Departmental Report
Integrating and growing stronger
Spring 2007
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Contents

6 Chairman's Foreword
8 Introduction
10 Departmental Board
14 Organisation
16 Section 1: Progress of HMRC
   1.1 Integration so far
   1.2 How we are organised
20 Section 2: Review of the year 2006-07
   2.1 Progress against the 2006-07 Remit
   2.2 Revenue collection
   2.3 Paying entitlements
   2.4 The Customer Experience
   2.5 Simplifying our Processes
   2.6 Budget Changes
   2.7 Corporate Services
   2.8 Consultancy and Professional Services
   2.9 Major Publicity Campaigns
   2.10 Departmental Investment Strategy
34 Section 3: SR04 Latest assessment
   Objective I
   Objective II
   Objective III
   Other work
   Efficiency
56 Annex A: Remit 2007-08
59 Annex B: Valuation Office Agency
61 Annex C: Better Regulation report
64 Annex D: Committee of Public Accounts (PAC) recommendations
66 Annex E: Spending plans
76 Annex F: Statistical information
   • Complaints
   • P&R Seizures
   • Updated information: Excise Fraud (tobacco statistics)
Chairman’s Foreword

I am very pleased to introduce this Departmental Report. Not only is it the first time that HMRC has combined its Spring Departmental Report and Annual Report but it is also my first report since being confirmed as Executive Chairman.

We continue to make good progress against the Public Service targets set for us by Government. It is barely 2 years since we merged the Inland Revenue and Customs and Excise and the received wisdom is that performance drops when major re-structuring takes place. It hasn’t. I am very proud of that achievement, both because of what it says about the huge and successful efforts of my committed and capable workforce and because we are delivering good value for money for the taxpayer.

In particular revenues are up for the second consecutive year, the tax credit system is working better, we are ahead of schedule on efficiencies and productivity and we have had major successes in detecting and disrupting VAT fraud resulting in much reduced losses from fraudulent activity. Our new merged financial accounting system and integrated desktop IT systems are contributing significantly both to efficiencies and to the feeling of being a single Department.

I am pleased with the advances made in development of our online services, including progress towards achieving universal delivery of online business tax returns and greatly increased take up of online filing of Self-Assessment tax returns.

We have made good progress too in reducing the administrative burdens on business and in understanding, and being responsive to, ways in which people find it easier to deal with us. We have also made improvements in understanding and better targeting the non-compliant.

We have been working hard to translate our high level 5 year plan into a more detailed delivery model for transformation of services, within the funding envelope agreed with HM Treasury for the years up to 2010-11. It is stretching and ambitious but provides us with some certainty about the financial resources available with which to plan for the future. This means better services for the public, including the significant part we will play in the Transformational Government agenda and taking our own Corporate Responsibility plans forward.

We still have a lot to do and I am not complacent. A particular priority will be around developing further the management and leadership capability we need to deliver our transformation ambition. I am confident we will continue to build on our early successes as we take the Department forward.

Paul Gray
Executive Chairman
IT Developments

As part of one of the largest software upgrades in Europe we upgraded 1,100 file servers, 110,000 workstations (including 500 remote users and 100 home workers), and 120,000 mailboxes, and integrated 750 in-house software applications. All staff can now communicate freely across a shared platform that enables collaboration and drives efficiency.
Introduction

This report sets out how we are organised, what we are spending our money on, and what we are trying to achieve. It maps our goals, activities and planned expenditure for the next 12 months as well as providing an assessment of achievement against our Public Service Agreement targets over the last 12 months.

The report also covers progress against our efficiency targets, covers how we have performed against the Chancellor’s Remit and explains how we are adapting our policies and processes to meet our goals.

Our Responsibilities

We are responsible for collecting the majority of tax revenue as well as paying tax credits and child benefit, and strengthening the UK’s frontiers. We manage

- Income, Capital Gains, Corporation, Inheritance, Stamp, Land and Petroleum Revenue taxes
- Value Added Tax and Insurance Premium Tax
- Excise duties
- Customs duties and frontier protection
- Environmental taxes – climate change and aggregates levies and landfill tax
- National Insurance Contributions
- Tax Credits
- Child Benefit and Child Trust Fund
- Enforcement of National Minimum Wage
- Money Laundering Regulations, and
- Statutory payments.

We also administer the collection of student loans on behalf of the Department for Education and Skills.

Responsibility for the Office of the Paymaster General (OPG) transferred from HM Treasury to HMRC in April 2006. OPG is the largest shared service provider supplying banking services to some 900 bodies in the central public sector. They provide a full range of banking services to their customers to enable them to undertake their day to day business while retaining their balances in the Exchequer. Use of OPG services is not mandated under Government Accounting, therefore it operates in a competitive market where it aims to offer value for money. OPG will continue to actively market its services to public sector bodies.

On 2 April 2007, responsibility for businesslink.gov was assumed by HMRC. The site was previously managed by the Department of Trade and Industry.

Businesslink.gov.uk is a free website that currently provides cross-government support and services to help small and medium-sized businesses in the UK. It has over 13,000 pages of valuable information and provides practical advice on how to run a business.

In accordance with the principles outlined in the report ‘Service Transformation – a better service for citizens and businesses, a better deal for the taxpayer’, and working closely with other government departments, we will oversee the transformation of this website to enable it to become the single online channel for government information and transactions for all businesses in the UK by 2011.

1 Available on the HM Treasury website: www.hm-treasury.gov.uk
Our Role
Administering the UK’s tax and customs systems to ensure society’s financial wellbeing.

What we stand for
At HMRC we know most people and businesses want to do what’s right – to pay what they owe and claim only what they’re due.

We are committed to making it as easy as possible for our customers (taxpayers, claimants and others) to get it right.

We protect society by dealing firmly with anyone who intentionally avoids their responsibilities.

What we value most in our actions
Living by the Civil Service Code:

<table>
<thead>
<tr>
<th>Customer focus</th>
<th>Putting our customers at the heart of everything we do; understanding them and responding to their behaviours and expectations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>Believing our customers are honest unless we have good reason to doubt it.</td>
</tr>
<tr>
<td></td>
<td>Being trustworthy and trusting each other.</td>
</tr>
<tr>
<td>Support</td>
<td>Helping our customers to meet their obligations and receive their entitlements.</td>
</tr>
<tr>
<td></td>
<td>Working together and taking pride in delivering great performance.</td>
</tr>
<tr>
<td>Protect</td>
<td>Being vigilant and acting decisively in protecting society.</td>
</tr>
<tr>
<td></td>
<td>Behaving professionally and with integrity.</td>
</tr>
</tbody>
</table>
1. Paul Gray, CB, Commissioner and Executive Chairman

Paul joined HM Treasury in 1969 as an economist. In the late 1970s he spent two years as a corporate planner with Booker McConnell Ltd. Between 1988 and 1990 he was Economic Affairs Private Secretary to the Prime Minister. In 1990 Paul returned to the Treasury working on monetary policy, serving as a member of the EU Monetary Committee. He then became Head of Personnel and Central Services, and was also a non-executive director of Laing Management Ltd. From 1995-98 he was Director of Budget and Public Finances in the Treasury. In 1998 Paul joined what was then the Department of Social Security (DSS) as Head of Policy. He later became Second Permanent Secretary and Managing Director, Pensions and Disability in the Department for Work and Pensions (DWP) playing a major role in forming DWP through the merger of the former DSS, the Employment Service and parts of the Department for Education and Employment. Following the announcement of the merger of Inland Revenue and Customs and Excise, Paul was appointed as Deputy Chairman-designate of HMRC in 2004. He became Chairman in September 2006.

2. Mike Eland CB, Commissioner

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 as Deputy Director General in the Immigration and Nationality Department. Mike’s jobs with HM Customs and Excise included Director of Customs, dealing with policy in relation to international trade, drugs, pornography and trade sanctions and restrictions, and Director General of Business Services and Taxes, 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 a Director General and member of the HMRC Board and Executive Committee where he has portfolio responsibility for compliance strategy and operations, criminal investigation and intelligence, Excise and Stamp Taxes, and HMRC’s relationship with individuals.

3. Mike Hanson MBE, Commissioner

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 before moving to his present position of Director General Frontiers, Detection, Tax Credits & Benefits, Estates & Support Services and Chief People Officer.

4. Dave Hartnett CB, Commissioner

Dave joined the Inland Revenue in 1976. He worked for nearly 10 years on investigation work before becoming Director of Claims Branch in 1991 and then Director of the Financial Intermediaries and Claims Office, moving in 1996 to lead the technical team on income and benefits from employment. In 1998 he was appointed Director 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 joining the Board of Inland Revenue in the same year. Dave also led the development of tax credits and new share schemes, the introduction of tax disclosure rules in 2004 and for the UK in setting up the Joint International Tax Shelter Information Centre (JITSIC) in Washington DC. He leads for OECD countries on a study of tax intermediaries. Dave is currently Director General (Business) and has portfolio responsibility for the Large Business Service, Anti-Avoidance, Corporation Tax and VAT, Business Customer Unit and the Review of Powers.

5. Steve Lamey, Commissioner

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 BG Group as CIO and Vice President Information Management (IM). He became HMRC’s Chief Information Officer in October 2004. Steve is a Commissioner and Director General.

6. Stuart Cruickshank

Stuart joined HMRC as Director General and Chief Finance Officer in December 2006. Stuart is an Accounting and Finance graduate from the University of Lancaster and a fellow of the Chartered Institute of Management Accountants. He has a wide experience of working in large private sector organisations spanning the Leisure, Retail and Food Manufacturing industries. His most recent roles were as Group Finance Director for Morse plc and as a consultant for the Gerson Lehrman Group. Prior to this, Stuart was Chief Finance Officer of the video games company, Eidos. Stuart’s portfolio of responsibilities includes Finance, Internal Audit, Commercial and Debt Management & Banking.

7. David Hogg CB

David joined the Treasury Solicitor’s Department from private practice in 1978. He became an Assistant Treasury Solicitor in 1985 serving in various positions in the Treasury Solicitor’s Department. As Deputy Treasury Solicitor (1993-97) he oversaw the Department’s conversion to an Agency and the introduction of a charging regime. In 1997, David was appointed Solicitor and Legal Adviser to the Department for Environment, Transport and the Regions – a role he maintained in the Department for Transport, Local Government and the Regions and in the Office of the Deputy Prime Minister. In April 2004, he moved on loan to the Treasury where he worked on Equitable Life and Financial Sanctions. Separately he also provided legal advice to Lord Butler’s Review of Intelligence on Weapons of Mass Destruction. David joined HM Customs and Excise in October 2004 and was appointed Acting General Counsel and Solicitor to HMRC in April 2005. In March 2007 his appointment was made permanent.

8. Chris Hopson

Chris joined HMRC in January 2005 from the private sector. Prior to joining the Department, Chris had been Board level Corporate Affairs Director at Granada Media Group (subsequently ITV plc), the first Political Adviser at the Department of National Heritage (now DCMS) and National Secretary of the Social Democratic Party. He has also been Managing Director of a start up schools educational software business and both a communications and management consultant. Chris holds an MBA from Cranfield School of Management and is a Politics graduate from Sussex University. He also chairs the Foyer Federation, one of the UK’s leading youth homelessness charities. Chris is Communications and Marketing Director and also the Board’s Corporate Responsibility and Diversity champion.

9. Bernadette Kenny

Bernadette joined HMRC in May 2005, following a short period as acting Chief Executive of the Royal Parks. She had previously spent 24 years at the Department for Constitutional Affairs, 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. Bernadette is now Director General Customer Contact and Processing in HMRC.
Bill Griffiths
Bill is Non-Executive Chairman of the Forensic Science Service. He has an international finance and general management background, chiefly with Unilever – including spells abroad in Ghana, Nigeria and Cote d’Ivoire – and with ICI. He is also a Non-Executive Director and chairs the Audit Committees at the Department for International Development, at the Department for Environment, Food and Rural Affairs, and at the CSA. In addition to his work in the public sector, Bill is involved with university spin-out technology businesses in Manchester.

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.

Nick Macpherson
Nick joined the civil service in 1985 after spells working as an economist at the CBI and Peat Marwick Consulting. From 2001 to 2004 Nick was head of the Public Services Directorate, where he managed the 2000 and 2002 spending review processes. Previous Treasury posts include Director of Welfare Reform (1998 to 2001) and Principal Private Secretary to the Chancellor of the Exchequer (1993 to 1997) where he oversaw the transition from Kenneth Clarke to Gordon Brown. Nick was Managing Director of the Budget and Public Finance Directorate from 2004, when he oversaw the implementation of the review carried out by his predecessor as Permanent Secretary, Sir Gus O’Donnell. This involved the strengthening of the Treasury’s strategic tax policy function and forging relations with the new HM Revenue and Customs Department. Nick took over as Permanent Secretary to the Treasury on 2 August 2005.

Penny Melville-Brown
Penny’s first career was in the Royal Navy in which she reached the rank of Commander and became the first woman barrister. She also worked in NATO intelligence, corporate public relations, home defence planning, strategic personnel policy and lots more. She left the Navy in 1999 following the onset of visual impairment. She is a consultant on disability issues, holding several public appointments. Penny is a founding Director of Disability Dynamics Ltd, Chair of the Solent-based Diversity Works Partnership and is an Associate of the Employers Forum on Disability. Penny has provided external governance to the Department for Work and Pensions (and formerly, the Benefits Agency) on standards of benefit decision making with particular responsibility for Jobcentre Plus. She joined the Boards of HMRC and the Employment Tribunal Service in 2006. She previously chaired the Learning and Skills Council for Hampshire and the Isle of Wight.

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.

Kate Dunlop

Kate is a Member of the Employment Tribunal, a Non-Executive Director of the Registers of Scotland and a Member of the Scottish Local Authorities Remuneration Committee. She is adviser to various charitable trusts and provides consultancy on Strategic Development, Corporate Governance and Executive Coaching. She is an elected Fellow of the Royal Society of Arts. Kate was a career banker with Abbey National PLC with experience in Retail Finance, Insurance, Merger and Acquisitions and Human Resources.
The Commissioners are the legal foundation of the Department.

The Executive Committee (ExCom)
Highest-level management team, composed of the Commissioners and other top managers.
It has three sub-committees:
- Security Committee
  Strategic overview of security & Business Continuity
- Operating Committee
  Detailed oversight of the business
- Senior Appointments Board
  Approves top-level appointments

The Board
Provides strategic oversight of the Department composed of ExCom members and non-executive Board members.
It has three sub-committees:
- Audit Committee
  Provides independent assurance on governance, risk and control
- People Committee
  Advises on succession planning and talent management
- Corporate Responsibility Steering Group
  Provides independent advice on corporate responsibility

Top Level Governance
This diagram illustrates the relationship between the Board, the Executive Committee and other senior committees.
In March 2004 the Government announced the creation of a new revenue department and HM Revenue & Customs was officially created by the Commissioners of Revenue and Customs Act in April 2005. Since then great strides have been made to ensure a fully functioning, integrated department.
Progress of HMRC

1.1 Integration so far – an overview

The aim of creating a single Department was to lead to improvements in:

- customer service and compliance costs
- effectiveness, through alignment of strategies, a coherent approach to information etc, and
- efficiency, through economies of scale.

From the time that the merger was first announced we have concentrated on the delivery of existing priorities – maintaining ‘business as usual’, delivering improvements in performance and transforming the Department so that it is in a position to deliver further improvements in the longer term.

Bringing together two large organisations while maintaining ‘business as usual’ performance has been a significant challenge and one that has been successfully accomplished.

We put a lot of effort into building solid foundations by creating the right structures and processes. HMRC is structured around customers and functions rather than taxes, with four interrelated business streams – Customer Units, Operations, Product and Process Groups and Corporate Functions.

Merged HR policies and processes have been gradually coming into effect since the creation of the Department in April 2005; we implemented a new, merged, financial accounting system in April 2006 and a new merged single integrated IT infrastructure has now been rolled out.

These are significant achievements upon which we are now building.

Our aim is to deliver a customer-focused organisation by radically improving the way we do business. We will reduce our running costs by improving process management and sharing resources with other departments. We will also ensure that wilful non-compliance is detected and dealt with – the review of our Powers, Deterrent and Safeguards is integral to successful delivery of this aim.

We have reinforced our commitment to reducing the administrative burden for business and individual taxpayers and details of the excellent progress we are making in this area is detailed elsewhere in this report. We continue to develop our services and processes in consultation with key stakeholders.

What we have achieved so far has to be followed by actions that will realise the full range of benefits that will come from having an integrated Department. Our early Spending Review settlement announced in Budget 2006 set us the challenge of continuing with our service transformation while operating with a 5% cut in real terms in our budget each year from 2008-09 to 2010-2011. We also have £300 million available from a modernisation fund to help us transform how we do business between now and 2011.

We have created a Departmental Transformation Programme with constituent projects led from within the business units but managed centrally as one portfolio. Delivering our Transformation Programme will not be ‘the end of the story’, but we will have gone a long way towards achieving many of the benefits identified when HMRC was created.

Savings as a result of integration

The 2004 Spending Review set us the challenging target to reduce full-time equivalent (FTE) posts by 16,000 gross, 12,500 net of 3,500 redeployments to front-line areas, by 31 March 2008. Within that figure, as set out in the Regulatory Impact Assessment (RIA) accompanying the Commissioners for Revenue and Customs Act 1, approximately 3,200 FTE savings were to be achieved as a result of the integration of HM Customs and Excise and Inland Revenue.

It was anticipated that these savings would come initially through the formation of single organisations for Finance, HR, Large Business, IT and Estates. In addition, integration has offered the opportunities to make savings in areas such as debt management, contact centres and specialist compliance areas.

We have made good progress in all of these areas and are on track to achieve savings in the range of that envisaged. However, because of the business design and structural

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1 Available on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)
organisational changes that have taken place we are not readily able to quantify the efficiency savings directly attributable to integration itself, separately from savings achieved through more efficient work practices and processes. There have also been new efficiency initiatives since the merger that are making a significant contribution to the achievement of our efficiency targets.

By 31 March 2007 we had reduced staffing levels by a net 10,144 (FTE) posts – 81% of the 12,500 net target. We had also relocated 1,501 posts out of London and the South East – 77% of the target to move 1,950 posts by 1 April 2008.

The main opportunities for non-staff savings are in areas such as estates and procurement. Here too we are on track to achieve our SR04 targets. We are committed to reducing the size of our office network in line with business needs and being able to look at an estate comprising former IR and HMC&E buildings gives us the opportunity to maximise potential savings. As at 31 March 2007, we had closed or part vacated 79 properties since the merger. These changes have removed 68,428m² of office space from the Departmental portfolio worth £13.7 million in annual running cost savings.

The costs of integration

Prior to merger, we estimated that the known costs arising directly from the creation of HMRC would be of the order of £75 million over 2004-05 and 2005-06, including the preparatory costs of alignment of basic services, such as work to put the future IT desktop requirements of the departments on a common platform.

The total direct integration costs were £1.9 million in 2004-05 and included the HMRC brand costs and the website. IT costs were £10.3 million, some of which was refocused planned expenditure from the previous departments and £5.6 million on organisational design, creating early joint teams and HR processes. This totals £17.8 million.

As planned, we have, in the course of the last two years, successfully created a single IT desktop environment. This was a huge undertaking with over 100,000 desktops and laptops upgraded. The project was delivered on time and on budget. The preparatory costs of this work, taken together with the direct integration costs outlined above, were broadly in line with the estimate of £75 million.

As time progresses since merger, the specific attribution of costs, either to the merger or to the everyday business of the Department, has become increasingly artificial. We are, however, considering whether there is any more that can be done to quantify the direct costs of integration.

Progress on measures to reduce the cost of compliance

One of the aims of creating a single Department was to reinforce our commitment to reducing the costs incurred by both business and individual taxpayers in complying with their tax and legal obligations. We are currently reviewing the administrative rules for the main taxes. The work is being done alongside plans to reduce the administrative burdens on business, which are a component of compliance costs. We have made good progress towards the targets set at Budget 2006 to reduce the administrative burden on business of dealing with forms and returns, and audits and inspections. The establishment of the externally chaired Administrative Burdens Advisory Board (see Section 2.1 – Reducing the Administrative Burden) will ensure that we correctly prioritise further actions in this area.

There is more detail on all aspects of the integration process throughout this report.

1.2 How we are organised

The structure of HMRC comprises four inter-related groups:

Operations: which covers the vast majority of staff and focuses on delivering high quality, cost effective services. Broken down into business units whose core activities are:
- delivering customer contact, processing and operational compliance,
- delivering enforcement capabilities, and
- debt management and banking.

Corporate functions: comprising business units that guide and support HMRC. The majority of these units deliver cost effective customer focused services such as HR & Learning, Estates & Support Services, Communications and Marketing and Information Management Solutions.

Product and Process Groups: Products being taxes, duties, credits and benefits and Processes are the schemes by which products are delivered. Staff in these units are responsible for design, specification and providing advice, carrying out technical policy work and liaising with HM Treasury and Ministers.

Customer Units: focus on identifying and understanding the requirements and behaviours of our customers, and the risks associated with them so that we:
- make it easier for customers to comply
- improve the customer experience
- improve compliance, and
- reduce the cost of compliance.

Overall responsibility for the above groups lies with the Executive Committee (ExCom) whose members have portfolios that span the organisational model.
Construction Industry Scheme

The new Construction Industry Scheme was introduced from 6 April 2007. Monthly returns replace vouchers, lengthy paper work and the need for end of year returns. The scheme is designed to reduce administration and costs for both industry and the Department and allows most of the processes to be conducted online.
This section provides an overview of all aspects of our activities in 2006-07, beginning with an assessment of how we have performed against the priorities set out in last year’s Chancellor’s Remit.
Review of the year 2006-07

2.1 Remit 2006-07

Each year the Chancellor of the Exchequer writes to the Chairman setting out the general direction and priorities for HMRC over the following 12 months.

**Departmental Transformation Programme**

Our early CSR07 settlement was agreed on the basis that it would be underpinned by a programme of service transformation and an ambitious approach to efficiency (reducing spending by 5% per year in real terms). The early settlement also gives HMRC access to a modernisation fund to help provide the early investment needed to deliver the changes required to reduce our costs.

We have committed to a programme of service transformation that increases efficiency and improves effectiveness, through increased customer focus. This programme is known as the Departmental Transformation Programme (DTP). Its overarching strategic aims are:

- to create a customer focused organisation that:
  - transforms the customer experience, making it easier for the customer and HMRC to fulfil their obligations, and
  - improves effective management of revenue flows, ensuring that wilful non compliance (including at our borders) is detected and dealt with effectively,
- to reduce running costs by improving management of processes and assets, getting the best out of our people and sharing services with other Government departments.

**Tax Credits**

The Government announced a package of measures in PBR 2005 to ensure that the system strikes the right balance between providing a stable award and maintaining the ability to respond to changes. We are making good progress in implementing this package of measures, and this is already making a significant improvement to the way in which the tax credit system operates and to the outcomes for families.

Disregard We successfully implemented the increase of the disregard for increases in income between one tax year and the next from £2,500 to £25,000.

Renewal deadline This was moved forward by 1 month to the end of August in order to reduce the time that families were being paid tax credits calculated on out of date information. This was implemented successfully. It was supported by an advertising campaign throughout the period. The helpline increased its capacity to deal with a potentially more concentrated number of calls over a shorter time period. By 31 August we had finalised 4.3 million cases compared to 2.9 million cases on that date in the previous year. So 1.4 million fewer claimants were receiving provisional payments by 31 August.

As a result of this significant progress, the Government announced in PBR 2006 that the deadline for the return of renewal information will be moved forward a further month from 31 August to 31 July from 2007-08.

The package also included measures to help keep awards up to date:

- mandatory reporting – we wrote to all claimants to tell them about the new requirements from November 2006 on reporting changes of circumstances. This was supported by an advertising campaign;
- helping customers keep information up to date – we wrote to over 2 million families during late January and early February asking them to give up to date information on income, allowing provisional payments up to the time of renewal to be set more accurately and so helping to reduce overpayments.

Automatic limits on recovery of in-year overpayments The Government also announced that there would be automatic limits on the rates of recovery of overpayments where awards are adjusted in-year that result in reduced entitlement. Making this process automatic would have

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1 The 2006-07 Remit was published in full in the HMRC Spring Departmental Report 2006 (Cm6832) available on our website.
2 This is set out in Box 5.2 page 97 Pre Budget Report 2005 (Cm6701) available on the Treasury website: www.hm-treasury.gov.uk
3 Pre Budget Report 2006 (Cm 6984) is available on the Treasury website: www.hm-treasury.gov.uk
involved significant changes to the IT system and, after extensive testing, we concluded that it was not possible to make a risk free introduction to the original timetable. We therefore introduced a process involving IT-supported clerical action. In the vast majority of cases, in-year restriction takes effect by the next pay date or at worst by the following pay date. This mirrors what will be achieved by an automated restriction.

The overriding aim continues to be to implement changes safely without adding undue risk to the system’s performance in paying claimants. We are working hard to replace the current process with a fully automated solution. Based on the balance of risks and the need to implement this safely, we are planning to do this by June 2007.

**Review of Powers, Deterrents and Safeguards**

Our Review of Powers and Taxpayer Safeguards was one of the key elements of this remit. Following the publication of two general consultation documents1 we have made significant progress in the following specific areas:

- **Criminal Investigation Powers** – we published a consultation document in August 20062 seeking initial views on the statutory powers HMRC needs for investigating serious tax crime. Building on the responses to that document, we published another consultation document3 with more specific proposals for powers and safeguards, including draft legislation and explanatory material. This consultation closed on 13 March 2007 and, in the light of the responses, legislative proposals are being taken forward in Finance Bill 2007.

  The Home Office Serious Crime Bill includes a clause to extend surveillance powers, inherited from the former HM Customs & Excise to apply to former Inland Revenue matters, subject to the same tight controls and safeguards. Subject to the Parliamentary process and Royal Assent, this will enable these powers to be applied consistently in criminal investigations across HMRC.

- **Civil Penalties for Incorrect Returns** – A consultation document4, with draft legislation and explanatory material, was published on 19 December 2006 in respect of Civil Penalties for Incorrect Returns. It sought views on proposals for a single structure for penalties for completing incorrect tax returns to apply to Income Tax, Corporation Tax, Capital Gains Tax, VAT and employers’ PAYE and NICs. This consultation closed on 13 March 2007 and legislative proposals taking account of the responses are being taken forward in Finance Bill 2007.

All consultation documents can be found on our website along with the summary of responses.

We are grateful for the extensive support and invaluable contributions received from our external respondents in the preparation of these documents and during the consultation process. We derived considerable benefit from a series of consultative meetings in addition to the written responses.

Over the next year the review will focus on consideration of overarching Taxpayer Safeguards: aligning the Compliance Assurance structures for the principal taxes and duties, and completing the alignment, simplification and modernisation of civil penalties across HMRC. Consultation documents on taxpayer safeguards and compliance checks will be published shortly. These consultations will look at ways in which we can modernise and align our current systems to support the Government’s objectives of a tax system that is fair and better adapted to the needs of our customers.

The Government has decided not to proceed with proposals for a New Management Act at this time. Some elements of that work will be incorporated in the work programme for the Review of Powers. Once substantive changes have been made further simplification of tax administration will be considered.

**Reducing the Administrative Burden**

At Budget 2006 the Government announced administrative burden reduction targets for 2010-11, based on the Standard Cost Model (SCM)5, to:

- reduce by at least 10% the administrative burden on business of dealing with HMRC forms and returns, over a 5 year period (equivalent to £3.37 million); and
- reduce the administrative burden on compliant business of dealing with HMRC’s audits and inspections by 10% over 3 years, and at least 15% over 5 years (equivalent to £14 million and £21 million respectively).

We are making good progress towards delivery against these targets:

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5. The report on the measurement of the administrative burdens and detail of the standard cost model is available at:www.hmrc.gov.uk/better-regulation/kpmg.htm
Forms and returns: We are on track to deliver a reduction of at least £337 million in the burden of our forms and returns by 2010-11. To achieve this, we are critically examining all our major business forms and the information we seek from them. We are looking for opportunities to:

- reduce the number of forms businesses complete;
- simplify those that are crucial for an efficient tax system; and
- eliminate duplicate or unnecessary information requests.

At April 2007 we had delivered annual administrative burden reductions estimated to be worth £130 million (net) towards this target. The main changes contributing to this reduction are:

- **Form 42 – Employee Share Schemes** – better risk assessment removed the need for 90% of new companies to complete the form. This offers benefits to around 300,000 companies every year;
- **New Form P46** and coding improvements – together these mean one million more new employees, who are unable to provide their latest pay and tax details, receive the correct initial tax code, substantially reducing enquiries to employers;
- **VAT 1 – VAT registration application** – a redesigned form, coupled with improved guidance was released in December 2006. They benefit almost 280,000 businesses registering for VAT each year, reducing errors which causes delays in VAT registration; and
- **New Construction Industry Scheme** – the new scheme provides an electronic alternative to paper processes, replaces individual vouchers with a contractor’s monthly return, and removes the need for the contractor’s end of year return.

Looking forward, we will continue to work closely with the Administrative Burden Advisory Board. The Board comprises members from business organisations as well as people with hands-on experience of running businesses in the UK. The Advisory Board’s business perspective is particularly valuable in helping HMRC to identify areas of work that will make a real difference to businesses, either by contributing towards the targets or by tackling those burdens that cause business most concern.

Audits and inspection: At April 2007 we had reduced the net administrative burden of audits and inspections by an estimated £43 million. This is due to the reformed Construction Industry Scheme which means that subcontractors no longer have to travel to present cards and certificates to contractors for inspection.

20% of small and medium businesses operate in the construction industry. These changes will, therefore, deliver a major improvement in the administrative requirements of a large sector of the UK economy. We are committed to improving the audits and inspections regime for the vast majority of businesses that want to pay the right amount of tax. We will, therefore, continue to work to reduce the burden of audits and inspections across all industry sectors.

Over the coming months we will work with the Advisory Board, as well as businesses and agents, to develop supplementary ways of measuring our success at reducing the burden from audits and inspections, in addition to the SCM. We plan to announce these new measurements later in the year and use them to drive and monitor continued, significant and noticeable improvements of our audits and inspections regime across all business sectors.

Other administrative burden reductions: Not only are we working towards the delivery of administrative burden reductions in the targeted areas, but also wider reductions that benefit business. Reforms delivered at April 2007 will have reduced the wider net administrative burdens to business by an estimated £133 million. Further details on these measures and also more detailed commentary on our progress towards the targets can be found in the paper published at Budget 2007, ‘Delivering a new relationship with business: Progress towards reducing the administrative burden on business’.

Carter Review of Online Services

Following Lord Carter of Coles’ review of HMRC Online Services, published in Budget 2006, we have made considerable progress toward implementing his recommendations. As a result of what our customers told us during our extended consultation period, Ministers agreed a revised timetable for implementation which was announced at Budget 2007.

We intend to deliver all the Carter recommendations for Self Assessment, PAYE, Corporation Tax and VAT, but over an extended timetable, and are still aiming for universal electronic delivery of business tax returns by 2012. The phased implementation allows us to focus on the successful

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1 The P46 is completed by employers when they take on staff who are unable to produce form P45 containing their latest pay and tax details.
2 The new construction industry scheme generates reductions in both the burden of forms and returns and audits and inspections and thus contributes to both targets.
3 More information is available at: [www.hmrc.gov.uk/better-regulation/ab-terms.htm](http://www.hmrc.gov.uk/better-regulation/ab-terms.htm)
4 The Administrative Burden research carried out for HMRC by KPMG categorised a large part of the old Construction Industry Scheme regime under audits and inspections and it is therefore included in the target 2 baseline.
5 The paper is available at [www.hmrc.gov.uk/newrelationship/new-relationship.htm](http://www.hmrc.gov.uk/newrelationship/new-relationship.htm)
delivery of one regime at a time, beginning with SA Online, the online service which is the most mature, has the greatest usage and offers the greatest benefit to customers.

We are committed to working collaboratively with stakeholders and customers to ensure that we design around their needs. There will be further opportunities in 2007 and beyond for stakeholders to influence how the services will look, feel and develop further.

In line with Lord Carter’s recommendations, the key focus of our substantial investment will be in reliability and capacity. Given the tight timescale until next April – the first phase of delivery – we have already started testing the capacity of our services to handle expected increases in filing volumes and will undertake further capacity tests of our key online services at regular intervals. In addition changes will be made to both primary and secondary legislation in order to provide the legal framework that will be required for the Carter measures.

We have published draft PAYE regulations alongside the Finance Bill 2007 and are currently undertaking consultation with stakeholders and customers on these. Draft VAT and CT regulations will be published closer to the implementation of those measures.

Construction Industry Scheme (CIS)
The new Construction Industry Scheme (CIS) was introduced from 6 April 2007. The transition followed an intensive programme of activity working with industry bodies to help all those affected prepare for the change. The previous system of relying on cards and certificates as a means of determining payment status for subcontractors was replaced by a verification service. Monthly returns replace vouchers for accounting for payments made by contractors to subcontractors. The scheme is designed to reduce administration and costs for both industry and the department and allows most of the processes of the scheme to be conducted online.

The scheme has a standard deduction rate of 20% for registered subcontractors and a higher deduction rate of 30% for unregistered subcontractors to enable them to get paid sooner and encourage them to register.

Income tax and National Insurance Contributions alignment
At Budget 2006 the Government announced that it would review the case for further alignment of the income tax and National Insurance Contributions systems. This work is ongoing, and we continue to provide support. As detailed in Section 2.6, Budget 2007 also announced a package of changes to modernise the personal tax system. These changes include aligning the upper earnings limit for NICs and higher rate threshold for tax from April 2009.

Response to MTIC fraud
In 2006-07 we strengthened our strategy to combat this attack and mutation in the fraud; details of our operational activity can be found in Section 3. An important strand of that strategy is the introduction in the UK, from 1 June 2007, of a change in VAT accounting (the reverse charge) for goods most commonly used in MTIC fraud. The Government announced the introduction, following agreement with EU partners, on 19 March 2007.

Tackling tobacco smuggling including hand rolling tobacco
Progress against the SR04 PSA target for cigarettes and HMRC’s operational target for hand rolling tobacco is reported in Section 3.

SOCA relationship
HMRC and SOCA established a partnership agreement at the beginning of the year and we have each been working hard to refine operational processes and procedures. Further details of our working relationship can be found in our report on PSA Objective III, in Section 3.

We have committed to a programme of service transformation that increases efficiency and improves effectiveness, through increased customer focus.

2.2 Revenue Collection
At a time of continuing change within the Department, in 2006-07 we collected net tax receipts of over £423 billion, an increase of over £25 billion (6%) on the previous year. Cash receipts from income tax and NICs accounted for 54% of the total and were over £14 billion (7%) higher than in 2005-06, primarily due to increases in earnings.

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1 These figures are on a cash basis and are provisional. The figures are consistent with those published by the Office for National Statistics. HMRC’s accounts are currently being audited.
VAT receipts accounted for 18% of the total and were £4.5 billion (6%) higher than last year mainly due to nominal spending growth.

Corporation tax receipts accounted for 10% of the total and were £2.5 billion (6%) higher than in 2005-06 mainly due to higher receipts from onshore companies.

Hydrocarbon Oils accounted for 6% of the total, an increase of £0.1 billion (1%) on 2005-06.

### 2.3 Paying entitlements

#### Tax Credits

Around 6 million families and 10 million children continue to benefit from tax credits. The latest figures on take up show that overall Child Tax Credit take-up was estimated at 82% by caseload in 2004-05 – up from 79% in 2003-04. Take-up rates by expenditure – i.e. the proportion of available money taken up – was 91% in 2004-05 for Child Tax Credit, compared with 87% in 2003-04. Take-up rates by caseload are now 90% plus for many key groups. Low income working families with children have take-up of 90%. Take-up amongst those on incomes of less than £10,000 is now 97% (up from 93% in the first year of tax credits); and take-up amongst lone parents is now 93% (up from 91% in the first year of tax credits).

The Tax Credit Office (TCO) has continued to drive forward its change programme and improve service to customers. TCO now routinely delivers a decision to most claimants within 4 weeks of recovery of an overpayment being disputed. TCO has managed to halve the number of complaints on hand at any one time and most claimants will now get a reply in less than 6 weeks. In addition, during this period of cultural and structural change, in 2006-07 TCO’s accuracy figure is around 97% against a target of 95%.

Our Contact Centres have also been driving forward with an ambitious change programme with significant success. In 2006-07 Contact Centres handled 23 million tax credit calls, 1.3 million more than 2005-06. We answered over 99% of callers on the day they phoned in 2006-07 – compared to 98.1% in 2005-06. In 2006-07, we reduced the number of callers who received an engaged or busy tone by almost 60% compared with last year. We also increased the numbers of calls being answered in 20 seconds – rising from 57% in 2005-06 to 86% for 2006-07.

Following discussions around the feasibility of introducing an independent review of HMRC decisions to recover overpayments caused by official error, HMRC and the Adjudicator plan a pilot in the summer of 2007 with a proportion of cases being offered this new service. If a claimant disputes the recovery of an overpayment and, after review, we conclude it is recoverable under the Code of Practice 26, we will give the claimant the option of having this case reviewed by the Adjudicator by a fast track process. This will be an alternative to the current procedure where the claimant then has to make a formal complaint about the handling of their case, and that case has to be first reviewed as part of the Department’s complaint handling procedures.

On 7 July 2006 we published the results of a random enquiry programme for 2003-04 which estimated that the total error and fraud that favoured the claimant represented around 8% to 10.6% of finalised entitlement for tax credits in that year. We also published ‘Tackling Error and Fraud

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1. Child and Working Tax Credit take up rates for 2004-05 can be found on our website.
2. "What happens if we have paid you too much tax credit?" is available on our website: www.hmrc.gov.uk
3. Child and Working Tax Credit error and fraud statistics 2003-04 is available on our website.
in the Child and Working Tax Credits\(^1\) setting out our plans to reduce error and fraud. This included strategies to reduce customer error by improving communications to ensure they are easier to understand, further improving the quality of advice and work done by Contact Centres and providing better access. Strategies to tackle fraud include improving risk assessment procedures, embedding compliance specialists in Contact Centres and working with other government departments and the private sector to combat identity fraud.

**Child Trust Fund**

The Child Trust Fund (CTF) has been in operation since January 2005 and, up to the end of March 2007, 2.66 million CTF accounts had been opened, with parental take-up at 76% for all expired vouchers. The successful marketing campaign for the CTF continues, including a CTF Week in January 2007 which generated extensive coverage across the UK.

The CTF is a long-term savings and investment account for children that is set up with an initial contribution of £250 from the Government, or £500 for children from lower income families, as part of the Government’s strategy on savings and asset ownership.

In Budget 2007, the Government announced an extra annual payment of £100 into CTF accounts for all children who had been in care for 12 months starting with those in care from 1 April 2007.

**2.4 The customer experience**

We have responsibility for administering the tax affairs of a wide spectrum from the multi-national company to the individual citizen. And within that customer base are reflected a diverse set of needs both in respect of the services we provide and the manner in which we provide them.

Our aim is to put our customers at the heart of everything we do. In order to be an effective and efficient organisation we need to build our understanding of our customers in order to deliver the services they need. This will enable us not only to improve their overall experience of dealing with us, but also make it easier for them to pay what they owe and claim what they’re due.

We have started to build up our knowledge of customer needs by:

- carrying out research into some customer groups such as people with multiple sources of income, workers coming from outside the UK and tax credit claimants; and
- working with our business customers to understand what we need to deliver to make it easier for them to comply with their obligations.

We will use this increased knowledge to:

- improve services in areas that customers see as a priority;
- provide guidance to customers in the form they need at the time they need it; and
- design products and systems which are aligned with those our customers use.

We are committed to making it easy for our customers to get it right. For example, we have made it simpler to register for VAT, and made the Self Assessment Statement of Account more user-friendly.

**2.5 Simplifying our processes**

**Pensions Simplification**

The new regime for the taxation of pensions was successfully introduced on 6 April 2006. Further measures were announced at PBR 2006 and Budget 2007 to ensure that the pensions tax rules continue to meet their original intention and that pensions tax relief is only used for saving for a retirement income. These measures build on the provisions for the simplification of pensions set out in the Finance Acts of 2004, 2005 and 2006 and include:

- changes to the rules for Alternatively Secured Pensions (ASP) to ensure that tax-favoured pension saving is used to provide an income in retirement and not for open-ended asset accumulation or bequests;
- a measure to remove an individual’s entitlement to tax relief on any pension contributions they pay that are used for personal term assurance policies; and
- a package of technical improvements to ease the administrative rules including changes to the taxation of non-cash benefits provided by employers to their retired former employees.

On 6 April 2006 ‘Pension Schemes Online’ was also launched enabling Pension Scheme Administrators and Practitioners to file information with us online and to view their pension scheme records. We increased the functionality available on the online service with two further releases during the year. The take up of the new service has been good with over 75% of the new forms submitted online.

The final release of Pension Schemes Online was successfully introduced during early April which will:

- provide additional functionality;

\(^1\) Tackling Error and Fraud in the Child and Working Tax Credits is available on our website.
• make it administratively easier for scheme administrators to comply with reporting requirements;
• enable a move to mandatory e-filing from 16 October 2007; and
• lead to cost savings for the industry and HMRC

This final release of Pension Schemes Online will enable scheme administrators and practitioners of pension schemes to complete all the required Finance Act 2004 reporting to HMRC online.

Throughout 2006-07 we continued to work in close collaboration and consultation with the pensions industry on all aspects of the new regime.

We continue to publish a Newsletter, which has been very well received and widely read by our customers.

The Registered Pension Scheme Manual, which provides extensive guidance on our interpretation of the legislation, was updated to take account of changes made in Finance Act 2006 and customer suggestions as well as extended to give guidance to pension scheme members and administrators. The manual has been very well received by the pensions industry.

Our Pension Schemes Services office will continue to provide assistance as appropriate while also reminding callers and correspondents of the range of information sources available that should be their first port of call.

**Modernising PAYE Processes for Customers**

Following the increase in online filing, we are turning our attention to our internal processes to make them run more efficiently and enable us to deliver a better customer service. From April 2006, we rolled out to 17,000 staff working on PAYE improved access to information giving them a fuller picture of an employee’s pay, tax, pension and some benefits details. This will help cut down the number of enquiries employers and employees get from us.

In 2007-08, we are introducing an automated process for tax coding of 2006-07 benefits in kind information and to bring together pay and tax details at the end of the tax year. This will mean many employees will pay the right amount of tax sooner, and fewer cases will need staff intervention.

Looking ahead, we will be changing our PAYE systems to automate some processes and to give us a single customer record. This will help us ensure that the correct amount of tax is paid, and overcome some of the problems we currently have, for example providing the right tax code for those who have several employments. In turn this will enable us to give people a better service and to be more efficient.

**Online filing of 2005-06 Employer’s Annual Returns**

Last year saw 1.18 million employers successfully file their 2005-06 Employer’s Annual Returns online, an increase of around 20% over 2004-05. Employers with 50 or more employees had to file online, but in addition we received 1.05 million Returns from employers with fewer than 50 employees. These employers qualified for a tax-free incentive payment for filing online.

Significant investment in new IT systems in recent years meant that we were able to receive and validate over 10,000 returns an hour successfully at the peak period.

Before sending their returns we worked with industry representatives to let employers know about our data quality standards, and common errors; we wrote to employers telling them what they got wrong the previous year; and we published details of the most common 2004-05 errors on our website and our various external publications. This was successful in reducing the number of rejections.

Employer error rates for Returns sent over the internet fell from 13% in 2004-05 to just 5% in 2005-06. These were corrected by employers and resubmitted, enabling us to process the returns faster and generate fewer queries.

At 30 March 2007, we had posted 52,199,679 of the forms P14 (employee pay and tax details) to our National Insurance system, compared with 46,131,823 at the same time the previous year.

**Sending employee starter and leaver forms online**

From 6 April 2009, our online services will be receiving starting and leaving details and some pension information from employers with 50 or more employees, and every employer – regardless of how many employees they have – will be using these online services from 2011.

These dates, announced in Budget 2007, are a year later than the original timetable. The deferral is in response to concerns raised during consultation with customer representatives about the changes needed to employers’ internal practices. It will allow us adequate time for robust testing, and will give employers more time to prepare and build their confidence in our systems.

**SA Online**

There was strong growth in self assessment filing online during 2006-07, with over 2.9 million returns being received electronically, an increase of just over 900,000 returns compared to 2005-06. 35.1% of SA returns filed

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1 Available on our website: www.hmrc.gov.uk
by the 31 January 2007 deadline were filed online, with 150,000 returns received in the 24 hours leading up to the midnight deadline.

Almost 500,000 returns were received in the last 5 days before the 31 January filing deadline and at its peak the Departmental systems were handling over 14,000 returns an hour. Online filing provides a smooth service which is secure, quick, accurate and convenient for our customers.

The large growth in use of our online services shows that our customers welcome the accessibility and reliability that we can provide. We have also introduced an online attachments service which allows customers to submit supporting information with their returns.

2.6 Budget 2007 changes to the tax system

Details of changes announced at Budget 2007 are contained throughout the report within the relevant sections. Some of the key measures are outlined briefly below and more details can be found on our website1 and the HM Treasury website2.

Personal taxes – from April 2008, the 10% starting rate of income tax for non-savings income will be removed and the basic rate will be cut from 22% to 20%. The age related tax allowances for those over 65 will increase 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 will be 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.

Corporate taxes – from April 2008, as part of a package of reforms, the headline rate of corporation tax will be cut from 30% to 28% and, from April 2007, the small companies rate increased from 19% to 20% and then by a further 1% in the two following years. As well as this, the capital allowances system will be reformed and there will be further enhancements to the research and development tax credits scheme.

Environment and transport taxes – the rates of air passenger duty were increased with effect from 1 February 2007; climate change levy, aggregates levy and landfill tax will all be increased with effect from April 2008; a package of measures was included in the Budget to support the use of biofuels; fuel duty rates will be increased from October 2007; and, from 1 October 2007, stamp duty exemptions will be put in place for zero carbon homes.

Managed service companies – legislation has been included in Finance Bill 2007 to tackle losses of income tax and national insurance contributions through managed service companies. These were published at PBR 06 and, following consultation, revised measures were announced in this year’s Budget. Measures have also been introduced to counter avoidance in a number of other areas including employee benefit trusts, financial products, partnerships and sideways loss relief and corporate capital gains and losses.

Life insurance – Finance Bill 2007 contains the first outcomes of an extensive period of consultation aimed at clarifying and, where possible, simplifying the corporate taxation regime for life insurance companies.

HMRC administration – following consultation, as part of a wider review, Finance Bill 2007 contains changes to HMRC powers for criminal investigations and to civil penalties for incorrect returns, and includes legislation to implement Lord Carter’s Review of HMRC Online Services.

2.7 Corporate services

Supporting our staff

Appointment of Chief People Officer

Mike Hanson was appointed Chief People Officer in February 2007. This puts the emphasis on HR issues at executive level. The HR & Learning senior team has also been strengthened by the addition of a number of HR professionals.

Recruitment

Following the success of the pilot of an online external recruitment process for our large scale recruitment campaigns, this method of recruitment has now been adopted across HMRC and we are currently looking at piloting a similar process for specialist posts.

The online system we have developed is considered leading edge within public sector organisations. We have worked with, and shared our knowledge with, other Departments and have contributed to a Department of Trade and Industry e-recruitment best practice guide.

We have always conducted rigorous pre-employment checks but in line with Government best practice we have now introduced enhanced security checks for potential new recruits.

The Talent Recruitment Programme successfully recruited 50 tax inspector trainees and 10 management trainees.

1 www.hmrc.gov.uk
2 www.hm-treasury.gov.uk
for the 4 year graduate development programme. In addition the summer internship scheme was able to offer a further 16 interns a place on our full graduate programme subject to their graduation. The Summer Training Experience offered 17 first year undergraduates from ethnic minority backgrounds a structured 8 week training and development programme.

Our external recruitment procedures are audited annually by the recruitment subject experts to ensure compliance with the Civil Service Commissioners’ Recruitment Code. The following exceptions applied:

| Conversion from short term appointment to permanency | 514 |
| Northern Ireland recruits 2000-04                | 167 |
| Secondments                                      | 10  |
| Disabled candidates appointed under modified selection | 7 |

**Leadership and Management Capability**

In support of the achievement of our stretching business objectives we need to ensure we are an organisation led by energetic and skilled leaders and managers.

Building on work we undertook in the previous year assessing the leadership skills of our current leadership group, this year we introduced a gateway process to manage entry to the Senior Civil Service (SCS). The gateway is bringing added rigour to the way we identify people with the potential to fill SCS roles and ensure that those we select have the ability to do a range of jobs at that level. It is also supporting our diversity objectives and the gender balance in the SCS has improved as a result. We have extended the principle by introducing a gateway to Grade 7 (two grades below SCS), to ensure that staff reaching these senior levels share a common set of key business skills. We have also strengthened our understanding of capability by building succession plans for senior posts and are now introducing across HMRC a new process to identify and develop those with potential.

Recognising the need to improve our organisational leadership and management capabilities we are setting high and uncompromising expectations of our leaders and managers. We provide a range of development products and opportunities and keep these under active review, adding or adapting as appropriate to meet changing needs.

**Health & Safety**

We are establishing new organisational arrangements to control risks and fulfil our commitment to treat health and safety as a priority. A significant feature of these arrangements is the Departmental Joint Consultative Committee on Health and Safety, chaired by a Board member. We continue to engage with Departmental Trade Unions, consulting on the full range of new policies and procedures.

We have appointed a new Occupational Health Service provider helping to deliver our occupational health strategy. Our aims are to prevent occupational ill health, facilitate return to work following illness and look to using the work environment to promote good health for our staff.

**Estates**

We aim to develop a professional estates and support services delivery organisation that provides centrally managed, affordable and streamlined services for HMRC businesses. This will be an enabler to HMRC core business. We are on track to exceed the SR04 cost savings through consolidation of the estate and, by streamlining our estates service delivery organisation through re-design and will make a significant contribution to further staff efficiencies over the next 2 years.

**IT Developments**

Information Management Solutions (IMS) now delivers information and communications technology (ICT) to over 73,000 end users across HMRC. We support more than 250 major information technology (IT) systems that underpin the full range of business activities, including direct tax, indirect tax, National Insurance, tax credits and frontiers work. Each year we expend 34,800 work days on Infrastructure and Support, 43,200 work days on business application development and enhancement, and 62,400 work days on Application Integration/Testing and Development.

Our IT Strategic Framework aligns to HMRC’s Strategy and Transformation Programme. It drives IMS to:

- deliver cost-effective world class live services;
- provide strategic ICT insight and direction;
- develop and deliver new solutions to time, budget and functionality;
- stimulate and deliver improved efficiency and effectiveness; and
- engage with the Transformational Government agenda.

We use IT to improve the customer experience, reduce the compliance and administrative burden, and help individuals and businesses pay the right amount of tax and receive the tax credits and payments to which they are entitled.

In order to meet these objectives we have established strong links between IT development and our internal business areas, allowing us to identify their needs and strategy; established a governance and approvals process which
enables us to prioritise IT development work; worked with our IT partners to review live services in order to improve their day to day performance; and launched a skills development programme in line with the wider Government initiative to increase professional skills in the Civil Service.

HMRC continues to be at the forefront of Government e-services. The huge growth in online filing for Self Assessment demonstrates the confidence our customers have in the accessibility and reliability of our online services. The work undertaken to increase the capacity and robustness of our IT systems has paid off, including the introduction of a new online attachments service, which allows agents to submit supporting information with the returns they file on behalf of their clients. This brings us closer to our aim of universal electronic delivery of tax returns from businesses and IT-literate individuals by 2012.

During 2006 we have modernised our IT infrastructure on time and to budget as part of one of the largest software upgrades of its kind in Europe. Under the project we have upgraded 1,100 file servers and 110,000 workstations (including 500 remote users and 100 home workers), upgraded 120,000 mailboxes, and integrated 750 in-house software applications. All staff can now communicate freely across a shared platform that enables collaboration and drives efficiency. The project was delivered on time and under budget, and design and implementation costs over 2005-06 and 2006-07 are expected to be about £161 million against a budget of £175 million.

We have also introduced a new system that provides best practice finance, HR and procurement services and offers a single standardised approach to these corporate functions for everyone across the Department. The system was delivered to budget and to a timeframe of 11 months that matches best private sector standards. The system delivers significant transactional savings and contributes to meeting the 2004 spending review commitments in the areas of finance, HR and procurement. It is expected to facilitate reductions in expenditure on goods and services by around 6% per year.

Corporate Responsibility

For HMRC, Corporate Responsibility (CR) means behaving responsibly towards all our stakeholders; our customers, our people, our communities and our environment.

We have developed a CR strategy that fully supports our transformation programme. In taking forward the strategy, six business units have volunteered to act as pioneers to incorporate CR into their business plans and business activities. We will build upon their experience and good practice to extend this work across all of HMRC by autumn 2007. We are also developing a flagship programme for our community involvement and are working with colleagues in Communications and Marketing to implement a comprehensive engagement plan that puts responsible business practice at the heart of everything we do.

In October 2006 HMRC Chairman, Paul Gray, hosted a Corporate Responsibility Summit, which was addressed by The Prince of Wales and the Chancellor of the Exchequer and brought together senior leaders from the private, voluntary and public sectors. The Summit generated a real appetite for greater partnership working across sectors and over the next year, we will work closely with Business in the Community (BitC) to make this happen.

Last year almost a quarter of employed participants on the Prince’s Trust Team Programme were HMRC employees, making us the biggest supporter of this valuable initiative and we are committed to continuing this support.

For a third year, we are the only central government department to feature in the Business in the Community Corporate Responsibility Index. The achievements of our staff have also been recognised through a number of external awards eg the Business in the Community Awards for Excellence and the Civil Service Diversity Awards.

Our commitment to the environment has been evidenced by progress against our Sustainable Development Action Plan. The latest Sustainable Development in Government report1 shows that we have made progress in reducing water consumption, improved recycling rates and procured 87% of electricity from renewable sources. All these measures will help towards reducing our carbon footprint. Further work is needed to reduce energy consumption as we endeavour to become carbon neutral by 2012. We are committed to making the improvements necessary to make this happen.

Key issues of energy, water and waste management, travel and procurement are being addressed through a centrally co-ordinated approach, with the help of a newly formed Sustainable Development Operating Committee. We have been developing strategies to reduce our building and IT related energy, working closely with relevant stakeholders and contractors to achieve both carbon reductions and efficiencies. A major communications campaign was launched in January to raise staff awareness of the actions that can be taken at work, such as switching off computer monitors, printers and lights at the end of the day; reducing printing, and using telephone and video conferencing facilities instead of travelling to meetings. Further initiatives are underway such as reducing our paper usage, putting

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1 Available at: www.sd-commission.org.uk/sdlg2006/
Major publicity campaigns

We ran a number of marketing campaigns, including Duty Stamps, Tax Credits, Child Trust Fund, Construction Industry Scheme, Hotline and Helpline and Tax for Business.
recycling facilities in all our buildings and discouraging domestic air travel. 

A review of our CR achievements, including our performance in respect of diversity, is published alongside this report.

2.8 Consultancy and Professional Services

HMRC employs consultants in a variety of roles where there is a need to import skills or expertise. The great majority of our consultancy costs relate to technology, ie both live services and development. Our spend on consultancy in 2006-07 was £81 million¹ compared with £106 million in 2005-06.

We are developing processes and analyses that will enhance our control of expenditure on consultancy and professional services, and improve value for money across the Department. Substantial progress has now been made in this area.

In response to concerns highlighted last year we have developed the Specialist Consultancy Framework that was substantially implemented from March 2007. Compliance with authorisation processes via our new online system, which requires the Chairman’s authorisation for non-competed engagements in excess of £50,000 and competed engagements over £250,000, has now been established.

Other action already taken to enhance governance over consultancy spend includes development of Intranet guidance and provision of regular management information. Further action recently initiated has been the delivery of a business education programme regarding best practice in the employment of consultants.

Answering the Department’s information needs

We have a central research budget, which funds external research to support activities including: tax policy formation; policy evaluation, support for strategic planning; strategic compliance; risk; customer experience and departmental performance. Research reports are usually published and a list of them, together with current and planned projects is published on our website.

There is a governance process in place to ensure that the money allocated provides value for money and that the projects support departmental priorities. The department works with both commercial organisations and the academic sector, to ensure the research is robust enough to inform future policy and operational planning.

We are building up links with the academic community to ensure that our work remains at the cutting edge of knowledge. As part of this process we hosted a one-day research conference for over 50 academics as well as analysts from HM Treasury, other government departments and internal staff.

2.9 Major publicity campaigns

Duty Stamps

2006-07 was a key time for the launch of the Duty Stamps scheme. A phased programme of communications was delivered to reach audiences involved in the trade of spirits, both in the UK and worldwide. To maximise the impact of marketing activity, an integrated approach was taken utilising trade press advertising, direct mail, online advertising and PR.

Evaluation results show that the level of awareness was very good and that the industry felt they had enough knowledge of the scheme, as a result of the advertising campaign, to be ready for implementation.

Tax Credits

The tax credits campaign incorporated three major strands of advertising: renewals, changes in circumstances and eligibility.

We ran TV, radio and online advertising to announce the renewals process and asked customers to renew as soon as possible after receiving their form. The renewals process subsequently ran very smoothly.

Between September and December, we ran a major campaign to encourage customers to report changes in their working hours and income, if a new partner moved in, or if their child left full time education. The campaign included TV, radio, magazine and online advertising, as well as targeted messages through pay slips and milk bottles.

We also ran targeted campaigns to encourage take up of tax credits by new mothers and ethnic minority communities, as well as a campaign targeting areas of low take up of Working Tax Credit.

Child Trust Fund

The campaign focused on targeting new parents, supporting them through the CTF account opening process.

Throughout the year we reached parents through channels such as parenting press, TV screens in antenatal clinics, online and in packs for new mothers. To prompt parents to open an account for their child, we ran bursts of advertisements on radio and in women’s weekly press, and

¹ This is the ‘Consultancy’ spend data as shown in our internal systems. Audited figures will be available in the Annual Accounts 2006-07 to be published in the summer.
developed our links with the voluntary and community sector to help them inform their clients about the Child Trust Fund.

In November, we ran a burst of advertising to encourage parents, friends and family, to make contributions into children’s accounts.

Construction Industry Scheme

We continued our advertising campaign to increase awareness of the introduction of the new construction industry scheme. It formed part of an integrated radio, press, outdoor and ambient media campaign to increase awareness of the introduction of the new construction industry scheme and to ensure that contractors and subcontractors understand their obligations and the avenues of help available.

Hotline and Helpline

As part of a package of compliance measures announced in Budget 2004, we have continued to utilise a successful two-pronged national publicity campaign to encourage people to telephone the Helpline for the Newly Self Employed and a confidential Hotline for people to report individuals who are not paying their tax. Evaluation is ongoing and will be used to determine the scope and extent of any future campaigns.

To encourage compliance among specific target groups such as e-traders and landlords we have introduced a dedicated area within our website. Furthermore we have provided an online application to ensure registering for self-employment is easy. From its launch on 17 October 2005 to 31 March 2007, the Tax Evasion Hotline has received over 150,000 reports of potential tax evasion.

Tax for Businesses

HMRC used to run separate campaigns for Self Assessment, Corporation Tax, VAT, PAYE for employers and Online Services. We have reviewed these campaigns and developed a single business campaign presenting HMRC in a more unified fashion.

The campaign sets out to support key HMRC objectives:

- increase yield/efficiencies from filing and payment behaviour,
- reduce the administrative burden on small businesses,
- support the drive towards universal online filing, and
- improve our relationship with practitioners.

We extended the reach of the Adam Hart-Davies campaign which has been successful for Self Assessment for several years. We have done a great deal of research over the past six months to make sure that this is the right approach for the wider target audience and he continues to be well received. The first new creative work for the campaign launched in February with radio and press advertising encouraging small businesses to seek help from us to manage their cashflow through our special VAT schemes. We are also working with intermediaries and influencers to promote a better working relationship with the tax practitioner community.

Other publicity activities

We ran campaigns about restrictions on importing cigarettes from Bulgaria and Romania, and restrictions on importing products of animal origin.

This year we attended 31 events and exhibitions throughout England and the devolved regions. Our stands and trailers, staffed by experts from the range of departmental regimes, were visited by over 250,000 individuals.

2.10 Departmental Investment Strategy

Our Departmental Investment Strategy, covering the period 2005-06 to 2007-08, is available on our website. The investment strategy sets out our capital spending plans, how they support our aims and objectives and the mechanisms in place for ensuring value for money.

\footnote{www.hmrc.gov.uk/findout/}
This section provides an overview of achievements against our Public Services Agreements and an assessment of progress against other objectives and targets.
The tables below provide a summary of achievement against our Public Service Agreements and assessment of progress against the targets. The full year data for 2006-07 is used where this is available but where it is too early to make an end of year assessment, this is clearly indicated and an update will be provided in the HMRC Autumn Performance Report to be published later in the year.

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.

<table>
<thead>
<tr>
<th>Target</th>
<th>Baseline</th>
<th>Latest assessment</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability.</td>
<td>Slippage 15.9%(^1) 2002-03 14.5%(^2) 2005-06</td>
<td>11% 2007-08</td>
</tr>
<tr>
<td>2</td>
<td>By 2007-08</td>
<td>On course</td>
<td>-</td>
</tr>
<tr>
<td>2.1(^3)</td>
<td>- reduce the illicit market share for cigarettes to no more than 13%</td>
<td>15%(^1) 2002-03 10-19%(^2) 2004-05</td>
<td>13% 2007-08</td>
</tr>
<tr>
<td>2.2(^3)</td>
<td>- reduce the illicit market share for spirits by at least a half</td>
<td>7%(^1) 2002-03 0-8%(^2) 2004-05</td>
<td>3% 2007-08</td>
</tr>
<tr>
<td>2.3</td>
<td>- hold the illicit market share for oils in England, Scotland and Wales at no more than 2%</td>
<td>4%(^1) 2004 2%(^2) 2005</td>
<td>2% 2007</td>
</tr>
<tr>
<td>3</td>
<td>By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5 billion a year.</td>
<td>On course £2.9bn forecast 2006-07</td>
<td>£3.5bn 2007-08</td>
</tr>
<tr>
<td>4(^4)</td>
<td>By 2007-08, increase the percentage of Self Assessment returns filed on time to at least 93%,</td>
<td>Slippage 90.6% 2005-06 89.2% 2006-07</td>
<td>93% 2007-08</td>
</tr>
</tbody>
</table>

\(^1\) The latest assessment of these baseline figures was published in ‘Measuring Indirect Tax Losses – 2006’ in December 2006, available from www.hmrc.gov.uk. Our estimate of the scale of VAT losses is a broad measure, based largely on survey data and there is, therefore, a degree of uncertainty associated with it.

\(^2\) The outturn at March 2006 has not yet been assessed. Where available, the latest assessments are shown.

\(^3\) We believe that it is more appropriate to express estimates of the illicit market for these products as a range, defined as the area between upper and lower estimates, which represent a region within which the illicit market is most likely to lie. More information is available in ‘Measuring Indirect Tax Losses – 2006’ available on our website.

\(^4\) Target based on returns issued at 31 October. We count returns received before close of play on 1 February 2007. This reflects the decision in the case of Steeden-v-Carter, which means that we cannot impose late filing penalties until 24 hours after the statutory filing date of 31 January. We also exclude an estimated number of returns never received by taxpayers.
Objective II: Improve customer experience, support business and reduce the compliance burden.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Baseline</th>
<th>Latest Outturn</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>By 2007-08, increase to at least 80% the proportion of individuals and businesses who said they achieved success at first point of contact</td>
<td>71.7% November 2004</td>
<td>74.1% November 2006</td>
<td>80% November 2007</td>
</tr>
<tr>
<td>2</td>
<td>By 2007-08, increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact</td>
<td>90% March 2005</td>
<td>93% March 2007</td>
<td>90% March 2008</td>
</tr>
<tr>
<td>3</td>
<td>Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>By 2007-08, demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs including increasing the proportion of applications for VAT registration that are complete and accurate to 50%</td>
<td>67% March 2006</td>
<td>68.2% March 2007</td>
<td>72% March 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>28% March 2005</td>
<td>49% March 2007</td>
<td>50% March 2008</td>
</tr>
<tr>
<td>5</td>
<td>By 2007-08, increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns</td>
<td>87.6% November 2004</td>
<td>92.6% November 2006</td>
<td>90% November 2007</td>
</tr>
<tr>
<td>6</td>
<td>Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>By 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and NICs</td>
<td>91% March 2005</td>
<td>93% March 2007</td>
<td>95% March 2008</td>
</tr>
<tr>
<td>8</td>
<td>By 2007-08, increase to 50% the percentage of SA tax returns filed online</td>
<td>13.2% March 2004</td>
<td>35.1% January 2007</td>
<td>35% January 2008</td>
</tr>
<tr>
<td>9</td>
<td>By 2007-08, increase to 35% the percentage of SA tax returns received online</td>
<td>0.2% March 2004</td>
<td>9.9% March 2007</td>
<td>50% March 2008</td>
</tr>
</tbody>
</table>

1 Key indicators 1, 3 and 5 are measured through an annual customer survey, conducted by telephone with 19,000 customers in 13 key HMRC customer groups, focusing on customers’ actual experience of contact over the past 12 months. The survey scores are all provisional and will be updated in the HMRC Autumn Performance Report. Margins of error (95% confidence intervals) for Indicators 1, 3 and 5 vary between +/- 1.4% and +/- 1.7%.

2 The baseline data, weighting methodology and the performance data for Key Indicator 2 are all being validated by HMRC’s Internal Audit and are subject to change. Margins of error (95% confidence intervals) are +/-0.4%. We aim to publish validated figures in the next HMRC Autumn Performance Report.

3 Details of the baseline and targets for Indicator 4 will be published in a revised Technical Note in due course. The individual targets for VAT, ITSA and PAYE are indexed (0.1; 0.5; 0.4) to allow them to carry an equal share of the progress against the target. The current assessment is provisional and takes account of the VAT increases and the relatively static performance of ITSA. Reliable PAYE 2005-06 data is not yet available and the baseline performance from 2004-05 has been used. For the overall score the margins of error (95% confidence interval) are +/- 0.3%. The VAT Registration data is for year to March 2007 and margins of error (95% confidence intervals) are +/-2%.

4 KI7 baseline has been revised to clarify that returns counted against this measure are both online and filed on time.

5 KI8 outturn shows the proportion of VAT returns filed online in the final quarter of the year – January, February and March 2007.
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.

<table>
<thead>
<tr>
<th>Target</th>
<th>Baseline</th>
<th>Latest Outturn</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>By 2007-08 to improve our capability to intervene at the frontier</td>
<td>Slippage</td>
<td></td>
</tr>
<tr>
<td>8.1-2</td>
<td>Number of seizures of prohibited and restricted goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cocaine</td>
<td>1,176 seizures 2,600kgs 2005-06</td>
<td>1,165 seizures 2,368kgs March 2007</td>
<td>1,176 seizures 2,600kgs March 2007</td>
</tr>
<tr>
<td>Heroin</td>
<td>61 seizures 700kgs 2005-06</td>
<td>60 seizures 527kgs March 2007</td>
<td>61 seizures 700kgs March 2007</td>
</tr>
<tr>
<td>8.2</td>
<td>% of positive outcomes against requests received for interventions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8.3</td>
<td>Service Level Agreements with lead government departments for prohibited and restricted goods. By March 2007 to have SLAs in place; by March 2008, fulfilment of agreements.</td>
<td>N/A</td>
<td>All in place (covering 28 regimes)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>All in place March 2007</td>
</tr>
<tr>
<td>8.4</td>
<td>Effectiveness of Cyclamen capability (in line with the Service Level Agreement with the Home Office to intercept a proportion of vehicles triggering an alarm)</td>
<td>97%</td>
<td>99.8% 98%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>March 2007 March 2008</td>
</tr>
<tr>
<td>9</td>
<td>By 2007-08 to improve our effectiveness by 50% in identifying irregularities in third country freight.</td>
<td>On course 18%</td>
<td>18% 27%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>March 2007 March 2008</td>
</tr>
<tr>
<td>10</td>
<td>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.</td>
<td>Ahead +24%</td>
<td>+46 +24</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lead of positive over negative responses (percentage points) March 2007 March 2008</td>
</tr>
</tbody>
</table>

1 Results for this target are provisional.
2 When setting the target we had no means of estimating the number of requests for assistance we would receive from SOCA (our priority) and the impact of these requests on our ability to meet this target. It has also taken time to ensure the appropriate flow of information between the agencies to enable HMRC to maximise our ability to intervene at the frontier. This year HMRC seized more cannabis than at anytime in the last 5 years.
3 The progress against the current SR04 target is not yet assessed, as the baseline figures and targets for 2007-08 will be established at year end following the ratification of the 2006-07 outturn figures.
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.

We are developing an integrated approach to compliance, using our increasing knowledge of customer needs and behaviours. We aim to improve both the delivery of our service and compliance by:

- making it easier for everyone to comply;
- ensuring our administration of the tax system supports compliance and improves the customer experience; and
- cracking down vigorously on the minority who are involved in deliberate non-compliance.

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

Following the introduction of the VAT Compliance Strategy (VCS) the VAT gap dropped significantly from 15.9% in 2002-03 to 12.4% in 2003-04 and remained broadly flat in 2004-05\(^1\) at 11.7%. However, receipts in 2005-06 were affected by increased attacks on the system from Missing Trader Intra-Community (MTIC) fraud and the VAT gap rose to 14.5%.

To address this rise we have made a number of changes to our VAT strategy during 2006-07 in order to reduce losses and so increase VAT receipts. We have:

- strengthened our approach to MTIC fraud,
- refreshed our approach to risk targeting,
- improved productivity, and
- renewed our focus on evasion.

Our estimate of the scale of VAT losses is a broad measure, based largely on survey data and there is, therefore, a degree of uncertainty associated with it. More information is available in ‘Measuring Indirect Tax Losses – 2006’ available on our website.

Missing Trader Intra-Community (MTIC) fraud

MTIC VAT Fraud is a large scale organised attack on the EU VAT system, with the aim of creating large unpaid VAT liabilities and fraudulent VAT repayment claims. Estimates of MTIC fraud were published alongside the Pre-Budget Report 2006 and showed that the scale of the attack had increased in 2005-06 to between £3.5 billion and £4.75 billion; with an estimated negative impact on VAT receipts during the same year of between £2 billion and £3 billion.

In 2006-07 we strengthened our strategy to combat this swift and co-ordinated attack and put measures in place to tackle mutation in the fraud. This approach, targeting those involved in, or profiting from, the fraud, led to a significant reduction in the level of attempted fraud, partially reflected in the rapid fall over the summer in the value of missing imports associated with MTIC fraud. Further legal rulings provided us with a strengthened basis to deny suspect VAT repayment claims. These measures, together with the redeployment of over 700 additional compliance officers, meant that a significantly increased number of suspect repayment claims were subject to proportionate and timely in-depth checking. These will not be paid unless found to be connected with legitimate trading. To date, results indicate that our risk-based targeting of suspect activity has been good. Over 95% of traders whose returns are subject to the current verification programme have so far been found to be participating in, or profiting from, MTIC fraud; and less than 1% of the VAT withheld under this programme has been found to be properly payable. We are continuing to pursue monies previously paid out where there are suspicions that they were associated with fraud.

Significant criminal investigation activity has continued against the organised crime group principles who benefited from MTIC theft. In 2006-07, there were two major UK criminal operations, each involving hundreds of officers and multiple arrests, and the UK also supported a key Dutch investigation against an international bank limited to money involved in MTIC fraud. MTIC investigations are very complex and depend on significant international co-operation, in particular with EU partners and the United Arab Emirates, to allow us to attack the money laundering associated with MTIC fraud.

The courts are increasingly recognising the significant threat of MTIC crime and 14 successful criminal prosecutions concluded in 2006-07, resulting in 45 convictions with jail sentences totalling 194 years. These sentences reflect the gravity with which the courts view this crime. We will continue to prosecute the principals that conduct the fraud and actively pursue confiscation proceedings in order to strip the illegally derived assets of those found guilty.

The Government is determined to sustain the impact of the strategy and to ensure that we have the tools we need to combat MTIC fraud. In Budget 2007, further measures were announced for the Finance Bill 2007, to extend the joint and several liability provisions introduced in 2003 to include various types of electronic goods used for entertainment or amusement. Provisions will also include a power to amend, by order, the circumstances under which businesses are

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\(^1\) Our estimate of the VAT gap is a broad measure, based largely on survey data. There is, therefore, a degree of uncertainty associated with it.
presumed to have reasonable grounds to suspect that their transactions are connected with a VAT fraud.

Following the agreement of EU partners, the Government also announced the introduction in the UK, from 1 June 2007, a change in VAT accounting (the reverse charge) for goods most commonly used in MTIC fraud. This effectively drives the fraud out of those sectors by removing the VAT from the transaction chain and therefore the ability to steal the VAT in the first place. This will prevent fraud in the goods most commonly used by the fraudsters, and allow us to focus our strategy on identifying and responding quickly to any mutations in the fraud, if necessary.

**Targeting General and Serious VAT Non-Compliance**

Throughout 2006-07 we continued to focus our VAT compliance activity on the areas of highest risk and by the end of February 2007 we had delivered just over 140,000 interventions identifying additional VAT of over £900 million. This is an increase of 8% over last year’s achievement.

A proportion of our compliance activity is coordinated through 43 national projects running across a number of trade sectors including the automotive, public authorities and leisure industries. These projects deal with non-compliant behaviours ranging from error to evasion. The creation of HMRC has provided us with the opportunity to consolidate our learning and become more joined up in our approach to fraud and evasion. We have made a fundamental change in our approach to tackling this high priority work by developing a cross-tax evasion strategy and, as part of this work, during 2007 we will:

- establish a cross-tax evasion capability to carry out all types of interventions,
- improve our understanding and targeting of evaders, using the information available to us in a more intelligent and joined up way, and
- communicate and publicise what we do to send a clear message to those who seek to steal taxes and profit from tax fraud and evasion.

Up to February 2007, we had contacted 134,000 new VAT registered businesses by either letter or telephone, to offer help and advice prior to completing their first VAT return. Throughout the year we have, in conjunction with business partners, hosted 16 Business Advice Open Days at key locations around the UK. These events attract around 10,000 visitors annually and offer a mixture of help from presentations covering the basics of VAT, to providing practical one to one advice. Attendance is open to all businesses irrespective of whether they are already registered for VAT or are planning to become registered in the future. Our local teams have also carried out approximately 9,000 desk-based checks; known as a ‘light touch’ approach this removes the need for more time consuming inspections at business premises and reduces the burden for businesses.

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

This target follows on from the previous SR02 target to reduce the illicit market share to 17% by 2006.

Estimates on the illicit market share for both cigarettes and Hand Rolling Tobacco (HRT) are published alongside the Pre Budget Report each year and rely on data from both the General Household (GHS) and Omnibus Surveys. The GHS only becomes available around 18 months after the survey period, and so estimates for 2005-06 are due to be assessed later this year.

Since the Government’s Tackling Tobacco Strategy was launched in 2000 the illicit market has reduced from an estimated 21% to between 10% and 19%. Following a thorough review of the consumer survey data used to estimate fraud, the methodology has been improved so that illicit market estimates for cigarettes are now given as ranges, in order to better represent the uncertainty inherent in the data source. Details are given in ‘Measuring Indirect Tax Losses 2006’ available on our website. However, for the purposes of monitoring and reporting on this target, we use the mid-point of the ranges for each year which, for 2004-05 was 14%. The trend in the mid-point shows a decline in the level of illicit market between 2000-01 and 2004-05.

A range of measures was introduced in ‘New Responses to New Challenges: Reinforcing the Tackling Tobacco Smuggling Strategy’, published alongside Budget 2006, which responds to the evolving patterns and types of smuggling activity and the nature of the UK illicit market, and in the light of our increasing knowledge and understanding of the international illicit market in tobacco. These new measures are underpinned by a new, specific operational target for hand-rolling tobacco (HRT) of reducing the size of the UK illicit market by 1,200 tonnes – equivalent to around 20% – by 2007-08.

Our latest estimates indicate that we are facing growing threats from counterfeit products and persistently high levels of smuggling of HRT. Our analysis shows that the profile of the illicit tobacco market has changed. The proportion of illicit cigarettes seized that are proven to be counterfeit has increased to 31% (over 1 billion cigarettes) in 2005-06, and more than 50% of the HRT smoked in the UK is smuggled.

\[1\] For seizures greater than 250,000 cigarettes only.
In response to the changing threats posed by the illicit market we have reinforced the tobacco strategy, focusing on four key objectives:

- working with tobacco manufacturers to improve the targeting of counterfeit product, and further restrict supply of both HRT and genuine cigarettes,
- enhancing our operational response to strengthen enforcement at all the key points along the supply and distribution chain,
- using technology to increase our ability to detect illicit goods and target resources effectively, and
- publicity and communication to increase awareness of enforcement action and to undermine the appeal of smuggled product.

The proven impact of the Memoranda of Understanding (MoUs) with tobacco manufacturers is now also being supported by the new supply chain control legislation, which was introduced on 1 October 2006. The legislation obliges tobacco manufacturers to maintain a supply chain policy, provide certain information to HMRC, and to supply in quantities consistent with their understanding of the legitimate market. There are penalties of up to £5 million for non-compliance. The legislation and the MoUs are complementary. The legislation will not force the tobacco manufacturers to do anything not covered by the MoUs, but it creates a level playing field by including all manufacturers whose product might be targeted at the UK illicit market, not just those who consent to a voluntary agreement.

During 2006-07, we have worked with tobacco manufacturers on the development of measures to tackle counterfeit tobacco products, in particular to prevent counterfeit products, which are currently largely sold through informal channels, from infiltrating the legitimate retail sector. As a result, during 2007-08, manufacturers will voluntarily introduce state-of-the-art covert pack markings on all tobacco products for sale in the UK. They will also provide authentication devices for HMRC officers to use in spot-checks and intelligence-led assurance activity.

Since the introduction of the Tobacco Strategy in 2000, 348 gangs involved in large-scale smuggling have been broken up and 2,487 people have been sentenced, with an average sentence in 2005-06 of 18 months. Custodial sentences are not our only sanction, and since the introduction of the strategy confiscation orders in excess of £27 million have been issued.

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

In 2001-02 the tax gap for spirits was estimated at 9%. Our activity (both operational and working with the trade) has reduced the tax gap for spirits to between 0% and 8% in 2004-05. Following a thorough review of the consumer survey data used to estimate fraud, the methodology has been improved so that illicit market estimates for spirits are now given as ranges, in order to better represent the uncertainty inherent in the data source. Details are given in ‘Measuring Indirect Tax Losses 2006’, available on our website. However, for the purposes of monitoring and reporting on this target, we use the mid-point of the ranges for each year which, for 2004-05 was 4%. The trend in the mid point shows a decline in the level of the illicit market between 2000-01 and 2004-05.

We are currently on track to meet the PSA target of reducing the illicit market share by half (to 3% which represents half of the baseline rounded down to the nearest whole number) by 2007-08, although the involvement of organised criminality means that maintaining progress will be a major challenge, which we do not underestimate. The UK Alcohol Strategy: Spirits was launched in June 2005 to help ensure that we achieve that target. The downside of our success is that a far greater proportion of the alcohol fraudsters who continue to attack the revenue are now likely to be organised criminal gangs.

There are three key strands to the spirits strategy, designed to make fraud increasingly unattractive:

- regulatory change (central to which is the introduction of duty stamps for spirits),
- enhanced operational activity, and
- working closely with the industry.

The duty stamps scheme was launched in February 2006, and in January 2007 it became law for bottles sold in retail outlets to carry the UK Duty Stamp if they passed the duty point on or after 1 October 2006. Memoranda of Understanding were signed in 2005 between HMRC and the industry, and are designed to ensure regular contact and improved transfer of information, in order to enable more targeted operational activity.

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

This target follows on from the previous SR02 target to reduce the illicit market share to 2% by March 2006. Our assessment, published in ‘Measuring Indirect Tax Losses – 2006’, is that the illicit market share for 2005 is 2%. This is the figure now used as the baseline for the new target.

The illicit market share was estimated at 2% in 2005, so we are on course to achieve the PSA target, but we recognise the challenge of maintaining this for the remainder of the PSA period. To this end, we will continue to undertake wider oils
regime assurance activity and work with legitimate business
to identify and examine ways of addressing potential
fraud risks.

The Oils Strategy was launched in September 2002, and has
contributed greatly to the successful reduction of the illicit
market. In order to ensure that the strategy continues to be a
success we will:

• continue to limit the opportunities available to fraudsters
to obtain illicit fuel for laundering by ensuring that
Registered Dealers in Controlled Oils (RDCO) traders are
exercising duty of care when selling diesel and kerosene and
issuing the appropriate sanctions when this has not been the case,
• through the RDCO network ensure that the opportunities
for fraudsters to sell illicit fuel are limited and that the
legitimate retail sector is protected from those supplying
laundered fuel,
• maintain highly visible road-testing units which will act
not only as a deterrent but will also increase the likelihood
of catching those using illegal fuel,
• ensure that fraudsters are not able to exploit supply
chains for other types of fuel, such as aviation turbine and
marine fuel, through working with the industry and by
deploying rigorous controls, and
• look to maximise the opportunities arising out of
technological development in the testing and identification
of illicit fuel.

Prior to the introduction of the Oils Strategy in 2001, the illicit market had been increasing. However since 2001, when the illicit market stood at 6%, the market has decreased by two thirds to 2% in 2005. Since the introduction of the strategy in 2002 we have dismantled 151 laundering and mixing plants, and disrupted 40 gangs involved in oils fraud in the UK. We have also secured 62 convictions and issued confiscation orders for over £1 million.

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

The PSA target for closing the direct tax gap consolidates
the targets for the compliance packages announced in
Budget 2003 and Budget 2004. In addition to this work, we have in place a programme to identify, develop and implement additional compliance activities that, over the next year, will help us make progress towards meeting the overall target.

In achieving this target the Department will look to extend
some of the Budget 2003 initiatives into 2007-08 using
baseline funding, continue to deliver the 2004 Spend to

Raise initiatives and deliver other improvements
in performance.

During 2006-07 we continued to concentrate our efforts on:

• sustaining and improving voluntary compliance by helping
individuals and businesses to understand and comply with
their obligations by giving support and education, as well
as enforcement,
• striking a proper balance between our various compliance
activities including setting the right legislative framework,
giving support and education, as well as enforcement,
• increasing the perception and probability of non-
compliant and fraudulent businesses being detected by
focusing on significant risk while maintaining the integrity
of the tax system by appropriate policing,
• robustly tackling serious non compliance whilst securing
value for money by allocating resources efficiently, and
• continuing the pressure on tax avoidance (see section
below on anti-avoidance).

Our latest forecast indicates that we are on track to meet the
2006-07 indicative trajectory of £2.25 billion. However,
as we move to the final year of SR04, attainment of the final
target of £3.5 billion remains very challenging.

We are making it easier for
everyone to comply; ensuring our
administration of the tax system
supports compliance and improves
the customer experience; and
cracking down vigorously on the
minority who are deliberately
non-compliant.
Cigarettes and spirits

Since the introduction of the Tobacco Strategy in 2000, 348 gangs involved in large-scale smuggling have been broken up and 2,487 people have been sentenced. We have worked with tobacco manufacturers on the development of measures to tackle counterfeit tobacco products. As a result, manufacturers will voluntarily introduce state-of-the-art covert pack markings on all tobacco products for sale in the UK.
Target 4: By 2007-08, increase the percentage of individuals who file their Self Assessment returns on time to at least 93%.

The above target is to be achieved without detriment to the performance of SA payment on time and the filing and payment on time of Employers and Companies.

The percentage of taxpayers who file their SA returns by the 31 January deadline has been steady for a number of years at just over 90%. The 2005 NAO report on the filing of SA returns\(^1\) recognised that achieving the new filing target of 93% by 2008 will be a challenge, principally because filing performance relies heavily on customer behaviour and also because of the change in criteria in April 2004 which removed over 1.6 million customers from SA. Those customers had relatively simple tax affairs and a better record of filing on time.

The following indicators support the achievement of this PSA target:

<table>
<thead>
<tr>
<th></th>
<th>2006-07 Target %</th>
<th>Provisional Outturn %</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA taxpayers who pay on time</td>
<td>89.8</td>
<td>88.5</td>
</tr>
<tr>
<td>Employers returns filed by the due date(^1)</td>
<td>80.7</td>
<td>Not available</td>
</tr>
<tr>
<td>Employers who pay by the due date(^2)</td>
<td>61.2</td>
<td>65.7</td>
</tr>
<tr>
<td>Companies returns filed by the due date(^1)</td>
<td>78.7</td>
<td>75.0</td>
</tr>
<tr>
<td>Companies who pay on time</td>
<td>61.9</td>
<td>61.4</td>
</tr>
</tbody>
</table>

Activity undertaken to encourage on time filing of SA returns includes:

- focused media campaigns to remind and encourage customers to file – and pay – on time as well as to promote online filing which, this year, increased by some 45%, and
- an extensive pro-active telephone campaign to remind those at highest risk of filing late about the deadline and pointing them towards help.

We have carried out research into the behaviour of SA customers and identified groups most likely to need additional support. Using this research we ran a targeted direct mail campaign with literature tailored to each group, offering help and advice on completing and filing returns. We are continuing to look for ways to encourage and assist customers to file their returns on time and are undertaking further research to see what additional support we can offer them.

\(^1\) Target based on period of grace covered by ESCB46, where penalties will not be charged provided returns are received on or before the last business day within seven days following the statutory filing date.

\(^2\) Result reflects the percentage of employers paid up to date 4 working days after the due date.

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\(^1\) Filing of Income Tax Self Assessment Returns (HC74) published 2 June 2005.
How integration is helping deliver our targets

Since the creation of HMRC many areas of the Department are working collaboratively across both direct and indirect taxes and, in so doing, contribute to several of our PSA I targets.

Debt Management

Debt Management & Banking continues to contribute significantly to the VAT Compliance Strategy outcomes through its regional and specialist sites. We are bringing together the best practices from direct and indirect taxes as a basis to improve and develop more efficient and integrated ways of working. In 2006-07, subject to validation, we have exceeded the £205 million additional target for cash to bank.

Working with Large Business

The Large Business Service (LBS) works with the UK’s largest businesses that pay over 50% of the business taxes and duties that HMRC collects. It is responsible for over 1,300 major businesses who have a significant involvement in one or more taxes. LBS works collaboratively with colleagues across HMRC in tackling risk and providing customer service.

Key delivery achievements during 2006-07 include:

- each customer being allocated a Client Relationship Manager (CRM) to manage the relationship across all taxes and duties,
- integrated risk assessments being shared with businesses to help them comply with their tax obligations and reduce their compliance costs,
- businesses are now divided into 17 sectors providing a clearer focus on sector-wide risks and enabling CRMs and Sector Leaders to build up a better understanding of commercial drivers specific to that sector,
- greater emphasis on matching resources to risk, with businesses who have a good compliance record and good systems in place receiving fewer interventions,
- development of the LBS Strategic Response Unit who collaborate with anti-avoidance colleagues to tackle avoidance risk (see section below on anti-avoidance), and
- extending the Shared Workspace (SW) pilot to 33 businesses with a further 17 on the way – the majority are fully operational e-rooms with the balance due for live operation shortly.

During 2006-07 we have maintained progress on our key targets to support delivery of PSA targets, for example we have met our target of reducing the underpayment of Corporation tax by £2.1 billion. Employer Compliance performance has increased considerably from 2005-06.

In order to gauge how successful our new working practices have been, a rolling programme of interviewing businesses in all sectors was introduced in September. From the feedback received so far businesses view this way of working very positively and are starting to see improvements in the way in which issues are progressed. There is still some way to go but businesses appear to accept that and are willing to work with us to achieve this.

As we move into 2007-08, our main tasks will be to deliver the recommendations of the Review of Links with Large Business (RoLs) while continuing to contribute to meeting the Department’s PSA objectives. The Risk Assessment Framework (HMRC’s approach to compliance risk management for large business was published at Budget 2007 and full details can be found on our website). This enables businesses to be clear on what they can do to impact our assessment of risk. By the end of December 2007 we will have implemented this framework alongside new processes for pre- and post-transaction clearances. This strategy aims to maximise the LBS contribution to the delivery of departmental Public Services Agreements (PSAs), through engaging in partnership with large businesses to help them improve their compliance.

Labour Providers

We have continued to make significant progress with the Labour Providers campaign. We are well on track to establishing a national network of fully integrated labour provider teams to tackle non-compliance in this sector, with the next tranche of integration starting in April 2007. In order to focus operational activity on areas of highest risk, and enhance our performance, we have established a national Labour Provider Risk and Intelligence Team. Throughout the year the Labour Provider teams have worked closely with internal stakeholders to ensure a further integrated approach to revenue protection. They have also formed close links with other government departments and external stakeholders such as the Gangmasters Licensing Authority (GLA). Information given to the GLA by Labour Providers, through the legal gateway established by the Gangmasters Licensing Act 1994, has been instrumental in enabling GLA to mount enforcement activity against unlicensed gangmasters.

There have been a number of initiatives to raise awareness of the work of the Labour Providers teams to Labour Providers, their agents and end users. The teams have achieved £38 million additional VAT receipts for 2006-07, which is more than double that achieved for 2005-06, and over £31 million additional receipts in direct taxes which far exceeds the target of £21.45 million.

Anti-Avoidance Work

We employ a raft of measures, coordinated by our Anti-Avoidance Group (AAG), to meet our targets for reducing...
VAT and direct tax losses/underpayments due to avoidance. AAG works across the department to ensure that avoidance is challenged in a consistent way and that resources are managed effectively by being targeted to where the risk is highest.

The disclosure regime provides us with early information on new and innovative schemes. We use this evidence to inform legislation to close down schemes or challenge them through litigation or both. The scheme was extended on 1 August 2006 following extensive consultation and the enhanced regime informed a number of measures announced in PBR 2006, effective immediately, and Budget 2007.

As part of our continuing work to ensure the effectiveness of the disclosure regime, we consulted on draft legislation to give us additional powers to investigate cases where there are reasonable grounds to believe that a promoter has failed to comply with the disclosure regime. The legislation is included as a clause in Finance Bill 2007.

In October 2006 we published the first set of disclosures statistics on our website, updated them in April 2007 and will continue to update every six months.

Avoidance specialists work with other teams within HMRC to tackle avoidance schemes in a consistent and efficient manner. For example, avoidance experts collaborate with policy teams to help strengthen new law against exploitation through avoidance. AAG plays an important role in identifying and disseminating new principles relevant to avoidance emerging from case law, and encouraging use of these principles in future litigation cases. We are constantly looking to make avoidance uneconomic by making the expected costs of tax avoidance outweigh the expected benefits.

We also work collaboratively on international avoidance issues through the Joint International Tax Shelter Information Centre (JITSIC) established in 2004. It was set up by the tax administrations of Australia, Canada, UK and the USA to help participants identify and curb abusive tax schemes and identify those promoting them. Member countries have specialists in the JITSIC office in Washington DC who share expertise and experiences, and analyse a wide range of tax shelters and schemes with co-ordinated, real time exchanges of information.

Tackling Failure to Register

In 2006-07 we rolled out integrated Hidden Economy Teams comprising staff who have expertise in direct and indirect taxes. We are also setting up a dedicated risk team to source this work.

During the year the Hidden Economy Teams secured 4,451 VAT registrations and identified additional VAT revenue of £37 million. They also identified 35,256 ‘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). This work reports yield of income tax totalling £52.6 million.

Rewards

In the financial year 2006-07 we made disbursements from our annual resource allocation totalling £522,146 to recompense non-departmental individuals for information that supported our PSA targets

Objective II: Improve customer experiences, support business and reduce the compliance burden

Eight Key Indicators make up the three targets in Objective II and we start the final year with four of them clearly on track to meet the targets, or exceed them. Three indicators are customer perception measures, assessed through our annual Customer Service Survey. One reached target level scores last year and again this year, but for two of them survey scores have fallen short of what we expected from all the improvements that have been introduced for customers.

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 use an annual customer survey across 13 customer groups involving some 19,000 telephone interviews with customers to measure this indicator. The 2006 survey was undertaken in November. The results from this survey indicate that our focus on customers – and in particular on improving the service we offer through our network of contact centres – is beginning to be reflected in improved customer perceptions. At 74.1% the 2006-07 achievement reflects very good progress and shows an increase of 2.4% against the baseline and 2.9% over the 2005-06 result.

We plan to continue our programme of service enhancements and to continue fully to focus on this important indicator of customer perception. However, despite the encouraging 2006-07 result, this target now poses a very significant challenge.

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.

Contact in this indicator covers calls from the public to our contact centres and those who wrote to us. It is measured from a sample of telephone calls and post extracted by two
separate, annual quality monitoring exercises. The selection of telephone calls and items of post is closely defined (e.g. calls are selected by business line) and then selected randomly within quotas identified for specific offices. We aim to maintain broad comparability from one performance year to the next but quotas may be adjusted to match changes in the quality strategy of the business or changes to the office infrastructure.

The national results from each exercise are weighted to reflect relevant volumes of contact and then brought together into a combined national annual result. Provisional performance data suggests that in 2006-07 we have performed at slightly above the target level. We continue to focus strongly on driving up the accuracy and completeness of advice given and action taken in respect of customer contact.

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

This is measured through an annual customer survey. The indicator covers the ease of completion of three main tax returns: Self Assessment, PAYE and VAT. It is restricted to the views of those within the 4 million small business community that complete these returns themselves. The target level was reached with the 2005 annual survey and the 2006 survey has confirmed that trend, with 92.6% now finding these tax returns easy to complete. Within the overall results, the scores for small employers has remained stable at 2005 levels; the score for the self-employed has risen slightly this year after a big rise in 2005; and those for VAT registered traders show that 99% now find the VAT return easy to complete.

**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%.**

This Indicator combines a target to improve accurate completion of VAT registration forms with filing on time targets for ITSA and PAYE, as a measure of the impact of targeted support and education to those joining the tax regimes and those taking on their first employees.

By improving some of the registration rules and introducing a revised registration application form and guidance in December 2006, we have increased the monthly proportion that is complete and accurate on receipt to around 67% in recent months. We have also improved the way we process VAT registration applications, getting processing times back on track for the vast majority of legitimate new businesses. We continue to develop our processes to identify and deal effectively with potentially fraudulent applications from professional criminals as part of our operational response to MTIC and other forms of fraud (see PSA Objective I, target 1 above).

Work to increase the number of new and growing businesses that submit their year-end ITSA and PAYE tax forms on time started during 2006-07 and the latest data available indicates that filing rates have not improved. We are exploring the possible reasons for this and the impact on our programme to target advice and support to new and growing businesses during 2007-08, which is part of the package of measures set out earlier in this report under target 4 of PSA Objective I.

**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.**

This measure focuses on high volume communications with around 26 million of these forms sent to individuals every year. The 2005 annual survey showed that the overall satisfaction score remained stable at 78%, in line with our expectations, as improved and simplified documents were not launched until 2006-07 onwards. The 2006 survey was expected to capture some evidence of improved understanding from some of the new forms released, but the overall result is 76.7% – very slightly down on last year and still below the baseline of 77.6% from 2004. Within the overall result there are increases in the ease of understanding Tax Credit Award Notices and PAYE Coding Notices. However, these increases are countered by a drop in score for those receiving the SA Statement of Account. We plan to carry out further survey research and will be interviewing SA and PAYE customers to help us understand the reasons for these results. This will help us to determine what else can be done to improve customer understanding in the time available.

**Key Indicator 6 – By 2007-08 increase to at least 95% the rate of accuracy achieved in administering Self Assessment, PAYE, Tax Credits and National Insurance Contributions.**

This focuses on our accuracy in handling information from customers in over 45 million transactions every year. Quality monitoring teams use random samples to assess performance each month and results are weighted before being brought
We continue to target enforcement of 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.

We enforce 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.

Key indicator 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.

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.

At the beginning of the SR04 period we reported against 5 key activities while we established and refined indicators and targets to demonstrate delivery. We have continued to actively contribute to other departments’ outcomes, strategies and targets in furtherance of this objective.

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

Key indicator 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.

**Drugs:** In April 2006 the Serious Organised Crime Agency (SOCA) took over as lead agency for Class A drugs, although we retain the statutory obligations to investigate importation offences. Strategically we operate both in the interdiction of prohibited drugs, especially cocaine and heroin and we provide support to SOCA. In partnership with SOCA we work to support their wider remit to tackle supply side drug enforcement and in our role in international capacity building, we provide training resources, notably in Afghanistan, Jamaica and, more recently, in Ghana. In both Jamaica and Ghana we have teams of experienced UK customs officers working alongside local law enforcement agencies at their international airports. By mentoring and training, including the use of state of the art drugs detection equipment we aim to reduce the number of Class A drugs couriers using UK airports.

In Jamaica, we have reduced the numbers of drug swallowers or ‘mules’ from just under 1,000 detected in the UK in 2001 to 5 last year. We have been working at the international airport in Accra, Ghana since November 2006. Since then detections in Accra have substantially increased resulting in a marked reduction at our airports of detections from flights originating in Accra. These international deployments are therefore proving to be very effective in assisting host nations in taking out drugs before they are trafficked to the UK.

**Products of Animal Origin (POAO):** We continue to target the entry routes that pose the greatest risk of disease flow into the UK. We have maintained increased levels of inspections on passenger, freight and postal traffic arriving from non-EU countries affected by Avian Influenza outbreaks, as part of the overall effort to combat the risks posed by this disease.

We continue to work closely with Defra colleagues to deliver a coordinated publicity campaign to raise awareness about the current rules for personal POAO imports. The provisional total of 35,047 seizures of all POAO shows a 7% increase on 2005-06. One case reported to Revenue and Customs Prosecutions Office resulted in a conviction in relation to the illegal import of over 83 kilos of meat and dairy products and a fine of £300 with £65 costs.

**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, the environment, conservation and international good governance. These include measures to combat Avian Influenza, illicit shipment of waste and the proposed import and export ban on cat and dog fur products.
We continue to support the National Wildlife Crime Unit (NWCU) which was launched in October 2006. This police-led unit has one HMRC officer on a one year secondment, and another is attached in a liaison and support role to provide customs expertise and coordinate joint enforcement actions where these arise.

**Strategic exports and sanctions:** We contribute to a multi-agency approach to prevent and deter the illegal trade in goods subject to export licensing, seizing goods found to be breaching controls and investigating serious cases. Our contribution includes the enforcement of sanctions and embargoes such as recently imposed United Nations sanctions against North Korea and Iran.

In addition to seizing goods at the frontier, in 2006-07 we took action in 12 cases to prevent goods that could have assisted weapons of mass destruction programmes. In concert with other departments, we actively support the Proliferation Security Initiative – a partnership of States working to prevent the proliferation of weapons of mass destruction and missile delivery systems by interdicting shipments of concern.

**Firearms:** We participated in a joint operation with the Metropolitan Police Specialist Crime Directorate into arms smuggling from Lithuania. The operation successfully dismantled a criminal network, smuggling weapons on a large scale into the UK. Three individuals subsequently received prison sentences totalling 32 years. The investigation is a good example of effective multi-agency, intelligence-led operations conducted to combat serious and organised crime.

In support of the 2006-07 Serious Organised Crime Control Strategy that highlights the threat posed to the UK by criminal use of firearms, we are contributing to the recently established Joint Firearms Intelligence Cell, thereby supporting a collaborative and intelligence led approach to reducing harm caused by the criminal use of firearms.

**Cultural goods:** We enforce export licensing regulations for the export of cultural goods. Goods manufactured or produced more than 50 years before the date of export are subject to export licensing controls to any destination, including other EU Member States. Additionally, we have a role in enforcing the Dealing in Cultural Objects (Offences) Act 2003, which makes it an offence to import or export cultural objects that have been illegally excavated.

In July 2006 we seized a consignment of artefacts believed to date from between the 11th and 13th centuries, and suspected of being illegally excavated in Afghanistan.

In December 2006 the Financial Secretary to the Treasury handed over to the Indian High Commission a consignment of six Indian religious statues seized by staff at Heathrow Airport in August 2005. Experts at the British Museum confirmed that the statues, which depict both Hindu and Buddhist deities, date from between the 7th and 11th centuries AD.

**Intellectual Property Rights:** The number of companies registered with us to protect their intellectual property rights continues to rise year on year. The number of extant applications lodged with us has risen from 430 at the start of the year to 611. This reflects increasing concerns across a number of trade sectors that counterfeiting and piracy has negative consequences for international trade, economic development and the health and safety of consumers. While we have continued to make seizures of items such as sporting goods, we have made significant seizures of therapeutic pharmaceutical items including statins, blood pressure tablets, ulcer protection tablets and osteoporosis drugs. Many of the products had no active ingredient and hence are of little therapeutic value.

In partnership with the Department of Media, Culture and Sport we have developed legislation strengthening frontier protection against goods that infringe Olympic symbols and are working with the London Organising Committee of the Olympic Games to identify risks and develop appropriate measures.

During the past year we have been an active member of the World Customs Organisation (WCO) Intellectual Property Rights Task Force making a significant contribution to a forthcoming Action Plan and Framework of Standards; provided experts for WCO and Commission training events; taken part in an EU benchmarking exercise; and, continue to work with various stakeholders to tackle the growing market in counterfeit medicines.

**Key indicator 2 - % of positive outcomes against requests received for interventions.**

The indicator covers requests received for support from outside the Department – primarily from SOCA but also requests from other law enforcement agencies.

HMRC and SOCA established a partnership agreement at the beginning of the year and we have each been working hard to refine operational processes and procedures. Both organisations continue to be committed to developing a sound and effective relationship.

Dialogue with SOCA is ongoing to improve and refine the exchange of intelligence on Class A drugs; effective flow
Border Management Programme

During 2006 HMRC, the Police Service and the UK Immigration Service trialled a joint agency risk management mechanism at four sites in the UK, and we continue to look at ways to measure joint risk. A strategic threat assessment of the UK border is now available to the agencies and future activity on risk will include focus on general aviation and small ports.
of information ensures that we can maximise our ability to intervene at the frontier and measure the impact of our frontier interdictions.

SOCA is now working with partners, including HMRC, to define its programmes of activity.

**Key indicator 3 – Service Level Agreements with lead Government Departments for prohibited and restricted goods.**

We have put in place Service Level Agreements between HMRC and lead Departments (and in some cases agencies, devolved administrations and enforcement partners) to clarify and regularise how we will collaborate. The SLAs describe the nature and level of HMRC’s frontier response in the light of the overall strategy and level of risk. We continue to develop SLAs for all new regimes and those undergoing significant policy changes. We have conducted an informal interim self-assessment of progress against fulfilling our SLA commitments by the end of the PSA period. We are on target to do so in the vast majority of prohibitions and restrictions regimes and will focus effort in those areas suggesting some slippage.

**Key indicator 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).**

New investment in people and resources to counter the threat posed by international terrorism saw screening of inward movements to detect the illicit importation of radiological materials at three major ports and two major airports. In 2006-07 over 3.5 million movements were screened and, where vehicles have triggered alarms, these have been intercepted and examined. Most alarms are caused by naturally occurring radioactive materials and give no cause for concern. Operating procedures to deal with, and dispose of, any materials that may be found are in place and fully tested. We will continue to work with port and airport authorities to ensure that implementation and operations progress with minimum disruption to commercial activity.

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

This target relates to the level of intervention in respect of import and export declarations for goods moving into and out of the EU. These are handled via the Customs Handling of Import and Export Freight (CHIEF) computer system. We have introduced a more streamlined approach to the way freight is selected for examination at UK ports and have implemented a robust management assurance process to control the way information is used to inform targeting. We have also introduced a fully electronic data capture mechanism which has ensured that we have full coverage of successful interventions at all locations. This has also allowed us to overcome data volatility issues which were caused by manual completion of records. Although the monthly figures are beginning to show improvements, the three month average on which this target is based has not yet reflected these improvements.

**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.**

In April 2006 we carried out a survey to form the baseline for this target. This showed that 46% of importers, exporters and their agents 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. We agreed a target to maintain this lead at 24 percentage points. The same question was asked as part of our 2006-07 customer survey. The results exceeded expectations with 58% positive responses and 12% negative responses, a positive over negative lead of 46 percentage points. At a time of increased concerns about threats to our border and customers we believe we are getting things right.

**Our other activities**

**Protecting the environment**

The Government’s environmental policy is based on a combination of identifying where businesses and individuals can change their behaviour and incentivising them to become more environmentally friendly.

The Government has introduced a range of measures to protect the environment and encourage behavioural change – such as regulation; grants; trading schemes; voluntary initiatives; information and labeling; and taking action through the tax system. Key measures introduced to date include: the Energy Efficiency Commitment; Renewables Obligation; Building Regulations; Renewable Transport Fuel Obligation; and the EU Emissions Trading Scheme. This innovative approach has enabled the UK to make progress towards its environmental goals while taking account of wider economic and social objectives. This approach is also in line with the conclusion of the Stern Report on the economics of climate change, which states that individual countries should use a mix of instruments that suits their national circumstances.
Our work on environmental taxes directly supports this strategy.

The Landfill Tax and the Landfill Communities Fund (LCF) both celebrated their tenth anniversary in October 2006. The tax increases the price of waste sent to landfill, encouraging more sustainable ways of managing waste, such as reuse, recycling, or composting. By 2005-06 overall quantities of waste recorded at landfill sites registered for the tax had fallen by around 25% and the UK is on track to meet its 2010 targets under the Landfill Directive.

The LFC, previously known as the landfill tax credit scheme, redresses some of the environmental costs of landfill by improving the environment in the vicinity of landfill sites. Its value increased to £60 million a year in 2006-07, and the Government issued a challenge to the private and voluntary sector partners in the fund to use the additional money to support opportunities for young people to volunteer on environmental projects. Over 4,000 youth volunteers benefited last year with over 25,000 days of opportunities generated.

The UK’s energy tax – the climate change levy (CCL) – was introduced in 2001 to encourage businesses to improve energy efficiency. Independent analysis, published at Budget 2005, has shown that CCL plays a crucial role in enabling the UK to meet its targets for reductions in greenhouse gas emissions, delivering cumulative savings of 16.5 million tonnes of carbon to 2005. Since the levy’s introduction, energy intensive sectors have been able to benefit from an 80% discount in CCL in return for signing climate change agreements (CCAs) under which businesses in these sectors agree to improve energy efficiency and/or reduce emissions. Following an extension to the eligibility criteria for CCAs in 2006, over 50 energy intensive sectors are now able to benefit, bringing environmental and competition benefits.

The aggregates levy was introduced in 2002 to ensure that the external costs associated with the exploitation of aggregates are reflected in the price, and to encourage the use of recycled aggregate. The levy is achieving its environmental objectives, with sales of primary aggregate down and production of recycled aggregate up.

We work with other government departments and agencies, business and environmental organisations to ensure that management of the environmental taxes is consistent with the Government’s wider environmental strategy and delivers its policy objectives effectively in a customer focused and cost effective manner.

Supply chain security

Securing international supply chains against attack from the twin threats of international terrorism and organised crime can only be achieved through working in partnership both at home and abroad. We have continued to provide strong support to other UK law enforcement agencies at the frontier, and to take a prominent role in driving forward international initiatives.

The UK-led EU customs counter-terrorism project group successfully completed Operation Tate, a joint operation at the eastern land frontier. This was a successful innovation for such operations as it was multi-agency, and involved the EU’s eastern neighbours.

We are consulting UK businesses involved in international trade on how best to implement the World Customs Organisation Framework of Standards to Secure and Facilitate Global Trade, and the EC Security amendments to the Community Customs Code. In some key areas, we are already working jointly to develop the systems and procedures.

With the EC, and selected member states, the UK has been developing a number of ‘proof of concept’ pilots to test secure supply chains, and we are close to finalising the detail of the agreements with the US, China and Hong Kong.

We have continued to work closely with the USA and their Container Security Initiative. In particular, to deal with the implications for the UK export supply chain of the US SAFE Port Act which called for trials of 100% scanning of containers bound for America.

Introduction of the National Clearance Hub

This year we established a national centre in Manchester for processing import and export entries, transferring this activity from individual Entry Processing Units to provide a more efficient and consistent service.

Border Management Programme

During 2006 HMRC, the Police Service and the UK Immigration Service continued to explore key areas where there is scope to work collaboratively to strengthen borders in response to the ‘One Step Ahead’ White Paper.

We trialled a joint agency risk management mechanism at 4 sites in the UK, and we continue to look at ways to measure joint risk. A strategic threat assessment of the UK border is now available to the agencies and future activity on risk will include focus on general aviation and small ports.

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1 One Step Ahead, a 21st Century Strategy to Defeat Organised Crime (CM6167), published in March 2004, is available from: www.homeoffice.gov.uk
The Border Management Programme (BMP) has also made operational progress. Activity based on trials carried out in 2005 will be introduced at ‘flagship’ and ‘best practice’ sites throughout 2007. Additional trials (eg HMRC as the search agency for freight) are due to be completed and evaluated later in the year.

The agencies continue to work on the alignment of intelligence structures and processes, and have agreed an action plan that will result in a framework for the best use of intelligence at the border.

Following Royal Assent of the Immigration, Asylum and Nationality Act in March 2006 the agencies have received improved powers to acquire and share information. We are currently working on the secondary legislation and codes of practice.

All this work is already contributing to an increasingly strengthened UK border with tangible evidence of results. For instance, Special Branch seized 18.5kg of cocaine on behalf of HMRC from a general aviation flight at Blackpool under BMP working practices, and due to closer working with the other agencies, HMRC profilers at Gatwick identified individuals for Immigration involved in a child-smuggling ring, resulting in arrests and major disruption to the organised crime group concerned. HMRC has discovered numerous clandestines on behalf of Immigration at Poole through the BMP trial there. 2007 should see continued developments in closer and joint working between the agencies which will further benefit the overall security of the border.

Student Loan collection

We collect repayments of student loans advanced under the Income Contingent Repayment Scheme for the Student Loans Company. Repayments are deducted from salary by employers where employees earn more than £15,000 in a year and from Self Assessment customers whose income exceeds the £15,000 income threshold. Cash receipts of £272 million are confirmed for 2005-06 and receipts of £408 million are forecast for 2006-07.

The collection process operates in partnership with the Student Loans Company who hold the borrowers’ accounts. A recent review by the Department for Education and Skills of student finance in England confirmed that the current arrangements for collecting student loan repayments would continue, but would be improved. We will be working to develop these improvements in partnership with the Student Loans Company.

National Minimum Wage

We have enforced the National Minimum Wage (NMW) on behalf of the Department of Trade and Industry since 1 April 1999 and have identified over £25 million in wage arrears. NMW officers have achieved very good results in 2006-07 with in excess of £3 million in arrears being identified for over 14,000 workers. More than 4,200 investigations were completed and the incidence of non-compliance detected in these suspected cases, was 36%.

We continued our education and enforcement campaign, launched in July 2003, under which we target key low paying trade sectors. The second trade sector chosen was childcare and the third sector of hotels was announced in March.

Increased funding to monitor and police the NMW was announced at Pre Budget Report 2006, and we are working with DTI on a range of measures, including increasing our NMW compliance staff by 20, to enhance our compliance activities.

A new NMW Penalty regime was introduced in January 2007 that will enable us to issue penalties when an Enforcement Notice has not been complied with in full. The minimum penalty will be around £225 per worker named on the Enforcement Notice. We now have a criminal prosecutions policy in place for repeat or major offenders and our first cases have been considered by the Revenue and Customs Prosecutions Office.

Our 16 compliance teams follow up complaints received about non-payment of NMW in addition to investigating employers identified through risk programmes. This, along with our targeted education and enforcement helps to ensure:

• a level playing field for business in the UK, and
• that employers understand their obligations under NMW law.

Money Laundering Regulations

HMRC has Money Laundering Regulations (MLR) supervisory responsibility for bureaux de change, money transmitters and cheque cashers – collectively known as Money Service Businesses (MSBs) and businesses that accept high value cash payments for goods – known as High Value Dealers (HVDs).

In January 2007 we introduced the EU Payments Regulations to the money transmission sector, fulfilling an anti-terrorist measure agreed by the Financial Action Task Force (FATF). The regulation requires businesses to obtain details of customers wishing to send money across national boundaries and, where appropriate, pass on those details with the transmission. Legislation to introduce a penalty regime for failure to comply with the regulations will be implemented in January 2008.

We are contributing to the provision of consistent, appropriate guidance to businesses in different commercial sectors that are subject to money laundering regulation. The
Third Money Laundering Directive will be incorporated into UK law through the 2007 Money Laundering Regulations that will come into effect on 15 December 2007. The new Regulations will affect our supervisory role in three ways:

- placing greater responsibility on senior personnel within businesses to impose risk based controls that are proportionate to the perceived money laundering risk, encouraging a move away from prescriptive “tick and turn” checks,
- extending our supervisory role to two new business sectors – accountancy service providers (ASPs) and trust and company service providers (TCSPs) – that are not already regulated by a recognised supervisor, and
- requiring anyone who wishes to operate as either an MSB or TCSP to undergo a “Fit and Proper” test administered by HMRC before registration.

In anticipation of the new Regulations we have introduced a risk based visiting programme across the MSB/HVD sectors that focuses attention on the high risk businesses.

Efficiency programme

At 31 December 2006 we had achieved a net full time equivalent (FTE) post reduction of 8,504, which represents over 68% of the 12,500 net FTE target to be achieved by 31 March 2008. By 31 March 2007 the reduction had increased to 10,144, 81% of the target. In addition, we redeployed 3,036 posts to frontline activities by 31 December 2006, with a further 130 by 31 March 2007, these include combating tax and excise fraud to help safeguard revenues and the strengthening of our frontier controls. Together this means that the Department has achieved over 72% of its gross 16,000 FTE reduction target as at 31 December 2006 (83% as at 31 March 2007). We continue to be on track to deliver our financial savings targets.

FTE Staff In Post Information at 31 December 2006

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Baseline</th>
<th>Latest reported position</th>
<th>Provisional Outturn</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target 1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in full-time equivalent (FTE) staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall gross FTE staff</td>
<td>97,755¹</td>
<td>89,251²</td>
<td>87,611²</td>
<td>85,255</td>
</tr>
<tr>
<td>Overall net FTE reduction</td>
<td>8,504</td>
<td>10,144</td>
<td>12,500</td>
<td></td>
</tr>
<tr>
<td>FTE redeployed to front-line activities</td>
<td>3,036</td>
<td>3,166</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Overall gross FTE staff reduction</td>
<td>11,540</td>
<td>13,310</td>
<td>16,000</td>
<td></td>
</tr>
</tbody>
</table>

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 the efficiencies HMRC will achieve.

² These figures are less than the overall Departmental staff in post figure to reflect the deployment of extra staff needed to increase Contact Centre capacity. This is a ‘new policy burden’, which is outside the scope of the Efficiency Programme.
Section 03

Lyons relocations at 31 December 2006

<table>
<thead>
<tr>
<th>Lyons relocations</th>
<th>Latest reported position</th>
<th>Provisional Outturn</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>To relocate 1,950 FTE posts out of London and the South East by April 2008.</td>
<td>31 December 2006</td>
<td>31 March 2007</td>
<td>31 March 2008</td>
</tr>
<tr>
<td>FTE staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTE posts relocated</td>
<td>1,163</td>
<td>1,501</td>
<td>1,950</td>
</tr>
</tbody>
</table>

Cumulative financial savings

<table>
<thead>
<tr>
<th>Financial savings £m¹</th>
<th>Progress to date</th>
<th>In-year²</th>
<th>Full Year</th>
<th>Full year target from 1 April 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07 (Q3 Actuals³)</td>
<td></td>
<td>255</td>
<td>320</td>
<td>507</td>
</tr>
<tr>
<td>2006-07 (Q4 Provisional⁴)</td>
<td></td>
<td>311</td>
<td>385</td>
<td>507</td>
</tr>
</tbody>
</table>

¹ As described in the HMRC 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.

² OGC monitors progress on an in-year measurement methodology. The above tables set out the relationship between that in-year progress and forecast final delivery against HMRC’s full year target at the end of SR04.

³ All figures will be subject to internal/external audit.

⁴ Forecasts will be reviewed on a regular basis.

We are working to ensure that reductions in staff are achieved as far as possible without recourse to compulsory redundancies. We have agreed with the Department’s Trade Unions that there will be no redundancies, or compulsory moves that require moving home, before September 2007. The staff reductions are being managed through natural wastage, a restricted approach to recruitment, management of fixed term appointments, and the use of voluntary early release schemes. As at the end of March 2007, 3,200 staff had left the Department under approved early retirement schemes. In addition, we have introduced other measures to help reduce staff numbers in areas of expected staff surpluses, including a Public Sector Release Scheme to assist staff who wish to resign from the Department to re-train for a role in the public sector such as teaching or nursing. We are actively managing staff releases to ensure we retain the right people, in the right places, with the right skills and behaviours to deliver our business objectives, and to be in a position to deliver further improvements in the longer term.

We are committed to reducing the size of our office network in line with business needs and having an estate comprising former Inland Revenue and HM Customs & Excise gives us the opportunity to maximise potential savings. The merger has created surplus capacity and this, together with reducing staff numbers across the Department, provides the scope to reduce the size of the estate’s portfolio by up to 40%. This will be achieved principally by fully utilising flexibility provisions within the STEPS PFI contract and through subletting surplus accommodation to other Government departments.

As at 31 March 2007, we had closed or part vacated 79 properties since the merger of the two former departments. These changes removed 68,428m² of office space from the Departmental portfolio worth £13.7 million in annual running cost savings. Face to Face services have been maintained in the relevant locations. The Department is committed and on track to achieve £30 million in annual estates running costs savings by 31 March 2008, and has a stretching target of a further £70 million in annual estate savings by 31 March 2011.

We published details of our Regional Review Programme in November 2006, setting out the timetable and consultation processes that will be followed in establishing
which properties to retain and which to vacate. The current programme of estates rationalisation will continue through to March 2011, and will encompass feasibility, consultation and implementation phases. We are also investing in a number of existing large properties to improve their flexibility for future use and capacity and we expect much of this work will be completed by March 2009.

In line with our target to relocate 1,950 posts outside London and the South East by 31 March 2008, we had relocated 1,163 posts by 31 December 2006 (excluding a further 87 posts at the Valuation Office Agency, which do not count toward achieving the efficiency target). This represents almost 60% of this target. By 31 March 2007 we had relocated 1,501 posts (77%), and current plans provide confidence that we will achieve the 1,950 relocation target by 31 March 2008.

We recognise the need to ensure that staff reductions are made through real efficiencies and not cuts, and that there is no detriment to customer service. To measure and monitor delivery and service quality alongside efficiency savings, we agreed with the Office of Government Commerce (which is responsible for oversight of the Government’s overall Efficiency Programme) a set of quality measures that cover the main areas from which efficiency savings will be drawn. As part of their wider study on the progress of the Government's Efficiency Programme, the National Audit Office's report1 acknowledged that the quality measures we use show that our performance has not been adversely affected during the period of headcount reductions, and in some areas that performance has improved substantially.

Our own Internal Audit team has also provided assurance that we are on track to deliver the efficiency targets, and they will continue to conduct a quarterly rolling programme to review and validate reported efficiency savings over the efficiency programme period.

Better Ways of Working

Through our PaceSetter programme we are transforming processing and migrating work to larger offices, so that we deliver a first class customer service, at a significantly lower cost. We aim to continually improve our performance by embedding innovation in our culture. We aim to be a first class provider of processing in the UK, able to compete successfully for additional work within the public sector.

We have begun to successfully implement plans which include:

- a set of leadership and management interventions to enhance management capability,
- reducing the number of processing locations (currently nearly 300), by concentrating processing work in 50 larger offices,
- reducing by 31 March 2008 staff numbers in processing by 8,500,
- relocating approximately 1,300 processing staff away from the south east by 2010, and
- improving the way we communicate with our staff to improve understanding and engagement in our plans for the future.

‘Lean ways of working’ is one strand of the PaceSetter in Processing programme. As part of this we have reviewed our processing work from the customer perspective to eliminate waste, inconsistency and duplication of work. Lean encourages a smooth flow of work, eliminates everything that does not add value, leading to an improved customer service.

This way of working has been implemented across the PAYE-SA processing network and currently the National Insurance Contributions Office, Child Benefit Office, National Operational Services and Tax Credit Office are in various stages of implementation.

The Tax Credit Office (TCO) has been at the forefront of this change programme, introducing customer-focused improvements, and stabilising workloads.

Following the restructuring in April 2006 which brought similar work tasks together into clusters, TCO now routinely delivers a decision to most claimants within 4 weeks of recovery of an overpayment being disputed. TCO has managed to halve the number of complaints on hand at any one time and most claimants will now get a reply in less than 6 weeks. In addition, during this period of cultural and structural change, TCO’s year to date accuracy figure is around 97% against a target of 95%.

Communication with customers has also been improved with clearer, more detailed explanations by telephone or letter and named caseworkers dealing with complaints.

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Dear Paul,

REMIT FOR HM REVENUE & CUSTOMS 2007-08

I am writing to set out the Annual Remit for HM Revenue & Customs (HMRC) for 2007-08, covering key priorities for the Department in the coming year.

I would like to welcome you to your position as Executive Chairman and to acknowledge the progress that you have made over the last year. You have successfully taken forward integration whilst maintaining performance and planning for the CSR07 period, when you will continue to provide enhanced levels of performance and service delivery while making further significant value for money improvements and making best use of resources. I want to thank you and all HMRC staff for this continuing success.

Your Departmental Minister is the Paymaster General, and you will be answerable through her to Parliament for delivery of this Remit. Delivery will be monitored through established reporting processes, including appearances before the Public Accounts Committee and the Treasury Select Committee, and summaries of progress in your Spring Report and Autumn Performance Report.

HMRC’s aims and high-level objectives are set out in your SR04 Public Service Agreement (PSA) (attached). Your current objectives are to: increase the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled; improve customer experience, support business and reduce the compliance burden; and strengthen frontier protection against threats to the security, social and economic integrity and environment of the United Kingdom.

In this final year of delivery against these objectives you must continue to focus on successful achievement of your efficiency targets to achieve £507m in savings by the end of 2007-08 while relocating 1950 posts out of London and the South East and reducing your staffing levels by 12,500 net full time equivalent posts. You will also need to develop detailed plans for the relocation of a further 2,300 posts by 2010. You have a key task in this final year of SR04 to drive delivery against your stretching PSA targets on tax compliance and yield, customer experience of dealing with HMRC, and frontier protection and ensure that achievement of these targets remains a top-level priority, while delivering your challenging reform programme.

Delivery of your core objective to ensure that taxpayers pay the amount they owe will depend on HMRC developing its analysis of the impact of its compliance activity on tax returns and of current and future risks to tax revenues.

Your Departmental Expenditure Limits for the years 2008-09 to 2010-11 have already been agreed, and you have been working closely with HM Treasury to agree a delivery plan to implement key reforms that will enable you to achieve an ambitious programme of service transformation and organisational reform to underpin those changes. A key priority for this coming year will be to begin this programme of reforms, with support from the Modernisation Fund in addition to your own resources.

Paul Gray
Chairman
HM Revenue & Customs
100 Parliament Street
London
SW1A 2BQ

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

27 April 2007
This substantial transformation programme, including workforce change, estates consolidation and robust management and control of all of your costs, including pay restraint consistent with the CPI inflation target of 2 per cent, as I set out in this year's Budget, will be essential to ensure affordability and enable you to manage your resources over the CSR period when your DEL will decline by 5% a year in real terms.

This coming year is also when you will have to agree a new performance management framework with HM Treasury, setting out a stretching set of PSA objectives and Departmental Strategic Objectives that will drive improvements in your performance and use of resources over the CSR07 period. You will have to work closely with other government departments to develop robust Delivery Agreements for all of the new Public Service Agreements to which HMRC is contributing.

One specific area of cross-government collaboration that is a priority for you is to work closely with DWP in taking forward the service transformation agenda, where both departments have key roles to play in transforming public service. You should continue to develop and deliver joint initiatives that will improve the quality and cost effectiveness of service delivery in those areas where both departments have significant overlapping interests. Additionally, the transfer of businesslink.gov to HMRC in 2007-08 enables you to coordinate collaborative work across government to drive this agenda forward and plan for development of the service into the main channel for business – government interaction by the end of the CSR07 period.

Other significant areas that you will have to make progress on during this year are:

- developing a better understanding of threats to tax receipts, including criminal attacks on the tax system, and improved planning and operational delivery of measures to counter these threats
- building on the progress already made in ensuring there is the greatest priority given to making further improvements in the delivery of tax credits, including implementing the remainder of the phased package of measures announced in the 2005 Pre-Budget Report
- delivering on the Varney agenda for improved links with business, including a more transparent approach to risk (with reduced interventions for low risk businesses) and a new advance ruling regime
- planning for successful implementation of Lord Carter’s recommendations on provision of online services, on the timetable set out in Budget 2007, and
- development of plans for further reductions in the administration burdens faced by business as part of your DSOs.

I look forward to working with you over the coming year on this challenging agenda. I am copying this letter to the Chairs of the Treasury Select Committee and House of Lords Economic Affairs Committee and placing copies in the libraries of both Houses.

Gordon Brown
Annex A: HMRC PSA targets from 2005-06 to 2007-08

Aim:
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.

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.
1. By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability.
2. By 2007-08:
   • reduce the illicit market share for cigarettes to no more than 13%;
   • reduce the illicit market share for spirits by at least a half; and
   • hold the illicit market share for oils in GB at no more than 2%.
3. By 2007-08, reduce underpayment of direct tax and NICs due by at least £3 billion a year.
4. By 2007-08, increase the percentage of individuals who file their SA returns on time to at least 93%.

Objective II:
Improve customer experience, support business and reduce the compliance burden.
5. Respond accurately and completely to requests for advice:
   • by 2007-08, increase to at least 80 per cent the proportion of individuals and businesses who said they achieved success at first point of contact;
   • by 2007-08, increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact.
6. Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost:
   • by 2007-08, increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns;
   • 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%;
   • 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.
7. Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum:
   • by 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and NICs;
   • by 2007-08, increase to 35% the percentage of SA tax returns received on line;
   • by 2007-08, increase to 50% the percentage of VAT returns filed online.

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.
8. By 2007-08, to improve our capability to intervene at the frontier.
9. By 2007-08, to improve our effectiveness by 50% in identifying irregularities in third country freight.
10. To 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.
Annex B: Valuation Office Agency

The Valuation Office is an Executive Agency of the HM Revenue and 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; and
• advising on valuation policy issues

Forecast Results against Key Performance Indicators 2006-07

<table>
<thead>
<tr>
<th>KPI</th>
<th>Forecast results¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td></td>
</tr>
<tr>
<td>To achieve overall customer satisfaction of 88%.</td>
<td>88% On course</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
</tr>
<tr>
<td>Enable prompt issue of correct bills by local authorities through clearance of 90% of rating reports, and 95% of council tax reports within two months of receipt.</td>
<td>97% Ahead</td>
</tr>
<tr>
<td>Enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases for inheritance tax on average within 12 days.</td>
<td>98% Ahead</td>
</tr>
<tr>
<td>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</td>
<td>1% Ahead</td>
</tr>
<tr>
<td>Ensure that 96% of new council tax bandings are right first time.</td>
<td>96% On course</td>
</tr>
<tr>
<td>Value For Money</td>
<td></td>
</tr>
<tr>
<td>To improve productivity by 5% in 2006-07 and be on course to achieve 15 % improvement over the four years to 2007-08</td>
<td>-5% Slippage</td>
</tr>
<tr>
<td>To improve value for money on inheritance tax work for HMRC by 5%.</td>
<td>7.4% Slippage</td>
</tr>
<tr>
<td>People</td>
<td></td>
</tr>
<tr>
<td>All staff to have the core skills and competencies for their role within six months of taking up post.</td>
<td>100% On course</td>
</tr>
</tbody>
</table>

¹ These results are forecast based on outturn at the end of February 2007 and will be subject to independent audit prior to publication of the Agency’s Annual Report and Accounts.
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:

- defending the valuations used for rating non-domestic properties in England and Wales, and preparing for the next revaluation due in 2010;
- maintaining the Council Tax lists in England and Wales;
- continuing to improve the effectiveness of its contribution to HM Revenue and 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; and
- playing its part in implementing any changes which flow from Ministerial decisions on the Lyons Inquiry into Local Government, and Planning Gain Supplement.

In this context the following key performance indicators have been agreed with Ministers for 2007-08

Customer satisfaction
- To achieve overall customer satisfaction of 88%.

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 18 working days and council tax reports within an average of 14 days (England) and 16 days (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 12 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 productivity by 3% in 2007-08.
- To improve Value for Money on Inheritance Tax work by 5%.

The Key Performance Indicators have been announced by the Paymaster General and will be published in the VOA Forward Plan and available on the website www.voa.gov.uk

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Footnote: 1 Work undertaken in Local Taxation network and excludes rating appeal and other associated work.
Annex C: Better Regulation report

Improving Policy Development and Regulatory Impact Assessment

Steps taken to improve engagement with stakeholders

We have continued to put customer focus at the heart of our work. Following delivery of our project to measure the administrative burdens on business imposed by the tax system and the announcement by the Government at Budget 2006 of challenging targets to reduce them, much has been done to ensure the necessary culture change within HMRC to help us meet the challenges we face.

Building on the creation of customer units to focus particularly on the needs of customers at the strategic level, the work of those units has continued and been consolidated from three into two: the Business Customer Unit and the Individuals Customer Unit.

In November 2006 the Business Customer Unit published plans1 to deliver a better service to business. These delivery plans were the result of the March 2005 consultation on working towards a new relationship with business.

November 2006 also saw the Business Customer Unit publish the outcome of the review of HMRC’s strategic links with large businesses and employers2 that was started under direction of HMRC’s former Chairman, Sir David Varney. The review involved extensive consultation with a variety of large businesses, their advisers and representative bodies and proposed a framework for business and HMRC to work within to improve their relationship. With respect to Better Regulation the main outcomes were:

1 a requirement for HMRC to take the business perspective into account in everything it does from implementing policy decisions to designing systems and processes – giving earlier clarity and reducing complexity and administrative burdens for business; and

2 a more transparent approach to risk assessment, informed by an understanding of how business assess and manage risk, to underpin an enquiry approach where resources are focused on key risks and resolving contentious issues more efficiently and quickly.

To foster engagement with stakeholders from the top down, HMRC senior managers have made a point of contacting stakeholders in senior positions in representative bodies such as Chartered Institute of Taxation and the Institute of Chartered Accountants of England and Wales when major announcements are being made about the likely effect on customers and on our staff.

Internally, HMRC will ensure that the customer perspective is fully reflected in departmental plans for 2007-08 and articles have been included in the staff magazine to promote awareness and understanding.

Compliance with Cabinet Office guidance on Regulatory Impact Assessment (RIA)

Policy staff are encouraged to start the impact assessment process early, with our Better Regulation Unit (BRU) devoting considerable resource to supporting policy staff working on potential measures during the Pre Budget Report (PBR) and Budget cycle, helping to ensure a high compliance rate with the RIA process. RIAs are published for significant or sensitive measures only3. The confidentiality necessary for Budget work sometimes means that we cannot publish a partial RIA or consult widely before the measure is announced. Where this occurs an assessment of the likely impact of the change is still given consideration.

Improving quality of impact assessment

Besides assessing legislative change for impact on business, we also assess the impact of changes that do not require legislation through use of Operational Impact Assessments (OIAs). Operational and administrative changes can be alternatives to regulation and can include such things as providing better guidance or providing calculators to employers for simple but frequently used calculations.

Preparing OIAs ensures a more complete picture of HMRC’s impact on business. During 2006-07 we published 2 OIAs. The OIA process closely follows the RIA process. This helps people become familiar with the thinking behind impact assessments and helps to ensure a common treatment.

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Preparing OIAs ensures a more complete picture of HMRC’s impact on business. During 2006-07 we published 2 OIAs. The OIA process closely follows the RIA process. This helps people become familiar with the thinking behind impact assessments and helps to ensure a common treatment.

Educating staff on both types of impact assessments and how they fit into the Better Regulation Agenda is an ongoing activity both because of staff turnover, and because there are year on year changes and refinements to the impact assessment process. Our BRU provides workshops and seminars as well as a consultancy service to colleagues in HMRC and those within HM Treasury in the Tax Policy Partnership. This helps our people focus on the potential impacts of changes to legislative or operational policy and gives them the tools to undertake the impact assessment process. In the past year BRU also delivered substantial additional training to policy, operational and other staff to explain and incorporate the purpose and findings of the Administrative Burdens measurement project into the policy development process. This has helped people understand

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1 Delivering a new relationship with business: HMRC’s plans to deliver a better service for business by 2010-11 is available on our website: www.hmrc.gov.uk/better-regulation/new-relationship.pdf
2 2006 Review of Links with Large Business - Outcomes: www.hmrc.gov.uk/large-business/review-outcomes.htm
3 www.hmrc.gov.uk/better-regulation.ia.htm
its relationship with impact assessments, interprets the results of the research and apply them in practice. Informal feedback about the support given by the Better Regulation Unit suggests that this internal consultancy work is valued.

Our Compliance Cost Review Programme has just completed its second year reviewing the compliance cost impact of legislative changes in published RIAs. In due course we will review OIAs in the same way. The results of the reviews are published on our website once they have been finalised. Learning points from these reviews are taken forward and fed into guidance to ensure improvement of future assessments of compliance costs and on the impact assessment process in general.

We regularly contribute to the cross-government network meetings run by the Cabinet Office Better Regulation Executive (BRE) and have actively fed into discussions following the publication in July 2006 of the Cabinet Office consultation on improving the impact assessment process and its guidance.

Looking forward, we will continue to develop a more-rounded view of our impact on business by embedding OIAs more firmly into operational policy work, by ensuring that they are considered in the early stages of project planning, and also by further developing an educative process to raise awareness.

Examples of Impact Assessments that demonstrate their effective use and how Better Regulation principles have been applied

During 2006-07 we published 27 full and 14 partial RIAs. Some examples of these are given below:

- We used the impact assessment process to good effect in looking for a fair and effective way for hoteliers to account for non-business expenditure for the purposes of income tax self assessment (Board and Lodging Adjustment Agreements for Hotels and Guesthouses). Not requiring legislation, this was a process change affecting business and through consultation and a partial OIA, a fair and simple solution was achieved that will keep administrative burdens to a minimum. A full OIA was published in February 2007.

Consultation

Consultation is a cornerstone of our ambition to put customer focus at the heart of our work. It is one way that we can understand and take account of the views of business, taxpayers, their representatives and the general public on a range of issues. We consult both formally, using the Cabinet Office Code of Practice, and informally.

Consultations on both policy and implementation issues have been held over the course of the year. For example, we have this year published several consultations on Modernising Powers as well as consultations on operational issues such as Board and Lodgings adjustments and seeking information on the excise duty drawback system. We carried out 20 formal consultations during 2006-07, 16 of which lasted for 12 weeks or more as recommended by Cabinet Office Code of Practice on Consultation. The remaining 4 were completed within a shorter period because of the time constraints of the annual Budget timetable.

We publish responses to formal consultations in document form on our website and provide as full a picture as possible of the views of those who responded. Much of our informal consultation is conducted through a network of consultative committees, including a Better Regulation Consultative Committee which allows members (from the various accountancy and business representative bodies) to raise concerns about the application of Better Regulation principles either as policies are being developed or in their implementation.

Our consultative committees are listed on the Better Regulation pages of the HMRC website. These groups together with the formation of our Customer Units have allowed a greater degree of focus on identifying and understanding the requirements, needs and behaviours of our customers.

Key recommendation 9 of the Review of Links with Large Business committed HMRC to publish a consultation framework to ensure that we take the customer perspective

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1 www.hmrc.gov.uk/ccr
2 www.hmrc.gov.uk/better-regulation/ia.htm
3 2006 Review of Links with Large Business: www.hmrc.gov.uk/large-business/review-outcomes.htm
into consideration and adopt a consistent approach to informal and formal consultation. The Framework complements and builds on the Cabinet Office Code of Practice and should lead to better and more effective consultation with our customers. It aims to ensure we consult early and often, giving time for as broad participation as possible. More effective consultation is expected to lead to improved design and administration of our systems. These improvements should lead to lower costs for customers and HMRC, and to better compliance.

**Simplification and Administrative Burdens Reductions**

**Simplification**

We set up a simplification portal in 2005 to enable businesses to suggest ways that the tax and duty systems might be improved. In the year ended 31 March 2007 we received 47 suggestions (113 in total since the introduction of the portal in 2005). All have been considered and either fed into the thinking for Budget 2007, are under consideration with a view to seeing whether improvements can be made, or have received an explanation why the suggestion will not be taken forward. As a taxing authority rather than a regulatory department we have not published a Simplification Plan along the lines of other Government Departments. Instead we will deliver simplification measures as part of wider departmental improvements.

**Administrative Burden reduction**

Research undertaken by KPMG in 2005-06 modelled the administrative burden of the tax and duty system on UK businesses. “Progress towards a new relationship: how HMRC is working to make life easier for business”

We have used risk assessment, as a rule, to ensure genuine problems are addressed in an efficient way. For example, the requirement to transfer VAT records when a business was sold as a going concern was found to be inconsistent with the approach adopted elsewhere and was not being applied consistently. After consideration of how best to resolve this issue, and taking full account of the risks associated with making changes, it was decided that the legislation could be amended to allow the seller to retain the records in most cases.

**RIAs for European legislation**

During the year we considered the implications for UK tax law from a number of European Court of Justice decisions. For example, in January 2007 we published a full RIA of the VAT liability treatment of medical services following the decision of the European Court of Justice in the case of Dr Peter D’Ambrumenil. The RIA explains the principles of the decision and sets out the key activities that would be affected by the change in VAT legislation.

**Examples of good risk assessment**

We have used risk assessment, as a rule, to ensure genuine problems are addressed in an efficient way. For example, the requirement to transfer VAT records when a business was sold as a going concern was found to be inconsistent with the approach adopted elsewhere and was not being applied consistently. After consideration of how best to resolve this issue, and taking full account of the risks associated with making changes, it was decided that the legislation could be amended to allow the seller to retain the records in most cases.

**Common Commencement Dates**

Most of our legislation is carried in the annual Finance Bill. So most commencement dates are harmonised around the start of either the tax year or business’s financial year. Most of the legislation that does not use the Finance Bill also has harmonised dates because it tends to use the same operational machinery. Further legislation originates within the EU and we consider this on a case by case basis.

**Regulatory Reform Orders delivered**

We have not used Regulatory Reform Orders in the past year but continue to use the annual Finance Bill for the majority of the legislative changes.

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1 The series of New Relationship papers can be viewed on our website at: [www.hmrc.gov.uk/newrelationship/new-relationship.htm](http://www.hmrc.gov.uk/newrelationship/new-relationship.htm)
Annex D: Committee of Public Accounts (PAC) recommendations

The PAC has published 3 reports on HM Revenue & Customs in the past 12 months.


**PAC recommendations**
- HMRC overpaid £2.2 billion of Tax Credits in 2003-04 to some 1.9 million families, representing one third of those claiming Tax Credits. The recovery of these overpayments has caused hardship to some families, and the Department has struggled to manage disputes about recovery.
- There have been unforeseen overpayments due to software errors and the Tax Credits computer system is fragile. The Department has estimated that software errors led to overpayments of £184 million in 2003-04 and 2004-05. Software problems continue to result in errors. The Department needs to analyse and rectify these software errors to achieve a robust and stable computer system.
- There has been a serious assault on the Tax Credits system by organised criminals and given the severity of the attack, in which identities were stolen to submit fraudulent claims, the Department needs to assess the adequacy of its fraud risk assessment and the effectiveness of its internet controls and the strength of its defences for telephone access.
- There has been a serious assault on the Tax Credits system by organised criminals and given the severity of the attack, in which identities were stolen to submit fraudulent claims, the Department needs to assess the adequacy of its fraud risk assessment and the effectiveness of its internet controls and the strength of its defences for telephone access.
- During 2005, the Department detected an increase in the number of organised attacks on the tax credits system, predominantly via the internet. The Department takes very seriously its obligation to identify the elements of the tax credits system that could lead to error and fraud and to address these once they have been identified. The Department has considered how organised fraudsters might respond to the closure of the e-portal by attacking other channels. It strengthened controls over handling paper based claims and embedded compliance specialists within Contact Centres.
- The Department continually seeks to refine its analysis of risk through extensive and proactive analysis of government and third party information with a view to penalising and, where appropriate, prosecuting those who commit fraud. As mentioned in section 2.3 of this report, we have published error and fraud statistics from the random enquiry programme in 2003-04 and our plans for tackling error and fraud in tax credits.

**HMRC action**
- Since the introduction of tax credits there have been clear procedures in place to ensure that recovery of overpayments does not create hardship. End-year adjustments are an integral part of a flexible system that responds to families’ circumstances as they change. Where an overpayment for one year is recovered from a subsequent year’s award there are automatic limits on how much can be recovered.
- The Department has, since November 2005, suspended the recovery of an overpayment if the claimant disputes it until the Department has had the opportunity to examine the case in detail. The Tax Credits Office now successfully deals with disputes in 4 weeks.
- The performance of the tax credit computer system has improved significantly and it is now stable and delivering flexible, responsive tax credits to 6 million families. Major new software releases have been introduced delivering improvements in operational performance.


**PAC recommendations**
- The Department should conduct a cost benefit analysis on what could be achieved by devoting more resources to tackle tobacco fraud.
- The Department should increase coordination with other government departments and agencies, in UK and abroad, and with tobacco manufacturers and distributors.
- The Department should set new targets for reducing tobacco smuggling, including extending the Public Service Agreement target to include hand rolling tobacco (HRT).
- Clear procedures need to be established for the Department to review un-collectable VAT debt cases regularly with targets set for their resolution.
- The Department should promptly notify and record all VAT debts on to the Department’s Trader Register so that it can be actively managed.

**HMRC action**
- HM Treasury input of an extra £209 million over 3 years at the introduction of the tobacco strategy has allowed the collection of on average extra £1.5 billion revenue per year. The Department continually undertakes analysis of the costs and benefits of different ways of tackling fraud and uses the results in decisions on the allocation of resources.
- The Department works closely with UK and overseas law enforcement agencies, and existing Memoranda of Understanding with major UK tobacco manufacturers were refreshed in 2006 to address the increased threat of counterfeiting and HRT smuggling.
• As part of the strengthened tobacco strategy published at Budget 2006, a specific target for HRT has been set – to reduce smuggling of HRT by 1,200 tonnes (20%) by 2007-08.

• The Department has substantially resolved the IT issues which were delaying the identification of some VAT debts. The majority of debt is being identified and acted upon at the correct time.

• New guidance for suspending and then monitoring cases has been issued by the Department in 2006-07.

• Performance measures specifically aimed at supporting more effective management of the overall debt have been developed by the Department during 2006-07.

2005-06 49th Report (HC967):
Corporation Tax: Companies managed by HM Revenue & Customs’ Area Offices:
published 29 June 2006

PAC recommendations
• The Department needs to improve the targeting of enquiries and thereby increase the tax yield.

• The Department should strengthen the use of risk assessment techniques in Area Offices.

• The Department should use the results from its random enquiry to focus enquiry work on areas of greater risk and target education campaigns on companies that need help in understanding their obligations.

• The Department should reassign more work between Areas to even out enquiry coverage and workloads.

• If all Areas had achieved the national average in 2004-05, yields could have been £60-£100 million more.

HMRC action
• The Department is re-organising its Risk structure to complement a re-structuring in the Local Area Office network. This is enabling a more nationally focused risk assessment process.

• The Department has implemented its Better Data for Corporation Tax initiative which combines existing databases and makes them more accessible. Work to implement mandatory electronic filing of accounts and returns in accordance with Lord Carter’s recommendations, published in March 2006, will assist with this and will strengthen the risk assessment process.

• The Department is maintaining its random enquiry programme in order to inform Risk processes on the incidence of non-compliant taxpayers and the nature of non-compliance in cases that would not be selected under normal risk selection criteria.

• Significant effort is being devoted to a continuous programme of maximising the Department’s knowledge from its risk and enquiry work by identifying and disseminating best practice.

• As the size and number of companies dealt with varies significantly from Area to Area there is also a considerable variation in risk. The re-structuring of the Local Area Offices is providing the opportunity for the Department to review the size of its company caseloads and to implement a consistent approach to risk for those largest companies as recommended by the 2006 Review of Links with Large Business.

1 Published in November 2006 and available on our website.
Annex E: Spending plans

Table 1: Total public spending (£m)

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<td>17,554</td>
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1. 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 less depreciation in AME.

Spending by local authorities on functions relevant to the departments

<p>| | | | | | | | |
|                      |                 |                 |                 |                 |                 |                  |              |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|              |
| Current Spending     |                 |                 |                 |                 |                 |                  |              |
| Financed by grants from budgets above | -               | -               | -               | -               | -               |                  |              |
| Capital spending     |                 |                 |                 |                 |                 |                  |              |</p>
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<td><strong>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.</strong></td>
<td>3,368</td>
<td>3,687</td>
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<td>4,243</td>
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<tr>
<td>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</td>
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<td>2,981</td>
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<td>To improve customer experience, support business and reduce the compliance burden</td>
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<td>600</td>
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<td>To 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</td>
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<td>370</td>
<td>393</td>
<td>432</td>
<td>439</td>
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<td>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, and to improve customer experience, support businesses and reduce the compliance burden.</td>
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<td>1</td>
<td>1</td>
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<td>62</td>
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<tr>
<td><strong>Total Resource Budget</strong></td>
<td>17,474</td>
<td>18,732</td>
<td>23,397</td>
<td>25,751</td>
<td>27,604</td>
<td>29,263</td>
<td>30,152</td>
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</table>
### Annex E: Spending plans

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<tbody>
<tr>
<td>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.</td>
<td>235</td>
<td>187</td>
<td>222</td>
<td>408</td>
<td>377</td>
<td>316</td>
<td>268</td>
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<tr>
<td>of which:</td>
<td></td>
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<tr>
<td>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.</td>
<td>137</td>
<td>101</td>
<td>122</td>
<td>226</td>
<td>204</td>
<td>224</td>
<td>197</td>
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<td>To improve customer experience, support business and reduce the compliance burden.</td>
<td>72</td>
<td>63</td>
<td>72</td>
<td>142</td>
<td>135</td>
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<td>To 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.</td>
<td>20</td>
<td>14</td>
<td>15</td>
<td>32</td>
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<td>43</td>
<td>26</td>
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<tr>
<td>Providing timely, accurate, impartial and best value solutions in respect of valuation services for rating, council tax and other public sector purposes.</td>
<td>6</td>
<td>9</td>
<td>13</td>
<td>8</td>
<td>12</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Total Capital Budget DEL</td>
<td>235</td>
<td>187</td>
<td>222</td>
<td>408</td>
<td>377</td>
<td>316</td>
<td>268</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Capital expenditure on fixed assets net of sales</td>
<td>235</td>
<td>187</td>
<td>222</td>
<td>408</td>
<td>377</td>
<td>316</td>
<td>264</td>
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<tr>
<td>Net lending to private sector</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Capital support to public corporations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Capital support to local authorities</td>
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### Capital AME

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<tbody>
<tr>
<td>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.</td>
<td>-</td>
<td>-</td>
<td>400</td>
<td>228</td>
<td>235</td>
<td>327</td>
<td>240</td>
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<td>of which:</td>
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<tr>
<td>Making payments of Child Benefit and Child Trust Fund endowment payments</td>
<td>-</td>
<td>-</td>
<td>400</td>
<td>228</td>
<td>235</td>
<td>327</td>
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<td>Total Capital Budget AME</td>
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<td>-</td>
<td>400</td>
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<td>235</td>
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<td>Total Capital Budget</td>
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<td>187</td>
<td>622</td>
<td>636</td>
<td>612</td>
<td>643</td>
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<tr>
<td>Capital expenditure on fixed assets net of sales(^1)</td>
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<td>187</td>
<td>222</td>
<td>408</td>
<td>377</td>
<td>316</td>
<td>264</td>
</tr>
<tr>
<td>Less depreciation(^2)</td>
<td>155</td>
<td>224</td>
<td>136</td>
<td>291</td>
<td>159</td>
<td>206</td>
<td>183</td>
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<tr>
<td>Net capital expenditure on tangible fixed assets</td>
<td>79</td>
<td>37</td>
<td>86</td>
<td>117</td>
<td>218</td>
<td>110</td>
<td>81</td>
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</table>

1. 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.
2. Included in Resource Budget.
### Table 4: Capital Employed (£m)

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</thead>
<tbody>
<tr>
<td>Fixed assets</td>
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<td>681</td>
<td>801</td>
<td>1,006</td>
<td>1,208</td>
<td>1,237</td>
<td>1,361</td>
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<td>of which:</td>
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<td>Intangible Software Licences</td>
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<td>11</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Freehold Land and Buildings</td>
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<td>1</td>
<td>90</td>
<td>94</td>
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<td>56</td>
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<tr>
<td>Accommodation refurbishment</td>
<td>63</td>
<td>62</td>
<td>86</td>
<td>91</td>
<td>81</td>
<td>108</td>
<td>117</td>
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<tr>
<td>Office and computer equipment</td>
<td>205</td>
<td>150</td>
<td>130</td>
<td>96</td>
<td>93</td>
<td>64</td>
<td>97</td>
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<tr>
<td>Vehicles</td>
<td>20</td>
<td>14</td>
<td>15</td>
<td>16</td>
<td>13</td>
<td>10</td>
<td>13</td>
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<tr>
<td>Furniture and fittings</td>
<td>65</td>
<td>74</td>
<td>78</td>
<td>70</td>
<td>55</td>
<td>44</td>
<td>45</td>
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<tr>
<td>Developed computer software</td>
<td>277</td>
<td>272</td>
<td>334</td>
<td>456</td>
<td>527</td>
<td>779</td>
<td>846</td>
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<tr>
<td>Assets under construction</td>
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<td>56</td>
<td>100</td>
<td>115</td>
<td>271</td>
<td>115</td>
<td>115</td>
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<tr>
<td>Vessels</td>
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<td>14</td>
<td>18</td>
<td>17</td>
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<td>Scientific Aids</td>
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<td>38</td>
<td>39</td>
<td>44</td>
<td>43</td>
<td>37</td>
<td>48</td>
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<tr>
<td>Debtor falling due after more than one year</td>
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<td>178</td>
<td>177</td>
<td>220</td>
<td>193</td>
<td>178</td>
<td>180</td>
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<tr>
<td>Current assets</td>
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<td>369</td>
<td>399</td>
<td>507</td>
<td>424</td>
<td>399</td>
<td>390</td>
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<tr>
<td>Creditors (&lt; 1 year)</td>
<td>-353</td>
<td>-412</td>
<td>-626</td>
<td>-551</td>
<td>-1,146</td>
<td>-1,011</td>
<td>-1,000</td>
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<tr>
<td>Creditors (&gt; 1 year)</td>
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<td>-</td>
<td>-</td>
<td>-176</td>
<td>-186</td>
<td>-190</td>
<td>-200</td>
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<tr>
<td>Total capital employed</td>
<td>836</td>
<td>745</td>
<td>672</td>
<td>929</td>
<td>273</td>
<td>388</td>
<td>481</td>
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## Annex E: Spending plans

### Table 5: Administration Costs (£m)

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</thead>
<tbody>
<tr>
<td><strong>Administration Expenditure</strong></td>
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<tr>
<td>Paybill</td>
<td>2,124</td>
<td>2,241</td>
<td>2,496</td>
<td>2,648</td>
<td>2,751</td>
<td>2,923</td>
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<tr>
<td>Other</td>
<td>1,407</td>
<td>1,591</td>
<td>1,599</td>
<td>1,754</td>
<td>1,828</td>
<td>1,850</td>
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<tr>
<td><strong>Total administration expenditure</strong></td>
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<td>3,832</td>
<td>4,095</td>
<td>4,402</td>
<td>4,579</td>
<td>4,773</td>
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<tr>
<td>Administration income</td>
<td>-212</td>
<td>-205</td>
<td>-239</td>
<td>-250</td>
<td>-333</td>
<td>-257</td>
<td>-263</td>
</tr>
<tr>
<td><strong>Total administration budget</strong></td>
<td>3,319</td>
<td>3,627</td>
<td>3,856</td>
<td>4,152</td>
<td>4,246</td>
<td>4,516</td>
<td>4,364</td>
</tr>
</tbody>
</table>

**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.

- To improve customer experience, support business and reduce the compliance burden.

- To 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.

- Providing timely, accurate, impartial and best value solutions in respect of valuation services for rating, council tax and other public sector purposes.

**Total Administration Budget**

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>3,319</td>
<td>3,627</td>
<td>3,856</td>
<td>4,152</td>
<td>4,246</td>
<td>4,516</td>
<td>4,364</td>
</tr>
</tbody>
</table>
### Table 6: Staff Numbers

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</thead>
<tbody>
<tr>
<td><strong>Permanent Staff</strong></td>
<td>85,512</td>
<td>89,494</td>
<td>95,896</td>
<td>98,821</td>
<td>95,337</td>
<td>91,374</td>
<td>86,358</td>
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<tr>
<td><strong>Overtime</strong></td>
<td>1,586</td>
<td>1,405</td>
<td>1,452</td>
<td>822</td>
<td>783</td>
<td>750</td>
<td>750</td>
</tr>
<tr>
<td><strong>Casuals</strong>*</td>
<td>1,434</td>
<td>433</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>88,532</td>
<td>91,332</td>
<td>97,348</td>
<td>99,643</td>
<td>96,120</td>
<td>92,124</td>
<td>87,108</td>
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</table>

**Valuation Office Agency**

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</thead>
<tbody>
<tr>
<td><strong>Permanent Staff</strong></td>
<td>3,740</td>
<td>3,970</td>
<td>4,510</td>
<td>4,955</td>
<td>5,084</td>
<td>4,422</td>
<td>4,400</td>
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<tr>
<td><strong>Overtime</strong></td>
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<td>68</td>
<td>60</td>
<td>33</td>
<td>23</td>
<td>58</td>
<td>20</td>
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<tr>
<td><strong>Casuals</strong>*</td>
<td>40</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,785</td>
<td>4,058</td>
<td>4,570</td>
<td>4,988</td>
<td>5,107</td>
<td>4,480</td>
<td>4,420</td>
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</table>

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

** The plans reflect staff year usage over each year based on forecast staff in post in line with the Department’s efficiency plans.
Annex E: Spending plans

Country and Regional Analysis

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) 2007. The figures were taken from the HM Treasury public spending database in December 2006 and the regional distributions were completed in January and February 2007. Therefore the tables may not show the latest position and are not consistent with other tables in the Departmental Report.

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 HMRC, 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.

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 2007.

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.

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.

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 2007. These are not the same as the strategic priorities shown elsewhere in the report.
Table 7: Identifiable expenditure on services, by country and region (£m)

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<tbody>
<tr>
<td>North East</td>
<td>686.0</td>
<td>727.8</td>
<td>903.9</td>
<td>996.6</td>
<td>1067.5</td>
<td>1124.4</td>
<td>1178.7</td>
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<tr>
<td>North West</td>
<td>1842.8</td>
<td>1963.8</td>
<td>2431.5</td>
<td>2682.0</td>
<td>2892.8</td>
<td>3070.5</td>
<td>3217.5</td>
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<tr>
<td>Yorkshire and Humberside</td>
<td>1335.1</td>
<td>1444.5</td>
<td>1787.1</td>
<td>1958.7</td>
<td>2139.6</td>
<td>2267.0</td>
<td>2368.7</td>
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<td>East Midlands</td>
<td>1051.9</td>
<td>1127.0</td>
<td>1430.9</td>
<td>1564.0</td>
<td>1715.7</td>
<td>1812.7</td>
<td>1889.9</td>
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<td>1475.9</td>
<td>1861.4</td>
<td>2064.4</td>
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<td>1809.4</td>
<td>1973.2</td>
<td>2081.4</td>
<td>2168.5</td>
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<tr>
<td>London</td>
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<td>1638.9</td>
<td>1968.9</td>
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<td>South East</td>
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<td>1815.1</td>
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<td>3067.6</td>
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<tr>
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<tr>
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<td>Northern Ireland</td>
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<td>97.0</td>
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Table 8: Identifiable expenditure on services by country and region, per head (£’s per head)

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Table 9: Identifiable expenditure on services by function, country and region, for 2005-06

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<th>West Midlands</th>
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<td>OUTSIDE UK</td>
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</table>
Annex F: Statistical information

Complaints

The complaints below include 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 received by HMRC

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<th>Business Activity</th>
<th>2005-06</th>
<th>2006-07</th>
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<td>Direct Taxes</td>
<td>21,273</td>
<td>17,243</td>
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<td>Indirect Taxes</td>
<td>3,758</td>
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<td>Law Enforcement and Special Civil Investigations</td>
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<td>Debt Management and Enforcement</td>
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<td>5,538</td>
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<td>Charities, Assets and Residents</td>
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<td>879</td>
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<td>Stamp Taxes</td>
<td>1,497</td>
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<td>Contact Centres and Helplines</td>
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<td>4,024</td>
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<td>Large Business Service</td>
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<td>National Insurance Contributions Office</td>
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<td>Tax Credit Office</td>
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<td>Others</td>
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<td><strong>Totals</strong></td>
<td><strong>106,783</strong></td>
<td><strong>99,139</strong></td>
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Note:
We paid redress of £2.46 million in 2006-07, in respect of our mistakes and unreasonable delays (compared to £3.27 million in 2005-06).
Prohibited and Restricted Goods

The system used to record seizures is a live system and all figures are provisional until validated and audited. Seizures are recorded either as a number of items or as a weight, whichever is most practical for the officer at the time of seizing.

(a) Controlled Drugs

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<th>Number of seizures</th>
<th>Weight of items seized (kg)</th>
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<tr>
<td>Heroin</td>
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<tr>
<td>Cocaine</td>
<td>1,165</td>
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<td>Ecstasy</td>
<td>48</td>
<td>1,212</td>
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<tr>
<td>Other Synthetic Drugs</td>
<td>159</td>
<td>324</td>
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<tr>
<td>Cannabis</td>
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<td>62,966</td>
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</table>

(b) Products of Animal Origin

(i) Totals

<table>
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<th>Animal Product</th>
<th>Total number of seizures</th>
<th>Total weight of items seized (nearest kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35,047</td>
<td>221,442 (+42,333 litres)</td>
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</table>

(ii) Number and weight of seizures by type of animal product

<table>
<thead>
<tr>
<th>Animal Product</th>
<th>Number of items seized</th>
<th>Weight of items seized (nearest kg)</th>
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<tbody>
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<td>Meat</td>
<td>19,172</td>
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<tr>
<td>Fish</td>
<td>10,522</td>
<td>64,998</td>
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<tr>
<td>Dairy</td>
<td>10,427</td>
<td>67,511 (+42,333 litres)</td>
</tr>
<tr>
<td>Honey</td>
<td>2,026</td>
<td>16,098</td>
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</table>

Note:
The totals for the number of times each type of animal product is seized exceed the total number of seizures because some seizures involve more than one category of animal product.
### (c) Items seized under the Convention on the International Trade in Endangered Species (CITES)

<table>
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<th>Category</th>
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<th>Number of items seized</th>
<th>Weight of items seized (kg)</th>
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<td>Parts and derivatives of endangered species</td>
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<td>1,315</td>
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<td>Ivory</td>
<td>24</td>
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<td>Plants</td>
<td>40</td>
<td>158,427</td>
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<td>Other CITES listed species</td>
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</tr>
<tr>
<td>Preparations of oriental medicines which include parts or derivatives of endangered species</td>
<td>90</td>
<td>2,613</td>
<td>578</td>
</tr>
</tbody>
</table>

**Note:**
- 17 of the seizures detailed above combine two or more categories, therefore the overall number of seizures is actually 429.
- The Other CITES category covers caviar, coral, ginseng and conch shells.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of seizures</th>
<th>Weight of items seized (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plants and plant products</td>
<td>2,348</td>
<td>25,031</td>
</tr>
</tbody>
</table>

**Note:**
These seizures include plants, products and forestry items which are subject to plant health controls and which are not controlled as CITES species.

The following tables set out a summary seizure statistics for the period 1 April 2006 to 31 December 2006 (figures provisional until audited and validated).

### (e) Pornography and Paedophilia

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of seizures</th>
<th>Total number of items seized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult pornographic material</td>
<td>633</td>
<td>3,482</td>
</tr>
<tr>
<td>Paedophile material</td>
<td>39</td>
<td>283</td>
</tr>
</tbody>
</table>
(f) Firearms, offensive weapons, explosives, fireworks etc

<table>
<thead>
<tr>
<th></th>
<th>Number of seizures</th>
<th>Total number of items seized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rifles and handguns</td>
<td>89</td>
<td>314</td>
</tr>
<tr>
<td>Shotguns</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>Parts of firearms</td>
<td>14</td>
<td>71</td>
</tr>
<tr>
<td>Ammunition</td>
<td>28</td>
<td>4,479</td>
</tr>
<tr>
<td>Stun guns</td>
<td>160</td>
<td>347</td>
</tr>
<tr>
<td>Self defence sprays</td>
<td>589</td>
<td>1,762</td>
</tr>
<tr>
<td>Knives and other offensive weapons</td>
<td>1,511</td>
<td>3,482</td>
</tr>
<tr>
<td>Fireworks, pyrotechnic articles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and explosive materials</td>
<td>2</td>
<td>29</td>
</tr>
</tbody>
</table>

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

(g) Other prohibited and restricted goods seized

<table>
<thead>
<tr>
<th></th>
<th>Number of seizures</th>
<th>Total number of items seized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of strategic goods and</td>
<td>44</td>
<td>2,011</td>
</tr>
<tr>
<td>goods to embargoed destinations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ozone depleting substances and</td>
<td>1</td>
<td>91</td>
</tr>
<tr>
<td>chemical precursors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Radio transmitters</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Cultural goods</td>
<td>3</td>
<td>213</td>
</tr>
<tr>
<td>Goods breaching intellectual</td>
<td>1,490</td>
<td>3,857,178</td>
</tr>
<tr>
<td>property rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rough diamonds</td>
<td>2</td>
<td>9</td>
</tr>
</tbody>
</table>

Note:
- Strategic goods are defined as all items on the UK’s Military List and Dual-Use goods under EC Regulation 1334/2000 that require export licenses. These figures include some UK Military List and Dual-Use goods list items that become controlled under Regulation (EC) No 1236/2005 from 30th July 2006.
- Embargoed destinations are those countries that are subject to UN, EU, OSCE and UK arms embargoes.
Updated information

**Excise Fraud**

The table below is reproduced to correct an error in the information published in the HMRC Annual Report 2005-06 (amended figure shown in red). Data for 2006-07 will not be available until later in the year and will be published in the HMRC Autumn Performance Report.

**Proportion of total cigarette seizures by brand**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Counterfeit</td>
<td>(^{-1})</td>
<td>41%</td>
<td>54%</td>
<td>48%</td>
<td>51%</td>
</tr>
<tr>
<td>Other (including non-UK brands)(^3)</td>
<td>(^{-1})</td>
<td>28%</td>
<td>18%</td>
<td>20%</td>
<td>31%</td>
</tr>
<tr>
<td>Genuine UK Brands</td>
<td>(^{-1})</td>
<td>31%</td>
<td>28%</td>
<td>31%</td>
<td>18%</td>
</tr>
</tbody>
</table>

*Of which:*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benson &amp; Hedges</td>
<td>19%</td>
<td>(^{-2})</td>
<td>(^{-2})</td>
<td>(^{-2})</td>
<td>10%</td>
</tr>
<tr>
<td>Dorchester</td>
<td>(^{-2})</td>
<td>(^{-2})</td>
<td>16%</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>Regal</td>
<td>22%</td>
<td>10%</td>
<td>(^{-2})</td>
<td>(^{-2})</td>
<td>(^{-2})</td>
</tr>
<tr>
<td>Sovereign</td>
<td>12%</td>
<td>40%</td>
<td>58%</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Superking</td>
<td>25%</td>
<td>24%</td>
<td>9%</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Other UK</td>
<td>22%</td>
<td>26%</td>
<td>16%</td>
<td>37%</td>
<td>32%</td>
</tr>
</tbody>
</table>

\(^1\) Not measured in 2001-02
\(^2\) Included in Other UK
\(^3\) Includes those seizures not identified as counterfeit or genuine, or those consisting of mixed brands not separately identified.
\(^4\) Seizures in excess of 250,000 sticks analysed since 2004-05, previous years' seizures over 500,000 analysed.