

HMRC Supplementary Estimate 2018/19

Select Committee Memorandum

1 Overview

- 1.1 We are 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.
- 1.2 Our key objectives set out in our [Single Departmental Plan](#) are to:
 - maximise revenues due and bear down on avoidance and evasion
 - transform tax and payments for our customers
 - design and deliver a professional, efficient and engaged organisation.
- 1.3 The Valuation Office Agency (VOA) gives government the valuations and property advice needed to support taxation and benefits. VOA is an executive agency of HM Revenue and Customs (HMRC).
- 1.4 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.

2 Spending controls

- 2.1 HMRC's spending is broken down into a several different spending totals, for which Parliament's approval is sought.
- 2.2 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 and other reliefs and entitlements.
- 2.3 Budgets are split between those voted by Parliament and those where appropriation is covered in other legislation (non-voted).
- 2.4 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

3 Efficiency plans

- 3.1 Our Spending Review 2015 settlement provided HMRC with 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.
- 3.2 In 2017-18 HMRC made sustainable annual efficiency savings of £410 million against its target of £380 million, in line with Spending Review 2015 and subsequent fiscal events. We continue to work towards £717 million target of annual, sustainable efficiencies by 2019-20.

4 Performance

- 4.1 HMRC look at a range of compliance, operational and customer service measures throughout the year to assess our performance. [Monthly reports](#) shows how HMRC has done against its key customer service performance objectives, such as:
 - use of digital services
 - answering phones
 - handling customer post
 - responding to complaints

5 Ambit changes

- 5.1 No changes to the Ambit are required.

6 Departmental Expenditure Limits (DELs)

Table A: DEL Supplementary budget compare to Mains

Subheads	Description	Resource					Capital				
		This year (Supplementary budget sought)	(Main Estimates budget approved)	Change from Main Estimate			This year (Supplementary budget sought)	(Main Estimates budget approved)	Change from Main Estimate		
		£ million				see para	£ million			%	see para
A	HMRC Administration	3,578.6	3,271.0	307.6	9%	7.1	366.6	240.8	125.8	52%	7.1
B	VOA Administration	156.3	151.3	5.0	3%	7.2	9.3	9.0	0.3	4%	7.2
C	Utilised Provisions	52.8	30.0	22.8	76%	7.7					
	sub total (voted)	3,787.7	3,452.3	335.4	10%		375.9	249.8	126.1	50%	
D	National Insurance Fund	287.0	287.0	0.0	0%	7.9					
	sub total (non-voted)	287.0	287.0	0.0							
	total voted and non voted	4,074.7	3,739.3	335.4	9%		375.9	249.8	126.1	50%	

7 Explanations of changes (DEL)

Table B: Summary of DEL budget movement from Mains to Supplementary Estimate

(£m)		RDEL	CDEL
HMRC Administration	EU Exit	191.6	67.4
	AB18 & SR15 funding	48.0	15.0
	Reserve Claim	3.0	47.0
	Net Budget Transfers & virements	37.9	(3.7)
	Depreciation	50.0	
	Utilised Provisions	(22.8)	
	Total movement between Mains & Supps	307.6	125.8
VOA Administration	Reval 21 funding	7.5	1.5
	Net Budget Transfers & virements	(2.5)	(1.2)
	Total movement between Mains & Supps	5.0	0.3
Utilised Provisions	Total movement between Mains & Supps	22.8	

Note: Totals may appear not to add up due to roundings

HMRC Administration (Section A)

- 7.1 This section covers all of the 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.

Key changes are:

EU exit

- Funding was agreed for activity to prepare the UK for exit from the EU, which increased Resource DEL Programme by £191.6m and Capital DEL by £67.4m. 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.
- This funding is from the Reserve and is therefore non-recurrent i.e. it will not be included in HMRC's baseline funding.

Autumn Budget 2018 & Spending Review 15 (SR 15) funding

- Previously unfunded policy measures (increased Resource DEL Programme by £5m)
- Funding for Autumn Budget 2018 announcements (increased Resource DEL by £3m and Capital DEL by £5m).

- Funding agreed by the Chancellor to enable HMRC to meet In-Year commitments was confirmed (increased Resource DEL by £40m and Capital DEL by £10m).

Reserve Claim

- A Reserve Claim (Resource DEL £3m and Capital DEL by £47m) was agreed primarily to cover costs relating to Customs Declaration Service (CDS). The investment in CDS will ensure that the UK maintain an effective customs declaration processing capability as the UK leaves the EU.

Table C: Summary of Net Budget Transfers & Virements

Description (£m)	RDEL	CDEL
Net transfers with DWP (Universal Credit)	28.3	
Net transfers with Cabinet Office (including for Civil Service Live & estates costs)	6.2	(3.7)
Transfers from OGD (for Operational Delivery Profession)	1.5	
Net transfers with HMT (including for Government Finance Academy & Office for Tax Simplification)	(0.2)	
Transfer to MoJ (for Justice Impact Tests)	(0.2)	
Transfer to Welsh Gov (for devolution savings)	(0.2)	
Virement between 'Section B VoA' & 'Section A HMRC'	2.5	
Net Budget Transfers & Virements	37.9	(3.7)

Depreciation

- We have been reviewing our latest position of the assets owned by the department. We need additional depreciation cover of £50m. This has no cash impact on the spending power of the department.

VOA Administration (Section B)

7.2 This section covers the running costs of the VOA, which from 2017-18 included funding transferred from DCLG. The VOA also recoups expenditure through income. The VOA has capital investment provided to enable its transformation.

7.3 Key changes are

- Additional funding for Revaluation 2021 (Resource DEL Programme £7.5m and Capital DEL by £1.5m) following the announcement in the Spring Statement that the next non-domestic rating revaluation would be brought forward to 2021.
- Budget transfer (£1.2m Capital DEL) to Cabinet Office for estates costs.
- Virement between 'Section B VoA' & 'Section A HMRC' (reduction to RDEL Programme £2.5m) to adjust depreciation between sections – a budget neutral change for the group.

Income

- 7.4 Income changes have nil impact on the budgets figures in the above table – which are on a net basis.
- 7.5 HMRC have increased the Resource DEL Income limit by (£41.2m). This increase reflects income generated from work conducted on behalf of Other Government Departments, additional income for the Asset Recovery Incentivisation Scheme and legal costs recovered.
- 7.6 HMRC have increased the Capital DEL Income limit by (£12.2m). This increase is for;
- contributions agreed in contracts to partially offset against the fit out costs incurred by HMRC for new Regional Centres and;
 - income generated from asset write-offs, as per Consolidated Budgeting Guidance requirements.

Utilised Provisions (Section C)

- 7.7 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.
- 7.8 Provisions in HMRC primarily relate to settling legal claims against the department and early departure costs.

National Insurance Fund (Non-Voted) (Section D)

- 7.9 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.
- 7.10 No changes are required.

8 Annually Managed Expenditure (AME) Table

Table D: AME Supplementary budget compare to Mains

Subheads	Description	Resource				
		This year (Supplementary Estimates budget sought)	(Main Estimates budget approved)	Change from Main Estimate		See para
		£ million			%	
E	Child Benefit	11,969.3	11,545.5	423.8	4%	9.3
F	Tax Free Childcare	145.9	247.7	(101.8)	(41%)	9.4
G	Providing payments in lieu of tax relief to certain bodies	97.4	95.1	2.3	2%	9.5
H	Lifetime ISA	312.6	480.0	(167.4)	(35%)	9.6
I	HMRC Administration	55.0	30.0	25.0	83%	9.7
J	VOA - Payments of rates to LAs on behalf of certain bodies	76.5	79.4	(2.9)	(4%)	9.8
K	VOA Administration	2.0	2.0	-	0%	9.9
L	Utilised Provisions	(52.8)	(30.0)	(22.8)	76%	9.10
	sub total (voted)	12,605.9	12,449.7	156.2	1%	
M	Personal Tax Credits	23,475.1	23,455.0	20.1	0%	10.2
N	Other Reliefs and Allowances	4,624.8	3,854.8	770.0	20%	10.3
	sub total (non voted)	28,099.9	27,309.8	790.1	3%	
	total voted and non voted	40,705.8	39,759.5	946.3	2%	

9 Explanations of changes (Resource AME Voted)

- 9.1 HMRC have made adjustments to 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.
- 9.2 An increase of £156.2m Voted AME, which represents a 1% increase on Mains Budget and consists of the following.

Table E: Summary of Voted AME changes

(£m)		AME RDEL
Voted AME	Child Benefit	423.8
	Tax Free Childcare	(101.8)
	Providing payments in lieu of tax relief to certain bodies	2.3
	Lifetime ISA	(167.4)
	HMRC Administration	25.0
	VOA - Payments of rates to LAs on behalf of certain bodies	(2.9)
	VOA Administration	-
	Utilised Provisions	(22.8)
	Total movement between Mains & Supps	156.2

Child Benefit (Section E)

- 9.3 A £423.8m increase in Child Benefit (4% increase on Mains Budget) due to the annual adjustment in moving from a cash budget to an accruals budget for the Departmental Accounts.

Tax Free Childcare (Section F)

- 9.4 A (£101.8m) reduction in Tax Free Childcare reflects the growth rates observed through 2018, which were lower than growth rates observed when the scheme was initially launched in April 2017.

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

- 9.5 A £2.3m net increase (2% increase on Mains budget) consisting of:
- £6.4m increase in Stakeholder Pensions
 - (£4.0m) reduction in Gift Aid Relief on Micro Donations.

Lifetime ISA (Section H)

- 9.6 A (£167.4m) reduction (35% decrease on Mains budget) reflects the OBR approved forecasts which is based on more recent scheme uptake rates and levels of investment, since the scheme launched in April 2017.

HMRC Administration (Section I)

- 9.7 A £25m increase in new provisions primarily for legal and 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.

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

- 9.8 A net (£2.9m) budget decrease due to changes in diplomatic properties and increases in rates. The VOA compensates local billing authorities for rates due on properties occupied by a mission with diplomatic status.

VOA Administration (Section K)

- 9.9 No changes

Utilised Provisions (Section L)

- 9.10 When HMRC utilise a provision the cost is moved from AME to DEL as an equal and opposite transaction.

10 Explanations of changes (Resource AME Non-Voted)

- 10.1 An increase of £790.1m Non-Voted AME, which represents a 3% increase on Mains Budget and consists of the following.

Table F: Summary of Non-Voted AME changes [DN update the list below]

(£m)		AME RDEL
Non - Voted AME	Personal Tax Credit	20.1
	Other Reliefs and Allowances	770.0
	Total movement between Mains & Supps	790.1

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

- 10.2 A £20.1m increase represents a change of less than 1% and aligns with the Autumn Budget forecast endorsed by the OBR.

Section N Other Reliefs and Allowances (Non-Voted)

- 10.3 A £770m net increase since Mains. This section covers a range of tax reliefs, the largest being Large Companies Research and Development Relief £1,777.3m (increase of £160.6m), Small Companies Research and Development Relief £1,885.5m (increase of £497.4m), and Film Tax Relief £559.8m (£119.2m). These budgets align with forecasts endorsed by the OBR.

11 Explanations of changes (Capital AME)

- 11.1 £10,000 is held in Capital AME for the utilisation of the Child Trust Fund provision. No changes required

12 Ring fenced budgets

- 12.1 Within the budget totals above, the following elements are ring fenced (ie savings in these budgets may not be used to fund pressures on other budgets).

Depreciation

- We need additional depreciation cover of £50m. This has no cash impact on the spending power of the department.

Policy Ringfence

- Brexit funding within the department is ringfenced. A number of other policy items are ringfenced but these have been relaxed at the Supplementary Estimate to enable HMRC to utilise its budget effectively across the whole department.

13 Net Cash Requirement

- 13.1 An increase in the Net Cash Requirement of £621.2m is required. This is the result of the above changes and an increase of £55.6m due to movement in working capital balances.

14 Approval of Memorandum

- 14.1 This Memorandum has been prepared in accordance with the guidance in the Estimates Manual provided by HM Treasury.
- 14.2 The information in this Memorandum has been approved by the Principal Accounting Officer, Sir Jonathan Thompson.