National Audit Office

Departmental Overview, December 2018

HM Revenue & Customs

HM Revenue & Customs (HMRC)

This overview summarises the work of HMRC including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

Overview

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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, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

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About the Department

HMRC's role

HMRC is the UK's tax, payments and customs authority. It collects the money that pays for public services and helps families and individuals with targeted financial support.

HMRC's objectives

HMRC's objectives, as set by the government, are to:

- maximise revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.

Tax revenue

HMRC reports to Parliament on revenues collected in its Trust Statement, published in its Annual Report and Accounts. In 2017-18:

- HMRC reported £605.8 billion in revenue, an increase of £30.9 billion (5.4%) on 2016-17.
- The UK tax gap was £33 billion, 5.7% of total tax revenues in 2016-17, the latest available estimate. The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

Benefits and tax credits

HMRC paid £38.1 billion in benefits and credits in 2017-18, of which £26.4 billion was on Tax Credits and £11.7 billion was Child Benefit.

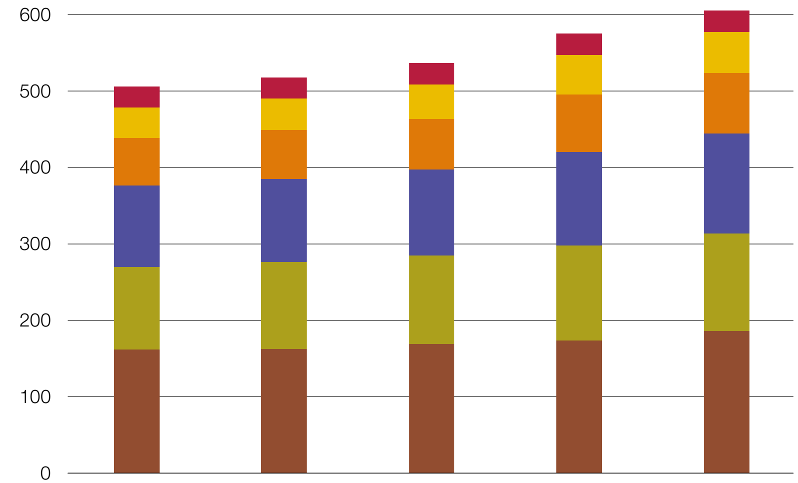
Partners

HMRC supports the Office for Budget Responsibility to provide predictions of revenues to Parliament in Budgets and Autumn Statements.

HMRC works with HM Treasury to produce tax policy advice for HM Treasury ministers.

Tax revenues, 2013-14 to 2017-18

Tax revenues have increased in each of the past five years



	2013-14	2014-15	2015-16	2016-17	2017-18
Hydrocarbon oils	26.9	27.2	27.7	28.0	27.9
Corporation Tax	40.3	41.4	45.5	51.1	53.3
Other	61.6	64.1	66.2	75.1	79.5
National Insurance Contributions	106.7	108.0	112.0	122.5	130.5
VAT	108.2	113.9	116.0	124.4	128.6
Income Tax	162.1	163.1	169.4	173.8	186.0
Total revenue	**505.8**	**517.7**	**536.8**	**574.9**	**605.8**

Source: HM Revenue & Customs Annual Report and Accounts 2013-14 to 2017-18

How the Department is structured

HMRC is a non-ministerial department. This is intended to ensure that the administration of the tax system is fair and impartial.

Jon Thompson is the Chief Executive and Accounting Officer. Jim Harra is Deputy Chief Executive and HMRC's Tax Assurance Commissioner (whose role is to strengthen the governance of tax disputes).

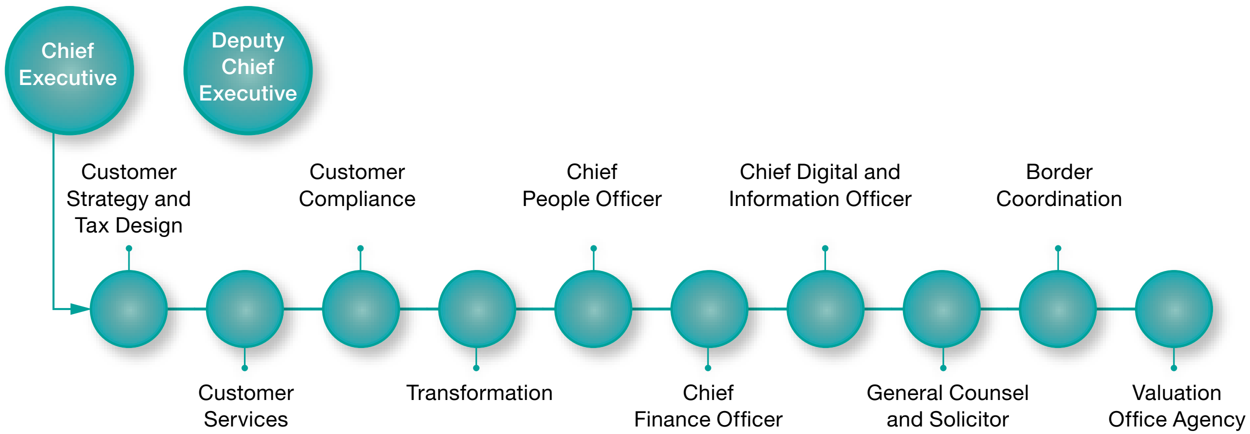
HMRC's Board provides challenge and advice to the Chief Executive and HMRC's Executive Committee (ExCom). Board members are the Chair and five other non-executives, the Chief Executive, the Deputy Chief Executive and the Chief Finance Officer.

HMRC has one agency, the Valuation Office Agency, which provides valuations and property advice to the government.

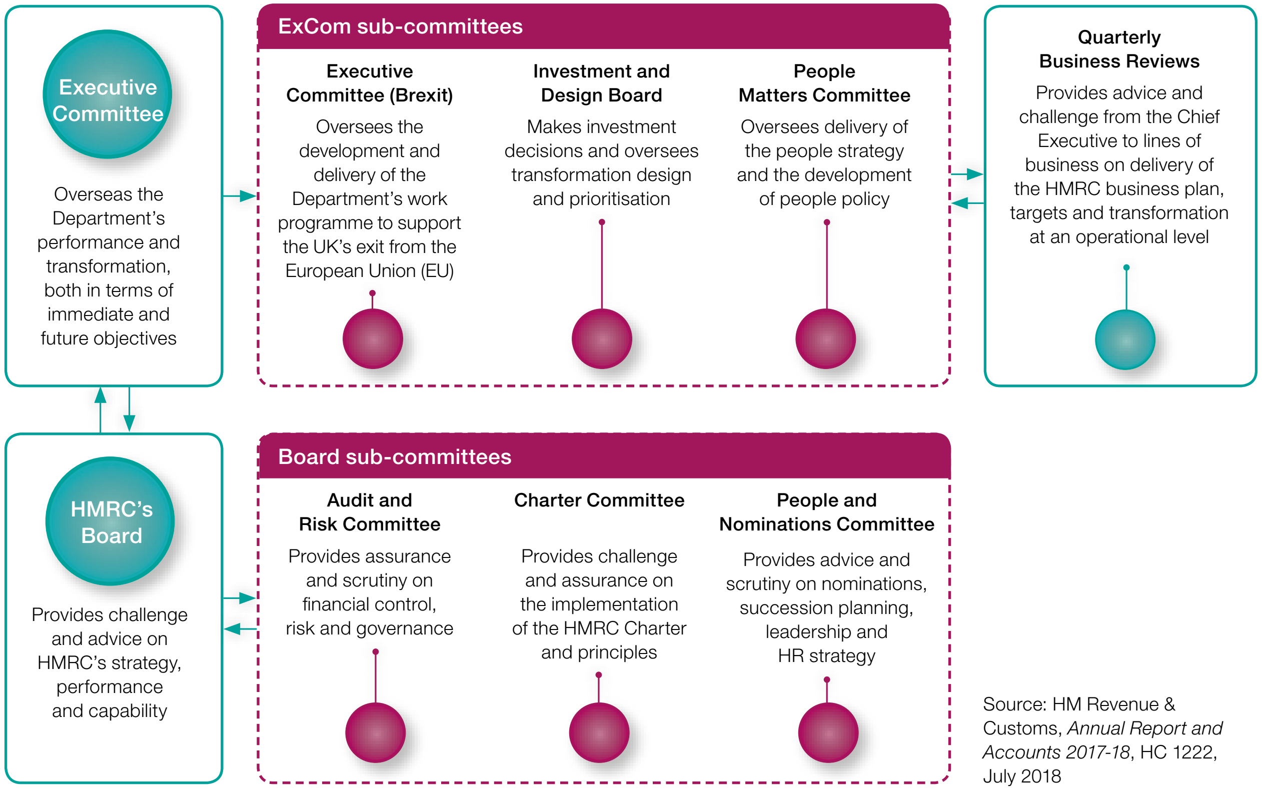
HMRC is the parent of Revenue and Customs Digital Technology Services Limited, an arm's-length body that provides a managed IT service to HMRC.

The Chief Executive and Deputy Chief Executive, together with the Director Generals who lead HMRC's business groups, make up HMRC's ExCom. ExCom oversees all HMRC's work and is responsible for setting and delivering its strategic objectives.

HMRC's Executive Committee



HMRC's governance



Source: HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018

Where the Department spends its money

As well as collecting taxes, HMRC administers Personal Tax Credits and Child Benefit. Of the £45.7 billion spent by HMRC in 2017-18:

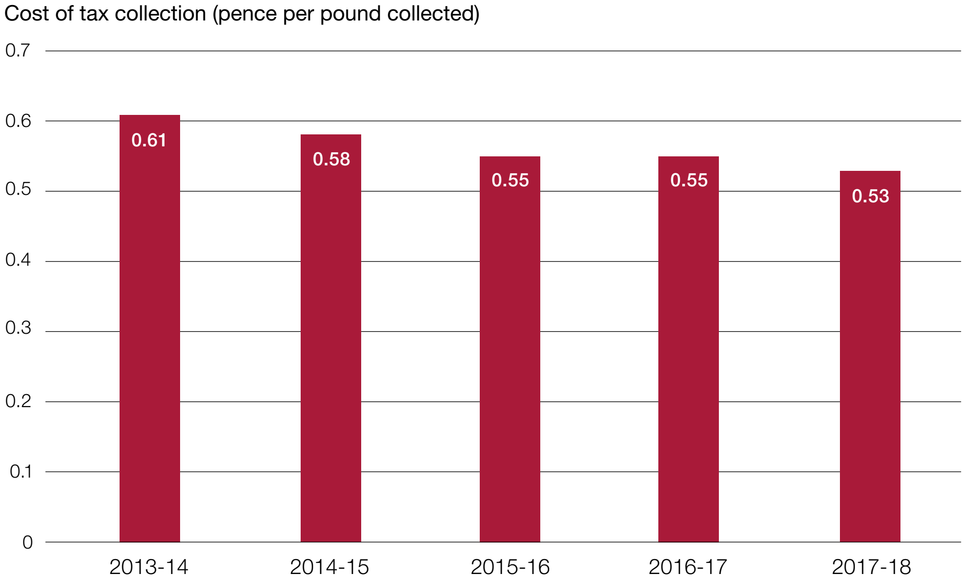
- £41.8 billion related to payments to HMRC's customers, including Personal Tax Credits and Child Benefit; and
- £3.9 billion was administrative costs.

The amounts paid out through Personal Tax Credits have been slowly falling in the past five years, from £29.3 billion in 2013-14, as people transfer to Universal Credit. Total amounts of Child Benefit paid have remained around the same level for the past five years.

The average number of full-time equivalent persons employed during 2017-18 was some 60,200 for the core department. This average has fallen from some 63,200 in 2013-14.

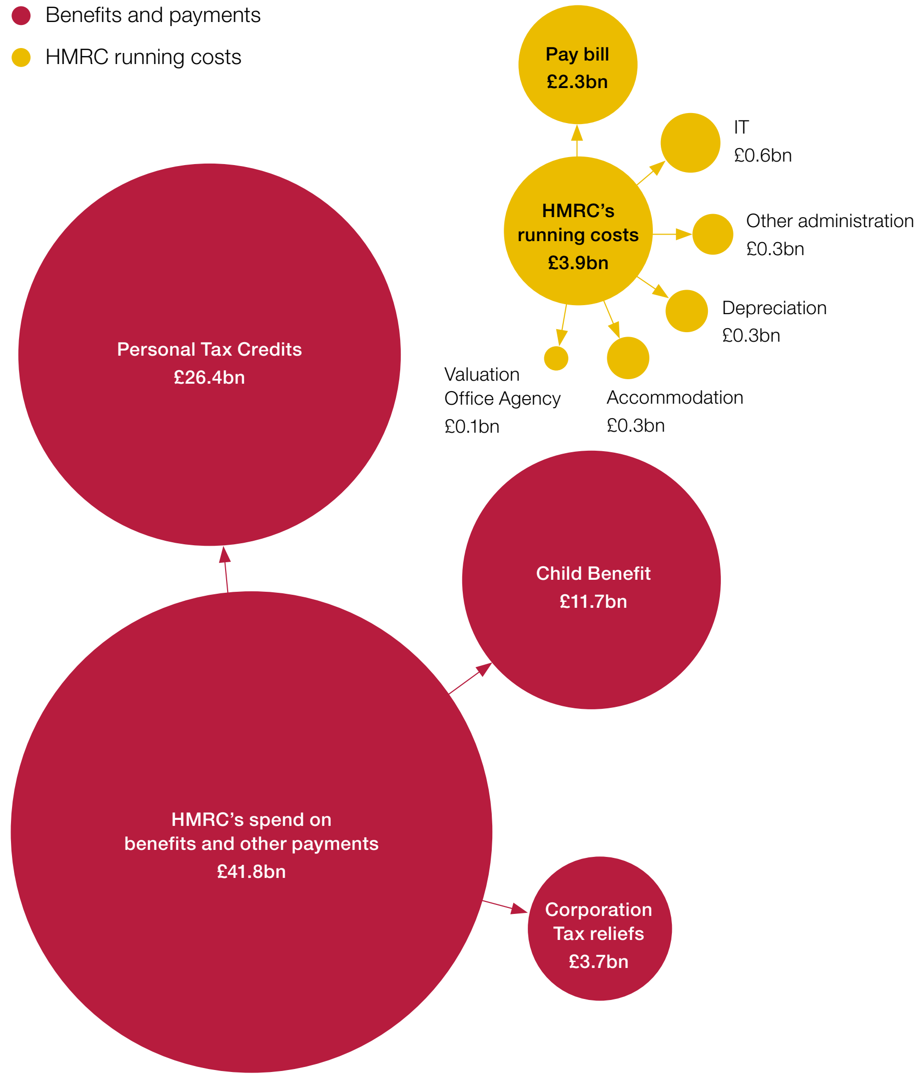
HMRC reports that the efficiencies it has delivered, together with increasing revenues, mean that the cost of collecting taxes in the UK is less than a penny for every pound collected – down from 0.61 pence in the pound in 2013-14 to 0.53 pence in the pound in 2017-18.

Cost of tax collection 2013-14 to 2017-18



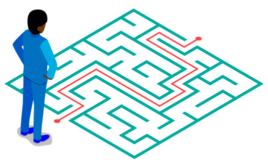
Source: HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018, p45, Figure 11

Analysis of HMRC's total net expenditure 2017-18



Source: HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018, p44 and p198

Major programmes and developments



Preparing for the UK's exit from the EU

HMRC operates various systems that support the UK border and that need to be amended to accommodate the UK leaving the EU. One of the most important systems is the new Customs Declaration Service (CDS), which will replace the existing customs system, CHIEF (Customs Handling of Import and Export Freight). Changes needed to other systems, for example the Excise Movement and Control System, fall within the scope of HMRC's Border Systems Programme.

See pages 11 and 13.

HMRC's transformation plans

HMRC is two years into a programme of transformation with the aim of becoming one of the most digitally advanced tax administrations in the world. Its plans consist of a portfolio of 15 major change programmes.

In 2017-18, HMRC undertook a structured prioritisation exercise of its transformation portfolio to release capacity, reduce risks to delivery and reduce costs.

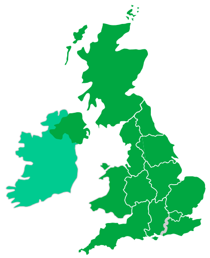
See pages 15 and 16.

Key contracts

HMRC is moving from its existing estates contract (119 buildings in 76 towns in 2017-18) to 13 regional centres and five specialist sites. The first regional centre has opened in Croydon. The value of HMRC's estates contract in 2017-18 was £244 million.

HMRC has exited its former contract for IT provision with Aspire and replaced it with a number of smaller, more flexible contracts. As a result of this, the value of HMRC's 'IT Public-Private Partnership[1] contract payments' was £153 million in 2017-18 (£501 million in 2016-17). An additional IT spend of approximately £437 million was reported in HMRC's accounts under the heading 'IT services and consumables'.

1 Public-Private Partnerships are long-term contracts where the private sector designs, builds, finances and operates an infrastructure project.



Devolved administrations' tax powers

The devolved legislatures already possess some powers over taxation, with more coming into effect next year. HMRC works with the revenue authorities in Scotland and Wales that administer fully-devolved taxes on land transactions and landfill disposals. HMRC administers Scottish income tax and incorporates the rates and bands set annually by the Scottish Parliament. HMRC is working on the introduction of Welsh rates of income tax from April 2019, which it will administer. HMRC has made preparations to enable Northern Ireland Corporation Tax rate-setting powers if devolution is agreed.

Exiting the European Union

In April 2018, the Department for Exiting the European Union (DExEU) provided a summary of the workstreams underway to implement Exit. This stated that HMRC has 17 aggregated workstreams monitored by DExEU relating to policy areas affected by leaving the EU. These cover areas such as customs, VAT and excise, direct taxes directives, mutual assistance in the recovery of debt, information sharing and cooperation for law enforcement, coordination of social security contributions, and EU nationals' access to HMRC-administered benefits and tax credits. Specific examples include a workstream to deliver a new customs regime following EU Exit and a workstream covering options for social security contributions currently coordinated with the EU for after the Implementation Period.

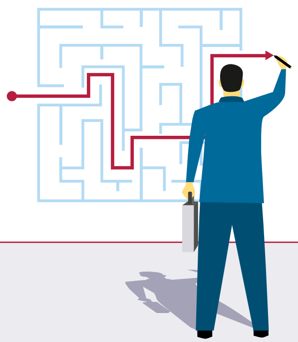
HMRC reported in May 2018 that it had

and in April 2018 it reported that that number could reach **beyond**

5,000

There are over 30 UK government departments and agencies with responsibility for border activity. HMRC's Chief Executive co-chairs the cross-government Border Planning Group, which provides oversight and assurance of the planning work across government for dealing with the operational and practical impacts of EU Exit on the UK border. This is supported by the Border Delivery Group, headed by HMRC's Director General Border Delivery, who is responsible for scoping, planning and coordinating the necessary change plans to ensure the border works effectively after EU exit. The DG Border Delivery is held to account by HMRC's Chief Executive. The work of the Border Planning Group and Border Delivery Group is intended to ensure that all border-related projects, programmes and plans for EU exit deliver maximum benefits. Page 13 of this Departmental Overview summarises our October 2018 report on the UK border.

HMRC considers customs to be the area of its work most affected by the UK's withdrawal from the EU. Page 11 of this Departmental Overview summarises the findings of our update report on HMRC's programme to replace its customs system, CHIEF, with a new Customs Declaration Service.



HMRC received EU Exit funding of

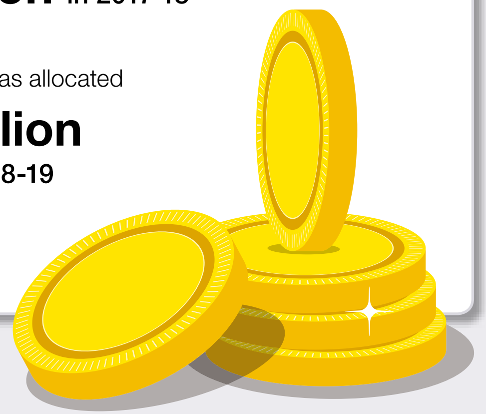
£48 million **in 2017-18**

The government has allocated

£260 million

to HMRC in 2018-19

for EU Exit work



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Managing public money

HMRC's 2017-18 financial statements

Comptroller and Auditor General's (C&AG's) opinions

The C&AG:

- concluded that the figures in HMRC's Trust Statement are true and fair and that HMRC has used income and expenditure for the purposes Parliament intended;
- qualified his opinion on the regularity of HMRC's Resource Accounts due to the material level of error and fraud in Tax Credits expenditure; and
- concluded that in 2017-18 HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out.

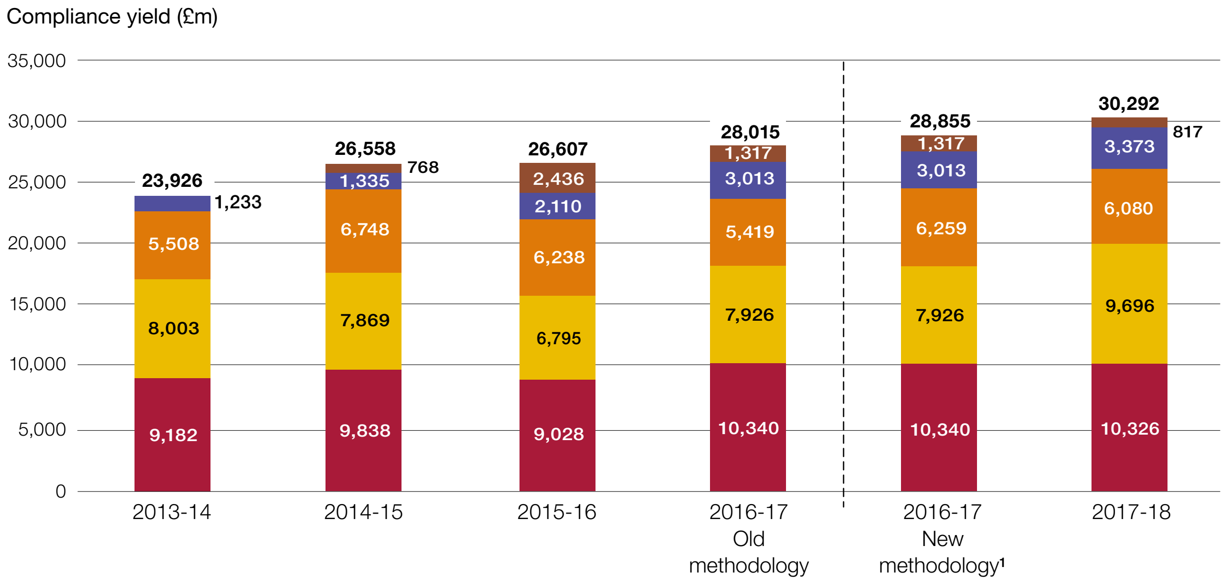
Key figures

The **total revenue** HMRC reported in 2017-18 was £605.8 billion (£574.9 billion in 2016-17). This figure is net of £110.1 billion of **repayments** to taxpayers (£107.2 billion in 2016-17).

Repayments are a necessary part of tax administration and can arise for a variety of reasons. HMRC may receive payments on account that can lead to repayments when the taxpayer's liability is assessed. VAT-registered taxpayers can claim back VAT on certain purchases they have made when they relate to the sale of goods and services.

In 2017-18, HMRC achieved £30.3 billion (2016-17: £28.9 billion) of **compliance yield** against a target of £28.0 billion. Compliance yield represents HMRC's estimate of the additional revenues it has generated and the revenue losses it has prevented.

HMRC's compliance yield 2013-14 to 2017-18



Cash expected	Additional revenue due when HMRC identifies past non-compliance, with a reduction to any revenue that HMRC knows will not be collected (for example, when a business becomes insolvent).
Revenue losses prevented	Revenue that HMRC prevented from being lost to the Exchequer (for example, by stopping fraudulent repayment claims and disrupting criminal activity).
Future revenue benefit[1]	Estimated effect of HMRC's compliance work on customers' future behaviour.
Product and process yield	Estimated annual impact on net tax receipts of legislative changes to close tax loopholes and changes to HMRC processes that reduce opportunities to avoid or evade tax.
Accelerated payments	Disputed amounts of tax that people using tax avoidance schemes are now required to pay upfront within 90 days, as well as an estimate of the behavioural change that this policy has generated.

Note

1 From 2016-17, and in response to an NAO recommendation, HMRC recorded future revenue benefit for the future year or years in which it had an impact on Exchequer receipts, rather than, as it had done previously, the year in which HMRC completed the compliance intervention. HMRC has published a technical note that gives a more detailed explanation.

Source: Report by the Comptroller & Auditor General, *HM Revenue & Customs 2017-18 Accounts*, Session 2017–2019, HC 1222, July 2018

What is the tax gap?

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

Why is there a tax gap?

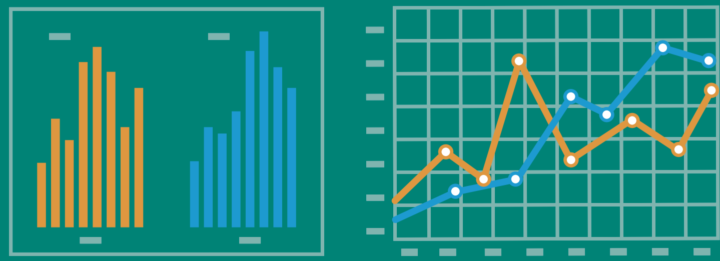
The tax gap arises for a number of reasons. Some taxpayers make simple errors in calculating the tax that they owe, despite their best efforts, while others do not take enough care when they submit their returns. Legal interpretation, evasion, avoidance and criminal attacks on the tax system also result in a tax gap. It is impossible for HMRC to collect every penny of tax that is owed — for example, it cannot collect outstanding tax from businesses that become insolvent.

How big is the tax gap?

The UK tax gap as a percentage of total tax revenues was 5.7% (£33 billion) in 2016-17, the lowest percentage gap since 2011-12. This is the most recent available estimate, which HMRC published in June 2018.

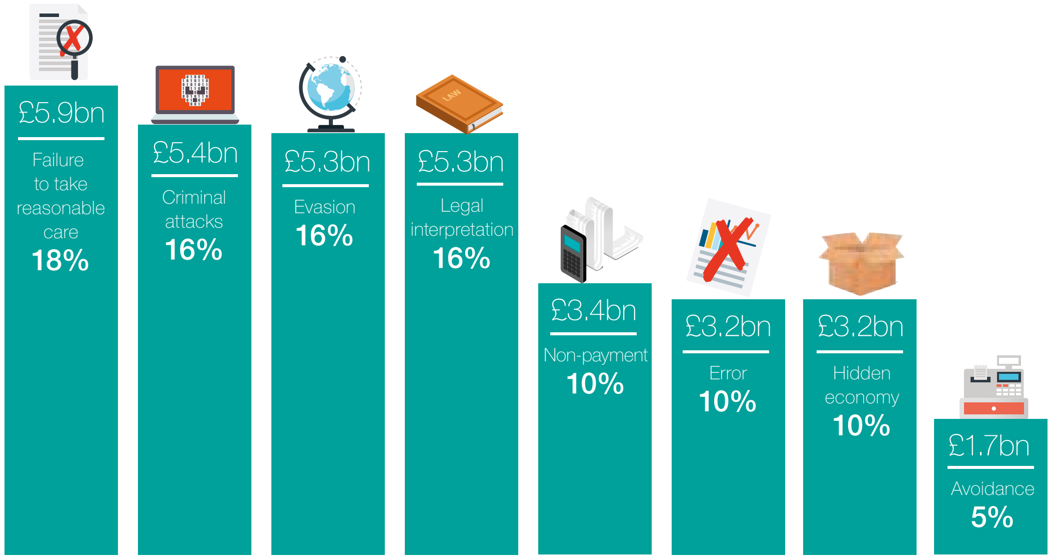
How is HMRC tackling the tax gap?

Of the £33 billion tax gap, 41% can be attributed to small businesses, followed by large businesses (21%). The key behaviour driving the tax gap is 'failure to take reasonable care'. HMRC is seeking to address this by transforming itself into a modern digital tax authority (see page 15), especially its Making Tax Digital for Business programme. HMRC expects these digital and data-led systems to make it easier for customers to get their tax right and to reduce the number of avoidable errors.

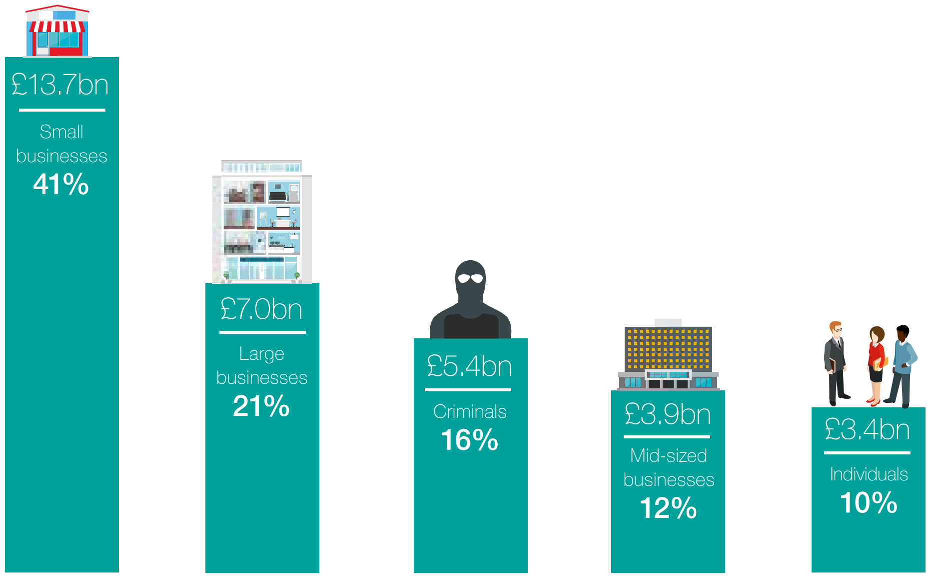


The tax gap

Tax gap by behaviour – value and share of tax gap, 2016-17



Tax gap by customer group – value and share of tax gap, 2016-17



Source: HM Revenue & Customs, *Measuring tax gaps 2018 edition, Tax gap estimates for 2016-17*, June 2018

The Customs Declaration Service: a progress update (report, June 2018)

HMRC is in the final year of its programme to replace its customs system, CHIEF (Customs Handling of Import and Export Freight), with a new Customs Declaration Service (CDS). HMRC is changing its customs system to comply with legislative requirements that were established before the UK voted to leave the EU. HMRC considers that the UK's decision to leave the EU, the European single market and the customs union does not change the overall rationale for CDS.

Depending on the outcome of EU Exit negotiations:

- at least **145,000 traders** who currently import or export goods solely within the EU may be required to make customs declarations for the first time; and
- the number of customs declarations could increase from around **55 million to around 255 million** each year.

An overview of the process for making customs declarations is shown on the next page.

HMRC originally planned to design and build the full scope of CDS by July 2018 and to go live in August 2018. In our progress update in June 2018, we reported that HMRC planned to implement CDS in three phases, with releases covering import functions in August and November 2018; and export functions in December 2018.

We also reported that HMRC had accelerated work on its contingency option to scale up CHIEF and that, if it successfully completed this work, it should have the system capacity to handle customs declarations no matter what the outcome of negotiations between the UK and the EU.

We concluded that HMRC had taken steps to mitigate some of the risks highlighted by us in July 2017. However, further technical and business issues had arisen in the CDS programme, and an already tight timeline had become even more demanding. HMRC had mitigated some of the risk with its plans to operate CHIEF and CDS in parallel. However, it was also critical that HMRC fully tested and scaled-up its contingency option over the summer of 2018, supported delivery partners to make necessary changes to their own systems, communicated effectively with traders about new customs processes and migrated them successfully onto CDS.

Since we reported in June 2018, HMRC has released certain CDS import functionality (August 2018) and expects to implement the remainder of import functions on time. However, it has changed its date for delivering CDS export functions to March 2019. The government's decision to change accounting arrangements for import VAT, if there is no withdrawal agreement with the EU, presents an additional challenge to delivering CDS by March 2019.

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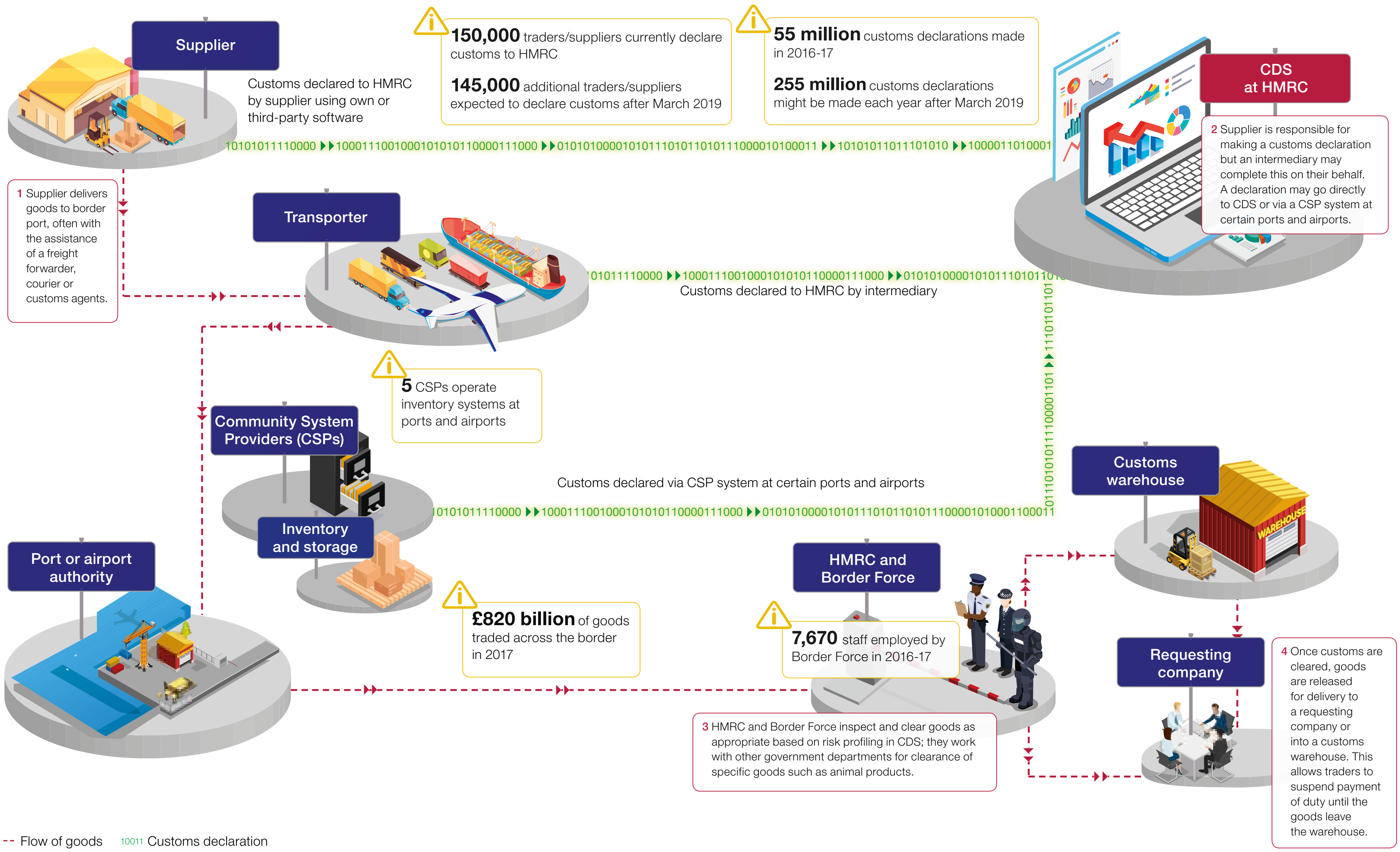
Overview of customs declarations

The Customs Declaration Service (CDS) will process customs declarations from a variety of routes and will help to clear goods to cross the border



Source: Comptroller & Auditor General, *The Customs Declaration Service: a progress update*, Session 2017–2019, HC 1124, National Audit Office, June 2018

The UK border: preparedness for EU exit (report, October 2018)

In October 2018 we published a report – The UK border: preparedness for EU exit – which assessed how prepared government departments were for the changes required at the border after EU exit. Our focus was on the progress government had made with its operational planning and delivery of the changes to border operations which will be required by the UK's exit from the EU. Our latest report on the border follows our earlier report, in October 2017, in which we set out the findings of our previous work on the border, to help inform Parliament and key stakeholders in advance of the UK's exit from the EU.

The border is more than a traditional line on a map; it is a combination of physical and virtual controls, many of which are carried out away from the many physical border crossing points. These controls can take place before or after travel.

HMRC is responsible for collecting tax and duties, and processing customs declarations on trade outside the EU. HMRC currently collects around £40 billion at the border and processes more than 55 million customs declarations each year. Border Force undertakes enforcement work at the border for HMRC, on behalf of the Chancellor of the Exchequer.

Effective management of the border is critical for the UK after it leaves the EU. It is fundamentally important to our national security, economy and international reputation. Our report concludes that leaving the EU will trigger some important changes to how the border is managed, but making such changes is not easy. It requires significant effort and the coordination of large numbers of organisations, many parts of government and millions of border users.

Key facts

260 million

HMRC's revised estimate of the number of customs declarations it may need to process if the UK leaves the EU with 'no deal', compared with current volumes of 55 million

145,000 to 250,000

traders, estimated by HMRC, who would need to make customs declarations for the first time in the event of 'no deal'.

The UK border: preparedness for EU exit (report, October 2018)

The UK border is crossed at many locations for many purposes

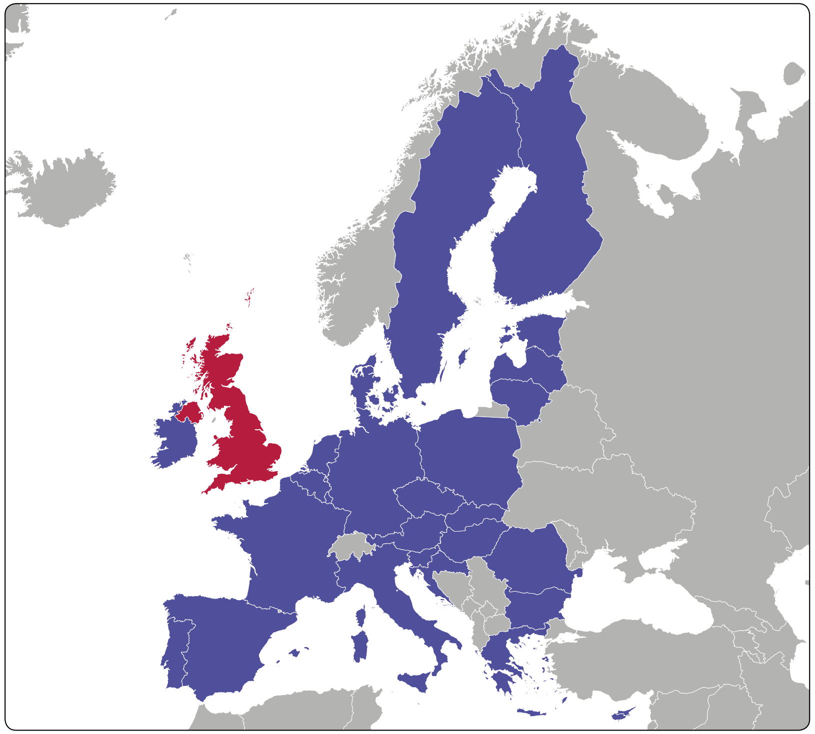
United Kingdom

More than 270 recognised crossing points at airports, sea ports and the channel tunnel.

Border Force staff in 140 locations around the UK.

Ireland

No major checks in operation at the estimated 208 public road and unknown number of private road border crossings between Northern Ireland and Ireland.



European Union

208m tonnes of freight; 19m passengers.

0.5m tonnes of freight; 165m passengers.

23m tonnes of freight; 21m passengers.

UK government border officials operate in France and Belgium at juxtaposed controls.

Rest of the world

172m tonnes of freight.

2m tonnes of freight; 77m passengers.

Notes

1 All data points are 2017 figures.

2 Sea freight data are taken from the Department for Transport's (DfT) Port Freight statistics, Table PORT0204, and relates to both inbound and outbound movements.

3 Sea passenger data are taken from DfT's Sea Passenger statistics, Table SPAS0103, and relates to both inbound and outbound movements.

4 Air freight and passenger data are taken from the Civil Aviation Authority's Airport Data 2017, Tables 10_1 and 14, and includes both inbound and outbound flights.

5 Train passenger and freight data are published by Eurotunnel.

Source: Comptroller & Auditor General, *The UK border: preparedness for EU Exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018

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HMRC's transformation portfolio

At the Spending Review 2015, HMRC secured £1.8 billion funding over the period 2016-17 to 2019-20 to transform itself into one of the most digitally advanced tax authorities in the world. 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.

The 15 programmes which make up HMRC's transformation portfolio are listed in the table.

So far, HMRC has spent £882 million of its intended transformation budget of £989 million for the first two years of its plans (2016-17 and 2017-18). It expects to spend £1.74 billion on transformation by 31 March 2020.

There is more information on HMRC's transformation plans and progress in Part Two of the C&AG's report on HMRC's accounts 2017-18. The report concluded that HMRC had made progress with its transformation plans including:

- annual efficiency savings of £410 million against its target of £380 million (2017-18);
- additional tax revenue of £33.5 million (2017-18);
- take-up of online personal tax accounts by more than 14 million users; and
- setting up its first new regional centre, with 13 planned in total.

The C&AG's report also reviewed HMRC's prioritisation exercise on its transformation plans. The results are summarised on the next page.

HMRC's transformation portfolio

Programme	Description
Making Tax Digital for Individuals	Modernising tax administration for individuals through digital solutions. Making more data visible to customers through Personal Tax Accounts (PTAs) and developing HMRC's use of information provided through the PTAs.
Making Tax Digital for Business	Modernising tax administration for businesses through digital solutions. Allowing businesses to keep their records digitally and update HMRC quarterly.
Compliance for the Future	Building internal compliance capability at HMRC.
Customs Transformation	Preparing for the UK's exit from the EU by implementing a new Customs Declaration Service, replacing the existing system.
Building Our Future Locations	Creating 13 regional centres, redeploying staff and disposing of buildings.
Corporate Services	Removing bureaucracy and introducing a self-service culture, lower service costs, shared services and improved experience for staff.
Benefits Transformation	• Tax-Free Childcare and Universal Credit – accounts to support parents' childcare costs; and to replace Tax Credits with Universal Credit. • Help to Save – access to government-backed savings accounts to help working people on low incomes build up their savings. • Future of Child Benefit – a new HMRC Child Benefit IT system to replace the existing system.
Policy Driven Change	Implementing policy initiatives not funded from Spending Review 2015.
Data Platform	Delivering data standards and improving data quality.
Enterprise Data Hub	Delivering a digital repository for storing and sharing data.
Digital Platform	Delivering a number of enabling platforms including Government Gateway and the digital tax platform.
Finance Platform	Enabling digital payments by customers, better internal reporting and a more efficient accounting system.
Process Platform	Developing processes to support future ways of working.
Securing Our Technical Future (formerly known as Columbus Cloud)	Moving to secure cloud-based computing and rationalising existing IT infrastructure.
People Capabilities	Developing people capabilities (culture, ways of working and career pathways) to support the future organisation.

Source: Report by the Comptroller & Auditor General, *HM Revenue & Customs 2017-18 Accounts*, Session 2017–2019, HC 1222, July 2018

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HMRC's transformation portfolio – impact of HMRC's prioritisation exercise

In autumn 2017, HMRC recognised that the delivery of its original transformation plans was not realistic due to over-ambitious assumptions. The unforeseen additional demands of EU Exit added further pressure on its capacity to deliver its transformation plans and timetable. It responded by prioritising its transformation plans to release capacity (ie staff) for other priorities, reduce delivery risk and reduce its transformation costs.

The main impacts of the exercise on each of HMRC's 15 transformation programmes are summarised in the table.

The impact of HMRC's prioritisation decisions has been to marginally reduce or delay the intended benefits of its transformation plans. Its forecast efficiency savings reduced from £717 million to £675 million each year from 2019-20. Its target of £717 million remains the same and it expects that, ultimately, it will be able to meet this. The prioritisation exercise has not led to any reduction in expected additional tax revenue.

The prioritisation exercise allowed HMRC to release 51 staff for work related to the UK's exit from the EU, 49 staff to its Customer Services Group and 15 to other activities.

For more information on HMRC's prioritisation exercise, see Chapter 2 of the C&AG's report on HMRC's accounts 2017-18. The report concludes that HMRC's transformation plans after 'prioritisation' remain ambitious but the delivery timeline may be more realistic.

The impact of the prioritisation exercise on HMRC's transformation programmes

Programme	Impact
Making Tax Digital for Individuals	Work to roll out simple assessment and in-year tax code changes paused. Improvements to the online PTA will focus on service improvements, with additional services added only when they reduce post and phone contact or deliver significant savings.
Making Tax Digital for Business	Digital reporting of Excise, Environmental, Insurance and Transport Taxes not directly linked to EU Exit delayed. Convergence of business taxes from HMRC's current IT systems onto a single system slowed.
Compliance for the Future	Compliance for the Future to be delivered over five years rather than three.
Customs Transformation	Resource released to support Customs Transformation work from other transformation programmes.
Building Our Future Locations	Refurbishment of Newcastle Regional Centre deferred by two years to 2020-21. Nottingham refurbishment/acquisition of new building deferred to 2020-21.
Corporate Services	Planning, Performance and Risk project (to streamline internal processes) stopped.
Benefits Transformation	Because no new Tax Credits claims will be made after January 2019, HMRC will not move ahead with an online service for new Tax Credits claims. Changes to the Child Benefit system will, for now, be limited to the underlying IT infrastructure, which needs replacing, rather than providing new digital services for claimants.
Policy Driven Change	Digitisation of services for smaller customer groups paused, including Tax Advantaged Venture Capital Schemes and Inheritance Tax online.
Data Platform	Project to enable HMRC to share data with government bodies and set up a new service to deliver cross-government needs as envisaged in the Digital Economy Act stopped.
Enterprise Data Hub	No change as a result of prioritisation. Outside this process, HMRC is reconsidering the scope of the project to replace its 12 existing data warehouses with a single, flexible, searchable data platform.
Digital Platform	Project to carry out digital research and development, including on robotics, stopped.
Finance Platform	Modernisation of reporting tools slowed. Implementation of a new asset management system stopped. Costs to re-tender HMRC's banking contract absorbed by 'business as usual'.
Process Platform	No impact.
Securing Our Technical Future	The scope for moving to secure cloud-based computing and for rationalising existing IT infrastructure to improve resilience and scalability being reconsidered.
People Capabilities	No impact.

Source: Report by the Comptroller & Auditor General, *HM Revenue & Customs 2017-18 Accounts*, Session 2017–2019, HC 1222, July 2018

Customer service performance 2017-18

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HMRC achieved six of its customer service targets in 2017-18 and narrowly missed the other two. Its targets focus on services for individuals.

Average turnaround of tax credits and Child Benefit claims and changes of circumstances:

13.8 days
for UK customers (target 22 days).

55.6 days
for international customers (target 92 days).

HMRC received 46.7 million phone calls in 2017-18 (a decrease of 10%). So far customer calls have not dropped by as much as HMRC expected after it introduced digital channels.

For customers who need to speak to an adviser, the average speed of answering calls was:

4 minutes 28 seconds
in 2017-18 (after automated messages).

This was within HMRC's 5-minute target, but slower than the 3 minutes 54 seconds it achieved in 2016-17.

14.6%
of HMRC's customers waited 10 minutes to be connected to an adviser after an automated message (target no more than 15%).

HMRC received 18 million items of post in 2017-18 (a decrease of 10%). For those needing a response, it turned around:

80.7%
in 15 days (target 80%).

97.1%
in 40 days (target 95%).

Post turnaround dipped during the first quarter, due to more staff being needed to answer phone calls about Tax Credits renewals. HMRC reported that, after it put a recovery plan in place, its performance improved.

79.8%
of HMRC customers surveyed were either 'satisfied' or 'very satisfied' across all its digital services (target 80%).

HMRC turned around:

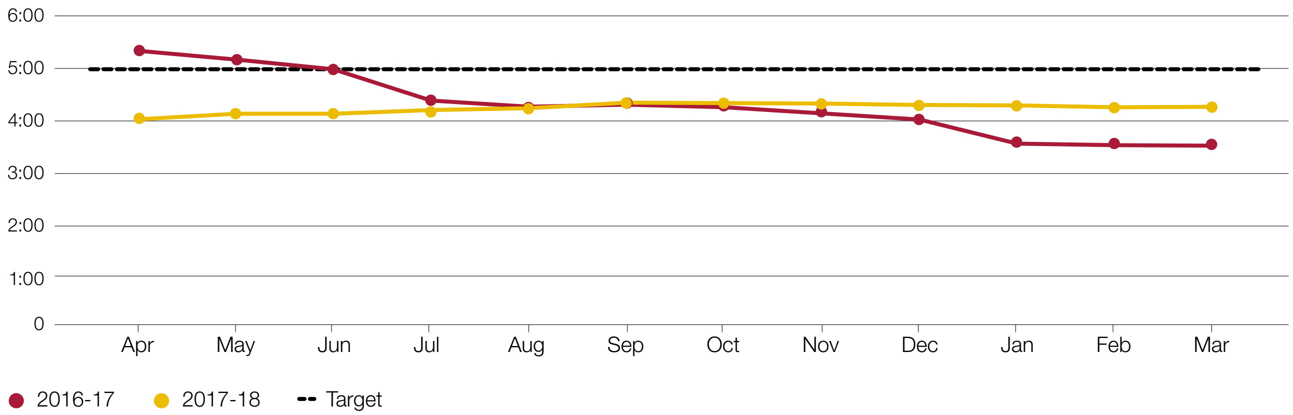
94.6%
of 1.3 million online 'iforms' within 7 days (target 95%).

Source: HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018

Customer service performance 2017-18

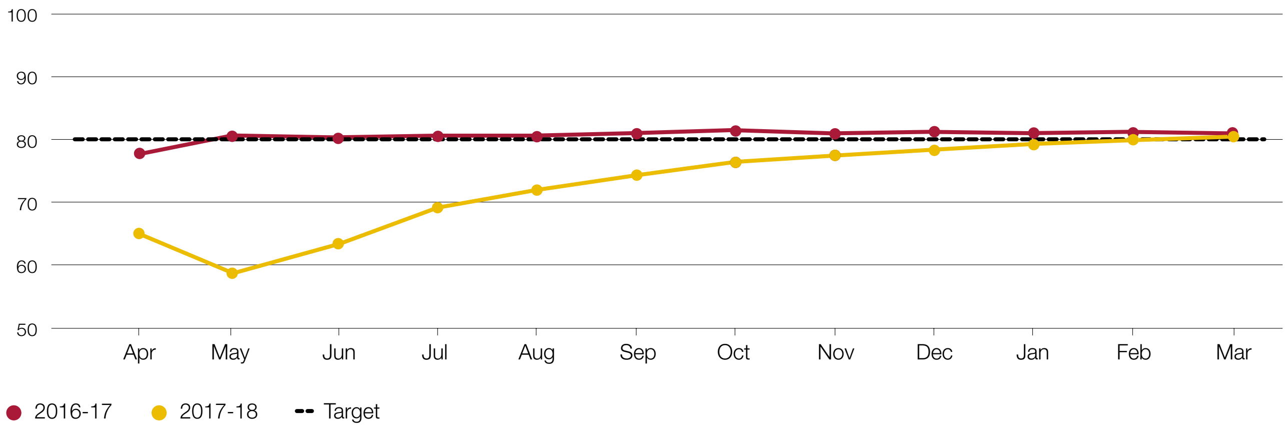
Average speed of answer monthly (mins) – year to date

Average speed of phone call answering for 2017-18, set against the target of 5 minutes and compared with 2016-17



Post turnaround within 15 days – year to date (%)

The percentage of post handled within 15 working days for 2017-18, set against the target of 80% and compared with 2016-17



Source: HM Revenue & Customs, *Annual Report and Accounts 2017-18*, HC 1222, July 2018

What to look out for

	ISSUES	FUTURE DEVELOPMENTS, RISKS AND CHALLENGES
01	Introducing the Customs Declaration Service	In our June 2018 report on the new system, we concluded that HMRC had taken steps to mitigate some of the risks we had previously highlighted. However, further technical and business issues have arisen since, and an already tight timeline has become even more demanding. Significant challenges remain and there is a risk that CDS will be unable to fully replace CHIEF by January 2019. HMRC has mitigated some of the risk with its plans to operate CHIEF and CDS in parallel over this period. However, it is also critical that HMRC fully tests and scales-up its contingency option over the summer of 2018, supports delivery partners, communicates effectively with traders about new customs processes and migrates them successfully onto CDS. The first release of CDS went live in August 2018 but the final release is not due until March 2019.
02	The Border Systems Programme	The CDS programme does not cover all the border systems that HMRC believes it will need to change to support the UK's exit from the EU. Changes needed to other systems fall within the scope of HMRC's Border Systems Programme. This programme will provide or upgrade other HMRC systems and processes to ensure that goods, passengers and postal consignments continue to flow across the border after the UK leaves the EU.
03	Delivering transformation	HMRC's transformation plans remain highly challenging, in terms of delivering the individual projects and achieving its efficiency targets, and in transforming the way it interacts with its customers. HMRC has responded to the risks to delivery that we reported last year by undertaking a systematic exercise to prioritise its projects. The resulting changes should help to reduce risks and release capacity for other priorities, but it remains to be seen whether HMRC has gone far enough. Risks to delivery remain because HMRC's portfolio is still large and complex, and there are ongoing pressures from the work to prepare for the UK's exit from the EU. HMRC still expects to spend almost all of its transformation budget in the four years to 2019-20, even though it has stopped or delayed some of its projects.
04	Transition to Universal Credit	Under current plans, Universal Credit will fully replace Tax Credits by 2023. However, HMRC will remain responsible for administering Tax Credits until all claimants have either migrated to Universal Credit or left the Tax Credits regime. As the Department for Work & Pensions (DWP) and HMRC develop the migration plan for Tax Credits claimants, HMRC will need to balance the challenges of the migration to Universal Credit with its continuing responsibilities for administering Tax Credits, including delivering good customer service and addressing error and fraud. HMRC and DWP are working together to understand the significant uncertainties in the transfer process. About £7 billion is owed by individuals in relation to Tax Credit overpayments. This makes up half the £14 billion owed to government by individuals that we reported in *Tackling problem debt*, September 2018.

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