangements for special investigations.</li> </ul>
Issues covered	<ul style="list-style-type: none"> <li>• Assessing the process of risk management in the department and ensuring the right challenges and assurances are in place</li> <li>• Considering areas of qualification or concern within the accounts and possible remedies, which were discussed and tracked throughout the year</li> <li>• Reviewing major accounting issues, such as the provision for oil and gas field decommissioning</li> <li>• Assuring whistle-blowing and wrongdoing processes, shaping and improving policies and implementation</li> <li>• Assuring the Annual Report and Accounts</li> <li>• Assuring the improvements taking place with HMRC's financial accounting systems for tax and running costs</li> <li>• Monitoring the department's progress in implementing external recommendations made by external assurance bodies.</li> <li>• Having the opportunity to comment on the draft Tax Assurance Commissioner's Report, and challenge the information presented.</li> </ul>

Continued

**People, Nominations and Governance Committee**

<b>Chair</b>	Mervyn Walker (Non-Executive)
<b>Roles and responsibilities</b>	Provides advice and scrutiny for the Board and Chief Executive on: <ul style="list-style-type: none"> <li>• nominations arrangements within HMRC</li> <li>• succession planning for appointments to ExCom and the Board, so they can maintain an appropriate balance of skills and experience</li> <li>• the identification and development of leadership capability and high potential across the department</li> <li>• the incentive and reward strategy for the department</li> <li>• HR support for the department's strategic direction and key HR performance indicators</li> <li>• HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.</li> </ul>
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>• Building our future Phase 3 rollout of all staff events and feedback</li> <li>• Developing Leadership across HMRC and the Leadership Academy</li> <li>• Leadership Academy workforce planning for 2015-16 and 2016-17</li> <li>• Employment Framework setting out HMRC's people policies and practices including the family friendly policies and flexible working</li> <li>• Civil Service People Survey 2016 results and engagement work undertaken by the Employee Engagement Working Group; and</li> <li>• HR People Priorities and the key interventions which support the department's transformation.</li> </ul>

**Charter Committee**

<b>Chair</b>	Edwina Dunn (Non-Executive) (to 31 March 2016) Ian Barlow (Lead Non-Executive) (from 1 April 2016)
<b>Roles and responsibilities</b>	Reviews the extent to which HMRC has demonstrated the standards of behaviour and values included in the Charter and prepares an annual report. Considers a range of performance and management information, representative of the views of all customer groups, and advises the Board on whether HMRC's strategies, policies, practices and measurement of performance in these areas are effective and how they might best be improved.
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>• How HMRC measures its customer service performance and how this will change under Next Generation Performance Measures</li> <li>• Making Tax Digital and its impact on customers</li> <li>• HMRC's use of data to understand the voice of the customer.</li> </ul>

**Board effectiveness**

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

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

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# Executive Committee (ExCom)

## Roles and responsibilities

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

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

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

## ExCom

**Chair: Jon Thompson, Chief Executive (from April 2016)**

**Dame Lin Homer, Chief Executive (until April 2016)**

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

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

## ExCom (Performance)

**Chair: Jon Thompson, Chief Executive (from April 2016)**

**Edward Troup, Tax Assurance Commissioner (until April 2016).**

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

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

### ExCom (Transformation)

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

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

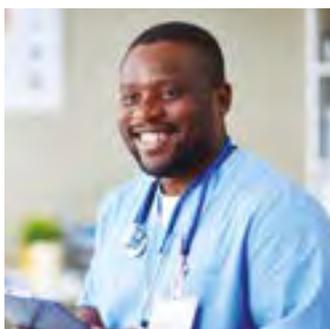
It met 11 times during the reporting period. In addition to monitoring the delivery of the Change Portfolio within a dedicated transformation hub, key issues covered include overseeing the introduction of new transformation governance arrangements; ExCom-level transformation risks; PaceSetter; Building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

### ExCom (Customer)

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

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

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



**£116bn in Value Added Tax**

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

## ExCom sub-committees

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

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

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

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

<b>Transformation Board</b>	
<b>Chair</b>	Nick Lodge, Director General Transformation
<b>Roles and responsibilities</b>	Acts as a decision-making body operating below, but reporting to ExCom (T) and offering support and advice, as well as a challenge function across the Transformation and wider Change Portfolio.
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>• Monitored and challenged progress in delivery of major programmes and projects</li> <li>• Oversaw the management of portfolio risks as well as ExCom-level change risks</li> <li>• Provided advice to ExCom on planning, prioritisation, dependencies and business-readiness across the change portfolio</li> <li>• Oversaw the deployment of change resource across HMRC.</li> </ul>
<b>Investment Committee</b>	
<b>Chair</b>	Justin Holliday, Chief Finance Officer
<b>Roles and responsibilities</b>	Makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives, which cost more than £2 million, (£5 million from 8 December 2015) or are new or significant.
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>• Examined business cases in HMRC's Transformation Portfolio for settlements and investment provided by Spending Reviews and Fiscal Events (Autumn Statement 2012, Spending Review 2013, Autumn Statements 2013 and 2014, Budgets 2014 and 2015, and legacy business cases for Spending Review 2010; and reinvestment settlement)</li> <li>• Reviewed finance and benefits status and associated risks and issues of core Change settlements and investment.</li> </ul>
<b>People Matters Committee</b>	
<b>Chair</b>	William Hague, Chief People Officer
<b>Roles and responsibilities</b>	Plans for three to five years ahead in terms of how HMRC will be structured and use our resources. It also oversees the programme of work that will deliver the People Strategy and takes decisions on delegated issues relating to people policies. The committee supports the Chief People Officer in designing and implementing the annual One HR work plan.
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>• The Civil Service People Survey 2015 results and priority areas for action</li> <li>• Building our Future plans and feedback from Phase 3 all staff events</li> <li>• Building our Future plans for Phase 4 leaders and managers events</li> <li>• Building the Leadership Academy and Management Matters initiative to support our leaders and managers through HMRC's transformation</li> <li>• The Workforce plan to grow the Apprenticeships scheme</li> <li>• Talent Management and succession planning; Health and Safety Risk Management and the Mental Health Strategy including the introduction of the Mental Health Advocate Scheme</li> <li>• Sick Absence Management and monitoring of the Average Working Days Lost target for 2015-16.</li> </ul>

Figure 29: Meeting attendance by Executives and Non-Executives

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

1 Ian Barlow chaired the Board until April 2016, when Edward Troup took on the role of Executive Chair.

2 Volker Beckers stood down as a Non-Executive on 15 April 2015.

3 Penny Ciniewicz joined ExCom following her appointment as a Director General.

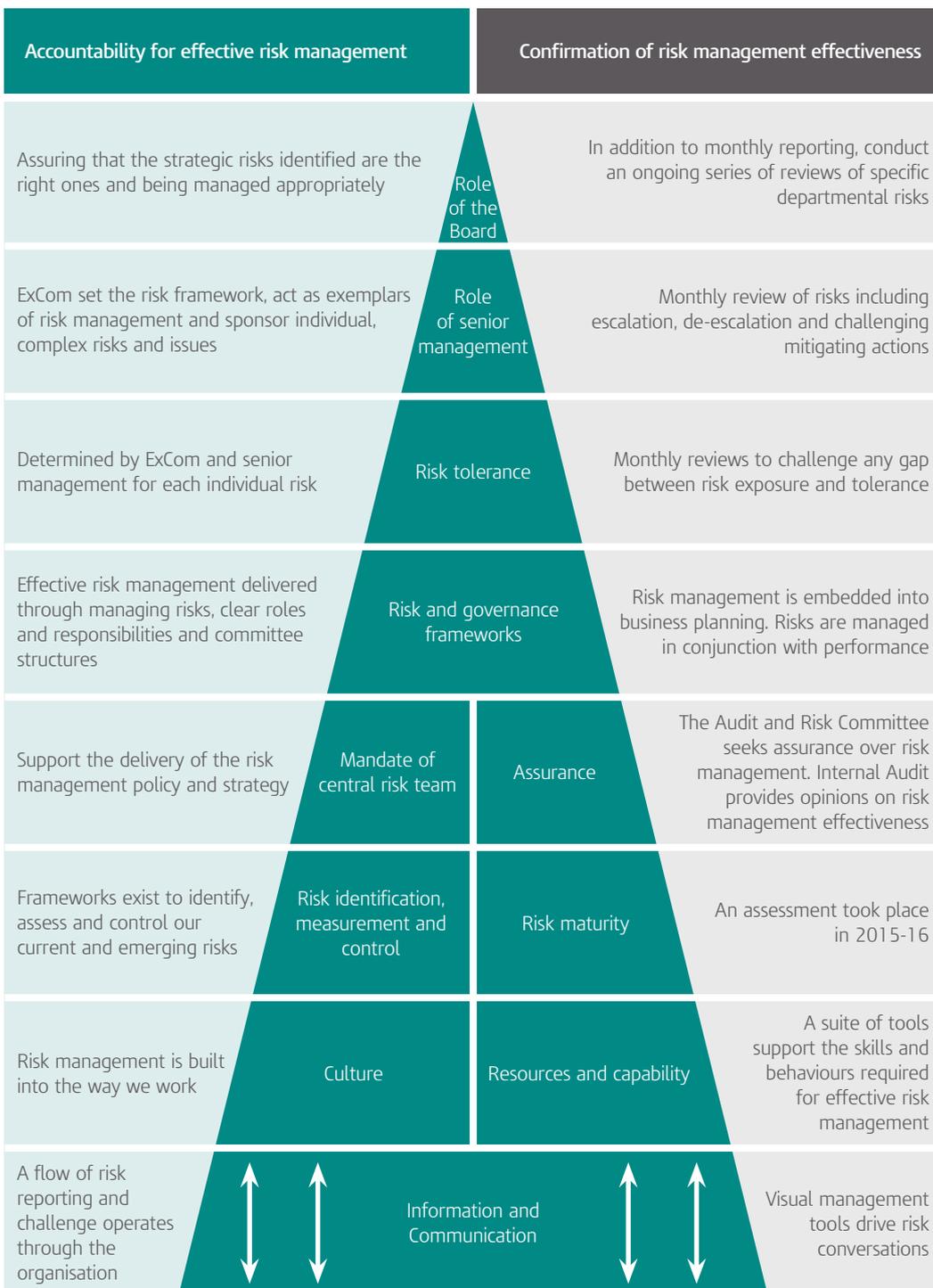
Note: Directors routinely deputise at ExCom meetings when an ExCom member is absent.

# Managing risks to our objectives

## In summary...

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

Figure 30: HMRC risk framework

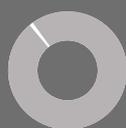


There are several ways that HMRC manages risks, which we list below. In the last year we have:

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

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

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



## £4.1bn in inheritance tax

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

## Risk overview

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

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

Principal risks	Key mitigating actions
<b>Maximising revenues</b>	
<b>Total revenue</b>	
As the country's tax, payments and customs authority, we fail to bring in the revenue to the Exchequer to help pay for essential public services.	<p>To support a clear understanding of the overall flow of revenue we:</p> <ul style="list-style-type: none"> <li>provided detailed data on tax receipts and repayments to ExCom as part of HMRC's performance reporting process and results are discussed in monthly ExCom performance meetings</li> <li>monitored tax and duty inflows regularly throughout each day and provided updates to HMT, allowing them to compare actual receipts with forecasts.</li> </ul>
<b>Tax compliance</b>	
As the country's tax, payments and customs authority, a lack of understanding and proactive management of our tax compliance risks could prevent us from maximising the effectiveness of our compliance activities.	<p>To ensure we understand and proactively manage our tax compliance risks we:</p> <ul style="list-style-type: none"> <li>continued to develop the strategic picture of risk (SPR) to drive planning and operational activity in relation to various customer groups</li> <li>focused our compliance activity around different customer groups to bring together policy-making and feedback from frontline staff.</li> </ul>
<b>Data exploitation</b>	
We fail to sufficiently utilise the full range of data sources we have available to us and, as a result, inhibit our ability to meet our intended transformational needs.	<p>To ensure the data we hold is reliable and up-to-date we:</p> <ul style="list-style-type: none"> <li>built an Enterprise Data Hub (EDH) to capture data currently held in eleven separate data warehouses in a consolidated, linked and standardised manner</li> <li>commenced phase 2 of the EDH project which will draw priority data from other departmental systems and/or storage locations, so more data is available to analysts</li> <li>built the Data Engineering Centre to maintain the hub and its data and support the business in defining new ways to exploit the available data.</li> </ul>

Continued

Principal risks	Key mitigating actions
<b>Improving customer services</b>	
<b>Customer service</b>	
<p>Our levels of customer service fall below those expected of us, leading to long wait times, risking delivery of our objectives, loss of public confidence and reputational damage.</p>	<p>We developed a number of ways to deliver sustainable improvements in customer service. During the year we:</p> <ul style="list-style-type: none"> <li>developed sophisticated and responsive monitoring and planning strategies to ensure that we have trained available staff to maintain our services, flexing staff from across HMRC to achieve our best ever results for tax credits renewals</li> <li>commenced the roll-out of digital tax services that are designed to meet customer needs, including digitising our forms so they can be submitted online and scanning mail so correspondence can be dealt with more quickly and effectively.</li> </ul>
<b>Managing our cyber-security</b>	
<p>We must maintain and safeguard the availability, resilience and security of our systems to protect customers' information.</p>	<p>During the year, we:</p> <ul style="list-style-type: none"> <li>developed a cyber-security command centre, providing a continuous monitoring and response capability to identify and respond to cyber threats as they occur</li> <li>raised awareness among HMRC staff and customers of the dangers of phishing emails and malware</li> <li>adopted increased governance through the '10 steps to cyber security' model</li> <li>developed effective identity verification protocols.</li> </ul>
<b>Customer understanding</b>	
<p>There is a risk that we fail to use our understanding of customers consistently and effectively when designing and implementing policies, processes and services, resulting in a failure to fully deliver our objectives.</p>	<p>During the year we:</p> <ul style="list-style-type: none"> <li>launched an internal 'customer zone' that we are developing to provide the research, data and tools so we can understand our customers better</li> <li>implemented new approaches to the design and implementation of products and services that involve the use of greater customer insight and customer involvement</li> <li>developed a suite of customer performance measures to better target areas for improvement.</li> </ul>

Continued

Principal risks	Key mitigating actions
<b>Exploiting digital opportunities</b>	
<p>If we do not deliver robust IT infrastructure and secure, high quality, digital services, there is a risk that customer confidence will be low which will result in low take-up of services impacting the success of our digital transformation and realisation of benefits and efficiencies.</p>	<p>Our future plans require us to make greater use of new digital technology. To this end we:</p> <ul style="list-style-type: none"> <li>• communicated the benefits of our digital services to our customers, in order to increase take up and enable them to take more control of their tax affairs</li> <li>• developed a bespoke authentication process, used for logging into our digital services, to increase the safety and security of customers and their data</li> <li>• launched the Personal Tax Account, paving the way for customers to submit their Self Assessment return online via their tax account</li> <li>• introduced a range of new digital infrastructure and services both for businesses and individuals.</li> </ul>
<b>Delivering affordable and sustainable transformation</b>	
<p>The pace and nature of the transformation programme could outstrip our capability and capacity to deliver the level of efficiencies and service improvements agreed.</p>	<p>During the year we:</p> <ul style="list-style-type: none"> <li>• launched a new transformation function to oversee the delivery of our programmes of change, including governance, resourcing and progress reporting</li> <li>• developed business cases and plans to track our progress against benefit commitments</li> <li>• introduced business change managers in all lines of business to help identify and manage the cumulative impacts of change.</li> </ul>
<b>Providing IT services</b>	
<p>There is a risk that our revised commercial IT supply and operating model may not deliver the expected benefits in a timely, efficient and effective manner and threaten the stability of tax collection and customer services.</p>	<p>During the year we:</p> <ul style="list-style-type: none"> <li>• developed a coherent business plan, setting out the commercial and operational model, including a robust transition plan and budget</li> <li>• recruited people with the necessary commercial, technical and operational skills</li> <li>• ensured that the decision making and governance framework, as well as the scope and the roles in the programme is effective.</li> </ul>
<b>Maximising our people's performance</b>	
<p>We need to continue to develop our leaders' innovation and resilience to ensure we are able to deliver the department of the future.</p> <p>We do not have sufficiently high levels of employee engagement to be confident that we are maximising our performance leading to reduced ability to meet our customer, tax revenue and cost-efficiency targets.</p> <p>We fail to create an organisation that is able to respond to the future needs of the business, meaning that we don't have the right people and skills in place.</p>	<p>During the year, we continued to build the skills of our leaders and talk to all our people about our plans for the future, which included:</p> <ul style="list-style-type: none"> <li>• the launch of a Leadership and Management Academy for all our senior people, asking them to undertake five days leadership training per year</li> <li>• working towards building trust in leadership and understanding sources of employee disengagement</li> <li>• continuing investment in Building our Future, our national conversation with our people about how we will transform over the coming years</li> <li>• acting on employee feedback and supporting a coaching and mentoring culture locally and centrally</li> <li>• actively engaging in trust workshops and linked together leadership and management capability and 'Building our Future' action plans.</li> </ul>

Continued

Principal risks	Key mitigating actions
<p><b>Delivering estates transformation</b></p> <p>The scale and complexity of the programme, and uncertainty over cost and affordability of suitable property, mean that we may not have the capability or the funding to move to 13 Regional Centres and to deliver HMRC's future workplaces.</p>	<p>Over the past year we:</p> <ul style="list-style-type: none"> <li>• recruited people with professional, specialist skills including strategic delivery partners, legal services and interior designers and plan to utilise further experts to deliver our working environment</li> <li>• actively maintained control of employee numbers at each regional centre, including rigorous change control and working with other government departments where buildings will be shared</li> <li>• held regular cost reviews to ensure maximum value for money</li> <li>• been realistic about what office design is affordable</li> <li>• implemented clear governance processes for decision making at defined decision points.</li> </ul>

These risks have the potential to affect:

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

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

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

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## Our control environment

### In summary...

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

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

This includes:

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

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

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

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

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

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

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



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

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

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## Customer service

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

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



## £2.9bn in customs duties

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



## Workforce planning

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

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

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

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

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## Tax credits error and fraud

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

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

## Records retrieval

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

## Conclusion and compliance with the Code of Good Practice

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

An organisation of HMRC's size and complexity will always have a significant number of risks to manage at any one time, but I am satisfied that the governance arrangements that were in place through 2015-16 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC had a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2015-16.

Jon Thompson  
Accounting Officer  
6 July 2016

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## Recommendations made by external scrutiny bodies

### In summary...

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

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

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

We provide information to the Audit and Risk Committee on:

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

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

Figure 32: Tier 1 recommendations 2015-16

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

Figure 33: Tier 2 recommendations 2015-16

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

1 Balance at 1 April 2015.

2 Balance at 31 March 2016.

3 Recommendations that have missed the envisaged implementation date due to operational reasons.

All overdue recommendations are reviewed individually at each Audit and Risk Committee meeting.

4 NAO cross-government reports with recommendations appropriate to HMRC.

5 Section 2 audit recommendations and management letter recommendations.

6 Independent Police Complaints Commission and Infrastructure and Projects Authority.

7 No recommendations were made by Interception of Surveillance Commissioners, UK Statistical Authority, GCHQ, Low Pay Commission and the Health and Safety Executive in 2015-16.

## Responding to external opinion

### In summary...

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

### Bringing our Charter commitments to life

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

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

Figure 34: Charter Committee members

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

### Stakeholder events

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

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

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

### Stakeholder surveys

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

### Consultative groups

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

### Case studies

#### Employment and Payroll Group (EPG)

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

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

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

#### Working Together

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

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

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## Sharing our data with others

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

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

Examples of initiatives we have taken include:

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



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

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

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

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

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

### Statement on information risk

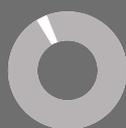
The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 38 to 31 in 2015-16. A further 6,000 mostly minor incidents potentially impacted on customers. The number of customers affected by these centrally-managed incidents was 4,496, which is a significant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

### Further action on information risk

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

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

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



**£14.5bn in stamp taxes**

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

## Personal data-related incidents

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

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

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

## Other protected personal data-related incidents

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

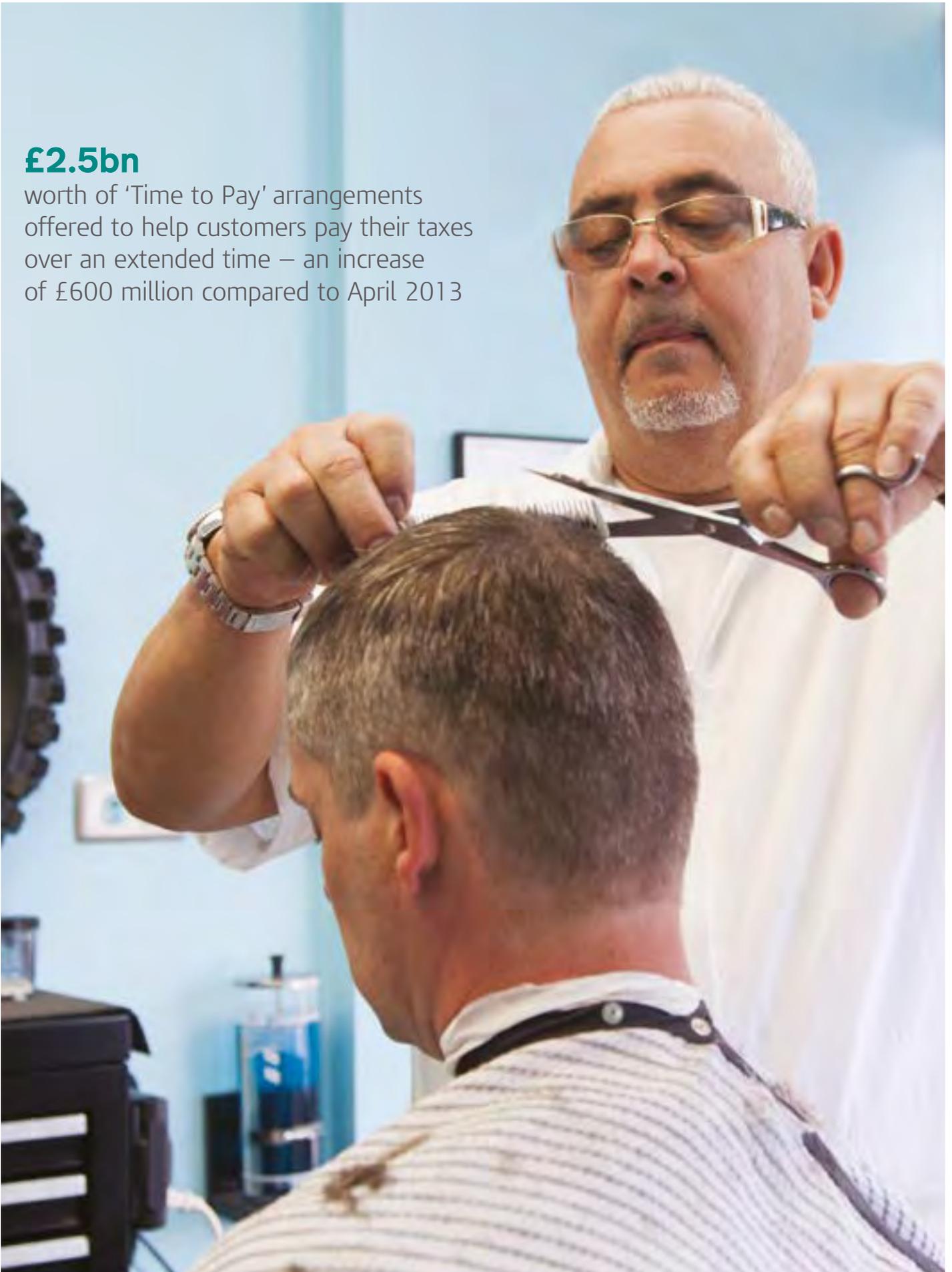
**Figure 36: Summary of other protected personal data-related incidents in 2015-16**

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

Jon Thompson  
Accounting Officer  
6 July 2016

## £2.5bn

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



# Foreword and Principal Accounting Officer's Responsibilities

## Introduction

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

## Basis for the preparation of the accounts

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

## Trust Statement

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

## Resource Accounts

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

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

## Further guidance followed in the preparation of the accounts

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

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## Principal Accounting Officer's responsibilities

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

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

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

## Accounting officers for the Resource Accounts

On 4 April 2016, the Principal Accounting Officer, Dame Lin Homer left the department and was succeeded in this post by Jon Thompson. HM Treasury has appointed an additional accounting officer, Penny Ciniewicz, Chief Executive of the Valuation Office Agency, to be accountable for those parts of the department's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from the HMRC Principal Accounting Officer's overall responsibility for the department's accounts.

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

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

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



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

## Auditors

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

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

Jon Thompson  
Accounting Officer  
6 July 2016

# Remuneration and staff report — our people and pay

## Our people

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

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

### Building our Future

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

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

### Leadership and management

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

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

### Recruitment, promotions and exits<sup>1</sup>

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

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

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

**Figure 37: Actual number of full-time equivalent persons employed<sup>1</sup>**

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

<sup>1</sup> Excluding Civil Service Resourcing staff hosted by HMRC.

<sup>2</sup> Of the 472 exits a total of 440 were paid for in 2014-15 with 32 paid for in 2015-16. The exit packages table on page 124 shows the year the exit cost was incurred which is often different to the year the member of staff left. Of 238 total exits in 2015-16, 32 left in 2015-16, 156 will leave by November 2016, with the remaining 50 exits from VOA.

<sup>3</sup> As this is the average, it does not equate to the number of persons employed at 31 March.

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## Apprentices and Movement to Work

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

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

## Engagement

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

## Tax Academy

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

## Learning and development

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

## Digital skills

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

## Changes to our employee offer

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

## Recognition

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

## Reservists

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

## Supporting our communities

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

## Charitable giving

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

## Our approach to 'whistle-blowing'

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

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

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

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

## Average number of persons employed

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

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

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

## Diversity and inclusion

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

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

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

Figure 39: Male and female employees

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

<sup>1</sup> Directors General are grade SCS3, Directors and deputy directors are grades SCS2 and SCS1.

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

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

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

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

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

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

**Figure 40: Declared disability status of employees**

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

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

**Figure 41: Declared ethnicity category of employees**

	BAME	% BAME	White	% White
Directors General, Directors and Deputy Directors <sup>1</sup>	12	4.5%	252	95.5%
All other employees	4,778	9.9%	43,447	90.1%

**Figure 42: Declared sexual orientation category of employees**

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

<sup>1</sup> Directors General are grade SCS3. Directors and deputy directors are grades SCS2 and SCS1.

## Health and safety

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

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

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

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

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

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

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

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

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

## Published sickness absence data

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

## Staff costs<sup>1</sup>

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

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

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

<sup>1</sup> These disclosures have been subject to external audit.

## Reconciliation to staff costs in the Resource Account<sup>1</sup>

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

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

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

<sup>1</sup> These disclosures have been subject to external audit.

## Civil Service Pensions

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

Existing members of the Principal Civil Service Pension Scheme (PCSPS) who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS preserved benefits, with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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

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

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



Full information about the Civil Service pension arrangements can be found at:  
[www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

Figure 46: Pension benefits

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

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

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

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

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

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

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

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



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

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



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

## Reporting of Civil Service and other compensation schemes – exit packages<sup>1</sup>

Figure 47: Exit packages 2015-16

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

Figure 48: Exit packages 2014-15

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

<sup>1</sup> These disclosures have been subject to external audit.

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

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

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

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# Remuneration report

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

## Remuneration policy

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

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

Before making its recommendation, the Review Body considers:

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

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

## Service contracts

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

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

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

	HMRC	VOA	Total <sup>1</sup>
SCS employee Numbers	346	19	<b>365</b>
SCS posts	347	21	<b>368</b>

<sup>1</sup> Total figures differ as the number of posts include vacancies and job shares.

## SCS employee numbers

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

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

## SCS posts

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

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

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

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## SCS recruitment

We have adopted rigorous governance, assessment and selection in our SCS recruitment practices to put the right people with the right skills in key roles and enhance our leadership capability. Governance over the number and nature of SCS posts remains with HMRC, and from 2014 Civil Service Resourcing (CSR) has handled the recruitment process.

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

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

## Performance management system

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

## Remuneration committees

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

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

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

## Pay awards

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

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

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

Performance assessments consider whether:

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

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

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

## Policy on notice periods and termination payments

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

## Executive Committee and Non-executive Board members

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

Figure 51: Senior officials single total figure of remuneration and pension<sup>1</sup>

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

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

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

Figure 52: Non-executive directors single total figure of remuneration<sup>1</sup>

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

- 1 These disclosures have been subject to external audit.

## Salary

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

## Bonuses

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

## Benefits in kind

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

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## Pay multiples<sup>1</sup>

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

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

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

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

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

<sup>1</sup> These disclosures have been subject to external audit.

## Pension benefits

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

Figure 53: Pension benefits<sup>1</sup>

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

1 These disclosures have been subject to external audit

2 Cash Equivalent Transfer Value (CETV)

3 Member of the Premium Scheme

4 Member of the Classic Scheme

5 Member of the Alpha Scheme

6 CETV at 19 July 2015

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## Cash Equivalent Transfer Values

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

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

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

## Real Increase in CETV

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

## People off-payroll

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

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

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

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

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

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

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

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

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

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

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

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

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

### Consultancy and temporary employees

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

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

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

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

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

## Directors' report

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

### Register of interests

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



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



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

Jon Thompson  
Accounting Officer  
6 July 2016