HM Revenue and Customs'

Value for Money Delivery Agreement (Revised)

April 2009

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HMRC – VALUE FOR MONEY DELIVERY AGREEMENT CSR07

1. INTRODUCTION

HMRC is the UK's tax administration. The Department collects the bulk of UK tax revenue; support millions of families and working people through the benefits and credits it administers; and protects the country through its work at the UK's frontier[1]. Other responsibilities are:

- 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 Regulation;
- the operation of the Paymaster General; and
- the creation of the Government Banking Service.

HMRC also acts 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.

HMRC reported[2] that it had successfully delivered, and exceeded, all of its 2004 Spending Review (SR04) efficiency targets over the period 2005-06 to 2007-08: achieving £663 million efficiency savings against a target of £507 million and a gross reduction of 18,832 full-time equivalent posts against a target of 16,000. HMRC had also relocated 2,492 posts out of London and the South East against a target of 1,950 posts by 31 March 2008.

This over-achievement was planned, to enable the Department to deliver its investment and transformational agenda and to deliver services within its 2007 Comprehensive Spending Review (CSR07) settlement representing a 5% year-on-year real terms reduction in underlying funding over 2008-09 to 2010-11. This has put the Department in a strong position to build upon and deliver an ongoing efficiency agenda and further embed a culture of efficiency within HMRC.

As part of the CSR07 settlement, HMRC is committed to achieving Value for Money (VfM) savings of £674 million by 31 March 2011. Throughout the CSR07 period, HMRC will aim to deliver an improved service to citizens within

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[1] Until 1 August 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 and export of drugs, counterfeit or illicit alcohol and tobacco, and other illicit goods. Some of these responsibilities will formally transfer to the UKBA following the enactment of the legislation, expected to be in July 2009, but HMRC will retain responsibility for policy associated with collecting duties due at the frontier and collecting tax revenues.

[2] Departmental Autumn Performance Report 2008, HM Revenue & Customs, December 2008 (Cm 7509).

available funding, and will report on its performance through its Departmental Strategic Objective (DSOs). Details of how HMRC intended to deliver these VfM savings were first published in February 2008 on the Department's website. These plans were, and continue to be, subject to ongoing review to reflect any changing business decisions.

Informed by the new HMRC Vision, the Department's revised VfM Delivery Agreement now reflects its strategic priorities and business decisions and the way VfM savings are to be achieved by the end of the CSR07 period. This revised VfM Delivery Agreement also explains how HMRC intends to deliver a £80 million contribution to the additional £5 billion of VfM savings in 2010-11, announced by the Chancellor of the Exchequer in his Pre-Budget Report (PBR) 2008.

VISION

In 2008[3], HMRC set out its Vision to close the tax gap, help customers feel that the tax system is simple for them and even-handed, and for HMRC to be seen as a highly professional and efficient organisation. By designing and delivering products and services that meet customers' needs, and by addressing what affects how they behave, HMRC will improve how efficient and effective it is, increase compliance, and improve customers' experience.

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.

[3] Departmental Autumn Performance Report 2008, HM Revenue & Customs, December 2008 (Cm 7509).

The Performance Framework

The 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:

- 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 well-being 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.

HMRC is also a significant contributor to the cross-departmental Service Transformation Agreement[4] (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 existing published Departmental Strategic Objectives (DSOs) which demonstrate its 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 contribute to improving the UK business environment; and

DSO3[5] – reducing the risk of illicit import and export of material that might harm the UK's physical and social well-being.

[4] Available on the HM Treasury website: www.hm-treasury.gov.uk
[5] Responsibility expected to transfer to the UKBA in July 2009.

2. VALUE FOR MONEY DELIVERY STRATEGY

Departmental Transformation Programme

HMRC's main change and transformation programmes are known collectively as the Departmental Transformation Programme (DTP). They are designed to deliver the Department's commitments to the Vision and Strategic Objectives. Substantial VfM savings in CSR07 will be enabled by DTP, which covers a portfolio of major transformation programmes 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 reduce the tax gap; 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. DTP initiatives highlighted in this document should enable estimated sustainable savings of around £370 million by March 2011, with greater savings accruing beyond this period. Furthermore, the DTP will also deliver benefits from increased tax yield and from transaction savings to business and Government.

Other areas for savings

The broad areas in which savings will be made are outlined below as:

Paybill

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. However, business areas will also be seeking opportunities to realise savings from other initiatives, such as examining existing processes and identifying the scope for cutting out waste.

IT

HMRC's IT function has already successfully delivered £100 million of like-for-like business as usual savings over the SR04 and start of the CSR07 period through negotiations with service providers. The Board of HMRC have now agreed a strategy of engagement with the IT outsource contract over the next two years which benchmarks IT service costs externally.

Estates and Support Services

Estates savings from vacating buildings will be realised through the DTP Estates Consolidation programme. In addition, Estates will make further savings of some £21 million by March 2011 through the introduction of new business models for the provision of service support and facilities management, together with improved energy management.

Procurement

The Commercial function has overall responsibility for HMRC procurement and particular responsibility for the management of central budgets covering post, print, stationery, office machines, vehicles and radios. By the end of the CSR07 period the aim is to achieve sustainable savings of £30 million from price savings, controlling demand, and removing major process wastage (including an end-to-end review of the post and print process).

Capital

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 is a wide portfolio of all of HMRC's main change and transformation programmes, which includes programmes designed to improve the services offered to customers (for example, by increasing online services); to reduce the tax gap (through, for example, the introduction of new compliance support tools); to improve people performance (mainly investments in the Department's PaceSetter and leadership initiatives); and to reduce the Department's cost base (through such initiatives as getting staff into the right places, rationalising the property estate and improving operational processes). HMRC plans to invest over £700 million in DTP in 2008-09 and 2009-10, with plans for 2010-11 still to be confirmed.

DTP is making significant investment in the following programmes:

- **Businesslink.gov** - to develop a single website where UK businesses can access all Government services.

- **Carter -** expand online services to customers across tax systems, including PAYE, VAT and Corporation Tax. The aim is for all businesses and individuals who can use online services to file returns online by 2012. This will include some work with Agents and

Employers. Annual savings estimated at over £50 million by March 2011;

- **Customs Service Transformation –** this project will help deliver UK legislative commitments including the transfer of detection work to the UK Border Agency and the introduction of electronic customs services.

- **Data Security –** to improve our data security procedures by implementing recommendations from the Poynter Review, following the loss of customer data in 2007**.** Annual savings estimated at £4 million by March 2011;

- **Enforcement & Compliance** - improve risk analysis and target responses more effectively. Investment in this area will result in significant additional revenue and will help reduce the tax gap. Annual savings estimated at £30 million by March 2011;

- **Estates Consolidation** – an initiative which will rationalise our office locations, achieving significant savings. Annual savings estimated at over £70 million by March 2011;

- **Government Banking –** to deliver retail banking services for all Government departments and agencies. Annual savings estimated at around £10 million by March 2011;

- **Leadership** – to introduce a new approach to the professional development of managers and leaders. The aim is to help deliver significant performance improvements across HMRC;

- **PaceSetter –** to develop the capability of managers and leaders, using PaceSetter tools and techniques to drive forward business performance. Annual savings estimated at around £100 million by March 2011;

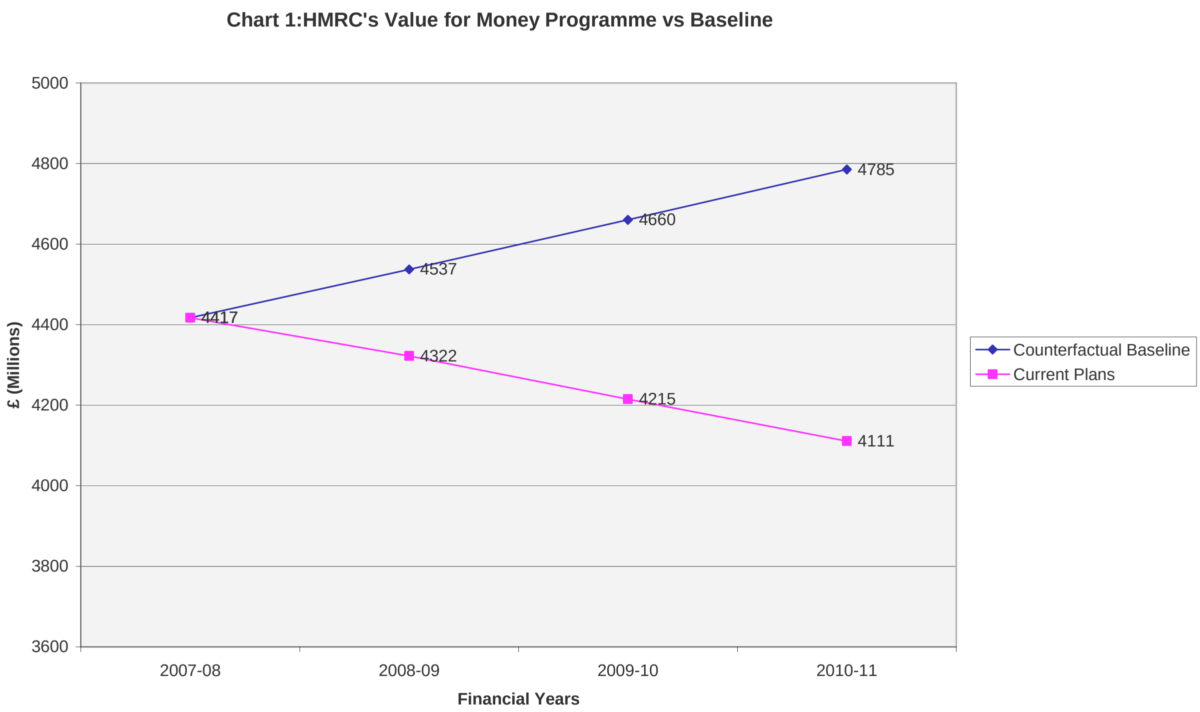
- **PAYE Improvements (MPPC)** – this will move PAYE data from multiple databases to the National Insurance database. It will provide a single comprehensive view of employee employment data and a better way to handle casework. Annual savings estimated at around £60 million by March 2011;

- **Policy Development Programme** – to deliver a wide range of Government and ministerial initiatives;

- **Tax Credits** – to deliver targeted service improvements to reduce customer error, and improve the customer experience. Annual savings estimated at around £20 million by March 2011;

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 sustained savings of £674 million required to be achieved by the end of 2010-11.



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

DTP savings and major budget block saving (eg, Paybill, Estates, and IT) will be verified by comparing actual spend to the counterfactual spend, 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.

HMRC will monitor its progress against its DSOs and its contribution to the Government's PSAs and Service Transformation Agreement to ensure that service quality is being maintained, or improved by the end of the CSR07 period.

5. HMRC's contribution to the additional £5 billion saving in 2010-11.

In the Budget 2008, the Government launched the Operational Efficiency Programme (OEP) to examine opportunities for further efficiency savings in five cross-cutting areas:

- back office and IT;
- collaborative procurement;
- asset management;
- property; and
- local incentives and empowerment.

In Budget 2008, the Government also launched the Public Value Programme (PVP) to look at all major areas of public spending in order to identify smarter ways of doing business and taking wider policy decisions. The PVP will inform the Government's VfM framework for 2010-11 and for the post-CSR07 period.

Early findings from these initiatives showed there is scope to achieve further VfM savings. So the 2008 PBR announced that the existing cross-Government VfM target for 2010-11 would increase to £35 billion, releasing £5 billion of additional recoverable savings in 2010-11.

HMRC had a "flat-cash" SR04 settlement, which resulted in the Department having to absorb the effects of price inflation, find money for investment and handle workload changes during 2005-06 to 2007-08, whilst managing the merger of Inland Revenue and HM Customs and Excise. This represented a significant challenge which the Department achieved. The CSR07 settlement is even more demanding with 5% year-on-year reductions in real terms to baseline funding.

Against this background, HMRC is exploring opportunities to deliver additional savings as part of the emerging thinking from the PVP and OEP. HMRC is scoping savings as part of a wider departmental efficiency programme which will augment the existing substantial efficiencies being delivered by DTP.

This has allowed HMRC to increase its VfM target by £80 million from £674 million to £754 million by the end of 2010-11, as its contribution to the additional £5 billion VfM savings announced by the Chancellor of the Exchequer in his Pre-Budget Report (PBR) 2008.

6. Robust Management and Control of Costs.

The Department constantly reviews its control and management of resources, building in challenges at all levels in the organisation. HMRC has improved its performance review process, focusing strongly on key financial and performance data with regular review by its Performance Committee.

DTP Governance

For DTP programmes there is a strong 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 are included in the Department's overall spend and form part of the cost comparison. Benefits will be realised by clearly identified business areas, reflected in budgets, and cross-referenced to the aggregate VFM savings made by the Department.

An Internal Audit review concluded in March 2008 that the processes used to identify DTP benefits were 'soundly based' but recommended further work on intangible benefits and business change management. Significant progress has been made in these two respects. A further Internal Audit review was conducted over the 2008-09 winter period. The review focussed on the processes supporting the benefits achieved i.e. validation of those benefits. The report noted 'significant progress on the Business Change Management Framework and Customer Benefits' and recognised 'comprehensive and consistent benefits management process guidance'.

National Audit Office published their report on the Transformation Programme in July 2008. No formal audit 'opinion' was given and the report focussed on the Department's early implementation of the programme during its first 18 months, resulting in a number of recommendations being made. Work continues to implement these recommendations.

HMRC will cover progress in its external Departmental reports published in the Spring and Autumn. All figures will be subject to internal and external audit.

7. Risk Management Strategy

In her capacity as Principal Accounting Officer, the CEO has formal responsibility (evidenced in the annual Statement on 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. The CEO has a key role to play in promoting and supporting the risk management strategy and for ensuring effective governance and risk management systems are maintained to support the achievement of the organisation's business objectives.

Directors General (DGs) are accountable to the CEO 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.

ExCom meet monthly to review those risks reported at Departmental level, with a focus on individual risks, their status and the appropriateness of mitigating activities on a rolling basis. This is enhanced and supported by the (Board's) Audit & Risk Committee review process, which provides independent advice and assurance on the effectiveness of risk management across the organisation.

The Corporate Risk Management Group, a non-accountable body chaired by the Chief Risk Officer which brings together key stakeholders from across the business, supports ExCom to fulfil its oversight responsibilities with regard to the identification and effective management of risks:

- by promoting and assisting Senior Managers to embed effective risk management practices across the organisation; and
- through the constructive challenge of risks identified and reported from across the organisation up to the Departmental Risk Register (DRR).

Specifically, its main responsibilities are to:

- ensure that risks are identified, assessed, evaluated, managed and reported at the appropriate level, in line with the Corporate Risk Management Strategy and associated policies;
- actively challenge those risks identified for reporting to ExCom via the Departmental Risk Register; and
- provide an assessment and assurance to ExCom on the effectiveness of the risk management framework in HMRC.

A professional Corporate Risk Management function has been established to develop the infrastructure and capacity required to enable the effective implementation of the HMRC Corporate Risk Management Strategy. A series of products, including a standardised risk log, supporting guidance on risk assessment, and technical/awareness material, are being rolled out to underpin the delivery of the Strategy in a consistent manner.

The key components of this Strategy are being actively integrated into the governance arrangements across the organisation to improve our risk management capability and bring our approach in line with industry best practice.

HMRC
April 2009