Dear Mr Tyrie,

Today, we have published our Annual Report and Accounts for 2013-14. Our Annual Report sets out our latest performance results, including our highest-ever performance for the additional revenues raised from our compliance activity, at £23.9 billion.

The Annual Report sets out the following issue (pages 12-13):

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

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

This means that the increase in our performance over the SR10 period, while meeting the targets set by the Government, is lower than we previously thought. We now know that the over-performance we were reporting in 2011-12 and 2012-13 was compensating for the baseline error. In 2011 we delivered the expected £2 billion increase, in 2012 a £4 billion increase, and in 2013, we improved performance £7.3 billion against a target of £5.3 billion.

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The National Audit Office (NAO) report is positive about the way we’ve measured our compliance performance since 2011-12. The Comptroller and Auditor General confirms in the summary (paragraph 29) of his Standard Report that, "[he is] satisfied from the evidence we have seen that HMRC’s compliance performance has improved throughout the spending review period and that its effectiveness continues to increase as HMRC develops new ways to deter, detect and prevent abuse of the tax system.”

The NAO’s audit has concluded that the measure provides a reasonable proxy for the beneficial impacts of HMRC’s compliance work and that the performance results we have reported since 2011-12 are accurate. In this year’s Annual Report, we have provided much greater detail about the composition of the revenues we have raised from compliance, to further strengthen the transparency of our reporting.

The baseline issues mean that we cannot make direct comparisons of outturn numbers between the SR10 period and earlier years, although the NAO have recognised that performance is clearly improving. Some of the public announcements that we and Ministers have made about performance improvements drew upon those numbers, and so we now know this to have overstated the level of performance improvement. Those comparisons have always reflected our best understanding of performance at the time, and – in the case of Ministerial announcements – reflected advice from officials that was based on that understanding. We have always applied appropriate caveats to our published performance comparisons, but will be even more cautious when presenting performance information in the future. This information is all covered in my Annual Report and in the Comptroller General’s report, but I wanted specifically to bring it to the Committee’s attention.

Yours sincerely

Lin Homer
Chief Executive