HMRC Supplementary Estimate 2019-20

Select Committee Memorandum

1. Overview

1.1 Objectives

HMRC is the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

Our key objectives set out in our Single Departmental Plan are to:

1. Collect revenues due and bear down on avoidance and evasion
2. Transform tax and payments for our customers
3. Design and deliver a professional, efficient and engaged organisation.

The Valuation Office Agency (VOA) is an executive agency of HM Revenue and Customs (HMRC). Its function is to give government the valuations and property advice needed to support taxation and benefits.

The purpose of this Memorandum is to provide the Select Committee with an explanation of how the resources and cash sought in this Supplementary Estimate will be applied to achieve HMRC's objectives.

1.2 Spending controls

HMRC's spending is broken down into a several different spending totals, for which Parliament's approval is sought.

The key spending control totals for HMRC which Parliament votes are:

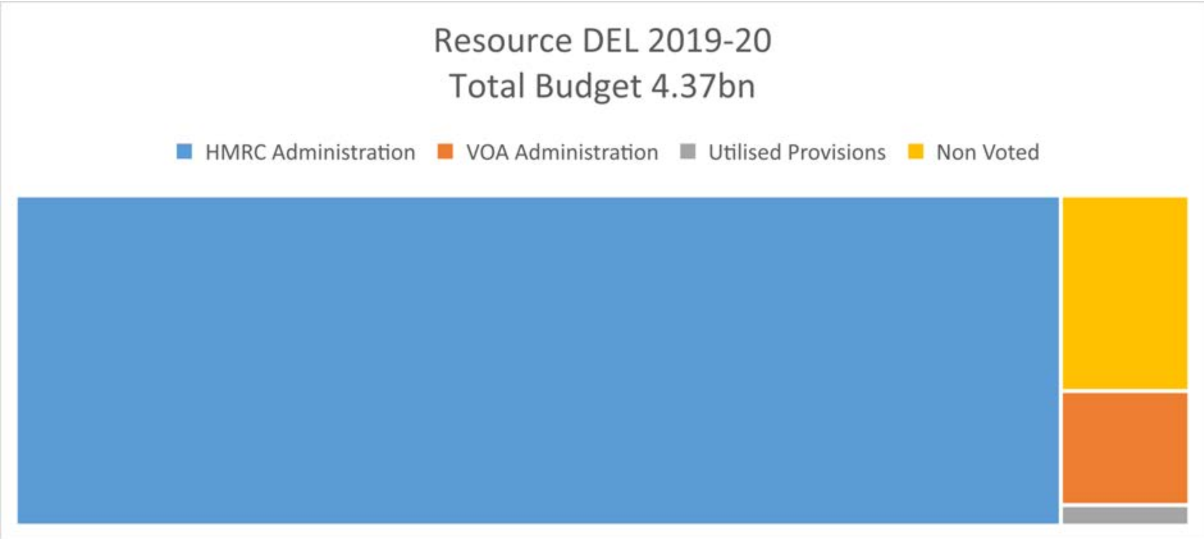
- Resource Departmental Expenditure Limit ("Resource DEL") - day to day running costs
- Capital Departmental Expenditure Limit ("Capital DEL") - investment in infrastructure
- Resource Annually Managed Expenditure ("Resource AME") - less predictable day to day spending: in HMRC's case, mainly Tax Credits, Child Benefit, Tax Free Childcare, Lifetime ISA, other reliefs and entitlements.

Budgets are split between those voted by Parliament and those where appropriation is covered in other legislation (non-voted).

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require HMRC to pay out cash in-year.

1.3 Main areas of spending

The graphic below shows the main components of HMRC's proposed budget for the current year, after taking account of the latest Supplementary Estimate, and the proportions of funds spent on its main activities.



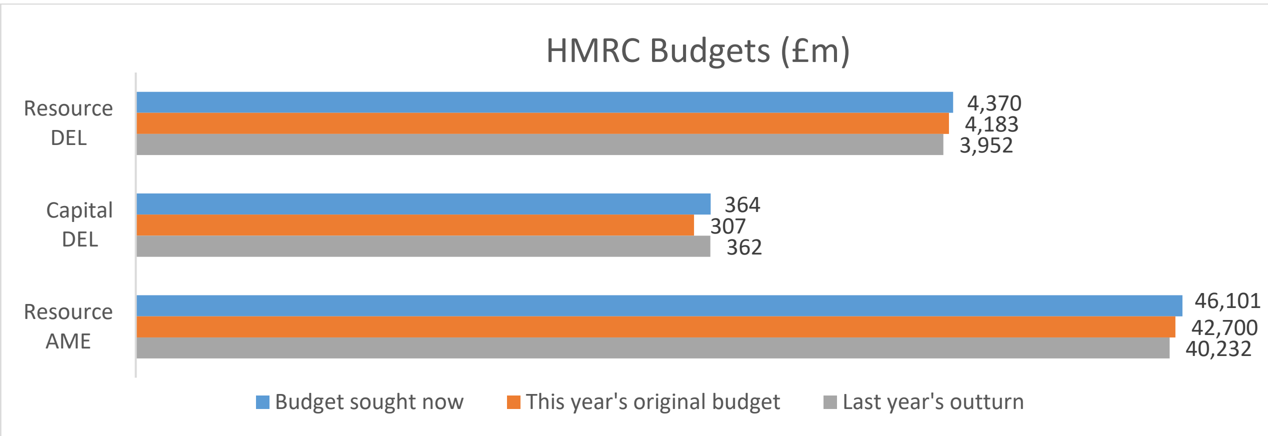
1.4 Comparison of spending totals sought

The table and graphic below show how the totals sought by HMRC in its Supplementary Estimate compare with the original budget for the current year (Main Estimate) and the final outturn for the year before.

Spending total Amounts sought this year (Supplementary Estimate 2019-20)		Difference (+/-), compared to original budget this year (Main Estimate 2019-20)		Difference (+/-), compared to final outturn last year (Outturn 2018-19)	
	£m	**£m**	**%**	**£m**	**%**
Resource DEL	4,370	187	4.5%	418	10.6%
Capital DEL	364	57	18.6%	1	0.4%
Resource AME	46,101	3,395	8%	5,863	14.6%

Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.236)

Note: Table may not appear to add up due to rounding



1.5 Key drivers of spending changes since original budget

The main causes of the changes in Resource DEL are:

- £70m to meet additional in year commitments relating to the increased costs of employer's pension contributions which rose by 2% from 1 April 2019, the delivery of several fiscal event measures and higher than expected costs of exits, due to the delay in implementing revised civil service exit terms.
- £123m additional funding for EU exit to deliver the deal by December 2020.

The main cause of the changes in Capital DEL are:

- £57m additional funding for EU Exit to deliver the deal by December 2020.

The main cause of the changes in AME are:

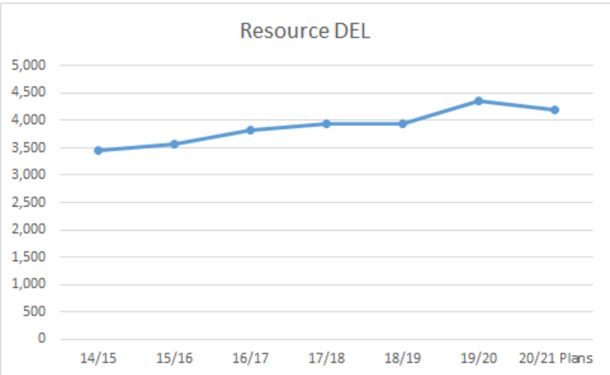
- £7bn increase in non-voted expenditure due to accounting policy changes for corporation tax relief; offset by
- £3bn reduction in Personal Tax Credits as claimants move to Universal Credit

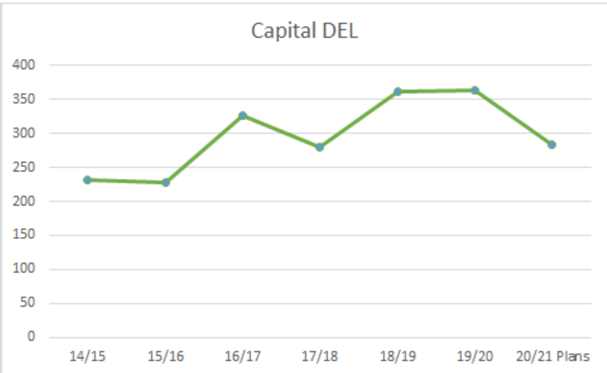
1.6 New policies and programmes; ambit changes

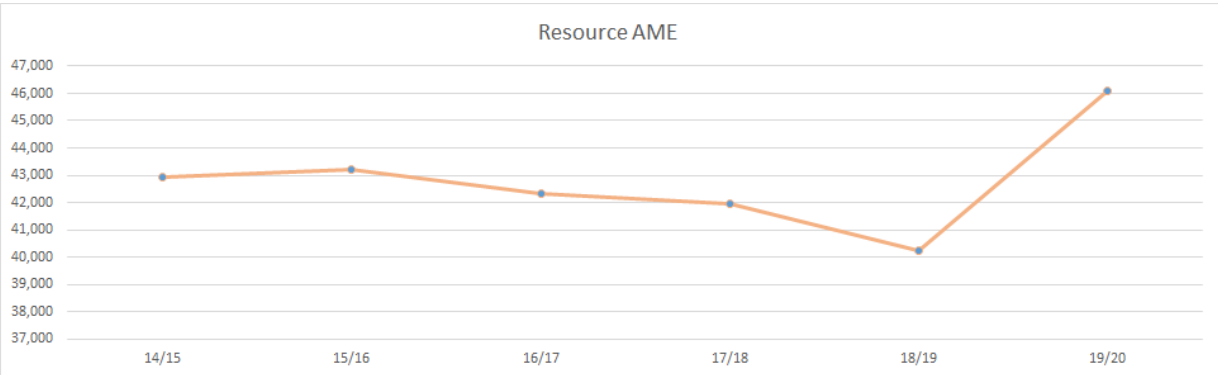
No ambit changes to report

1.7 Spending trends

The charts below show overall spending trends for the last five years, plans presented in supplementary Estimates for 2019-20, and current future spending plans (2020-21).







Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.236)

Resource DEL has remained broadly stable, FY 2019-20 spending plans are slighter higher than previous year actual spend due to additional EU exit funding.

Capital DEL spending plans drop in 2020-21 as HMRC's SR2015 change portfolio comes to a end. Since SR15 there have been significant changed to our capital structure shown by the actual outturn in previous years.

Resource AME spend has been steadily declining since FY 2015-16. The 2019-20 spending plans have risen due to an accounting policy change impacting the way HMRC accounts for reliefs and allowances.

1.8 Administration costs and efficiency plans

Our Spending Review 2015 settlement provided additional funding to transform HMRC, making it quicker and easier for customers to report and pay their taxes online; and to tackle avoidance, evasion and non-compliance.

We were set a target of £717m of savings over the SR period. In 2018-19 HMRC reached a total sustainable efficiency savings of £576m. To date in 2019-20 £77m of savings have been achieved. We are forecasting to deliver £687m against the target of £717m this year.

The bulk of HMRC's activity is Programme DEL, as it is spent on front line activity collecting revenues for the Exchequer. HMRC's Administration RDEL budget includes £379m of non-cash depreciation, and £781m of indirect activity that supports the organisation. HMRC's RDEL budget has increased by £187.4m during the 2019-20 Supplementary Estimate. This is the result of £123m additional funding for EU exit, £70m additional funding for business as usual and £5.6 transferred out of HMRC to OGDs.

Spending total Amounts sought this year (Supply Estimate 2019-20)		Difference (+/-) compared to Main Estimate 2019-20		Difference (+/-) compared to Outturn 2018-19	
	£m	£m	%	£m	%
Administration costs	1037.2	68.3	7.0%	197.5	23.5%

Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.236)

1.9 Funding: Spending Review and Budgets

The levels of DEL funding for HMRC in 2019-20 are based on plans published in the 2015 Spending Round. Since that time, the Government has made several changes, including announcements of additional funding in Budgets and Autumn Statements.

In the 2019-20 supplementary estimates HMRC were granted additional funding of £250m. Of this, £180m was agreed for activity to prepare the UK for our exit from the EU, and for a larger than expected staffing requirement in preparation for a "no-deal" for much of the year. The remaining £70m is to meet in year commitments of increased employer's pension contributions, delivering fiscal event measures and the delay to implementing revised civil service exit terms, which the department had expected would be in place from June 2019. There was also a net movement of £5.6m decrease in the department's Resource DEL due to budget transfers between departments. The main movements from the Mains are shown in the table below.

Event (£m)	Resource DEL Excluding Depreciation	Resource DEL Including Depreciation	Capital DEL	TDEL Including Depreciation
Spending Review 2015	**2,927**	**3,198**	**216**	**3,414**
Movement of funding for VOA fm DCLG	122.3	122.3		122.3
Net Fiscal Events	156.0	156.0	12.7	168.7
Help to Save	15.0	15.0		15.0
EU Exit Funding	297.0	297.0	78.0	375.0
VOA Reval 21 Funding	25.0	25.0		25.0
Additional funding from HMT	214.9	214.9		214.9
Net transfers with other Departments	46.3	46.3		46.3
Adjustments for Depreciation	-	108.4		108.4
Main Estimate 2019 - 20	**3,803.5**	**4,183**	**306.7**	**4,489.6**
EU Exit Funding	123.0	123.0	57	180
Net transfers with other Departments (EUX)	2.6	2.6		2.6
Net transfers with other Departments	-8.2	-8.2	0.035	-8.2
Additional funding from HMT	70	70		70
Central resource allocation	0.1	0.1		0.1
VOA adjustment	1	1	-1	0
Movement between VOA HMRC	-1	-1	1	0
Total Change	187.5	187.5	57.0	244.5
Supplementary Estimate 2019 - 20	**3,991**	**4,370.5**	**363.7**	**4,734.1**

Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.236)

Note: Table may not appear to add up due to rounding

1.10 Other funding announcements

No other funding announcements to report.

2. Spending detail

2.1 Explanations of changes in DEL

Subheads	Description	Resource				Capital				Resource	Capital	See Para
		This year (Supplementary Estimates budget sought)	Main Estimates budget approved	Change from Main Estimate		This year (Supplementary Estimates budget sought)	Main Estimates budget approved	Change from Main Estimate		Last year Outturn (2018-19)	Last year Outturn (2018-19)	
		£ million				£ million			%	£ million		
A	HMRC Administration	3,892.0	3,705.5	186.5	5%	356.7	298.66	58.0	19%	3,483.7	353.5	2.11
B	VOA Administration	165.2	164.2	1.0	1%	7.0	8.00	-1.0	-13%	142.7	8.7	2.12
C	Utilised Provisions	30.0	30.0	0.0	0%	-	-	-		42.9		2.13
	Sub Total (Voted)	4,087.2	3,899.7	187.5	5%	363.7	306.7	57.0	19%	3,669.3	362.2	
D	National Insurance Fund	283.3	283.3	0.0	0%					282.6		2.14
	Sub Total (Non-Voted)	283.3	283.3	0.0	0%					282.6		
	Total Voted and Non-Voted	**4,370.5**	**4,183.0**	**187.5**	**4%**	**363.7**	**306.7**	**57.0**	**19%**	**3,951.9**	**362.2**	

Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.235,7)

Note: Table may not appear to add up due to rounding

2.11 HMRC Administration (Section A)

This section covers all running costs and capital investment provided to HMRC to deliver our objectives of maximising revenues due and bearing down on avoidance and evasion, transforming tax and payments for our customers and designing and delivering a professional, efficient and engaged organisation.

(£m)		RDEL
HMRC Administration	EU Exit	123.0
	EU Exit Budget Transfers	2.6
	Reserve Claim	70.0
	Net Other Budget Transfers	(8.2)
	Movement between VOA HMRC	(1.0)
	Total movement between Mains & Supps	**186.4**

Note: Table may not appear to add up due to rounding

Key changes are:

EU Exit

- Section A has been adjusted to show £180m of EU exit related additional funds, split into RDEL £123m and CDEL £57m. This funding is for staff necessary to develop and operate our activities for our customer services and compliance activities that are affected by the exit from the EU, IT changes required to HMRC systems, coordination and delivery of cross government border activity, and other activity that supports the exit from the EU.

Reserve Claim

- Section A also includes additional funding of £70m in RDEL to address the increase in pension contribution costs, non-delivery of revised civil service exit terms and to meet other in-year commitments.

Net Budget Transfers

- Also reflected in section A is budget cover transfers between HMRC and other governments departments, further detail are shown in the table below.

Budget Transfers (£m)	
Incoming:	**Total Net**
FCO	1.3
CO	2.7
DfID	0.4
Outgoing:	
HMT	-0.5
NCA	-3.0
CO	-6.4
Total Net	-5.6
Total Excluding EUX	-8.2

Negative = Outward transfer

2.12 VOA (Section B)

There was a £1m movement within VOA administration resulting from minor movements between the HMRC and VOA budgets.

2.13 Utilised Provisions (Section C)

This section covers the provision requirements for HMRC. When provisions are utilised, the cost is moved from AME to DEL as an equal and opposite transaction. Provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. Provisions in HMRC primarily relate to settling legal claims against the department.

2.14 National Insurance Fund (Section D)

This section covers the budget for administration of the funds and the collection of National Insurance contributions. HMRC is responsible for the administration of the National Insurance Funds of Great Britain and Northern Ireland.

2.2 Explanations of changes in Voted Resource AME

Subheads	Description	Resource				Resource	
		This year (Supplementary Estimates budget sought)	(Main Estimates budget approved)	Change from Main Estimate		Last year Outturn (2018-19)	See para
		£ million			%	£ million	
E	Child Benefit	11,581.8	11,699.6	(117.8)	(1%)	11,475.3	2.21
F	Tax Free Childcare	283.2	286.1	(2.8)	(1%)	115.7	2.22
G	Providing payments in lieu of tax relief to certain bodies	114.5	101.1	13.4	13%	97.4	2.23
H	Lifetime ISA	278.0	345.4	(67.4)	(20%)	251	2.24
I	HMRC Administration	51.0	30.0	21.0	70%	93.7	2.25
J	VOA - Payments of rates to LAs on behalf of certain bodies (POLAR)	93.5	81.5	12.0	15%	66.8	2.26
K	VOA - Administration	2.0	2.0	-	0%	7.1	2.27
L	Utilised Provisions	(32.2)	(30.0)	(2.2)	7%	-42.9	2.28
	Sub Total (Voted)	**12,371.7**	**12,515.6**	**(143.8)**	(1%)	**12,064.1**	
M	Personal Tax Credit	21,498.0	25,068.2	(3,570.2)	(17%)	22,288.3	2.31
N	Other Reliefs and Allowances	12,231.0	5,116.5	7,114.5	58%	5,879.2	2.32
	Sub Total (Non-Voted)	**33,729.0**	**30,184.8**	**3,544.3**	**11%**	**28,167.5**	
	Total Voted and Non Voted	**46,100.7**	**42,700.3**	**3,400.4**	**7%**	**40,231.60**	

Data sourced from the submitted Supplementary Estimate, published Main Estimates 2019-20 (p.373), published Annual Report and Accounts 2018-19 (p.236)

Note: Table may not appear to add up due to rounding's

HMRC's AME budgets consist primarily of Child Benefit, Personal Tax Credits and Corporation Tax Reliefs. These budgets were set at the Main Estimate aligning with forecasts endorsed by the Office for Budget Responsibility (OBR) for Spring Statement 2019.

HMRC have adjusted AME budgets in line with the latest Office for Budget Responsibility (OBR) approved forecasts. These changes also include movements relating to the annual adjustment in moving budgets from a cash basis to an accruals basis for departmental accounts.

A decrease of (£149.7m) Voted AME, which represents a 1% decrease on Supplementary Budget, consists of the following:

2.21 Child Benefit (Section E)

A £117.8m decrease in Child Benefit (1% decrease on Main budget) due to the annual adjustment moving from a cash budget to an accruals budget for the Departmental Accounts.

2.22 Tax Free Child Care (Section F)

A £2.8m decrease (1% decrease on Main budget) in Tax Free Childcare reflects the scheme uptake rates and savers investment behaviour.

2.23 Payments in Lieu of Tax Relief to Certain Bodies (Section G)

A £13.4m net increase (13% increase on Mains budget) consisting of:

- £7.6m increase in Stakeholder Pensions
- £6m increase in Gift Aid Relief on Micro Donations
- (£0.2m) decrease in VOC training.

2.24 Lifetime ISA (Section H)

A £67.4m decrease (20% decrease on Mains budget) reflects the OBR approved forecasts which is based on recent scheme uptake rates and levels of investment.

2.25 HMRC Administration (Section I)

A £21m increase in new provisions (70% increase on Mains budget). Increase in new provisions primarily for Building Our Future Locations (BOFL) and additional early departure costs.

Provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions.

2.26 Payment of rates to LAs on behalf of certain bodies - VOA (Section J)

A £12m increase in payments (15% on the Mains budget). POLAR has been more volatile in recent years, this is down to several organisations reducing their presence in London as a result of the EU exit alongside a number of high-profile estate moves.

2.27 VOA Administration (Section K)

No change

2.28 Utilised Provisions (Section L)

A £2.2m decrease (7%) to HMRC's AME specific Utilised provisions charge primarily relating to the utilisation of early departure cost provisions.

2.3 Explanations of changes in Non-Voted Resource AME

An increase of £3,544.3m Non-Voted AME, which represents an 11% increase on this year's Main budget and consists of the following:

(£m)		**AME RDEL**
Non - Voted AME	Personal Tax Credit	(3,570.2)
	Other Reliefs and Allowances	7,114.5
	Total movement between Mains & Supps	**3,544.3**

Data sourced from the submitted Supplementary Estimate, Further detail is provided below.

2.31 Personal Tax Credit (Non-Voted) (Section M)

A £3,570.2m decrease represents a change of 17% from the Main estimate. This is due to the continuing movement of individuals away from Personal Tax Credits and towards Universal Credit.

2.32 Other Reliefs and Allowances (Non-Voted) (Section N)

A £7,114.5m increase (58%) since the Main estimate. This section covers a range of tax reliefs. The largest movements are being caused by, Large Companies Research and Development Relief (increase of £3,435m), Small Companies Research and Development Relief (increase of £3,406m), and Film Tax Relief (£75.3m). The change in R&D relief has been informed by new outturn statistics, published in October 2019, which revealed the scheme is growing faster than initially expected.

2.4 Explanations of changes (Capital AME)

£10,000 is held in Capital AME for the utilisation of the Child Trust Fund provision. No changes required.

2.5 Ring fenced budgets

The only ring-fenced budget that has changed since the Main Estimate is EU Exit funding by +£180m.

2.6 Change to Contingent Liabilities

Description	Value (£ m)
Legal claims – Costs that may be awarded should various legal cases in which HMRC is involved be determined against the department.	85.2
Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities, 91 cases.	0.8
Other – the department has a further number of contingent liabilities	88.7

Data sourced from Supplementary Estimates 2019-20 (Annex B: Part K)

HMRC has included within Note K the Contingent Liabilities that it currently holds. Whilst these are included within the HMRC estimate for the first time, these contingent liabilities have been held by the department for several years and reported within the departmental resource accounts annually. They have been incurred in the ordinary course of business. HMRC have an established process in place to regularly review and monitor contingent liabilities.

3. Performance

3.2 Measures of performance against each priority

HMRC's objectives are set out in our Single Departmental plan. Each objective includes key performance indicators and Government commitments. HMRC's strategic objectives are deliberately overlapping in order to drive corporate behaviours within the organisation. For this reason, the spending detailed at Section 2.1 contributes to all top level objectives.

3.21 Collect revenues due and bear down on avoidance and evasion

- Built on our success in collecting £627.9 billion in total revenues over 2018 to 2019 and the overall downward trend in the tax gap over the past decade.

- Compliance yield raised - Our target is £34.5 billion in 2019 to 2020

- Tackling tax credits error and fraud - Our target is to ensure error and fraud is no more than 5% in 2019 to 2020

- Tax credits underpayments - Our target is to ensure underpayments through error are no more than 0.7% in 2019 to 2020

3.22 Transform tax and payments for our customers

- Customer satisfaction with digital services - Our target for 2019 to 2020 is that 80% of customers are either 'satisfied' or 'very satisfied' with our digital services across the year.

- Average speed of answering a customer's call - Our target for 2019 to 2020 is to answer customer calls within an average speed of answer of 5 minutes across the year

- Customer's waiting more than 10 minutes to speak to an advisor - Our target for 2019 to 2020 is to ensure no more than 15 % of calls are waiting more than 10 minutes to speak to an advisor across the year

- Customer iForms cleared within 7 working days of receipt - Our target for 2019 to 2020 is to turnaround 95% of iForms within 7 days across the year

- Customer post cleared within 15 working days of receipt - Our target for 2019 to 2020 is to turnaround 80% of post within 15 days across the year

- Customer post cleared within 40 working days of receipt - Our target for 2019 to 2020 is to turnaround 95% of post within 40 days across the year

- Handle tax and Child Benefit claims and changes of circumstances for UK customers - Our target for 2019 to 2020 is to handle claims and changes of circumstances for UK customers within an average of 22 days across the year

- Handle tax credits and Child Benefit claims and changes of circumstances for international customers - Our target for 2019 to 2020 is to handle claims and changes of circumstances for international customers within an average of 92 days across the year

3.23 Design and deliver a professional, efficient and engaged organisation

- People survey engagement score - Continue to make consistent positive progress towards achieving the Civil Service Employee Engagement Index benchmark (62% in 2018)

- Greenhouse gas emissions - Continue to support the Greening Government commitments to reduce our impact on the environment, working towards the 2019 to 2020 targets

- Making sustainable savings - Secure £151 million of sustainable efficiencies in 2019 to 2020, working towards £717 million of annual sustainable efficiencies by 2019 to 2020. Achieve £1.9 billion of cumulative savings over the Spending Review

Progress against our targets

We publish quarterly updates* on our performance against these objectives and cover them in the performance section of our Annual Report & Accounts. In addition to this, and to increase transparency around our customer service performance, we publish monthly updates* on use of our digital services and our telephony, post handling and complaints performance.

We are currently operating within a challenging public fiscal environment. Since the 2015 Spending Review we have seen an unusually high level of change, much of which has resulted in additional ongoing work for which the funding is not included as part of our current core settlement.

We have rigorously prioritised and made difficult choices to improve deliverability of both our business as usual and transformational plans. We will continue to work with Her Majesty's Treasury to ensure continued funding is made available to enable us to deliver our agreed priorities, for example by ensuring that we are fully prepared for Spending Review 2020, with multi-year investment and savings options already in development.

* HMRC quarterly performance updates : https://www.gov.uk/government/collections/hmrc-quarterly-performance-updates
* HMRC monthly performance reports: https://www.gov.uk/government/collections/hmrc-monthly-performance-reports

3.3 Major projects

HMRC currently have five live projects within the Government Major Projects Portfolio (GMPP):

Making Tax Digital for Business: Modernising tax administration for businesses, helping them get their tax affairs right, by introducing digital recordkeeping and quarterly updating. This will help reduce errors, give businesses greater certainty over their tax and reduce the need for HMRC to intervene to correct mistakes.

Customs Transformation (Customs Declaration Service): Providing a more flexible, scalable customs declarations service that can handle anticipated future import and export growth.

Locations Programme: Developing a more highly-skilled and flexible workforce in fewer geographical locations across the UK, equipping new workplaces with the digital infrastructure and training facilities required to realise that ambition.

Securing Our Technical Future: Delivering a resilient, flexible and highly available infrastructure which provides a foundation to enable HMRC to become the most digitally advanced tax administration in the world.

Tax Free Childcare: Tax-Free Childcare is a key part of the Governments childcare agenda and will be available to parents in work to help cover the cost of childcare. The service will provide a government contribution of up to £2,000 per child, per year (or £4,000 for disabled children) topping up payments to registered childcare providers via a parental account hosted by NS&I.

4. Accounting Officer Approval

This Memorandum has been prepared in accordance with the guidance in the Estimates Manual provided by HM Treasury.

The information in this Memorandum has been approved by the Principal Accounting Officer, Jim Harra