HM Revenue & Customs

# Departmental Report

2008

This document is part of a series of Departmental Reports (Cm 7391 to Cm 7408) which, along with the Main Estimates 2008-09, the document Public Expenditure Statistical Analyses 2008 and the Supply Estimates 2008-09: Supplementary Budgetary Information, present the Government's outturn and planned expenditure for 2007-08 and 2008-09.

This Departmental Report is the first part of a two-part publication on HM Revenue & Customs. Along with the HMRC 2007-08 Accounts (HC 674), this combined set of documents presents a full account of the activity, performance and expenditure of HMRC.

Departmental Report 2008
HM Revenue & Customs
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Financial Secretary to the Treasury
by Command of Her Majesty.
July 2008

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# Contents



This Departmental Report is the first part of a two-part publication on HM Revenue & Customs. The second part, the HMRC 2007-08 Accounts (HC 674), contains the Consolidated Resource Accounts, the Trust Statement and the Comptroller and Auditor General's Report on the department for the year ended 31 March 2008. For more information on the financial position of the department, the amounts of revenue accrued and entitlements disbursed and the governance of the department, please consult the second part.

# Acting Chairman's foreword

## 2007-08 was a difficult year for HMRC, with the loss of the Child Benefit data discs having an effect on all of us. We all share a deep sense of regret at what happened last November, but we also share a determination to put things right and to focus on improving the service we provide to all our customers.

When I was appointed as Acting Chairman last November I made strengthening data security my top priority.

The steps we have taken since November have substantially tightened data security in the department, as Kieran Poynter noted in his review. We have introduced strict controls on access to and the movement of data, created a new position of Director of Governance and Security and appointed data guardians across all our business areas. In addition, we have published clear, simple data security 'Golden Rules' for our staff, and every one of us in the department will attend mandatory data security training.

We have accepted each of the recommendations of the Poynter and IPCC Reviews on how we handle data. Protecting data is, and always has been, integral to our work, and I am determined that data security will remain a top priority for the department.

Our other key priorities have been to improve our service to customers and to the tax agents and other intermediaries who represent up to 18 million of our customers.

We have introduced agent dedicated telephone lines, launched a pilot scheme placing account managers for agents in some of our key locations, and rolled out major improvements to the agents' pages on our website. These initiatives are the first in what is planned to be a series of changes that improve our relationship with agents and, through them, our customers.

We can record some notable successes this year. Revenues are up £20 billion on last year, our revisions to the rules around tax credit overpayments have made life simpler for claimants, and our Offshore Disclosure facility has proved to be an innovative way to identify and recover outstanding tax liabilities.

Our Workforce Change programme continues. The priority has been to give our staff certainty about their futures while delivering the necessary savings, and I am pleased that we have now been able to announce decisions affecting 78% of our people, with the remaining decisions planned to be made by the end of the year.

April saw the creation of the UK Border Agency, meaning we will no longer be involved in manning our borders. However, as the UK's customs authority we will keep responsibility for the policy on collection of taxes at the border. We wish the UK Border Agency well for the future and look forward to working with them to safeguard revenue at the border.

I am delighted to welcome Mike Clasper to HMRC as our new Chair. He takes up post on 1 August. It has been an honour to serve as Acting Chairman of HMRC and I look forward to playing a part in HMRC's future success.

Finally, I should like to put on record my thanks to the thousands of staff across HMRC who have contributed so much in this difficult year, as they have for many years. The vital public services we all rely upon could not be delivered without their hard work and dedication.

**Dave Hartnett**
Acting Chairman

# Review of the year

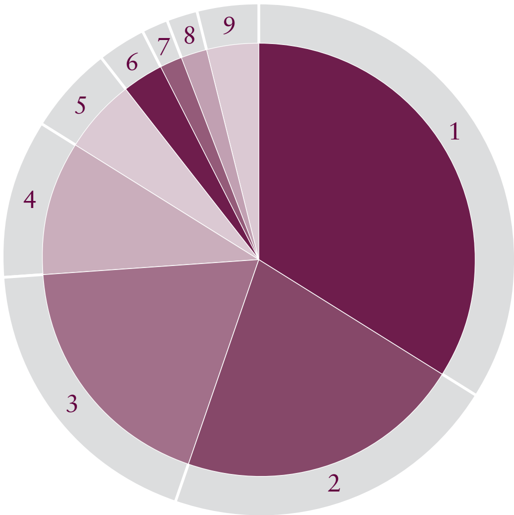
## Collecting revenue

**We collected £457 billion in revenue in 2007-08, a 4.7% increase on 2006-07.**

**Revenue collected* 2007-08 (£ billion)**

| | | |
|---|---|---|
| 1 | Income Tax | 155.1 |
| 2 | National Insurance contributions | 98.2 |
| 3 | VAT | 84.9 |
| 4 | Corporation Tax | 46.8 |
| 5 | Oils | 24.9 |
| 6 | Stamp taxes | 13.7 |
| 7 | Alcohol | 8.3 |
| 8 | Tobacco | 8.0 |
| 9 | Other revenue[1] | 17.5 |

[1] Includes the sum of other taxes and duties, student loan repayments and tax credits treated as negative taxation.

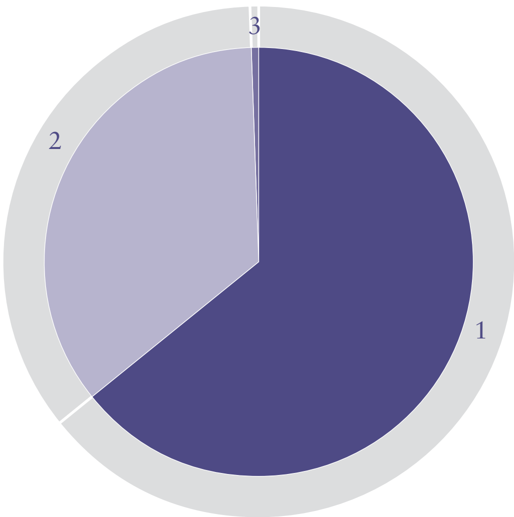



## Paying entitlements

**We paid £30.3 billion in tax credits, Child Benefit and Child Trust Fund endowments in 2007-08, £2.1 billion more than in 2006-07.**

**Entitlements paid 2007-08 (£ billion)**

| | | |
|---|---|---|
| 1 | Tax credits | 19.5 |
| 2 | Child Benefit | 10.6 |
| 3 | Child Trust Fund endowments | 0.24 |




* All figures refer to revenue accrued in the year to 31 March 2008.

*“Our Carter programme is working with taxpayers to make sure we are all ready for greater adoption of online filing. We are also working with customers to drive our programme of administrative burden reduction.”*

## Fulfilling our remit

Each year, the Chancellor of the Exchequer sets out our priorities in the Remit for the department. We have described our progress against our 2007-08 Remit throughout this report. This year’s report is the first to be published following the end of the 2004 Spending Review period. As such, it is our first chance to report performance against our Public Service Agreement (PSA) objectives and our efficiency programme (see section 4, page 54).

This year, we have made some notable improvements to the service we provide to tax credits claimants (see page 38), including through a programme of joint working with the Department for Work and Pensions (see page 39). We have made strides towards an improved relationship with large business (see page 47), and our new responsibility for business.gov (see page 44) is delivering an improved online service to all businesses.

Our Carter programme (see page 41) is working with taxpayers to make sure we are all ready for greater adoption of online filing. We are also working with customers to drive our programme of administrative burden reduction (see page 43).

We continue to work to protect the UK tax base. We are keeping up our strategy to tackle criminal attacks on the tax system (see page 52), bolstering this strategy with new tools to tackle MTIC fraud, while a better understanding of tax receipts (see page 53) is driving our compliance planning.

Our Departmental Transformation Programme (see page 29) continues apace. We have now managed to give 78% of our staff certainty over their future through our Workforce Change and Estates Consolidation (see page 30) programmes.

Finally, our priorities for the next few years have been set. New Departmental Strategic Objectives (see section 5, page 74) have been agreed, and the Chancellor has identified our immediate priorities through our Remit for 2008-09 (see Annex A, page 78).

# Review of the year

## A quick overview of some of the highlights we achieved in 2007-08

### Tax Credits

We have revised Code of Practice 26 to improve the way we handle tax credit overpayments.

### Agent Helplines

We have introduced new telephone lines dedicated to agents, and we are working to improve the service we provide to agents.

### Self Assessment

We have introduced a new SA tax return and increased the rate of online filing to over 45%.

### Joint Working

We are working with DWP to offer a better service to claimants, increase our understanding of shared customer groups and effectively tackle fraud.

### £400m recovered

So far, the Offshore Disclosure campaign has recovered over £400m in unpaid tax. We are now pursuing those with offshore accounts and tax liabilities who did not come forward.

### £457bn collected

In 2007-08, we collected more revenue than ever before. At a time of great change, we brought in over £20bn more in taxes, duties and other revenue, 4.7% more than in 2006-07.

# £30.3bn paid

We distribute tax credits, Child Benefit and Child Trust Fund endowments.


telephone
Our Contact Centres and helplines are ready to help you with your enquiry

# About us

Our Enquiry Centres are just one way in which customers can contact us if they have any queries about paying the right amount of tax or receiving the right entitlements.

# Section 01

# About us

## We are the UK's tax administration. We collect the bulk of UK tax revenue; we help to support millions of families and working people through the benefits and credits we administer; and we protect the country through our work at the frontiers.

### Taxes administered

We are responsible for administering:

- Income Tax
- Corporation Tax
- Value Added Tax
- National Insurance contributions
- Excise duties on alcohol, tobacco, fuels and gambling
- Customs duties
- Environmental taxes – Climate Change Levy, Aggregates Levy, Landfill Tax and Air Passenger Duty
- Insurance Premium Tax
- Capital Gains Tax
- Petroleum Revenue Tax
- Inheritance Tax
- Stamp duty on property transactions (Stamp Duty Land Tax) and shares (Stamp Duty and Stamp Duty Reserve Tax).

### Entitlements distributed

We are responsible for paying and administering:

- Tax credits – Child Tax Credit and Working Tax Credit
- Child Benefit
- Child Trust Fund endowments.

### Other responsibilities

We are also responsible for:

- Enforcing the National Minimum Wage
- Administering the collection of student loans on behalf of the Department for Innovation, Universities and Skills
- Supervising money service businesses, trust or company service providers, accountancy service providers and dealers in high value goods to ensure that they comply with the Money Laundering Regulations
- The operation of the Office of the Paymaster General
- The creation of the Government Banking Service
- Developing businesslink.gov.uk to become the primary online source of government help and support for businesses.

We also act as a law enforcement agency with responsibility for reducing the tax gap, deterring non-compliant activity and identifying, dismantling and disrupting criminal attacks on our tax system.

### Border responsibilities

Until the UK Border Agency (UKBA) was launched on 1 April 2008, HMRC held responsibility for protecting the UK's borders against illicit and harmful trade, including protecting against the illegal import or export of drugs, counterfeit or illicit alcohol and tobacco, and other illicit goods.

Some of these responsibilities will pass to the UKBA (see page 31), but we will retain our responsibility for the policy associated with collecting duties due at the frontier and protecting UK tax revenues, working with the new Agency to achieve this.

Our values

## Customer focus

Putting our customers at the heart of everything we do; understanding them and responding to their behaviours and expectations.

## Trust

Believing our customers are honest unless we have good reason to doubt it.

Being trustworthy and trusting each other.

## Support

Helping our customers to meet their obligations and receive their entitlements.

Working together and taking pride in delivering great performance.

## Protect

Being vigilant and acting decisively in protecting society.

Behaving professionally and with integrity.

# About us

## Human rights

In HMRC we recognise and respect the human rights of all our customers, and ensure our policies and processes are compliant with The Human Rights Act, 1998.

## Corporate responsibility

Our corporate responsibility agenda underpins the way in which we do business, in order to maximise our positive impact on society. It focuses on:

- the way in which we treat our customers, suppliers and employees
- the resources and materials we procure and how (and from where) we procure them
- the energy we use to run our operations
- the way in which we manage waste
- the relationships we have with our local communities.

In addition, we have found that our emphasis on corporate responsibility has helped us to realise business benefits.

Over the last year, six pioneer business units have been integrating corporate responsibility into their business activities. One of their successes has been to ensure that community volunteering activity is properly targeted on customers' issues. For example, our Tax Credits Office (TCO) has piloted an employee volunteering programme to visit local children's centres. This programme has helped to raise awareness of eligibility for tax credits and has given TCO staff valuable feedback on the barriers and difficulties faced by customers in making claims. We have also raised the profile of our environmental obligations, motivating staff to make a difference at a local level by, for example, cutting down on road travel and switching off lights and computer monitors.

Our responsible business activity has not been confined just to our pioneer units:

- Following the floods in the summer of 2007 and their effect on local businesses, we relaxed the rules around when taxpayers needed to submit returns and make payments. Working with local Chambers of Commerce, we visited some of the worst affected areas to hear what the problems were and to identify what assistance and support could be provided by HMRC.
- Through 'Grant in Aid' we have funded a joint project between two Third Sector organisations and HMRC. The project focuses on improving the tax knowledge of Voluntary Community Sector partners. By running training workshops, we have helped to build their capacity, which in turn has helped their customers. The voluntary organisations have been able to cascade their learning to reaching significantly more people than would otherwise be possible.
- By integrating eco-efficiency into the movement, storage and disposal of seized goods, our Queen's Warehouse has developed innovative recycling methods, which include burning seized tobacco to generate electricity to feed the national grid and processing seized alcohol into fuel for Severn Trent Water Authority.

We have stepped up our efforts to reduce the impact we have on the environment. We have continued to reduce our paper usage and to roll out recycling facilities in all our buildings, and we are on target to meet the government's 2010 milestones for water, travel and waste. Recognising that we need to do more to reduce our carbon emissions, we commissioned a carbon diagnostic study of our estate, IT and travel. The study concluded that carbon usage must be given a higher priority in our major change agenda, that we need to commit to 'invest to save' initiatives for our IT and to update the environmental clauses in our estates contracts, and that we need to do more to change the thinking of our managers and staff.

# Diversity networks are raising awareness

We have set up diversity networks for Race, Disability, Lesbian Gay Bisexual, Transgender, Gender, Alternative Working patterns, Age and Religion and Belief.

The networks discuss serious concerns to help eliminate barriers that exist for our people and customers from underrepresented groups.

We have introduced a co-coaching scheme for disabled staff in partnership with the Ministry of Justice.

Our commitment to corporate responsibility is recognised outside HMRC. This year, we successfully retained our Gold Standard marking in the Business in the Community Corporate Responsibility Index Top 100. Our annual Corporate Responsibility Report, due to be published later this summer, contains much more detail on our work on having a positive influence on society.

## Diversity

Raising awareness of diversity and providing the necessary services and support for our diverse staff population and customer groups is a high priority for us. We are committed to gaining a complete picture of the diversity of our staff so that we can ensure our internal policies and processes operate fairly and are properly assessed for their impact on different diversity groups.

The provision of extra training and the promotion of key messages in our Gender, Race and Disability Equality Schemes are helping us to create a culture of inclusion. We have introduced a co-coaching scheme for disabled staff in partnership with the Ministry of Justice and a mentoring scheme for staff from Black and Minority Ethnic (BME) backgrounds. Our Board-level Diversity Champions and our Staff Diversity Networks continue to work together to promote diversity initiatives across HMRC, for example by running our first Lesbian, Gay and Bisexual and Transgender Diversity Conference and a Race Network Conference.

Understanding the diversity of our customers is crucial. It helps us to communicate with them in the most appropriate and effective ways. Our Individuals Customer Unit (ICU) has been seeking views from our customers, staff and voluntary sector organisations in order to gain an insight into the needs of specific customer groups. This work will enable us to respond to their needs and improve their experience of HMRC. The ICU has also undertaken an audit of accessibility standards for disabled customers to highlight areas where improvement is needed and to inform a disability service delivery strategy.

# Who we are

## Our Executive Committee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### 1 Dave Hartnett CB
Acting Chairman

Dave joined the Inland Revenue in 1976. He worked for nearly 10 years on investigation work before becoming Director of Claims Branch in 1991, then joining Financial Intermediaries and Claims Office – dealing with schemes for tax relief and deductions at source, non residents and trusts. In 1996 he moved to lead the technical teams on personal taxation.

In 1998 he was appointed Director General of Capital and Savings, with tax policy responsibility for capital taxes, savings, pensions, share schemes, charity tax issues and stamp duty.

He led the 2000 quinquennial review of the Valuation Office Agency before becoming the Inland Revenue's Director General (Policy and Technical) in 2000. Following the merger of the Inland Revenue and Customs and Excise, he became HMRC's Director General for Customer Contact and Compliance Strategy, and subsequently Director General for Business.

Dave led the development of the rules requiring disclosure of schemes of tax avoidance and the OECD Study of Tax Intermediaries. He was also one of the Commissioners who set up the Joint International Tax Shelter Information Centre.

He was appointed Acting Chairman in November 2007.

### 2 Steve Lamey
Chief Operating Officer

Steve graduated in Mining Engineering at University College Cardiff in 1978 before starting work with the BOC Group. He had a wide variety of roles there, working in project engineering and management roles before moving on to operational, commercial and senior management jobs. He became Director of Global Information and Management User Services in June 1998. In 2000, Steve joined the British Gas (BG) Group as Chief Information Officer and Vice President Information Management (IM). This meant he was responsible for development and delivery of business strategy and services, ensuring that IM added business value. He became Chief Information Officer for both former departments in October 2004. In October 2007, he was appointed to a new role, Chief Operating Officer, to co-ordinate and drive performance improvement and change programmes across HMRC.

### 3 Mike Hanson MBE
Director General, Benefits and Credits

Mike joined the Civil Service in 1974, serving in HM Customs and Excise, the Parliamentary Commissioner's Office and on secondment, via the Foreign and Commonwealth Office, to the Hong Kong Government. In Hong Kong, Mike performed a variety of roles, including head of the Government Property Agency, Refugee Co-ordinator, Information Co-ordinator and Government Spokesman. On returning to the UK and HM Customs and Excise, Mike became head of Logistics and Finance. He has held several Director General portfolios in HMRC and is currently Director General, Benefits and Credits.

### 4 Bernadette Kenny
Director General, Personal Tax

Bernadette joined HMRC in May 2005 as Director of Distributed Processing, where she established the PaceSetter programme, including Lean working. Bernadette joined the Board of HMRC when she was appointed Acting Director General Customer Contact and Processing in October 2005 and substantively promoted in June 2006. She became Director General, Personal Tax in December 2007. Prior to joining HMRC, Bernadette was acting Chief Executive of the Royal Parks for a short period. She had previously spent 24 years at the Department for Constitutional Affairs (DCA), having started in the then Lord Chancellor's Department as a Government Lawyer in 1980. After an early career in a range of both legal and policy posts, she moved into operations in 1991, managing civil and the higher criminal courts in the South East. She led the team that launched the Court Service as an executive agency in 1995 before setting up the new agency's HR and Learning function. She moved onto the agency board in 1999, leading on business change, IT, procurement and tribunals operations. She returned to DCA HQ in 2002 as Change Director.

### 5 Melanie Dawes
Acting Director General, Business Tax

Melanie Dawes was appointed as Acting Director General, Business Tax, in November 2007. Prior to that she was Director of the Large Business Service, a post she took up in December 2006. Melanie spent 15 years at the Treasury, most recently as Europe Director where she led the Treasury's contribution to the UK Presidency of the EU in 2005 and was involved in various international tax, financial and budgetary negotiations. She started her career as an economist and has also worked on public spending, tax and tax credit policy, monetary policy and the euro. She coordinated the first Treasury assessment against the Five Tests for UK membership of the single currency in 1997.

# Who we are

## Our Executive Committee

### 6 Mike Eland CB
Director General, Enforcement and Compliance

Mike joined HM Customs and Excise in 1975, having been called to the Bar in the same year. He spent six years at the Cabinet Office in various roles, including Private Secretary to the Deputy Prime Minister, and three years in the Home Office dealing with immigration and asylum policy. Mike was appointed to the Customs and Excise Board in 1992 and has had a variety of Director posts. He was appointed Director General of Business Services and Taxes in 2000, with overall responsibility for the collection of indirect taxes and customs duties, facilitating and regulating international trade and advising Ministers on these issues. Mike was acting Chairman of HM Customs and Excise between June 2003 and September 2004. He is currently Director General, Enforcement and Compliance.

### 7 Deepak Singh
Acting Chief Information Officer

Deepak joined HMRC in June 2006 from T-Mobile where he was an Executive Vice President responsible for IT strategy, governance, quality management and change management. Having graduated from York University in 1985, Deepak spent over 20 years in the commercial sector. He has worked for a number of private sector organisations including: nPower, AstraZeneca, Jaguar Cars and Philips Electronics.

### 8 Philip Moore
Chief Finance Officer

Philip was appointed as Chief Finance Officer in February 2008. Philip was previously the Group Finance Director and Group Chief Executive of insurer Friends Provident, having had a number of finance director roles prior to that. Before returning to the corporate world in 1998 Philip spent nine years with Price Waterhouse Coopers both in the UK and in Hong Kong where he was the partner leading the firm's insurance consulting practice in South East Asia.

### 9 Robin Roberts
Chief People Officer

Robin joined HMRC on an interim basis on 2 January 2008 on secondment from Egon Zehnder International. Through his work with Egon Zehnder, Robin worked closely with HMRC in the recent past and knows our organisation well. Prior to this, Robin was Managing Director of Sybase Business Consulting and Director of the OASiS Group plc.

### 10 Anthony Inglese CB
General Counsel and Solicitor

Anthony trained and worked as a lawyer in the Home Office. In the late 1980s, he was seconded to the Law Officers' Department. He became Head Lawyer at the Office of Fair Trading in 1991; then Head Lawyer at the Ministry of Defence in 1995; and in 1997 he became Deputy Treasury Solicitor. From 2002 he was Solicitor to the Department of Trade and Industry (later the Department for Business, Enterprise and Regulatory Reform) before coming to HMRC in March 2008. He leads for the Government Legal Service on Professionalism and Ethics and is a Bencher of Gray's Inn and a member of the Bar Standards Board. He gives training at the National School of Government.

**Paul Gray CB** stepped down as Chairman of HMRC on 20 November 2007.

**David Hogg CB** retired from the Civil Service on 31 May 2008.

**Stuart Cruickshank** left ExCom on 31 March 2008.

**Chris Hopson** left ExCom on 31 December 2007 to concentrate on his new role as Director, Customer Contact.

## Our Non-Executive Directors

### Kate Owen

Kate runs her own consulting business, having retired from BP in December 2005. She was previously Vice President of BP responsible for global learning and organisation development. She has been directly involved in the change and transformation of BP since 1990. Much of her work over recent years has been the development of executive leadership combining facilitation, coaching, top team building and executive education. Kate is a Governor of Imperial College and a Fellow of the Windsor Leadership Trust. She was Chair of the Conference Board, Europe, Organisation and Business Council, a member of the Ministry of Defence Armed Forces Training and Education Steering Group and a member of the UK Government Risk Review Steering Group.

### John Spence OBE

John's career with Lloyds TSB spanned 32 years from 1973 to 2005, including Managing Director of Business Banking, Chief Executive of Lloyds TSB Scotland, and Managing Director of Retail Distribution encompassing UK branch networks, ATMs, telephony and internet banking. John had responsibility for policy and risk where he forged industry wide solutions on key issues. John has been Deputy Chairman of Business in the Community since 2000. He is a governor of the Church Commissioners and chairs their Audit Committee; he is Finance Chair at Chelmsford Cathedral and a trustee of St Paul's Cathedral Foundation. Blind himself, John chairs Blind in Business and Vitalise. He is President of Enable and of the Royal Zoological Society of Scotland. John is on the Capital Enterprise Board and a Non-Executive Director at Edrington Limited.

### Mark Haysom

Mark became Chief Executive of the Learning and Skills Council in August 2003, taking up his post on 1 October the same year. Prior to his appointment, Mark had spent almost 30 years in the newspaper industry, with Reed International, Thomson Regional Newspapers and the Trinity Mirror Group. As Managing Director, National Newspapers for Trinity Mirror, Mark was responsible for such titles as the Daily Mirror, Sunday Mirror, Sunday People, Scottish Daily Record and Sunday Mail, with a turnover of £500 million and a workforce of 2,200 people. During his tenure, the Daily Mirror won no fewer than three 'Newspaper of the Year' awards in the space of a year.

In addition, **Bill Griffiths, Kate Dunlop, Penny Melville-Brown** and **Nick Macpherson** stepped down as Non-Executive Directors in 2007-08.

# Who we are

## Our Advisers

More information on the role of our Advisers can be found on page 29.

### Kate Barker CBE

Kate has been an external member of the Monetary Policy Committee of the Bank of England since June 2001. Prior to this Kate was Chief Economic Adviser at the CBI, and before that worked as Chief European Economist for the Ford Motor Company. She has headed up several government reviews, is Chair of Governors at Anglia Ruskin University and is a member of the FA Football Regulatory Authority.

### Naquib Kheraj

Naguib recently stepped down as Chief Finance Officer at Barclays Bank PLC. He is a member of the Board of Governors of The Institute of Ismaili Studies, an educational institution which promotes scholarship and learning on Islam. He is also Chairman of the national committee of the Aga Khan Foundation (UK), a member of the development board of The Prince's Trust and a Member of the investment committee of The Wellcome Trust.

### Phil Hodkinson

Phil Hodkinson is a non-executive director and audit committee chair of BT Group plc, chairman of the HBOS Foundation, a trustee of Christian Aid and a director of Business in the Community. Until recently Phil was Group Finance Director of HBOS plc and Chairman of Insight Investment, having previously worked for Zurich Financial Services as CEO of its UK Life Business and as a consulting actuary. Phil is a past chair of the Association of British Insurers' Raising Standards Accreditation Scheme and was a member of the Department of Trade and Industry operating and financial review working group.

### Rudy Markham

Rudy has spent a long and distinguished career at Unilever, which he joined as a commercial management trainee in 1968. He spent most of his early career in the finance function of various Unilever companies in Europe, before being appointed financial director of Unilever in Zurich. In 1996 he was made responsible for running operations in China, Hong Kong, Japan, South Korea and Taiwan, based in Singapore. In 1998 he joined the Board of Unilever as director of strategy and technology. He was made Chief Financial Officer in 2000. He retired in 2007.

## Harriet Gore works in the Ministerial team in Preston and is a Ministerial Complaints Manager

### My job involves writing reports and answering letters sent from MPs to Ministers.

We have to explain problems with tax credits, normally issues surrounding overpayment, on behalf of the Financial Secretary to the Treasury in letter form, which she then reviews and signs off. It's challenging and I enjoy it.

### Working at HMRC has allowed me to establish a good work-life balance.

I teach babies sign language during term time and with a young family I work three days a week in the office. It was two but there was a business need for me to be in another day and it actually works out better. A lot of effort is made to make me feel part of the team despite the hours I work. Our 10-strong team is tight-knit, diverse and experienced, containing people of varying ages.

### Making sure the customer is at the heart of what I do is crucial.

We end all our letters with the message that we hope future dealings with HMRC run more smoothly. We try to provide the service customers are entitled to. Those who come to us may have had a number of complaints dealt with in the past and we need to make sure everything has been done right. If it hasn't, we need to fix it to put the customer's mind at ease.

### The Minister is extremely pleased with the standard of the letters she's getting.

Everything has to be spot on with letters and the rewards come when the issue is resolved and the customer doesn't complain again.


Problem Definition
Identify Possible Causes
Gather Data
Pareto
Pie Charts

# How we work


Our PaceSetter model offices help demonstrate Lean best practice within our own working environment. This is all part of transforming the way we do business so we are prepared to meet the challenges of the future.

# Section 02

# How we work

## This is a time of significant change for us. The loss of the Child Benefit data discs, the Capability Review of the department and the creation of the UK Border Agency have come on top of our existing challenges of transforming the performance of HMRC and reshaping our workforce. This chapter shows how we are meeting these challenges and making sure that the department is prepared to meet the challenges of the future.

## Data security

On 20 November 2007 the Chancellor of the Exchequer made a statement to Parliament in which he announced the loss of two discs. The discs contained details, extracted from the Child Benefit database, of 7.25 million families. Paul Gray, then Chairman of HMRC, stepped down from his post as a direct result of the loss.

In his statement, the Chancellor announced that Kieran Poynter, then Chairman and Senior Partner at PricewaterhouseCoopers, would lead an independent review of data security in the department.

### The Poynter Review

Kieran Poynter's review was wholly independent of HMRC, and operated under terms of reference set by the Chancellor. We co-operated fully with the review team, making sure they had full access to everything they wanted to see and everyone they wanted to talk to.

The Poynter Review was published on 25 June 2008. The full findings can be found in *'Review of information security at HM Revenue & Customs – final report'*. The government accepted all the review's findings.

We have committed to implement every one of the review's 45 recommendations. We have made progress on 39 on these, and have already fully implemented 13.

### The IPCC Report

The Independent Police Complaints Commission (IPCC) also carried out a review into the loss of the Child Benefit data discs. Their report states that the IPCC "found no evidence whatsoever of misconduct or criminality by any member of HMRC."

### Tightening security

We took immediate action following the loss of Child Benefit data to tighten our data security procedures. Since last November, we have introduced a number of measures to minimise the risk of data loss and to increase oversight of data protection in the department.

- **A Director of Governance and Security**
  In the aftermath of the loss of Child Benefit data, we appointed a dedicated Director of Data Security to oversee the introduction of new data security measures. We have now expanded this role, creating the new position of Director of Governance and Security. This role brings together accountability for driving improvements in data security and risk management across the department.
- **Data guardians**
  Every area of our business now has a data guardian responsible for the protection of customer data. Data guardians also provide advice on how information can be safely moved around our business and transferred between the department and our customers.
- **Restrictions on access to and movement of data**
  Following the loss of the Child Benefit data discs, we introduced new, tight physical and technical controls on access to and movement of bulk data on paper, on removable media and through electronic means.

- **Data security pocket rulebook**
  We have published and distributed clear, simple Data Security Operating Standards and 'Golden Rules' to all staff.
- **Mandatory data security training**
  Every person in HMRC is scheduled to attend a mandatory training course on data security.
- **Our relationship with the National Audit Office (NAO)**
  It is in all our interests to ensure that our relationship with the National Audit Office works smoothly. The NAO need access to data from our systems to make sure that we are discharging our responsibilities in an efficient and effective manner. We have agreed a new protocol on data access with the NAO, which both our organisations agree permits full and fair auditing of HMRC's activities while ensuring that our customers' data is protected throughout. We are updating this protocol in the light of Kieran Poynter's review.

In addition, the steps we have taken to clarify accountabilities (see page 28) have made the accountability for data security clear and transparent.

### Improving in the long term

As the Poynter Review makes clear, implementing the suggested changes will take time. Some changes are likely to require extensive alterations to our IT and infrastructure that will need to be planned extremely carefully.

We are looking at the report's findings and recommendations in detail, and we are beginning to incorporate them into our overarching Data Security Programme. We propose to return to the theme of data security in next year's Departmental Report, and in subsequent reports.

## Capability Review

In 2005 Sir Gus O'Donnell announced that each government department would undergo a Capability Review. The reviews assess a department's capability to meet today's delivery objectives and readiness for the challenges of tomorrow. On 14 August 2007 Sir Gus announced the Capability Review of HMRC, which took place between September and December of last year. He appointed a team of five independent external reviewers supported by a team from the Cabinet Office.

HMRC's Capability Review was published on 17 December 2007. The review highlighted major strengths in HMRC, including:

- a clear desire to transform and improve;
- resilience and a proven ability to bring in money that funds public services;
- a large number of bright, committed people with high levels of professional competence; and
- a strong sense of honesty and integrity.

We know customer expectations are rising and we have to transform the department to meet these expectations. At the same time we must deliver stretching performance and efficiency targets.

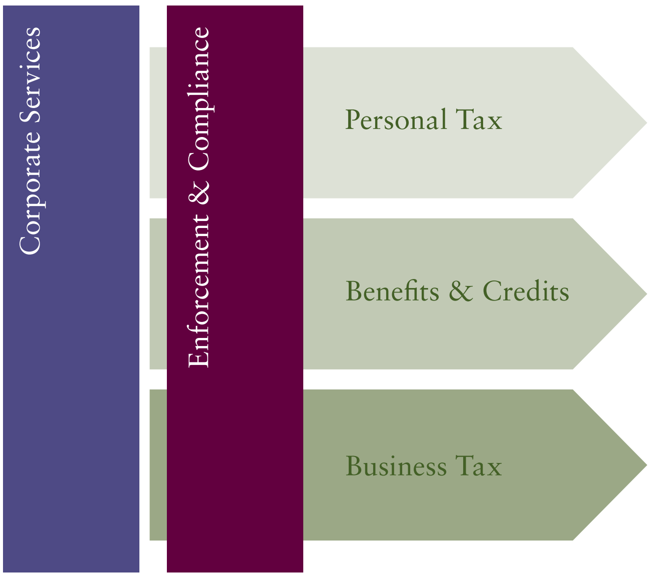
The review's findings reflected our own assessment in identifying areas where we need to improve. It recommended that we:

- accelerate the pace of leadership throughout the organisation, in particular pushing the vision with passion, drive and pace;
- transform an information rich, intelligence poor department through better management information and evidence-based decision making;
- establish clear, simple lines of personal accountability and roles; and
- re-ignite staff motivation and the credibility of and confidence in, and of, the senior leadership to lead successful transformation of the department.

In response we identified five key areas for action which will be taken forward over the next 18 months.

# How we work

**Operating Model**




## Clarify accountabilities

We recognised that, while our organisational structure helped us to create HMRC following the merger, staff, stakeholders and customers found it confusing. So, in January 2008, we changed our structure to sharpen accountabilities and provide a greater customer focus. The structure is now based around four operational groups, each led by a Director General. These are:

- **Personal Tax.** Responsible for helping some 60 million individual customers across the UK to fulfil their tax obligations.
- **Benefits and Credits.** Responsible for ensuring families receive the payments they are entitled to, that customers get it right first time and that losses from fraud and claimant error are reduced.
- **Business Tax.** Responsible for ensuring businesses pay the right amount of tax while improving our customers' experience and the overall UK business environment.
- **Enforcement and Compliance.** Responsible for ensuring that we successfully collect the full and correct amount of money due from UK taxpayers. It is also responsible for investigating offences against the tax and duty system.

These four 'Lines of Business' are supported by our Corporate Services and our Change and Performance group.

## Set a clear direction

We have launched a programme of engagement with our staff and stakeholders, led by a more visible senior leadership team, setting out our future direction. We have made early progress through engagement with our staff at 'town hall' events – where senior leaders meet with local managers – and our 'back to the floor' programme – where leaders get a chance to experience front-line service delivery. These initiatives have shown how essential it is that we listen to what people are telling us so we can better understand the challenges they face.

## Increase the pace of change

One of the biggest issues we face as a department is the challenge of reshaping our workforce. We have worked hard with the Trade Unions to give our staff certainty about what is happening (see page 30).

## Generate passion, pride and motivation

We have identified the gaps in our leadership development plans and refreshed the underlying leadership development programmes, which will ensure we have the right leaders in the right place with the right skills (see page 34). We are also investing in our tax professional skills, through both recruitment and improved training (see page 34).

## Use evidence and analysis to drive performance

We are improving our business performance by creating a more consistent performance management system. As a result we are developing a set of relevant key performance indicators, which will provide clear line of sight from HMRC's strategic objectives to front line delivery.

As part of the assurance and implementation phase of the Capability Review, the Cabinet Office schedules checkpoints at three, six and twelve months following publication of the Review findings, with a re-review scheduled for Summer 2009. The purpose of these checkpoints is both to review progress and focus on the challenges ahead.

Our first checkpoint took place on 16 April 2008. Sir Gus O'Donnell told us he was pleased with the progress we have made since December. He urged us to keep going and continue our work at good pace.

## How we run HMRC

This year has seen some changes to how decisions are made in HMRC. Although the fundamental governance arrangements remain unchanged since the department was formed in April 2005, the last year has been a period of considerable development, as we responded to recommendations in the Capability Review of HMRC and following the loss of Child Benefit data.

The Capability Review reported shortly after our then Chairman, Paul Gray stepped down following the loss of Child Benefit data. The reviewers took the opportunity to think about our most senior leadership requirements and recommended that we explore separate roles for a Chief Executive and a Chair.

The appointment of Mike Clasper as the new Chair of HMRC has been announced. Mike's role will be to strengthen HMRC's corporate governance and to provide oversight to the executive and the Departmental Board. In addition, he will play a key role for us by engaging with the department's many stakeholders.

Mike Clasper will join us on 1 August 2008, working three days a week. He will be involved in the selection of HMRC's first Chief Executive, who will be responsible for the day-to-day running of HMRC.

In response to recommendations in the Capability Review, we strengthened the external challenge and advice we receive. From February 2008 four external advisers were appointed, initially for a period of six months, and together with the Executive and the Non-Executive Directors, they meet as the Executive and Advisers Committee (EAC). Profiles of our Non-Executive Directors and advisers can be found on pages 21 and 22.

The Capability Review also recommended that we should simplify and clarify the senior committee structure. Under the Executive Committee there were seventeen decision making sub-committees, which had been set up to give particular important issues a dedicated forum and allow the Executive to focus on strategic matters. Following this recommendation we decided to bring the sub-committee system to a close at the end of the 2007-08 financial year and to implement our new organisational structure, built around the 'Lines of Business' described on the previous page.

## Our Departmental Transformation Programme

We set up the Departmental Transformation Programme (DTP) in 2006-07 to support a customer focused organisation that transforms the customer experience; improve effective management of revenue flows; and reduce the running costs of the department.

The programme has delivered key benefits for us. In addition to the savings achieved through the Workforce Change programme (see page 30) we have:

- achieved £13.4m in non-paybill savings, and
- collected nearly £1.5bn in additional yield.

We have also been able to deliver significant benefits to customers through the DTP.

- We have introduced the PAYE Browser, which has led to a reduction in the number of P91/92 enquiries issued to employers. The additional information

# How we work

available through the browser has reduced the number of enquiries we make to employers by over three million (see below).

- Our new Construction Industry Scheme (CIS) replaced the old paper voucher verification system and created a fast track repayment system for construction industry customers. This introduced multi-channel choice – the new CIS helpline handled around 2.3 million calls in its first year.
- We introduced new and simpler online SA and PAYE employer returns (see 'The Carter Programme and online services' page 42).
- We rolled out the award winning International Trade Single Window (see page 44).
- We made changes to the delivery of tax credits, including piloting a new household breakdown service which enables 70% of all callers to receive repayment within five days. This success has led to this service being rolled out nationally (see page 38).

To achieve this, we have introduced new arrangements for rigorous and robust programme monitoring and reporting, along with strong assurance controls. These include:

- undertaking 16 Office of Government Commerce (OGC) Gateway Reviews and additional HMRC health checks. DTP also secured delegated authority for managing Medium Risk level OGC Gateway Reviews until the end of March 2009
- design and delivery of Programme and Project Management training and publication of full guidance for use across HMRC.

Going forward, we have decided to expand the DTP portfolio and to bring all of our main change programmes within its governance and controls. These will include short term tactical initiatives as well as those more focused on our longer term transformational agenda.

### Modernising PAYE Processes for Customers

Modernising PAYE Processes for Customers (MPPC) is our business change transformation programme that aims to deliver a more efficient and effective PAYE process.

We are working to move processing of PAYE from 12 regional databases onto one national system. The change means that PAYE Service users will have access to an individual's entire customer record, bringing together all employment, pay, tax and pension information in one place.

That customer record will also contain a contact history for the individual, so staff will be able to deal with customer enquiries quickly and completely. This will reduce the number of times employers or employees, or other HMRC offices, have to be contacted for more information.

## Workforce Change and Estates Consolidation

Our Workforce Change programme is designed to ensure that HMRC gets the right people in the right places with the right skills, and to assess the opportunities to reduce the size of our estate. By centralising more work and workforce we can conduct our business more efficiently and at a lower cost.

A full report on our efficiency programme can be found in section 4, pages 70 to 72. So far, staff reductions have been managed through natural exits, a restricted approach to recruitment (see Annex F, page 105), management of fixed term appointments, and the development of exit schemes. In the year to 31 March 2008, 1,042 staff had left the department under the Approved Early Retirement scheme. 80 staff had opted for Flexible Early Severance, while 111 staff had left under our Public Sector Release scheme which helps people to re-train for a role elsewhere in the public sector as, for example, a nurse, teacher or social worker.

We were able to maintain a 'no compulsory redundancy' agreement with the Trade Union side until 30 September 2007, and we are still committed to avoiding compulsory redundancy or moves of home where possible. We cannot guarantee that this course of action will not be considered where reasonable and practical alternative solutions cannot be found, but we have agreed to continue to consult with the Trade Unions before making firm decisions on this.

The Workforce Change Regional Review Programme is working out how to achieve the best overall match between accommodation and future staffing and skills needs. By 2011, we estimate that we can make savings of up to £100m per annum on projected estate running costs by giving up office space that is not needed.

We paused the Regional Review Programme at the end of 2007 to ensure that the programme continued in line with the outcomes of the Capability Review. Despite this pause, by April 2008 we had announced final decisions on all the main urban centres.

Launch of the reviews of office clusters (groups of offices outside our urban centres) and individual offices has been accelerated and, as of the end of June, approximately 70,213 staff (78% of the total in HMRC) have been given certainty regarding the future of their offices. We plan to have made all final decisions by December 2008.

## PaceSetter

PaceSetter is our way of working. It helps us work towards operational excellence by building continuous improvement into our business.

The Capability Review highlighted the benefits of this approach, which is further supported by reports from frontline managers that our people are demonstrating greater engagement in improving the department.

Improving our people's capability is a key element of PaceSetter. Results of the 2007 Government Skills Survey show that 64% of HMRC people attended a learning or development event in the previous 12 months.

Our larger directorates were early adopters of PaceSetter. Most of our remaining directorates are now engaging with PaceSetter, resulting in its application becoming more widespread across the department.

Our central PaceSetter team works as an in-house consultancy, supporting the wider department by advising and facilitating improvements in larger business areas such as Debt Management & Banking and Local Compliance. The team also works with smaller groups such as the Chairman's Office and Knowledge, Analysis and Intelligence to engage leadership teams in driving and supporting improvement in their areas.

Moving forward, we are strengthening the governance arrangements for PaceSetter programmes. New assurance work will make sure that future funding for PaceSetter activity will be dependent on programmes showing progress and PaceSetter capability. This will help us to link clear and tangible benefits to the changes made through PaceSetter.

Our future plans will ensure that, as the adoption of continuous improvement principles, tools and techniques spreads across the department, we focus on sharing good practice and assuring that the planned benefits are realised.

## UK Border Agency

The UK Border Agency (UKBA) was launched on 1 April 2008. The new agency brings together the Border and Immigration Agency, UKVisas, and HMRC detection work at the border. It forms part of the government's strategic response to the growth in international trade and migration and the escalating terrorism-related security threat facing the UK. The agency is currently operating in interim form until the formal transfer of customs powers and responsibilities from HMRC.

The Prime Minister announced the creation of this new agency on 14 November 2007 in response to a recommendation by Sir Gus O'Donnell in the Cabinet Office Report *'Security in a Global Hub – Establishing*

# How we work

*the UK's new border arrangements'*. The UKBA is an agency of the Home Office and is headed by its Chief Executive, Lin Homer.

During interim running, staff from the Border and Immigration Agency, UKVisas and HMRC are coming together into a single organisational structure and will operate – so far as possible – as a unified border presence. Until customs powers and responsibilities are transferred to the new agency, all HMRC staff working within the UKBA will continue to be employed by us and remain accountable to the Commissioners of Revenue and Customs.

The UKBA will deliver three strategic objectives:

- protect our border and national interests;
- tackle border tax fraud, smuggling and immigration crime;
- implement fast and fair decisions.

It is also responsible for delivering a number of wider cross-government objectives for border enforcement, in particular those set by HM Treasury and HMRC.

HMRC will retain responsibility for Departmental Strategic Objective (DSO) 3 ('Reducing the risk of illicit import and export of material which might harm the UK's physical and social well-being') during interim running, although the operational resource to deliver the targets is now based within the UKBA and, in time, responsibility will pass to the new agency. The UKBA will also assist directly in the delivery of DSO 1 ('Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled') by helping to combat border tax fraud.

We are working closely with the agency to ensure that these arrangements are successful, and are represented on the agency's board by a member of our Executive Committee. We are developing a further range of legal and governance frameworks to ensure that revenues are protected at the border.

HMRC remains the UK's principal customs authority, retaining a wide range of frontier-related responsibilities, including policy associated with the collection and enforcement of taxes payable at the frontier, and for the procedural and economic regulation of international trade. We are also working with partners across the European Union to introduce radical improvements to the way in which businesses interact with us for customs purposes.

These responsibilities will be discharged in a way that balances the need to maintain the UK as a competitive location in which to do business against the requirement to protect society and government revenues.

## The Government Banking Service

We lead the Government Banking Programme as part of our Banking Services operation. The Programme has enabled the creation of the Government Banking Service (incorporating the Office of the Paymaster General) to provide shared banking services to the public sector.

In March 2008, Citibank and The Royal Bank of Scotland Group were awarded contracts to replace the Bank of England as supplier of banking services to HMRC and National Savings and Investments. We formally launched the Government Banking Service on 19 May 2008.

## Money Laundering Regulations

HM Treasury introduced new Money Laundering Regulations on 15 December 2007. The regulations require some businesses in the financial sector to put systems and controls in place to help deter, disrupt and detect money laundering.

HMRC already had responsibilities under previous regulations, supervising two sectors to ensure they comply with the regulations: dealers in high value goods and 'money service businesses'

## Darren Brabon works as a Detection Officer in Belfast for Mobile 5

### My job as a Detection Officer is multi-functional.

One day I could be at the airport and the next day I could be checking freight. Northern Ireland is unique in that it has the United Kingdom's only land boundary with another country and I have to patrol that as well.

### The team I'm in is like one big family.

It has to be in this job and all eight of us get on very well. We're always there for each other if we're required to intercept a vehicle at the border or someone needs help to deal with a passenger at the airport. There's a real close-knit environment.

### Our role is to detect illegal goods and stop them entering the country.

We do spend a lot of time at the frontier – more than ever, now we're part of the new UK Border Agency (UKBA). I love my job and I wouldn't change it. It's great when you halt a smuggler and you've made a dent in a criminal's empire, hit them in the pocket where it hurts.

### Without wishing to blow our own trumpets, we get commended quite a lot for our work.

We had a series of drug seizures in Belfast and we were commended by the head of our section. We discovered 6.5 million illegal cigarettes recently too, which we were praised for by the head of the UKBA, Lin Homer.

### I work shifts, as does my wife, and we are able to fit around each other.

I'm quite happy with the way I work. Sometimes I have to work up to 10 hours in a shift but I get the time back at home. I don't enjoy working nights as much though.

# How we work

(money transmitters, bureaux de change and third party cheque cashers). The supervisory regime is wholly funded through fees paid by registered businesses.

We were asked to take on further responsibilities under the new regulations. Firstly, we now supervise two further sectors to make sure they comply with the rules: 'trust or company service providers' and 'accountancy service providers'. Secondly, we now carry out a 'fit and proper' test on those who control 'money service businesses' and 'trust or company service providers' before we register their business.

We anticipate that we will complete the process of registering the new sectors through 2008-09. Our focus will remain on ensuring that liable businesses register with us, and that they put the right controls in place to help protect the financial sector from use and misuse by those intent on laundering the proceeds of crime or funding criminal activity.

## Our people

### Developing tax professionalism

We recognise the importance of our tax professionals in delivering our business. We need high quality tax professionals in order to collect tax and fund public services. Building on the feedback we have received about our performance in our tax work, we are focusing on the development of our tax staff with a long term investment programme that aims to improve and maintain the skills and knowledge of HMRC tax staff at all levels.

This new tax professionalism framework consists of four strands: a career path for tax professionals in the department, a new set of tax qualifications, the introduction of mandatory continuous professional development, and a new enhanced graduate level training scheme.

The new tax professional qualifications emphasise the development of commercial awareness and customer understanding. These new qualifications, which integrate learning material from across the taxes, duties and entitlements we administer, will be externally accredited.

Our new tax professional career path will make sure that tax professionals have a clear understanding of the career path that is open to them and how this recognises and rewards their tax knowledge and skills.

Mandatory tax continuous professional development (CPD) is intended to ensure that tax professionals develop their professional skills and keep their knowledge up to date. Each tax professional in the department must spend a minimum of five days on CPD each year. Moreover, to ensure that we are developing the senior tax professionals of the future, we have also developed an enhanced graduate level tax professional development programme. This will help us to recruit and retain top tax professionals.

Taken together, these measures should in time help us to develop tax professionals that are seen as leaders in their field.

### Developing leadership and management capability

Our People Strategy needs dynamic managers and leaders who are confident, energetic and skilled and who will deliver transformational change within HMRC to meet our performance challenges. These challenges include developing a customer focused approach to our work, improving our efficiency through increased accuracy of work, resource management and productivity, actively engaging all of our people and establishing and sustaining a continuous improvement culture.

We are re-introducing mandatory management training for all managers. This programme is being designed for delivery later this year and will be our main vehicle for teaching the core principles of management. Alongside this, our PaceSetter programme (see page 31) is helping to boost the pace and energy of business management teams.

In addition, we are putting leadership skills at the heart of our development programmes. We operate a Career Development Centre and 'Coaching for Performance' workshops for potential Senior Civil Service (SCS) leaders. Leading and managing within a professional environment is part of the emerging training agenda for our 18 professional development routes (including the tax professional routes detailed on the previous page). Moreover, our newly-developed HMRC competence framework for non SCS staff reflects management and leadership requirements and standards, and is aligned to the Professional Skills for Government framework.

By embedding leadership into our development programmes and driving up management skills, we expect to develop the confident and dynamic leaders we need.

## Rewarding performance

In line with the wider civil service, bonuses are paid to encourage and reward performance and to enable HMRC to improve its service to taxpayers and the government.

The payment of staff bonuses is set within current year on year reductions in HMRC's running costs of 5%. The bonuses form part of the pay system and are drawn from the overall increase available from the annual pay settlement.

Bonus payments made in 2007-08 reflect levels of performance in 2006-07. Performance bonuses paid in the 2007-08 financial year amounted to £19,055,653 allocated as follows:

| Grades | Total bonuses paid in 2007-08 financial year |
|---|---|
| Senior Civil Service (including ExCom members) | £2,212,959 |
| Non-Senior Civil Service[1] | £16,842,694 |

[1] From Administrative Assistant to Grade 6.

The following bonuses were paid to members of our Executive Committee in 2007-08 to reflect performance in 2006-07:

| Executive Committee member | Bonuses paid in 2007-08 financial year (£000) |
|---|---|
| Dave Hartnett | 20-25 |
| Paul Gray[2] | 10-15 |
| Mike Hanson | 10-15 |
| Mike Eland | 10-15 |
| Steve Lamey | 40-45 |
| Stuart Cruickshank[3] | 0-5 |
| Melanie Dawes[4] | 5-10 |
| David Hogg | 10-15 |
| Chris Hopson[5] | 10-15 |
| Anthony Inglese[6] | - |
| Bernadette Kenny | 15-20 |
| Robin Roberts[7] | - |
| Philip Moore[8] | - |
| Deepak Singh[9] | 15-20 |

The total remuneration of Executive Committee members is reported in the Remuneration Report in the Resource Account. The bonuses in the table above are included in those total amounts.

Bonuses to reflect performance in 2007-08 are yet to be determined. Any payments reflecting performance in 2007-08 will be made during 2008-09, and will be reported in our 2009 Departmental Report and 2008-09 Departmental Accounts.

[2] Paul Gray was a member of ExCom until 20 November 2007.
[3] Stuart Cruickshank was a member of ExCom until 31 March 2008.
[4] Melanie Dawes joined ExCom on 23 November 2007.
[5] Chris Hopson was a member of ExCom until 31 December 2007.
[6] Anthony Inglese joined ExCom on 3 March 2008. Anthony was paid by another government department until 31 March 2008.
[7] Robin Roberts joined ExCom on 2 January 2008.
[8] Philip Moore joined ExCom on 23 January 2008.
[9] Deepak Singh joined ExCom on 15 October 2007.

# Improving products and processes

Our drive for improvement isn't just about major organisational change. We are working in all areas to increase our performance and improve the customer experience. The dedication of our contact centre staff demonstrates this commitment.

# Section 03

# Improving products and processes

Alongside the major organisational and strategic challenges laid out in the previous chapter, we are developing ways to deliver our business better. We are taking steps to improve the service we provide, build better relationships with customers, ensure that the right tax is paid at the right time, and deliver a modern tax administration.

## Improving the service we provide

### Improving the delivery of tax credits

We have made substantial progress in the delivery of tax credits, particularly through the Tax Credits Transformation Programme and the reform of the Code of Practice on recovering overpayments.

The objective of Tax Credits Transformation Programme, first set up in 2006, is to create a tax credits service which is clearly understood and trusted by customers. We will do this through introducing a set of services and communication products which are tailored to our customers' needs. The programme will help customers to do the right things at the right time so that their tax credits claim is accurate and up to date.

The programme has introduced the household breakdown service: a new national helpline which allows couples whose relationship has broken down to initiate a new single claim in one phone call, thereby simplifying the claims process at a time in their lives when they are most in need of the support tax credits provide. This service is getting over 150,000 customers a year back into payment more quickly.

We have also run several other pilots aimed at improving the service, including:

- Proactive Questioning. This pilot involved asking additional questions when customers contact us, to make sure we keep their claim fully up to date. Over a third of the customers spoken to in the pilot had additional changes of circumstances to report which they had not realised affected their award.
- Reach Out Renewal. In this pilot we contacted customers who had not renewed on time and helped them maintain their claim and avoid an unnecessary overpayment.
- Two pilots to see if processes can be joined up so that new circumstances affecting both Child Benefit and Child Tax Credit – such as when a child leaves school or there is a new baby – only need to be notified once.

Building on this success, the Chancellor announced a package of measures in his 2008 Budget to improve the way tax credits are delivered by HMRC. These measures will be delivered through the programme.

The improvements fall into three main categories:

- those designed to make the process of claiming tax credits easier and quicker for the customer, with the level of support tailored to their needs;
- those designed to help customers keep their claims up to date, and so minimise their risk of being overpaid by proactively seeking information from customers and making better use of the information already held; and
- those designed to help assist customers, particularly vulnerable customers, through the renewals process.

#### Recovering overpayments

Following extensive consultation with the voluntary associations, the Ombudsman and the Adjudicator, we have changed our policy on recovering overpayments, set out in our Code of Practice 26, '*What happens if we have paid you too much tax credit?*', from the end of January. The change means a fairer balance of responsibilities between the customer and HMRC.

Previously the policy was that an overpayment was written off if there was an official error and it was reasonable for the customer to believe that their award was correct. The new Code of Practice will make decision making more objective when we consider whether to write off an overpayment. There is no longer a reference to what is, or is not, reasonable for a customer to have understood. Instead, it sets out the responsibilities both of HMRC and of our customers.

The new Code builds on existing practice of giving claimants responsibility for checking factual information which we play back to them. As before, they will not be expected to check the calculation. If there is an official error and customers meet their responsibilities the overpayment should be written off.

The new Code imposes a time limit on the department to process reported changes of circumstances. If we fail to act within 30 days, then any resulting overpayment after the 30 days will be remitted. Where a customer fulfils their responsibilities, assuming the facts of the case are complete and correct, an overpayment caused through an error by HMRC will also be written off.

## Joint working with DWP

We have embarked on a programme of joint working with the Department for Work and Pensions (DWP) in an innovative piece of cross-government collaboration. Our two departments have some significant areas of overlapping interest, and the joint initiatives listed here have the potential to make real improvements in the quality and cost-effectiveness of service delivery.

### In and Out of Work Pilot

Since September last year HMRC and DWP have been working together with six local authorities to test a groundbreaking process that joins up procedures for our mutual customers as they move in and out of work. Results are positive, with improvements being shown across a range of measures. In this innovative and truly transformational project, as well as tax credits being paid more quickly, DWP benefits and local authority housing benefits are being made available faster. In research with customers, half of those who had experienced the new processes reported improvements compared with their previous experience of claiming. Customers also said that they are more likely to take up work in the knowledge that claiming benefits when the work comes to an end will be quicker and more joined up.

### Face to face services

HMRC and DWP both provide face to face support to the public through a network of offices. We have been exploring how we can join up those services for the customer by trialling locating HMRC Enquiry Centres in Jobcentre Plus offices. The first two locations went live in December 2007, with a third site due to go live in mid-2008. As well as these main locations we also have Enquiry Centre presences in Cardiff, Melton Mowbray and Poplar Jobcentre Plus offices. Customer demand in Poplar is high due to preparations for the London 2012 Olympics, with a significant increase in the number of construction industry subcontractors.

Early feedback from customers and staff at the trial locations has been positive and early indications point to benefits such as reduced costs and improved customer service.

### Tackling fraud

HMRC and DWP face the same challenge: tackling fraud against the tax credit and benefit systems. During 2007-08 we worked cases jointly with DWP, particularly in cases of organised fraud involving

# Improving products and processes

multiple false identities and multiple individuals. We have seen some successful prosecutions as a result.

We have also come together to trial Joint Instant Response teams to tackle fraud. These virtual teams are formed at short notice when intelligence suggests a serious fraud against our departments.

### Understanding customers

Both DWP and HMRC have customer insight functions geared to building understanding of our respective customers. We have been looking at where we can build on each other's work to improve our services to groups of customers whom we have in common. Our work looking at the first group we have focused on, disabled customers, is complete. We are now in the process of identifying and driving forward a number of areas where joint working will improve our service to disabled customers. For example, we are looking at joint publicity material setting out the full range of benefits and tax credits to which they may be entitled.

We are now moving on to develop a comprehensive action plan that will include an assessment of the opportunity for end-to-end service transformation for other shared groups of customers.

## Contacting HMRC

### Contact Centres

HMRC Contact Centres operate a customer focused approach, with customers placed at the heart of everything we do. We are more than just an advice line, with our customers completing many transactions and payments through our contact centres. In the year to 31 March 2008, our contact centres handled around 60 million calls, across 30 different lines of business. Over 94% of our customers got through to us on the day they called us in this year. The service provided by our contact centres was recently independently acknowledged, with HMRC Contact Centres being awarded accreditation by the Contact Centres Association (CCA). This acknowledges that the work we do meets the very high standards set by the CCA.

### Our website

We have also made major improvements to our website. These improvements were built using feedback from our customers. The changes provide content which is easy to read and understandable; make it easier for customers to find their way around the site; and will help us deal with increased customer contact.

Changes we have introduced include:

- a fresher look and feel to new content areas
- an improved search facility and simpler navigation, helping customers find the information they need more quickly
- clearer information, making it easier for customers to understand what they need to do
- a simpler way of finding the right form.

We tested the material extensively with our customers before publishing to make sure it works for them.

In 2007-08 we also produced some 400 new pieces of online information covering such key areas as tax credits, PAYE for employers and information for agents and advisers. We will be continuing our programme of rewriting important information on our website up to 2010-11. During this period we expect to publish a further 1600-1700 new articles and continue to renew and refresh material in response to customer feedback.

These improvements to our website come in addition to the improvements we have delivered through the business.gov programme (see page 44).

## Improving tax administration

### Budget 2008: Changes to the tax system

The Chancellor announced a number of changes to the UK tax system in Budget 2008 which HMRC is

60m Calls handled

The service provided by our contact centres was recently independently acknowledged, with HMRC Contact Centres being awarded accreditation by the Contact Centres Association (CCA).

We are more than just an advice line, with our customers completing many transactions and payments through our contact centres.

implementing. Some of the key measures are outlined briefly below, while more details can be found on our website and the HM Treasury website.

### Personal tax package

The Budget confirmed that, as announced at Budget 2007, the 10% starting rate of Income Tax for non-savings income would be removed and the basic rate cut from 22% to 20% from 6 April 2008. The age related tax allowances for those over 65 were increased above the indexed amount for the tax year 2008-09 and the child element of the Child Tax Credit and the threshold for Working Tax Credit were increased from April 2008. Additionally, the upper earnings limit of National Insurance will be increased to align with the higher rate tax threshold from April 2009.

The Chancellor subsequently announced on 13 May 2008 that for 2008-09 the basic personal allowance would be increased by £600 and the higher-rate threshold – the point at which people start to pay higher-rate income tax – would be reduced by £600.

### Corporate taxes

The Budget also confirmed the introduction of a package of business tax reforms announced at Budget 2007. From April 2008, the headline rate of Corporation Tax was cut from 30% to 28% and, the small companies' rate will increase from 20% to 21%. As well as this, the capital allowances system has been extensively reformed.

### Residence and domicile

From April 2008, a number of changes were made to the legislation around taxpayers' residence and domicile. An additional tax charge will be introduced for any individuals in the UK choosing to claim the remittance basis of taxation, and there will no longer be an automatic entitlement to certain personal allowances or the annual exempt amount for any individuals in the UK choosing to claim the remittance basis. The current rules will be strengthened with the removal of some existing loopholes, flaws and anomalies. Additionally, when determining if an individual is resident in the UK in any year, presence in the UK at the end of the day will be used to determine whether they should be counted as resident on a particular day.

### Capital Gains Tax

As part of a package of reforms, a new single rate of charge to Capital Gains Tax at 18% was introduced from 6 April 2008. Alongside this, a number of elements of the previous regime, including taper relief, indexation allowance, the kink test and halving relief, have been withdrawn and a new entrepreneurs' relief introduced, providing an effective 10% tax rate for the first £1 million of 'lifetime' qualifying gains on the disposal of a trading business.

### Gift Aid Transitional Relief

Charities and Community Amateur Sports Clubs making Gift Aid repayment claims will be entitled to a transitional relief relating to qualifying Gift Aid donations made in the tax years 2008-09 to 2010-11. The transitional relief will be paid by HMRC when a claim for repayment of tax made within specific timescales is allowed.

### Anti-avoidance measures

A number of anti-avoidance measures have been included in Finance Bill 2008. These include measures relating to sideways loss relief, abuse of double taxation treaties, leasing plant and machinery and intangible fixed assets.

## The Carter Programme and online services

The Carter programme is our response to Lord Carter's recommendations (accepted by the government at Budget 2006) to increase take up of our online services for Self Assessment (SA), PAYE, Corporation Tax and VAT. The programme runs until 2012.

# Improving products and processes

During 2007-08 we focused on extensive stakeholder engagement and customer research, so that we prioritise our investment on those things that our customers tell us will ensure the successful delivery of the Carter recommendations. We also started to roll out new more robust and resilient IT infrastructure to underpin our online services.

We delivered over 140 roadshows throughout the year to support agents, a key stakeholder for the Carter programme, wishing to go online. The roadshows attracted over 7,000 tax agent representatives. At the roadshows we share the latest information on forthcoming changes and ask for feedback from agents.

During 2007-08, we achieved the first of the major customer facing delivery milestones for the Carter Programme. For the start of the new tax year on 6 April 2008 we successfully completed and delivered the largest e-delivery release in the history of HMRC, including a complete redesign of the SA paper main tax return and the free HMRC SA Online application.

### New Self Assessment tax return

The re-designed tax return is the result of extensive work involving customer focus groups, usability testing of draft forms, tax agent workshops and consultation with representative bodies. The new style form was piloted with around 7,500 customers in 2006-07 and 2007-08, and has shown positive results in independent evaluation.

Everyone who previously received a paper main tax return will receive the new form and a leaflet explaining the changes to the form.

We believe that the new style tax return is easier to understand and complete, particularly for those new to Self Assessment or those who do not use a tax agent. It has an improved layout and look and feel to make it simpler and easier to use. Our guidance is now in plainer language, avoiding jargon and technical terms where possible.

In addition, the new design should reduce the administrative burden for small businesses and other customers, and improve the customer experience of completing the tax return.

### Online filing for Self Assessment

We have redesigned the HMRC free software for Self Assessment to make it more user-friendly, align it with the new Self Assessment main tax return and build on and improve the customer experience in using the online application.

### Self Assessment filing deadlines

We have changed the SA filing deadline to 31 October 2008 for returns sent on paper. For returns filed online, the deadline remains at 31 January 2009.

To support our customers through these changes and help those that want to take advantage of the benefits of filing online, we have produced posters, a leaflet explaining how to register for online services, and a step by step guide to getting started online.

### Other changes

We also introduced two new data fields on the P45 and P46 PAYE forms – date of birth and gender – which will help us match more records automatically and reduce the number of follow up queries we have to send to employers. These new fields will become mandatory from April 2009.

In 2007, we also re-started work on delivering online Corporation Tax and a new online VAT application.

### Other online services

We have also had some success in boosting the rate of online filing of Stamp Duty Land Tax (SDLT) returns. At March 2008, 56% of SDLT returns were filed online.

We are working closely with other agencies in England and Scotland to further streamline processes for taxpayers. Registers of Scotland's Automated

Registration of Title to Land system is now live, allowing customers in Scotland to make their return and payment for SDLT at they same time as they register their title. HM Land Registry's e-conveyancing project, currently in development, will make similar provision for other UK customers.

## Reducing administrative burdens on business

Administrative requirements associated with the tax system cost businesses significant time and money. At Budget 2006, the Chancellor announced two specific administrative burden reduction targets for HMRC to achieve by 2010-11, based on the Standard Cost Model. Delivery of these targets is part of our Departmental Strategic Objectives (DSOs) over the next three years, demonstrating that we want to be judged on our success in this area (see section 5, page 74).

### Reducing the burden of forms and returns

In April 2007, we reported that we had made a good start in reducing the burden of forms and returns, with a range of reforms delivering net administrative burden savings of £130m. We have since announced new initiatives which are estimated to reduce the administrative burden of forms and returns (including payment) by a further £56m:

- from this year, doubling the turnover threshold at which businesses can file three-line tax returns to £30,000 and introducing shorter self-employment pages for businesses with turnovers below the VAT registration threshold, thus helping 1.3 million businesses to submit shorter tax returns;
- doubling the payment on account threshold for income tax Self Assessment to £1000 from April 2009, thus simplifying the payment system for 320,000 businesses; and
- removing the need for 250,000 non-residential and residential Stamp Duty Land Tax returns by introducing a notification threshold of £40,000 for all freehold and leasehold transactions from Budget Day 2008.

Greater take-up of our online services will further reduce the burden of our forms and returns (see previous page) by an estimated £15-20m in the target period. We have also announced a series of consultations that have the potential to benefit employers and the self-employed, and we have a wider programme of work in place to take us through to 2010-11. This includes working with the Administrative Burdens Advisory Board to look for further opportunities to reduce the burden of tax returns for small businesses.

### Reducing the burden of audits and inspections

At April 2007, we reported that we had reduced the net administrative burden of audits and inspections by an estimated £43m. This was due to the introduction of the reformed Construction Industry Scheme. The new regime delivers real administrative improvements for the construction sector. We are committed to doing more to reduce the burden of audits and inspections for all business sectors, as part of the modernisation of this part of our compliance activity.

Audits and inspections will continue to play an important part in securing compliance. The type of interaction customers have with us will become increasingly and more explicitly tied to their behaviour. Customers who pay the right tax at the right time and meet their responsibilities will incur a lesser burden; those who do not understand or make mistakes will be supported to make it easier for them to comply in the future; and those who deliberately do not comply will be targeted quickly with an intervention designed to change their behaviour.

For small and medium-sized enterprises (SMEs) we aim to deliver a 15% reduction in time spent on auditing and inspecting businesses found to owe HMRC less than £1000.

For those businesses served by our Large Business Service we have developed more tailored measures, consistent with the '*Review of Links with Large Business*' (see page 47).

# Improving products and processes

Delivering against the numerical targets should make a real improvement to the business experience of our audits and inspections. But the real test of our success will be what businesses actually experience in practice. To supplement the measures above, we plan by the autumn to carry out research with businesses that have recently experienced an audit or inspection to hear their feedback and get their suggestions for improvement.

### Reducing other administrative burdens

Not only are we working towards the delivery of administrative burden reductions in the targeted areas, but we are also developing further reductions in the burden. Reforms to modernise and simplify capital allowances and Stamp Duty will deliver further estimated savings of almost £30m in this wider category. Further details about our administrative burden reduction programme can be found in the paper we published at Budget 2008, *'Delivering a new relationship with business: Progress on HMRC's plans to improve the SME customer experience'*.

## business.gov

On 2 April 2007, we took over responsibility for business.gov programme from the Department of Trade and Industry. The businesslink.gov.uk website provides cross-government support and services and helps business deal with key events.

The site has over 13,000 pages of valuable information providing practical advice. It has about 10 million visits every year.

In its first year of HMRC ownership the site has continued to perform well, with a significant increase in the number of visits and continued high customer satisfaction ratings.

Working closely with other government departments, agencies and other stakeholders, we will oversee the transformation of businesslink.gov.uk to enable it to become the single online channel for government information and transactions for all businesses in the UK by 2011. We have also aligned our plans with those of Directgov, which aims to become the main online channel for interaction between government and individual citizens.

### International Trade Single Window

The International Trade Single Window is a key component of the business.gov programme. It is a cross-government initiative delivering a one-stop-shop portal for international trade businesses to obtain regulatory information on imports and exports. This has reduced the time traders need to spend searching for information and helped businesses to take international trade opportunities. This is the first time that regulatory international trade information has been available to UK businesses in one place.

In January 2008 the project achieved national recognition winning the 'E-Government Strategy Award for Team Working', beating strong competition across government.

Since launch, the international trade section has attracted over 2.5 million hits. The service offers:

- a free UK Online Tariff application, providing the facility to search for commodity codes, quotas, and duty and VAT rates;
- 40 detailed guides on regulatory controls and additional tools to assist users in understanding the complexities of international trade;
- a new Authorised Economic Operator (AEO) interactive tool and online application form to assess a business' readiness in applying for AEO status and providing the capability to apply for the scheme. AEO status gives traders access to simplified procedures and reduced border controls, subject to a secure supply chain.

The site also provides an electronic facility to link government import and export control systems to validate regulatory licence data, removing the need to present paper certificates and leading to improvements

*“Our aim is to support those who want to comply but come down hard on those who seek an unfair advantage through non-compliance.”*

in clearance time. This further reduces burdens on businesses and provides significant benefits to us and our partners in the project.

## Review of Powers, Deterrents and Safeguards

The Review of Powers, Deterrents and Safeguards is aligning and modernising the powers, deterrents and safeguards that we inherited from the Inland Revenue and HM Customs and Excise. We see it as an opportunity to modernise areas that are not working well, such as the lack of focus on promoting behaviours that support compliance, and to address the extra costs to taxpayers that arise from operating different regimes.

Our aim, developed in consultation with stakeholders, is to support those who want to comply but come down hard on those who seek an unfair advantage through non-compliance.

Through Finance Act 2007 we introduced a single regime for direct and indirect tax criminal investigations. We also introduced a modernised and aligned regime for penalties in respect of incorrect tax returns for Income Tax, Capital Gains Tax, Corporation Tax, the Construction Industry Scheme, VAT, PAYE and National Insurance contributions. The new penalties apply to tax periods commencing on or after 1 April 2008, with a filing date or due date on or after 1 April 2009.

This new approach makes it clear that people who take care to get their tax right but make a mistake will not be penalised. It also offers substantial reductions in penalties to encourage disclosure and introduces the new concept of suspended penalties to encourage people to take reasonable care in future. On the other hand, penalties are likely to be higher for those who deliberately set out not to pay the right tax.

Finance Bill 2008 includes proposals to:

- extend the single penalty regime for incorrect returns and introduce a single regime for failures to notify a taxable activity across most of our responsibilities;
- align record keeping requirements, information powers, time limits for assessment and related safeguards when compliance checks are made on tax returns and claims for Income Tax, Capital Gains Tax, Corporation Tax, the Construction Industry Scheme, VAT and PAYE.

### Appeals reform

As part of our work to improve safeguards, we are working to deliver a more consistent approach to internal reviews of our decisions across all taxes from April 2009. This work fits naturally with the programme of tribunal reform being led by the Ministry of Justice.

The new internal review process, to be provided for under powers in Finance Bill 2008, will be governed by time limits set in statute. The review process will be optional, so customers will be able to decide whether or not to take up an HMRC offer of review before taking the step of referring the dispute to the tribunal.

The reviews will be carried out independently of the original decision maker and taxpayers will have an opportunity to make representations as part of the process. Our approach to the reviews will be to ensure, wherever possible, that disputes are resolved without the need to go to the tribunal and to give taxpayers confidence that their point of view has been fully considered.

# Improving products and processes

**Elaine Harris, Assistant Officer in the Visually Impaired Media Unit (VIMU), part of Communications and Marketing, Cumbernauld**

My job entails preparing forms, leaflets, booklets, letters and so on for translation into Braille, large print or audio format.

We can translate almost anything the department produces into a format to suit people with a visual impairment. It is a very rewarding job, as we know we are helping people who really do need our help.

The VIMU is based over two sites – here in Cumbernauld and in Shipley.

We have three members of staff in Cumbernauld and six in Shipley. We all get on very well together and working across two sites does not seem to cause too many problems for us. In fact, we've shown we can excel. We entered the Civil Service Diversity and Equality awards two years ago and won in the Delivery of Customer Service category.

I work 16 hours a week, Monday to Friday, and this allows me to have a good work/life balance.

I have two children of primary school age, so it allows me to drop them off at school and be there to pick them up at home time. On top of that, I'm very fortunate to be able to alternate my working patterns, where workloads permit, to help cover school holidays.

HMRC's values and departmental objectives are very prominent in my day-to-day work.

The VIMU was established to provide alternative formats for people with a visual impairment and help the department comply with the Disability Discrimination Act. We help our customers to be independent in their dealings with HMRC, assisting them with paying any money they owe or collecting any credits and benefits they are entitled to.

# Improving relationships

## A better relationship with large businesses

The 2006 '*Review of Links with Large Business*' examined our relationship with our largest customers. We have now implemented all the recommendations in the report in line with the plan published at Budget 2007. We have focused on the key areas business told us would make a difference, enhancing the UK as a modern, responsive tax administration that is competitive in a global environment.

The framework has delivered across four key themes: certainty, risk management, resolution of issues and clarity through effective consultation, set in the context of a relationship founded on trust and open dialogue. Components include:

- the launch of the Advance Agreements Unit for significant inward investments and corporate reconstructions;
- an extended clearance regime providing certainty across all business taxes;
- the extension of individual Customer Managers to more of our largest businesses;
- the development of a Risk Framework for business and employment taxes, allowing 40% of our largest businesses to become low risk and 79% of their low risk issues to be settled; we are increasingly focusing resource on our highest risk businesses, and influencing them to adopt lower-risk behaviour, as part of this long term strategy;
- a project-managed approach to enquiries, to ensure focus on risk and effective resolution;
- a new approach to transfer pricing, with more international specialists;
- a rolling programme of technical guidance improvements;
- a new consultation framework, and a review of our 33 consultative forums;
- new professional skills and commercial awareness training, developed with the private sector.

We have published a number of progress reports, available on our website, including a package of performance measures to provide internal challenge.

Collectively, the recommendations have delivered a framework of new operational processes through which we can build a better relationship with business. We have worked closely with business representatives and these changes have been welcomed. There are still significant challenges ahead, as new processes begin to embed and become part of day to day business delivery. The key to success will be a continuing commitment from HMRC and business to use this framework as a basis for working together towards a common goal of maintaining and enhancing the UK's business tax environment.

## Improving our relationship with agents, advisers and employers

Following the Capability Review, we identified the improvement and strengthening of our relationship with tax advisers, agents and employers as one of our top priorities for the department.

Tax advisers, agents and employers represent or act as an intermediary for many of our customers. We want to work with them, through their representative bodies, and the consultative groups which already exist, to seek opportunities for better engagement and identify priorities for improvement in our services. Through this engagement we also want to build trust, help agents and employers and tackle those who currently do not meet the standards we expect.

The Agents and Employers Service Improvement Programme has been set up to focus this work and will:

- improve service levels for our core services so that agents and employers see a real difference in their interactions with us;

# Improving products and processes

- improve our relationship with agents and employers locally and nationally; and
- identify opportunities for structural and process change that will provide long term improvements for agents, employers and HMRC.

### Improvements already made or planned

In response to feedback from representatives of tax agents, we have introduced new agent dedicated telephone lines in our contact centres. These lines are already open in East Kilbride and Bradford, serving agents with customers in some tax areas. The lines will be extended to other contact centres.

We also introduced Agent Account Managers/ Customer Relationship Managers for agents in some of our key locations. This new service provides a point of contact when it is not possible to resolve problems through the usual routes. We have also started to trial the possibility of offering a similar service for our largest employer customers.

In early May 2008 we introduced major improvements to the dedicated agents pages on our website. The new Practitioner's Zone includes information on using HMRC online services, the best way to contact us to get questions answered and how agents should obtain authorisation to act on a client's behalf. The new site also contains quick links to the most commonly used forms as well as the latest news from HMRC for agents, accountants and advisers.

We have also published information about our performance on the internet so that agents can see how we are doing and be aware of any temporary backlogs. The new website reflects turnaround times in VAT registration and agent authorisation.

We will continue to build on good relationships in place locally and nationally. There are now 64 local 'Working Together' groups of agents and HMRC staff who meet regularly to discuss current issues and identify areas for service improvement.

In response to demand from small employers who do not use commercial software, we have enhanced our popular Employer CD-ROM on a pilot basis to allow such employers to turn the results of the CD-ROM's tax and national insurance calculators into end of year returns to be filed online. The pilot will allow us to gauge the impact of this innovation on data quality and customer experience, while consulting on how to strike the best balance between the needs of small employers and of our partners in the software industry. We will evaluate the pilot in the autumn.

We have expanded the availability of structured email for many of the most common questions raised by employers. This is proving a very popular service, and we are considering how it could be extended to other customer groups.

## Protecting tax revenues

The majority of taxpayers want to pay the right amount of tax at the right time. We are changing the way that we operate to make it easier for taxpayers to understand their obligations and hence to reduce errors. By increasing certainty and helping taxpayers to comply we are also helping meet the government's objectives to reduce administrative burdens and make the UK an attractive environment for business.

Our ambition is to put customers at the heart of everything we do. We aim to enhance the way we interact with taxpayers through:

- **Support:** building services and communications that are tailored to the needs and circumstances of taxpayers.
- **Prevention:** ensuring that basic processes and design make the system as secure as possible from fraud and avoidance.
- **Identifying and tackling those who set out to obtain an unfair tax advantage:** using improved risk assessment and checks with sanctions as appropriate that are tailored to behavior.

## Support

### Managing our largest businesses

Our Large Business Service works with over 1,100 of the UK's largest businesses. These businesses pay approximately 46% of the business taxes and duties that HMRC collects.

During 2007-08 we continued to prioritise our compliance resources to issues of greatest risk – the High Risk Corporate Programme (see page 51), for example – and working issues more intensely and to faster timescales than was previously the case. This has contributed significantly to resolution of outstanding issues, improved certainty for our customers and also increased our compliance yield.

Going forward, our main task is to continue to transform our relationship with our customers through more working in real time and more focused deployment of resources to the highest risks. This will mean not only a shift of resources from low risk to high risk businesses, but also a drive to increase the proportion of our overall time spent on specific customer facing activity (see 'A better relationship with large business', page 47).

### Providing support and education

Our Targeted Education Enabling and Leverage (TEEL) function works with customers across all taxes. During 2007-08 our TEEL teams contacted almost 400,000 customers to provide education and support as well as help in correcting errors or omissions. In addition to letter and telephone contact we have offered workshops and presentations to newly registered businesses and individuals as well as those facing new obligations.

We will further refine the TEEL work programme in 2008-09 to improve the customer experience and reduce burdens on business. We are exploring new ways of working using PaceSetter, including identifying suitable partners with whom we can deliver our educational activity.

### Improving our processes

Finance Bill 2008 included a package of measures for new record keeping requirements, information powers and assessing time limits for VAT, Corporation Tax, Income Tax and PAYE. These measures will give taxpayers greater clarity about the records they need to keep in order to deliver correct returns. They will also allow HMRC to make quicker checks across taxes which focus on the customers' circumstances and the nature of the risk.

The information powers and record keeping requirements should come into force on 1 April 2009 alongside last year's measures on penalties for incorrect returns for these taxes (see 'Review of Powers', page 45).

## Prevention

### Understanding the impact of our compliance activity

We are developing a detailed understanding of the various factors that can influence behaviour of taxpayers across the entire compliance spectrum. We have reviewed a number of empirical and theoretical studies on:

- taxpayer behaviour undertaken by other tax authorities and various leading academics;
- compliance with other government regulations undertaken by other government departments; and
- criminals and criminal behaviour undertaken by other tax authorities and the Home Office.

We use the evidence from this research in conjunction with our own empirical studies and surveys to inform the design and evaluation of new compliance activities.

### Preventing avoidance

Our anti-avoidance strategy reduces avoidance by making tax law robust against avoidance, engaging with our customers about our approach to avoidance, optimising our operational approach to avoidance and

# Improving products and processes

by changing the economics of avoidance to make it less attractive.

New legislation is carefully drawn up using intelligence from the Disclosure regime to close down known avoidance schemes, and by reviewing existing legislation to ensure it still works.

Disclosure also enables us to take a project-based approach to our enquiry work, ensuring a joined up and co-ordinated response to the identified risk. Our 'signposts' of avoidance have now been published on our website, which explains to our customers how we identify avoidance risk on a case-by-case basis.

We continue to review the strategy so that it meets our aim of setting anti-avoidance legislation in a framework that ensures that the competitiveness of the UK is maintained.

In addition, we led a Tax Intermediaries Study on behalf of the Forum on Tax Administration, part of the Organisation for Economic Co-operation and Development (OECD). This study developed from the Seoul Declaration issued by the countries that participated in a meeting in Seoul, Korea in September 2006. It sought to increase understanding of the role tax advisors and others play in tax avoidance, to strengthen the relationship between revenue bodies, taxpayers (especially large companies) and tax advisers, and to develop strategies for dealing with tax avoidance.

The central theme of the report, published by the OECD in January 2008, was an 'enhanced relationship' between taxpayers and revenue bodies based on trust and transparency, endorsing the approach we have taken in implementing the 2006 '*Review of Links with Large Business*' (see page 47). The report has been widely welcomed by taxpayers and their advisers in many countries.

## Preventing tobacco fraud

We have worked closely with tobacco manufacturers to make the selling of cigarettes more secure from the threat of smuggled counterfeit cigarettes. As a result, from October 2007, the four largest UK tobacco manufacturers have voluntarily introduced a covert security mark on all packs of cigarettes. This mark can be detected by HMRC Officers using a hand held reader and allows the easy identification of counterfeit packs. To maximise the potential benefits from the security mark, we have been working closely with Trading Standards authorities to raise awareness of counterfeit tobacco issues and develop a Tobacco Protocol. We are also working with the legitimate trade to reduce the opportunity for counterfeit tobacco products to infiltrate the retail sector.

## Improving compliance

We have chosen to deal with some key compliance risks through national projects and campaigns, bringing together activities and interventions from across HMRC. Such campaigns draw upon product and process change, publicity, audit, TEEL and civil and criminal investigations to get results. Key successes in 2007-08 have included:

- **The Property Bulk Data Project**, which identifies individuals deriving income from property rental or disposal but failing to pay the related tax. By matching data from Local Authorities, Letting Agents and Stamp Duty Land Tax we have identified over 23,000 cases where there has been a non-declaration of rental income. Current estimates suggest that the yield from this project will be £100m.
- **The Offshore Disclosure Campaign**, launched in April 2007, enabled investors with offshore accounts to disclose income and gains not previously included in their returns. Those who notified us of their offshore assets, made a full disclosure by 26 November 2007 and paid any tax due were able to take advantage of a guaranteed reduced penalty of 10% of the tax due. The scheme has so far recovered over £400m in unpaid revenue. We are now pursuing those with offshore accounts and tax liabilities who did not come forward under the arrangements.

Over £400m recovered in unpaid revenue

The Offshore Disclosure Campaign, launched in April 2007, enabled investors with offshore accounts to disclose income and gains not previously included in their returns.

The scheme has so far recovered over £400m in unpaid revenue.


The Property Bulk Data Project identifies individuals deriving income from property rental or disposal but failing to pay the related tax. Current estimates suggest that the yield from this project will be £100m.

- **The High Risk Corporates Programme** has very successfully helped us to resolve a number of very high risk tax issues with large businesses. The programme is marked by engagement at Board level where we give a clear view of the risks we perceive from the business' tax strategy or compliance approach, and the response we intend to make. We then assemble a task force to work very intensively on these issues with each business. This involves establishing the relevant facts quickly to refine the areas of potential tax dispute and establish each party's position. We can then take an early decision whether we should pursue issues to litigation or drop them in line with our litigation and settlement strategy. Enquiries that might have taken years have been concluded in months or weeks, and we achieved a compliance yield of over £2bn in 2007-08. The programme has led to more collaborative and open working between business and HMRC.

## Identifying and tackling those who set out to obtain an unfair tax advantage

### Identifying risk

Our approach to risk is designed to ensure that we engage appropriately with taxpayers, thereby reducing the burden on compliant customers and focusing attention on the non-compliant, and those who deliberately target the tax system.

While many of our interventions are tax specific, the risk systems driving our work have benefited from a cross-regime approach. By bringing together the intelligence expertise from our predecessor departments, we are now better able to understand and manage the risks to taxation as a whole.

Our achievements in managing these risks include:

- a central Evasion Referral Team, set up to examine cases where we suspect evasion or fraud;
- matching third party information and existing HMRC data to enable better identification of evaders, for example through the offshore disclosure arrangements (see page 50);
- working with agents to increase our understanding of compliance issues through the Compliance Reform Forum.

### Identifying and tackling non-compliance

During 2007-08, we brought in a new integrated approach to tackling fraud and evasion, including:

- Cross-Tax Evasion teams, which bring together staff with direct and indirect tax expertise to work cases jointly with the aim of identifying and tackling evasion across all taxes and duties;
- a new approach to the application of VAT civil penalties, which has been introduced to discourage evasion and ensure that non-compliant activity is heavily penalised once identified;

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- testing a range of tools and actions designed to identify the proceeds of crime and maximise the value that can be recovered through the criminal and civil systems; and
- a new professional standards strategy, adapted from existing models in police forces and other government departments, to combat threats and vulnerabilities.

We have continued to tackle specific areas of serious non-compliance such as the hidden economy, where our work secured over 4,000 VAT registrations, identified almost 28,000 'ghosts' (businesses or individuals who should be registered) and 'moonlighters' (those known in some capacity, but who have another source of income, not disclosed to HMRC). We have also established a national network of 10 fully integrated Labour Provider Teams to tackle the highest risks of non-compliance in the labour providers sector.

Finance Act 2007 introduced new penalties which the 2008 Finance Bill seeks to roll out further across our business. This framework relates penalties to the amount of tax at stake, the behaviour of the taxpayer and the degree of disclosure made (see 'Review of Powers', page 45).

## Responding to criminal attacks on our tax systems

### Missing Trader Intra Community (MTIC) fraud

We reported in the 2007 Pre-Budget Report that our strengthened strategy had resulted in a fall of £1bn in the impact on VAT receipts from MTIC fraud. This strategy involves a wide variety of activities specifically designed to tackle this particular type of fraud, including:

- legislating to stop the fraud in those goods most commonly used in the fraud;
- verifying the legitimacy of VAT registration applications;
- assuring the legitimacy of suspect repayment claims;
- using detection staff at the borders to identify and disrupt the fraud;
- pursuing those perpetrating MTIC fraud, and confiscating their assets;
- ensuring that legislative measures across all taxes and duties along with insolvency powers are used to their full extent against these risk assessed cases to build a comprehensive end to end defence against MTIC fraud across HMRC; and
- remaining vigilant to changes in the fraud, swiftly tackling any attempts by the fraudsters to circumvent the new legislation.

Tackling this fraud remains a key priority (see page 57). Last year we secured 36 convictions with sentences totalling 214 years. In addition we secured confiscation orders totalling £17m as well as a further £5m identified through collaborative working with the Serious Organised Crime Agency.

### Excise fraud: tobacco

2007-08 saw significant growth in smuggling of counterfeit tobacco in postal packages, particularly from China. Changes to our working practices and an intensification of efforts at the Coventry International Hub saw seizures rise by over 100%, from 130 million sticks in 2006-07 to 261 million sticks in 2007-08, as the impact of these changes took effect (see page 57).

### Excise fraud: alcohol

The alcohol duty stamps scheme, which we introduced in October 2006, made it a legal requirement for bottles of spirits sold in retail outlets to carry a UK duty stamp. The legislation aimed to significantly reduce the risk of outward diversion by ensuring that spirits sent for export and subsequently diverted to the UK market could be easily identified through the lack of a UK duty stamp. Having allowed time for older unstamped bottles to pass out of the retail supply chain, we have been working closely with Trading Standards to enforce the duty stamp legislative requirements through increasing assurance activity at retail outlets. This activity will further intensify during 2008-09 (see page 58).

### Excise fraud: oils

During the year, we maintained our presence on the UK road network, by challenging and testing over 100,000 commercial and private vehicles for misuse of rebated fuel in the UK mainland and Northern Ireland. These challenges were further enhanced by a national programme of random challenges designed to estimate the proportion of diesel vehicles using illegal fuel in Great Britain and provide a more immediate indicator of movements in the illicit market to supplement the published tax gap estimate. We made over 4,000 detections with particular focus on the road transport sector. In 76% of detections, there was illicit fuel use by commercial businesses (see page 58).

## Protecting tax revenues: our future plans

We continue to refine our strategy for improving tax compliance. An important element of the strategy is the recognition of the need to improve customer experience, as well as tax compliance, and to focus more on understanding customer groups when considering compliance issues.

Over the coming years our existing compliance strategies will be refined and new ones developed with a clear focus on:

- identifying the behaviours and needs of our customers and tailoring our approach accordingly;
- better analysis of data to improve our assessment of risk and the impact of our activities;
- modernising the legal framework within which we operate (see page 45);
- further exploiting the benefits of an integrated department;
- closer working with EU and international partners; and
- improving the skills available to us (see page 34).

Further details about our compliance strategy can be found in the paper titled *'Protecting Tax Revenues'* which was published at Budget 2008.

# Our performance


We measure our performance against our Public Service Agreement (PSA) targets. Our PSA Objective III achievements in strengthening frontier protection will provide firm foundations for the new UK Border Agency.

# Section 04

# Our performance

## With the completion of the 2004 Spending Review period, we have final assessments against 8 of our 10 Public Service Agreement targets. 22 of the 24 measures underpinning our PSAs are showing improved performance, and in 13 of these we have exceeded expectations.

### PSA Objective I: Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled.

| Target | Indicators | Target | Baseline | Final Outturn/ Latest Assessment | Status | Report |
|---|---|---|---|---|---|---|
| 1 | By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability. | 11% March 2008 | 16.1% 2002-03 | 14.2% 2006-07 | Latest assessment | Slippage |
| 2 | By 2007-08: | | | | Latest assessment | On course |
| | 2.1 reduce the illicit market share for cigarettes to no more than 13% | 13% March 2008 | 15% 2002-03 | 13%[1] 2005-06 | Latest assessment | |
| | 2.2 reduce the illicit market share for spirits by at least a half | 3% March 2008 | 7% 2002-03 | 5%[2] 2005-06 | Latest assessment | |
| | 2.3 hold the illicit market share for oils in England, Scotland and Wales at no more than 2% | 2% March 2008 | 6% 2002-03 | 2%[3] 2005-06 | Latest assessment | |
| 3 | By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5 billion a year. | £3.5bn March 2008 | - | £3.6bn March 2008 | Provisional assessment | Met |
| 4 | By 2007-08, increase the percentage of Self Assessment returns filed on time to at least 93%. | 93% March 2008 | 90.6% 2005-06 | 88.6% 2007-08 | Final outturn | Not met[4] |

[1] The latest known position represents the mid-point between the upper and lower estimates for the illicit markets.
[2] The latest known position represents the mid-point between the upper and lower estimates for the illicit markets.
[3] The latest known position represents the mid-point between the upper and lower estimates for the illicit markets.
[4] 1.6m generally compliant taxpayers were taken out of Self Assessment during the SR04 period.

## PSA Objective I

Our latest assessments of PSA Objective I performance show that we have narrowed the tax gap in all areas. We have achieved a reduction in the direct tax gap of £3.6 billion a year, and we expect to meet our targets for tackling the illicit markets in cigarettes and oils. Underpayments of tax have already been reduced by over £5 billion a year compared to five years ago, equivalent to over 1% of tax collected by HMRC.

There is still hard work to do. We believe that our work on protecting tax revenues, detailed earlier in this report (see page 48) gives us much to build on to meet our first Departmental Strategic Objective (see Section 5, page 74).

### How we measure success

To measure progress against this objective we use four high level targets which focus on VAT, excise, direct taxes and filing performance. We have provisionally met one target, and we are on course to meet another. We have not met one target, and can report slippage against another, but we have demonstrated improved performance against almost all the underpinning measures.

We can report a final outturn against target 4, with the remainder of results reported here being latest assessments. We will publish final assessments as the data becomes available.

The methodology used to calculate performance can be found in *'Measuring Indirect Tax Losses'* and *'Methodologies for Measuring Direct Tax Losses – 2007'* published at the 2007 Pre-Budget Report.

**Target 1: By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability**

In 2005-06, VAT receipts were affected by increased attacks on the VAT system from Missing Trader Intra Community (MTIC) fraud and the VAT gap rose to 15.5%. In response, we refreshed our MTIC strategy and successfully introduced the MTIC reverse charge and, as a result, the VAT gap for 2006-07 was reduced to 14.2%.

During 2007-08 we continued to strengthen our approach to tackling non-compliance, specifically through;

- maintaining our MTIC strategy and introducing a targeted reverse charge on the main goods used in MTIC fraud, keeping MTIC carousel fraud at a low level (see page 52);
- providing a targeted response to serious non-compliance across all taxes, using our newly formed Cross Tax Evasion teams (see page 51); and
- continuing to convert more collectable debt into cash to bank receipts.

Final outturn information relies upon data produced by the Office for National Statistics which will not be available until October 2008. We will report on the final outturn in our Autumn Performance Report.

**Target 2**

Target 2 is split into three specific sub-targets covering cigarettes, spirits and oils. The illicit market share estimates for these three sub-targets rely on data that only becomes available around 18 months after the end of the financial year. The latest available illicit market share estimates are for 2005-06. Final outturns for these targets will be published in our 2009 Autumn Performance Report.

***Sub-Target 2.1: By 2007-08 reduce the illicit market share for cigarettes to no more than 13%***

The latest illicit market estimate for cigarettes for 2005-06 shows a reduction in the illicit market share to 13% from the baseline of 15%.

The success of our tobacco strategy has led to this downward trend. However, the incentive to smuggle tobacco products remains very high and organised crime has continued to target this area. We face a continuing battle in fighting the illicit market, particularly with the rapid growth of counterfeit

# Our performance

cigarettes and the persistently high levels of hand rolling tobacco smuggling. Despite this high degree of challenge we remain on course to deliver our cigarettes target (see page 52).

***Sub-Target 2.2: By 2007-08 reduce the illicit market share for spirits by at least a half***

The latest illicit market estimate for spirits for 2005-06 shows a reduction in the illicit market share to 5% from the baseline of 7%.

Although there is evidence that spirits duty stamps have begun to have an impact, fraud incentives remain high and intelligence indicates that criminal gangs continue to target alcohol duties. We have also observed an increased threat from counterfeit spirits, for which countermeasures were developed in 2007-08 and continue to be implemented (see page 52).

***Sub-Target 2.3: By 2007-08 hold the illicit market share for oils in England, Scotland and Wales at no more than 2%***

The latest illicit market estimate for oils for 2005-06 shows a reduction in the illicit market share to 2% from the baseline of 6%.

Although we are on target to achieve our PSA objective, maintaining this achievement and making sure our strategy remained successful has proved challenging. We continue to work closely with the oils industry to ensure that our collaborative approach to tackling fraud and sharing information on trends and results remains effective (see page 53).

**Target 3: By 2007-08, reduce underpayment of direct tax and National Insurance Contributions due, by at least £3.5 billion a year.**

Provisional estimates indicate that the target has been met. Key contributors were:

- our focus on high-risk corporates (see page 51)
- the Offshore Disclosure Facility (see page 50)
- overall improvements in tackling non-compliance (see page 48)
- the impact of legislative measures.

**Target 4: By 2007-08, increase the percentage of individuals who file their Self Assessment returns on time to at least 93%.**

As we anticipated in our 2007 Autumn Performance Report, we have not met this target, with a final outturn of 88.6%.

Raising performance above a high baseline of Self Assessment (SA) taxpayers filing on time was from the outset a very stretching target. This challenge was made more difficult by the considerable changes to the SA customer base in 2005-06. In this change, over 1.6 million generally compliant customers with a good filing record were removed from Self Assessment. This significantly reduced the administrative burden on these businesses and individuals, but made this filing target more difficult to achieve.

In addition, our system of penalties for late filing was not working as well as we would like. The effectiveness of the SA penalty regime has reduced with time, as the penalty for not filing on time has remained at £100 since SA was introduced. We published a consultation document on modernising the penalty regimes, '*Meeting the obligations to file returns and pay tax on time*', on 19 June 2008. The proposals in this consultation document are designed to reinforce the effect of filing penalties on behaviour.

## Chris Orchard, Team Leader in Anti Avoidance Group (AAG), London

### I lead a team of direct tax technical advisers whose speciality is tax avoidance and how we counter it.

My job runs from day-to-day management activities to supporting our legal teams in taking cases through the courts and making sure that HMRC puts forward the best defence it can. I also represent HMRC at the Organisation for Economic Co-operation and Development on its Aggressive Tax Planning Steering Group. There is tremendous variety in the job which is, on the whole, extremely enjoyable.

### The level of technical expertise within the team is outstanding.

We are highly skilled, highly motivated people and we engage in some of the most interesting work in the department. Everybody is approachable, is prepared to challenge ideas constructively, and to support each other in their work.

### The team has received a lot of good feedback for the way we support our operational colleagues.

Members have also been commended by our legal teams and by leading counsel on the quality of the submissions we make for court cases.

### Our work supports HMRC's anti-avoidance strategy

There are those who, for whatever reason, do not wish to contribute the tax that is due under the law. Our role is to challenge the schemes and arrangements that they enter into to avoid paying tax and to look at ways of making the economics of tax avoidance unattractive. We aim to redress the balance between those who comply willingly and those who do not.

# Our performance

## Objective II: Improve customer experience, support business and reduce the compliance burden.

| Target | Indicators | | Target | Baseline | Final Outturn/ Latest Assessment | Status | Report |
|---|---|---|---|---|---|---|---|
| 5 | Respond accurately and completely to requests for advice | | | | | Final outturn | Partly met |
| | KI 1[1] | By 2007-08, increase to at least 80% the proportion of individuals and businesses who said they achieved success at first point of contact | 80% 2007-08 | 71.7% November 2004 | 73.3% November 2007 | Final outturn | |
| | KI 2[2] | By 2007-08, increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact | 90% 2007-08 | 90% March 2005 | 93% March 2008 | Final outturn | |
| 6 | Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost | | | | | Provisional assessment | Partly met |
| | KI 3[1] | By 2007-08, increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns | 90% 2007-08 | 87.6% November 2004 | 94.0% November 2007 | Final outturn | |
| | KI 4[3] | By 2007-08, demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs | 74% 2007-08 | 69% March 2006 | 75% March 2008 | Latest assessment | |
| | | including increasing the proportion of applications for VAT registration that are complete and accurate to 50% | 50% 2007-08 | 28% March 2005 | 72.2% March 2008 | Final outturn | |
| | KI 5[1] | By 2007-08, increase to at least 85% the proportion of individuals who find their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand | 85% 2007-08 | 77.6% November 2004 | 79.6% November 2007 | Final outturn | |
| 7 | Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum | | | | | Provisional assessment | Partly met |
| | KI 6[4] | By 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and NICs | 95% 2007-08 | 91.0% March 2005 | 93.4% March 2008 | Provisional assessment | |
| | KI 7[5] | By 2007-08, increase to 35% the percentage of SA tax returns received on line | 35% 2007-08 | 13.2% March 2004 | 45.97% March 2008 | Final outturn | |
| | KI 8[6] | By 2007-08, increase to 50% the percentage of VAT returns filed online | 50% 2007-08 | 0.2% March 2004 | 12.73% January-March 2008 | Final outturn | |

## Objective II: Improve customer experience, support business and reduce the compliance burden.

[1] Indicators 1, 3 and 5 are measured through an annual customer survey, conducted by telephone with around 19,000 customers in 13 key HMRC customer groups, focusing on customers' actual experience of dealing with HMRC over the past 12 months. For indicator 1, the outturn score is calculated as for 2006-07. Scores for individual customer groups are combined into an overall score using baseline weights determined from estimates of contact resource costs. By using baseline (rather than updated) weights, the balance of contact resource cost allocations, whether arising through changes in customer populations, channel usage or internal processes, will not be reflected in the overall scores. For indicators 3 and 5, group scores are combined using baseline weights rather than updated weights which were used in previous years. If weights had been updated, scores would have been 93.6% for indicator 3 and 79.8% for indicator 5.

[2] The department's internal auditors have reviewed the reliability of this data and validated the overall post quality and telephony results. They have asked for the telephone results to be weighted to ensure the quota system provides results which are proportionate to business volumes (the weights not to be introduced until 2008-09 to ensure performance data across the current PSA period remains comparable). Margins of error (95% confidence intervals) are +/-0.4%. Debt management post quality results are not part of this indicator. They are not included above and remain unvalidated.

[3] Details of the baseline and targets for Indicator 4 are published in a revised Technical Note. Individual targets for VAT, ITSA and PAYE are indexed to carry an equal share of progress against the target. For the combined score the margins of error (95% confidence interval) are +/- 0.3%. Figures for employers' end of year PAYE filing in 2006-07 have been used in the combined result shown. Final outturn of the combined measure will be reported in the Autumn Performance Report when data for 2007-08 returns has been analysed. The March 2008 result for VAT is 72.2% with (95% confidence intervals) of +/-0.3%. However the departmental internal auditors have also highlighted discrepancies which question the integrity of the result. Nevertheless despite these discrepancies, there is sufficient evidence to say that the reported figure is no more than 7.6% overstated. For ITSA 'on time' is normally taken as close of play on 1 February after which penalties can be imposed. However due to filing problems around the deadline HMRC accepted certain returns filed up to 4 February as having been filed on time.

[4] Indicator 6 combines results for four processes weighted throughout the reporting period by resource costs for the four relevant customer groups in the baseline year.

[5] Indicator 7 baseline has been revised to clarify that returns counted against this measure are both online and filed on time. 'On time' is normally taken as close of play on 1 February after which penalties can be imposed. However due to filing problems around the deadline HMRC accepted certain returns filed up to 4 February as having been filed on time.

[6] Indicator 8 results are based on the proportion of VAT returns filed online in the final quarter (January, February and March) of the year.

## PSA Objective II

Our assessments of performance against PSA Objective II show that we have driven up service levels and boosted the customer experience across a number of measures.

We are already planning how to carry forward the improvements we have made during the 2004 Spending Review period under our new second Departmental Strategic Objective (DSO). We discuss elsewhere in the report how we are making it easier to deal with us online (see pages 40-45), how we are improving the experience of tax credit customers (see pages 38-40), and how we are reducing the administrative burden (see page 43).

### How we measure success

To measure progress against this objective we use three high level targets which focus on our capability to respond to requests for advice from customers, the ease of use of our processes and our ability to deal effectively and appropriately with information provided to keep levels of contact to a minimum. We partly met each one of these targets, and we can report improved performance in all areas.

The results reported in this chapter are all final outturns against this PSA Objective, with the exception of Key Indicators 4 and 6. These results will be reported in our 2008 Autumn Performance Report.

# Our performance

The methodology used to measure success for each indicator is described in the following commentary.

**Target 5: Respond accurately and completely to requests for advice.**

***Key Indicator 1: By 2007-08 increase to at least 80% the proportion of individuals and businesses who said they achieved success at first point of contact.***

We measure perceptions of success at first point of contact using an annual telephone Customer Service Survey of around 19,000 HMRC customers. This sample covers 13 separate customer groups that together include individuals, businesses and agents.

The final SR04 survey to measure success at the first point of contact was undertaken in November 2007. The results show that 73.3% of our customers who had contacted us in the previous 12 months felt they got the help or information they needed first time. Although the final score was below the 80% target set for March 2008, it was 1.6 percentage points above the 2004 baseline score, a modest improvement.

***Key Indicator 2: By 2007-08 increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact.***

We measure the accuracy and completeness of the information and advice we give through two separate annual quality monitoring exercises on a representative sample of telephone calls to our Contact Centres, and on post received from the public. Our results show that at 93% we exceeded this quality target by 3.0 percentage points. Post relating to debt management, which forms a small percentage of the total received by HMRC, is excluded from this indicator because this part of our business used a different system to monitor quality during the SR04 period. However debt management post will be measured and reported as part of the CSR07 DSO 2 (see Section 5, page 74).

**Target 6: Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimal cost.**

***Key Indicator 3: by 2007-08 to increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns.***

The annual Customer Service Survey results show that small businesses' ease of completing their own Self Assessment, PAYE and VAT returns has steadily improved since 2004, with the final survey results indicating that 94% of small businesses find these tax returns either very easy or fairly easy to complete, against a target of 90%. The survey evidence shows that the introduction of the Short Tax Return for the self-employed has had a particularly significant impact in helping small businesses.

***Key Indicator 4: By 2007-08 demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs. This will include increasing the proportion of applications for VAT registration that are complete and accurate to at least 50%.***

We provide targeted support and education to those businesses joining tax regimes, through either becoming self-employed, reaching the VAT registration threshold, or taking on their first employees. We now contact all new businesses in advance of the filing date for their first VAT, income tax SA or employers return and we are testing the impact of different contact methods and looking at the relative usefulness of the written, telephone and face to face guidance, including workshops and presentations. We work closely with a range of external organisations and business groups and are exploring how we can use such bodies to help give new businesses the support and information they need about tax.

We reviewed the criteria for complete VAT registration applications, and introduced a revised registration application form and guidance in December 2006. We are now exceeding the 50% target each month.

We also reviewed the way we process applications. However, necessary steps to tackle VAT fraud, various additional process and IT problems, and a spike in application numbers to circumvent legislative change

# Small business

## getting it right first time

The annual Customer Service Survey results show that the introduction of the Short Tax Return for the self-employed has had a particularly significant impact in helping small businesses.

**94%**

of small businesses find their Self Assessment, PAYE and VAT returns either very easy or fairly easy to complete.

contributed to a backlog in getting new businesses registered in the first half of 2007-08. An action plan to address this, including targeting our risk checks more effectively, putting extra people in place to deal with registrations, and improving our IT systems has reduced delays to the extent that at 31 January 2008, we met our target to process 70% of cases (that is, all cases that are complete, accurate and low risk) within 14 days continued to improve. In March 2008, this figure had increased to 83%.

We will not know the final result for the combined measure on new and growing businesses until data for 2007-08 employers' end of year PAYE returns has been analysed. The final outturn for the combined measure will be reported in our 2008 Autumn Performance Report.

***Key Indicator 5: By 2007-08 increase to at least 85% the proportion of individuals who find their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand.***

We measure individuals' ease of understanding of their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices through our annual Customer Service Survey. We recently introduced new versions of these forms to aid ease of understanding. However, as they were introduced relatively late in the SR04 period, we believe that the improvements are not yet fully reflected in the Customer Service Survey results.

The results of the final survey at 79.6% are 2.0 percentage points above the 2004 baseline, showing that we have made progress, even before these improvements take hold.

**Target 7: Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum.**

***Key Indicator 6: By 2007-08 increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits and NICs.***

The target for accuracy and completeness of handling information that we receive from customers focuses on manual interventions and case working, rather than automated processing, in four processes: SA, tax credits, National Insurance contributions (NICs) and PAYE.

We assess progress through random sampling by quality monitoring teams. The latest combined assessment in this area shows that, at 93.4%, we do not expect to met the 95% target.

However, we expect to more than halve the gap between the 2005 baseline and the 2008 target. We recognise that scope to improve remains, particularly on PAYE and NICs processing, and we are committed to taking this forward as part of the CSR07 DSOs (see Section 5, page 74).

***Key Indicator 7: By 2007-08 increase to 35% the percentage of SA tax returns received online.***

Online filing of SA returns by individuals and by agents has continued to increase progressively to the extent that by the end of January 2008, 45.97% of all SA returns were filed online. This result is 10.87 percentage points above the 2007 figure, and 32.77 percentage points above the 2004 baseline, representing a significant achievement. It also includes a significant increase in online filing by the agent and advisor community, with 31.3% more returns being filed online by agents by the filing deadline than in the previous year.

***Key Indicator 8: By 2007-08 increase to 50% the percentage of VAT returns filed online.***

VAT online filing was considered as part of Lord Carter's Review of online services (see page 41) in 2005-06. The 50% target is now expected to be met in 2010, in line with the revised timetable for the implementation of Lord Carter's recommendations in relation to VAT.

Progress from an almost zero baseline in 2004 has been steady, climbing to 12.73% by the final quarter of 2007-08.

# Our performance

## Objective III: Strengthen frontier protection against threats to the security, social and economic integrity and environment of the United Kingdom in a way that balances the need to maintain the UK as a competitive location in which to do business.

| Target | Indicators | | Target | Baseline | Final Outturn/ Latest Assessment | Status | Report |
|---|---|---|---|---|---|---|---|
| 8 | By 2007-08, to improve our capability to intervene at the frontier | | | | | Provisional assessment | Met |
| | KI 1 | Number of seizures of prohibited and restricted goods: | | | | | |
| | | Cocaine | 1,176<br>2,600kg<br>March 2008 | 1,176<br>2,600kg<br>2006-07 | 1,279<br>3,120kg<br>2007-08 | Final outturn | |
| | | Heroin | 61<br>700kg<br>March 2008 | 61<br>700kg<br>2006-07 | 68<br>720kg<br>2007-08 | Final outturn | |
| | | Products of Animal Origin (POAO) | 32,703<br>237,709kg<br>March 2008 | 32,703<br>237,709kg<br>2005-06[1] | 24,802<br>182,370kgs<br>2007-08 | Provisional assessment | |
| | KI 2 | Percentage of positive outcomes against requests received for interventions | 98%<br>March 2008 | 98% | 98.90%<br>March 2008 | Final outturn | |
| | | Percentage of positive outcomes against requests received for checks/enquiries | 96%<br>March 2008 | 96% | 100%<br>March 2008 | Final outturn | |
| | KI 3 | Service Level Agreements with lead government departments for prohibited and restricted goods. | Met | - | Met | Final outturn | |
| | KI 4 | Effectiveness of Cyclamen capability. | 98%<br>March 2008 | 97% | 99.75%<br>March 2008 | Final outturn | |
| 9 | By 2007-08 to improve our effectiveness by 50% in identifying irregularities in third country freight. | | 27% | 18% | 28%<br>March 2008 | Final outturn | Met |
| 10 | Maintain the extent to which importers, exporters and their agents believe we are striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business[2]. | | +24 percentage points | +24 percentage points | +42 percentage points | Final outturn | Met |

[1] The baseline for POAO seizures is derived from figures for 2005-06. This is because the 2006-07 seizure figures were distorted by the increased deployment of resources to counter the threat of Avian Influenza.

[2] This target is assessed by tracking the lead of positive responses over negative responses in an Ipsos MORI survey of importers, exporters and their agents.

## PSA Objective III

We can report a first-class achievement against PSA Objective III, meeting all three of our targets. We can report a near-miss on only one regime included in key indicator 8.1 – seizures of Products of Animal Origin – and we believe that this was due to increased resource deployments in previous years and the success of our deterrent campaigns.

Our achievements over this Spending Review period provide firm foundations for the new UK Border Agency to build upon in the future.

### How we measure success

To measure progress against this objective we use three high level targets which focus on our capability to intervene at the frontier, our effectiveness in identifying irregularities in third country freight, and our ability to balance our protection responsibilities with maintaining the UK's competitiveness. We met each one of these targets.

The results reported in this chapter are all final outturns against this PSA Objective.

The methodology used to measure success for each target is described in the commentary below.

We have been responsible for the delivery of PSA Objective III throughout the 2004 Spending Review period. With the creation of the UK Border Agency, responsibility for the delivery of frontier objectives will leave HMRC. Many of the improvements and initiatives detailed in this chapter will be taken on and progressed by the new agency.

**Target 8: By 2007-08, to improve our capability to intervene at the frontier.**

Target 8 is comprised of four key indicators, one of which (key indicator 8.1) includes three separate seizure regimes, each monitored by both number and weight of seizures.

Our provisional assessment for target 8 is that it has been 'met' as:

- three of the key indicators have been met in full
- two out of three seizure regimes included in key indicator 8.1 have been met
- the fall in seizures of POAO (the third seizure regime in key indicator 8.1) is being viewed positively as a sign that our deterrents are working.

***Key Indicator 8.1: Number of seizures of prohibited and restricted goods.***

The term 'prohibited and restricted' covers a wide range of goods whose import or export is subject to regulatory and or anti-smuggling controls. They include drugs, firearms, endangered species, counterfeit goods and over 30 additional discrete areas specified in legislation.

A seizure is recorded when we detect goods in circumstances that create a breach of an import or export prohibition or restriction.

*Drugs*

In April 2006 the Serious Organised Crime Agency (SOCA) took over as lead agency for Class A drugs. We work in close partnership with SOCA to support their role in supply side drug enforcement. Up until April 2008, we held the key role at the UK border in detecting and seizing prohibited drugs that are targeted on the UK. In 2007-08 we exceeded our targets for both the weight and number of seizures of heroin and cocaine (see Annex F, page 108).

In our international capacity building role we continue to provide training resources to the Counter Narcotics Police of Afghanistan and Afghan Customs. Our deployment of training resources with the Jamaica Constabulary Force and the Narcotics Control Board in Ghana continues to have a significant impact on detecting drugs before they reach the UK.

# Our performance

## Dionne Rose, Employer Compliance Team, Nottingham

### My job entails contacting employers, directors and accountants.

I visit various kinds of businesses, interview the employer or accountant about the business and then inspect their PAYE records for any irregularities. I give verbal and written advice to the employer to encourage compliance and collect any tax due. I've been doing this job for three years now and thoroughly enjoy meeting different people as every review is different.

### I work in a medium cross team taking in Employer Compliance and VAT.

This means we handle cases where the business has no more than 250 employees. There are ten of us in the team, eight officers and two assistant officers. We work well as a team and everyone is supportive of each other.

### HMRC has offered me the chance to broaden my skills.

I have just finished a six month stint as a workplace mentor for National Mentoring Consortium, which the department has been involved with since 1991. I received a certificate for my role as mentor to a second year university undergraduate, where my role was to pass on workplace skills as part of the department's commitment to diversity in recruitment.

### The work I do is entirely customer focused.

It is about empowering them to ensure their tax affairs are correct by offering help and support. Quite often employers do not realise they are getting something wrong until you pay them a visit and they are receptive to this approach. It is also the case that visiting employers where small risks are apparent leads to us finding out other problems, which we can help resolve.

*Products of Animal Origin*

Our efforts to prevent illegal imports of Products of Animal Origin (POAO) from outside the EU have continued to target the routes that pose the greatest animal disease risk, taking account of the latest veterinary risk assessments.

Seizures in 2007-08 did not meet expected targets. This can be attributed to the scaling back of additional resources that were deployed in 2006-07 to tackle Avian Influenza and to increasing compliance amongst the travelling public following our awareness-raising campaigns. We are also undertaking further analysis to confirm our provisional assessment of how reported seizures of POAO reflect this.

*Other prohibitions and restrictions*

We enforce a wide range of other prohibitions and restrictions at the frontier on behalf of other government departments and in fulfilment of our own statutory responsibilities. Many of these controls are long-standing but the scope continues to expand with the emergence of new and evolving concerns to public safety, environmental conservation and international good governance.

*Convention on the International Trade in Endangered Species (CITES)*

We continue to work closely with the Department for Environment Food and Rural Affairs and our other UK enforcement partners, most notably the police-led National Wildlife Crime Unit, to enforce the UK import and export border controls on endangered species under the EU Regulations that implement the provisions of the CITES Convention. Our specialist operational CITES Enforcement Team, based at Heathrow Airport, continues to provide support and training for UK wildlife enforcement officers.

*Strategic exports and sanctions*

We have been the main enforcement arm within a multi-agency approach to prevent, deter and disrupt the illegal trade in goods subject to export licensing, utilising a combination of multifunctional and strategic export control teams.

In 2007-08 we carried out over 10,000 frontier checks in relation to strategic exports, including pre-clearance documentary checks and physical examinations. In addition to seizing goods at the frontier and disrupting illegal trade in strategic goods, we conducted a number of successful investigations into export control offences. These included an offence involving illegal export of controlled chemicals; a case involving trafficking and brokering of sub-machine guns between Iran and Kuwait; and a case involving illegal export of missile technology to Iran. These investigations resulted in successful prosecutions for breaches of strategic export controls, the two cases resulted in custodial sentences. As the result of another successful investigation, we issued a compound penalty in lieu of prosecution in a case involving intangible transfer of controlled technology.

*Firearms*

We have actively participated in the government-wide Tackling Gangs Action Programme (TGAP), increasing activity in postal depots, major ports and undertaking visits to Registered Firearms Dealers within the four major gun crime areas of London, Manchester, Birmingham and Liverpool. We will, along with the UKBA, continue to support the TGAP replacement initiative, Tackling Violence Action Plan next year and have recently acquired two detector dogs available as a national resource to combat the illicit import of firearms.

We are also working to identify and tackle new and emerging firearms risks and we are enforcing new import controls on realistic imitation firearms under the Violent Crime Reduction Act 2006 which came into force on 1 October 2007.

# Our performance

*Indecent and Obscene Material*

We work with other key stakeholders such as the police and the Child Exploitation Online Protection Centre to detect and seize illegally imported indecent and obscene material entering the UK.

*Cultural Goods*

We seize antiquities imported into the UK that we have reason to believe were excavated from protected sites of historical or archaeological interest and have facilitated their repatriation where appropriate. We also enforce cultural export licensing controls designed to safeguard the UK cultural heritage.

*Intellectual Property (IP) Rights*

We target consignments of counterfeit and pirated goods where IP rightholders have submitted applications for protection of their rights at the European Union's external border. The number of applications continues to rise, with a total of 816 extant at the year end. In fulfilling our obligations we support a multi-agency approach through the UK IP Crime Strategy and a range of other international initiatives tackling IP crime.

***Key Indicator 8.2: Percentage of positive outcomes against requests received for interventions / checks / enquiries***

This covers requests received for HMRC support from outside the department, primarily from SOCA but also requests from other law enforcement agencies.

Our strategy to maximise our contribution to the Home Office PSA on reducing harm from drugs is to give priority to interventions of investigative value, whether or not they involve seizures of drugs at the time. Investigative value includes information that enhances the strategic knowledge of HMRC and SOCA in relation to the threats, as well as meeting specific goals in relation to SOCA control strategy and investigations.

Requests from SOCA or other law enforcement agencies may not necessarily result in the seizure of prohibited or restricted goods. It may be the gathering of intelligence or some other action that results in a SOCA operation that dismantles an organised crime syndicate. The target has therefore been split into two distinct categories – interventions and intelligence; and information (checks and enquiries) – to enable a more accurate evaluation of the impact of interventions to be undertaken.

We met our target for this key indicator. We achieved positive outcomes against 98.9% of requests for interventions received against a target of 98%. Moreover, we delivered positive outcomes for 100% of requests for checks and enquiries against a target of 96%.

***Key Indicator 8.3: Service Level Agreements with lead government departments for prohibited and restricted goods***

The establishment of Service Level Agreements has regularised arrangements between HMRC and lead departments (and in some cases agencies, devolved administrations and enforcement partners) on the nature and level of HMRC frontier response in the light of risk assessments provided by or on behalf of the lead policy department.

These have been implemented with lead government departments and we have revisited the nature and extent of our contribution. We have updated existing agreements to confirm that we are achieving the agreed outputs that are recognised as having a positive impact on the overall objective. This key indicator has therefore been met.

***Key Indicator 8.4: Effectiveness of Cyclamen capability (in line with the Service Level Agreement with the Home Office to intercept a proportion of vehicles triggering an alarm)***

Cyclamen is a counter-terrorist initiative to detect and deter the importation of illicit nuclear and radioactive material at UK points of entry. This is achieved through risk-based and intelligence-led deployment of fixed and mobile detection capabilities.

Cyclamen is a joint programme. The Home Office is responsible for implementation and we have been responsible for operating the capability. There is a Service Level Agreement in place, reviewed and updated annually, that defines the roles and responsibilities of both parties.

Our operational aim is to intercept all vehicles which trigger an alarm where we are in attendance. However, due to the environment in which Cyclamen operates, this may not always be practicable. The target is therefore to intercept a minimum of 98% of vehicles which trigger an alarm, with all these vehicles being investigated. As we have intercepted 99.75% of such vehicles, we have met this key indicator.

**Target 9: By 2007-08 to improve our effectiveness by 50% in identifying irregularities in third country freight.**

Our officers use risk-based profiles to select freight for examination at ports and airports in the UK. The use of effective profiling techniques ensures that we maximise the detection of irregularities while minimising the impact on legitimate freight traffic and reducing delays to importers and exporters.

The majority of customs declarations are processed electronically and goods are released without any intervention by us. However, a number are selected for 'Route 1' intervention, requiring a manual check of the declaration and accompanying documentation prior to release of the goods. A further number are selected for 'Route 2' intervention, which involves the physical examination of the goods prior to release. (Documentary checks are also carried out on a post-clearance basis, known as 'Route 3', but these are not included in this measure.)

Performance against this target is measured using a three-month rolling average. The final result for 2007-08, which is based on the three months ending March 2008, is 28%, exceeding our target by 1 percentage point.

**Target 10: Maintain the extent to which importers, exporters and their agents believe we are striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business.**

This target is measured by an annual survey covering a random sample of regular importers, exporters and their agents. We have developed a survey with Ipsos MORI, structured to show the views of importers, exporters and their agents on the perceived balance between frontier protection and facilitation.

In 2005-06 we surveyed these customers to establish a baseline. We found that 46% agreed that UK customs procedures have a positive impact on the competitiveness of the UK as a place in which to do business, while 22% disagreed. The PSA target committed us to maintain this lead of positive over negative responses at 24 percentage points. In 2006-07 the results put the lead of positive over negative responses at 46 percentage points (58% agree and 12% disagree). This was a significant improvement against a target that only required us to maintain perception levels.

In 2007-08, we achieved a lead of positive over negative responses of 42%. We have exceeded our target by a considerable margin.

# Our performance

## Efficiency targets

### FTE Staff In Post Information

| Efficiency | Baseline | Reported position at 31 December 2007 | Reported position at 31 March 2008 | Target |
|---|---|---|---|---|
| | 1 April 2004 | Q3 2007-08 | Q4 2007-08 | 31 March 2008 |
| **Target 1. Reduction in full-time equivalent (FTE) staff** | | | | |
| Overall gross FTE staff | 97,755[1] | 83,006[2] | 82,423[2] | 85,255 |
| Overall net FTE reduction | | 14,749 | 15,332 | 12,500 |
| FTE redeployed to front-line activities | | 3,420 | 3,500 | 3,500 |
| **Overall gross FTE staff reduction** | | **18,169** | **18,832** | **16,000** |

### Lyons relocations

| Lyons Relocations | Reported position at 31 December 2007 | Reported position at 31 March 2008 | Target |
|---|---|---|---|
| | Q3 2007-08 | Q4 2007-08 | 31 March 2008 |
| To relocate 1,950 FTE posts out of London and the South East by April 2008. | FTE staff | | |
| FTE posts relocated | 1,902 | 2,492 | 1,950 |

### Cumulative financial savings

| Cumulative financial savings | Reported position at 31 December 2007 | Reported position at 31 March 2008 | Full Year Target from 1 April 2008 |
|---|---|---|---|
| | Q3 2007-08 | Q4 2007-08 | 31 March 2008 |
| Financial Savings £m[3] | 573.5 | 663.2 | 507 |

[1] This has been revised from the original published baseline for 1 April 2004 of 98,270 following Machinery of Government changes and changes in definition for published data in respect of sick absences and maternity leave. These changes do not affect the targets or scale of efficiencies HMRC have achieved.

[2] These figures are lower than the overall departmental staff in post figure to reflect the deployment of extra staff needed to increase Contact Centre capacity (1,325 FTEs) and to deal with the implementation of the 3rd Money Laundering Directive (80 FTEs).

[3] As described in HMRC's Efficiency Technical Note (first published in October 2004 and updated in December 2005) financial savings arising from FTE reductions are calculated using an appropriate average annual salary (including superannuation and national insurance contributions). This is weighted to take account of the departmental population by band/grade. All figures are subject to internal/external audit.

## Efficiencies

The 2004 Spending Review (SR04), covering the period 2005-06 to 2007-08, set us the following efficiency targets:

- A gross reduction of 16,000 full-time equivalent (FTE) posts, 12,500 net of redeployment of 3,500 to front line areas by 31 March 2008 (from a baseline of 1 April 2004);
- Annual efficiency gains of at least £507m from 1 April 2008; and
- To relocate 1,950 FTE posts out of London and the South East by 31 March 2008, with a further 2,300 posts to be relocated by 31 March 2010.

Our SR04 settlement took account of the expected financial savings, which would be recycled within our department's budget. The savings were intended to cover the cost of redeploying 3,500 posts to front-line areas, absorption of pay and price increases, existing policy commitments and enabling investment in transition to the new integrated department.

We have exceeded all of our SR04 efficiency targets. As at 31 March 2008, we had exceeded the net FTE posts reduction target with reported savings of 15,332 FTE posts, which represents nearly 123% of the net 12,500 FTE target.

In addition, we also redeployed 3,500 FTE posts to frontline activities by 31 March 2008. These activities include combating tax and excise fraud to help safeguard revenues and the strengthening of our frontier controls. Together this means that we achieved gross FTE savings of 18,832, or nearly 118% of our gross 16,000 FTE reduction target to be met by 31 March 2008.

As at 31 March 2008, we also reported financial savings of £663m against the £507m target, which represents almost 131% of the target. We had also relocated 2,492 FTE posts out of London and the South East region, (including 87 Valuation Office posts), or almost 60% of the Lyons relocation target for 2010.

Over the SR04 period we have made very strong progress on the department's efficiency agenda, which involved reviewing fundamentally the way in which services were delivered to ensure that efficiency gains could be achieved whilst improving the level of service provided to citizens.

Efficiencies have mainly been derived from the merger of corporate functions and operational activities and targeting resources on risk based assessments, but we also instigated a major change programme that delivered efficiencies in 2005-06 and 2006-07. We subsequently established the Departmental Transformation Programme (see page 29), to deliver further efficiencies, increase revenue yield, and take forward our ambition for greater customer focus.

We fully accept the importance of ensuring that efficiency savings are not delivered at the expense of impacting adversely on service delivery. Within the Efficiency Programme, we agreed a basket of 12 specific measures drawn from indicators which underpin our PSA targets which monitor service quality. These quality measures were selected as being the key performance indicators from areas within the department which accounted for more than 90% of the headcount reduction.

There have been no overall headcount reductions in the administration of tax credits. In fact, more staff now work on tax credits than in 2004, and Contact Centre capacity has been expanded by 1,325 posts to provide an improved level of customer service. Overall, the specific quality monitoring measures have shown improvement since the Efficiency Programme began. Indeed, the National Audit Office recognised in their February 2007 report on the Efficiency Programme that, where HMRC's headcount reductions were being made, performance had not been adversely affected, and in some areas performance had improved substantially.

# Our performance

We are delivering our headcount reductions in a managed and considered way through our Workforce Change programme, and we are rationalising our estate against our requirements through our Estates Consoliation programme.

Our Workforce Change programme is designed to ensure that HMRC gets the right people in the right places with the right skills, and to assess the opportunities to reduce the size of our estate. By centralising more work and workforce we can conduct our business more efficiently and at lower cost.

The Workforce Change Regional Review Programme is working out how achieve the best overall match between accommodation and future staffing and skills needs. Through this programme, approximately 78% of HMRC staff have been given certainty on the future of their offices. We plan to make all final decisions by December 2008. Further information on Workforce Change and Estates Consolidation is available elsewhere in this report (see page 30).

The SR04 Efficiency Programme has laid strong foundations for an on-going efficiency agenda within HMRC. We have examined rigorously the scope for achieving further Value for Money (VfM) savings. Building on the success of the SR04 Efficiency Programme, we will deliver VfM savings of £674m across the next three years. These savings will arise from finding the most efficient way to deliver our service to customers and by investing in the organisation through the Departmental Transformation Programme, which will enable a reduction in the department's spend by 4.9% a year over the 2007 Comprehensive Spending Review (CSR07) period. The department's VfM Delivery Agreement (published on our website in February 2008) provides more detail on how we plan to realise these savings.

## Lynda Dobinson, Contact Centre Adviser, Sidlaw House, Dundee

### As a contact centre adviser, I handle two main lines of business.

I mainly deal with the construction industry scheme (CIS), which sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry. My role sees me answer queries from callers, advise on legislation relating to the CIS and deal with various inquiries. I also work on the tax credits helpline when the volume of calls is high.

### There are nine in my team and they're all lovely.

We often share best practice or if one of us has a problem and needs advice, we're more than happy to help out. Earlier in the year, some teams who usually deal with CIS calls spent time working on the Self Assessment helpline. That was interesting and the knowledge I gained doing it helped me learn more about HMRC and how the various business units tie together.

### What I really like about this job is that I can finish my day and I don't have to take work home with me.

I like being able to deal with people's problems and issues but I don't have to take that home. I couldn't choose anything better hours-wise – it's Monday to Friday 9am to 5.30pm, working one weekend in eight. A small amount of flexibility has been introduced recently allowing us to work 20 minutes earlier or later, which is good.

### The feedback I have had from customers suggests they are happier with how this CIS works compared to the old scheme.

This is important from the point of view of being able to help them meet their obligations and improve their experiences of dealing with HMRC. We're the first point of contact for contractors on a range of tax issues relating to the scheme and they feel there's a lot less paperwork than before.


# Our new performance objectives


Our new set of objectives will help us focus on our key priorities and provide others with a way of assessing how well we are performing.

# Section 05

# Our new performance objectives

## The previous section described how well we performed over the 2004 Spending Review (SR04) period. SR04 ended on 1 April 2008 and the 2007 Comprehensive Spending Review (CSR07) period began. This chapter explains our performance objectives for the next three years.

### The government's wider performance agenda

The government's objectives for the next three years are set out in new Public Service Agreements (PSAs). Unlike the previous PSAs, these are cross-government and are contributed to by a number of departments.

HMRC will contribute to seven of the thirty new PSAs for the CSR07 period that reflect the government's highest level priorities, and to the cross-government Service Transformation Agreement that underpins delivery of public services. The seven PSAs we are contributing to are:

- PSA 3: ensure controlled, fair migration that protects the public and contributes to economic growth;
- PSA 6: deliver the conditions for business success in the UK;
- PSA 9: halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020;
- PSA 18: promote better health and wellbeing for all;
- PSA 24: deliver a more effective, transparent and responsive Criminal Justice System for victims and the public;
- PSA 25: reduce the harm caused by alcohol and drugs; and
- PSA 26: reduce the risk to the UK and its interests overseas from international terrorism.

### Departmental Strategic Objectives

In addition to contributing to a number of new cross-government PSAs, we have, like each government department, developed a set of Departmental Strategic Objectives (DSOs) to demonstrate our core business objectives. These are:

- DSO 1 – Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled;
- DSO 2 – Improve customers' experiences of HMRC and improve the UK business environment;
- DSO 3 – Reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being.

### Purpose of HMRC's DSOs

The DSOs are designed to support the strategic direction of the department which will put customers at the heart of everything we do, by understanding their needs and responding to their behaviours and expectations. Over the next three years we will build on the work we already do to support people and businesses, helping them to pay what they owe and receive what they are due. We intend to make it as easy as possible for our customers to get it right whilst protecting society by dealing firmly with anyone who intentionally avoids their responsibilities.

As well as helping us focus on the most important parts of our business, the DSOs will also provide Parliament and the public with a way of assessing how well HMRC is performing. Each DSO is supported by a number of key performance indicators, which show how well we are doing in a number of our core areas of business.

## Designing the DSOs

Every business area in the department has been involved in designing our DSOs. We looked at every activity HMRC carries out and worked out what the main aims and objectives were for our department and also for the government.

Our DSOs were also designed to work together. We understand that our service to customers can either help them meet their obligations to pay tax due and claim the credits and payments to which they are entitled, or it can make things more difficult. DSO 2, with its focus on improvement in customers' experience, provides the foundations for DSO 1 in helping people to meet their obligations.

## Our DSOs

**DSO 1 – Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled:**

- Increase tax and National Insurance contributions actually received relative to the amounts that should be received, achieving over 2008-9 to 2010-11 at least the levels set out in the Public Service Agreement targets for 2007-8.
- Reduce the level of incorrect tax credit payments made as a result of error and fraud as a percentage of finalised entitlement, to no more than 5 per cent by 2010-11.
- Increase the take up of Working Tax Credit.
- At least maintain take up levels of Child Tax Credit and Child Benefit.

**DSO 2 – Improve customers' experiences of HMRC and improve the UK business environment:**

- Improve customers' perception of their experience of dealing with HMRC.
- Reduce by 10% the administrative burden of forms and returns on business customers.
- Reduce by 15% the administrative burden of audits and inspections on compliant business customers.
- Increase access to business facing content and business facing transactions from businesslink.gov.uk, delivering at least 95 per cent of cross-government agreed scope of website convergence.
- Improve accuracy of processing in large-volume business areas, achieving at least 96 per cent on a composite indicator of accuracy.
- Improve timeliness of processing in key areas, covering VAT registration and Tax Credit and Child Benefit payments.
- Improve correctness of advice and information given, and actions taken, in respect of contact from customers.

**DSO 3 – Reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being***

- Maintain the level of disruption of the attempted import and export of illicit drugs, products of animal origin, and other illicit goods.
- Contribute to Government objectives on counter terrorism by maintaining the level of operational performance in screening for radiation traffic entering the UK.

* DSO 3 responsibilities are expected to transfer to the UK Border Agency in due course.

# Annex A: Remit 2008-09

HM Treasury, 1 Horse Guards Road, London SW1A 2HQ

Mike Clasper CBE
HM Revenue & Customs
100 Parliament Street
London
SW1A 2BQ

7 July 2008

Dear Mike

**REMIT FOR HM REVENUE & CUSTOMS 2008-09**

I am pleased that you will be joining HM Revenue & Customs as Chair on 1 August and look forward to working closely with you. I am writing to set out the Annual Remit for HM Revenue & Customs for 2008-09. I am copying this to Dave Hartnett, as Acting Chairman, who is presently the principle accounting officer of HMRC.

The Remit sets out the key priorities for the department this year, and for you as Chair, when you take up the post. 2007-08 was a difficult year for HMRC. The department is determined to respond to the immediate improvements necessary to improve data security, and its staff are determined to collect tax revenues, administer tax credits and child benefit and protect our borders as efficiently as possible.

**Comprehensive Spending Review and Departmental Strategic Objectives**

HMRC faces another demanding year in 2008-09. Your key role is to challenge the Department in the delivery of its objectives, ensuring that HMRC continues to improve its performance, especially in improving revenue collection customer service and of course security of data held by the department.

Over the past year, HMRC has delivered improved performance and service delivery in a number of key areas. It also achieved its 2004 Spending Review efficiency targets. I would like to thank all HMRC staff for their professionalism, commitment and contribution to these successes.

HMRC's aims and high-level objectives are set out in the Comprehensive Spending Review 2007. Its Departmental Strategic Objectives are to:

- improve the extent to which individuals and businesses pay the tax due and receive the credits and benefits to which they are entitled;
- improve customers' experiences of HMRC and improve the UK business environment; and
- reduce the risk of illicit import and export of material which might harm the UK's physical and social well-being.

The outcomes that HMRC will be expected to achieve in these areas are set out in Annex A.

Particular areas on which I expect to see further progress over the next year are:

- reducing burdens on compliant businesses and quicker resolution of disputes so as to support improvement in the business environment;
- improving further the collection of tax by developing the effectiveness of risk-based approaches to compliance; and
- driving forward further improvements in the administration of Tax Credits and the service provided to customers, including working towards its new target of reducing the level of error and fraud to not more than 5% by 2010-11.

HMRC will also be contributing to seven of the Government's Public Service Agreements, as set out in Annex B.

The department's spending plans have already been agreed for the period through to 2010-11, with a 5% real terms reduction in the Department's Expenditure Limit in each of the next three years. HMRC will have access to the Modernisation Fund to support the implementation of its transformation programme.

HMRC will need a robust performance management framework to monitor and drive delivery against all aspects of its activities in line with these objectives. The Department will also need to continue to focus on achieving further value for money improvements in line with its Value for Money Delivery Plan.

In addition to driving forward these improvements in HMRC's business, there are two key priorities that I will look to you to deliver.

**Data Security**

The department must continue to drive forward significant improvements in data security, in line with the recommendations of Kieran Poynter, published on 25 June. Data Security must be at the heart of everything HMRC does.

Kieran Poynter has undertaken a thorough review of data security in HMRC following the loss of the Child Benefit data last year. As he acknowledges, HMRC has made considerable progress already in addressing his recommendations. But there is much more to do, and you will have to drive forward the planning and delivery required to improve HMRC's performance on information security on the short, medium and longer term in line with the recommendations of the Poynter Report.

# Annex A: Remit 2008-09

Dave Hartnett, Acting Chairman of HMRC, has written to the Financial Secretary to the Treasury, setting out the department's response to this report. I welcome the commitments he makes in that letter and attach great importance to the restoration of HMRC's reputation for handling customer data. You will need to report on the department's progress on improved information security through HMRC's Departmental Reports and Autumn Performance Reports.

**HMRC's Capability Review**

The department also has to make further progress on implementing the recommendations of the Capability Review, particularly by improving accountability and using evidence and analysis to drive improvements in performance.

HMRC's Capabilty Review was published on 17 December 2007. The Review highlighted major strengths in HMRC and those key areas where the Department needed to improve. Progress has been made, but more needs to be done to:

- clarify responsibilities and reinforce accountabilities;
- provide a clear direction for staff and enhance leadership through the organisation; and
- improve the use of evidence and analysis to drive performance improvements.

The recommendations of Kieran Poynter reinforce the importance of embedding these changes and I look forward to seeing further progress in the coming year.

I also expect you to continue working closely with HM Treasury on the policy delivery agenda this year. This will involve proactive commitment to a successful policy partnership and interchange in preparation for the 2008 Pre-Budget Report and 2009 Budget.

Under my overall supervision and direction, your Departmental Minister is the Financial Secretary to the Treasury. HMRC's expenditure, administration and policy, and its annual report and accounts, are subject to scrutiny by the Committee of Public Accounts and the Treasury Committee of the House of Commons.

I am copying this letter to the chairman of the Treasury Committee, the Committee of Public Accounts and the House of Lords Economic Affairs Committee and I am also depositing copies of it in the Libraries of both Houses.

Yours sincerely

**Alistair Darling**

# Annex B: Valuation Office Agency

## The Valuation Office is an Executive Agency of HM Revenue & Customs.

Its aim is to be a world class provider of valuation and property services for the public sector.

The Agency's purpose is:

- to provide a fair and robust basis for taxes which pay for public services
- to help drive better use of property in the public services.

This will be achieved by:

- compiling and maintaining accurate and comprehensive valuation lists for local taxation
- providing accurate and impartial valuations for national taxes
- delivering expert advice on property valuation and portfolio management to the public sector
- developing and maintaining a comprehensive and up-to-date property database
- advising on valuation policy issues.

## Results against Key Performance Indicators 2007-08

| KPI | | Results |
|---|---|---|
| **Customer Satisfaction** | | |
| To achieve overall customer satisfaction of 88%. | 91% | Met |
| **Operations** | | |
| Enable prompt issue of correct bills by local authorities through clearing Rating reports with an average of 18 working days. | 11 days | Met |
| Enable prompt issue of correct bills by local authorities through clearing Council Tax reports with an average of 14 working days in England. | 14 days | Met |
| Enable prompt issue of correct bills by local authorities through clearing Council Tax reports with an average of 16 working days in Wales. | 12 days | Met |
| Enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases for inheritance tax on average within 8 days. | 9.6 days | Not Met |
| Enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases for capital gains tax on average within 12 days. | 9.5 days | Met |
| Contain reductions in the 2005 rating lists to a maximum of 4.2% of the total compiled list rateable value, over the entire life of the lists. | 2.3% | On course |
| Ensure that 96% of new council tax bandings are right first time. | 97% | Met |
| **Value For Money** | | |
| To improve productivity by 3% in 2007/8. | 8% | Met |
| To improve value for money on inheritance tax work for HMRC by 5%. | 15% | Met |
| **People** | | |
| All staff to have the core skills and competencies for their role within six months of taking up post. | 99% | Not Met |

# Annex B: Valuation Office Agency

More information on the Valuation Office Agency's performance can be found in the VOA's Annual Report, published today.

## Looking to the future

To meet the requirements of clients and to move towards its vision of being a world class provider of valuation and property services for the public sector, the VOA faces the following key challenges over the next three years:

- preparing for the non domestic rating revaluation due in 2010;
- defending the valuations used for rating non-domestic properties in England and Wales;
- maintaining the Council Tax lists in England and Wales;
- continuing to improve the effectiveness of its contribution to HM Revenue & Customs tax compliance work;
- improving the comprehensiveness and accuracy of its property database;
- developing the valuation services and property advice it provides to other public sector bodies, with a greater focus on strategic asset management;
- changing the way it works using new technology to work more efficiently and facilitate a more flexible work force, to improve customer service.

**In this context the following key performance indicators have been agreed with Ministers for 2008-09.**

### Customer satisfaction

- To achieve overall customer satisfaction of 90%.

### Operations

- Contain reductions in the 2005 rating lists to a maximum of 4.2% of the total compiled list rateable value, over the entire life of the lists.
- Enable prompt issue of correct bills by local authorities through clearance of rating reports within an average of 12 working days and council tax reports within an average of 14 working days in England and 12 working days in Wales.
- Ensure that 96% of new council tax bandings are right first time.
- Enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases for inheritance tax within an average of 8 days and for Capital Gains Tax within an average of 11 days.

### People

- All staff to have the core skills and competencies for their role within 6 months of taking up post.

### Value for Money

- To improve overall value for money on local taxation work by 3% per annum
- To improve Value for Money on Inheritance Tax work by 5%[1]

The Key Performance Indicators have been announced by the Financial Secretary to the Treasury, and have been published in the VOA Forward Plan, available from **www.voa.gov.uk**

[1] Value for money in this KPI is measuring the effectiveness of our work. It is a cost-yield ratio, measuring the additional tax raised per unit of cost.

# Annex C: Better Regulation Report

## Improving Policy Development and Impact Assessment

### Steps taken to improve engagement with stakeholders

We want to put our customers at the heart of everything we do. At Budget 2008[1] we reported on the progress we have made in reducing the administrative burdens for business in the wider context of what we are doing to improve the small business customer experience (see page 43). We also reported[2] on our delivery of the new relationship with our very largest business customers, taking forward the work identified in the Review of Links[3].

HMRC is a taxing authority, not a regulator, but where we impose information and other requirements on our customers we are committed to the Better Regulation principles of proportionality, accountability, consistency, transparency and targeting.

### Plans to improve Impact Assessment quality

We are proud of our Compliance Cost Review (CCR) programme, where we continue to conduct objective reviews of the cost/benefit analyses within our published Impact Assessments (IAs). Learning points drawn from the programme help us improve the quality of our future IAs and IA process. We are the only government department to adopt this systematic approach. This year we reviewed 42 IAs (collated into 38 reports) and these will be published on our external website in the summer. The 2007-08 results showed that the majority of IAs are broadly accurate and reasonable albeit with some learning points for improvement. This year's results add to the knowledge base that we have from the two earlier CCR Programmes and will help us improve both our IAs and the way we tackle Better Regulation so that our customers get better value from what we do.

[1] www.hmrc.gov.uk/budget2008/delivering-new-relationship.pdf
[2] www.hmrc.gov.uk/budget2008/framework-better-relations.pdf
[3] www.hmrc.gov.uk/large-business/index.htm

We also continue to strive for improvement in the quality of our IAs by:

- Training: developing and delivering seminars and workshops in London, Liverpool and Manchester. We are developing a wider 'Better Regulation' seminar to further embed quality improvement and assurance across policy and operational areas.
- Guidance: we are currently reviewing our guidance to incorporate lessons learned from our CCR programme.
- Consultancy: we are proactive in intervening at the early stages of policy development to embed Better Regulation principles.

### Compliance with guidance on Impact Assessments

We devote considerable resource to ensuring that Better Regulation is embedded in the development work on all new measures, although tight deadlines and Budget confidentiality mean that not all of this will be visible to our customers.

### Consultation

Consultation with our customers is an important part of policy development and Better Regulation principles. During this year we have increased the number of formal consultations launched to 33 compared with 20 in the previous year and, while the Budget cycle does not always allow for this, we have run a higher number and percentage of consultations for 12 weeks than ever before.

Of the 33 formal consultations launched during the year 28 lasted 12 weeks or more. All of the five that ran for less than 12 weeks were authorised by the appropriate Minister to run for a shorter period, four were second consultations where the first had been for the full 12 weeks and thus fully complied with the requirement to consult for 12 weeks at least once in the development of the policy. The fifth followed an extensive period of informal consultation and affected an area with a limited number of stakeholders.

# Annex C: Better Regulation Report

During the year we have listened to those who have made comments and suggestions to our consultations and have used these contributions to ensure that our policies achieve the stated aims and keep any administrative burdens for our customers to a minimum. For example in the HMRC powers, deterrents and safeguards consultations various changes have been announced and these can be seen in our responses document[1] published in March 2008.

In addition to formal consultation we conduct a great deal of valuable informal consultation; much of this is through the various forums that HMRC run. The forums can be focussed on specific taxes, customer groups, or can focus on other issues. The Better Regulation Consultative Committee continues to enable us to discuss and consult on both the better regulation of legislation and on operational matters with key business representative bodies. We now publish details of 30 forums together with a schedule of future meetings, agenda, and meeting notes.

## Simplification

The government is committed to simplifying the tax system and HMRC has worked in partnership with HM Treasury on the tax simplification packages announced at both the Pre-Budget Report 2007 and Budget 2008. We have contributed individual measures from our administrative burden reduction programme and jointly sponsored the 3 Simplification Reviews announced at PBR 2007 (on VAT rules and administration, anti-avoidance legislation and CT rules for related companies) and the new Simplification Review announced at Budget 2008 (tax calculations and returns for smaller companies).

## Administrative Burden Reduction

Budget 2006 announced two specific administrative burden reduction targets for HMRC to achieve by 2010-11. Administrative burden reduction targets are also built into our new Departmental Strategic Objectives (see Section 5, page 74). But we recognise that we need to do more than meet our numerical targets. Just as important is the need to make a noticeable difference to businesses' experience of the tax system. The Administrative Burdens Advisory Board (ABAB), a group of mainly private sector individuals who advise us on how to focus our administrative burden reduction efforts, has identified this as the key measure of success. We are committed to taking on this twin challenge and we have a broad programme of work in place to achieve this. Progress towards these targets and wider administrative burden reductions is outlined in Section 3, page 36 of this report.

## Ensuring a risk based approach to regulation

Consistent with the principles of the Hampton Review, we apply a risk based approach to the way we regulate the tax system.

Analysing risk as accurately as possible to select cases for audit and inspection is a fundamental principle of the new relationship with business expressed in the New Relationship series of papers and the Review of Links. This means we target our compliance checks according to the risk and behaviour of our customers. Better targeting will mean that the burden of HMRC's audits and inspections will increasingly be concentrated on those customers who do not want to comply with their obligations. Customers who pay the right tax at the right time and meet their responsibilities will incur less burden.

## Number of Regulatory Reform Orders delivered

Regulatory Reform Orders no longer exist. In January 2007, the Legislative and Regulatory Reform Act 2006 (LRRA) came into force which repealed the Regulatory Reform Act 2001 and allows ministers to create a Legislative Reform Order (LRO) to remove or reduce burdens.

The LRRA cannot be used to impose, abolish or vary any tax: HMRC have not used the LRO process in this reporting period.

[1] Can be accessed through: www.hmrc.gov.uk/consultations/index.htm

# Annex D: Committee of Public Accounts (PAC) recommendations

The PAC has published 6 reports on HM Revenue & Customs since the preparation of our last Departmental Report. This section details the recommendations that the PAC made in those reports, alongside the government's minuted response to the report.

**2006-07 22nd Report (HC487): Tax Credits: published on 3 May 2007**

### PAC Recommendations

- Tax credits suffer from the highest rates of error and fraud in central government, undermining HMRC's reputation for accuracy. The department needs to demonstrate to taxpayers that it maintains its capacity for the proper handling of their tax affairs by setting targets for reducing the level of error and fraud and producing routine estimates to validate its performance against the targets.
- HMRC does not have up to date information on levels of claimant error and fraud in tax credits. In the absence of up to date information the department cannot assess the effectiveness of its efforts to combat tax credit error and fraud.
- The department failed to design the tax credits scheme to give proper protection against error and fraud. In its efforts to make the scheme accessible to claimants, it relied too much on detecting false claims after payment had been made.
- The administration of tax credits has not been effective and Members of Parliament continue to receive too many complaints about the quality of service provided. Administrative errors made by the department continue to generate incorrect payments, but it does not know how much is involved.

### HMRC Action

- The department has an active programme to reduce error and fraud, both by HMRC and customers. The improved performance of the tax credits system has meant that fewer overpayments are being caused by IT or administrative error. Information on organised fraud shows that the department has successfully stopped the majority of claims identified as being submitted by organised fraudsters. The department needs at least two good years worth of data from the random enquiry programme before setting the targets recommended and it is continuing to develop appropriate measures of performance in this area.
- Estimates for error and fraud in the department will always be retrospective.The random enquiry measures error and fraud for a representative sample of awards that have been finalised. Enquiries then take time to be worked through and a robust estimate has to be produced which means that the estimate of error and fraud will always be in arrears. The department is looking to see how it can speed up the random enquiry programme and also develop real time measures of error and fraud to guide its future actions.
- The department appreciates the importance of delivering a high quality service to tax credit claimants. Staff working on tax credits are committed to ensuring families receive their correct entitlement, helping and assisting claimants in, sometimes, difficult circumstances and resolving complaints as quickly and effectively as possible. The department now collects information on official error from disputed overpayments systematically and it is also considering other ways of improving information made available on official error.

**2006-07 28th Report (HC179): HM Revenue & Customs: ASPIRE – The re-competition of outsourced IT services: published on 12 June 2007**

### PAC Recommendations

- The successful bid for the contract was originally £2.83 billion, based on levels of IT demand in 2003; but as its demand for IT services and projects has increased and the former HM Customs and Excise IT contract has been included, the department's forecast cost has risen to £8.5 billion over the 10 year term.

# Annex D: Committee of Public Accounts (PAC) recommendations

- By contributing to bid costs and paying transition costs to secure competition for the new contract, the department incurred a premium of £51.9 million.
- On NIRS2 (National Insurance Recording System), the department paid £28.9 million to put a new contract and supplier in place and upgrade the system, though in the event Capgemini retained Accenture as a subcontractor following difficulties and delays in upgrading the new system. The department therefore paid for a transition, which in respect of Accenture effectively did not take place.
- Forecast spending on ASPIRE has increased significantly as the department's demand for IT services and investment in new systems continues to grow, the aim of which is to reduce its costs to meet future spending limits. The department will need to demonstrate that the benefits of its investment are achieved in practice by establishing reliable baselines and tracking the costs, service improvements and efficiency savings actually achieved.
- The higher volumes of work on ASPIRE have increased Capgemini's overall profits on the contract, but profit margins have not reached the thresholds which trigger the profit sharing agreement. If margins remain at the current level of 10-13%, the overall profit on the contract as a whole could be £1.1 billion compared to the £300 million initially envisaged.

### HMRC Action

- At the time of the procurement, sensitivity analysis was carried out to test the impact of changes in volume on the value for money assessment of the bids. The estimate of £2.83 billion was based on 2003-04 prices and approved Inland Revenue funding at the time. It was always understood that costs would rise if more work was added to the contract.
- Transition payments were made to provide a level playing field for bidders and ensure a continuity of customer service. The procurement costs compare favourably with PFI contracts and compared to thetotal costs of the Aspire contract, the costs of procurement and transition totalling £75 million were small – some 2% of the projected value of the contract.
- The decision was taken to retain Accenture's experience and their understanding of particular business areas – mainly NIRS related – to ensure that project timescales and quality would not be jeopardised. NIRS transition and re-platforming was achieved at a cost of £14.9 million, £1.3 million less than the budget of £16.2 million. The additional £14 million paid to Accenture, for the licence to use their software, related to the previous NIRS (PFI) contract rather than to the new Aspire contract.
- The department is keeping the contract under review with a rolling programme of internal benchmarking activity. For example a Programme Governance Framework that ensures rigour in IT costs and savings in business cases, that form the financial baseline for investments, has been implemented. IT projects now forming part of the Departmental Transformation Programme (DTP) have to provide full business cases and these are only approved if all benefit management products have been completed.
- The higher volumes of work have been dictated by HMRC's changing IT needs. Major developments in areas such as New Tax Credits, Modernising PAYE Processes for Customers and Child Trust Funds illustrate the greater demand for IT improvements.

Profit levels are as expected at the time of contract signature and should not be regarded as grounds for concern. The contract has various mechanisms to regulate value for money which can be used to address concerns about the impact of growth.

**2006-07 45th Report (HC250): Standard Report on the Accounts of HM Revenue & Customs: VAT Missing Trader Fraud: published on 26 July 2007**

### PAC Recommendations

- VAT missing trader fraud (MTIC) has cost the Exchequer at least £1 billion each year since 1999-2000, peaking at estimated losses of between

£2-3 billion in 2005-06. The department has been dealing with missing trader fraud for over six years but has failed to stem losses.

- Fraudsters may be able to avoid the department's 'reverse charge' mechanism by switching the fraud from mobile phones and computer chips to other goods. There is a risk of criminals switching the fraud to other electronic equipment.
- HMRC has been unable to show that it has actively stepped up the reporting of accountants, tax advisers and lawyers to their professional bodies for instances of misconduct. The department should make greater use of sanctions available to professional bodies to investigate unethical conduct by their members.
- HMRC should confirm that it has the management information to keep sight of the balance between preventing fraudulent VAT registrations, and impeding legitimate trade.
- The financial rewards from missing trader fraud have been high while the risk of fraudsters being caught and penalised has been low. The department, in liaison with the Revenue and Customs Prosecution Office (RCPO), should work with the Ministry of Justice, the Sentencing Guidance Council and the Sentencing Advisory Panel to establish whether the courts have specific advice and sentencing guidelines to apply in missing trader fraud cases.

### HMRC Action

- The department is continually assessing the impact of its MTIC fraud strategy and adapts its tactics accordingly. However the department is aware that more needs to be done, as reflected in its commitment to working together with its European partners to find a more permanent solution to tackling this fraud.
- Whilst determined fraudsters may attempt to continue the fraud using other goods, the department's operational activities are not driven by commodities or trade sectors but are informed by behaviours, trading patterns and revenue risks. The department continues to improve its intelligence gathering processes and strengthen its operational activity to quickly counter any changes in MTIC fraud.
- Criminal investigation and complaints to regulatory bodies alone will not address the behaviour of all those professionals and advisers supporting the traders involved in MTIC fraud. The department is therefore working with professional bodies on establishing and maintaining effective relationships across the range of HMRC activities, including handling poor or inappropriate behaviour. It will continue to inform advisers and professional bodies about MTIC fraud including the characteristics of fraudulent trade, its scale and consequences, so that they can review and strengthen their client take-on and management procedures.
- The department does have measures in place for monitoring performance on VAT registration. It also aims to target anti-fraud action at those who present the greatest risk. The department recognises the importance of the need to reduce registration processing times through system and risk assessment improvements.
- The department recognises the importance of sentencing in deterring fraudulent activity and has worked closely with RCPO and the Attorney General in raising awareness and understanding of the serious nature of this fraud with the judiciary, responsible government ministers, its EU counterparts, and the general public. In 2006-07 the courts imposed record individual prison sentences of 11 and 15 years in MTIC cases which reflects the growing recognition by the Judiciary of the seriousness of this fraud and the impact and harm it has on communities. As a further deterrent the department seeks to deny convicted fraudsters use of their proceeds from the fraud by actively pursuing the confiscation of their assets in every case.

# Annex D: Committee of Public Accounts (PAC) recommendations

**2006-07 22nd Report (HC489): Helping Newly Registered Businesses Meet Their Tax Obligations: published on 25 October 2007**

## PAC Recommendations

- Businesses have to register separately for each tax, and provide the same information, which duplicates effort for them and the department. HMRC should introduce a single registration system and registration should also be available online with appropriate validation checks to facilitate accurate completion of the form.
- HMRC does not have readily available data on the extent to which different groups of taxpayers meet their obligations. As a result, it is poorly placed to assess priorities, and the costs and benefits of action to improve compliance.
- HMRC's guidance requires an average reading age of at least 16 or 17 years to understand it, but over 5 million adults have literacy skills well below this level. The department should make its guidance easier to understand by using plain English and improving the layout.
- HMRC needs to make it easier for new businesses to obtain the advice they need by; exploring alternative methods of providing workshops and seminars; making its website easier to use; and working closely with the organisations that new businesses consult for business advice to provide help through those channels.
- Businesses have to contact different HMRC helplines for advice on different taxes. The department should work towards a one-stop telephone system to cover all taxes.

## HMRC Action

- The department's strategic aim remains to achieve a streamlining of the registration process for businesses. In the immediate future, the department's plans are to improve the customer service experience for businesses incrementally over the next few years by which time the department is confident the registration burden for businesses will have been significantly reduced.
- The department uses a range of data on compliance behaviour to assess compliance risk. It constantly seeks to improve its data and risk analysis to better identify those in need of assistance and to target those who seek not to comply. The department recognises that new businesses are more likely to make mistakes and has developed a range of interventions to provide timely and appropriate support to them.
- The department recognises the importance of writing guidance that customers can easily understand at appropriate literacy levels and there are several strands of work already in place to try to achieve this. The department has introduced new information design standards to help target products to particular user group needs and is testing the usability of new guidance products with customers.
- The department is conducting research to gain a better understanding of new and small business customer needs, including their preferred channels of communication and the optimum time for providing guidance and support to them. In addition, there are a number of initiatives under way to widen participation at existing workshops and seminars. The department is making significant improvements to the HMRC website to make it simpler and easier to use and it continues to develop relationships with other organisations that new businesses consult for advice.
- The department continues to look for opportunities to reduce the number of separate lines and telephone numbers and has a long-term aspiration to reduce these significantly. It also recognises that some customers find it frustrating to call a single number and then be faced with multiple further choices, so it will aim to strike a balance between the number of separate helplines and the length and complexity of any menus of choice.

**2006-07 65th Report (HC548): Filing of VAT and Company Tax Returns: published on 4 December 2007**

## PAC Recommendations

- One in five Company Tax returns and one in seven VAT returns are filed late or not at all each year, putting at risk over £1.5 billion in tax revenues.
- HMRC lacks information on which businesses repeatedly file late or which fail to file both types of return, and on the link between late filing and other forms of non-compliance. These gaps undermine its effectiveness in targeting its compliance work and its assistance to help businesses comply, and in identifying areas where it could make significant improvements.
- Less than 10% of businesses filed their VAT or Company Tax returns online in 2006-07. The department should be offering a good quality service which a high proportion of businesses are willing to use voluntarily.
- Filing obligations account for between 30-50% of businesses' compliance costs on VAT and Corporation Tax. Substantial reductions in the administrative burdens associated with filing VAT and Company Tax returns are needed to achieve a meaningful reduction in the overall costs for businesses in dealing with their tax obligations.

## HMRC Action

- The £1.5 billion tax 'at risk' from outstanding returns represents the estimated VAT and CT protected by HMRC. The department has efficient and effective systems to establish an enforceable debt, and collect revenue as early as possible after a taxpayer has failed to file or pay on time.
- Whilst it believes that most overdue taxpayers file returns within a short time of the filing date, the department recognises that there are gaps in its understanding of the links between non-filing across taxes and between non-filing and other risks. It plans to address those by identifying trends in non-filing and ensuring that it initiates the most effective compliance activity at the right time.
- More and more businesses are choosing to file CT and VAT returns online The department is determined to build on this steady increase in voluntary take-up of online filing by enhancing its CT and VAT online services to ensure that they are robust, reliable and secure and meet customers' needs.
- The department recognises the importance of making improvements in those areas which businesses find most burdensome. To help address the areas that matter most to business, the department works closely with the externally-chaired Administrative Burdens Advisory Board, which consists of members from business organisations as well as people with hands-on experience of running businesses in the UK.

**2007-08 8th Report (HC300): Tax Credits and PAYE 2006-07: published on 5 February 2008**

## PAC Recommendations

- Overpayments currently affect 1.9 million families a year. The policy changes to reduce overpayments included in the 2005 Pre-Budget Report have yet to take full effect. The department should report on their actual cost and effect in terms, which show whether they meet their objective of reducing overpayments by one third.
- The department has yet to succeed in clarifying its procedures for recovering overpayments. The department needs to devise and implement a more objective test for assessing when tax credits claimants could reasonably have known they were overpaid.
- The department has accepted the Committee's previous recommendations on the need to set targets for reducing error and fraud, but says it cannot set a target until 2008 when it will hold two years of good data. When setting these targets, it should also determine the additional resources required to achieve the target reduction in error and fraud.

# Annex D: Committee of Public Accounts (PAC) recommendations

- The department is failing to collect an estimated £135 million income tax on certain small pensions each year because of incorrect guidance and failures by local HMRC offices to implement agreed procedures. The department needs to alert pensioners to the possibility that their tax liability may change and provide them with longer periods of time to settle any additional tax liability that would affect their ability to pay.

### HMRC Action

- The department publishes, as part of National Statistics, each year the level and number of overpayments, and the latest figures for 2006-07 show that the reduction in overpayments exceeds the projections set at the Pre Budget Report. Overpayments have fallen to less than half the level in the first year of tax credits, and by 40% from 2005-06. The actual net cost of these measures is reflected in the figures for tax credits payments reported annually in HMRC's Trust Statement.
- HMRC was already consulting on its Code of Practice on recovering overpayments. From the end of January 2008, the 'reasonable belief' test has been replaced with a clearer test that sets out HMRC's and customers' responsibilities for checking factual information. The changes will mean a fairer balance of responsibilities between the customer and HMRC.
- The department agrees that the level of error and fraud needs to be reduced significantly. The department has accelerated the random enquiry programme to help facilitate both the setting of the target and the management of fraud and error. By summer 2008 the time required to produce reliable annual data will have been reduced by a full year from that required in previous years. Drawing on this data series, the department will set an error and fraud target to sit alongside all the other performance indicators for the department's business as part of its Departmental Strategic Objectives.
- The relaxations and local practices on collecting tax from small pensions will now be withdrawn and pension providers have been asked to report all pensions paid in their end of year returns with effect from 2007-08, irrespective of amount. Having taken legal advice the department has decided that it will not now be appropriate to begin to tax these pensions from 2007-08. Rather it will now correct their treatment from 2008-09. This deferral will allow the department to communicate the likely impacts more clearly to the affected pensioners before any changes to the taxation of their pensions are made. The department is working closely with pension providers and with relevant representative bodies to ensure this occurs as effectively as possible. In any case of genuine hardship the department will look sympathetically at claims to spread the collection of an underpayment in line with its established processes.

# Annex E: Spending plans

The following tables, except Table 6, provide details of HMRC's expenditure over a nine-year period. They identify resource consumption and capital investment within Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). The data includes Voted and non-Voted expenditure.

DEL budgets are negotiated with HM Treasury. The 2007 Comprehensive Spending Review covers the three years from 2008-09 to 2010-11 during which HMRC is faced with a 4.9% year on year real terms reduction in total spend to be met by continuing modernisation and efficiency within HMRC systems and working practices.

AME budgets are not easily controllable and are mainly demand-led. They are set at the beginning of each year through Main Estimates and are updated during the year via the Winter and Spring Supplementary Estimate processes. AME budgets increase yearly over the same 2008-09 to 2010-11 period by 9.5% and 2.5% respectively. This increase is largely due to the increases in Child Benefit (5% and 3%) and Tax Credit (10% and 3%)) payments.

### Table 1 – Total departmental spending

Total departmental spending comprises resource and capital budgets less depreciation, which is excluded to avoid double counting. Figures are split between DEL and AME spending controls. HMRC was formed in 2005-06 from the former Inland Revenue and HM Customs and Excise departments. The figures produced in the tables prior to this Machinery of Government change combine the former departments' costs, less expenditure associated with the transfers to the other government departments of the Revenue and Customs Prosecution Office in 2005-06 and the Serious Organised Crime Agency in 2006-07.

### Tables 2-3 – Resource and Capital budgets split by DEL and AME

These tables provide similar information to table 1. More detail however, is provided by analysing the Resource and Capital budgets by our three Departmental Strategic Objectives (DSOs) for RfR1, which represents the core department. We have also separated the costs of shipbuilders' relief. Additionally costs for the remaining four RfRs are shown independently. The three DSOs are as follows:

- To improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled;
- To improve customers experience of HMRC and improve the UK business environment;
- To reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being.

In Tables 2, 3 and 5 we have calculated the costs by objective for 2007-08 to better reflect current circumstances. Figures for 2005-06 and 2006-07 were calculated on a different basis.

### Table 4 – Capital Employed

This table is presented in a Balance Sheet format, providing an analysis by assets and liabilities. Tangible fixed assets are broken down further.

### Table 5 – Administration Costs

This table presents in more detail data concerning the administration costs associated with running the department, split by paybill and other costs and administration receipts.

### Table 6 – Staff Numbers

This table shows actual and projected staff numbers for the department. Figures are based on full-time equivalents.

### Tables 7-9 – Country and Regional Analysis

See separate notes following Table 6.

# Annex E: Spending plans

**Table 1: Total departmental spending (£m)**

| |
|---|
| **Resource budget** |
| **Resource DEL** |
| To administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| **Total resource budget DEL** |
| *of which:* Near-cash |
| **Resource AME** |
| To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| **Total resource budget AME** |
| *of which:* Near-cash |
| **Total resource budget** |
| *of which:* depreciation |
| **Capital budget** |
| **Capital DEL** |
| To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| **Total capital budget DEL** |
| **Capital AME** |
| To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| **Total capital budget AME** |
| **Total capital budget** |
| **Total departmental spending*** |
| To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| **Total departmental spending*** |
| *of which:* |
| Total DEL |
| Total AME |

* Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

| |
|---|
| **Spending by local authorities on functions relevant to the department** |
| **Current spending** |
| *of which:* |
| Financed by grants from budgets above |
| **Capital spending** |
| *of which:* |
| Financed by grants from budgets above** |

**This includes loans written off by mutual consent that score within non-cash Resource Budgets and aren't included in the capital support to local authorities line in Table 3.

| | 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn | 2005-06 Outturn† | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|---|
| | 3,687 | 3,913 | 4,243 | 4,393 | 4,577 | 4,415 | 4,366 | 4,259 | 4,154 |
| | **3,687** | **3,913** | **4,243** | **4,393** | **4,577** | **4,415** | **4,366** | **4,259** | **4,154** |
| | 3,399 | 3,776 | 3,991 | 4,157 | 4,326 | 4,184 | 4,061 | 3,961 | 3,863 |
| | **15,045** | **19,484** | **21,508** | **23,002** | **24,758** | **26,195** | **29,356** | **32,061** | **32,809** |
| | **15,045** | **19,484** | **21,508** | **23,002** | **24,758** | **26,195** | **29,356** | **32,061** | **32,809** |
| | 15,049 | 19,462 | 21,453 | 23,224 | 24,794 | 26,181 | 29,356 | 32,061 | 32,809 |
| | **18,732** | **23,397** | **25,751** | **27,395** | **29,335** | **30,610** | **33,722** | **36,320** | **36,963** |
| | 225 | 136 | 291 | 159 | 201 | 177 | 179 | 175 | 170 |
| | 187 | 222 | 408 | 377 | 303 | 256 | 261 | 255 | 248 |
| | **187** | **222** | **408** | **377** | **303** | **256** | **261** | **255** | **248** |
| | - | 400 | 228 | 444 | 256 | 240 | 260 | 360 | 470 |
| | **-** | **400** | **228** | **444** | **256** | **240** | **260** | **360** | **470** |
| | **187** | **622** | **636** | **821** | **559** | **496** | **521** | **615** | **718** |
| | 18,695 | 23,883 | 26,096 | 28,057 | 29,694 | 30,929 | 34,064 | 36,759 | 37,511 |
| | **18,695** | **23,883** | **26,096** | **28,057** | **29,694** | **30,929** | **34,064** | **36,759** | **37,511** |
| | 3,650 | 3,999 | 4,422 | 4,611 | 4,680 | 4,494 | 4,448 | 4,338 | 4,232 |
| | 15,045 | 19,884 | 21,674 | 23,446 | 25,015 | 26,435 | 29,616 | 32,421 | 33,279 |
| | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - |

† 2005-06 outturn figures published in the 2007 Departmental Report in Tables 1, 2 and 3 have been revised in this report. The 'utilisation of provision' costs for the Child Trust Fund are identified in this report as capital grant. Last year this was shown as a resource cost. The total departmental spending for 2005-06 remains unaffected by this change.

# Annex E: Spending plans

**Table 2: Resource budget DEL and AME (£m)**

| |
|---|
| **Resource DEL**<br>To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| *of which:*<br>To improve the extent to which individuals and businesses pay the amount of tax due and receive the credits/payments to which they are entitled. |
| To improve customers' experience and improve the UK business environment. |
| To reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being. |
| Payments and receipts in respect of shipbuilders' relief. |
| Providing timely, accurate, impartial and best value solutions in respect of valuation services for rating, council tax and other public sector purposes. |
| **Total resource budget DEL** |
| *of which:* |
| Near Cash |
| *of which:** |
| Pay |
| Procurement |
| Current grants and subsidies to the private sector and abroad |
| Current grants to local authorities |
| Depreciation |
| **Resource AME**<br>To administer the tax and customs control system fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| *of which:* |
| PAYE online filing incentive payments |
| Revaluations |
| Providing payments in lieu of tax relief to certain bodies and expenditure on tax credits. |
| Making payments of rates to local authorities on behalf of certain bodies. |
| Making payments of Child Benefit and Child Trust Fund endowment payments. |
| Non-cash Depreciation |
| **Total resource budget AME** |
| *of which:* |
| Near-cash |
| *of which:** |
| Pay |
| Procurement |
| Current grants and subsidies to the private sector and abroad |
| Current grants to local authorities |
| Depreciation |
| **Total resource budget** |

* The breakdown of near-cash in Resource DEL by economic category may exceed the total near-cash Resource DEL reported above because of other income and receipts that score in near-cash Resource DEL but aren't included as pay, procurement, or current grants and subsidies to the private sector, abroad and local authorities.

| 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn | 2005-06 Outturn† | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| **3,687** | **3,913** | **4,243** | **4,393** | **4,577** | **4,415** | **4,366** | **4,259** | **4,154** |
| 2,810 | 2,981 | 3,213 | 3,361 | 3,501 | 3,384 | 3,339 | 3,257 | 3,176 |
| 512 | 535 | 600 | 602 | 627 | 754 | 744 | 726 | 708 |
| 370 | 393 | 432 | 432 | 450 | 287 | 284 | 277 | 270 |
| 5 | 8 | 4 | 2 | 5 | -2 | - | - | - |
| -10 | -4 | -6 | -4 | -5 | -8 | - | - | - |
| **3,687** | **3,913** | **4,243** | **4,393** | **4,577** | **4,415** | **4,366** | **4,259** | **4,154** |
| 3,399 | 3,776 | 3,991 | 4,157 | 4,326 | 4,184 | 4,061 | 3,961 | 3,863 |
| 2,136 | 2,391 | 2,562 | 2,741 | 2,903 | 2,786 | | | |
| 1,285 | 1,397 | 1,444 | 1,416 | 1,459 | 1,398 | 1,297 | 1,302 | 1,329 |
| - | - | - | - | 7 | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 224 | 136 | 229 | 159 | 201 | 177 | 179 | 175 | 170 |
| **15,045** | **19,484** | **21,508** | **23,002** | **24,758** | **26,195** | **29,356** | **32,061** | **32,809** |
| | | | | | | | | |
| - | - | - | 225 | 278 | 126 | 100 | 75 | - |
| - | - | - | - | - | 16 | - | - | - |
| 6,026 | 10,015 | 11,837 | 13,207 | 14,334 | 15,384 | 18,242 | 20,256 | 20,778 |
| 27 | 31 | 32 | 29 | 29 | 30 | 32 | 33 | 34 |
| 8,991 | 9,438 | 9,577 | 9,541 | 10,117 | 10,639 | 10,982 | 11,697 | 11,997 |
| 1 | - | 62 | - | - | - | - | - | - |
| **15,045** | **19,484** | **21,508** | **23,002** | **24,758** | **26,195** | **29,356** | **32,061** | **32,809** |
| 15,049 | 19,462 | 21,453 | 23,224 | 24,794 | 26,181 | 29,356 | 32,061 | 32,809 |
| - | - | - | - | - | - | - | - | - |
| 27 | 31 | 32 | 29 | 46 | 39 | 32 | 33 | 34 |
| 15,022 | 19,431 | 21,421 | 23,195 | 24,748 | 26,142 | 29,324 | 32,028 | 32,775 |
| - | - | - | - | - | - | - | - | - |
| 1 | - | 62 | - | - | - | - | - | - |
| **18,732** | **23,397** | **25,751** | **27,395** | **29,335** | **30,610** | **33,722** | **36,320** | **36,963** |

† 2005-06 outturn figures published in the 2007 Departmental Report in Tables 1, 2 and 3 have been revised in this report. The 'utilisation of provision' costs for the Child Trust Fund are identified in this report as capital grant. Last year this was shown as a resource cost. The total departmental spending for 2005-06 remains unaffected by this change.

# Annex E: Spending plans

**Table 3: Capital budget DEL and AME (£m)**

| |
|---|
| **Capital DEL** |
| To administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| *of which:* |
| To improve the extent to which individuals and businesses pay the amount of tax due and receive the credits/payments to which they are entitled. |
| To improve customers' experience and improve the UK business environment. |
| To reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being. |
| Providing timely, accurate, impartial and best value solutions in respect of valuation services for rating, council tax and other public sector purposes. |
| **Total capital budget DEL** |
| *of which:* |
| Capital expenditure on fixed assets net of sales* |
| Capital grants to the private sector and abroad |
| Net lending to private sector |
| Capital support to public corporations |
| Capital support to local authorities** |
| **Capital AME** |
| To administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. |
| *of which:* |
| Making payments of Child Benefit and Child Trust Fund endowment payments |
| **Total capital budget AME** |
| **Total capital budget** |
| *of which:* |
| Capital expenditure on fixed assets net of sales† |
| Less depreciation*** |
| Net capital expenditure on tangible fixed assets |

* Expenditure by the department and NDPBs on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.

** This does not include loans written off by mutual consent that score within non-cash Resource Budgets.

***Included in Resource Budget.

| 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn | 2005-06 Outturn†† | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|
| **187** | **222** | **408** | **377** | **303** | **256** | **261** | **255** | **248** |
| 101 | 122 | 226 | 279 | 224 | 188 | 193 | 188 | 183 |
| 63 | 72 | 142 | 50 | 40 | 42 | 43 | 42 | 41 |
| 14 | 15 | 32 | 36 | 29 | 16 | 16 | 16 | 16 |
| 9 | 13 | 8 | 12 | 11 | 10 | 9 | 9 | 9 |
| **187** | **222** | **408** | **377** | **303** | **256** | **261** | **255** | **248** |
| 187 | 222 | 408 | 377 | 301 | 256 | 257 | 251 | 245 |
| - | - | - | - | 2 | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| **-** | **400** | **228** | **444** | **256** | **240** | **260** | **360** | **470** |
| - | 400 | 228 | 444 | 256 | 240 | 260 | 360 | 470 |
| **-** | **400** | **228** | **444** | **256** | **240** | **260** | **360** | **470** |
| **187** | **622** | **636** | **822** | **559** | **496** | **521** | **615** | **718** |
| 187 | 222 | 408 | 377 | 301 | 256 | 257 | 251 | 245 |
| 225 | 136 | 291 | 159 | 201 | 177 | 179 | 175 | 170 |
| -37† | 86 | 117 | 219 | 100 | 82 | 78 | 76 | 75 |

† The 2002-03 outturn for this figure was previously mis-stated in the 2007 Departmental Report.

†† 2005-06 outturn figures published in the 2007 Departmental Report in Tables 1, 2 and 3 have been revised in this report. The 'utilisation of provision' costs for the Child Trust Fund are identified in this report as capital grant. Last year this was shown as a resource cost. The total departmental spending for 2005-06 remains unaffected by this change.

# Annex E: Spending plans

**Table 4: Capital employed (£m)**

| | 2002-03 Outturn* | 2003-04 Outturn* | 2004-05 Outturn* | 2005-06 Outturn* | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|---|
| **Assets and liabilities on the balance sheet at end of year:** | | | | | | | | | |
| **Assets**<br>Fixed assets | 685 | 808 | 966 | 1,235 | 1,305 | 1,400 | 1,556 | 1,634 | 1,662 |
| Intangible | 3 | 7 | 17 | 11 | 8 | 6 | 5 | 4 | 4 |
| Tangible | 682 | 801 | 949 | 1,224 | 1,297 | 1,394 | 1,551 | 1,630 | 1,658 |
| *of which:*<br>Freehold land and buildings | 6 | 5 | 90 | 94 | 91 | 107 | 105 | 114 | 112 |
| Accommodation refurbishment | 58 | 82 | 94 | 81 | 82 | 72 | 63 | 55 | 46 |
| Computers | 150 | 129 | 79 | 94 | 76 | 59 | 68 | 72 | 74 |
| Vehicles | 14 | 15 | 15 | 13 | 9 | 7 | 9 | 9 | 10 |
| Furniture and fittings | 74 | 78 | 58 | 57 | 56 | 36 | 34 | 32 | 30 |
| Developed computer software | 161 | 335 | 410 | 551 | 718 | 867 | 1,024 | 1,130 | 1,195 |
| Assets under construction | 167 | 100 | 143 | 270 | 225 | 211 | 211 | 179 | 152 |
| Vessels | 14 | 18 | 21 | 21 | 19 | 18 | 16 | 15 | 13 |
| Scientific Aids | 38 | 39 | 39 | 43 | 21 | 17 | 21 | 24 | 26 |
| Debtors falling due after more than one year | 178 | 177 | 216 | 195 | 180 | 167 | 154 | 142 | 131 |
| Current assets | 369 | 400 | 406 | 448 | 538 | 565 | 582 | 593 | 604 |
| Creditors (< 1 year) | -412 | -626 | -1,153 | -1,165 | -1,132 | -1,129 | -1,154 | -1,176 | -1,199 |
| Creditors (> 1 year) | - | - | -182 | -186 | -189 | -192 | -197 | -201 | -205 |
| Provisions | -71 | -481 | -332 | -244 | -258 | -297 | -251 | -320 | -327 |
| **Capital employed within main department** | **749** | **278** | **-79** | **283** | **444** | **514** | **690** | **672** | **666** |
| NDPB net assets | | | | | | | | | |
| **Total capital employed in departmental group** | **749** | **278** | **-79** | **283** | **444** | **514** | **690** | **672** | **666** |

* Figures from 2002-03 to 2005-06 reported in earlier Departmental Reports have been re-stated. This includes a revision to the treatment of Child Trust Fund creditors from 2004-05 onwards.

## Table 5: Administration costs (£m)

| | 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn | 2005-06 Outturn | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|---|
| **Administration Expenditure** | | | | | | | | | |
| Paybill | 2,241 | 2,496 | 2,648 | 2,751 | 2,904 | 2,786 | - | - | - |
| Other | 1,591 | 1,599 | 1,754 | 1,828 | 1,870 | 1,845 | - | - | - |
| **Total administration expenditure** | **3,833** | **4,095** | **4,402** | **4,580** | **4,774** | **4,631** | **4,527** | **4,417** | **4,308** |
| Administration income | -206 | -239 | -250 | -334 | - 275 | - 329 | -261 | -257 | -252 |
| **Total administration budget** | **3,627** | **3,856** | **4,152** | **4,246** | **4,499** | **4,302** | **4,266** | **4,160** | **4,056** |
| **Analysis by activity** | | | | | | | | | |
| To improve the extent to which individuals and businesses pay the amount of tax due and receive the credits/payments to which they are entitled. | 2,798 | 2,970 | 3,185 | 3,250 | 3,444 | 3,296 | 3,262 | 3,181 | 3,102 |
| To improve customers' experience of HMRC and improve the UK business environment. | 474 | 503 | 550 | 582 | 617 | 734 | 727 | 709 | 691 |
| To reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being. | 365 | 387 | 423 | 418 | 443 | 280 | 277 | 270 | 263 |
| Providing timely, accurate, impartial and best value solutions in respect of valuation services for rating, council tax and other public sector purposes. | -10 | -4 | -6 | -4 | -5 | -8 | - | - | - |
| **Total administration budget** | **3,627** | **3,856** | **4,152** | **4,246** | **4,499** | **4,302** | **4,266** | **4,160** | **4,056** |

## Table 6: Staff numbers*

| | 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn | 2005-06 Outturn | 2006-07 Outturn | 2007-08 Outturn | 2008-09 Plans*** |
|---|---|---|---|---|---|---|---|
| Permanent Staff | 89,494 | 95,896 | 98,821 | 95,337 | 91,373 | 85,769 | 82,865 |
| Overtime | 1,405 | 1,452 | 822 | 783 | 750 | 1,032 | 1,032 |
| Casuals** | 433 | - | - | - | - | - | - |
| **Total** | **91,332** | **97,348** | **99,643** | **96,120** | **92,123** | **86,801** | **83,897** |
| Valuation Office Agency | 3,970 | 4,510 | 4,955 | 5,084 | 4,425 | 4,092 | 3,937 |
| Overtime | 68 | 60 | 33 | 23 | 58 | 17 | 1.63 |
| Casuals** | 20 | - | - | - | - | - | 0 |
| **Total** | **4,058** | **4,570** | **4,988** | **5,107** | **4,483** | **4,109** | **3,939** |

* Calculated on a Staff Year Usage basis.

** From July 2002 the Fixed term Employee (prevention of Less Favourable Treatment) Regulations 2002 means that all casuals are treated as other fixed term employees.

*** The plans reflect our current staff year usage over each year based on our forecast staff in post plans.

# Annex E: Spending plans

## Country and regional analysis

1. **Tables 7, 8 and 9** show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2008. The figures were taken from the HM Treasury public spending database in December 2007 and the regional distributions were completed in January and February 2008. **Therefore the tables may not show the latest position and are not consistent with other tables in the Departmental Report.**

2. The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.

3. TES is a near-cash measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2008.

4. The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded.

5. Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

6. The functional analyses of spending in **table 9** are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in chapter 9 of PESA 2008. These are not the same as the strategic priorities shown elsewhere in the report.

7. The total identifiable expenditure in Table 7 shows non-pay HMRC expenditure rising from £15.0 to £31.1 billion between 2002-03 and 2010-11. In the first year over 95% of this expenditure is accounted for by Child Benefit, Working Families Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC). In subsequent years over 95% is accounted for by Child Benefit, Working Tax Credit (WTC) and Child Tax Credit (CTC).

## Table 7: Identifiable expenditure on services, by country and region (£m)

| | 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn* | 2005-06 Outturn* | 2006-07 Outturn | 2007-08 Plans | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|---|
| North East | 730.7 | 906.1 | 990.4 | 1074.5 | 1121.4 | 1159.6 | 1275.4 | 1369.7 | 1402.7 |
| North West | 1963.9 | 2432.2 | 2665.6 | 2907.7 | 3063.7 | 3193.5 | 3508.7 | 3766.5 | 3857.7 |
| Yorkshire and Humberside | 1445.1 | 1787.5 | 1946.5 | 2152.2 | 2272.3 | 2364.5 | 2583.4 | 2774.5 | 2841.6 |
| East Midlands | 1126.9 | 1430.8 | 1554.1 | 1723.7 | 1824.1 | 1887.2 | 2050.9 | 2199.7 | 2252.4 |
| West Midlands | 1475.4 | 1861.0 | 2050.9 | 2268.9 | 2393.0 | 2493.3 | 2731.5 | 2931.4 | 3002.6 |
| Eastern | 1266.7 | 1678.7 | 1798.1 | 1978.8 | 2112.1 | 2183.8 | 2363.8 | 2528.1 | 2588.9 |
| London | 1638.8 | 1969.0 | 2126.7 | 2835.4 | 3070.8 | 3285.4 | 3644.5 | 3903.9 | 3995.9 |
| South East | 1811.4 | 2241.3 | 2656.2 | 2797.2 | 2965.4 | 3052.7 | 3294.4 | 3518.5 | 3602.6 |
| South West | 1224.7 | 1785.0 | 1975.6 | 1856.7 | 1953.3 | 2001.6 | 2162.7 | 2316.7 | 2371.7 |
| **Total England** | **12683.7** | **16091.6** | **17764.0** | **19595.2** | **20776.1** | **21621.5** | **23615.3** | **25308.8** | **25916.1** |
| Scotland | 1298.3 | 1633.0 | 1779.6 | 1935.0 | 2015.3 | 2078.3 | 2270.1 | 2434.3 | 2492.1 |
| Wales | 801.8 | 1020.2 | 1117.9 | 1216.9 | 1271.3 | 1314.9 | 1444.5 | 1550.4 | 1588.1 |
| Northern Ireland | 222.7 | 666.2 | 724.7 | 779.7 | 820.9 | 848.3 | 934.3 | 1002.0 | 1026.8 |
| **Total UK identifiable expenditure** | **15006.5** | **19410.9** | **21386.2** | **23526.8** | **24883.7** | **25863.0** | **28264.2** | **30295.5** | **31023.1** |
| Outside UK | 11.8 | 26.8 | 33.0 | 100.7 | 59.3 | 55.8 | 59.9 | 64.5 | 65.9 |
| **Total identifiable expenditure** | **15018.3** | **19437.7** | **21419.2** | **23627.5** | **24943.0** | **25918.8** | **28324.0** | **30360.0** | **31089.0** |
| Non-identifiable expenditure | 3638.3 | 4034.9 | 4447.7 | 4574.9 | 4690.1 | 4503.3 | 4356.5 | 4250.0 | 4146.0 |
| **Total expenditure on services** | **18656.5** | **23472.6** | **25867.0** | **28202.4** | **29633.0** | **30422.2** | **32680.5** | **34610.0** | **35235.0** |

* Outturn figures for 2004-05 and 2005-06 published in Tables 7 and 8 of the 2007 Departmental Report have been revised.

## Table 8: Identifiable expenditure on services by country and region, per head (£'s per head)

| | 2002-03 Outturn | 2003-04 Outturn | 2004-05 Outturn* | 2005-06 Outturn* | 2006-07 Outturn | 2007-08 Plans | 2008-09 Plans | 2009-10 Plans | 2010-11 Plans |
|---|---|---|---|---|---|---|---|---|---|
| North East | 287.6 | 356.5 | 389.6 | 421.4 | 438.8 | 455.0 | 499.0 | 534.3 | 545.4 |
| North West | 289.7 | 357.7 | 390.9 | 425.1 | 447.0 | 462.9 | 505.8 | 539.9 | 549.8 |
| Yorkshire and Humberside | 288.9 | 355.5 | 384.4 | 421.4 | 441.9 | 457.8 | 496.2 | 528.6 | 537.0 |
| East Midlands | 266.9 | 336.3 | 362.2 | 398.3 | 418.0 | 429.5 | 462.5 | 491.4 | 498.6 |
| West Midlands | 278.6 | 350.3 | 385.0 | 424.0 | 445.9 | 462.6 | 503.9 | 537.7 | 547.6 |
| Eastern | 233.2 | 306.6 | 326.3 | 355.7 | 376.7 | 385.9 | 413.5 | 437.8 | 443.9 |
| London | 222.6 | 267.4 | 287.8 | 380.3 | 408.8 | 433.7 | 477.2 | 506.9 | 514.5 |
| South East | 225.1 | 277.1 | 326.9 | 341.8 | 360.0 | 368.2 | 394.2 | 417.7 | 424.3 |
| South West | 246.3 | 356.6 | 391.9 | 365.0 | 381.2 | 387.1 | 414.1 | 439.3 | 445.3 |
| **Total England** | **255.4** | **322.7** | **354.5** | **388.3** | **409.3** | **423.2** | **458.7** | **487.8** | **495.6** |
| Scotland | 256.8 | 322.9 | 350.4 | 379.8 | 393.9 | 404.5 | 440.2 | 470.4 | 480.1 |
| Wales | 274.6 | 348.0 | 379.4 | 412.0 | 428.7 | 441.3 | 482.6 | 515.5 | 525.4 |
| Northern Ireland | 131.3 | 391.3 | 423.7 | 452.2 | 471.3 | 481.8 | 526.8 | 560.8 | 570.6 |
| **Total UK identifiable expenditure** | **253.0** | **325.9** | **357.4** | **390.6** | **410.7** | **424.2** | **460.2** | **489.8** | **497.9** |

* Outturn figures for 2004-05 and 2005-06 published in Tables 7 and 8 of the 2007 Departmental Report have been revised.

# Annex E: Spending plans

**Table 9: Identifiable expenditure on services by function, country and region, for 2006-07 (£m)**

| | North East | North West | Yorkshire and Humberside | East Midlands | West Midlands | Eastern | London | South East |
|---|---|---|---|---|---|---|---|---|
| **General public services** | | | | | | | | |
| Executive and legislative organs, financial and fiscal affairs, external affairs | 9.8 | 28.0 | 20.7 | 18.6 | 22.4 | 27.6 | 49.5 | 45.0 |
| General public services n.e.c. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 |
| **Total general public services** | **9.8** | **28.0** | **20.7** | **18.6** | **22.4** | **27.6** | **49.5** | **45.0** |
| **Economic affairs** | | | | | | | | |
| Mining, manufacturing and construction | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| R&D economic affairs | 5.8 | 16.7 | 12.3 | 11.1 | 13.3 | 16.5 | 29.5 | 26.5 |
| **Total economic affairs** | **8.2** | **16.7** | **12.3** | **11.1** | **13.3** | **16.5** | **29.5** | **26.5** |
| **Environment protection** | | | | | | | | |
| Environmental protection n.e.c | 0.2 | 0.6 | 0.4 | 0.4 | 0.5 | 0.6 | 1.1 | 0.9 |
| **Total environment protection** | **0.2** | **0.6** | **0.4** | **0.4** | **0.5** | **0.6** | **1.1** | **0.9** |
| **Social protection** | | | | | | | | |
| Old age | 3.0 | 7.4 | 6.5 | 5.7 | 6.1 | 6.5 | 7.0 | 7.4 |
| Family and children | 432.3 | 1212.7 | 882.3 | 741.02 | 962.1 | 955.2 | 1332.9 | 1393.3 |
| Social exclusion n.e.c. | 667.6 | 1797.4 | 1349.4 | 1046.61 | 1387.8 | 1104.8 | 1649.2 | 1490.6 |
| Housing | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Social protection n.e.c. | 0.3 | 0.9 | 0.7 | 0.6 | 0.7 | 0.9 | 1.6 | 1.5 |
| **Total Social protection** | 1103.2 | 3018.5 | 2238.9 | 1794.0 | 2356.8 | 2067.5 | 2990.8 | 2892.9 |
| **TOTAL FOR HMRC** | 1121.4 | 3063.7 | 2272.3 | 1824.0 | 2392.9 | 2112.1 | 3070.8 | 2965.3 |

| South West | England | Scotland | Wales | Northern Ireland | UK Identifiable expenditure | OUTSIDE UK | Total Identifiable expenditure | Not Identifiable | £'s Millions Totals |
|---|---|---|---|---|---|---|---|---|---|
| 22.5 | 243.9 | 22.7 | 10.8 | 6.6 | 283.9 | 0.0 | 283.9 | 4690.1 | 4974.0 |
| 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 |
| **22.5** | **244.0** | **22.7** | **10.8** | **6.6** | **284.1** | **0.0** | **284.1** | **4690.1** | **4974.2** |
| 0.0 | 2.4 | 2.7 | 0.0 | 0.0 | 5.1 | 0.0 | 5.1 | 0.0 | 5.1 |
| 13.4 | 145.0 | 13.6 | 6.4 | 4.0 | 169.0 | 0.0 | 169.0 | 0.0 | 169.0 |
| **13.4** | **147.5** | **16.3** | **6.4** | **4.0** | **174.1** | **0.0** | **174.1** | **0.0** | **174.1** |
| 0.5 | 5.2 | 0.5 | 0.2 | 0.1 | 6.0 | 0.0 | 6.0 | 0.0 | 6.0 |
| **0.5** | **5.2** | **0.5** | **0.2** | **0.1** | **6.0** | **0.0** | **6.0** | **0.0** | **6.0** |
| 10.0 | 59.6 | 6.1 | 3.0 | 1.3 | 70.0 | 0.0 | 70.0 | 0.0 | 70.0 |
| 822.2 | 8733.9 | 815.6 | 503.5 | 340.1 | 10393.0 | 16.5 | 10409.5 | 0.0 | 10409.5 |
| 1083.9 | 11577.3 | 1153.4 | 747.0 | 468.6 | 13946.2 | 42.8 | 13989.0 | 0.0 | 13989.0 |
| 0.1 | 0.7 | 0.1 | 0.0 | 0.0 | 0.8 | 0.0 | 0.8 | 0.0 | 0.8 |
| 0.8 | 8.1 | 0.8 | 0.4 | 0.2 | 9.4 | 0.0 | 9.4 | 0.0 | 9.4 |
| 1916.9 | 20379.4 | 1975.8 | 1253.9 | 810.3 | 24419.4 | 59.3 | 24478.7 | 0.0 | 24478.7 |
| 1953.3 | 20776.1 | 2015.3 | 1271.3 | 820.9 | 24883.6 | 59.3 | 24943.0 | 4690.1 | 29633.0 |

# Annex F: Statistics and other information

## Complaints

This year, we have introduced a new way to report complaints. This new framework gives a clearer impression of where complaints arise in the department.

As this new framework is not completely directly comparable with the previous framework, we have not repeated previous years' data here. That information can be found in the 2007 HMRC Departmental Report.

However, we can report that the total number of complaints has fallen from 99,139 to 81,375. Complaints related to the Tax Credit Office have fallen sharply (from 54,483 to 38,528). These numbers include complaints regarding mistakes, delays, poor or misleading advice or guidance and staff behaviour. Matters that can be appealed to the VAT and Duties Tribunal, the General or Special Commissioners, the Appeals Service or the courts, such as a disputed assessment or liability decision, or the seizure or restoration of goods or vehicles, are excluded.

**Complaints 2007-08**

| Business Activity | Total |
|---|---|
| Charity, Assets and Residence | 801 |
| Child Benefit Office | 2,612 |
| Contact Centres | 5,905 |
| Debt Management & Banking | 4,204 |
| Distributed Processing Office | 7,293 |
| Enquiry Centres | 99 |
| Local Compliance | 2,583 |
| Law Enforcement | 1,567 |
| Large Processing Office | 5,174 |
| National Teams & Special Civil Investigations | 2,350 |
| National Insurance Contributions | 4,496 |
| National Operational Services | 1,232 |
| Online Services | 514 |
| Stamp Taxes | 1,867 |
| Tax Credit Offices | 38,528 |
| Valuation Office Agency | 2,150 |
| **Totals** | **81,375** |

HMRC paid compensation of £2.65 million to its customers during 2007-08, compared to £2.46 million paid during 2006-07 and £3.2 million paid during 2005-06.

## Number of Senior Civil Servants

On 1 April 2008 HMRC employed 444 Senior Civil Servants (SCS).

| SCS Grade | Number (at 1 April 2008) |
|---|---|
| SCS1 | 322 |
| SCS1A | 75 |
| SCS2 | 37 |
| SCS3 | 9 |
| Permanent Secretary | 1 |
| **Total** | **444** |

There were 17 SCS on secondment to other departments and the private sector. 15 people were on temporary promotion into the SCS for development purposes.

The number of SCS posts in HMRC has increased by 4.9% (21 posts) over the last 12 months. These posts were created to lead change in the business. The longer term strategy is to reduce the number of SCS posts as we obtain stability and to refresh the SCS cadre through increasing the number of exits.

## Recruitment practice

We use an online external recruitment process for large scale recruitment campaigns and will shortly be introducing an online approach for the recruitment of specialist posts.

We recruited 2,812 people in 2007-08, the majority at Administrative Assistant and Assistant Officer level. Of these, 1,080 were on fixed term appointments. 18 people were recruited at Senior Civil Servant level. The Graduate Development Programme successfully recruited 65 people to its four year programme.

The majority of staff recruited into permanent roles have been in our Contact Centre business and specialist areas such as legal, statistical and other professions. A number of senior HR Business Partners have also been recruited to strengthen our leadership teams.

We operate controls on the level of external recruitment to ensure that staff who are potentially surplus are redeployed as a priority into permanent posts. These controls have been critical in meeting our efficiency targets (see page 70). Approval has been given for recruitment (both permanent and fixed term appointments) where this was necessary to support business performance. We plan to continue to control external recruitment, bringing in resource and skills where needed, in a similar way to ensure that we can implement Workforce Change plans and deliver business efficiently.

Our external recruitment procedures are audited internally on an annual basis to ensure compliance with the Civil Service Commissioners' Recruitment Code. We have continued to strengthen the process of security checks we make upon successful applicants. All staff recruited are subject to the checks required by the Cabinet Office Baseline Security Standards before they can start work. We are currently taking part in a National Audit Office review of external recruitment processes across the main Civil Service departments.

# Annex F: Statistics and other information

## Health and safety

As part of our drive for continuous improvement, we have kept our governance arrangements for health and safety under constant review.

We have brought our arrangements for managing health and safety into line with published best practice and international standards. Consultation with Departmental Trade Unions has developed at both regional and central level and we have reached agreement on a range of proposals and new departmental guidance including control of risks relating to display screen equipment, manual handling and stress.

Our Occupational Health Service provides specialist advice and support to prevent and protect against ill health, notably from ergonomic problems and potential exposure to substances hazardous to health. It also continues to advise in support of our commitment to facilitating return to work after ill health and on making reasonable adjustments for staff in the workplace.

We have introduced a new system for reporting and recording of accidents, injuries, ill health and incidents of violence. It has already helped to inform and improve our risk control and contributed to refining the way we measure our health and safety performance.

### Accident and ill-health statistics

| *RIDDOR – Defined Injuries and other Incidents | |
|---|---|
| Fatal Injuries | 0 |
| Major Injuries | 29 |
| Dangerous Occurrences | 0 |
| Over 3 Day Injuries | 123 |
| Ill health | 33 |
| Other over 3-day injuries (Road Traffic Accidents) | 10 |
| Ill health other (work related stress) | 136 |
| Minor injuries | 1,174 |
| Reports of violence and verbal abuse | 324 (179 violence & 145 verbal abuse) |

## Sickness absence

10.3 average working days per person were recorded as sickness absence during 2007-08. This compares to 10.0 average working days per person in 2006-07.

* RIDDOR: Reporting of Injuries Diseases and Dangerous Occurrences Regulations

## Consultancy and professional services

We employ consultants in a variety of roles where there is a need to buy in skills or expertise. These consultants are generally employed to help us in one of two areas: technology or business/management consultancy. Our spend on consultancy in 2007-08 was £59.1 million compared with £89.4 million in 2006-07.

We have enhanced governance of expenditure on consultancy and professional services, and improved value for money across the department. These revised governance processes require the Chairman's authorisation for non-competed engagements in excess of £50,000 and competed engagements over £250,000, with the result that we have seen an immediate reduction in total expenditure.

We have implemented new procurement tools (ERP and e-sourcing) that have improved our data analysis capability substantially. We now have sources of real-time information on what we are spending. This data analysis functionality also allows us to check that expenditure is correctly coded and adjust reports to present information with a high degree of confidence. In addition, we have also devised an education programme to share best practice in the employment of consultants with senior management across HMRC.

We are participating fully in the OGC Consultancy Value Programme. This programme looks to achieve better value for money through improved management of consultants both within departments and across government, and to improve levels of commercial awareness within government. We are helping OGC to develop practical tools and initiatives to improve the engagement and management of consultants across government. These initiatives have improved capability in business case preparation, post project review and assessment and the transfer of skills back in house.

# Annex F: Statistics and other information

## Summary of controlled drugs seizures

| Drug | Number of seizures | Weight of seizures (kg) |
|---|---|---|
| Heroin | 68 | 720 |
| Cocaine (including crack) | 1,279 | 3,120 |
| Ectasy | 25 | 171 |
| Other Synthetics[1] | 176 | 1,124 |
| Cannabis (herbal, resin and liquid) | 3,368 | 36,287 |

[1] Other Synthetics includes Amphetamines, Flunitrazepam, LSD and Methamphetamine.

## Prohibited and restricted goods

The following tables set out summary seizure statistics for the period 1 April 2007 to 31 March 2008.

**(a) Products of Animal Origin**

**(i) Summary**

| | Total number of seizures | Total weight of items seized (nearest kg) |
|---|---|---|
| | **24,802** | **182,370 (+12,508 litres)** |

**(ii) Weight of seizures by type of animal product**

| Animal Product | Number of items seized | Weight of items seized (nearest kg) |
|---|---|---|
| Meat | 14,067 | 77,230 |
| Fish | 7,056 | 46,463 |
| Dairy | 7,166 | 47,180 (+12,508 litres) |
| Honey | 1,483 | 11,496 |

Note:
- The totals for the number of times each type of animal product is seized exceed the total number of seizures because some seizuresinclude more than one category of animal product.
- The total weight in table (ii) is 182,369 and is not the same as the total weight shown in table (i). This is due to the rounding of seizure figures.

### (b) Items seized under the Convention on the International Trade in Endangered Species (CITES)

| | Number of seizures | Number of items seized | Weight of items seized (nearest kg) |
|---|---|---|---|
| Live animals and birds | 25 | 442 | n/a |
| Parts and derivatives of endangered species | 91 | 1,821 | 3 |
| Ivory | 15 | 130 | 10 |
| Plants | 9 | 22,245 | 9 |
| Other CITES listed species | 58 | 1,206 | 564 |
| Preparations of oriental medicines which include parts or derivatives of endangered species | 61 | 6,252 | 262 |

Note:
- CITES seizures are recorded by weight or by number of items seized, according to whichever is the most practical.
- Other CITES listed species include caviar, coral, ginseng and conch shells.
- The total number of CITES seizures is 255, as some seizures combine two or more categories.

### (c) Plants and plant product subject to plant health controls

| | Number of seizures | Weight of items seized (nearest kg) |
|---|---|---|
| Plants and plant products | 1,330 | 14,881 (+18,363 units) |

Note:
- These seizures includes plants, products and forestry items which are subject to plant health controls and which are not controlled as CITES species.
- Seizures of plant based goods are recorded by weight and not the number of items seized, while seizures of plants are recorded in units.

### (d) Pornography and Paedophilia

| | Number of seizures | Total number of items seized |
|---|---|---|
| Adult pornographic material | 564 | 6,404 |
| Paedophile material | 334 | 1,023 |

# Annex F: Statistics and other information

**(e) Firearms, offensive weapons, explosives, fireworks etc.**

| | Number of seizures | Total number of items seized |
|---|---|---|
| Rifles and handguns | 101 | 320 |
| Shotguns | 4 | 6 |
| Parts of firearms | 28 | 69 |
| Ammunition | 74 | 6,092 |
| Stun guns | 291 | 539 |
| Self defence sprays | 332 | 1,308 |
| Knives and other offensive weapons | 1,571 | 3,270 |
| Fireworks, pyrotechnic articles and explosive materials | 10 | 95 |

Note:
- Rifles and handguns include automatic weapons, air and gas guns and readily convertible replica guns.
- Other offensive weapons include martial arts weapons, knuckledusters, sword sticks, blowpipes and truncheons.

**(f) Other prohibited and restricted goods seized**

| | Number of seizures | Total number of items seized |
|---|---|---|
| Exports of strategic goods and goods to embargoed destinations | 55 | 1,812 |
| Radio transmitters | 2 | 2 |
| Cultural goods | 1 | 25 |
| Goods breaching intellectual property rights | 1,268 | 3,000,193 |
| Rough diamonds | 1 | 0.08 carat |

Note:
- Strategic Goods are defined as all items on the UK Military List and Dual-Use goods under EC Regulation 1334/2000 that require export licences.
- Embargoed destinations are those countries that are subject to UN, EU, the Organisation for Security and Co-operation in Europe and UK arms embargoes.

## Payments to informers

In the financial year 2007-08 we made disbursements from our annual resource allocation totalling £155,950 to recompense non-departmental individuals for information that supported our PSA targets.

# Annex G: Publicity and advertising

**In 2007-08 we spent just over £14.5m on marketing campaigns, making sure that customers understand their obligations and entitlements. We work through many media channels, including TV, radio, press, online and outdoor advertising, exhibitions and through partners and intermediaries to target our customers in the right place at the right time.**

Last financial year we used broadcast media campaigns to:

- Encourage people to renew their tax credits claims and to inform us about any changes to their circumstances
- Prompt new parents to open a Child Trust Fund account for their child
- Maintain awareness of the deadlines for doing their Self Assessment tax return
- Make sure new and small businesses register with us, know where to get help to get their returns right, and what the key deadlines are
- Facilitate a smooth transition to the new Construction Industry Scheme.

We also used more targeted channels to:

- Improve the relationship with the agent community by providing regular, timely communications products through their representative bodies
- Trial a more sophisticated way to use direct mail to improve voluntary compliance among businesses
- Make Polish-speaking hauliers and lorry drivers aware of the rules on tobacco smuggling
- Make sure people at airports and ports are aware of what you can and can't bring into the country, including traveller's allowance and illegal foodstuffs
- Remind the drinks industry about the new Duty Stamps scheme
- Speak to customers face-to-face through attending over 35 exhibitions events nationally.

All our campaigns are evaluated through research with customers to make sure that they offer good value for money and that they communicate effectively and support HMRC's Ambition.

# Glossary

| | |
|---|---|
| **ABAB** | Administrative Burdens Advisory Board |
| **AEO** | Authorised Economic Operator |
| **AME** | Annually Managed Expenditure |
| **BME** | Black & Minority Ethnic |
| **CCA** | Contact Centres Association |
| **CCR** | Compliance Cost Review |
| **CIS** | Construction Industry Scheme |
| **CITES** | Convention on the International Trade in Endangered Species |
| **COFOG** | Classification of the Functions of Government |
| **CPD** | Continuous Professional Development |
| **CRA** | Country & Regional Analysis |
| **CSR07** | 2007 Comprehensive Spending Review |
| **CTC** | Child Tax Credit |
| **CTF** | Child Trust Fund |
| **DCA** | Department for Constitutional Affairs |
| **DEL** | Department Expenditure Limits |
| **DPTC** | Disabled Persons Tax Credit |
| **DSO** | Departmental Strategic Objective |
| **DTP** | Departmental Transformation Programme |
| **DWP** | Department for Work and Pensions |
| **EAC** | Executive & Advisors Committee |
| **ExCom** | Executive Committee |
| **FTE** | Full Time Equivalent |
| **IA** | Impact Assessment |
| **ICU** | Individuals Customer Unit |
| **IM** | Information Management |
| **IP** | Intellectual Property |
| **KPI** | Key Performance Indicator |
| **LRO** | Legislative Reform Order |
| **LRRA** | Legislative & Regulatory Reform Act |
| **MTIC** | Missing Trader Intra-Community |

| | |
|---|---|
| **MPPC** | Modernising PAYE Processes for Customers |
| **NIC** | National Insurance Contributions |
| **NIRS** | National Insurance Recording System |
| **NDPB** | Non-Departmental Public Body |
| **OECD** | Organisation for Economic Co-operation & Development |
| **OGC** | Office of Government Commerce |
| **PAC** | Committee of Public Accounts |
| **PAYE** | Pay As You Earn |
| **PBR** | Pre-Budget Report |
| **PESA** | Public Expenditure Statistical Analysis |
| **POAO** | Products of Animal Origin |
| **PSA** | Public Service Agreement |
| **RCPO** | Revenue & Customs Prosecution Service |
| **SA** | Self Assessment |
| **SCS** | Senior Civil Service |
| **SDLT** | Stamp Duty Land Tax |
| **SME** | Small & Medium-sized Enterprise |
| **SOCA** | Serious Organised Crime Agency |
| **SR04** | 2004 Spending Review |
| **TCO** | Tax Credit Office |
| **TEEL** | Targeted Education, Enabling and Leverage |
| **TES** | Total Expenditure on Services |
| **TGAP** | Tackling Gangs Action Programme |
| **UKBA** | United Kingdom Border Agency |
| **VAT** | Value Added Tax |
| **VFM** | Value for Money |
| **VOA** | Valuation Office Agency |
| **WFC** | Workforce Change |
| **WFTC** | Working Family Tax Credit |
| **WTC** | Working Tax Credit |

# Notes

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