National Audit Office

NEWS RELEASE

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Report by the Comptroller and Auditor General

Her Majesty's Revenue & Customs Accounts 2017-18

Amyas Morse, the Comptroller and Auditor General of the National Audit Office (NAO), has today issued a report on the 2017-18 accounts of HM Revenue & Customs.

The C&AG has qualified his regularity audit opinion on the 2017-18 Resource Accounts because of material levels of error and fraud in the Personal Tax Credits expenditure. He has qualified the accounts on these grounds every year since Tax Credits were introduced in 2003-04.

Each year the C&AG chooses parts of HMRC's business to report on in more detail. This year's report focuses on three parts: tax revenue; Personal Tax Credits and Child Benefit error and fraud; and transformation.

Tax revenues in 2017-18
HMRC raised £605.8 billion of tax revenues this year, an increase of £30.9 billion (5.4%) on 2016-17 and paid out £38.0 billion in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The taxes that contributed to most of this increase were Income Tax and National Insurance Contributions which together increased by £20.2 billion (6.8%); Corporation Tax which increased by £2.2 billion (4.3%); and VAT which increased by £4.2 billion (3.4%).

Tax Credits and Child Benefit error and fraud
HMRC's most recent error and fraud estimate, for the 2016-17 award year, indicates that overpayments have increased to 4.9% (£1.3 billion) of Tax Credits expenditure (£26.3 billion), while underpayments have increased to 0.8% (£200 million). HMRC expects the level of overpayments to increase for 2017-18, when measured. Misreporting of income is the biggest cause of error and fraud overpayments**.** This now accounts for £355 million of total overpayments and has increased every year since 2012-13. HMRC has had some success in reducing error and fraud relating to children and undeclared partners since revising its strategy in 2009.

During 2017-18, 123,000 Tax Credits claimants transferred to Universal Credit. HMRC will transfer a further 2.7 million claimants to the Department for Work and Pensions by 2023, and will also transfer £6.8 billion of Tax Credits debt. There are a number of uncertainties around these transfers that HMRC will need to balance against its continuing Tax Credits responsibilities, including delivering good customer service and addressing error and fraud.

HMRC's estimates also show an increase in error and fraud in Child Benefit for 2017-18, but HMRC has not yet completed its work to enhance the accuracy of its estimate. Of a total £155 million (1.3% of total expenditure of £11.7 billion) of estimated error and fraud, £105 million (68%) relates to claimants who fail to respond to HMRC to confirm their eligibility, and so are deemed ineligible and have their Child Benefit stopped. HMRC considers that other evidence available to it indicates that a significant proportion of these claimants may be eligible for Child Benefit, and that the level of error and fraud is lower than that estimated.

Transformation

HMRC is two years into a major transformation programme to drive efficiencies and reduce its costs. In July 2017, the NAO concluded that it would be challenging for HMRC to achieve this transformation within its intended timescale and recommended that HMRC should review its plans given pressures on costs and deliverability.

In autumn 2017, HMRC recognised that the delivery of its original plans was not realistic due to over-ambitious assumptions, and the additional demands of EU exit increased pressure on capacity. It responded by prioritising its transformation plans to release capacity, reduce delivery risk, and reduce its transformation costs. This led to a cut in the number of projects from 267 to 128 and a reduction in the cost of the transformation portfolio in 2018-19 and 2019-20 by £191 million. The main changes include reducing the scope of Personal Tax Account, reducing the number of customers HMRC planned to take out of Self Assessment and extending the timetable for a new compliance approach. Some other projects were stopped, consolidated, deferred or had timetables extended.

The impact of HMRC's decisions has been to marginally reduce or delay the intended benefits from its transformation plans. The prioritisation exercise has reduced HMRC’s forecast efficiency savings from £717 million to £675 million each year from 2019-20, although HMRC expects that, ultimately, it will be able to meet its original target. It is not clear yet what impact prioritisation will have on delivery of benefits across the whole of HMRC or on its customers.

HMRC's transformation plans remain highly challenging but the revised delivery timeline may be more realistic. HMRC still expects to spend almost all of its transformation budget of £1.8 billion in the four years to 2019-20, even though it has stopped or delayed some of its projects.

Amyas Morse, head of the National Audit Office, said today:

“HMRC is primarily in the business of bringing in tax revenue, and numbers are up for 2017-18 which is good news. Of course it needs to be vigilant on fraud and error, which is rising in Tax Credits, and on customer service.

I welcome HMRC’s recognition of the need for prioritisation, to balance Brexit pressures and other elements of its change portfolio. It is too soon to determine how effective the execution of these plans proves to be in terms of value for money.”

- ENDS –

Notes for Editors

1. Regularity: The C&AG is required to obtain sufficient evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been made in accordance with relevant legislation and applied to the purposes intended by Parliament. If the transactions do not conform with Parliament's intention then they are counted as irregular.
2. In the Spending Review 2015, HMRC secured funding of £1.8 billion for transformation between 2016-17 and 2019-20. In return it committed to making cumulative efficiency savings of £1.9 billion by 2019-20 and to collecting £920 million of additional tax revenue by 2020-21.
3. HMRC records revenues in the Trust Statement on an accruals basis (tax due rather than actual cash received). Of the £605.8 billion of total revenue in 2017-18, £141.9 billion relates to amounts that had not been collected at the year-end. £111.6 billion of this balance relates to accrued revenue.
4. Press notices and reports are available from the date of publication on the NAO website. Hard copies can be obtained by using the relevant links on our website.
5. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services. Our work led to audited savings of £741 million in 2017.

Press Notice xx/18

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