HM Revenue and Customs'

Value for Money Delivery Agreement

February 2008

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HMRC – VALUE FOR MONEY DELIVERY AGREEMENT CSR07

1. INTRODUCTION

HMRC is responsible for collecting the majority of tax revenue as well as paying tax credits and child benefit, and retains policy responsibility on customs and tax matters and associated processing at the UK's frontiers[1]. The Department also administers the collection of student loans on behalf of the Department for Innovation, Universities and Skills.

Over the Spending Review 2004 (SR04) period, from 2005-06 to 2007-08, HMRC has made very strong progress towards meeting challenging efficiency targets, that involved fundamentally reviewing the way in which services were delivered to ensure that efficiency gains could be achieved whilst improving the level of service provided to citizens. The Department is on track to exceed its 12,500 net full-time posts reduction and its £507 million financial savings target by 31 March 2008. The SR04 efficiency programme lays strong foundations for an on-going efficiency agenda and culture within HMRC.

HMRC's ambition is to put our customers at the heart of everything we do. By designing and delivering products and services that meet our customers' needs, and by addressing what affects how they behave, we will improve how efficient and effective we are ourselves, increase compliance and improve our customers' experience. We have made good progress in reducing the administrative burdens for business and individual taxpayers and in understanding, and being responsive to, ways in which people find it easier to deal with us. We have also made improvements in understanding and better targeting the noncompliant.

Having rigorously examined the scope for achieving further Value for Money (VfM) savings, HMRC has identified ways of achieving £674 million of sustained, cash–releasing savings. This builds on the success of the efficiency programme in SR04 and is based on a major programme of service transformation which will enable a reduction in Departmental spend by 5% a year over the CSR period. Throughout this period HMRC will aim to deliver an improved service to citizens, reporting on performance through its Public Service Agreements (PSAs) and Departmental Strategic Objective (DSOs).

HMRC is confident about achieving savings of £674 million and our plans, which are set out below, are sufficiently flexible to react to changing events and circumstances and will be subject to on-going review to reflect any changing business decisions.

HMRC's Capability Review (reported December 2007) took place at an important time for the Department. We have demonstrated the real progress we have made since HMRC was created in April 2005. The review highlighted

[1] The Prime Minister announced on 14 November 2007 the creation of the new UK Border Agency, with some HMRC staff moving to the new body. The Agency will combine most of HMRC's Detection Directorate and some support staff with UKvisas and the Border and Immigration Agency.

major strengths in HMRC including: our resilience and proven ability to bring in the money that funds public services, whilst driving down costs and delivering greater efficiency; and our clear desire to transform and improve.

The review coincided with a serious loss of Child Benefit data for millions of customers and their families. Our immediate priorities must be to strengthen our data security and improve further our service to customers and to the tax and other intermediaries who represent around 18 million of our customers. We have already started work to:

- urgently address the issues that caused the recent breach of data security. We will implement the findings of the interim Poynter Review of Data Security, and ask the Poynter review team to oversee a management risk review covering processes, procedures and levels of authority and discretion throughout the Department;

- rebuild HMRC's reputation and confidence with customers and agents, including improving the quality of and ease of access to our services; and

- invest significantly in improving our underlying infrastructure, including working with the British Bankers' Association to establish a secure electronic data transfer standard with external parties such as banks.

VISION

HMRC's aim is to ensure society's financial well-being. We know most people and businesses want to do what's right – to pay what they owe and claim only what they're due. We're committed to making it as easy as possible for our customers to get it right. We protect society by dealing firmly with anyone who intentionally avoids their responsibilities. The values we seek to embed in our work are:

***Customer Focus* –** putting our customers at the heart of everything we do, understanding them and responding to their behaviours and expectations.

***Support* –** Helping our customers to meet their obligations and receive their entitlement, working together and taking pride in delivering great performance

***Trust* –** Believing our customers are honest unless we have a good reason to doubt it, being trustworthy and trusting each other

***Protect* –** Being vigilant and acting decisively in protecting society and behaving professionally and with integrity.

The Comprehensive Spending Review 2007 (CSR07) announced a new performance management framework, with a streamlined set of 30 new cross Departmental Public Service Agreements (PSAs) setting the Government's priority outcomes for the period 2008 to 2011. HMRC will contribute to the following seven of these PSAs:

- Promote better health and well-being for all;
- Deliver a more effective, transparent and responsive Criminal Justice System for victims and the public;
- Ensure controlled, fair migration that protects the public and contributes to economic growth;
- Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020;
- Reduce the harm caused by alcohol and drugs;
- Deliver the conditions for business success in the UK; and
- Reduce the risk to the UK and its interests overseas from international terrorism.

HMRC is also a significant contributor to the cross-departmental Service Transformation Agreement[2] (STA), which underpins delivery of the whole new PSA framework, and aims to build services around the needs of citizens and businesses. The Department is taking a leading role in delivering high quality, customer centric content to businesslink.gov.uk, which will make it easier for businesses to contact government, and to Directgov.

To support these commitments, HMRC has three Departmental Strategic Objectives (DSOs) for the CSR07 period. The DSOs demonstrate our core business activities as well as capturing our contribution to the PSAs and the STA. HMRC's DSOs are:

DSO1 – To improve the extent to which individuals and business pay the amount of tax due and receive the credits and payments to which they are entitled.

DSO2 – Improve customers' experience of HMRC and improve the UK business environment.

DSO3 – Reducing the risk of illicit import and export of material that might harm the UK's physical and social well-being

2. VALUE FOR MONEY DELIVERY STRATEGY

Departmental Transformation Programme

The majority of VfM savings in CSR07 will be enabled by HMRC's Departmental Transformation Programme (DTP). This covers a portfolio of

[2] Available on the HM Treasury website: www.hm-treasury.gov.uk

major transformation programmes. This is an ambitious programme, in which the DTP plans to invest around £400 million in the current year, 2007-08, and over £1.1 billion in 2008-09 to 2010-11 in order to deliver radically transformed services and sustained VfM gains.

The overarching strategic aims of the DTP are to:

i. create a customer focused organisation that transforms the customer experience, making it easier for the customer and HMRC to fulfil their obligations and by doing so ;

ii. improve effective management of revenue flows; and

iii. reduce the running costs of the Department by improving management of processes and assets and getting the best out of people.

HMRC's DTP will transform Departmental processes, for example, through implementing IT solutions and introducing new work practices, reduce workloads, improve the customer experience and deliver productivity and VfM benefits. The DTP will be the main enabler for generating the annual sustained net cash-releasing savings of £674 million that HMRC has agreed to achieve by 2010-11.

DTP initiatives highlighted in this document should enable savings of around £600 million, and will provide the bulk of the total savings requirement. The broad areas in which savings will be made are outlined below as:

Paybill

It is estimated that annual savings of over £400 million will be made from paybill costs. These will be delivered by plans to reduce the Department's workforce.

The main enabler for paybill savings will be the changes brought about by the DTP programmes, which will reduce manual workloads, change working practices and increase productivity over 2007-08 and the three CSR07 years. In addition business areas will be seeking the opportunity to realise savings from local initiatives, such as examining existing processes and identifying the scope for cutting out waste.

The Department's Workforce Change programme needs to ensure that the remaining workforce is in the right place, at the right grade with the right skills, and will therefore need to make significant investment in both early release and relocation schemes. It is currently estimated that this investment will be up to £200m. As far as possible the Department will reduce its workforce without having to make compulsory redundancies.

IT

HMRC is committed to achieving annual net cash-releasing value for money gains of £100m by 2010-2011 from its IT running costs. To achieve this we have been working closely with our principal suppliers, Aspire, to identify opportunities. We have now agreed a restructuring of the Department's IT outsourcing contract in response to our aim to significantly reduce IT running costs by 2011 without compromising our joint drive to become a world class IT function. New pricing arrangements and contract changes will support the realisation of these savings.

Accommodation

HMRC has embarked on fundamental changes to the way it carries out its work across its entire business. HMRC already has too much office space and too many buildings for its needs, and will need to reduce further to take account of business reorganisation and staffing reductions. The Department therefore needs to align its accommodation need in size and location with its future customer and business requirements.

The estate comprises former Inland Revenue and HM Customs & Excise buildings, and the merger of the two former Revenue Departments has created surplus capacity and this, together with reducing staff numbers across the Department, provides the scope to reduce the size of the estate's portfolio by up to 40%, offering projected annual savings of some £100 million by 31 March 2011 This will be achieved principally by utilising fully flexibility provisions within the Department's estates Private Finance Initiative (PFI) contract, and, where the opportunity exists, through sub-letting surplus accommodation to other Government Departments. The proposals concern mainly back office processes so the impact on customers should be minimal.

Other Non-Paybill Resource Costs

These costs represent the balance of the Department's bought in goods and services, and running costs such as travel and subsistence. The Department estimates that annual savings in this area could be in excess of £100m, including on-going improvements to procurement processes. The Department will keep downward pressure on these budgets, continue to identify discretionary spend, and seek opportunities to control spend while maintaining performance levels. The Department's "Streamline" initiative is driving out savings, for example, by realising efficiencies in the use of IT equipment and in its postal services.

Capital

The Department's capital investment plans are split approximately half for transformation and half for regular business. Regular business will involve capital replacement programmes, such as vehicles and radios as well as new investment. All investment will be in line with the Departmental Asset Management Strategy and subject to investment appraisal and approval processes.

3. DTP INVESTMENTS

The DTP Portfolio has been included in the Department's planning for the CSR07 and includes moves to extend the remit of DTP to wider change across the whole of HMRC – as a response to the findings of the Capability Review.

The DTP Portfolio comprises programmes, projects and initiatives, some of these are at different stages of development than others, consequently, some costs and benefits are high-level estimates. However, the completion of this CSR07 Planning will include the finalisation of these benefits and these will be included in detailed business plans. CSR07 Planning continues apace, the details shown below are the latest estimates.

In line with the HMRC Ambition to put our customer at the heart of everything we do, we have undertaken extensive consultation with a wide range of customers to understand what is important to them in the delivery of our improved services and our investment is focused on these.

SPECIFIC PROGRAMMES:

E-FILING (CARTER)

This will deliver robust and reliable online services, which customers have helped design and want to use. HMRC will work with businesses, taxpayers, software developers, agents and other intermediaries to increase the use of HMRC's key online services, in order to ensure sustainable and efficient service delivery to taxpayers, while continuing to support compliance.

The Government at Budget 2006 accepted Lord Carter's recommendations that HMRC should continue to invest in its online infrastructure and supporting systems to deliver robust, high capacity services,that should be rigorously tested. Lord Cater concluded that well-designed online filling services can bring benefits to taxpayers and the Government.

The Carter Programme contains 5 core projects - to scale up and improve Self Assessment, PAYE, VAT and CT online services and the underpinning infrastructure. There are also essential enabling projects which are key to simply ensuring that our online services continue to work.

By increasing take-up of electronic filing, introducing automation to some processes, and improving data quality, the Programme achieves significant operational efficiencies for HMRC, as well as reducing the overall volume of simple post and telephone contact with our customers. These are expected to produce staff savings of over 3000 Full Time Equivalent (FTE) posts by 2013/14.

Savings will be made by implementing new technology systems to improve HMRC on-line services.

Savings from the programme are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	10	25	50

PAYE AS YOU EARN

This will enhance the customer experience and secure VfM benefits through the introduction of a new, national combined database that brings together PAYE and National Insurance records for the first time. This will be underpinned by transformed processes and increased automation that will remove the current geographic constraints.

The key outcome of this programme –will be that customer queries are dealt with at the first point of contact. From the staff perspective, the new process for managing customer records will provide a flexible service model, allowing a customer's record to be accessed and amended anywhere. From an operational perspective, it will deliver both a high level of automation leading to a reduced cost to serve and cleaner data.

The programme aims to:

- Improve existing processes, leading to improved customer service through greater accuracy of processing and an enhanced ability to resolve issues quickly;

- Modernise and automate processes, leading to improved management of the revenue through improved accuracy;

- Integrate Tax and NI processes to improve the customer experience;

- Rationalise HMRC and DWP functions, leading to increased efficiency, saving full time equivalents and other admin costs;

- Align Tax and NI to allow further improvements in workflow management and customer service.

Savings will be made by implementing new technology systems to provide a single source of taxpayer information.

Savings from the programme are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	7.5	10	65

COMPLIANCE and ENFORCEMENT

The Compliance and Enforcement Programme will transform the way in which HMRC interacts with its customers, through developing our risk targeting. We will use campaign based approaches and a more refined set of responses and interventions.

Through targeted compliance responses, customers who pay the right tax at the right time and meet their responsibilities will incur less expense, those who make mistakes will be supported to ensure their future compliance, and those who deliberately do not comply will be quickly targeted with an intervention tuned to shift their behaviour. We will identify and take vigorous action against smuggling and criminal attacks on our systems.

The Programme will improve operational efficiency, generate staff reductions, improve compliance and deliver sustainable and significant reductions in the tax gap

Savings will be made by implementing new technology systems to enable HMRC staff to better manage casework and customer information.

Savings from the programme are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	10	20	60

PACESETTER

This will transform processing by increasing management capability, implementing lean techniques to deliver a continuous improvement environment and reshaping our existing network.

The four key components of PaceSetter – customer focus, leadership, people engagement and process improvement - are critical elements of achieving HMRC's Ambition. PaceSetter will transform processing by increasing management capability and implementing "lean" techniques to deliver efficiency gains. It is also a key enabler for work migration and reshaping our existing network which will releases significant amount of estate and other infrastructure costs.

Externally, PaceSetter will deliver a range of customer benefits including a better service to customers through improvements in quality and accuracy, reduced waiting time for their cases to be processed , a reduction in burdens through more right first time interaction and better targeting, and greater fairness through the use of standard processes across the UK.

Internally, PaceSetter will foster new leadership behaviours and management capability, develop a performance management culture, embed a continuous improvement culture, engage our people in change and tap into their first-hand insight into operational problems and their remedies, and generally improve processes. Together these are essential to support HMRC's transformation, and will have positive impacts of HMRC desired outcomes.

Savings will be made by rolling out the customer-focused system (Lean) of process improvement to HMRC offices and implementing some technology system improvements.

Savings from the programme are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	15	40	75

ESTATES CONSOLIDATION and TRANSFORMATION

This will deliver a more cost effective approach to our office locations that benefits our customers, while taking into account the views of our employees and, will deliver services that are more customer-focused and affordable.

Estate consolidation work is designed to deliver a flexible and affordable network of offices and ancillary properties. These will be strategically located to meet customer service and operational requirements. Estate transformation work will provide streamlined support services via a single Estates and Facilities Management contact point. Staff will be re-deployed to HMRC's front-line activities. Performance levels will be measured against a set of agreed service standards.

These outcomes will be realised by making more efficient use of the estate portfolio and resources. Administrative accommodation will be rationalised and large volumes of files will be removed from expensive office accommodation into storage repositories. Space no longer required for HMRC purposes will be offered to other Government Departments to facilitate the wider Government relocation and asset management agenda or, returned to HMRC's estate providers, Mapeley.

The programme work will support the planned reduction in staff numbers and Lyons requirements to move posts from London and the South East. The very large estate portfolio will be managed to meet HMRC's strategic and financial requirements, in order to achieve goals within CSR07. Already, programme work has provided office space for new and enlarged call centres in Liverpool, Glasgow and St Austell and the expansion of Claimant Compliance in Preston.

Future activity will continue to manage the rationalisation of the estate and supporting services and will look to adopt different sourcing approaches, such as shared services, to reduce costs.

Savings will be made by reducing the size of HMRC's estate through implementing new ways of working and disposal or sub-letting of buildings.

Savings are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	35	75	110

ENTERPRISE INFRASTRUCTURE FOUNDATION (EIF) and IT INFRASTRUCTURE

This will deliver improved service and efficiency levels from our IT services on a reduced cost base, underpinned by a simplified and consolidated approach to customer contact that will be delivered through an enhanced telephone system, supported by improvements to the desktop.

The EIF Programme delivers a number of step changes in the user experience of the HMRC's IT; specifically in enabling on-demand system access requests, new technologies within the data centre infrastructure and significantly, transition to modern data centres for improved reliability and performance.

Further, the EIF programme will deliver the following benefits:

- Significant time, effort and money in setting up IT for staff moves will be saved and there will be a reduction in travel and subsistence costs when at-desk collaboration and conferencing facilities are used;

- System owners will see project costs for infrastructure substantially reduced and will notice improved service availability that is also more responsive to changes in demand;

- All Staff flexibility and mobility will be enhanced by being able work from any workstation at any time and in any HMRC location without having to re-set personal IT and telephone applications each time.

Savings will be made by implementing new technology systems.

Savings from the programme are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	7.5	20	50

WORKFORCE CHANGE

This will accelerate HMRC's reorganisation of its staff, processes and locations across the UK. It will work closely with HR and DTP programmes, particularly the Estates programmes, to deliver HMRC's future business plans.

The programme scope is currently being defined. It covers action to reshape the workforce, getting the right people with the right skills in the right place to meet changed business requirements. In doing this, it will identify a considerable amount of office space that can be given up.

Savings will be made by restructuring and redeploying HMRC staff and ensuring HMRC's estate and services support these needs.

£m	2008-09	2009-10	2010-11
VfM savings	15	55	80

OTHER PROGRAMMES, PROJECTS and INITIATIVES:

The above programmes are planed to realise around £500 million of annual cash releasing savings by 2010-11, subject to finalisation of CSR Planning. This represents the core of the £674 million resource budget savings that HMRC has agreed to make by 2010-11. The balance will be made from a number of other smaller programmes (detailed below) and further projects and initiatives – HMRC has identified opportunities to achieve VfM gains right across the organisation. Other than the programmes below, most individual initiatives are small. Collectively, the programmes, projects and initiatives comprise the remainder of HMRC's VfM plans.

CONSTRUCTION INDUSTRY SCHEME

This will reduce bureaucracy and improve compliance through the introduction of a verification service, replacing the need for cards and certificates, and a new monthly return supported by an employment status declaration, rather than vouchers.

It will deliver benefits such as reducing industry's compliance costs by an estimated £20m and increasing yield by £130m a year.

Savings will be made by enabling electronic registration and verification by implementing new processes so that Contact Centres are the primary means of contact with HMRC.

TAX CREDITS

This will improve our customers' experience by targeting higher engagement for those who need it while lowering the burden on customers who require little or no assistance.

Tax credits and Child Benefit are central to the reduction of child poverty and making work pay, key Government objectives, and the high profile nature of tax credits makes them central to improving HMRC's reputation.

Tax credits and Child Benefit are currently delivering against two out of the three PSA objectives and will continue to contribute towards DSOs in the next Spending Review period,

Savings will be made by building further enhancements into planned IT releases and implementing business process improvements.

DEBT MANAGEMENT & BANKING

This will provide a more tailored treatment of customers based on behavioural risk, recognising their total liabilities and entitlements, facilitating flexible methods of payment supported by reformed and streamlined processes; in addition, will also deliver management information to better target debt and allow benchmarking.

GOVERNMENT BANKING

This will deliver a replacement service for the future banking needs of HMRC, including HMT and National Savings & Investments, through a single shared service provider. Savings will be made by improving business processes:

CUSTOMS SERVICE TRANSFORMATION

Enhancing import and export procedure controls, strengthening our frontiers whilst complying with EU and national legislation. Savings will be made by improving business processes:

SHARED SERVICES

Shared Services will deliver a number of benefits including early and material improvement in the quality of service to internal customers and provide a strong platform for the offering of shared corporate services to other Government Departments. Savings will be made by reducing transactional costs through new IT systems and staff efficiencies:

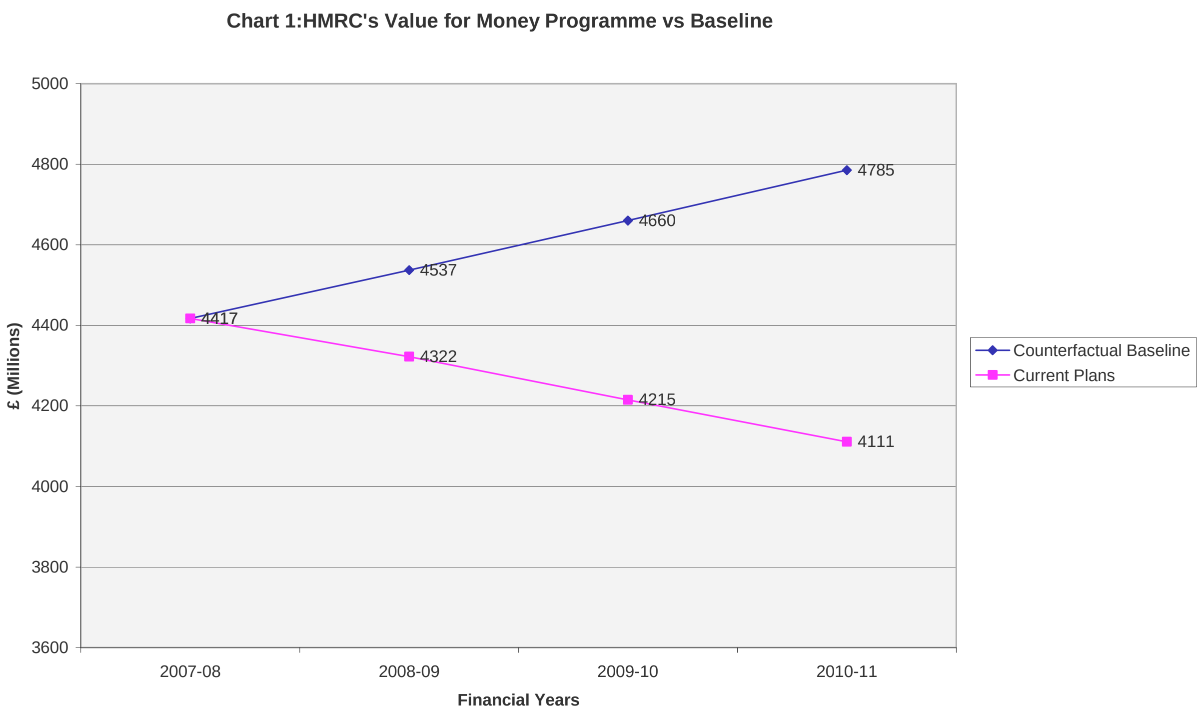
Savings from these programmes are estimated to be:

£m	2008-09	2009-10	2010-11
VfM savings	25	70	90

Many of the further projects and initiatives have already been recognised as needing to be brought within the wider DTP remit. Detailed planning work on most of these is still to be completed. The completion of CSR Planning will confirm all the above programmes and other projects and initiatives will be included within DTP.

4. Measurement of Value for Money savings

HMRC's projected savings of £674 million by 2010-11 have been calculated as the difference between the post VfM programme expenditure and counterfactual expenditure. The counterfactual expenditure is based on a "do-nothing" scenario of baseline costs increasing by general inflation. Chart 1 outlines the post VfM programme expenditure against the counterfactual baseline. This shows savings of £215 million in 2008-09; £445 million in 2009-10; and £674 million in 2010-11.



The savings required will be the equivalent to 5% annual savings across the CSR07 period.

At lower levels verification will be carried out on major budget blocks, eg Paybill, Estates, and IT, by comparing actual spend to the counterfactual spend, and ensuring that HMRC remains within its budget which represents a real terms reduction of 5% per annum. 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.

With respect to service quality, HMRC will monitor its progress against DSOs and its contribution to the Government's PSAs to ensure that service delivery is being maintained as VFM savings are made.

5. Robust Management and Control of Costs.

We have a strategic plan to deliver our objectives during the CSR07 years, underpinned by a four year resource allocation model - £400 million in 2007-08 and £1.1 billion between 2008-09 and 2010-11 - that is refined through each annual planning cycle. Responsibility for management and control of resources is delegated to individual Directors and we have strengthened our challenge and support function this year with a "Finance into the Business" initiative. This has seen the appointment of nine senior Finance Directors who support each of our Director Generals across their portfolio of responsibilities, strengthening accountability and providing greater clarity of the resource and performance challenges across the business. Challenges to resource plans are scrutinised by a senior-level departmental Cross Cutting Performance Committee, who are ultimately responsible for recommendations to deliver optimum output within cost control measures.

The Department constantly reviews its control and management of resources, building in challenges at all levels in the organisation. In addition to the "Finance into the Business" improvements we have improved our quarterly performance review process by focusing more strongly on key financial and performance data, and have developed a number of operating networks for users of our financial and reporting system, for finance business partners and for our new Finance Directors.

DTP Governance

For DTP programmes there is a finance and benefits governance regime. Programmes are required to complete business cases that conform with the Treasury's guidance on investment appraisal (Green Book and Best Practice). This includes detailed financial assessments, funding arrangements and benefits realisation plans. After initial approval, programmes must report actual and forecast costs and benefits on a monthly basis throughout the implementation period.

DTP costs will be included in the Department's overall spend and form part of the cost comparison. All costs will be netted off reported vfm savings. Benefits will be realised by clearly identified business areas, factored into budgets, and cross-referenced to the aggregate VFM savings made by the Department.

Regular reports on the VfM savings will be made to senior management via the monthly Management Report. HMRC will cover progress in its two external reports published in the Spring and Autumn. All figures will be subject to internal and external audit.

6. Risk Management Strategy

In his capacity as Principal Accounting Officer, the Chairman has formal responsibility (evidenced in the annual Statement of Internal Control) for maintaining a sound system of internal control which manages the key risks to the achievement of the Department's policies, aims and objectives. As head of the Department, the Chairman has a key role to play in promoting and supporting the risk management strategy.

Directors General (DGs) are accountable to the Chairman for identifying, assessing and managing the risks within their portfolio. In turn, Directors are accountable to their DGs for risk management within their Directorates, and reporting on the actions they are taking to mitigate them, via the Monthly Performance Report and in Quarterly Performance Reviews.

The Risk Committee is a sub-committee of the Executive Committee (ExCom), with responsibility for taking an overview of risks facing HMRC and ensuring effective risk management. The Committee:

- Challenge the effectiveness of risk management and risk mitigation in HMRC;

- Recommend future generic or specific measures to reduce risk;

- Monitor and steer the management of existing risks;

- Identify new risks and allocate ownership.

The Committee meets on a quarterly basis, with a sub-group meeting monthly to review risks in the Departmental Risk Register (DRR). In reviewing risks, the Risk Committee assess the impact of individual risks in relation to achievement of PSAs and other business objectives. The Chair of the Committee provides a report to ExCom following every meeting with a view of significant current and emerging risks. ExCom may consider risks through specific slots on their agenda, and may refer risks and handling strategies to the Board for assurance and advice.

The Risk Committee also provide an update to the Audit Committee. This is to enable the Audit Committee, supported by Internal Audit and informed by the work of National Audit Office, to provide the Board with independent advice on the effectiveness of the Department's risk management arrangements.

HMRC
February 2008