

HM Revenue and Customs

Introduction

1. This Supplementary Estimate is required for the following purposes:

Amount £

Changes in resources

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements

Increases:

Draw down of Department unallocated provision (DUP)

- | | | |
|----|--|------------|
| 1. | Subhead A1
£60,074,000 administration costs to support on-going merger costs and to drive forward the modernisation programme | 60,074,000 |
|----|--|------------|

Take up of resource non-cash end year flexibility (EYF) entitlement

- | | | |
|----|--|------------|
| 1. | Subhead A1
£38,000,000 non cash administration costs, as announced in the 2005-06 Public Expenditure Outturn White Paper (Cm6883) | 38,000,000 |
|----|--|------------|

Take up of resource near cash end year flexibility (EYF) entitlement for virement into capital

- | | | |
|----|---|------------|
| 1. | Subhead A1
£30,602,000 administration costs, as announced in the 2005-06 Public Expenditure Outturn White Paper (Cm6883) | 30,602,000 |
|----|---|------------|

Take up of DEL Reserve claim

- | | | |
|----|---|------------|
| 1. | Subhead A1
£30,000,000 in respect of the expansion of call centre capacity | 30,000,000 |
|----|---|------------|

Adjustment to Appropriation-in-Aid

- | | | |
|----|---|------------|
| 1. | Subhead A5
A reduction of £16,277,000 to programme receipts met from a commensurate reduction in non-voted programme expenditure. This is a neutral DEL change | 16,277,000 |
|----|---|------------|

Reclassification from capital to resource

- | | | |
|----|--|-----------|
| 1. | Subheads A3 and A7
£1,500,000 reclassified as a resource cost from capital DEL in respect of the Government Secure Zone | 1,500,000 |
|----|--|-----------|

Transfers from other government departments

- | | | |
|----|--|---------|
| 1. | Subhead A2
£168,000 programme expenditure from the Department for Finance and Personnel in respect of the aggregates levy | 168,000 |
|----|--|---------|

Decreases:Virement from resource to capital

- | | | |
|----|---|-------------|
| 1. | Subheads A1 and A7 | |
| | £30,602,000 administration cost end year flexibility transferred to capital | -30,602,000 |

Transfers to other government departments

- | | | |
|----|--|------------|
| 1. | Subhead A1 and A2 | |
| | A Machinery of Government change to the Home Office in respect of Serious Organised Crime Agency funding amounting to £1,445,000 in near cash administration costs, £97,000 in programme expenditure and £216,000 in non-cash administration costs | -1,758,000 |

Other Decreases: AME

- | | | |
|----|--|-------------|
| 1. | Subhead B3 | |
| | Reduction of £30,000,000, to reflect revisions to AME incentive payments | -30,000,000 |

Neutral Changes:Virement from administration costs to programme expenditure

- | | | |
|----|--|---|
| 1. | Subheads A1 and A2 | |
| | £35,109,000 transfer of administration costs to programme expenditure, of which £11,000,000 relates to an agreement with HM Treasury to re-classify some legal costs | - |

Increased expenditure offset by income

- | | | |
|---|--|---|
| 1 | Subheads A1 and A5 | |
| | To increase the levels of administration costs and income by £10,600,000 resulting primarily from additional receipts from the Asset Recovery Incentivisation Scheme | - |

Total change in resources for RfR1 114,261,000

RfR 3: Providing payments in lieu of tax relief to certain bodies**Increases:**Increase the AME forecast requirement

- | | | |
|----|---|-----------|
| 1. | Subhead A3 | |
| | £4,000,000 increase mainly in respect of stakeholder pensions | 4,000,000 |

Total change in resources for RfR3 4,000,000

RfR 5: Payments of Child Benefit and Child Trust Fund endowments**Increases:**Increase the AME forecast requirement

- | | | |
|----|--|------------|
| 1. | Subhead A3 | |
| | £10,538,000 increase to the Child Benefit forecast | 10,538,000 |

Total change in resources for RfR5 10,538,000

Total changes in resource for Estimate 128,799,000

Changes in capital

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements

Increases:Virement from resource to capital

- | | | |
|----|--|------------|
| 1. | Subheads A1 and A7 | |
| | £30,602,000 transferred from resource to help deliver major investment in information technology and business systems infrastructure | 30,602,000 |
| | <u>Draw down of Department unallocated provision (DUP)</u> | |
| 1. | Subhead A7 | |
| | £3,739,000 to help deliver major investment in information technology and business systems infrastructure | 3,739,000 |

Decreases:Reclassification from capital to resource

- | | | |
|----|--|------------|
| 1. | Subheads A3 and A7 | |
| | £1,500,000 reclassified as a resource administration cost from capital DEL in respect of the Government Secure Zone | -1,500,000 |
| | <u>Transfers to other government departments</u> | |
| 1. | Subhead A7 | |
| | A Machinery of Government change to the Home Office in respect of Serious Organised Crime Agency funding amounting to £289,000 | -289,000 |

RfR 2: Growing a contribution to the good management of property where the public interest is involved

Increases:Take up of resource near cash end year flexibility (EYF) entitlement for virement into capital

- | | | |
|---|---|-------------------|
| 1. | Subheads A1 and A7 | |
| | £2,100,000 administration costs, as announced in the 2005-06 Public Expenditure Outturn White Paper (Cm6883) vired into capital | 2,100,000 |
| Total change in capital for Estimate | | 34,652,000 |

2. As a result of the above and non-cash adjustments, there is an increase in the net cash requirement of £355,429,000
3. Symbols are explained in the Introduction to this booklet.

Part I

£

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements	† 114,261,000
RfR 3: Providing payments in lieu of tax relief to certain bodies	4,000,000
RfR 5: Payments of Child Benefit and Child Trust Fund endowments	10,538,000
Total additional net resource requirement	128,799,000
Additional net cash requirement	† 355,429,000

SUPPLEMENTARY amounts required in the year ending 31 March 2007 for expenditure by HM Revenue and Customs on:

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements

administration and the associated non-cash items incurred in the management and collection of the direct and indirect taxes, duties and levies, Shipbuilders' Relief, new tax credits, National Insurance Contributions, Child Benefit and the Child Trust Fund, Money Laundering regulatory regime, the National Insurance Funds for Great Britain and Northern Ireland; OPG and government banking services; the operation of customs controls including prohibitions and restrictions; the provision of trade information; residual costs in respect of the Lorry Road User charging scheme; the provision of Capital Grants for Excise Tax Stamps; the provision of resources to independent investigatory bodies (including the HMIC, IPCC and the police authorities) to facilitate the independent inspection of professional standards within the Department, the investigation of allegations of mis-conduct or criminal activities by Departmental staff and fulfilment of reciprocal complaints investigation arrangements with police authorities; the provision of incentive payments for e-filing; payments in respect of the Customs National Museum and grants to the voluntary and community sector; air travel carbon-offsetting; and for services provided to the department's information technology and wider markets' partners, other departments and public bodies including any assistance with investigations into terrorist incidents, and overseas tax administration.

RfR 2: Growing a contribution to the good management of property where the public interest is involved
administration and the associated non-cash incurred in the provision of valuation and other services for government departments and other public bodies by the Valuation Office Agency.

RfR 3: Providing payments in lieu of tax relief to certain bodies

transitional payments to charities, supplements on payroll giving, donations to charities and on personal and stakeholder pension schemes, life assurance premium relief, stamp duty relief and residual payments for mortgage interest relief, vocational training relief and private medical insurance; and associated non-cash items.

RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies

rates paid by Her Majesty's Revenue and Customs in respect of non-domestic property occupied by accredited representatives of Commonwealth and foreign countries and certain international organisations, contributions in lieu of rates in respect of properties occupied by the Crown in Gibraltar and other similar payments; and associated non-cash items.

RfR 5: Payments of Child Benefit and Child Trust Fund endowments

payments of Child Benefit, Child Trust Funds and associated non-cash items.

HM Revenue and Customs will account for this Estimate.

† The Serious Organised Crime Agency (SOCA) was transferred to the Home Office on 1 April 2006. Within the overall changes sought in this Estimate, the specific changes relating to this machinery of government transfer are:

- a) the net resource requirement for RfR1 is reduced by £1,758,000; and
- b) capital expenditure for RfR1 is reduced by £289,000; and
- c) the net cash requirement is reduced by £1,831,000.

Part II: Changes proposed

£'000

Resources	Present Net Provision	Change in Gross Provision	Change in A in A	Change in Net Provision	New Net Provision
RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements					
Spending in Departmental Expenditure Limits (DEL)					
<i>Central Government spending</i>					
RfR 1 - A Administration	4,126,901	138,584	-5,677	144,261	4,271,162
Spending in Annually Managed Expenditure (AME)					
<i>Central Government spending</i>					
RfR1 - B e-filing incentive payments	325,000	-30,000	-	-30,000	295,000
Total RfR 1		108,584	-5,677	114,261	
RfR 3: Providing payments in lieu of tax relief to certain bodies					
Spending in Annually Managed Expenditure (AME)					
<i>Central Government spending</i>					
RfR 3 - A Payments in lieu of tax relief	78,000	4,000	-	4,000	82,000
Total RfR 3		4,000	-	4,000	
RfR 5: Payments of Child Benefit and Child Trust Fund endowments					
Spending in Annually Managed Expenditure (AME)					
<i>Central Government spending</i>					
RfR 5 - A Children's Benefits	10,151,462	10,538	-	10,538	10,162,000
Total RfR 5		10,538	-	10,538	
Total Changes to RfRs		123,122	-5,677	128,799	

	Present Provision	Change in Provision	£000 New Provision
Capital and Cash			
Total Capital Expenditure	307,659	34,652	342,311
Non-Operating A in A	3,980	-	3,980
Net cash requirement	15,015,046	355,429	15,370,475

Part II: Revised subhead detail including additional provision

Resources						Capital	£'000
1	2	3	4	5	6	7	8
Admin	Other current	Grants	Gross Total	A in A	Net Total	Capital	Non-operating A in A
RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements							
4,581,900	123,233	296,935	5,002,068	435,905	4,566,163	327,211	3,818
Spending in Departmental Expenditure Limits (DEL)							
<i>Central Government spending</i>							
A Administration							
4,581,900	119,733	1,935	4,703,568	432,406	4,271,162	327,211	3,818
Spending in Annually Managed Expenditure (AME)							
<i>Central Government spending</i>							
B e-filing incentive payments							
-	-	295,000	295,000	-	295,000	-	-
Non-budget							
C Operational local clearance procedures							
-	3,500	-	3,500	3,499	1	-	-
RfR 2: Growing a contribution to the good management of property where the public interest is involved							
223,101	-	-	223,101	223,100	1	15,100	162
Spending in Departmental Expenditure Limits (DEL)							
<i>Central Government spending</i>							
A Administration							
223,101	-	-	223,101	223,100	1	15,100	162
RfR 3: Providing payments in lieu of tax relief to certain bodies							
-	-	82,000	82,000	-	82,000	-	-
Spending in Annually Managed Expenditure (AME)							
<i>Central Government spending</i>							
A Payments in lieu of tax relief							
-	-	82,000	82,000	-	82,000	-	-
RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies							
-	41,074	-	41,074	4,203	36,871	-	-
Spending in Annually Managed Expenditure (AME)							
<i>Central Government spending</i>							
A Payments of Local Authority rates							
-	41,074	-	41,074	4,203	36,871	-	-
RfR 5: Payments of Child Benefit and Child Trust Fund endowments							
-	-9,574	10,411,574	10,402,000	-	10,402,000	-	-
Spending in Annually Managed Expenditure (AME)							
<i>Central Government spending</i>							
A Children's Benefits							
-	-9,574	10,171,574	10,162,000	-	10,162,000	-	-
B Child Trust Fund endowments							
-	-	240,000	240,000	-	240,000	-	-
Total for Estimate:							
4,805,001	154,733	10,790,509	15,750,243	663,208	15,087,035	342,311	3,980

Part II: Resource to cash reconciliation

	<u>Present</u>	<u>Increase (+)/ Decrease (-)</u>	<u>£'000</u> <u>Revised</u>
Net Resource Requirement	14,958,236	128,799	15,087,035
Voted capital items			
Capital	307,659	34,652	342,311
<i>Less: Non-operating A in A</i>	<i>3,980</i>	<i>-</i>	<i>3,980</i>
Total net voted capital	303,679	34,652	338,331
Accruals to cash adjustment			
Adjustments to remove non-cash items:			
Cost of Capital charges	-8,196	1,696	-6,500
Depreciation	-189,133	-13,865	-202,998
New provisions and adjustments to previous provisions	-60,915	-98,746	-159,661
Profit/loss on sale of assets	-	2,068	2,068
Prior period adjustments	-	-	-
Other non-cash items	-520	-10,352	-10,872
Increase(+)/decrease (-) in stock	-500	-	-500
Increase(+)/decrease (-) in debtors	-13,728	-	-13,728
Increase(-)/decrease (+) in creditors	-17,877	212,000	194,123
Use of provisions	44,000	99,177	143,177
Total accruals to cash adjustments	-246,869	191,978	-54,891
Excess cash to be CFERd	-	-	-
Net Cash Requirement	15,015,046	355,429	15,370,475

Part III: Extra receipts payable to the Consolidated Fund

In addition to Appropriations in aid, the following income and receipts relate to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	<u>Present provision</u>		<u>New provision</u>	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income not classified as A in A	-	-	-	-
Non-operating income not classified as A in A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	210,000	<i>210,000</i>	230,000	<i>230,000</i>
Excess receipts to be surrendered to the Consolidated Fund	-	-	-	-
Total	210,000	<i>210,000</i>	230,000	<i>230,000</i>

Forecast Operating Cost Statement

	£'000
	2006-07 provision
Net Administration Costs	
RfR1	4,523,492
RfR2	1
RfR3	-
RfR4	-
RfR5	-
	<hr/>
Total Net Administration Costs	4,523,493
Net Programme Costs	
RfR1	42,671
RfR2	-
RfR3	82,000
RfR4	36,871
RfR5	10,402,000
Non-voted	-
	<hr/>
Total Net Programme costs	10,563,542
Total Net Operating Cost	15,087,035
<i>of which:</i>	
Net Resource Requirement	15,087,035
Non-voted expenditure	-
Consolidated Fund Extra Receipts	-
 Resource Budget	 29,958,476

Notes to the Estimate

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	£'000
	2006-07 Provision
Net Resource Requirement (Estimates)	15,087,035
<i>Adjustments to remove:</i>	
provision voted for earlier years	-
<i>Adjustments to additionally include:</i>	
non-voted expenditure in the OCS	-
Consolidated Fund extra receipts in the OCS	-
Other adjustments	-
Net Operating Costs (Accounts)	15,087,035
<i>Adjustments to remove:</i>	
capital grants	-241,500
European Union income related to capital grants	-
voted expenditure outside the budget	-1
<i>Adjustments to additionally include:</i>	
other Consolidated Fund Extra Receipts	-
resource consumption of non departmental public bodies	-
unallocated resource provision	-
Other adjustments	15,112,942
Resource Budget (Budget)	29,958,476
<i>of which:</i>	
Departmental Expenditure Limit (DEL)	4,619,102
Annually Managed Expenditure (AME)	25,340,874

Reconciliation of capital expenditure between Estimates and Budgets

	£'000
	2006-07 Provision
Net Voted Capital (Estimates)	338,331
<i>Adjustments to remove:</i>	
gains/losses from sale of capital assets	-
<i>Adjustments to additionally include:</i>	
other Consolidated Fund Extra Receipts	-
capital spending by non departmental public bodies	-
capital grants	241,500
European Union income related to capital grants	-
supported capital expenditure (revenue)	-
capital spending by levy funded bodies	-
unallocated capital provision	-
Other adjustments	-
Capital Budget (Budget)	579,831
<i>of which:</i>	
Departmental Expenditure Limits (DEL)	338,331
Annually Managed Expenditure (AME)	240,000

Notes to the Estimate (*continued*)

Explanation of Accounting Officer responsibilities

In accordance with the Government Resources and Accounts Act 2000 the Treasury has made the following Accounting Officer appointments for the Requests for Resources within this Estimate.

Request for Resources 1	Mike Eland, Director General, HM Revenue and Customs
Request for Resources 2	Andrew Hudson, Chief Executive of the Valuation Office Agency
Request for Resources 3	David Hartnett, Director General, HM Revenue and Customs
Request for Resources 4	Andrew Hudson, Chief Executive of the Valuation Office Agency
Request for Resources 5	Mike Eland, Director General, HM Revenue and Customs

Paul Gray as the Principal Accounting Officer of HM Revenue and Customs has personal responsibility for the proper presentation of the department's resource accounts as prescribed in legislation, or by the Treasury, and their transmission to the Comptroller and Auditor General. The PAO as the permanent head, remains in general overall charge of HM Revenue and Customs.

The responsibilities of an Accounting Officer are set out in Annex 4.1 of Government Accounting. In essence these responsibilities include a personal responsibility for the propriety and regularity of the public finances for which they are answerable; for keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources. In addition, the Accounting Officer must ensure that there is a sound system of internal control to support the achievement of the organisation's policies, aims, and objectives and should regularly review the effectiveness of that system.

In accordance with Government Accounting requirements, the relationship between the PAO and the Additional Accounting Officers and with their Ministers, together with their respective responsibilities, is set out in writing.

Notes to the Estimate (*continued*)

Analysis of operating appropriations in aid (A in A)

£'000

 2006-07
 Provision

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements

Administration	58,408
<i>of which:</i>	
Sale of goods and services	39,649
Regulatory licences, fines, penalties and taxes	18,759
Programme	377,497
<i>of which:</i>	
Sale of goods and services	377,362
Regulatory licences, fines, penalties and taxes	135

Total RfR1 **435,905 †**

† Amount that may be applied as operating appropriations in aid in addition to the net total arising from: the recovery of law costs; recovery of costs of administering the National Insurance Funds and collection of National Insurance contributions; subsidies for New Deal jobseekers employed; receipts for services provided to the Valuation Office Agency, government departments and other bodies; recovery of costs in respect of the Aggregates levy and of seconded and loan staff; charges for the special attendance of officers; and for international commitments;

receipts from the sale of publications; from the sale of statistical services and certificates; and from estate management services, including rent receipts from other government departments and private tenants; receipts from the use of certain official cars; receipts from certain tax penalties; EC travelling expenses and receipts from the EC; receipts in respect of Shipbuilders' Relief and local clearance procedures under Single European Authorisations; receipts from insurance and compensation claims; receipts from the Asset Recovery Incentivisation Scheme and Recovered Assets Incentivisation Fund; and marine fuel relief, fees received for the money laundering regulatory regime; recoveries of overpayments in prior years; excess cash receipts; and other miscellaneous administration and programme cost receipts.

RfR 2: Growing a contribution to the good management of property where the public interest is involved

Administration	223,100
<i>of which:</i>	
Sale of goods and services	223,100

Total RfR2 **223,100 †**

† Amount that may be applied as operating appropriations in aid in addition to the net total arising from: the recovery of costs of valuation and other services; receipts from the use of certain official cars; receipts from the sale of information and publications; recovery of law costs; rent receipts from other government departments and private tenants; other administration cost receipts.

RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies

Programme	4,203
<i>of which:</i>	
Sale of goods and services	4,203

Total RfR4 **4,203 †**

† Amount that may be applied as operating appropriations in aid in addition to the net total arising from: payment of rates by accredited Commonwealth and foreign countries and certain international organisations; refunds from local authorities and Ministry of Defence property in Gibraltar.

Total Operating A in A **663,208**

Analysis of non - operating appropriations in aid (A in A)

RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements

Programme	3,818
<i>of which:</i>	
Sale of assets	3,818

Total RfR1	3,818 †
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† Amount that may be applied as non-operating appropriations in aid arising from: the recovery of income from the sale of fixed assets and from the sale of land and buildings.

RfR 2: Growing a contribution to the good management of property where the public interest is involved

Programme	162
<i>of which:</i>	
Sale of assets	162

Total RfR2	162 †
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† Amount that may be applied as non-operating appropriations in aid arising from: the recovery of income from the sale of assets.

Total Non-Operating A in A	3,980
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Notes to the Estimate (*continued*)

Analysis of Consolidated Fund extra receipts

		£'000	
		2006-07 provision	
		Income	Receipts
Fines and penalties	●	205,200	205,200
Proceeds, less duty, on sales of seized assets	●	6,400	6,400
Other miscellaneous receipts	●	18,400	18,400
Total		230,000	230,000

Departmental Expenditure Limits and Administration Budgets

	Change		New DEL		£'000
	Voted	Non-voted	Voted	Non-voted	Total
Resource DEL	144,261	-76,665	4,271,163	347,939	4,619,102
<i>of which:</i>					
<i>Administration budget*</i>	91,304	-60,074	4,523,493	-	4,523,493
<i>Near-cash in RDEL</i>	106,477	-64,288	3,965,072	404,316	4,369,388
Capital**	34,652	-3,739	338,331	-	338,331
Less Depreciation†	-13,865	-	-202,998		-202,998
Total	165,048	-80,404	4,406,496	347,939	4,754,435

* The total of 'Administration budget' and 'Near-cash in Resource DEL' figures may well be greater than total resource DEL, due to the definitions overlapping.

**Capital DEL includes items treated as resource in Estimates and accounts but which are treated as Capital DEL in budgets.

†Depreciation, which forms part of resource DEL, is excluded from total DEL since capital DEL includes capital spending and to include depreciation of those assets would lead to double counting.

Cash which may be retained to offset expenditure

£'000
667,188

Cash which may be retained by the department to offset expenditure in the year due to its relationship with income (operating and non-operating) that has been or will be appropriated in aid