HM Revenue & Customs

Departmental Autumn Performance Report 2008

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Chairman's foreword

This year has certainly been a challenging time for HM Revenue & Customs (HMRC). I took up my post as Chairman on 1 August and Lesley Strathie, our new Chief Executive and Permanent Secretary, joined us on 10 November. She came to us from Jobcentre Plus with a proven track record as a successful and inspirational chief executive.

Dave Hartnett, who has led the department from November 2007, has been pivotal in steering the department through such a challenging time and I would like to thank him for all his hard work during this period. I'm delighted he's been appointed to the newly created post of Permanent Secretary for Tax. Dave is now the senior tax professional in HMRC and has specific, well defined accountabilities in the areas of tax policy and strategy.

As Chairman, my role is to lead the Board, which will provide strategic leadership, as well as approve business plans, monitor performance and ensure the highest standards of corporate governance across HMRC.

Central to achieving these goals are four key priorities which I have already outlined to our people and external stakeholders. They are data security and implementing the Poynter Review recommendations, closing the tax gap, continuing to raise the quality of our customer experience and providing a sense of direction to our people.

The Vision, launched to all our people on 3 November, will be the foundation for everything we do and is designed to make a real difference to the way our people do their jobs. This simple statement starts to address the lack of clear direction for our people flagged up in the 2007 Capability Review Report. The launch of the Vision is just a starting point and our challenge is now making it the foundation of how we work across HMRC on a daily basis.

The Data Security Programme is working to implement all the recommendations from Kieran Poynter's report into the loss of the Child Benefit data discs last year. It is therefore essential that all of our colleagues know that data security is both an individual and a collective responsibility. A key step towards achieving this goal is clarifying what our senior leaders must do in their business area to effectively discharge their key accountabilities. This fits well with recent restructuring of the HMRC Board and other governance sub-committees.

Our Workforce Change Programme, which aims to get the right people in the right business locations, has been a huge endeavour – but now almost everyone knows about the future of their current offices.

This has been a particularly challenging time for colleagues and I am very grateful for their hard work and dedication during these difficult times.

Mike Clasper
Chairman

HMRC Purpose, Vision and Way

Our Purpose

- We make sure that the money is available to fund the UK's public services
- We also help families and individuals with targeted financial support

Our Vision

- We will close the tax gap, our customers will feel that the tax system is simple for them and even-handed, and we will be seen as a highly professional and efficient organisation

Our Way

- We understand our customers and their needs
- We make it easy for our customers to get things right
- We believe that most of our customers are honest and we treat everyone with respect
- We are passionate in helping those who need it and relentless in pursuing those who bend or break the rules
- We recognise that we have privileged access to information and we will protect it
- We behave professionally and with integrity
- We do our own jobs well and take pride in helping our colleagues to succeed
- We develop the skills and tools we need to do our jobs well
- We drive continuous improvement in everything we do

Introduction

HMRC is the UK's tax administration. We collect the bulk of UK tax revenue; support millions of families and working people through the benefits and credits we administer; and we protect the country through our work at the frontier.

Taxes administered

HM Revenue & Customs (HMRC) is responsible for administering:

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

Entitlements distributed

We are responsible for the payment of:

- Tax Credits – Child Tax credit and Working Tax Credit
- Child Benefit
- Child Trust Fund endowments

Other responsibilities

We are also responsible for:

- enforcing the National Minimum Wage;
- administering the collection of student loans on behalf of the Department for Innovation, Universities and Skills;
- supervising money service businesses, trust or company service providers, accountancy service providers and dealers in high value goods to ensure that they comply with the Money Laundering Regulations;
- the operation of the Office of the Paymaster General; and
- the creation of the Government Banking Service.

We also act as a law enforcement agency with responsibility for closing the tax gap, helping those who need it and being relentless in pursuing those who bend or break the rules.

Border responsibilities

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

Some of these responsibilities will pass to the UKBA, although we will retain responsibility for policy associated with collecting duties due at the frontier and collecting UK tax revenues.

Section 01

Our progress against the Chancellor's Remit for 2008-09

Each year, the Chancellor of the Exchequer sets out our priorities in the Remit for HMRC. In this section we provide details of our progress against the 2008-09 Remit.

The HMRC Board has set out a Vision for the Department which will help us close the tax gap, simplify the tax system for customers, and be seen as a highly professional and efficient organisation. We are aligning our objectives, our performance management framework and our investments, to ensure that we make the most progress possible towards achieving this Vision.

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

To deliver the majority of these improvements and change the way we do business, we are continuing to invest substantially in our Departmental Transformation Programme. Over the next three years this is expected to deliver:

- £500m of the £674m value for money savings required by our Comprehensive Spending Review settlement;
- £3.8bn of the £7bn additional tax required by our Departmental Strategic Objectives; and
- significant customer benefits across the range of Departmental activities, including transformation of tax credits administration and over £3bn of benefits to businesses.

Specific areas of activity mentioned in this year's Remit are outlined in this section. We also give details of the new performance management framework against which we will report for the years 2008-09 to 2010-11. Commentary relating to our progress against this framework can be found in Section 2, and Section 3 contains details of our progress against our Value for Money (VFM) targets.

A full copy of the remit can be found in Annex A of HMRC's 2008 Departmental Report at **www.hmrc.gov.uk.**

Our new performance objectives

This is the first financial year we have reported against the 2007 Comprehensive Spending Review (CSR07) and our Departmental Strategic Objectives (DSOs) to 2011. The DSOs are our core business objectives, in which we aim to:

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

New Public Service Agreements (PSAs)

They reflect the Government's highest level priorities and HMRC will contribute to seven of the 30 new PSAs for the CSR07 period. We will also contribute towards the cross-government Service Transformation Agreement (STA) which underpins delivery of public services. The seven PSAs we are contributing to are:

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

Section 01

Capability Review

HMRC's Capability Review report, published in December 2007, assessed the Department's capability to meet our challenges in the future.

It stated we had some clear strengths, but that we also needed to make some significant improvements, which we have agreed and are acting upon. From four areas of action outlined in the review, we identified five priorities against which we are committed to making significant progress:

- **Clarifying accountabilities:** Accountabilities for each member of our Executive Committee and all directors will be published on the HMRC intranet early next year, along with a clear explanation of why the posts are critical to the effective performance of the Department. We have simplified our decision making process and structure to make it more transparent.
- **Clear direction for our people:** We developed and launched the HMRC Vision. It commits us to closing the tax gap, making our customers feel the tax system is simple and even-handed for them, and that we are seen as a highly professional and efficient organisation. We are working to ensure that all colleagues share an understanding of the HMRC Vision and have a clear line of accountability from the most junior to very senior members of the Department. We aim to explain what the Vision means to individuals in their day to day roles and how each person directly contributes to our success.
- **Increasing the pace of change:** At the time of the review, HMRC's PaceSetter programme had already improved efficiency, productivity and management in some locations. We are committed to using PaceSetter to embed continuous improvement throughout the Department and this autumn, we have started its implementation in a further three business areas.
- **Generating passion, pride and motivation:** A key part of the HMRC Vision is for our people to do their jobs well and take pride in helping their colleagues succeed, as well as drive forward continuous improvement. It is important that senior leaders understand the challenges at the front line, if we are to live up to these aspirations. In keeping with this, a nationwide programme of employee engagement has taken place, including Town Hall events with senior managers and staff. Activity such as the Hotseat feedback channel and staff dial-in events have generated thousands of questions from our people to senior managers about issues affecting their daily work. The Department has also secured a renewed direction and stability in its top team with the appointment of Mike Clasper as Chairman, Lesley Strathie as Chief Executive and Permanent Secretary and Dave Hartnett as Permanent Secretary for Tax.
- **Using evidence and analysis to drive performance:** Clearer processes and enhanced skills mean we are more effective at using management information to make informed and timely decisions. A committee, chaired by the Chief Executive, is using monthly performance reports to set direction and identify emerging trends, issues and initiate continuous improvement action. We have made significant progress on Key Performance Indicators (KPIs) for the Department, which we are refining and prioritising in line with our new vision and strategy.

HMRC Re-Review: Our Capability Review assessments at six and twelve months acknowledge we are making progress against our priorities. We are now preparing for the HMRC Re-Review, a comprehensive reappraisal of HMRC's capability. We will be scored against strategy, delivery and leadership.

Data Security

Two key reports into the Child Benefit data loss by HMRC were published on 25 June this year: Kieran Poynter's review of information security at HMRC and the Independent Police Complaints Commission's report.

We recognise that we have privileged access to information and a responsibility to protect it. We are therefore absolutely committed to delivering all of the recommendations and data security remains one of our highest priorities. The Data Security Programme was created to take forward all of this work so the Department can comply with the Information Commissioner's requirement, in his Enforcement notice to the Department, to make best endeavours to implement the Poynter recommendations by 25 June 2011.

Good progress has been made in strengthening data security within HMRC and highlights of work completed so far include:

- removing the ability to save data to portable media such as USB sticks and CDs. This has only been reinstated where there is a compelling business case to do so;
- introducing tight restrictions on bulk transfer of data and conforming to new cross government rules on encryption. Bulk transfers which are not business critical have been halted and a review to further improve the security of those bulk transfers we do have to make is continuing;
- a data security pocket rule book has been issued to all staff and team meetings were held across HMRC to discuss its contents;
- mandatory face-to-face data security workshops for all employees with annual refresher training. All new recruits now receive induction training in data security and managers will receive further training to help ensure everyone understands their individual responsibilities for the policies;
- accountabilities have been made clearer by the introduction of a new management structure at executive director level in each business area; and
- every directorate now has a Data Guardian, acting as an expert and champion for data security within their business areas.

The Data Security Programme remains on track to implement the Poynter recommendations.

Tax Credits

We have made substantial progress in the delivery of tax credits particularly through the Tax Credits Transformation Programme.

The objective of the Tax Credits Transformation Programme, established in 2006, is to deliver tax credits through services tailored to the needs and circumstances of customers. We will also use clearer communications to ensure our products are more understandable and that we gain our customers trust.

The Programme will help customers to do the right thing at the right time so that their tax credits claim is accurate and up-to-date. This improved customer experience and understanding should bring about reductions in customer error and overpayments.

The Programme piloted eight services in 2007-08. In his 2008 Budget the Chancellor announced a package of measures to improve the way tax credits are delivered which will be implemented through the Programme. We have already introduced four national services:

- helping couples who split up through the Household Breakdown telephone service which went live last November 2007;
- speaking to customers directly who are at risk of not renewing their tax credit claim and enhancing their understanding of what they need to do during the coming year to ensure that their award continues to be paid;
- routinely prompting certain customers who report one change of circumstances for other changes which may have occurred; and
- proactively contacting those customers who do not regularly speak to us, to encourage them to tell us about changes.

We have also successfully piloted outreach services working with children's centres and are expanding this service to reach more centres, giving us access to a key customer group with which we would not necessarily be in touch.

We are also rigorously combating error and fraud. We have a challenging target to reduce the level of error and fraud in the tax credits system to no more than 5% by March 2011[1]. We have therefore strengthened our strategy to further reduce levels of customer error and tackle fraud, building on our improved understanding of customer behaviours gained from the Tax Credits Transformation Programme.

[1] This target now forms part of DSO1. A report of our current progress can be found at Section 2.

Section 01

Carter Programme

In July 2005 the Government asked Lord Carter of Coles to advise on how to increase the use of HMRC's key online services. Lord Carter originally reported in March 2006, with his recommendations being phased in from April 2008.

Implementation of the recommendations made in Lord Carter's review involves delivery of robust online services. Our focus this year has been on Self Assessment (SA) but we have also been preparing for changes to PAYE, Corporation Tax and VAT.

In April 2008 we delivered the largest online IT release in HMRC's history. This included a new online tax return for SA which is tailored to individual customers' needs, a new validation engine for PAYE and SA, including more user friendly error messages for customers and substantial investment in our IT infrastructure.

We also delivered a redesigned paper main tax return which included customer-driven changes making it easier to complete.

Customer consultation remains vital and as recommended by Lord Carter, we have met regularly with agents. By late 2008 we had met, through a series of workshops, with over 10,000 agents, encouraging them to move to online filing.

A priority in 2008 has been about helping our SA customers to make an informed choice about how they file their returns. A high profile media campaign began in July aimed at raising awareness of the new SA deadlines.

Customers have responded positively to the changes. By early November over two million SA returns had been submitted online, which represents more than a 38% increase compared with last year.

Workforce Change

Our Workforce Change Programme is designed to ensure that we get the right people with the right skills in the locations our businesses need. By centralising more work processes and bringing teams together we can conduct our business more efficiently and at less cost. Since 2006 we have run a regional review programme to identify which offices we need to retain, and which we can give up to reduce our accommodation costs.

This has created a difficult and challenging time for our people who have faced periods of uncertainty about their future in HMRC. It was a huge task, but almost all of our 88,000 employees now know about the future of their offices. Estate savings since April 2005 have reached more than £38m a year. We have vacated 113 offices, given up space in 35 more, sub-let seven and left 44 non-office properties.

Reductions in our workforce have been managed through natural turnover, restricted recruitment and voluntary early release schemes. By 30 November 2008, 4,561 employees had left the Department under the Approved Early Retirement scheme, 717 had opted for Flexible Early Severance and 145 had chosen a scheme which helps people retrain for frontline public sector jobs such as teaching or nursing. So far, there have been no compulsory redundancies and, although this cannot be guaranteed in the future, it will only be considered where no alternative solutions can be found.

Joint Working with Department for Work and Pensions (DWP)

We continue to work closely with the Department for Work and Pensions (DWP) to drive forward the HMRC/DWP Joint Working Programme as a wider part of our Service Transformation agenda. In particular, there are five sites within the United Kingdom where the HMRC enquiry centre is co-located with Jobcentre Plus. HMRC is currently exploring the possibility of co-locating in further sites.

HMRC and DWP have continued to tackle fraud against the tax credit and benefit systems together. This has been achieved through joint investigation of some cases and prosecution of organised criminal attacks featuring multiple false and hijacked identities. Further closer working initiatives are also being explored through our joint intelligence work.

United Kingdom Border Agency (UKBA)

The Home Office launched the UKBA[2] on 1 April 2008 bringing together the Border and Immigration Agency, UKvisas and HMRC customs work at the frontier. To ensure that the new agency works effectively during the shadow phase, over 4,000 of our frontline people now work partially within the UKBA management structures. However, until legislation is in place to allow the UKBA to exercise revenue and customs powers independently of HMRC, we remain accountable for our entire border related activity and our operational staff.

Within these constraints, the UKBA is seeking to roll out a single primary checkpoint for immigration and customs checks nationally.

We have actively supported the UKBA in developing five flagship sites at Harwich, Coquelles, Edinburgh, Teesport and Gatwick, to test and evaluate how this can best be accomplished. They plan to have this rolled out nationally by the end of the year.

Our relationship with the UKBA is managed by an interim HMRC/Home Office Partnership Agreement, a copy of which can be found at **www.hmrc.gov.uk.** A partnership committee has been formed to oversee the delivery of this agreement, drawing together senior representatives from both Departments. We are continuing to support the introduction of legislation for the formal transfer of HMRC accountabilities and powers to the UKBA.

We will continue to work with the UKBA to maximise their contribution to these targets, and will support any further activity over the coming months to ensure that the UKBA is a success.

Pre-Budget Report (PBR)

The Chancellor announced a number of key measures which impacted on HMRC's business and are briefly outlined below.

- **VAT –** the standard rate of VAT is temporarily reduced from 17.5% to 15% with effect from 1 December 2008 until 31 December 2009. Exempt, zero and reduced rate items were unaffected.
- **Businesses –** a number of short term changes were made to help businesses respond to the current economic climate. They included more generous trading loss relief, and allowing temporary additional carry back of losses up to £50,000 to be set against taxable profits from the last three years. A new Business Payment Support Service was introduced, allowing businesses in temporary financial difficulty more time to pay their tax bills. The planned increase in the Small Companies' Rate from 21% to 22% from 1 April 2009 was deferred until 1 April 2010.
- **Individuals –** in 2009-10, the personal allowance will be £6,475 and includes the permanent £600 increase announced in May 2008 and an above-indexation increase of £130. From 2010-11, the personal allowance for individuals with income over £100,000 will be reduced. From 2011-12, there will be a new tax rate of 45% for taxable income over £150,000 and Class 1 and Class 4 NIC will be increased by 0.5%. An increase in Child Benefit was brought forward to January 2009 and the child element of the Child Tax credits from April 2010 to April 2009.
- **Reforms –** a number of tax reforms were announced, including the taxation of foreign profits and air passenger duty.

[2] UKBA contributes to DSO 1 and DSO3. A report on our current progress can be found at Section 2.

Section 02

Our progress against our Departmental Strategic Objectives (DSOs)

In this section we provide more information on how we contribute towards the new PSA targets, along with details of how our DSO contribution will be measured and our current progress.

HMRC has three DSOs

The co-ordination of the overall performance for PSAs over the 2007 Comprehensive Spending Review period rests with the relevant lead departments. HMRC is not a lead department for any of the PSAs, but our DSOs are intended to support HMRC's contributions to a number of them. Most of our contributions to the seven PSAs are captured directly by our DSOs:

- DSO 1 – to maintain the take up of Child Tax Credit and Child Benefit which contributes to PSA 9;
- DSO 2 – to reduce the administrative burden on business which contributes to PSA 6; and
- DSO 3 – concerning seizures of class A drugs and interventions in support of the Serious Organised Crime Agency, which contributes to PSA 25; and the screening of traffic entering the UK for radiation which contributes to PSA 26.

HMRC keeps its DSOs under review.

HMRC also contributes to the delivery strategy of the other three PSAs, although our contribution is not captured in our DSOs at key performance indicator level. Our involvement with the UKBA in strengthening the UK border contributes to PSA 3; through tackling the illicit tobacco market (which forms part of our overall DSO 1.1 to reduce the aggregate tax gap measure). We contribute to the delivery of PSA 18 on promoting better health and wellbeing for all, and we contribute to the asset recovery target within PSA 24 through leveraging our investigation of cases, seizing cash, using our international network and working closely with other government agencies to maximise our impact.

In addition, HMRC contributes to the Government's Service Transformation Agreement primarily through the delivery of **businesslink.gov.uk,** which will be the prime online informational and transactional channel for business with government. This objective is designed to improve the customers' experience and the UK business environment.

Section 02

DSO 1: 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:

This DSO has the following outcomes:

- maintaining and extending our compliant base by:
  - supporting customers to make fewer errors;
  - securing our systems against fraud and avoidance; and
  - tackling evasion and criminal attacks on the system
- improving the management of receipts and payments processes; and
- ensuring that people, with or without children, take up the support to which they are entitled as well as to ensure that the right amount of entitlement is received at the right time.

Overall Summary
Not yet assessed

	Indicator	Baseline	Target
Indicator 1	By 2010-11, increase tax and National Insurance contributions actually received relative to the amounts that should be received, achieving over 2008-09 to 2010-11 at least the levels set out in the Public Service Agreement targets for 2007-08.	Progress will be measured against an aggregate of the 2007-08 Direct Tax Compliance yield, 2007-08 VAT gap and 2007-08 illicit market share of fuel, tobacco and spirits duties. If any revisions take place to either the VAT or Excise baselines performance will be measured against the revised figures. It is too early to give a latest assessment. Early indications will be published in the 2009 Departmental Report.	
		– 2007-08	**£7bn** Reduction in losses over the period 2008-09 to 2010-11
Indicator 2	By 2010-11 reduce the level of incorrect tax credit payments made as a result of error and fraud as a percentage of finalised entitlement, to no more than 5%.	This indicator has been set out to achieve a level of error and fraud of no more than 5% of the finalised entitlement by 2010-11. As this has not been set in relation to the level in an earlier year there is no baseline. Progress will be measured annually – latest assessment for 2006-07 published in July 2008 showed a level of error and fraud of 7.8% – estimates for the level in 2007-08 will be available in the summer of 2009.	
			5% 2010-11
Indicator 3	By 2010-11, increase the take-up of Working Tax Credit.	The baseline year is 2006-07 and we plan to publish the 2006-07 take-up rates in the 2009 Departmental Report.	
		Figures not available 2006-07	
Indicator 4	By 2010-11, at least maintain take-up levels of Child Tax Credit and Child Benefit.	The baseline year is 2006-07 and we plan to publish the 2006-07 take-up rates in the 2009 Departmental Report.	
		Figures not available 2006-07	

There are four indicators within DSO 1:

1.1. Increase tax and National Insurance contributions (NIC) actually received relative to the amounts that should be received, achieving over 2008-09 to 2010-11 at least the levels set out in the Public Service Agreement targets for 2007-08.

Previously we measured performance against PSA targets by tax regime. For DSO 1.1 HMRC will have a single aggregate measure of reduction in tax losses. Moving from a regime to an aggregate measure of reduction in losses is an important element of delivering HMRC's Compliance Strategy, a copy of which is available at **www.hmrc.gov.uk**. It will give HMRC more flexibility to concentrate our compliance activity on the most significant risks and, improve our focus on understanding and modifying the behaviour of our customers. However, protecting the integrity of individual regimes remains fundamental to the tax system and where robust information is available we will continue to monitor and publish losses at this level.

The target in the period 2008-09 to 2010-11 is to achieve at least the levels set out in the PSA targets for 2007-08. From our estimates of outturn in 2007-08 (2006-07 for excise taxes) and with an additional degree of stretch – allowing for any change in the excise illicit market share and for improved performance – we have set an aggregate three year target of £7bn reduction in losses.

To achieve this we will need to build on the improvement shown over the last few years. This will require a balanced approach including the following:

- improved voluntary compliance by helping customers get it right;
- reduced errors and fraud through better designed product and processes, including continuing to clamp down on avoidance;
- improved understanding of risks and behaviours and greater use of data matching and other risk tools;
- greater use of a campaign approach to improve compliance, building on the success of the Offshore Disclosure Facility which raised £400m in revenue for an outlay of £6.5m; and
- following through on the alignment of HMRC powers and penalties to enable us to address risks across tax regimes, for example through our cross tax evasion teams.

Measurement of our progress will be explained in a more detailed note, which will be available on our website shortly.

1.2. Reduce the level of incorrect tax credit payments made as a result of error and fraud as a percentage of finalised entitlement, to no more than 5% by 2010-11.

The most up-to-date figures published in July 2008 show that HMRC has reduced the level of error and fraud favouring the customer from 9.7% in 2003-04 to 7.8% in 2006-07.

The statistics show that the vast majority of losses related to mistakes by the customer, either simple error arising from misunderstanding or failure to take reasonable care when making a claim. Our priority is to reduce this.

To do this we have further strengthened our strategy for reducing error whilst maintaining our defences against fraud. By introducing new services which are tailored to the needs of customers, based on their particular circumstances, we will ensure that customers receive the help they require so that their Tax Credit claim is correct. We will provide additional support and education but also continue our robust approach to those who seek to abuse the system. Our revised strategy "Reducing error and fraud in Tax Credits" was published in July 2008 and is guiding our activity.

1.3. Increase the take up of Working Tax Credit; and

1.4. At least maintain take-up levels of Child Tax Credits and Child Benefit.

The baseline for Tax Credit and Child Benefit take up rates will be the 2006-07 rates once available. Due to the nature of the Tax Credit system we are only able to produce figures for take-up rates on an annual basis and with a time lag. For Child Benefit the take-up rate for 2006-07 and therefore the baseline is 96%. The take-up rates of Tax Credits for 2006-07 will be available in March 2009. However, we have proxy measures in place which allow us to confirm that we are moving in the right direction closer to real time, and these are monitored on a quarterly basis.

We are committed to helping our customers claim what they are due and as such we are working to drive up take-up of Working Tax Credit and maintaining the take-up of Child Benefit and Child Tax Credit.

Section 02

To do this we have been working to promote Working Tax Credit, and we are also working with employers in order that they promote the availability of tax credits to their employees. We are also testing a number of other activities to promote the take-up of Tax Credits and Child Benefit. For example, two programmes of tax credit outreach work have commenced this autumn, in Birmingham and the Scottish Borders.

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

This DSO has the following outcomes:
- understanding our customers and their needs; and
- making it easy for our customers to get things right.

Overall Summary
Not yet assessed

	Indicator	Baseline	Latest Assessment	Target
Indicator 1	By 2010-11, improve customers' perception of their experience of dealing with HMRC.	This indicator is measured by large scale quarterly HMRC customer surveys of individuals, SME Businesses and agents introduced for CSR07. The baseline score of 72.8 is taken from the results of the first two customer surveys conducted in January and July 2008[1]. Performance on the measure will be assessed on an annual basis, based on HMRC Customer Survey data covering customer experience in the first half of each calendar year. The first update will be in the 2009 Departmental Report.		
		0 June 2008		+3 2010-11
Indicator 2	By 2010-11, reduce by 10% the administrative burden of forms and returns on business customers.	This target is a 10% reduction by 2010-11 and represents a monetary reduction of £337m from a baseline of £3.37bn as announced in the 2006 Budget. The latest assessment is based on Budget 2008. An update will be provided in the 2009 Departmental Report.		
		- 2005-06	**£186m** 2007-08	**£337m** 2010-11
Indicator 3	By 2010-11, reduce by 15% the administrative burden of audit and inspections on compliant business customers.	The target is a 15% reduction by 2010-11 and represents a monetary reduction of £21m from a baseline of £142m as announced in the 2006 Budget. The latest assessment is based on Budget 2008. An update will be provided in the 2009 Departmental report.		
		- 2005-06	**£43m** 2007-08	**£21m** 2010-11
Indicator 4	By 2010-11, increase access to business facing content and business facing transactions from businesslink.gov.uk, delivering at least 95% of cross-government agreed scope of website convergence.	The websites in scope have been agreed with the responsible government organisations. Because the websites vary greatly in size and complexity, the websites have been analysed further into 'web units'. The latest assessment represents the information in line with the programme plan for the first 6 months.		
		–[2] 2007-08	5%[3] September 2008	95% 2010-11

Indicator 5	By 2010-11, improve accuracy of processing in large volume business areas, achieving at least 96% on a composite indicator of accuracy.	This baseline is based on a composite indicator of accuracy. For 2007-08 the 92% represents actuals for all elements of this measure apart from Tax Credits and Child Benefits. More information is given at footnote 4. A full year's assessment will be provided in the 2009 Departmental Report.		
		92%[4] 2007-08	Not yet available[5]	**96%** 2010-11
Indicator 6	By 2010-11, improve timeliness of processing in key areas, covering VAT registration and Tax Credit and Child Benefit payments.	We use a conversion for this composite target because of the different ways in which the components are measured. A full year's assessment will be provided in the 2009 Departmental Report.		
		42%[6] 2007-08	Not yet available[5]	**100%** 2010-11
Indicator 7	By 2010-11, improve correctness of advice and information given, and actions taken, in respect of contact from customers.	The baseline is not yet available as the phone quality measure differs from that used for Spending Review 04. The baseline will be derived from 2008-09 figures. A full year's assessment will be provided in the 2009 Departmental Report.		
		87%[7] 2007-08	Not yet available[5]	**90%**[8] 2010-11

1 All survey results used to calculate the customer experience score have been calculated to 1 decimal place.

2 Each of the websites and the overall number has been agreed with Cabinet Office as STA lead Department. Because the websites vary greatly in size and complexity, to measure progress more accurately the websites have been analysed further into websites, or coherent but substantial subsets of a website, or transactions or transaction groups – each of which is a "web unit." The 159 websites and around 300 web units represent the 100% baseline in scope, of which at least 95% convergence needs to be achieved.

3 On schedule, in line with programme plans. Much of the first year has focused on preparatory work. Latest outturn 8 websites, 14 web units.

4 This baseline figure is based on a composite indicator of accuracy. For 2007-08 the 92% represents actuals for Key Indicator 5 for all elements of this measure apart from Tax Credits and Child benefits which are based on the old measurement that excluded accuracy of payment.

5 While monthly results are available for elements of the composite measures they are subject to wide margins of error. Therefore DSO 2 assessments are mostly not available until the 2009 Departmental Report.

6 The composite indicator for timeliness uses a conversion to measure achievement because of the different ways in which the elements are measured. The elements of this composite indicator, VAT, Child Benefit and Tax Credits, have weightings of 12%, 46% and 42% respectively and the overall target for this composite indicator of timeliness is 100% with a baseline of 42%.

7 The telephony and post elements of this composite indicator have weightings of 70% and 30% respectively. However the phone quality measure differs to that used in previous reporting: therefore the baseline is provisional and once available will be derived from 2008-09 figures.

8 The target is dependant on the value of the baseline and remains provisional until the baseline is confirmed using 2008-09 figures.

Section 02

There are seven indicators within DSO 2:

2.1. Improve customers' perception of their experience of dealing with HMRC.

This broad measure captures the experience of HMRC's end-to-end performance from the customer's perspective. A key objective in designing the measure is to focus on recent aspects of customer experience that are directly within HMRC control. HMRC therefore intends to use a composite measure, aggregating the customer experiences which link directly to our Vision that 'our customers will feel that the tax system is simple for them and even-handed'. These are:

- ease of understanding what to do;
- ease of getting in touch;
- ease of completion of processes; and
- how good HMRC were at providing a service designed with customer needs in mind.

Each dimension is measured against a relevant five point verbal scale (eg Very Easy to Very Difficult or Very Good to Very Poor). We will assess performance in terms of the top two boxes combined (eg Very Easy plus Fairly Easy), reflecting positive views from customers.

The measure will be aggregated over all four dimensions and the three customer groups (Individuals, Agents and SMEs). Applying equal weights to all four dimensions has benefits in terms of simplicity, transparency and consistency over the CSR07 period. Weighting the three customer groups equally will ensure that the DSO measure drives HMRC activity to deliver improved customer experience for all three groups.

The measure excludes large business as they have differing concerns. HMRC monitors their views using a different survey and responds to the issues directly and through joint fora.

Our plans for the CSR years will drive improvements in customers' experience of dealing with HMRC, both in the short term and beyond. Our surveys will begin to reflect these improvements once our customers have felt the benefit of the significant investments we are making in simplifying our processes, improving our interfaces,and developing our online services. Our target of a three point improvement in the first three years will underpin the further improvements we expect to be reflected in subsequent surveys.

2.2. Reduce by 10% the administrative burden of forms and returns on business customers; and

2.3 Reduce by 15% the administrative burden of audits and inspections on compliant business customers.

Administrative requirements associated with the tax system cost businesses significant time and money. Budget 2006 announced two specific administrative burden reduction targets for HMRC to achieve by 2010-11, based on the Standard Cost Model (SCM). Delivery of these targets is a central part of our DSOs over the next three years.

Reducing the burden of forms and returns

We are targeting forms and returns because they represent almost 68% of the total administrative burden (£3.37bn) and they are the main way that businesses interact with the tax system. Whilst forms and returns are a necessary part of any effective tax system, we have a challenging target to reduce the burden they impose. We are making good progress and have delivered or committed to measures which will deliver administrative savings to business of an estimated £186m, a reduction of nearly 6% against the target of 10%.

We have a wider programme of work in place to take us through to 2010-11 steered by the externally chaired Administrative Burden Advisory Board (ABAB). This Board has recently been recognised by the National Audit Office as an example of good practice in engaging with business to identify priority areas for reducing burdens.[1]

[1] National Audit Office Report: The Administrative Burdens Reduction Programme 2008.

Reducing the burden of audits and inspections

Although audits and inspections are a relatively small part of HMRC's administrative burden baseline (£142m) they can have a significant impact on businesses, including the uncertainty associated with the process. The focus of the target is to reduce the burden of audits and inspections for compliant businesses whilst making it as easy as possible for them to comply with their obligations. We have already delivered estimated savings of £43m from complying with audits and inspections, exceeding the target of 15%. However these savings from the reform of the Construction Industry Scheme only benefit one sector, so we are committed to doing more for other businesses.

Reducing the burden of audits and inspections for those customers who pay the right tax at the right time is a key element of our strategic plans to transform compliance. This is supported by the legislative changes being made through the Powers Review. This includes tackling those issues that are not captured within our targeted baseline such as the total length of an audit or inspection or the psychological impact they can have on businesses.

Reducing other administrative burdens

We are looking to reduce wider administrative burdens and have delivered or committed to measures that will deliver estimated savings of £163m in other areas of tax law.

2.4. Increase access to business facing content and business facing transactions from businesslink.gov.uk, delivering at least 95% of cross-government agreed scope of website convergence.

The Service Transformation Agreement set a target 'to migrate more than 95% of the total identified websites by the end of the CSR07 period' to businesslink.gov.uk and Directgov. This indicator covers businesslink.gov.uk's contribution to that target. HMRC leads the cross departmental Business.gov Programme. We have agreed the websites that are to be migrated with the Cabinet Office (as lead departments for the STAs) and with each of the government organisations concerned, in line with an overall delivery plan. The websites comprise of all those with business facing content and transactions. We have agreed detailed plans with the organisations for what was to be migrated in 2008-09, and we will be agreeing by February 2009 the detailed plans for 2009-10. Delivery will be overseen by the Programme Board. As the Programme will include a large number of projects we have put in place a number of sub-programme boards consisting of the main stakeholders in each project to monitor and manage delivery.

The numbers of websites and web units migrated to date and scheduled to be delivered in 2008-09 are relatively limited for two reasons:

- we need to put the enhanced infrastructure and capability in place first; and
- we are still in the early stages so a lot of work is still being initiated and will come to fruition later.

We recognise that the profile of work will need to increase significantly in 2009-10 to ensure the target remains achievable and, we are discussing the trajectory needed and building the plans with our stakeholder organisations.

However, it is not simply about bringing business facing content and transactions together in one place.

To be truly successful, convergence must be designed to meet business customer needs. The Programme is making extensive use of customer research as it plans the convergence of material and it incorporates customer usability testing in its delivery. The Programme is monitoring customer satisfaction with the site on a six monthly basis. The latest validated figures indicate an approval rating of 88%, comparable with the very best in the private sector.

The Programme has also set targets to ensure that the site adds real value for business. It is monitoring registrations, repeat visits and the use of tools as indicators that businesses are deriving benefit from the site, and all targets are being met.

The Programme is also monitoring the economic impact of the site on businesses, whether they are saving time and money, and improving performance. Again, the Programme is more than meeting its forecasts and expects to achieve £4bn of savings and benefits in the period 2007-08 to 2010-11.

Section 02

2.5. Improve accuracy of processing in large-volume business areas, achieving at least 96% on a composite indicator of accuracy.

The individual elements of this target are:

- PAYE – 97.6% of cases processed accurately;
- SA – 90% of cases processed accurately;
- National Insurance Contributions Office (NICO) – 97% of cases processed accurately;
- Tax Credits – 97% of new claims, change of circumstances and renewals captured, calculated and paid accurately;
- Child Benefit – 97% of new claims and change of circumstances captured, calculated and paid accurately; and
- Debt Management and Banking – 99% of cheque payments allocated to the correct account.

Accuracy of processing is measured on a monthly basis through random sampling by quality monitoring teams within each of the above business units. In each case the Quality Monitoring Exercise process has been assured by internal audit.

Current results indicate that while PAYE, Tax Credits, Child Benefits and Debt Management and Banking are performing at a level close to the staged indicators, there remains scope to improve our NICO and SA results.

2.6. Improve timeliness of processing in key areas, covering VAT registration and Tax Credit and Child Benefit payments.

This target is assessed using a composite indicator of the elements below which have weightings of 12%, 46% and 42% respectively:

- improved turn around of processed VAT registrations from 70% in 14 calendar days to 70% in 10 calendar days by 2011;
- improved turn around of new tax credit payment claims from 38% to 60% in 15 calendar days; and
- maintain the turn around times of new child benefit payments at 69% in nine working days.

National Registration Service (NRS)

The NRS supports businesses in providing complete and accurate VAT registration applications, by helping them avoid common errors and omissions. This includes publishing details of common errors and omissions and highlighting common problem areas at external customer forums. The improved application form and guidance was launched online to customers from July 2008.

An action plan introduced in July 2007 succeeded in clearing the backlog of new businesses requiring registration and by January 2008 normal levels of work had been achieved. This progress has been maintained and improved, underpinned by more efficient processing, improved targeting of the risk process and permanent staff being recruited.

Our performance so far this year is exceeding our plans and feedback from customers is generally very positive. To maintain this momentum further enhancements to the IT systems, regular recruitment and a programme of continuous improvement have been put in place. This is more challenging for the following years and delivery will depend heavily on improvements to the IT systems and our ability to recruit and retain staff.

Tax Credit and Child Benefit payments.

The key ways in which we will meet the target are set out below:

- PaceSetter continues to improve performance in key areas of delivery by giving our people added skills, establishing coaching as the preferred management style and in general progressing the cultural shift needed to meet these challenging objectives;
- the Tax Credits Transformation Programme has significantly contributed to improvements in our processes. Further pilots will be introduced to help us improve understanding of our customer base and provide a more tailored service. These in turn will support further improvements; and
- the rollout of Lean to our people handling new claims is a key way of building on improvements to processes already being developed to improve turnaround and used by the people working in the new claims team.

2.7. Improve correctness of advice and information given and actions taken, in respect of contact from customers.

This indicator measures the accuracy of handling post and telephone enquiries by testing the correctness of the actions taken by our people following contact by a customer.

Telephony

Plans to meet the first stage of the CSR target are on track. A number of steps have been taken to maintain improvement including better coaching and sharing of best practice. In the second half of the year further improvements will be sought from targeting different levels of performance across contact centres, and from improved management capacity and training. We are beginning the implementation of PaceSetter in Customer Contact Centres and focusing in particular on the tools and techniques that build quality, continuous improvement and personal development.

Post

For post we intend that by 2010-11 at least 90% of responses to customer contacts are correct. We have made significant reductions in the volume of post on hand this year which is enabling managers to increase their efforts in improving quality. In major processing centres quality checking of post is being used to identify problems before they reach the customer and, at the same time we continue to sample post quality in accordance with national guidelines. The results of the quality checks are then fed back into individual and team training in order to address the root causes of any problems.

Section 02

DSO 3: Reduce the risk of the illicit import and export of material which might harm the UK's physical and social wellbeing*:

This DSO has the following outcomes:

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

Overall Summary
Strong progress: improvement on 3 out of 4 indicators.

	Indicator		Baseline	Latest Assessment
Indicator 1	Maintain seizures of heroin and cocaine at 2006-07 levels.		Baseline has been set at 2006-07 levels, representing the first year after SOCA had taken over responsibility for drugs investigations. Latest assessment is based on information available up to the end of September 2008. It is showing an improvement on heroin, as the year end levels for both the number and weight of seizures have already been exceeded. For cocaine, the quantity seized is 19% above profile, the number of seizures is 1% below profile.	
		Cocaine	**1,174 seizures** **2,368kg** 2006-07	**581 seizures** **1,409kg** to 30 September 2008
		Heroin	**67 seizures** **527kg** 2006-07	**107 seizures** **573kg** to 30 September 2008
Indicator 2	Maintain seizures of Products of Animal Origin at 2005-06 levels.		Baseline has been set at 2005-06 levels, as carried forward from SR04. Latest assessment is based on information available up to the end of September 2008. Unlikely to meet the POAO seizure levels as the quantity is currently 7% below profile, and the number of seizures is 37% below profile. An exercise is planned for later in the year to attempt to demonstrate that the fall in seizures can be attributed to improved compliance.	
			32,703 seizures **237,709kg** 2005-06	**9,252 seizures** **99,013kg** to 30 September 2008
Indicator 3	Fulfil taskings from SOCA involving an intervention and SOCA requests for checks and enquiries.		Baseline has been carried forward from SR04. Latest assessment is based on information available up to the end of September 2008. On course to meet SOCA interventions covering the % of requests for interventions.	
		% of requests for interventions	**98%** 2007-08	**96%** to 30 September 2008
		% of checks/enquiries	**96%** 2007-08	**100%** to 30 September 2008
Indicator 4	Maintain the level of operational performance 100% effectiveness in screening traffic entering the UK for radiation.		Baseline has been carried forward from SR04. Latest assessment is based on information available up to the end of September 2008.	
			98% (indicator baseline)	**100%** to 30 September 2008

* DSO 3 responsibilities are expected to transfer to the UKBA in due course.
The baseline for indicator 3.4 is being reviewed in the light of different performance indicators in place in 2008-09

There are four indicators within DSO 3:

3.1. Maintain seizures of heroin and cocaine at 2006-07 levels.

Quantities of both cocaine and heroin seized are significantly above trajectory for the first six months of the year. Intelligence flows between HMRC and SOCA have improved over the period. We are engaging in implementing the Government's new National Drugs Strategy, disrupting the supply of drugs at the UK border and offshore. Our operations in support of Jamaican and Ghanaian law enforcement authorities continue to reap significant benefits in disrupting drug couriers targeting the UK.

Year-to-date seizures of heroin are 93% higher than at this point last year, which is a good result particularly as the period in question has been one of change.

3.2. Maintain seizures of products of animal origin at 2005-06 levels.

Enforcement effort to tackle illegal imports of Products of Animal Origin (POAO) from outside the EU has continued to be focused at animal products and entry routes which pose the greatest animal disease threat, taking account of latest veterinary risk assessments. Seizures in 2007-08 and year-to-date figures for 2008-09 are lower than expected. This can be attributed to the scaling back of additional resources that were deployed in 2006-07 to tackle the threat from avian influenza. Work is being undertaken to establish whether improved compliance amongst travellers could also be a contributing factor.

3.3. Fulfil taskings from SOCA involving an intervention and at least 96% of SOCA requests for checks and enquiries.

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

We are now engaged in all of SOCA's programmes of activity and contribute to the development of projects within the various programmes. To the end of September 2008 we had responded to 690 requests from SOCA for checks/enquiries, of which only two were not actioned, and 84 requests for interventions. This resulted in seizures of just over 32.5kg cocaine, 10kg of heroin and £250,000 in cash.

3.4. Maintain the level of operational performance in screening traffic entering the UK for radiation.

Programme Cyclamen is a joint programme with the Home Office to deter and detect illicit movements of radioactive and nuclear materials into the UK. Since July 2004 over 13 million vehicles and containers have been screened using fixed sites, and more recently mobile screening equipment.

To measure the performance of this programme the objectives have been set to ensure that any alarm generated by Cyclamen screening activities is processed within agreed time limits and in accordance with Cyclamen operating procedures.

In 2007-08 our target was to intercept 98% of traffic which triggered an alarm whilst HMRC were in attendance, which we exceeded by responding to over 99% of alarms. For 2008-09 we are aiming to intercept or investigate 100% of traffic which triggers an alarm while UKBA are in attendance, which we are currently achieving.

Section 03

Value for Money targets (VFM)

Having achieved our 2004 Spending Efficiency Targets we now report for the first time on our current progress against our Value for Money Savings as outlined in the 2007 Comprehensive Spending Review.

HMRC has delivered improved performance and service delivery in a number of key areas, and achieved its 2004 Spending Review efficiency targets (Annex A sets out the Department's achievements against its efficiency targets set out in the SR04 settlement). This has put the Department in a strong position to build upon and deliver an ongoing efficiency agenda and culture within HMRC.

The CSR07 settlement agreed HMRC's spending plans for the period 2008-09 to 2010-11 with a 5% real term reduction in the Department's expenditure limit in each of these three financial years.

As a part of this, we have agreed to make £674m of cash releasing, sustainable Value for Money (VFM) savings (net of costs) by 2001-11. Of this, £500m will be enabled through DTP, and the remainder will be delivered through other programmes.

Over the CSR07 period the Department has also committed to deliver strategic objectives, which aim to continue to deliver an improved service to citizens and businesses. The CSR07 settlement is very challenging, both in terms of reduced resource and further improvement in performance at the same time.

We published our VFM Delivery Agreement on our website at **www.hmrc.gov.uk** in February 2008. HMRC's VFM programme was built on an analysis of how its resources, financial and human, are expected to be deployed over the next three years. The projected savings have been calculated as the difference between the post-VFM programme expenditure and counterfactual[1] expenditure, this is based on a "do nothing" scenario of baseline costs increasing by general inflation.

The table below shows the indicative trajectory of VFM savings over the CSR period.

£m	2008-09	2009-10	2010-11
	215	445	674

[1] VFM gains are measured against an evidence based assumption of what would happen to the pattern and quantum of spending if there had been a 'do nothing' approach (made no specific reforms to reduce spending) – the 'counterfactual'.

Section 03

Departmental Transformation Programme

A majority of VFM savings will be enabled by HMRC's Departmental Transformation Programme (DTP). The DTP portfolio was set up in autumn 2006 to bring together programmes begun both before and after the creation of HMRC. Its aims are:

- to improve management of revenue flows and reduce the tax gap;
- to help create a customer focused organisation where it is easier for customers and HMRC to fulfil their obligations;
- to improve the customer experience and reduce their costs; and
- to reduce running costs by improving processes and the management of HMRC's processes, assets and people.

Our Delivery Agreement highlights the DTP initiatives which will enable savings over the CSR07 period. DTP will also continue to deliver benefits beyond the current CSR period and has access to money from the Treasury's Modernisation Fund to invest in longer term efficiency programmes.

We have ensured that our plans remain sufficiently flexible to react to changing events and circumstances. They have been reviewed this year to reflect our changing business decisions and, our current estimate of the DTP element of the overall VFM cumulative saving over the CSR07 period is around £500m. Of this £23.4m had been achieved by 30 September as set out in the table below.

Programme	Savings achieved	Total value
Carter (expanding online services)	207 FTEs[2]	£5.7m
Estates transformation	222 FTEs[2]	£6.1m
Estates consolidation	Non-paybill	£10.3m
Northgate[1]	27 FTEs[2] and £0.1m non-paybill	£0.8m
Others	10 FTEs[2] plus £0.3m non-paybill	£0.5m

[1] Transfer of outsourced ex Customs & Excise Northgate payroll provider back in house
[2] Full Time Equivalents

Other initiatives

At this stage we remain confident that we will achieve our 2008-09 VFM savings. Since investment in the DTP in the early years will lead to most of the benefits being realised later in the period, we are also looking to realise additional savings from other initiatives, projects and programmes, including:

- changes to the ASPIRE contract which will drive down IT costs year on year with forecast savings of £49m this year;
- reducing transactional costs through the development of shared corporate services;
- improving business processes across the Department to realise staff savings; and
- a range of projects to improve the way we manage payments, banking and debts.

Measurement and verification

Verification of savings is carried out on major budget areas such as paybill, estates, and IT, by comparing actual spend to the counterfactual spend.

Other factors such as reducing staff numbers, annual pay increases, and variations in the costs of the two major contracts covering provision of Estates and IT services will be used to validate the figures. Between April and September of this year, the Department reduced its staff in post by 2,700 full-time equivalent posts.

Quality of service

As indicated elsewhere within this report, it is in general too early within the CSR07 period to be able to report precisely on our achievement around DSO targets. However, HMRC is committed to maintain, over the CSR07 period, at least the overall levels of performance set out in the SR04 targets for 2007-08 for key areas as well as delivering agreed new priority areas, especially reducing tax credit error and fraud. We are confident these will be met by the end of the CSR07 period which will demonstrate that VFM savings have been made.

HMRC will continue to monitor its progress against its DSO commitments and its contribution to seven of the 30 new PSAs for the CSR07 period that reflect the Government's highest level priorities, to ensure that service delivery is being maintained as VFM savings are made.

Section 04

Outstanding recommendations from the Committee of Public Accounts

Central guidance requires departments to report on the recommendations made by the Committee of Public Accounts (PAC) where the department is the principle party to respond. In HMRC we have reviewed recommendations made by the PAC since 1998 and there are none outstanding. From 2009 onwards this information will be reported in the annual Departmental Report.

Section 05
Statistical tables

Table 1: Cost of collection

(pence per £ collected)

	2005-06	2006-07	2007-08
Income Tax	1.27[1]	1.25[2]	1.16[3]
Corporation Tax	0.71	0.79	0.73
Petroleum Revenue Tax	0.13	0.12	0.10
Capital Gains Tax	0.92	0.85	0.85
Inheritance Tax	1.01	0.85	0.64
Stamp Taxes	0.20	0.13	0.12
National Insurance Contributions (NIC)	0.42	0.35	0.37
VAT	0.55	0.60	0.56
Insurance Premium Tax	0.14	0.26	0.35
Hydrocarbon oils	0.16	0.19	0.16
Alcohol	0.54	0.67	0.69
Tobacco	1.83	2.26	2.16
Gambling Taxes	0.29	0.34	0.23
Environmental Taxes	0.26	0.34	0.31
Air Passenger Duty	0.05	0.09	0.06
International Trade	6.07	5.88	6.15
Overall cost (pence per £ collected)	1.11	1.13	1.05
Tax credits (pence per £ paid)	2.78	3.42	2.89
Child Benefit and Child Trust Fund	1.17[4]	1.07	0.88[5]

[1] Includes the combined ratios for PAYE and SA – separately the ratios are PAYE 0.79 and SA 3.43 also: the 2005-06 SA and PAYE ratios have been restated to take account of a refinement in methodology from that used last year to produce these ratios.

[2] Includes the combined ratios for PAYE and SA – separately the ratios are PAYE 0.74 and SA 4.57.

[3] Includes the combined ratios for PAYE and SA – separately the ratios are PAYE 0.74 and SA 3.59.

[4] The 2005-06 ratio was affected by the one-off additional cost of processing the backlog of Child Trust Fund applications for children born between September 2002 and March 2005.

[5] Includes the combined ratios for Child Benefit & Child Trust Fund – separately the ratios are Child Benefit 0.87 & Child Trust Fund 1.33.

Section 05

Table 2(a) to 2(j)

The tax gap is the difference between theoretical tax liabilities and actual tax receipts. Development of a rigorous analysis of the tax gap is an essential part of the compliance strategy for HMRC. This analysis is used to understand the compliance issues facing the Department and thus to develop appropriate strategic initiatives. This section contains HMRC's latest tax gap estimates for VAT, excise duties and some areas of direct taxes.

Such estimates are difficult to produce and are necessarily subject to large margins of error, itself difficult to calculate, because many of the activities that underline tax gaps are deliberately shrouded in secrecy. Therefore the estimates can never be precise but rather are indicators of potential levels and trends that can be used to assess what actions to take and the impact of existing strategies.

In general, two approaches can be employed to assess the scale of the tax gaps:

Top-down method: First an estimate of the total tax liability is constructed from data sources independent from the tax system. This is then compared with actual receipts; and

Bottom-up method: Estimates are produced directly from departmental data sources, such as surveys, results of interventions and administrative systems.

In principle, the top-down approach is better as it is independent of both HMRC and taxpayers. It should also cover all elements of tax gaps. However, the top-down approach requires suitable data to construct independent estimates of tax liabilities. This is not always possible.

In contrast the bottom-up method is less comprehensive because a distinct part of tax gaps arises from activities that are deliberately concealed, and so are not always fully covered by HMRC data sources.

HMRC uses top-down methods to estimate the tax gap figures for VAT and excise duties and bottom-up methods for the direct tax figures presented here. As a result of the different approaches the figures for indirect and direct taxes and duties are not directly comparable.

For direct taxes the estimates of under-declared liabilities come from the results of HMRC compliance activities, notably random enquiry programmes. Random enquiry programmes measure the extent to which returns are correctly completed. They will not reflect the full extent of non-compliance as the programmes will not identify all incorrect returns or necessarily the full scale of under-declaration. The direct taxes tables also include estimates of non-payment in the cases where a liability has been established and compliance yield. In each of the tables the net total identified tax gap is calculated as under-declared liabilities due to incorrect returns plus non payment less compliance yield. The total tax liabilities figures in these tables relate to those taxpayers covered by each table.

The tables relate to the latest available estimates: 2003-04 for SA, 2006-07 for excise duties and 2007-08 for VAT. The direct tax figures are less timely because they depend on the availability of results of random enquiries. It can take several years from the issue of a return before the results are ready for most of the sample.

The figures presented here are subject to revisions as more data becomes available and methodologies are refined. Further details about the coverage of the figures presented here, their limitations and the methodologies used can be found in Measuring Indirect Tax Gaps – November 2008 and Developing Methodologies for Measuring Direct Losses – October 2007. These publications are available at **www.hmrc.gov.uk.**

Indirect Taxes

VAT

The results show the percentage VAT gap falling between 2002-03 and 2004-05, then rising in 2005-06 before falling again in the subsequent two years. The trend since 2004-05 is related to the decline in Missing Trader Intra Community (MTIC) fraud. The impact of MTIC fraud on VAT receipts is estimated to have fallen from £2.5 – £4.5bn in 2005-06 to £0.5 – £2.0bn in 2007-08. Further information about MTIC fraud estimates can be found in Measuring Indirect Tax Gaps – November 2008 and and available at **www.hmrc.gov.uk.**

Excise duties

The cigarettes revenue gap has shown a downward trend since 2003-04. This is because consumption has fallen faster than receipts of excise duty. There has been no clear trend in the hand rolling tobacco (HRT) illicit market share.

The spirits revenue gap shows no clear trend over the period. The increase since 2004-05 arises because consumption has continued to rise slowly whilst receipts of duty on spirits have levelled off.

The Great Britain (GB) diesel revenue gap shows a downward trend throughout the period shown. This is because GB receipts of duty on diesel have risen faster than consumption. The size of the non-UK duty paid petrol market in GB is too small (less than 1%) to be estimated reliably and therefore is not shown. The Northern Ireland non-UK duty paid market share for diesel and petrol both show downward trends over the period.

Direct Taxes

Individuals Self Assessment

These estimates come from the SA Random Enquiry Programme for individuals who receive a SA tax return. In this context individuals includes people who are self-employed, and in partnerships with up to four partners, as well as those who are employees or have investment income and receive a tax return. The taxes included are Income Tax and Class 4 National Insurance Contributions (NIC).

Over the period 1999-00 to 2002-03, estimated identified tax gaps for SA taxpayers increased from 11% to 15% of liabilities before declining slightly for 2003-04. The trend reflects a rise in the proportion of self-employed taxpayers found to have substantially understated their tax liability, as identified by the random enquiry programme. Furthermore over the period 1999-00 to 2002-03 there was an increase in the share of overall SA liabilities relating to the self-employed. This increase results in the rise in non-compliance among the self-employed having a greater effect on the overall proportion of under declared liabilities than would otherwise be the case.

Small and medium-sized employers

The estimates for small and medium-sized employers come from the Employer Compliance Random Enquiry Programme. They relate to Income Tax and NIC collected through Pay as You Earn (PAYE) due on earnings and other income from employment. They will also include tax due on occupational pensions taxed through PAYE. The estimates are for employers with up to 500 employees, except where the employer is part of a complex group.

The table shows that the identified tax gap for Income Tax and NIC for small and medium-sized employers was an estimated 1.1% of liabilities in 2003-04, declining slightly to 1.0% in 2004-05.

Small and medium-sized companies

These figures come from the Corporation Tax, SA Random Enquiry Programme. This programme covers small and medium-sized companies which in this context means those companies not dealt with by HMRC's Large Business Service (LBS) and also excludes the 10,000 or so largest and most complex companies dealt with outside the LBS.

The identified tax gap for small and medium-sized companies as a proportion of the total relevant tax liabilities varied between 15% and 18% between 2001 and 2003. The equivalent figure for 2004 is lower at 9%. However, due to substantial margin of sampling error in these figures, it is not possible to determine with certainty whether or not this reduction represents a fall in the underlying level of under-declaration of liabilities. Allowing for confidence intervals around the estimates suggests that the trend is broadly stable.

Section 05

Table 2

Table (2a): Net VAT theoretical tax liability (VTTL), VAT receipts and revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Net VTTL (£bn)	75.2	78.3	81.9	85.4	89.0	92.6
Net VAT receipts (£bn)[1]	63.6	69.1	72.7	72.9	77.3	81.0
Revenue gap (£bn)	11.5	9.2	9.2	12.6	11.7	11.6
VAT gap (%)[2]	**15.4%**	**11.7%**	**11.2%**	**14.7%**	**13.2%**	**12.5%**

[1] Net VAT receipts are expressed net of payments and repayments.
[2] A proportion of the VTTL estimate for the final year is based on a forecast.

Table (2b): Cigarettes: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07
Illicit market share					
Upper estimate	19%	21%	19%	19%	17%
Lower estimate	13%	15%	11%	10%	9%
Mid-point of range[1]	16%	18%	15%	15%	13%
Associated revenue gap (£m)[2]					
Upper estimate	2,500	3,000	2,600	2,600	2,200
Lower estimate	1,600	1,900	1,400	1,200	1,100

[1] The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.
[2] Includes duty and VAT.
Figures are independently rounded to the nearest £100m or 1%.

Table (2c): Hand Rolled Tobacco: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07
Illicit market share					
Upper estimate	62%	60%	64%	63%	59%
Lower estimate	48%	45%	54%	52%	48%
Mid-point of range[1]	55%	53%	59%	57%	53%
Associated revenue gap (£m)[2]					
Upper estimate	890	840	980	940	900
Lower estimate	570	520	700	650	610

[1] The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.
[2] Includes duty and VAT.
Figures are independently rounded to the nearest £100m or 1%.

Table (2d): Spirits: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07
Illicit market share					
Upper estimate	14%	15%	7%	10%	12%
Lower estimate	–	–	–	–	-
Mid-point of range[2]	7%	8%	4%	5%	6%
Associated revenue gap (£m)[1]					
Upper estimate	500	600	250	400	450
Lower estimate	–	–	–	–	–

– Indicates estimates of negligible levels of fraud.

[1] Includes duty and VAT although this will overstate the revenue gap to the extent that VAT is collected on sales of illicit alcohol through normal retail outlets.

[2] The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.

Figures are independently rounded to the nearest £50m or 1%.

Table (2e): GB Diesel: Illicit market share and associated revenue gap[1]

	2002-03	2003-04	2004-05	2005-06	2006-07[2]
Illicit market share					
Upper confidence interval	15%	15%	13%	11%	10%
Central estimate	10%	9%	7%	6%	5%
Lower confidence interval	4%	4%	2%	0%	0%
Associated revenue gap (£m)[3]					
Upper confidence interval	1,950	2,000	1,950	1,700	1,600
Central estimate	1,250	1,250	1,100	850	750
Lower confidence interval	550	500	250	0	0

[1] The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.

[2] Figures for 2006-07 are provisional, as not all components of the total consumption estimate are available at this time.

[3] Estimates include duty and VAT.

Figures are independently rounded to the nearest £50m or 1%.

Table (2f): NI Diesel: Non-UK Duty Paid market share and associated revenue gap[1]

	2002-03	2003-04	2004-05	2005-06	2006-07[2]
Non-UK Duty Paid market share					
Upper confidence interval	56%	55%	47%	45%	44%
Central estimate	53%	50%	41%	41%	40%
Lower confidence interval	46%	45%	37%	36%	36%
Associated revenue gap (£m)[3]					
Upper confidence interval	220	230	200	210	220
Central estimate	210	210	180	190	200
Lower confidence interval	190	190	160	170	180

[1] The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.

[2] Figures for 2006-07 are provisional, as not all components of the total consumption estimate are available at this time.

[3] Estimates include duty and VAT.

Figures are independently rounded to the nearest £50m or 1%.

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Table (2g): NI Petrol: Non-UK Duty Paid market share and associated revenue gap[1]

	2002-03	2003-04	2004-05	2005-06	2006-07[2]
Non-UK Duty Paid market share					
Upper confidence interval	22%	22%	20%	24%	24%
Central estimate	18%	18%	14%	14%	14%
Lower confidence interval	11%	11%	9%	6%	6%
Associated revenue gap (£m)[3]					
Upper confidence interval	80	80	70	80	80
Central estimate	60	60	50	50	50
Lower confidence interval	40	40	30	20	20

[1] The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.
[2] Figures for 2006-07 are provisional, as not all components of the total consumption estimate are available at this time.
[3] Estimates include duty and VAT.
Figures are independently rounded to the nearest £50m or 1%.

Table (2h): Identified tax gap for individuals in Self Assessment (£bn)[1]

	1999-00	2000-01	2001-02	2002-03	2003-04
Under-declared liabilities due to incorrect returns					
Compliance yield[2]	2.4	2.7	3.0	3.5	3.5
Non-payment[3]	0.4	0.4	0.4	0.4	0.4
Net total identified tax gap	0.1	0.1	0.1	0.1	0.1
	2.1	2.4	2.7	3.1	3.1
Total tax liabilities	19.4	19.8	19.3	20.6	21.9
Proportion of liabilities (%)	11%	12%	14%	15%	14%

[1] Figures rounded to the nearest £0.1bn. As a result components may not appear to sum.
[2] By period of settlement of enquiry.
[3] Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to financial year figures.

Table (2i): Identified tax gap for small and medium-sized employers (£bn)[1]

	2003-04	2004-05
Under-declared liabilities due to incorrect returns	0.8	0.8
Compliance yield[2]	0.2	0.3
Non-payment[3]	0.2	0.3
Net total identified tax gap	0.7	0.8
Total tax liabilities	68.3	78.9
Proportion of liabilities (%)	1.1%	1.0%

[1] Figures rounded to the nearest £0.1bn. As a result components may not appear to sum.
[2] By period of settlement of enquiry.
[3] Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to tax year figures.

Table (2j): Identified tax gap for small and medium-sized companies (£bn)[1]

	2001	2002	2003	2004
Under-declared liabilities due to incorrect returns	2.2	2.6	2.3	1.6
Compliance yield[2]	0.4	0.4	0.4	0.4
Non-payment[3]	0.0	0.0	0.1	0.1
Net total identified tax gap	1.8	2.2	2.0	1.3
Total tax liabilities	11.9	12.8	13.1	14.1
Proportion of liabilities (%)	15%	18%	15%	9%

1 Figures rounded to the nearest £0.1bn. As a result components may not appear to sum.
2 By period of settlement of enquiry. Financial year figures.
3 Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to calendar year figures.

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Table 3: Yield: staff cost ratios

Yield: Staff Cost Ratios[1]

	2005-06	2006-07	2007-08
Local Compliance[2]	–	7:1	8:1
Large Business Service	48:1	44:1	60:1
National Teams & Special Civil Investigations[3]	–	32:1	28:1
CT & VAT[4]	128:1	179:1	218:1
Excise Stamps & Money (Stamps Tax)	13:1	19:1	6:1
Charity Assets & Residency[5]	–	24:1	36:1

1 Yield includes all Direct Taxes, VAT, Excise and International Trade. Costs consist of all staff related costs (ie basic pay, superannuation and ERNIC) for all staff in the directorate.
2 Formation of HMRC means it is not possible to obtain costs for all directorates for 2005-06 comparable with later years.
3 Formation of HMRC means it is not possible to obtain costs for all directorates for 2005-06 comparable with later years.
4 CT & VAT staff cost is calculated using all staff related costs for those staff working directly on interventions.
5 Charity Assets and Residency business includes Trusts, Charities, Inheritance Tax, Savings and Pension and Residency Issues Yield: cost ratios were not reported 2005-06.

Table 4: Tackling non-compliance

Results of work tackling non-compliance (£m)

Summary of Additional Liability[1]		2005-06	2006-07	2007-08
Local Compliance	Corporation Tax Enquiries[2]	757.6	833.7	771.2
	Self Assessment Business Enquiries[2]	308.0	415.3	384.8
	Self Assessment Non Business Enquiries[3]	268.1	667.4	220.3
	VAT Interventions	1,280.1	1,296.4	1,845.1
	Excise Interventions	58.2	87.8	85.8
	Employer Compliance	367.7	401.7	324.7
	Construction Industry Reviews[4]	0.0	56.0	57.2
	International Trade Interventions	120.9	90.7	141.7
	Capital Gains Tax Enquiries[5]	0.0	0.0	59.7
	Hidden Economy	49.9	52.3	76.1
	Broader Coverage	103.9	584.1	332.5
Large Business Service	Corporation Tax Enquiries[6]	2,196.0	2,728.0[7]	3,916.0
	VAT Interventions	1,142.0	828.0	770.0
	Employer Compliance	62.2	104.9	110.5
	Petroleum Revenue Tax	23.7	6.0	35.0
	Excise Interventions	42.9	92.0	47.8
	International Trade	87.9	156.0	46.9
	Environmental Interventions	25.8	17.7	37.6
National Teams & Special Civil Investigations[8]	Civil Interventions	1,650.0[9/10]	2,656.6[11]	2,770.5
	Income Tax & NIC Enquiries			306.5
CT&VAT	Corporation Tax Interventions	64.7	91.3	152.1
Excise Stamps & Money	Stamps Tax	6.3	10.9	4.6
Charity Assets & Residency	Income Tax & Inheritance tax	385.2	253.7	356.1

1 Direct Taxes include interest and penalties.
2 In previous reports CT and SA results were split between full and aspect enquiries: now shown as a combined figure.
3 SA Non-Business in 2006-07 included large and exceptional yield resulting from decisions reached in High Court cases.
4 Construction Industry review yield separately identified from 2006-07. In previous years included with Employer reviews.
5 Capital Gains Tax enquiry yield separately identified from 2007-08. In previous years included within SA non-business.
6 Results now include Spend to Raise 2003 yield which was previously reported separately these years.
7 Gribbon previously quoted £3,090 but this was Economic value.
8 Prior to 2007-08 the yield for National Teams (Insolvency & Security, Labour Providers Unit and Complex Personal Tax Teams) was included within the Local Compliance figures.
9 This includes £291m claimed by other parts of the Department.
10 Correction: incorrect figure of £1,065m was reported in the 2007 Autumn Performance Report.
11 This includes £390m claimed by other parts of the Department. Also includes £38.6m Labour Providers Unit VAT Yield.

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Table 5: Prohibited & restricted goods

(a) Products of Animal Origin

(i) Totals	Total number of seizures		Total weight of items seized (nearest kg)	
	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
	24,802	9,252	182,370 (+12,508 Litres)	99,013 (+9,197 Litres)

(ii) Number and weight of seizures by type of animal product	Total number of seizures		Weight of items seized (nearest kg)	
	2007-08 Outturn[1]	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
Meat	14,067	4,986	77,230	33,459
Fish	7,056	2,680	46,463	31,901
Dairy	7,166	2,842	47,180 (+12,508 Litres)	29,033 (+9,197 Litres)
Honey	1,483	602	11,496	4,620

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.
The total weight in table (i) for the 2007-08 outturn does not match the total weight in table (ii) due to rounding.

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

	Number of seizures		Number of items seized		Weight of items seized (nearest kg)	
	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
Live animals and birds	25	16	442	376	n/a	n/a
Parts and derivatives of endangered species	91	60	1,821	923	3	54
Ivory	15	5	130	12	10	n/a
Plants/timber	9	26	22,245	40,083	9	2
Other CITES listed species	58	22	1,206	45	564	11
Preparations of oriental medicines which include parts of derivatives of endangered species	61	28	6,252	2,036	262	275

CITES seizures are recorded by weight or by number of items seized, according to whichever is the most practical.
Other CITES listed species include coral, caviar, ginseng and Conch shells.

(c) Plants and plant products subject to plant health controls

	Number of seizures		Number of items seized		Weight of items seized (nearest kg)	
	2007-08 Outturn	1 April to 31 August 2008	2007-08 Outturn	1 April to 31 August 2008	2007-08 Outturn	1 April to 31 August 2008
Plants and plant products*	1,330	707	18,363	6,994	14,881	30,805

* These seizures include plants, products and forestry items which are subject to plant health controls and which are not controlled as CITES species.
* Seizures of live plants are recorded in units.

(d) Pornography and paedophilia

	Total number of seizures		Total number of items seized	
	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
Adult pornographic material	564	167	6,404	1,097
Paedophile Material	334	77	1,023	170

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

	Total number of seizures		Total number of items seized	
	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
Rifles and handguns[1]	101	123	320	366
Shotguns	4	2	6	3
Parts of firearms	28	14	69	62
Ammunition	74	24	6,092	14,483
Stun guns	291	64	539	93
Self defence sprays	332	137	1,308	253
Knives and other offensive weapons[2]	1,571	1,269	3,270	2,908
Fireworks, pyrotechnic articles and explosive materials	10	5	95	53

1 Rifles and handguns include automatic weapons, air and gas guns and readily convertible replica weapons.
2 Other offensive weapons include martial arts weapons, knuckledusters, swordsticks, blowpipes and truncheons.

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(f) Other prohibited and restricted goods seized

	Total number of seizures		Total number of items seized	
	2007-08 Outturn	1 April 2008 to 30 September 2008	2007-08 Outturn	1 April 2008 to 30 September 2008
Exports of strategic goods and goods to embargoed destinations	55	28	1,812	883
Ozone depleting substances	0	0	0	0
Radio transmitters	2	1	2	1
Cultural goods	1	2	25	27
Goods breaching intellectual property rights	1,268	735	3,000,193	986,603
Rough diamonds	1	0	0.08kg[1]	0

[1] A seizure of Rough Diamonds was erroneously recorded in the 2008 Departmental Report as '0.08 carats'; the correct quantity was 0.08kgs.
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 licences.
Embargoed destinations are those countries that are subject to UN, EU, OSCE and UK arms and embargoes.

Table 6: Search of person

HMRC performs a vital front line role, protecting society, both in this country and elsewhere, from the harm of prohibited and restricted goods such as Class A drugs. The main aim of this work is to detect and disrupt individuals and organisations that are determined and deliberate in their attempts to evade our controls. Activity is intelligence-led and we employ a targeted risk based approach, maximising the use of technology in our fight against smuggling organisations.

In the course of this work we can expect to meet a diverse group of people from many ethnic backgrounds in a range of different situations. We aim to demonstrate respect, sensitivity and awareness in all our dealings with those whom we come into contact and ensure that we are always able to justify our actions.

No individual traveller is profiled on the basis of his or her racial or ethnic appearance. However, risk profiles indicate countries that are assessed as high risk for specific types of prohibited and restricted goods. Travellers from these countries are therefore more likely to be spoken to by an officer and the proportion of people who are then physically searched will tend to reflect the different ethnic backgrounds of those who travel from or to those countries.

In 2006-07 we searched 8,057 persons with a success rate of 4.83%. This year we have reported a success rate of 4.41% and 3,557 search of persons. Whilst we have reduced quite considerably the number of searches of persons carried out in 2007-08 the decline in the success rate has been negligible.

Under section 164 of the Customs and Excise Management Act 1979, HMRC has the powers to carry out searches where there are reasonable grounds to suspect concealments of smuggled goods on or within the body.

The different types of searches are:

Rubdown: A search of a clothed person's body by hand that can involve the suspect being asked to remove outer garments such as coats, hats, shoes and socks.

Strip search: A search where the suspect is asked to remove all items of clothing.

Intimate search: A search of body orifices where packages could be concealed which can only be performed by a doctor which is very rarely used.

To combat drug smugglers who have swallowed packages, we also use:

Enzyme Multiplied Immuno Assay Tests (EMITS): Performed on a urine sample obtained from a suspect with their permission, used primarily to check for traces of cocaine or opiates. A positive result suggests that the suspect has swallowed drugs packages.

X-Rays: Carried out with the suspect's consent.

Policy in these areas is kept under review in order to maintain a balance between the need to curtail the smuggling of drugs and other illicit goods and the need to protect the rights of travellers.

	2007-08
Total number of persons searched[1]	3,557
Successful[2]	157
Success rate	4.41%

[1] This shows the actual number of persons searched and not the number of processes (ie where a person may be subject of more than one search type). This is an accurate reflection of our profiling methods.

[2] Successful means that prohibited goods: goods liable to duties; crime related cash or other money instruments; or other items indicating unlawful activity have been found as a result of the search of a person.

Table 6: Search of person – continued

Search by Ethnic Identification Category[1]

Ethnic category	Number of persons searched	Successful	Success rate	Items/goods of 'Other Customs or Agency' found prior to search of person[2]
Northern European	1,197	65	5.43%	234
Southern European	247	11	4.45%	40
African Caribbean	1,786	59	3.30%	107
Asian	253	11	4.35%	52
Oriental	29	9	31.03%	11
Middle Eastern	45	2	4.44%	6

[1] These are standard identification categories used to describe ethnic appearance.
[2] These are items/goods described in point 2 above found prior to search of person, but not recorded as a success for the purposes of search of person.
However, these additional figures help provide a fuller picture of our effectiveness in the search of person(s).

Search type conducted

Search type	2005-06	2006-07	2007-08
Rub-down	10,890	6,328	2,644
Strip	1,729	1,591	744
Intimate	5	1	1
EMIT or X-Ray	1,604	1,400	884
Total	**14,228**	**9,320**	**4,273**

Smuggled goods found during search	2005-06	2006-07	2007-08
Drugs	282	222	92
Other goods/items of interest to HMRC	105	138	56
Other goods/items of interest to other agencies	64	40	11
Total	**451**	**400**	**159**

Table 7: Detentions and warrants

Detentions and warrants applications	2005-06	2006-07	2007-08
Number of persons:			
Detained after arrest[1]	2,547	2,709	2,129
Detained for more than 24 hours and subsequently released without charge[2]	11	15	10
Number of persons for whom warrants for further detention were:			
Applied for	41	79	18
Granted*	41	79	18
***In this instance, the number of persons:**			
Charged	41	79	18
Released on payment of a compound settlement	0	4	1
Number of persons:			
Charged	1,476	1,319	1,165
Released on payment of settlement	66	6	3
Released for other reasons	744	651	404

[1] These are the number of individuals where custody has been granted by the Custody Officer (Police Sergeant) at an HMRC Custody Suite or Police Station.

[2] Includes those bailed and subsequently released.

Table 8: Excise fraud

Tobacco

Revenue loss	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total fraud and smuggling	£2.6-£4.2bn	£2.2-£3.4bn	£2.4-£3.8bn	£2.1-£3.6bn	£1.8-£3.5bn	£1.7-£3.1bn	–[1]
Fraud and smuggling - Hand Rolling Tobacco (HRT)	£0.5-£0.9bn	£0.6-£0.9bn	£0.5-£0.8bn	£0.7-£1.0bn	£0.6-£0.9bn	£0.6-£0.9bn	–[1]
Fraud and smuggling – cigarettes	£2.1-£3.3bn	£1.6-£2.5bn	£1.9-£3.0bn	£1.4-£2.6bn	£1.2-£2.6bn	£1.1-£2.2bn	–[1]
Cigarette illicit market share	16%-24%	13%-19%	15%-21%	11%-19%	10%-19%	9%-17%	–[1]
Total legal cross-border shopping of which:	£1.2bn	£1.4-£1.5bn	£1.5bn	£1.1-£1.2bn	£1.1-£1.2bn	£1.0-£1.1bn	–[1]
HRT	£0.2bn	£0.2-£0.3bn	£0.2bn	£0.1-£0.2bn	£0.1-£0.2bn	£0.1-£0.2bn	–[1]
Cigarettes	£1.0bn	£1.2bn	£1.3bn	£1.0bn	£1.0bn	£0.9bn	–[1]
Cigarettes							
Total consumed of which:	72.5-79.5bn	70.5-75.5bn	71.5-77.5bn	65.5-72.0bn	61.0-67.5bn	58.0-64.0bn	–[1]
UK duty paid	54.5bn	54.5bn	54.0bn	52.5bn	49.5bn	48.0bn	–[1]
Legally shopped	5.5bn	6.5bn	7.0bn	5.5bn	5.0bn	4.5bn	–[1]
Cigarettes successfully smuggled	12.0-19.0bn	9.0-14.0bn	10.5-16.5bn	7.0-14.0bn	6.0-13.0bn	5.5-11.0bn	–[1]
Total seized of which:	2.6bn	1.9bn	1.8bn	2.0bn	2.0bn	1.9bn	1.8bn
Overseas Seizures	919m	641m	728m	1,008m	837m	580m	726m
Air Seizures	284m	263m	207m	243m	343m	367m	478m
Inland Seizures	227m	186m	201m	130m	177m	256m	98m
Maritime Seizures	1,128m	787m	621m	588m	673m	686m	491m
Cross channel passenger seizures	38m	21m	22m	22m	18m	17m	15m
Number of cross channel seizures	10,685	5,506	5,632	5,217	4,377	4,236	3,676

Proportion of cigarette seizure by brand

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Counterfeit	–	41%	54%	48%	51%	70%	51%
Genuine UK Brands	–	31%	28%	31%	18%	17%	13%
Of which:							
Benson and Hedges	19%	–	–	–	10%	10%	9%
Dorchester	–	–	16%	16%	13%	5%	3%
Regal	22%	10%	–	–	–	–	–
Sovereign	12%	40%	58%	25%	26%	8%	20%
Superking	25%	24%	9%	22%	19%	1%	2%
Marlboro	–	–	–	–	–	18%	18%
Mayfair	–	–	–	–	–	32%	20%
Other UK	22%	26%	16%	37%	11%	25%	24%
Others	–	28%	18%	20%	31%	13%	36%

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
HRT illicit market share	48%-64%	48%-62%	45%-60%	54%-64%	52%-63%	48%-59%	
HRT seized	385 tonnes	258 tonnes	185 tonnes	166 tonnes	160 tonnes	228 tonnes	194 tonnes

Other outputs/results	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Tobacco gangs disrupted	60	87	69	68	46	26	NA
Number of people sentenced	431	331	429	204	262	299	290
Average sentence	17 months	17 months	14 months	23 months	17 months	27 months	18 months
Benefits determined by the court	£44.98m	£146.61m	£181.25m	£24.2m	£21.4m	£18.8m	NK
Confiscation orders	£3.63m	£2.3m	£9.45m	£5.2m	£6.1m	£3.18m	NK
Vehicles seized	11,064	8,616	6,848	6,093	6,256	6,293	5,697
Scanner detections							
Cigarettes	325m	399.5m	394m	295m	295m	311.9m	243.9m
HRT	12.6 tonnes	30.8 tonnes	18.2 tonnes	18.6 tonnes	10.9 tonnes	15.9 tonnes	7.9 tonnes
Cannabis	9.3 tonnes	14.9 tonnes	10 tonnes	22.3 tonnes	7.2 tonnes	8.5 tonnes	7.4 tonnes
Heroin	46kg	413.5kg	408kg	163.5kg	0kg	41kg	60kg
Cocaine	not available	579kg	122kg	28kg	15kg	83.8kg	114kg
Ecstasy/amphetamines	160kg	0kg	1,170kg	371kg	709kg	0kg	427kg
Clandestines	470	1193	494	361	210	94	123

Section 05

Alcohol

Revenue not collected	2001-02 £0m-£1000m	2002-03 £0m-£1000m	2003-04 £0m-£1050m	2004-05 £0m-£650m	2005-06 £0m-£750m	2006-07 £0m-£750m	2007-08 –[1]
Total spirits fraud/smuggling	£0m-£600m	£0m-£500m	£0m-£600m	£0m-£250m	£0m-£400m	£0m-£450m	–[1]
Spirits cross-border shopping	£150m	£150m	£150m	£150m	£150m	£150m	–[1]
Beer cross-border shopping	£50m	£50m	£50m	<£50m	<£50m	<£50m	–[1]
Wine cross-border shopping	£200m	£300m	£250m	£250m	£200m	£150m	–[1]
Illicit market share							
Spirits	0%-17%	0%-14%	0%-15%	0%-7%	0%-10%	0%-12%	–[1]
Gangs disrupted	5	2	24	4	2	0	N/A
Seizures							
Spirits (litres)	2,149,667	922,423	407,858	303,252	237,904	384,078	557,909
Beer (litres)	2,613,992	2,952,528	2,773,385	2,179,932	2,522,253	1,915,173	4,763,006
Wine (litres)	612,052	653,657	1,134,567	629,034	292,945	303,048	1,128,117
Criminal prosecutions[2]							
Spirits – number of people prosecuted	Not available	9	24	7	9	5	see below
Number of convictions	Not available	7	21	0	9	5	see below
Mixed cases – number of people prosecuted	Not available	99	62	1	0	0	see below
Number of convictions	Not available	91	34	0	0	0	see below

Alcohol – number of people prosecuted	**14**	**19**
Number of convictions	**7**	**17**

[2] Measure suggested by Criminal Investigation as unable to split data between Spirits and Other Alcohol – refer to Additional Notes.

Oils

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Loss – GB							
Total diesel (non UK duty paid)	£1,650m	£1,600m	£1,600m	£1,450m	£1,250m	£1,150m	–[1]
Illicit diesel (fraud and smuggling)	£1,350m	£1,250m	£1,250m	£1,100m	£850m	£750m	–[1]
Cross-border shopping diesel	£300m	£350m	£350m	£350m	£400m	£400m	–[1]
Total petrol (non UK duty paid)	£600m	£550m	£200m	£100m	–	£150m	–[1]
Revenue Loss – NI							
Total	£280m	£270m	£270m	£230m	£240m	£250m	–[1]
Total diesel (non UK duty paid)	£210m	£200m	£210m	£180m	£190m	£200m	–[1]
Total petrol (non UK duty paid)	£70m	£60m	£60m	£50m	£50m	£50m	–[1]
Market Share – GB							
Diesel (illicit)	11%	10%	9%	7%	6%	5%	–[1]
Petrol (non UK duty paid)	4%	3%	1%	1%	–	1%	–[1]
Market Share – NI							
Diesel (non UK duty paid)	58%	53%	50%	41%	41%	40%	–[1]
Petrol (non UK duty paid)	18%	18%	18%	14%	14%	14%	–[1]

Oils	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total oils seized	3.95m litres	4.03m litres	2.48m litres	2.50m litres	1.51m litres	1.17m litres	1.35m litres
Volume seized – GB	2.2m litres	2.44m litres	0.96m litres	0.72m litres	0.43m litres	0.33m litres	0.53m litres
Volume seized – NI	1.75m litres	1.59m litres	1.52m litres	1.78m litres	1.08m litres	0.84m litres	0.82m litres
Laundering plants							
Total disrupted	38	46	31	26	37	34	13
GB	30	25	18	8	21	16	5
NI	8	21	13	18	16	18	8
Mixing plants							
Total disrupted	2	7	4	not available	not available	not available	not available
GB	2	4	1	not available	not available	not available	not available
NI	0	3	3	not available	not available	not available	not available
Challenges							
Total	16,313	29,302	84,700	108,773	119,733	112,391	108,992
Commercial	not available	not available	60,022	80,137	80,564	80,220	95,948
Non-commercial	not available	not available	24,678	28,636	39,169	32,171	13,044
Detections							
Total	3,340	3,960	3,753	3,760	3,747	4,143	4,141
Commercial	not available	1,801	2,043	2,228	2,002	2,231	3,154
Non-commercial	not available	2,159	1,710	1,532	1,745	1,912	987
Assessments							
Fraud detected and identified	£8.3m	£13.2m	£11.5m	£7.0m	£3.1m	£2.5m	£3.6m
Prosecution figures GB							
Number of convictions	9	8	17	12	17	13	4
Average sentence	16 months	14 months	14 months	15 months	16 months	28 months	48 months
Confiscation orders	£660,000	£374,000	£167,387	£125,350	£272,311	£1.48m	NK
Prosecution figures NI							
Number of convictions	15	3	4	nil	4	4	3
Average sentence	16 months	8 months	7 months	nil	2 months	6 months	6 months
Confiscation orders	nil	£250,000	nil	nil	nil	–	nil
Vehicles seized in NI	684	1,576	901	812	956	1,199	844

[1] Figures not yet available.

Annex
Outstanding SR04 Targets

Final assessment against our 2004 Public Service Agreement targets.

The tables below provide final assessments against our 2004 PSA targets for which a final report was not given in HMRC's Departmental Report 2008, followed where appropriate by more detailed analysis of our performance.

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

	Target	Baseline	Final outturn/ Latest assessment	Target
1	By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability.	**Not met**		
		15.4%[1] 2002-03	12.5% 2007-08	11% 2007-08
2	By 2007-08	**On course**		
2.1	*– reduce the illicit market share for cigarettes to no more than 13%*	*16% 2002-03*	*13% 2006-07*	*13% 2007-08*
2.2	*– reduce the illicit market share for spirits by at least a half*	*7% 2002-03*	*6% 2006-07*	*3% 2007-08*
2.3	*– hold the illicit market share for oils in England, Scotland and Wales at no more than 2%[2]*	*6% 2002-03*	*2%[2] 2005-6*	*2% 2007-08*
3	By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5bn a year.	**Met**		
		–	£3.9bn[3] Provisional Assessment 2007-08	£3.5bn 2007-08

[1] The latest assessment of these baseline figures was published in 'Measuring Indirect Tax Gaps (MITG) 2008', available from **www.hmrc.gov.uk**. The VTTL model and the top-down VAT gap derived from it are broad measures, subject to a degree of uncertainty. They are based on an analysis of survey and other data, and include a number of assumptions and adjustments which add both random and systematic variation to the estimates. More about this is published in MITG 2008.

[2] This figure is the latest published figure using the original methodology. We have since reviewed this methodology, which is detailed in 'Measuring Indirect Tax Gaps – 2008' and is available on our website www.hmrc.gov.uk.

[3] Outturn remains provisional pending the outcome of work with HMT to evaluate (up to £300m) the impact of legislative measures: we expect a more accurate assessment to be published in the 2009 Departmental Report. Operational results are £3.6bn.

Annex

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

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

The VAT Compliance Strategy was launched on 1 April 2003 to reverse the trend of an increasing VAT gap by initiating a new strategic approach to reduce VAT losses from fraud, avoidance and other forms of non-compliance. Since 2005-06 we have seen a year on year reduction in the tax gap and by the end of 2007-08, the VAT gap had fallen to 12.5%. However the pace of this reduction had been slower than originally anticipated and as a result we have failed to meet our PSA 1.1 target of 11%.

Our estimate of the scale of VAT losses is a broad measure, based largely on survey data and therefore, there is a degree of uncertainty associated with it. It will also be subject to future revision as external statistical data is updated and revised. More information is available in "Measuring Indirect Tax Gaps – 2008" available on our website at **www.hmrc.gov.uk.**

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

Our estimates for 2006-07 indicate that we are on course to achieve or exceed our PSA target. We are now very focused on reducing the size of the illicit Hand Rolling Tobacco (HRT) market by 1,200 tonnes equivalent to around 20%. Volumes of HRT seizures in the first half of 2008-09 are well above expectation.

The Tackling Tobacco Smuggling Strategy has been the foundation of the success in reducing the illicit tobacco market. A new partnership between HMRC and the UKBA, drawing on the strengths of both organisations will now take the strategy forward, to sustain the fight against tobacco smuggling. The new integrated strategy for HMRC and UKBA to tackle tobacco smuggling was published at PBR and is available at **www.hmrc.gov.uk.**

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

The PSA target for spirits is to reduce the illicit market share from 7% in 2002-03 to 3% by March 2008. We estimate that the spirits illicit market share was reduced to 4% in 2004-05, but this increased to 5% in 2005-06 and to 6% in 2006-07. There is therefore a strong possibility that we will fail to meet the PSA target. To address this upward trend in the spirits illicit market estimate and to provide coverage across all alcohol products, we will be updating our alcohol strategy in time for publication by Budget 2009.

Target 2.3: By 2007-08 hold the illicit market share for oils in England, Scotland and Wales at no more than 4.4% over the period.

The tax methodology for oils has been the subject of a comprehensive review. Further detail is available in "Measuring Indirect Tax Gaps (MITG) – 2008" available at **www.hmrc.gov.uk.**

Using the original methodology the estimated illicit market share for 2005-06 was 2%. This indicated we were on course to meet and hold the 2% target. For future years we will be using the revised methodology under which we will need to meet and hold the illicit market share at 4.4%, over the period. The 2006-07 illicit market share estimate of 4.6%, rounded to 5% in the MITG report, indicates we are meeting this challenge and maintaining downward pressure on the illicit market.

Operational evidence suggests that the revised estimates are too high across the period. Significantly, a recent random checking exercise found illicit fuel in less than 0.5% of vehicles checked and the size of the discrepancy suggests a lower illicit market share than estimated. Our strategic objective is to combine concentrated activity against commercial scale misuse, while maintaining sufficient public presence to encourage compliance. This cross-departmental approach and collaboration with legitimate business has proved successful.

However, HMRC recognises the challenge of tackling oils fraud and continues its efforts in controlling the supply of rebated product and improving its use of intelligence to target activities and to identify and address new risks.

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

The result is £3.9bn, exceeding the target by around £365m.

We have seen, through our strategy of targeting more high risk taxpayers, an improvement in compliance performance across the Department.

One example of implementing the strategy is our High Risk Corporates Programme, where we prioritised our resources to issues of greatest risk, working those issues more intensely and to a faster timescale than before.

Another is the Offshore Disclosure Facility. In 2007 HMRC ran the Offshore Disclosure Facility, encouraging those holding offshore assets to disclose and pay previously undeclared liabilities. Over £400m was raised by this initiative. Similar information is now being sought from other financial institutions. This is expected to lead to additional extra revenue and improved compliance.

We have also taken steps to improve our understanding of our customers and their behaviour. An example of this was in Local Compliance. They successfully reorganised into customer focused groups: large and complex, small and medium enterprises, individuals and public bodies and a cross-cutting group.

The reorganisation has enabled us to:

- deliver benefits to our people and customers;
- work in a group and build expertise that focuses on specific customers; and
- responds flexibly to national risk issues.

Annex

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

	Target	Baseline	Final outturn	Target
6	Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost.	Partly met		
Indicator 3	*By 2007-08, increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns.*	*87.6% November 2004*	*94.0% November 2007*	*90% 2007-08*
Indicator 4[1]	*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%.*	*69% March 2006* *28% March 2005*	*76.61% May 2008* *72.2% March 2008*	*74% 2007-08* *50% 2007-08*
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.*	*77.6% November 2004*	*79.6% November 2007*	*85% 2007-08*
7	Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum.	Partly met		
Indicator 6	*By 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and NIC.*	*91% March 2005*	*93.4% March 2008*	*95% 2007-08*
Indicator 7	*By 2007-08, increase to 35% the percentage of SA tax returns received online.*	*13.2% March 2004*	*46% March 2008*	*35% 2007-08*
Indicator 8	*By 2007-08, increase to 50% the percentage of VAT returns filed online[1]*	*0.2% March 2004*	*12.7% January-March 2008*	*50% 2007-08*

[1] Details of the baseline and targets for Indicator 4 are published in a revised Technical Note. Individual targets for VAT, SA and PAYE are indexed to carry an equal share of progress against the target. For the combined score the margins of error (95% confidence interval) are +/-0.3%. The March 2008 result for VAT is 72.2% with margins of error (95% confidence intervals) of +/-0.3%. However the departmental internal auditors have also highlighted discrepancies which question the integrity of the result. Nevertheless despite these discrepancies there is sufficient evidence to say that the reported figure is no more than 7.6% overstated. Allowing for this would reduce the combined final outturn to 76.04%. For SA 'on time' is taken as close of play on 1 February after which penalties can be imposed. However due to filing problems around the deadline HMRC accepted certain returns filed up to 4 February as having been filed on time.

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

Indicator 4 – Demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs, including improving the proportion of applications for VAT registration that are complete and accurate to 50%.

Combined target 74%; the provisional assessment of outturn at March 2008 was 75%.

The first part of this Key Indicator (KI) combines VAT registration with new PAYE filers and first time SA business filers. The three individual targets are indexed to carry an equal share of progress against the target. At March 2008 the data for 2007-08 for the VAT and SA elements was available and had been analysed. However the 2007-08 data for new PAYE filers was not available until after the filing date of 19 May 2008 and analysis was not completed until November 2008. As a result of that analysis HMRC can report that the combined result for KI4 of 76.61% exceeds the target of 74%.

When the VAT registration result was reported it was subject to a caveat that the departmental internal auditors had highlighted discrepancies which questioned the result. But despite these discrepancies there was sufficient evidence to say that the reported figure of 72.2% for VAT registration was no more than 7.6% overstated. Taking account of this discrepancy, the final combined outturn would be 76.04%, still exceeding the 74% target.

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

Indicator 6 – Increase to at least 95% the rate of accuracy achieved by HMRC in administering Self Assessment, PAYE, Tax Credits and NIC.

Combined target 95%; the provisional assessment of outturn at March 2008 was 93.4%.

At March 2008 the results for SA, PAYE and NIC were final but the results for Tax Credits were indicative until the entire accuracy sample had been checked at the year end. The Tax Credits indicative result used in the combined measure at March 2008 has since been confirmed as final. The combined final outturn of 93.4% does not meet the 95% target.

Annex

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.

	98.9% Target		Baseline	Final outturn	Target
8	By 2007-08 to improve our capability to intervene at the frontier.	Partly Met			
8.1	*Number of seizures of prohibited and restricted goods.*				
		Cocaine	*1,176 seizures 2,600kg 2006-07*	*1,279 seizures 3,120kg March 2008*	*1,176 seizures 2,600kg March 2008*
		Heroin	*61 seizures 700kg 2006-07*	*68 seizures 720kg March 2008*	*61 seizures 700kg March 2008*
		Products of Animal Origin	*32,703 seizures 237,709kg 2005-06[1]*	*24,802 seizures 182,370kg March 2008*	*32,703 seizures 237,709kg March 2008*
8.2	*% of positive outcomes against requests received for interventions.*		*98%*	*98.9%*	*98%*
	% of positive outcomes against requests received for checks/enquiries.		*96%*	*100%*	*96%*
8.3	*Service Level Agreements with lead government departments for prohibited and restricted goods.*		*Fulfilled*	*Fulfilled*	*Fulfilled*
	By March 2007 to have SLAs in place; by March 2008, fulfilment of agreements.			*March 2008*	*March 2008*
8.4	*Effectiveness of Cyclamen capability (in-line with the Service Level Agreement with the Home Office to intercept a proportion of vehicles triggering an alarm).*		*98%*	*99.75% March 2008*	*98% March 2008*

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

Our final assessment for target 8 is that it has been partly met as:

- three of the key indicators (8.2, 8.3, and 8.4) have been met in full. Performance for the key indicators 8.2 and 8.4 has exceeded the targets; and
- two out of the three seizure regimes in key indicator 8 (cocaine and heroin seizures) have exceeded the target.

An exercise is planned for the end of the year to test whether the fall in seizures can be attributed to improved compliance.

SR04 Efficiency Programme

Efficiency targets

FTE staff in post information

Efficiency	Baseline 1 April 2004	Final position 31 March 2008	Target 31 March 2008
Reduction in full-time equivalent (FTE) staff			
Overall gross FTE staff	97,755[1]	82,423[2]	85,255
Overall net FTE reduction		15,332	12,500
FTE redeployment to front line activities		3,500	3,500
Overall gross FTE reduction		18,832	16,000

Lyons relocations

Efficiency	Final position 31 March 2008	Target 31 March 2008
To relocate 1,950 FTE posts out of London and the South East by April 2008		
FTE posts relocated	2,492	1,950[3]

Financial savings

Efficiency	Final position 31 March 2008	Target 31 March 2008
Cumulative financial savings £m[4]	663.2	507

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

2 These figures are lower than the overall departmental staff in post figure to reflect the redeployment of extra staff needed to increase Contact Centre capacity (1,325 FTEs) and to deal with the implementation of the 3rd Money Laundering Directive (80 FTEs). These new policy burdens were outside the scope of the Efficiency Programme.

3 The overall Lyons target is to relocate 4,250 FTE posts out of London and the South East by 31 March 2010 and the relocations achieved at 31 March 2008 count towards this target.

4 As described in HMRC's Efficiency Technical Note (first published in October 2004 and updated in December 2005) financial savings arising from FTE reductions are calculated using an appropriate average annual salary (including superannuation and NIC). This is weighted to take account of the departmental population by band/grade. All figures are subject to audit. As noted in the previous autumn report the Treasury assessed progress against financial targets using an in year measurement methodology. The above figures reflect the final delivery against HMRC's full year target at the end of SR04.

Annex

Efficiency Programme

In the SR04 settlement, HMRC was set efficiency targets to reduce by 16,000 full-time equivalent posts (FTEs) over the four years from 1 April 2004 to 31 March 2008, and to redeploy 3,500 FTE posts to front line areas.

We were also set a financial savings target of delivering at least £507m in annual efficiencies, of which at least half must be cash releasing, on the basis of gross staffing reductions and non-headcount savings measured over the three years 1 April 2005 to 31 March 2008.

The Department is also committed to the relocation of 1,950 FTE posts out of London and the South East by 31 March 2008, with a further 2,300 posts by 31 March 2010.

Throughout the SR04 period, we have published information on our progress on achieving all of these efficiency measures in our Departmental Autumn Performance Reports. We are now reporting final figures, which represent the closure of HMRC's SR04 Efficiency Programme. These figures show that we have delivered successfully all of our efficiency targets, and have even exceeded them.

As HMRC is a large civil service employer with a relatively small programme, as opposed to administration budget, efficiency savings were found primarily through reforming and reducing its workforce. The merger of the two former revenue departments provided the opportunity to realise efficiencies in corporate functions and operational activities. But we also undertook a fundamental review of the way in which services were delivered to ensure that efficiency gains could be achieved whilst improving the level of service to citizens.

Measures of quality of service were in place to ensure that there was no decline in service quality attributable to HMRC's Efficiency Programme reforms. Overall, the specific quality measures have been monitored and have shown improvement since the Efficiency Programme began.

By 2010, HMRC has a target to relocate 4,250 FTE posts outside London and the South East. We have made strong progress towards achieving this target and at 31 March 2008, we had relocated 2,492 FTE posts (including 87 Valuation Office Agency posts) to the following Government Regions:

East Midlands
North East
Northern Ireland
North West
Scotland
South West
Wales
West Midlands
Yorkshire & Humber

The SR04 Efficiency Programme has laid strong foundations for an ongoing efficiency agenda and culture within HMRC.

Glossary

ABAB	Administrative Burden Advisory Board
APR	Autumn Performance Report
CEO	Chief Executive Officer
CITES	Convention on International Trade in Endangered Species
CSR07	Comprehensive Spending Review 2007
CT	Corporation Tax
CTC	Child Tax Credit
DSO	Departmental Strategic Objectives
DTP	Departmental Transformation Programme
EU	European Union
FTE	Full Time Equivalent
HMRC	Her Majesty's Revenue & Customs
HRT	Hand Rolling Tobacco
IT	Information Technology
KI	Key Indicator
KPI	Key Performance Indicators
LBS	Large Business Service
MITG	Measuring Indirect Tax Gaps
MOU	Memorandum of Understanding
MTIC	Missing Trader Intra Community
MPPC	Modernising PAYE Processes for Customers
NIC	National Insurance Contributions
NICO	National Insurance Contributions Office
NRS	National Registration Service
ODF	Offshore Disclosure Facility
PAC	Committee of Public Accounts
PAYE	Pay As You Earn
PBR	Pre Budget Report
POAO	Products of Animal Origin
PSA	Public Service Agreement
QME	Quality Monitoring Exercise
SA	Self Assessment
SCM	Standard Cost Model
SME	Small Medium Enterprise
SOCA	Serious Organised Crime Agency
SR04	Spending Review 2004
STA	Service Transformation Agreement
TEEL	Targeted Education, Enabling & Leverage
UKBA	United Kingdom Border Agency
VAT	Value Added Tax
VFM	Value for Money
VTTL	VAT Theoretical Tax Liability

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