



HM CUSTOMS & EXCISE

# Spring Report 2000 - 2001



This is part of a series of departmental reports and Main Estimates which, accompanied by the document *Public Expenditure: Statistical Analyses, 2001-02*, present the Government's expenditure plans for 2001-2004. The plans were published in summary form in the Budget documentation.

The complete series is also available as a set at a discounted price.



**Her Majesty's Customs & Excise  
Spring 2001  
Departmental Report  
The Government's Expenditure Plans  
2001-02 to 2003-04  
and Main Estimates 2001-02**

Presented to Parliament by  
The Paymaster General and the Chief Secretary to the Treasury  
by Command of Her Majesty  
March 2001

**To the Lords Commissioners  
of Her Majesty's Treasury**

The Commissioners of HM Customs & Excise  
have the honour to submit their report

New King's Beam House  
22 Upper Ground  
London SE1 9PJ

**April 2001**

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## FOREWORD BY RICHARD BROADBENT, CHAIRMAN



This is our first of the new style reports required of Government Departments under the current Resource Accounting and Budgeting arrangements.

Together with our Autumn Report, we will now produce two reports a year instead of twenty-four.

This report coincides with, and takes as its focus, our new Public Service Agreement (PSA) for the three years beginning April 2001. The PSA incorporates high level targets for the more effective collection of tax, the reduction of smuggling, particularly of tobacco and hard drugs, and the reduction of compliance costs.

The targets are challenging, requiring not five or ten per cent improvement but, in some cases, a doubling or trebling of current performance levels.

To achieve such targets, it is not enough to rely on incremental performance improvement, based primarily on doing the same things but doing them a bit better. The organisation must look for step changes in performance by doing things differently. We have recognised this with changes, which are still in their early stages, to the way we are organised, to the way our basic business processes operate and to the strategies we adopt to achieve our goals.

The thrust of these changes is towards a more actively managed organisation that is characterised by an ability to learn. The characteristics associated with learning – speed, flexibility, responsiveness, decisiveness – are those required in order to undertake increasingly complex and frequently changing tasks.

This Report sets out in more detail what we are trying to do differently in these areas and why.

This approach carries risk. Accepting challenging targets and seeking to achieve them through change, if required, is the right thing to do. But the success of change cannot be guaranteed. There are always uncertainties. There is always more to learn. There are always new refinements to be adopted. Timing is always uncertain. As a newcomer to the public sector, I observe that confronting these uncertainties will present us with major challenges.

I would like to pay tribute to the openness and enthusiasm with which so many people in this organisation are embracing these challenges. They want to succeed for the best of all reasons – they believe that their job is worthwhile and that it matters to do it better. They are right.

**RICHARD BROADBENT**

## **EXECUTIVE SUMMARY**



## PART 1: EXECUTIVE SUMMARY

### INTRODUCTION

A new Management Committee, responsible to the Board, was put in place in April 2000 to take day to day responsibility for running the Department. The Committee has seven members including the Chairman (see Appendix 1) of whom two come from the private sector, one from another government department and four from Customs.

The Management Committee's time since April has been devoted to defining and beginning to implement changes it believes are required in organisation and management to deliver the performance improvements demanded by the new Public Service Agreement. These are set out in Sections 2-5 below. Section 6 deals with finance. Section 7 describes a selection of specific current projects of general interest. Other factual and historical data is provided in the Appendices.

### PUBLIC SERVICE AGREEMENT (PSA)

The Department's new PSA runs from 1st April 2001 for three years. It contains three major objectives.

- To collect the right revenue at the right time from indirect taxes.
- To reduce crime and drug dependency by detecting and deterring the smuggling of illegal drugs and other prohibited and restricted goods.
- To reduce the costs of international trade and improve the level of compliance with Customs and statistical requirements.

### ORGANISING TO ACHIEVE THE PSA

A major reorganisation of the Department was announced on 17th January this year to be implemented on 1st April. The main features of the re-organisation are:

- The focusing of all the Department's activities into two core functions – **Business Services and Taxes; and Law Enforcement.**
- The creation of a simplified, functional management structure based on these core functions.
- The separation of support services from front line functions.

The re-organisation will provide clearer management accountability, a framework for greater delegation of financial and operational decision making, a greater ability to drive operations strategically and reduced waste.

The re-organisation at senior management level which took effect in April 2000, the HR reforms agreed during the year, a new management development programme introduced in the Autumn and the re-organisation of the structure of the Department together represent a concerted approach to meeting the challenges which face the Department. They are aimed at making a step change in performance through improved focus and accountability, better management and a smarter approach to learning and responding to change.

### RE-DESIGNING PROCESSES TO MEET THE PSA

The re-organisation of the Department is associated with, and can only be effective with changes to many of the basic processes of the Department. The main areas in which changes are being introduced are outlined below.

**IT/E-commerce** – the Department's IT infrastructure is outmoded and represents a drag on performance. It is in the process of being replaced under a Private Finance Initiative with ICL. The Department is developing a strategy to maximise the potential of e-commerce as quickly as possible after the infrastructure is in place.

**Information systems and Knowledge Management** – based on the new IT infrastructure, a major knowledge management initiative is to be launched. This will be aimed at allowing the Department to move from information to knowledge based activities.

**HR reforms** – a comprehensive reform of HR processes was introduced in September 2000. These substantially simplified and delegated control over appointments, recruitment, promotions and performance appraisal systems.

**Management development** – a comprehensive management development programme was launched in September 2000 based on a theme of “Active Management”. Workshops and seminars for over 3,000 senior and middle managers focused on themes including leadership, communication, decision making and teamwork are still under way.

**Resource allocation** – budgeting processes have been reformed to focus more on the strategic allocation of resource and to increase delegated control over finance within strategic allocations.

**Strengthening internal controls** – the Department will produce a statement of internal controls for 2001 – 2002. A particular priority during the year will be to strengthen internal revenue controls and management of our revenue supply chain. In parallel the Board will, through the Audit Committee, monitor the exercise of controls against the Department’s top risks i.e. those things judged most likely to impede the achievement of high level objectives and targets.

## STRATEGIES TO MEET THE PSA

### BUSINESS SERVICES AND TAXES

The high-level objectives of Business Services and Taxes (BST) are to improve the compliance of businesses while also reducing their compliance costs and improving the quality of our service to them.

To achieve these objectives we will ensure a better integration of the different parts of our organisation so that we deliver a more rounded and faster service; and we will fundamentally re-examine all our main business processes as our contribution to turning the Department into a genuine e-business offering all its services electronically by 2005.

We are setting up, for the first time in the Department’s history, a single national unit responsible for all the indirect tax and customs affairs of the UK’s largest businesses (numbering around 1,000), who together account for over half the revenue we collect. We will aim to support all businesses that want to be compliant and will carry out a thorough re-appraisal of our approach to assurance. We have also created a new Business Design unit which will lead the change in thinking required to refocus BST on real underlying requirements and not individual systems. This will be an essential part of delivering our e-business strategy.

### LAW ENFORCEMENT

#### Tobacco Smuggling

The “Tackling Tobacco Smuggling” strategy is designed to slow the rate of growth, stabilise and then reduce illicit market penetration over three years. In 2001-02 our PSA target is to stabilise the illicit market share at 22%. To achieve this we may need to seize some 3.5 billion cigarettes. The tobacco strategy is proving to be the very difficult challenge anticipated and we are constantly analysing, adjusting and manipulating implementation of our strategy to produce better results.

#### Alcohol

Cross-Channel smuggling of alcohol in light vehicles is being tackled in parallel with the tobacco strategy. We are also enhancing efforts to tackle other forms of alcohol fraud most notably inward diversion and freight smuggling of spirits. In this sector our objective is to disrupt the fraud as quickly and as effectively as possible whenever it is detected.

**Oils fraud**

The Department is increasing the resources deployed to tackle oils fraud in Northern Ireland and targeting this effort on the point of maximum vulnerability for the fraudsters. The impact of these measures is being constantly monitored. On the UK mainland, effort in the oils fraud sector will focus on responding to the principal threat from the misuse of rebated fuels.

**VAT**

Tackling Missing Trader-based intra-EU VAT fraud is the Department's top VAT fraud priority. A strategy for doing so was put into operation in September 2000. We aim to reduce the VAT loss by denying conditions which enable the frauds to begin, or by intervening at an early stage where the fraudsters manage to begin stealing VAT. The strategy's impact will be evaluated in the early part of 2001-02 and improvements within available resource introduced to maximise impact at all times.

**Class A Drugs**

The Action Against Illegal Drugs cross-cutting PSA target is to reduce the availability of class A drugs by 25% by 2005, and by 50% by 2008. We have lead responsibility and by March 2002, in agreement with all involved agencies, will have fully implemented a coherent operational strategy bringing together the work of the Home Office, the Police Service, the National Criminal Intelligence Service (NCIS), the National Crime Squad (NCS), the Foreign Office and the Security and intelligence agencies to ensure that overall delivery is as effective as possible.

More details of our plans for the coming year in each of these Law Enforcement areas are contained in Section 6.2.

**FINANCING THE PSA**

The Government announced the conclusions of the Spending Review 2000 on 18 July 2000, setting our priorities and targets for the next three years and specifying the funding to be made available. In the absence of any changes, our resources would have declined by more than 5% in 2001-02. The settlement made available an additional £465 million over the next three years relative to the previous baseline, including the money already provisionally earmarked for combating tobacco smuggling

This provides for about 3% annual average real growth over the period and for capital investment to press ahead with, in particular:

- **E-Business** – the electronic delivery of external and internal services. The full impact of this investment will bring a number of benefits, including improvements in customer service and reduced compliance costs for business.
- **Combating tobacco smuggling** – initial investment in the Tobacco Strategy has confirmed Ministers' support for the full package, including new posts and X-Ray Scanning equipment.

## PART 2: THE NEW PUBLIC SERVICE AGREEMENT (PSA)

### OBJECTIVES AND PERFORMANCE TARGETS

The Department made the following Public Service Agreement (PSA) with Ministers covering the period April 2001 to March 2004 as part of Spending Review 2000 (SR2000). This PSA represents a major change for the Department, with a new aim and a reduction in the number of objectives from six to three. Moreover, the targets are focused on outcomes rather than outputs.

These tables include details on the delivery of the PSA targets taken from the Department's Service Delivery Agreement (SDA), which can be found in full on the HM Customs & Excise website at [www.hmce.gov.uk/general/latest/index.htm](http://www.hmce.gov.uk/general/latest/index.htm).

#### Aim

To administer the indirect tax and customs control systems fairly and efficiently, and make it as easy as possible for individuals and businesses to understand and comply with their obligations.

#### Objective 1.

To collect the right revenue at the right time from indirect taxes.

PSA Target	SDA (How we will deliver)
<b>1. Deliver year on year improvements in the level of compliance of businesses with their obligations.</b>	<p>We will improve compliance by:</p> <ul style="list-style-type: none"> <li>• Helping businesses get indirect tax returns right first time;</li> <li>• Increasing our contacts with businesses; and</li> <li>• Further improving our risk targeting with a particular emphasis on tackling serious non-compliance.</li> </ul> <p>Core to our strategy will be investment in IT, training and research, as well as working closely with the Inland Revenue to deliver improvements in professionalism and service delivery.</p>
<b>2. Reverse the current trend in tobacco smuggling so that by 2004-05 smuggled cigarettes represent no more than 18% of the market.</b>	<p>By:</p> <ul style="list-style-type: none"> <li>• Enhancing our frontier enforcement effort against freight and 'white van' traffic;</li> <li>• Increasing significantly our inland activity; and</li> <li>• Targeting the organisers and increasing penalties.</li> </ul> <p>The Department will limit the market share<sup>1</sup> taken by smuggled goods to no more than 20% in 2003-04.</p>

<sup>1</sup> Market share is defined as the percentage of the total amount of cigarettes consumed that is made up from smuggled cigarettes.

Objective 2.	
To reduce crime and drug dependency by detecting and deterring the smuggling of illegal drugs and other prohibited and restricted goods.	
PSA Target	SDA (How we will deliver)
<p><b>3. Reduce the availability of class A drugs by 25% by 2005, and by 50% by 2008.</b></p> <p><i>Target contributing to Action Against Illegal Drugs cross-cutting PSA.</i></p>	<p>We will deliver this target by leading the development and implementation of a coherent operational strategy, which will increase the effectiveness of the total UK effort to combat drug trafficking. We will:</p> <ul style="list-style-type: none"> <li>• Complete a research programme to develop a better understanding of the dynamics of the UK and international drugs market and keep updated the Class A drugs threat assessment. We will ensure, by March 2002, that Customs' operations are consistent with what research shows is the most effective in reducing supply, with this being maintained thereafter.</li> <li>• By March 2002 we, in agreement with all involved agencies, will have fully implemented a coherent operational strategy bringing together the work of the Home Office, the Police Service, the National Criminal Intelligence Service (NCIS), the National Crime Squad (NCS), the Foreign Office and the Security and intelligence agencies to ensure that overall delivery is as effective as possible.</li> <li>• Increase the proportion of Class A drugs targeted on the UK which is seized, including working with other law enforcement agencies overseas to disrupt drugs movements nearer to source of shipments.</li> <li>• Remove the spending power of drug traffickers by increasing the total amount of drugs-related assets forfeited or secured from post-conviction confiscation orders.</li> <li>• Increase the number of Class A drug trafficking groups disrupted or dismantled.</li> </ul>

Objective 3.	
To reduce the costs of international trade and improve the level of compliance with customs and statistical requirements.	
PSA Target	SDA (How we will deliver)
<p><b>4. Deliver year on year improvements in the level of compliance of businesses engaged in international trade.</b></p>	<p>To ensure delivery of this outcome we will implement simplified systems and procedures to take forward world-wide, EU and UK initiatives. This will include simplifications already identified and exploring the scope for new initiatives. Examples include work with the Group of Seven countries, community transit reform, and UK customs freight procedures.</p>

## THE NEW PUBLIC SERVICE AGREEMENT (PSA)

The following targets relate to the full range of the Department's responsibilities.

PSA Target	SDA (How we will deliver)
<p><b>5. Ensure by 2005 that 100% of services are offered electronically, wherever possible through a common Government portal, and a take-up rate for these services of at least 50%.</b></p>	<p>To support our plans to modernise and improve consumer services the Department will seek to maximise use of the benefits offered by information technology by:</p> <ul style="list-style-type: none"> <li>• Having 87% of all external services available electronically by end of 2003-04.</li> <li>• Working with the Inland Revenue (IR) for common delivery of VAT and self assessment tax payer services enabling business to access these services through a single gateway.</li> <li>• Setting up a service support function to answer technical non-business related questions from customers about accessing our services.</li> <li>• Developing new initiatives to encourage take up of the facilities offered to business, to ensure 35% take up of these services by the end of 2003-04.</li> </ul>
<p><b>6. Deliver year on year reductions in the costs of compliance for businesses.</b></p>	<p>In order to reduce costs to business we will undertake a joint programme of compliance cost studies with the Inland Revenue to research the costs to businesses of complying with the main UK taxes and duties. This programme will run over 4 years and each study will cover particular taxes or duties, the first of which will cover VAT and Corporation Tax (in the non-financial sector). Once a baseline cost has been established for each tax or duty, robust targets for year on year reductions in costs will be set.</p>
<p><b>7. Improve value for money by achieving average annual productivity gains of at least 2.5% per year until 31 March 2004, without detriment to accuracy or customer satisfaction.</b></p>	<p>In order to achieve improvements in productivity the Department will:</p> <ul style="list-style-type: none"> <li>• Release posts from support for redeployment to activities which directly contribute to PSA/SDA outcomes and</li> <li>• Carry out our BQS programme to obtain both quantitative and qualitative benefits.</li> </ul> <p>The opportunity to recycle resource will be created by pursuing innovative and value for money (vfm) initiatives, which will also directly contribute to productivity e.g. Information Age Government, transfer of our Estate to the private sector, introduction of contact centres, streamlining of management and personnel processes.</p>
<p><b>8. Achieve a 6% improvement in customer service from the 1999 baseline, as measured by an annual Customer Service Index, by April 2002, with further targets for improvement identified and delivered by April 2004.</b></p>	<p>This outcome will be achieved through the development of our compliance strategy and further investment in providing electronic services. We will also achieve an increase in customer satisfaction by addressing the key areas of customer concern identified in the 1999 business survey, and measure improvements through further surveys in 2001 and 2003-04.</p>

## PART 3: PROGRESS WITH EXISTING (1998 PSA) TARGETS

For comparison, our current PSA, born out of the Comprehensive Spending Review of 1998, had 6 objectives and a number of operational targets. A summary of progress at the half-year point appears below. We were on course to meet 43 targets, while on 3 some improvement was needed. 2 targets could not now be met. This was because they were set at 100%: although our performance to date was in the high nineties in both cases, even a perfect performance in the second half of the year would not allow us to achieve 100% for the year overall.

Fuller details appear in Appendix 4.

Objective	On course	Slipping	Not Met
<b>1: To secure the UK revenue yield from indirect taxes while minimising costs to businesses, as a key component of the Government's policy of ensuring sound public finances.</b>	4	1	0
<b>2: To detect and deter the smuggling of drugs and other prohibited goods as a major contribution to the Government's aim of minimising illicit activity, such as drug misuse.</b>	3	1	0
<b>3: To secure compliance with statutory, EU and international customs obligations in ways which facilitate global trade and help the single market work thereby supporting the Government's aim to make the UK an attractive place to do business.</b>	3	0	0
<b>4: To supply to time and right quality trade statistics which support the development of UK and EC economic and trade policy, while keeping to a minimum inconvenience and cost to business.</b>	3	0	0
<b>5: To promote the development of efficient tax, customs and related agencies around the world in support of the Government's aim on global trading, good governance and combating international crime.</b>	2	0	0
<b>6: To provide Ministers with policy advice to a high standard; and to initiate, develop, maintain and present policies which reflect the Government's priorities.</b>	2	0	0
<b>Departmental operations and CSR PSA productivity targets</b>	19	0	1
<b>New Measures in 200/2001 OPA</b>	7	1	1

## PART 4: ORGANISING TO ACHIEVE THE NEW PSA

### 4.1 OBJECTIVES OF RE-ORGANISATION

We have introduced a new structure based around our two main business functions. The new structure will ensure greater accountability for delivery of our objectives, making it clearer who is responsible for delivering each task. It will give us the opportunity to:

- have a clearer focus on what we do;
- eliminate artificial divisions; and
- change the relationship between support and the front line.

The two business functions are: *Business Services and Taxes* and *Law Enforcement*.

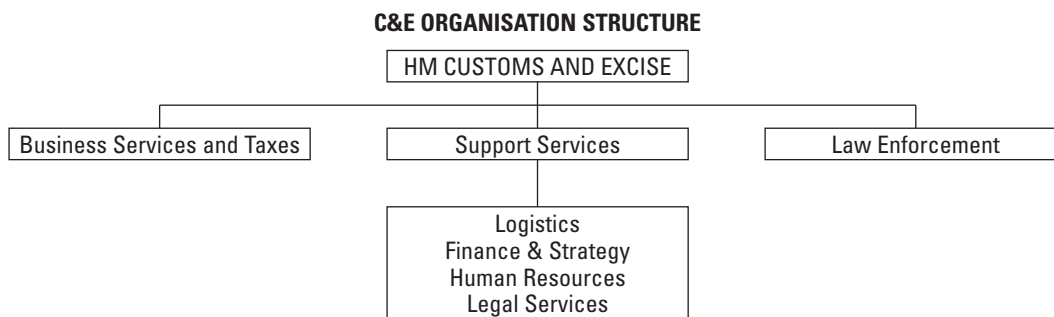
*Business Services and Taxes* is divided into four functions:

- *Regional Business Services based on seven regions;*
- *Large Businesses;*
- *Policy;* and
- *Business Design:* systems, controls, the definition of business requirements from support, management of business change processes and of central business operations

*Law Enforcement* is divided into five functions:

- *Intelligence:* all regional and central intelligence activities;
- *Investigation:* all regional and central investigation activities;
- *Detection:* all anti-smuggling and other detection activities;
- *Policy:* all policy relating to law enforcement; and
- *Business Design:* systems, controls, the definition of business requirements from support and the management of business change processes.

All our other activities have been concentrated into four streamlined support functions: Logistics, Finance and Strategy, HR and Legal. Regional Non-executive Chairmen for Scotland, Wales and Northern Ireland have also been appointed.



### 4.2 OUR GOAL

Our objective is to build an actively managed organisation that:

- focuses on and invests in its core skills;
- is always learning;
- aspires to do everything it does better each time it does it; and
- values winning not just performing.

Our core value is integrity. We expect openness, responsiveness, flexibility and speed.



## **PART 5: REDESIGNING PROCESSES TO MEET THE PSA**

### **5.1 IT/E-COMMERCE**

The e-Envoy's Office has provided a positive response to the Department's e-business strategy. E-business project teams have now been established for all the potential e-business service areas. Most teams are in the final stages of conducting feasibility studies investigating how the business processes and associated computer systems will need to be re-engineered for e-business. Some teams have now moved onto the next stage of outline design.

Projected outcomes for the years 2001-2 and 2002-3 have been developed and are currently being reviewed. These outcomes are focusing on the availability targets, and a separate study is being undertaken on how to best achieve the take-up targets. Plans already exist for the re-engineered e-business services to be more customer focused and easier to operate than the current paper based services, and one of the design objectives is to incorporate an improved cash flow for our customers.

The Office for Government Commerce (OGC) is developing a cross-government e-commerce system, which we are participating in. It covers:

- E-advertising;
- E-notices;
- E-expressions of interest; and
- E-tendering.

The project incorporates business process re-engineering (BPR) activities as well as software development, and will include the introduction of new common standards and procedures.

In addition the Department has a project underway that will re-engineer the current procurement process and implement a new e-procurement system.

We have an Information Age Skills Project (IASP) that has been in operation for some months. It is tasked with training all our staff in how to manage and operate in an e-business environment. The training covers the use of browsers and other e-business techniques.

For our internal services we have a modern personnel services project (MPS), where the objective is to replace all internal administration systems with a set of e-business enabled processes and systems. As a project it therefore addresses all the statements outlined in the Department's e-business strategy. MPS provides our staff with an opportunity to use their newly acquired IA skills on non-critical tasks. The list of internal services that make up MPS are as follows:

- National Staff Directory
- Appointments System
- Appraisal System
- Travel & Subsistence System
- Annual Hours Working Records System
- On-line Guidance
- Payroll
- Registrar

The Department's Internal IT Infrastructure is scheduled to be completed by October 2001 under the Private Finance Initiative with ICL.

Over the next few years the Department's e-business services will be implemented in line with the targets that have been set, and take-up of these services will change the whole profile of the Department, and the way it is perceived by its customers.

Once our business customers have become used to trading amongst themselves using e-business facilities, they are expected to want to deal with government departments using e-government facilities. The Department will submit to Ministers during the year an investment strategy which sets out the expected business outcomes, in terms of business benefit, of the move to e-business and will include a high level business case.

### **5.2 INFORMATION SYSTEMS AND KNOWLEDGE MANAGEMENT**

Achievement of many of the PSA targets is dependent on the Department building a capability and environment where the information and knowledge that we have about ourselves, our customers and the world in which we work is more effectively collated, synthesised and accessed by our staff.

In 2001-2002 we will design and prepare the knowledge management infrastructure ready for delivery across the Department in the wake of the new IT infrastructure implementation. The major activities in 2001-2002 will be:

- establish Departmental information standards and structure of Departmental knowledge base;
- design, develop and test knowledge management IS infrastructure;
- run and evaluate knowledge management pilots in all major business areas of the Department; and
- design and implement knowledge support and input network.

The Department has developed the Public Sector Benchmarking Service (PSBS) in partnership with the Cabinet Office. The Service, which is supported by the Prime Minister, was launched by the Paymaster General in February 2001 and is now fully operational. Through this service, public servants will be able to tap into and exchange the good practice that exists across the public sector. With its help, they can subject their own work to challenge.

The PSBS helpdesk and website ([www.benchmarking.gov.uk](http://www.benchmarking.gov.uk)) are already recognised as a key focal point for the transfer of knowledge and good practices between central government, local government and service providers at home and abroad.

### **5.3 MANAGEMENT DEVELOPMENT**

The changes we are making in our organisational structures will achieve nothing by themselves unless they are accompanied by the right attitudes and values. In order to ensure that these are in place, we have instituted a comprehensive management development programme focusing on the concept of active management. Active management means knowing where you are going and constantly looking for ways of getting there. This task never ends. Key features of active management include:

- being personally accountable;
- effective leadership;
- building effective teams;
- open and transparent communication; and
- applying streamlined tools.

We will push forward our programme of management development through seminars and workshops, and through managers actively applying what they have learnt. We plan to extend our programme for identifying and developing future managers through increased external recruitment and the introduction of development centres.

### **5.4 HR REFORMS**

We introduced HR reforms in September 2000 which give practical backing to active management by reducing bureaucracy and empowering our managers.

The personal appraisal process has been simplified, with the size of the standard appraisal form reduced from ten to two pages and more emphasis placed on regular face to face feedback from managers. Responsibility for making appointments has been delegated and the process simplified. The objectivity of the new system is ensured by Human Resource managers who work with business managers to fill vacancies and monitor appointments to ensure corporate objectives and equal opportunities requirements are met.

These changes have given managers flexibility to recruit and develop teams, identify and develop people's skills and respond quickly to changing needs.

### **5.5 RESOURCE ALLOCATION**

A key element in our plans to improve performance is the better allocation, deployment and management of resources. The Department has, therefore, conducted a thorough review of its resource plans for 2001-02. Our guiding principles have been:

- We continue to readjust the balance between the effort put into support and front-line functions.
- Our resource allocation plans for 2001-02 will adjust the balance of resources between our two main functions of Law Enforcement and Business Services and Taxes.
- The resource plans of our two businesses will be concentrated on delivering our PSA objectives.

### **5.6 STRENGTHENING INTERNAL CONTROLS**

As part of the wider Civil Service commitment to complying with the Turnbull recommendation on good governance, the Department will produce a statement of internal controls for 2001-02 covering the full range of controls on expenditure, revenue, operations and compliance with legislation. A particular priority during the year will be to strengthen internal revenue controls and management of our revenue supply chain. To achieve this we will:

- implement as a priority an integrated revenue management accounting system;
- apply resources dedicated to verification of controls and developing revenue control standards, policies and procedures;
- implement a risks and issues control framework and work to improve our control environment; and
- introduce consolidated in-year reporting that will regularly monitor outturn against expectation and match revenue receipts and losses to costs.

In parallel the Board will, through the Audit Committee, monitor the management of the major risks to the achievement of the Department's objectives and targets.

## **PART 6: STRATEGIES TO MEET THE PSA**

### **6.1 BUSINESS SERVICES AND TAXES**

#### **6.1.1 Overview**

The overall objectives of Business Services and Taxes are continuously to improve the compliance of businesses with their legal obligations while also reducing each year their costs of compliance and improving the quality of our service to them.

To achieve these objectives we will ensure a better integration of the different parts of our organisation so that we deliver a more rounded and faster service. We will also view the different parts of our objectives as mutually reinforcing rather than creating tensions. This means recognising that we can achieve improved compliance by making it easier for businesses to comply – for example by developing much clearer guidance and making it available in electronic form; simpler systems; easier access to advice and greater attention during visiting to ensuring that businesses understand their liabilities and that their systems are right for the future.

This does not mean that it is not also necessary to tackle avoidance and evasion, and we shall not hesitate to do so, but this will be part of our overall approach not its whole focus.

We will also seek to develop our staff and increase their professionalism. We will make it possible for more of our staff to obtain qualifications accredited by outside bodies. We will look to improve our knowledge of specific sectors and our overall understanding of business and its pressures.

We will fundamentally re-examine all our main business processes as our contribution to turning the Department into a genuine e-business offering all its services electronically by 2005.

#### **6.1.2 Large Business Group**

We are setting up, for the first time in the Department's history, a single national unit responsible for all the indirect tax and customs affairs of the UK's largest businesses (numbering around 1,000), who together account for over half the revenue we collect.

We aim to improve business compliance with our requirements through the increased professionalism of our staff and further enhancements to our risk analysis capability and sectoral understanding. We will provide a more customised service to business, with individual account managers handling all of a company's tax affairs across the country. We also aim to reduce compliance costs year on year by significant expansion of the services we provide electronically and by joining up even more with other government departments, particularly Inland Revenue. In all these areas, we will be looking for radical and innovative ways of improving our performance.

#### **6.1.3 Regional Business Services**

We will aim to provide greater support to Small and Medium Enterprises that want to be compliant. We will take fast and firm action against those who seek to be non-compliant.

We will help businesses in keeping compliance costs to a minimum. We will work with Inland Revenue in exploring ways in which we can simplify accounting for tax from small business. We will assist businesses in meeting their legal obligations when faced with temporary problems.

We will tackle the non-compliant firmly to ensure they pay the right amount of tax at the right time and that they do not gain any unfair advantage over those business who are meeting their legal requirements.

Our strategy will include a thorough re-appraisal of our assurance and control regime for each excise duty to ensure our approach is properly tailored to the revenue risks and circumstances of each sector.

For international trade, we will continue to move away from transaction processing at the frontier and seek to exploit technology to the full and to make greater use of commercial data.

### 6.1.4 Business Design

Our delivery of business systems in the past has been hampered by the development of too many individual systems which are not always compatible with each other, and by an insufficient focus on trade offs between costs and timeliness.

We have created a new Business Design unit which will lead the change in thinking required in this area by:

- driving thinking in the business units to focus on what are their real underlying requirements and not to keep to a systems solution;
- ensuring a strategic overview of consideration of business requirements; and
- providing a single interface with Logistics Directorate to ensure that trade offs between cost, time and functionality are exposed early in the process.

This will be an essential part of delivering our e-business strategy.

## 6.2 LAW ENFORCEMENT

### 6.2.1 Tobacco Smuggling

The “*Tackling Tobacco Smuggling*” strategy, announced in March 2000, is designed to slow the rate of growth, stabilise and then reduce illicit market penetration over three years. The Department was given an additional £209 million over the period 2000-01 to 2002-03 to deploy almost 1000 extra staff, and new x-ray scanning technology, plus other measures.

In 1998-99 12% of the cigarettes smoked in the UK were smuggled, rising to 18% in 1999-00. The aim was to slow growth and hold the smuggled share to 21% in 2000-01. We were looking to take out at least 2 billion cigarettes. For 2001-02 the PSA target is to stabilise illicit market share at 22% and we estimate that may require taking out 3.5 billion cigarettes. That is a very challenging task requiring a further step change in performance.

Many elements of the strategy are proving effective but among key areas for further development in 2001-02 are:

- enhanced intelligence led intervention;
- increased use of scanner technology;
- vigorous dialogue with tobacco manufacturers;
- seizing more cash associated with tobacco smuggling – proposed new legislation would extend our current powers to seize drugs related cash at frontiers to all crimes and inland; and
- applying from July '01 new sanctions associated with the possession, transport or sale of unmarked tobacco products.

### 6.2.2 Alcohol

Cross-Channel smuggling of alcohol in light vehicles is being tackled in parallel with the tobacco strategy. One objective is to curb the law and order problems associated with this smuggling. We aim to reduce the overall revenue loss from cross-Channel smuggling of all product types by 10% by summer 2001 and by 10% annually thereafter. Resources have been increased in the tourist lanes at the main Channel crossing points by about two thirds. We seize and do not restore the vehicles of those found smuggling.

We are also enhancing efforts to tackle other alcohol fraud, most notably the inward diversion and freight smuggling of spirits, by disrupting the fraud as quickly and effectively as possible whenever it is detected. This will include:

- raising freight examination levels;
- tougher sanctions against hauliers who allow their vehicles to be used in this fraud;
- stronger spirits warehouse assurance effort;
- enhanced overseas intelligence activity; and
- focusing investigation on disrupting the organisers at the earliest available opportunity.

### 6.2.3 Oils fraud

Oils fraud is a major problem in Northern Ireland and the Department is increasing the resources it deploys to tackle it. We have increased our resources fourfold there to increase detections and target points of maximum vulnerability for the oils fraudsters. A range of tough sanctions will hit at the profitability of this fraud. We are monitoring the impact and further resources and new tactics will be deployed as necessary during 2001-02.

On the UK mainland anti oil fraud effort will be focused on the principal threat of misuse of rebated fuels such as kerosene and red diesel. Structured intelligence activities will target the movement of these rebated fuels.

### 6.2.4 VAT

'Missing Traders' constitute one of the most costly current forms of VAT fraud within the EU. It involves obtaining VAT registration for the purpose of purchasing goods VAT free, selling them at a VAT inclusive price and going missing without paying the VAT to Customs. In most cases, the fraudster's sole purpose for acquiring a VAT registration is to steal VAT. Some detected frauds of this type have involved the theft of £1 million VAT per week.

A strategy to tackle missing trader-based intra-EU VAT fraud was put into operation in September 2000. This involves enhanced checks and visits for new VAT registration applications, working with reputable traders in the high risk trade sectors to identify fraudsters, and establishing a new central team to co-ordinate day to day operational activity.

The impact of the strategy will be evaluated in the early part of 2001-02 and refined to maximise impact.

### 6.2.5 Class A Drugs

The Department's PSA target contributes to the Action Against Illegal Drugs cross-cutting PSA. We will deliver by leading the development and implementation of a coherent multi-agency operational strategy by March 2002. This will bring together work of the Home Office, the Police Service, the National Criminal Intelligence Service (NCIS), the National Crime Squad (NCS), the Foreign Office and the Security and intelligence agencies to ensure effective overall delivery.

The Department is developing an operational strategy to deliver the required step changes in performance. In particular we will:

- strengthen partnership working with other UK agencies to make best use of respective core skills;
- promote a multi-agency programme of action;
- work closely with other law enforcement agencies overseas to disrupt drugs movements nearer to source of shipments;
- match resources more closely and flexibly to activities which will deliver a significant impact on bulk class A drug supplies to the UK and EU;
- enhance efforts to combat money laundering; and
- increase the amount of forfeited by convicted drug traffickers.

## PART 7: FINANCING THE PSA

### 7.1 CAPITAL INVESTMENT

#### 7.1.1 Background – Departmental Investment Strategy

Our Departmental Investment Strategy (DIS) was published in November 2000 as an outcome of Spending Review 2000. The full Departmental Investment Strategy can be found on the HM Customs & Excise website at [www.hmce.gov.uk/general/about/aboutus.htm](http://www.hmce.gov.uk/general/about/aboutus.htm).

The DIS is complemented by our contribution to the National Asset Register, updated in February 2001. We have also prepared and published Resource Accounts for 1999-2000, containing details of our fixed assets and setting out our accounting policies.

#### 7.1.2 New investment plans

Our DIS is set in the context of our Public Service Agreement for the SR2000 period, 2001-04 (see section 2 of this Report). In particular, we received additional capital funding to do the following:

- **Combat tobacco smuggling.** As part of the strategy for dealing with the problem of tobacco smuggling we will be deploying a national network of scanners to detect high volume smuggling in freight containers. Investment began during 2000-01, including the provision of £1m from the Capital Modernisation Fund (CMF). It will continue through 2001-02 with £22m from the CMF.
- **Drive electronic service delivery.** We plan to have 100% of our external and internal services offered electronically by 2005. Key initiatives include:
  - Offering our routine services electronically, e.g. registrations, tax returns and payments.
  - Implementing a National Contact Centre, giving taxpayers options over how they contact us.
  - Delivering electronic services through the government gateway.
  - Moving our internal services onto an electronic basis, using web-based technology for many of our HR systems, for example.

#### 7.1.3 Current asset base

Our current asset base consists of three main elements:

- **Estate** – we currently occupy approximately 350 buildings in support of our business activities;
- **IS** – mainframe services and applications software; and
- **Other assets** – including vehicles, vessels, radios and technical equipment.

Total capital allocations for the period are:

	2000-01	2001-02	2002-03	2003-04
<b>Total Allocation (Gross) – £m</b>	<b>51.2</b>	<b>92.7</b>	<b>85.3</b>	<b>97.5</b>

#### 7.1.4 Managing our assets

Investment decisions are based on sound procedures and systems, designed to ensure business relevance, consideration of options and value for money. All investment proposals are subject to the disciplines of *investment appraisal*, in line with the principles set out in the Treasury's Green Book and linking the investment to the Department's objectives. We have introduced mandatory *project management standards*, incorporating the recommendations of the Cabinet Office report "Successful IT". We have *fixed asset policies* which take account of Treasury guidance, relevant accounting standards and generally accepted commercial practice. These policies ensure that the Department holds a complete record of all capitalised fixed assets and that these are verified by physical checks with the Asset Register.

Opportunities for *partnerships* and *Wider Markets* arrangements are considered as a part of any review of the Department's activities. The Private Finance Initiative (PFI) also remains one of the range of options for developing Public/Private Sector Partnerships (PPP). Under a PFI contract effective from April 2000, ICL became our IS service provider and took over the Department's IS Infrastructure (PCs, telecoms and networks). The PFI provides for our current and future infrastructure needs, keeping the Department in a position to deliver its electronic service initiatives. We are also undertaking jointly with the Inland Revenue a global estate PFI contract, looking to secure additional savings and value for money for both departments. The project is proceeding to timetable and is on track to start in April 2001.

The Department will have disposed of a large proportion of its assets as a result of the two PFI contracts. Otherwise we have a relatively low level of disposals, with the majority of our assets being utilised until the end of their serviceable life. The exception is vehicles, which we dispose of by auction.

### **7.2 CURRENT SPENDING**

The Departments Estimate (Main Estimate for 2001-02) is contained in Appendix 2. Further detail on Request for Resource (RfR) expenditure and Appropriations in Aid in support of the Main Estimate can be found in Appendix 3 – spending plans tables.



## PART 8: REPORTS ON SELECTED INITIATIVES

### 8.1 POLICY MAKING

A wide range of initiatives are under way to improve the quality of policy advice to Ministers.

- We are enhancing our research and analytical capacity to support policy development.
- We are increasing the amount of training and extending its scope, particularly to strengthen economic analysis and business awareness.
- Under the Better Quality Service programme, we are benchmarking areas of Policy Group against other organisations.
- We will be developing an enhanced policy assurance and evaluation programme to ensure that policies are being properly implemented and assessed for their effectiveness.

### 8.2 CLOSER WORKING WITH THE INLAND REVENUE

In many respects, Closer Working has become ingrained into the day to day conduct of our business. Based on experience gained, it was decided to focus the programme of Closer Working with the Inland Revenue into a smaller number of areas offering greater benefit, especially in the harmonisation in the area of business taxes, the main overlap between the departments. We decided to do this by giving the highest priority to specific activities obtaining benefits in the areas of compliance and service.

In addition we are currently undertaking three joint BQS reviews intended to give rise to closer working arrangements in the areas of Learning Services, Debt Management and Banking Services.

#### 8.2.1 Compliance

We are intensifying the implementation of the recommendations of the Grabiner report on the hidden economy. This includes the following.

- Roll-out of a further 5 Joint Shadow Economy Teams to bring the total to 20. These teams comprise mixtures of Revenue and Customs staff, and in some cases now include staff from the Department of Social Security (DSS). They have a single line manager and present a joined-up approach to tackling the Shadow Economy Initiative.
- Two Joint Fashion Industry Teams, one in London and one in Leicester, working with the Health and Safety Executive and the DSS.
- National co-ordination of action on specific trade sectors.
- Development and extension of a joint service for the audit of computer based accounts. For both departments, it provides training for new auditors, R&D, software audits and support for high-level and large business assurance. In addition, we are materially increasing the amount of intelligence and information exchanged between the departments
- Three joint data centres to deliver joint intelligence analysis capability
- Joint strategic threat assessments on taxpayer groupings.
- Pilot work on joint data mining and risk analysis will help target resources to highest risk areas and we aim to carry out 'horizon scanning' analysis to spot emerging threats.

### 8.2.2 Customer service

- Joint teams have been established to handle all the business tax affairs of a number of large businesses in four test trade sectors. They are looking at ways in which we could eliminate duplicated lines of enquiry and make it easier for businesses to comply with tax obligations.
- We have set up a single unit covering company voluntary arrangements and will be combining our service handling all insolvency claims.
- Over the year we have continued to develop joined-up services to business through road-shows, seminars, open days, websites and sharing each other's enquiry centres and hot-lines. We have also launched a fully integrated 'Starting up in Business' guide.

Our attempts to deliver better joined-up policy have been successful and now form a natural part of our normal business fabric. Similarly, though we continue to look for opportunities to reduce costs by working together, we have achieved much by virtue of the Strategic Transfer of our Estate to the Private Sector (STEPS).

### 8.3 BETTER QUALITY SERVICE (BQS)

The Department is progressing, on target, with its BQS programme. Joint reviews with the Inland Revenue in respect of Debt Management, Learning Services and Banking are nearing completion; the results of these reviews will strengthen Closer Working and achieve quality and cost improvements.

In addition, substantial individual Departmental BQS reviews within the UK Revenue Activity (Large Business Resource and Small/Medium Enterprise SME Assurance) are being undertaken and due to report by March 2002.

The review of the structure and organisation of support services being carried out during 2001-02 will be included within the BQS framework.

### 8.4 PUBLIC PRIVATE PARTNERSHIP/WIDER MARKETS

The Department has two key Public Private Partnership (PPP) initiatives. The Private Finance Initiative (PFI) contract with ICL for the Departmental IT infrastructure is into its second year of operation and the joint PFI with the Inland Revenue for the Strategic Transfer of our Estate is due to start on April 1 2001. Wider Market initiatives are being pursued in our Information Management Division and the Radio Communications Unit. Smaller scale sponsorship activities are in place in the areas of anti-smuggling and publicity. We will continue to explore other opportunities as they arise.

### 8.5 PUBLIC SECTOR BENCHMARKING SERVICE

The Public Sector Benchmarking Service (PSBS) is being developed as a partnership between HM Customs & Excise and the Cabinet Office. It supports the commitment in the Modernising Government White Paper to benchmark service delivery and policy functions. The new service, supported by the Prime Minister, was formally launched by the Paymaster General in February 2001.

One of the key aims of the service is to promote organisational learning across the public sector by increasing the availability of benchmarking information and sharing good practices. Through its helpdesk and website ([www.benchmarking.gov.uk](http://www.benchmarking.gov.uk)) the PSBS is already recognised as a centre of excellence for benchmarking and a focal point for the transfer of knowledge and good practices between central government, local government, the NHS and service providers at home and abroad.

The PSBS is also taking the lead in European Public Sector Benchmarking with the establishment of a European Benchmarking Network, which will allow member states to share knowledge and examples of good practice. The development of this network is also considered a useful tool in the ongoing process of EU Commission reform.

## 8.6 MANAGEMENT AND STAFF

### 8.6.1 Bringing in and bringing on talent.

We have selected the first 16 participants for Horizons, our accelerated development programme for those with the potential to reach senior management positions. We are reviewing the programme to ensure that the future format represents the best method of identifying and developing those with potential to reach senior management positions.

### 8.6.2 Diversity.

In support of the culture we are working towards, we have run an awareness campaign to emphasise the importance of treating people with dignity and respect at work. Diversity awareness training for all senior managers has been completed, with ongoing support provided through an intranet site which includes a guide to practical diversity, and which will contain a developing bank of good practice. Additionally, a new training package has been launched which will help front-line operational staff deal more effectively with a diverse trading and travelling public.

Building on existing successful initiatives, a programme of action is being prepared to deliver challenging targets for employment and progression of under-represented groups.

Our strategy to increase the use of Open Learning – the use of non-classroom methods for the delivery of development and training – recognises the requirement to respond more flexibly and efficiently to the needs of a diverse workforce. We aim to create a balance between interactive and traditional methods to provide what is best for people and the business.

### 8.6.3 Investors in People

We have reduced the number of Investors in People (IiP) units from 34 to 21, and this is likely to reduce further. 94% of our people work in accredited units with the final unit currently being assessed for IiP status. We are currently reviewing IiP entities in the light of the recent reorganisation.

### 8.6.4 Team bonuses

One of the principal and most radical recommendations of the Makinson report on “Incentives for Change” was to move to a system that rewards staff on the basis of team performance. Trials are taking place in a number of our regional operational offices and one of our central processing units. Early results have been encouraging.

## 8.7 SUSTAINABLE DEVELOPMENT

### 8.7.1 Policy

All proposals for legislative change and the Budget incorporate an assessment of their environmental impact. Proposed new policy instruments which have primarily environmental objectives (e.g. the Climate Change Levy, Aggregates Levy) are based on full appraisals of the environmental damage they are intended to address and their effectiveness in doing so, compared with other policy instruments. This work is generally carried out in collaboration with other interested government departments, notably Treasury and the Department of the Environment, Transport and the Regions (DETR), and generally involves a process of consultation and the commissioning of academic research. Customs and Treasury officials are now discussing how a greater degree of consistency in methodologies and approaches could be introduced in future.

### 8.7.2 Green Minister

We continue to chair an interdepartmental group for energy and environmental managers, sharing best practice and discussing new initiatives. As part of the Chancellor of the Exchequer’s departments, we work with HM Treasury, Inland Revenue representatives and others on joint initiatives, including support of our green minister, Stephen Timms. We are currently revising the overarching environmental policy statement to cover the wider sustainable development agenda. We attend the Green Ministers Officials Working Group and also provide ongoing support to other government departments, including the DETR.

### 8.7.3 Travel

We have produced 60 Green Travel Plans, covering 113 buildings, which represents all Customs and Excise sites with more than fifty staff. We intend to strengthen these plans following DETR guidance expected in April 2001. In our drive towards a greener fleet of vehicles, we have purchased/leased six alternative/bi-fuel vehicles for use at Heathrow, Gatwick and Manchester Airports. We will continue to investigate the most fuel efficient vehicles in our efforts for continuous improvement of our fleet. We have also purchased four pool bicycles for use in HQ London and the London region and will launch this scheme in April.

### 8.7.4 Energy

We have bought 5% of our electricity from renewable sources from Powergen and are on target to increase this to 7.5% by 31 March 2001.

The successful STEPS contractor will monitor the utilities market to seek out the best opportunities at a given time. They will calculate the Department's Climate Change liability and focus on reducing the Department's energy consumption, taking measures to minimise both the levy burden and the emission of greenhouse gases. We will have access to specially designed software programmes for the extensive analysis and procurement of utilities, enabling the optimisation of the Department's purchasing positions and accurate forecasting and budgeting. We will also continue to raise general awareness and improve motivation, in order to achieve good energy housekeeping that will help us to maximise energy savings.

### 8.7.5 Waste

Building upon existing arrangements for waste reduction from over 100 sites (representing 77% of the Department's people) we collected 566 tonnes of waste paper for recycling. This is a substantial increase on the previous year. Under STEPS there will be new regional contracts that will cover the recycling of office waste as a whole and we intend to monitor waste levels to ensure that recycling and re-use rates are increased. Last year 14 million litres of seized beer, wine and spirits were disposed of by our recycling contractor and all the useful by-products recycled or reused. We are currently working with consultants to produce new guidance on the disposal of special waste to ensure that we continue to meet legislative and regulatory requirements and improve our sustainable waste management approach.

### 8.7.6 Purchasing

We have incorporated environmental purchasing guidance notes into the Purchasing Manual (our standard guidance for purchasers) and introduced environmental considerations into our core purchasing training programme. We are currently working with the Inland Revenue and DETR on the development of an environmental assessment tool to ensure that environmental issues are considered at the start of contracts.

### 8.7.7 Environmental Management Systems

The former London Central collection achieved ISO 14001, an international standard of environmental management practice. Over forthcoming months we are aiming to extend the scope of this scheme to cover the new enlarged London region. We also intend to work towards ISO certification in the Northern and Central regions.

## APPENDIX 1: BOARD AND MANAGEMENT COMMITTEES

### THE BOARD

Richard Broadbent	Chairman
Mike Eland	Director General
Terry Byrne	Director Law Enforcement
Ray McAfee	Director Regional Business Services
Mike Norgrove	Director Large Businesses
Alex Fraser	Director Logistics
Michael Hanson	Director Finance and Strategy (Principal Finance Officer)
David Pickup	Solicitor
Richard Allen	Director Human Resources (Principal Establishments Officer)
Martin Brown	Director Customs & Tax Practice
Rachel Pickavance	Non-executive
David Spencer	Non-executive

### BOARD COMMITTEES

#### Management Committee

Richard Broadbent (Chairman)  
 Mike Eland  
 Terry Byrne  
 Ray McAfee  
 Mike Norgrove  
 Alex Fraser  
 Michael Hanson

#### Audit Committee

Richard Broadbent (Chairman)  
 David Spencer\*  
 Michael Hanson  
 Martin Brown  
 \*Non-executive

#### Appointments Committee

Richard Broadbent (Chairman)  
 Richard Allen  
 Terry Byrne  
 Mike Eland  
 Ray McAfee  
 Terry Byrne

### Operating Committees

#### Business Services and Taxes

Mike Eland (Chairman)  
 Ray McAfee  
 Mike Norgrove  
 Martin Brown  
 Alison French  
 Doug Tweddle

#### Law Enforcement

Terry Byrne (Chairman)  
 Andrew Parker  
 Paul Evans  
 Martin Peach  
 Mike Wells  
 Brian Walker

#### Support Services

Alex Fraser (Chairman)  
 Richard Allen  
 Michael Hanson  
 Doug Tweddle  
 Brian Walker

## APPENDIX 2: RESOURCE BASED ESTIMATES 2001-02

This appendix contains the Main Estimate for HM Customs and Excise.

### INTRODUCTORY NOTES

#### 1. EXPENDITURE COVERED BY THE ESTIMATE

This Department's estimate covers a single Request for Resource (RfR) which includes five sections. A brief description of the expenditure covered by each section follows:

**Section A:** represents administration spending within the Departmental Expenditure Limit (DEL). Spending covers the collection of indirect taxes; carrying out functions relating to the movement of people and goods across our national borders; payments in respect of the Customs and Excise National Museum; and non-discretionary payments in respect of Shipbuilders' Relief.

**Section B:** covers Departmental spending within Annually Managed Expenditure (AME), for incentive payments to encourage the use of on-line filing of VAT returns.

**Section C:** covers Departmental spending within Annually Managed Expenditure (AME) on non-cash items including depreciation and cost of capital charges.

**Section D:** a token net sub-head representing other spending outside DEL under Single European Authorisation arrangements.

**Section E:** covers the gains or losses on the disposal of capital assets.

Appendix 3 to this Report provides further detail on RfR expenditure and Appropriations-in-Aid.

#### 2. SYMBOLS USED IN THE MAIN ESTIMATE

The following symbols are used in Main Estimates. The two applicable to this Main Estimate are identified below against the appropriate symbol.

##### Public expenditure

- ★ A section of an Estimate which contains discretionary expenditure: **applicable to Section A to the Part II table.**
- φ Income which is classified as negative in Resource Budgets: DELs or in Capital Budget DELs in respect of income from capital receipts including assets sales and which are, exceptionally surrendered direct to the Consolidated Fund as extra receipts rather than taken on to the Estimate as appropriations-in-aid.
- ∇ Income which is classified as negative in Resource Budget: AME or Capital Budget AME and which are exceptionally surrendered direct to the Consolidated Fund as extra receipts rather than taken on to the Estimate as appropriations-in-aid.
- Extra receipts which are classified as "other spending outside Departmental Expenditure Limits" and are surrendered to the Consolidated Fund as extra receipts: **applicable to the Part III table.**

##### Statutory authority for expenditure:

- Items where provision is sought under the sole authority of Part I of the Estimate and of the confirming Appropriation Act.

**Accounting and audit arrangements for grants in aid and certain subscriptions, etc, to international organisations:**

- ♥ The accounts of this body are audited by the Comptroller and Auditor General and presented to Parliament.
- ◆ The accounts of this body are audited by auditors appointed by the Secretary of State (or Minister) and presented to Parliament. The books and accounts are also open to inspection by the Comptroller and Auditor General.
- ♠ The accounts of this body are audited by auditors appointed by the Secretary of State (or Minister) and presented to Parliament.

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

### PART I

	£
<b>RfR1: Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations.</b>	<b>1,051,697,000<sup>(a)</sup></b>
<b>Net cash requirement</b>	<b>1,049,962,000</b>

Amounts required in the year ending 31 March 2002 for expenditure by H M Customs and Excise on:

**RfR1: Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations.**

administrative costs of taxation; the operation of customs revenue controls; the provision of trade information and other customs and excise related services; payments in respect of Shipbuilders' Relief and the Customs and Excise National Museum; incentive payments to encourage the use of on-line filing of VAT returns; and associated non-cash items.

**HM Customs and Excise** will account for this Estimate.

	<i>Net Total</i>	<i>Allocated in Vote</i>	<i>Balance to</i>
	£	on Account	Complete
		£	£
RfR1	1,051,697,000	473,264,000	578,433,000
Net cash requirement	1,049,962,000	464,833,000	585,129,000

(a) Includes expenditure in relation to payments to encourage the use of on-line filing of VAT returns as introduced by the VALUE ADDED TAX (Electronic Communications) (Incentives) Regulations 2001 SI 2001/759 which was laid before Parliament in March 2001 under the powers conferred on the Commissioners by Schedule 38 to the Finance Act 2000.

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## PART II: SUBHEAD DETAIL

£ thousands

<i>Resources</i> .....						<i>Capital</i> .....		2001-02 Provisions	1999-00 Outturn
1	2	3	4	5	6	7	8	9	10
Admin	Other Current	Grants	Gross Total	A in A	Net Total	Capital	Non-operating A in A	Net Total Resources	Net Total Resources
<b>RfR 1: Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations</b>									
986,143	82,726	435	1,069,304	17,607	1,051,697	57,786	759	977,854	918,772
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS (DEL)									
<i>Central Government spending</i>									
<b>★A Administration</b>									
920,486	82,526	435	1,003,447	17,408	986,039	57,786	759	933,101	879,268
SPENDING IN ANNUALLY MANAGED EXPENDITURE									
<i>Central Government spending</i>									
<b>B Administration</b>									
17,000	–	–	17,000	–	17,000	–	–	–	–
<i>Non-Cash Items</i>									
<b>C Administration</b>									
48,657	–	–	48,657	–	48,657	–	–	44,752	39,213
OTHER SPENDING OUTSIDE DEPARTMENTAL EXPENDITURE LIMITS									
<b>D Operational local clearance procedures</b>									
–	200	–	200	199	1	–	–	1	–
<b>E Administration</b>									
–	–	–	–	–	–	–	–	–	291
986,143	82,726	435	1,069,304	17,607	1,051,697	57,786	759	977,854	918,772
								<b>Accruals to cash adjustment</b>	<b>58,762</b>
								<b>Net cash required</b>	<b>1,049,962</b>

		£ thousands
		2001-02
<b>Resource to Cash reconciliation</b>		
<b>Net Total Resources</b>		<b>1,051,697</b>
<b>Voted Capital Items</b>		
Capital	57,786	
Less Non-operating A-in-A	759	
	<u>57,027</u>	<b>57,027</b>
<b>Accruals to cash adjustments</b>		
Cost of Capital charges	-20,291	
Depreciation	-36,787	
Other non-cash items	-130	
Increase (+)/Decrease (-) in stock	–	
Increase (+)/Decrease (-) in debtors	–	
Increase (+)/Decrease (-) in creditors	-1,399	
Increase (+)/Decrease (-) in provision	-155	
	<u>-58,762</u>	<b>-58,762</b>
<b>Net Cash Required</b>		<b>1,049,962</b>



## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## PART III: EXTRA RECEIPTS PAYABLE TO THE CONSOLIDATED FUND

In addition to appropriations-in-aid the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in Italics):

£ thousands

	2001-02		2000-01		1999-00	
	Income	<i>Receipt</i>	Income	<i>Receipt</i>	Income	<i>Receipt</i>
Operating income not classified as A-in-A	–	–	–	–	–	–
Non-operating income not classified as A-in-A	–	–	–	–	–	–
● Other income not classified as A-in-A	157,927	<i>157,927</i>	159,727	<i>159,727</i>	157,846	<i>157,846</i>
	<b>157,927</b>	<b><i>157,927</i></b>	<b>159,727</b>	<b><i>159,727</i></b>	<b>157,846</b>	<b><i>157,846</i></b>

## FORECAST OPERATING COST STATEMENT

	2001-02 Provision	2000-01 Provision	1999-00 Outturn
<b>Administration Costs</b>			
Voted Expenditure			
Staff Costs	595,000	593,000	579,972
Other Administration costs	391,143	314,086	249,240
Gross Administration costs	986,143	907,086	829,212
Operating income	–7,114	–7,114	–8,151
<b>Total Net Administration costs</b>	<b>979,029</b>	<b>899,972</b>	<b>821,061</b>
<b>Programme Costs</b>			
Voted Expenditure			
Expenditure	83,161	88,607	108,047
Income	–10,493	–10,725	–10,336
<b>Net Programme costs</b>	<b>72,668</b>	<b>77,882</b>	<b>97,711</b>
Non-Voted Expenditure			
Expenditure			
Income			
Net Programme costs	–	–	–
<b>Total Net Programme costs</b>	<b>72,668</b>	<b>77,882</b>	<b>97,711</b>
<b>NET OPERATING COST</b>	<b>1,051,697</b>	<b>977,854</b>	<b>918,772</b>
<b>NET RESOURCE OUTTURN</b>	<b>1,051,697</b>	<b>977,854</b>	<b>918,772</b>
<b>RESOURCE BUDGET OUTTURN</b>	<b>1,056,696</b>	<b>977,853</b>	<b>918,481</b>

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## FORECAST CASH FLOW STATEMENT

£ thousands

	2001-02 Provision	2000-01 Provision	1999-00 Outturn
Net cash outflow from operating activities (Note i)	-992,935	-914,281	-885,475
Capital expenditure and financial investment (Note ii)	-57,027	19,103	-23,571
Receipts due to the Consolidated Fund which are outside the scope of the department's operations	157,927	159,727	157,846
Payments of amounts due to the Consolidated Fund	-157,927	-159,727	-160,238
Financing (Note iii)	1,049,962	895,178	930,823
<b>Increase (+)/decrease (-) in cash in the period</b>	<b>0</b>	<b>0</b>	<b>19,385</b>
[Inflows = +/Outflows = - ]			

## NOTES TO THE CASH FLOW STATEMENT

## Note i: Reconciliation of operating cost to operating cash flows

Net Operating Cost	1,051,697	977,854	918,772
Remove non-cash transactions	-57,363	-52,654	-49,029
Adjust for movements in working capital other than cash	-1,399	-10,919	15,732
Use of provisions	-	-	-
<b>Net cash outflow from operating activities</b>	<b>992,935</b>	<b>914,281</b>	<b>885,475</b>
[Net outflow = + ]			

## Note ii: Analysis of capital expenditure and financial investment

Tangible fixed asset additions	54,786	47,156	34,415
Intangible fixed asset additions	3,000	3,000	4,103
Proceeds of disposal of fixed assets <sup>1</sup>	-759	-69,259	-14,938
Adjust for movements in working capital on capital expenditure and financial investment	-	-	-9
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>57,027</b>	<b>-19,103</b>	<b>23,571</b>
[Net outflow = + ]			

<sup>1</sup> Includes profit/loss on disposal of fixed assets

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

£ thousands

	2001-02 Provision	2000-01 Provision	1999-00 Outturn
<b>Note iii: Analysis of financing and reconciliation to the net cash requirement</b>			
From Consolidated Fund (Supply): current year expenditure	1,049,962	895,178	901,761
Net payments from revenue to cover re-classification of Shipbuilders' Relief	–	–	29,062
<b>Net financing</b>	<b>1,049,962</b>	<b>895,178</b>	<b>930,823</b>
<b>Increase (–)/decrease (+) in cash</b>	<b>0</b>	<b>0</b>	<b>–19,385</b>
<b>Net cash flows other than financing (net outflow = +)</b>	<b>1,049,962</b>	<b>895,178</b>	<b>911,438</b>
Adjust for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund – received in a prior year and paid over	0	0	–2,392
<b>Net cash requirement for the year</b>	<b>1,049,962</b>	<b>895,178</b>	<b>909,046</b>

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## NOTES TO THE ESTIMATES

## 1. EXPLANATION OF ACCOUNTING OFFICER RESPONSIBILITIES

The Treasury has appointed the Permanent Head of HM Customs and Excise, Mr. Richard Broadbent, as Accounting Officer of the Department with responsibility for preparing the Department's Estimate.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting*.

## 2. FORECAST RECONCILIATION OF NET RESOURCE OUTTURN TO NET OPERATING COST TO RESOURCE BUDGET OUTTURN

£ thousands

	2001-02	2000-01	1999-00
<b>Net Resource Outturn</b>	<b>1,051,697</b>	<b>977,854</b>	<b>918,772</b>
Remove other adjustments	–	–	–
<b>Net Operating Costs</b>	<b>1,051,697</b>	<b>977,854</b>	<b>918,772</b>
Add other Consolidated Fund Extra Receipts	–	–	–
Reverse the deduction of gains and deduct the losses incurred on the disposal of assets	–	–	–291
Remove other expenditure shown in Estimates under the heading "Other Expenditure Outside DEL" that is outside the Resource Budget – relates to operational local clearance procedures	–1	–1	–
Add unallocated resource provision	5,000	–	–
Other Adjustments	–	–	–
<b>Resource Budget Outturn</b>	<b>1,056,696</b>	<b>977,853</b>	<b>918,481</b>
Of which:			
Departmental Expenditure Limit (DEL)	991,039	933,101	879,268
Annually Managed Expenditure (AME)	65,657	44,752	39,213

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## APPROPRIATIONS-IN-AID

£ thousands

Detail	2001-02 provision		2000-01 provision		1999-00 outturn	
	A in A	Non-op. A in A	A in A	Non-op. A in A	A in A	Non-op. A in A
<b>RfR1: Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations.</b>						
Income from charges for special attendance	940	—	1,291	—	1,255	—
Income from recovery of costs and expenses	8,267	—	8,060	—	9,219	—
Income from international commitment charges	2,343	—	2,500	—	1,798	—
Income from the sale of certificates and statistical services	326	—	300	—	314	—
Income from Estate Management services	1,515	—	1,870	—	3,012	—
Income from Shipbuilders' Relief	3,517	—	3,349	—	2,465 <sup>3</sup>	—
Local clearance procedure receipts	199	—	199	—	—	—
Other miscellaneous receipts	500	—	270	—	424	—
Income from sale of fixed assets	—	759	—	69,259	—	14,938
<b>Total</b>	<b>17,607<sup>1</sup></b>	<b>759<sup>2</sup></b>	<b>17,839</b>	<b>69,259<sup>4</sup></b>	<b>18,487</b>	<b>14,938<sup>5</sup></b>

1 Amount that may be applied as appropriations-in-aid in addition to the net total, arising from income received for the special attendance of officers, from charges for international commitments, from the sale of statistical services and certificates and from estate management services, the recovery of law costs, the costs of staff on loan, EC travelling expenses and receipts from the EC, receipts in respect of Shipbuilders' Relief and local clearance procedures under Single European Authorisations, receipts from insurance and compensation claims, marine fuel relief and other miscellaneous running and non running costs receipts.

2 Amount that may be applied as non-operating appropriations-in-aid, arising from the recovery of income from the sale of fixed assets and from the sale of land and buildings.

3 Shipbuilders' Relief was re-classified as part of the Departmental Expenditure Limit in 2000-01. The revenue outturn is included for comparison purposes for 1999-00

4 Includes £63 million in respect of the estates private finance initiative (STEPS).

5 This figure includes a notional receipt of £14.27 million in 1999-2000 in respect of a barter deal transaction associated with the award of a private finance initiative (PFI) contract for the provision of IT services. It also includes a loss on disposal of fixed assets.

## HM CUSTOMS AND EXCISE

## MAIN ESTIMATES, 2001-02

## CONSOLIDATED FUND EXTRA RECEIPTS (CFERs)

£ thousands

Detail	2001-02		2000-01		1999-00	
	Income	Receipt	Income	Receipt	Income	Receipt
In addition to appropriations-in-aid the following income and receipts relate to the Department and are payable to the Consolidated Fund:						
Fines and penalties	146,500	146,500	146,500	146,500	146,627	146,627
Proceeds, less duty, on sales of seized assets	4,000	4,000	3,800	3,800	3,639	3,639
Bank interest	245	245	245	245	335	335
Other miscellaneous receipts	7,182	7,182	9,182	9,182	7,245	7,245
<b>Total</b>	<b>157,927</b>	<b>157,927</b>	<b>159,727</b>	<b>159,727</b>	<b>157,846</b>	<b>157,846</b>

## OTHER NOTES TO THE ACCOUNTS

1. The HM Customs and Excise Departmental Expenditure Limit totals £1,049,066,000. The administration costs limit is £924,894,000
2. The provision sought for 2001-02 is 7.6% higher than the final net resources provision and forecast outturn for 2000-01 of £977,854,000. However the outturn year includes a one-off receipt of £63,000,000 in respect of the estates private finance initiative (STEPS). If this receipt is disregarded the provision sought for 2001-02 would represent a 1.0% increase over 2000-01.
3. The Department has contingent liabilities of £150,000 principally consisting of claims arising from the administration of taxes.
4. To provide consistency figures for 1999-00 include the net resource cost of shipbuilders' relief (£29.1 million) which was re-classified as Vote expenditure in 2000-01.

## APPENDIX 3: SPENDING PLANS TABLES

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### INTRODUCTION TO THE FORMAT OF THE TABLES

Following the introduction of resource accounting and budgeting (RAB), the core tables given here differ in a number of respects from those in previous years' Departmental Reports. RAB provides a more accurate measure of Departmental expenditure by matching costs to time and measuring the full cost of government activity, including non-cash expenditure such as depreciation, cost of capital charges, and provisions.

The aim of the tables is to provide a detailed analysis of Departmental expenditure plans in resource terms, showing: resource consumption and capital investment; Voted and non-Voted expenditure; and expenditure in three year Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

Following the decision to introduce resource budgeting in two stages, the major non-cash items – depreciation, cost of capital charges, and provisions – score in AME for the 2000 Spending Review years (2001-02 to 2003-04). Throughout the tables, non-cash expenditure in AME is distinguished from annually managed programme expenditure for the Department. In Stage 2 resource budgeting, which is scheduled for the 2002 Spending Review, these items will score in DEL.

Because RAB data is at present available only from 1998-99, the scope of the resource tables is restricted to 1998-99 to 2003-04, the last year covered by the 2000 Spending Review. However, Table 11 sets out DEL in cash terms from 1995-96 to 2001-02, whilst Table 12 shows the cash to RAB reconciliation for DEL numbers for 1998-99 to 2000-01.



**TABLE 1: RESOURCE PLANS SUMMARY TABLE**

This table sets out, in resource terms, a summary of expenditure from 1998-99 to 2003-04. The first part shows total expenditure in DEL and AME for the Department, including the new non-cash AME items introduced by RAB. This is then split into resource and capital expenditure, the former showing what the Department consumes in current spending and the latter showing planned investment expenditure.

The “Total Resource Budget” and “Total Capital Budget” figures illustrate, in resource terms, total DEL and AME expenditure in the Department’s budget. This includes expenditure such as the consumption and investment of public corporations, which is outside the Departmental accounting boundary and some of which is not Voted by Parliament. “Programme spending” in Resource AME is used to distinguish annually managed programme expenditure from the non-cash items which score in AME under Stage 1 resource budgeting.

“Net operating costs” and “Total Capital Budget” (as adjusted by the figure shown in note 3 below) show the expenditure covered in the departmental resource accounts. “Net total resources (Voted)” and “Net capital expenditure (Voted)” show the resources and capital expenditure voted by Parliament in Estimates. However, the “Outturn” years, for consistency, include expenditure and receipts in respect of shipbuilders’ relief which was re-classified as Voted expenditure in 2000-01 (all tables allow for this). Reconciliations between the budgeting accounting and Parliamentary Estimates aggregates are shown in Tables 6 and 7 for resources and capital expenditure.

TABLE 1<sup>1</sup>

£ millions

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>TOTAL SPENDING IN DEL</b>	880	903	915	1,049	1,103	1,125
<b>TOTAL SPENDING IN AME</b>	52	39	45	66	62	73
Of which non-cash AME	52	39	45	49	62	73
<b>CONSUMPTION – THE RESOURCE BUDGET</b>						
<b>Resource DEL</b>	<b>850</b>	<b>879</b>	<b>933</b>	<b>991</b>	<b>1,019</b>	<b>1,029</b>
<b>Resource AME</b>	<b>52</b>	<b>39</b>	<b>45</b>	<b>66</b>	<b>62</b>	<b>73</b>
Of which:						
Programme spending: on-line filing of VAT returns	–	–	–	17	–	–
Non-cash items in Resource AME	52	39	45	49	62	73
<b>Total Resource Budget</b>	<b>902</b>	<b>918</b>	<b>978</b>	<b>1,057</b>	<b>1,081</b>	<b>1,102</b>
Adjustment to reach operating costs <sup>2</sup>	1	#	#	–5	–41	–47
<b>Net Operating Costs</b>	<b>903</b>	<b>919</b>	<b>978</b>	<b>1,052</b>	<b>1,040</b>	<b>1,055</b>
Adjustment to reach voted total	–	–	–	–	–	–
<b>Net Total Resources (Voted)</b>	<b>903</b>	<b>919</b>	<b>978</b>	<b>1,052</b>	<b>1,040</b>	<b>1,055</b>
<b>INVESTMENT – THE CAPITAL BUDGET</b>						
<b>Capital DEL</b>	<b>30</b>	<b>24<sup>3</sup></b>	<b>–18<sup>4</sup></b>	<b>58</b>	<b>84</b>	<b>97</b>
<b>Total Capital Budget</b>	<b>30</b>	<b>24</b>	<b>–18</b>	<b>58</b>	<b>84</b>	<b>97</b>
Adjustment to reach voted capital <sup>5</sup>	–1	#	–1	–1	–23	–19
<b>Net Capital Expenditure (Voted)</b>	<b>30</b>	<b>23</b>	<b>–19</b>	<b>57</b>	<b>61</b>	<b>78</b>

# Cash amounts below £0.5 million are not shown

<sup>1</sup> This table summarises information on spending plans, accounts and Estimates across Customs and Excise. This information is presented in more detail in Tables 4 to 7.

<sup>2</sup> Entries for 1998-99 and 1999-00 concern losses on disposal of fixed assets. From 2001-02 they relate to unallocated resource provision which includes (in 02-03 and 03-04) funding that will be released to the E-Business area providing progress is made towards implementing a clear strategy of change. In addition, from 2000-01, adjustments account for net costs of operational local clearance procedures.

<sup>3</sup> This figure includes a notional receipt of £14.27 million in 1999-2000 in respect of a barter deal transaction associated with the award of a private finance initiative (PFI) contract for the provision of IT services.

<sup>4</sup> Includes a £63 million receipt in respect of the estates private finance initiative (STEPS).

<sup>5</sup> Entries for 1998-99 and 1999-00 concern losses on disposal of fixed assets. From 2000-01 they relate to unallocated capital provision which includes (in 02-03 and 03-04) funding that will be released to the E-Business area providing progress is made towards implementing a clear strategy of change.

**TABLE 2: DEPARTMENTAL VOTED CASH REQUIREMENT**

Under RAB, Parliament votes both a net resource requirement for Departmental expenditure, reflecting the total Voted provision sought in resource terms, and the cash requirement needed to fund this commitment. The Voted net cash requirement represents the Parliamentary limit for the Department in cash terms and the limit for the amount of cash which can be drawn down for use by the Department in the year.

The Voted net cash requirement is calculated by removing non-cash costs from net operating costs, adjusting for accruals/cash differences such as timing, and then stripping out the part of the Departmental cash requirement that is not Voted.

The net Voted cash requirement is shown from 1998-99 to the year for which the current Estimate has been submitted, 2001-02. Figures for future year plans are shown for completeness.

TABLE 2

*£ millions*

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
Net Total Resources (Voted)	903	919	978	1,052	1,040	1,055
Net Capital Expenditure (Voted)	30	23	-19	57	61	78
Adjust for non-cash transactions	-47	-46	-52	-57	-70	-82
Adjust for movements in working capital	-6	16	-11	-1	-1	-1
Adjust for transfer from provision	-14	-3	#	#	#	#
Excess cash to be CFERed	-	-	-	-	-	-
<b>Net Cash Required</b>	<b>866</b>	<b>909</b>	<b>895</b>	<b>1,050</b>	<b>1,029</b>	<b>1,049</b>

# Cash amounts below £0.5 million are not shown

**TABLE 3: TOTAL CAPITAL EMPLOYED BY DEPARTMENT**

RAB gives a much clearer picture of the capital assets used by a department. This is used as the basis for calculating the cost of capital charges paid by departments to reflect the economic costs of holding the assets. Table 3 sets out Total Capital Employed by the department within the accounting boundary, and by its sponsored bodies outside the boundary.

TABLE 3

*£ millions*

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>Net Assets/Liabilities</b>						
Within the Departmental account	268	266	238	296	359	460
Investment outside accounting boundary	-	-	-	-	-	-
<b>Total Capital Employed</b>	<b>268</b>	<b>266</b>	<b>238</b>	<b>296</b>	<b>359</b>	<b>460</b>

## TABLE 4: CONSUMPTION – ANALYSIS OF RESOURCE BUDGET SPENDING PLANS

Table 4 gives a detailed breakdown of the resource or current spending plans from 1998-99 to 2003-04. The functional splits by which resources are allocated match those in the Main Resource Estimates, split into DEL and AME. Non-Voted expenditure is shown with a brief description as to its functions. Non-cash expenditure in AME is shown by category – depreciation, cost of capital charge, and changes in provisions and other charges.

TABLE 4

£ millions

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>Resource Budget</b>						
<b>Departmental Expenditure Limits (DEL)</b>						
<b>RfR 1: Administering the indirect tax and customs control systems fairly and efficiently, enabling individuals and businesses to understand and comply with their obligations.</b>						
Administration	850	879	933	986	978	982
Non-voted expenditure – unallocated resource provision <sup>1</sup>	–	–	–	5	41	47
<b>Total DEL</b>	<b>850</b>	<b>879</b>	<b>933</b>	<b>991</b>	<b>1,019</b>	<b>1,029</b>
<i>Of Which:</i>						
Central government spending	850	879	933	991	1,019	1,029
<i>Of Which:</i>						
Voted	850	879	933	986	978	982
Non-voted – unallocated resource provision <sup>1</sup>	–	–	–	5	41	47
<b>Annually Managed Expenditure (AME)</b>						
<b>RfR 1</b>						
Administration <sup>2</sup>	–	–	–	17	–	–
Administration	52	39	45	49	62	73
Voted expenditure	52	39	45	66	62	73
Non-voted expenditure	–	–	–	–	–	–
<b>Total AME</b>	<b>52</b>	<b>39</b>	<b>45</b>	<b>66</b>	<b>62</b>	<b>73</b>
<i>Of which:</i>						
Central government spending	52	39	45	66	62	73
<i>Of Which:</i>						
Voted	52	39	45	66	62	73
<i>Of Which non-cash items in AME</i>						
<i>Of Which:</i>						
Changes in Provisions and Other Charges	14	3	#	#	#	#
Cost of capital charges	10	10	12	14	20	22
Depreciation	28	27	32	34	42	51

#Cash amounts below £0.5 million are not shown

<sup>1</sup> Entries relate to unallocated resource provision which includes (in 02-03 and 03-04) funding that will be released to the E-Business area providing progress is made towards implementing a clear strategy of change.

<sup>2</sup> Relates to incentive payments to encourage the use of on-line filing of VAT returns.

## TABLE 5: INVESTMENT – ANALYSIS OF CAPITAL BUDGET SPENDING PLANS

Table 5 gives a detailed breakdown of the investment or capital spending plans from 1998-99 to 2003-04. The functional splits by which resources are allocated match those in the Main Resource Estimates, split into DEL and AME. Non-Voted expenditure is shown with a brief description as to its functions.

TABLE 5

£ millions

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>Capital Budget</b>						
<b>Departmental Expenditure Limits (DEL)</b>						
RfR 1						
Administration	30	23	-19	57	61	78
Gains or losses on disposal of capital assets	1	#	-	-	-	-
	30	24	-19	57	61	78
Non-voted expenditure – unallocated capital provision <sup>1</sup>	-	-	1	1	23	19
<b>Total DEL</b>	<b>30</b>	<b>24</b>	<b>-18</b>	<b>58</b>	<b>84</b>	<b>97</b>
<i>Of which:</i>						
Central government spending	30	24	-18	58	84	97
<i>Of which:</i>						
Voted	30	24	-19	57	61	78
Non-voted – unallocated capital provision <sup>1</sup>	-	-	1	1	23	19

#Cash amounts below £0.5 million are not shown

<sup>1</sup> Entries relate to unallocated capital provision which includes (in 02-03 and 03-04) funding that will be released to the E-Business area providing progress is made towards implementing a clear strategy of change.

**TABLE 6: RECONCILIATION OF RESOURCE EXPENDITURE BETWEEN ACCOUNTS, ESTIMATES AND BUDGETS**

This is a technical table showing the inter-relationship between the three totals for accounts, Estimates and budgets. The outturn against the total Voted by Parliament in the Estimates is shown first. The net operating cost figure in the accounts include items which are not part of the resource total voted by Parliament, such as non-Voted expenditure within the Departmental accounting boundary, and receipts surrendered to the Consolidated Fund.

The budgeting total reflects the spending authority for the Department within the Government's framework for expenditure control. This is an administrative limit imposed by the Government on the Department and its sponsored bodies. So the resource budget outturn total includes a number of categories of expenditure which are not included in, or scored differently from, the totals recorded for Voted Estimates and Departments' accounts.

The main adjustments from the net operating cost in the accounts to the outturn against resource budget total are:

- further adjustments for receipts surrendered to the Consolidated Fund, where these score differently in accounts and in budgets;
- the budget scores the full resource consumption of sponsored bodies (NDPBs and public corporations), whilst the Estimate scores only Voted grants to those bodies;
- capital grants to local authorities and the private sector are Voted as current grants in Estimates. For administrative control purposes, however, these score as capital in budgets. Similarly, gains and losses on asset disposals pass through the accounts and Estimates on the resource side, but are recycled through the capital budget under the transitional resource budgeting regime;
- European Union income is Voted but is not included within Departmental budgets; and
- Departmental Unallocated Provisions (DUPs) are not Voted but appear in budgets, as the expenditure has not yet been assigned to a particular function.

**TABLE 6****£ millions**

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>RfR 1</b>						
<b>Net Resource Outturn (Estimates)</b>	<b>903</b>	<b>919</b>	<b>978</b>	<b>1,052</b>	<b>1,040</b>	<b>1,055</b>
<i>Adjustments for:</i>						
Non-voted expenditure in the OCS	–	–	–	–	–	–
Provision Voted for earlier years	–	–	–	–	–	–
<b>Net Operating Cost (Accounts)</b>	<b>903</b>	<b>919</b>	<b>978</b>	<b>1,052</b>	<b>1,040</b>	<b>1,055</b>
<i>Adjustments for:</i>						
Gains/losses from sale of capital assets	–1	#	–	–	–	–
Voted expenditure outside the budget – Operational local clearance procedures	–	–	#	#	#	#
Unallocated resource provision	–	–	–	5	41	47
<b>Resource Budget Outturn (Budget)</b>	<b>902</b>	<b>918</b>	<b>978</b>	<b>1,057</b>	<b>1,081</b>	<b>1,102</b>
<i>Of which:</i>						
Departmental Expenditure Limits (DEL)	850	879	933	991	1,019	1,029
Annually Managed Expenditure (AME)	52	39	45	66	62	73

# Cash amounts below £0.5 million are not shown

## TABLE 7: RECONCILIATION OF CAPITAL EXPENDITURE BETWEEN ACCOUNTS, ESTIMATES AND BUDGETS

This table shows the inter-relationship between the three totals for capital expenditure.

The adjustments from the Voted Estimates totals to the capital expenditure in the accounts are broadly the same as they are on the resource side. The main adjustments from the capital expenditure in the accounts to the outturn against the capital budget are as follows:

- the capital budget scores the full capital expenditure of public corporations, including expenditure not funded by Vote;
- gains and losses on asset disposals pass through the accounts and Estimates on the resource side, but are recycled through the capital budget under the transitional resource budgeting regime;
- European Union income is not included in the budget, but is in the Estimate; and
- unallocated capital provision in the DUP is not voted in Estimates but is included within the budgeting total.

TABLE 7

£ millions

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
<b>RfR 1</b>						
Net Voted Capital Outturn (Estimates)	30	23	-19	57	61	78
Gains/losses from sale of capital assets	1	#	-	-	-	-
Unallocated capital provision	-	-	1	1	23	19
Capital Budget Outturn	30	24	-18	58	84	97
<i>Of which:</i>						
Departmental Expenditure Limits (DEL)	30	24	-18	58	84	97
Annually Managed Expenditure (AME)	-	-	-	-	-	-

#Cash amounts below £0.5 million are not shown

**TABLE 8: OMITTED**

This table, which gives an analysis of local authority expenditure, has been omitted because the figures are nil for Customs and Excise. It features here only for the sake of consistency with the reports of other departments.

**TABLE 9: ADMINISTRATION COSTS**

This table shows an analysis of administration costs (formerly known as running costs). It contains the gross administration cost limit for 2001-02, which is calculated using administration cost provision in DEL for the Department, offset by allowable income relating to estate capital charges.

**TABLE 9***£ millions*

	Outturn		Estimated Outturn 2000-01	Plans		
	1998-99	1999-00		2001-02	2002-03	2003-04
Gross administration costs						
Paybill	571	580	593	–	–	–
Other	219	210	269	–	–	–
Total administration costs	790	790	862	925	955	960
Related receipts	–9	–8	–7	–7	–7	–7
Net expenditure	781	782	855	918	948	953
Gross administration costs limits	–	–	–	925	–	–
<b>Outside administration costs limits</b>						
Administration costs on fixed assets profit and loss in capital DEL	1	#	–	–	–	–
<b>Outside administration costs limits</b>						
Non-cash administration costs in AME	52	39	45	49	62	73

#Cash amounts below £0.5 million are not shown

## TABLE 10: DEPARTMENTAL REPORTS & PUBLIC EXPENDITURE STATISTICAL ANALYSES – STAFF NUMBERS

This table shows an analysis of staff numbers.

Table 10

	1995-96 Actual	1996-97 Actual	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Estimated Outturn	2001-02 Plans	2002-03 Plans	2003-04 Plans
CS FTEs	23,536	22,932	23,321	23,064	22,415	21,796	22,000	22,050	22,050
Overtime <sup>1</sup>	1,280	1,180	1,100	1,025	507	490	500	510	510
Casuals	615	546	531	291	326	517	300	250	250
<b>Total</b>	<b>25,431</b>	<b>24,658</b>	<b>24,952</b>	<b>24,380</b>	<b>23,248</b>	<b>22,803</b>	<b>22,800</b>	<b>22,810</b>	<b>22,810</b>

<sup>1</sup> The basis for conversion of overtime into staff years was changed in 1999-00

## TABLE 11: DEL AND AME CASH PLANS, 1995-96 TO 2000-01

For the purposes of allowing comparisons to be made with previous expenditure over a longer period, a table showing outturn in cash terms is included from 1995-96 to 2000-01. 2000-01 is the last year where outturn will be expressed in cash terms.

TABLE 11

*£ millions*

1995-96 Outturn	1996-97 Outturn	1997-98 Outturn	1998-99 Outturn	1999-00 Outturn	2000-01 Estimated Outturn
--------------------	--------------------	--------------------	--------------------	--------------------	---------------------------------

### DEPARTMENTAL EXPENDITURE LIMITS

#### Current Budget

Tax and rate collection	790	789	810	817	871	914
Non-voted expenditure	–	–	–	–	–	–

#### Capital Budget

Tax and rate collection	72	70	55	50	40	–19
Non-voted expenditure <sup>1</sup>	–	–	–	–	–14	1
<b>Total Spending in DEL</b>	<b>862</b>	<b>858</b>	<b>864</b>	<b>867</b>	<b>896</b>	<b>896</b>

<sup>1</sup> Includes: a notional receipt of £14.27 million in 1990-00 in respect of a barter deal transaction associated with the award of a private finance initiative (PFI) contract for the provision of IT services; and unallocated capital provision in 2000-01.



**TABLE 12: RECONCILIATION OF RAB AND CASH BUDGETS, 1998-99 TO 2000-01**

This table illustrates how the new resource based outturn figures have been derived from the previous cash numbers for both the resource and capital budgets, in both DEL and AME. The main types of adjustment from the cash to the resource based system are:

- timing adjustments, reflecting the fact that under RAB costs are scored when the economic activity takes place, not when it is paid for;
- classification switches from resource to capital, and vice-versa as a result of the new accounting and budgeting rules;
- the inclusion of capital charges on the Department's civil estate in the resource DEL;
- the inclusion of non-cash costs in AME.

**TABLE 12.1***£ millions*

	1998-99 Outturn	1999-00 Outturn	2000-01 Estimated
<b>DEL Current Budget – Cash</b>	<b>817</b>	<b>871</b>	<b>914</b>
Timing adjustments	3	-1	12
Switches from current to capital budget	22	-	-
Switches from capital to resource budget	-	-	-
Capital charges on the civil estate	8	9	7
Other adjustments			
Other budgeting changes	-1	#	-
Resource Budget DEL	850	879	933
<b>DEL Capital Budget – Cash</b>	<b>50</b>	<b>26</b>	<b>-18</b>
Timing adjustments	2	-2	-
Switches from current to capital budget	-	-	-
Switches from capital to resource budget	-22	-	-
Other budgeting changes	-	-	-
Capital Budget DEL	30	24	-18
<b>Total DEL under cash</b>	<b>867</b>	<b>896</b>	<b>896</b>
<b>Total DEL under RAB</b>	<b>880</b>	<b>903</b>	<b>915</b>

# Cash amounts below £0.5 million are not shown

**TABLE 12.2***£ millions*

	1998-99 Outturn	1999-00 Outturn	2000-01 Estimated
<b>AME Current Budget – Cash</b>	<b>-</b>	<b>-</b>	<b>-</b>
Timing adjustments	-	-	-
Non-cash items in Resource AME	52	39	45
<b>AME Capital Budget – Cash</b>	<b>-</b>	<b>-</b>	<b>-</b>
Timing adjustments	-	-	-
<b>Total AME under cash</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total AME under RAB</b>	<b>52</b>	<b>39</b>	<b>45</b>

## APPENDIX 4: PROGRESS AGAINST EXISTING TARGETS

### THE CSR PSA

This Appendix reports on our progress against the targets for 2000/01, which contribute to fulfilling our existing CSR (PSA). These targets were outlined in our OPA, an annual agreement made with Ministers. The following table sets out the Department's performance against the OPA half-way through the year (30 September 2000).

### DEPARTMENTAL OBJECTIVES AND CSR PSA TARGETS

Objective 1. To secure the UK revenue yield from indirect taxes while minimising costs to businesses, as a key component of the Government's policy of ensuring sound public finances.				
PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>The Department will collect each year the amount of forecast UK Revenue yield from indirect taxes, subject to external factors outside the Department's control. The actual amount will be agreed annually with the Minister by April each year.</b>	Revenue receipts. (£ billion)	101.3	50.0	On course
	% monthly arrears of the 12 month trader liability.	1.1%	1.2%	Slippage
<b>The Department will agree targets for UK revenue evasion prevented by April each year, which will cover the prevention of civil and criminal fraud in both VAT and excise.</b>	Total UK Revenue evasion prevented. (£m)	1,535	772.56	On course
<b>By 31 March 2002 the Department will achieve an increase of at least £80 million revenue value of detected alcohol, tobacco fraud and smuggling to be measured against the £76 million revenue value of excise goods detections in 1997-98.</b>	Revenue value of detected alcohol and tobacco fraud and smuggling. (£m)	382.5	198.14	On course
	Number of major excise smuggling organisations disrupted or dismantled.	55	33	On course
	Cost as a % of revenue collected.	NA <sup>1</sup>	0.37	Not assessed

<sup>1</sup> It is not appropriate to set targets against these indicators. They were designed to provide trend information and to inform the development of operational policy in the medium to long term.

<b>Objective 2.</b>				
To detect and deter the smuggling of drugs and other prohibited goods as a major contribution to the Government's aim of minimising illicit activity, such as drug misuse.				
<b>PSA Target</b>	<b>Performance indicator (OPA)</b>	<b>Target Outturn</b>	<b>Half-year Outturn</b>	<b>Assessment</b>
<b>The Department will achieve targets set in consultation with the UK anti-drugs co-ordinator, for reducing the availability of drugs in the UK.</b>	Value (£m) of heroin, cocaine and other Class A drugs prevented from entering the UK.	1,320	811	On course
	Number of smuggling organisations trafficking in Class A drugs disrupted or dismantled.	47	23	On course
	Value (£m) of amounts realised against confiscation orders and of forfeiture orders made by the courts.	6.6	3.2	On course
	Number of detections of indecent or obscene material featuring children.	135	20	Slippage

<b>Objective 3.</b>				
To secure compliance with statutory, EU and international customs obligations in ways which facilitate global trade and help the single market work thereby supporting the Government's aim to make the UK an attractive place to do business.				
<b>PSA Target</b>	<b>Performance indicator (OPA)</b>	<b>Target Outturn</b>	<b>Half-year Outturn</b>	<b>Assessment</b>
<b>The Department aims to improve its customer service performance in key areas of its modernisation programme to be measured by surveys at start &amp; end of the Comprehensive Spending Review (CSR) period. By the end of the CSR period the aim is to increase satisfaction by 6% in VAT, customs freight &amp; excise.</b>	Customer service: Results gathered from a converged customer survey for VAT, customs and excise business.	6% by 2002	Ongoing	On course
	Number of detections of import and export irregularities.	18,500	8601	On course
	% of import entries taking advantage of simplified clearance procedures (limited to CFSP/Period Entry).	65%	57.47%	On course
	Efficiency measure – running cost as a proportion of import/export consignment value.	NA <sup>1</sup>	0.065%	Not assessed

<sup>1</sup> It is not appropriate to set targets against these indicators. They were designed to provide trend information and to inform the development of operational policy in the medium to long term.

**Objective 4.**

To supply to time and right quality trade statistics which support the development of UK and EC economic and trade policy, while keeping to a minimum inconvenience and cost to business.

PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>The Department will meet the yearly requirements agreed with the Office for National Statistics and Eurostat for production of statistics for the monthly Balance of Payments and OTS (Overseas Trade Statistics) publication while taking into account customers' requirements.</b>	% of agreed timetables met, for the production of statistics for the monthly Balance of Payments publication.	100%	100%	On course
	% of agreed timetables met, for the production of statistics for the monthly Overseas Trade Statistics (OTS) publication.	96%	100%	On course
	% of amendments to trade statistics by value 3 months after publication of accounts.	Less than 0.5%	0.01%	On course

**Objective 5.**

To promote the development of efficient tax, customs and related agencies around the world in support of the Government's aim on global trading, good governance and combating international crime.

PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>Each year the Department will assess requests for international technical assistance against its overall objectives &amp; strategic priorities. For the assistance it delivers it will provide a first class service to sponsors and recipients to achieve the agreed goals.</b>	% achievement of goals set by sponsors and recipients.	95%	98%	On course
	% recovery of costs from programmes sponsors.	95-110%	93%	On course

**Objective 6.**

To provide Ministers with policy advice to a high standard; and to initiate, develop, maintain and present policies which reflect the Government's priorities.

PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>Continue to advise on the development of the tax system so that it underpins the Government's priorities, including the strategy on sustainable development and environmental objectives (shared with HM Treasury target 10 and IR target 6).</b>	Achievement of key policy objectives as set out in the annual plans of Policy Directorates.	Completion of plans	Completed	On course
	Produce draft legislation for Climate Change Levy which meets the tests of good taxation set out in the Government's statement of intent on environmental taxation, while securing the environmental objectives of the levy.	Legislation	Included in 2000 Finance Bill	Met last year
	Contribute to the reporting, at least once a year, of estimates of the environmental impact of the Government's tax reforms.	Contribution	Contribution made	Not assessed

## DEPARTMENTAL OPERATIONS AND CSR PSA PRODUCTIVITY TARGETS

Departmental Operations				
PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>Subject to successful evaluation of the trials for call centres, the Department will aim to set up a virtual call centre structure to support the introduction of a national help line for VAT, excise and customs freight by 31 March 2002.</b>	Progress against action plan.	Completion by 31 March 2002	Ongoing	On Course
<b>By 31 March 2002 the Department will have identified annual savings of at least £5 million on estate spending.</b>	Preparation for the signing of a value for money contract that will enable the estate Private Finance Initiative to commence in April 2001.	£5m savings	Ongoing	On course
<b>By September 1999 the Department will have ensured its IT systems, embedded chips and procedures will not be adversely affected by the millennium date change and completed any other risk assessments.</b>	User testing of all business-critical systems.	Completed tests	Completed	Met
	Resource and activity plans in place in time to manage the millennium changeover.	Plans	In place	Met
	Risk assessment in place.	Risk assessment	In place	Met
	Business continuity plans in place to ensure that systems and services are operational over the critical millennium period.	Plans	In place	Met
<b>Inland Revenue and Customs and Excise will further extend the scope for closer working.</b>	Development of Closer-Working programme.	Developed programme	In place	On course
<b>The Department will continue to develop better measures of efficiency and extend these to cover a wider range of Departmental activities.</b>	Development of better measures of efficiency.	Measures in place	Ongoing	Not assessed
<b>The Department will regularly review services and activities over a 5 year period in line with government policy and develop its review programme by September 1999 with the intention to review at least 60% by value of services by March 2002.</b>	Development of the review programme.	Developed programme	Ongoing	Met
	Progress against programme.	Completed programme	Ongoing	On course

## APPENDIX 4

Departmental Operations				
PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<p>The Department will increase its electronic communications with traders from 29% to 58% of potential dealing by making available VAT declarations for completion on the Internet and making available, for example, VAT registrations, by 31 March 2002 subject to completion of pilot.</p>	Establishment of VAT electronic declarations trial.	Implement	Implemented July 1999	Met
	Establishment of pilot system for VAT declarations via the Internet.	Pilot	Established 1 March 2000	Met
	% of dealing available.	58 by 31 March 2002	Ongoing	On course
<p>Customs will take steps to contribute to the reduction in public sector rates of sickness absence by 20% by 2001 and by 30% by 2003.</p>	Sickness rate. (Days per year)	18.3% by 2001	Ongoing	On course
<p>The Department will implement the Procurement Review by 31 March 2002.</p>	Progress against Procurement Review Implementation Plan.	Completion	Ongoing	On course
<p>In implementing the procurement review the Department will pilot the corporate procurement card during 1998-99 and implement by 31 March 2000.</p>	Implementation of Procurement Card.	Implement	Implemented 31 March 2000	Met
<p>In implementing the procurement review the Department will implement the Procurement Excellence Model by 1 April 2000.</p>	Implementation of Procurement Excellence Model (PEM).	Implement	Implemented 1 April 2000	Met
<p>By 31 March 2000, 75% of the members of the Government Procurement Service in key designated posts will have, or be working towards, a graduate level procurement qualification.</p>	Key designated posts working towards graduate level procurement qualification.	75% SIP Graduates	On course	On course
<p>Where there is no accepted practice governing the timing of payments, the Department will pay within 30 days of receipt of goods or services, or the presentation of a valid invoice or similar demand for payment, whichever is later.</p>	% of undisputed invoices paid within 30 days.	100%	97.23%	Not Met
	% of all identified remittances exceeding £5,000 banked on date of receipt in the VAT Central Unit.	99%	99.76%	Met
	% of correspondence responded to within 10 working days.	92%	94%	On course
	Unit cost of administering indirect taxes per trader. <sup>1</sup>	NA <sup>1</sup>	£208.48	Not assessed
	Unit cost per import/export transaction processed. <sup>2</sup>	NA <sup>2</sup>	£5.46	Not assessed
	Unit cost of processing trade statistics items. <sup>2</sup>	NA <sup>2</sup>	0.31	Not assessed
	% of complaints upheld by the Adjudicators office.	NA <sup>2</sup>	31%	Not assessed

<sup>1</sup> Measure being trialled to gather data to inform the setting of future targets.

<sup>2</sup> It is not appropriate to set targets against these indicators. They were designed to provide trend information and to inform the development of operational policy in the medium to long term.

New Measures in 200/2001 OPA				
PSA Target	Performance indicator (OPA)	Target Outturn	Half-year Outturn	Assessment
<b>To slow the rate of growth of tobacco smuggling in 2000-01, stabilise the level of smuggling in 2001-02 and reduce the level of smuggling in 2002-03 as shown by illicit market share.</b>	Market penetration. (%)	No higher than 21%	19	On course
	Number of cigarettes seized	2bn	0.93bn	On course
	Reduction in value of cross-channel smuggling by 10% by Summer 2001 (as measured against Summer 2000 cross-channel smuggling survey.	10%		Not assessed
	Value (£m) of assets seized. (benefits determined by courts)	15m	5.15	On course
<b>The Department will increase its electronic communications with traders from 29% to 58% of potential dealings by making available VAT declarations for completion on the Internet and making available, for example, VAT registrations by 31 March 2002.</b>	Establishment of an operational system for VAT declarations via the Internet.	System in place	Ongoing	On course
	Establishment of an internal trial for VAT registration via the Internet.			On course
-	% of telephone calls to designated enquiry points answered within 20 seconds.	80	52	Slipping
	% of visitors seen within 10 minutes.	100	99	Not met
	% of visitors without an appointment seen within 15 minutes.	90	99	On course
	% of calls on answerphone responded to within 3 hours.	95	99	On course

APPENDIX 5: LONG TERM CAPITAL PROJECTS<sup>1</sup>£'000 at 2001-02 prices<sup>2</sup>

Project	Year of start <sup>3</sup>	Original estimate of estimate of completion of completion <sup>4</sup>	Current estimate of estimate of completion of completion <sup>4</sup>	Original estimate of estimate of expenditure <sup>4</sup>	Total	Spent in past years	Estimated provision for 2001-02	To be spent in future years
Southampton Rationalisation (Estates project)	1999-00	2000-01	2002-03	7,215	9,603	2,413	6,800	390
Dorset House (Estates project)	1999-00	2000-01	2003-04	14,431	15,404	2,786	11,444	1,174
Glasgow (Estates project)	2000-01	2002-03	2002-03	10,235	10,272	323	8,500	1,449
IS Projects <sup>5</sup>							7,951	
Other Estates Projects							8,392	
Total of relevant subhead							43,087	
Trend			Projects itemised during:	1998-99	1999-00	2000-01		
No of long term projects itemised in relevant year <sup>6</sup>				9	8	3		
% of projects with later current completion date than original				33%	38%	66%		
% of projects with higher current estimate of expenditure than original				33%	38%	100%		

<sup>1</sup> A long term project is defined as one costing more than £2 million in total, or involving the expenditure of 500k or more in any one year, and taking 3 years or more to complete.

<sup>2</sup> All figures have been revalued to estimates year prices using the GDP deflator.

<sup>3</sup> Dates shown for the start/completion refer to the main contracts. Only schemes on site during 2000/01 are shown in the table. Expenditure figures shown include preliminary expenditure prior to the main contract and residual expenditure following completion of the work on site.

<sup>4</sup> Figures based on agreed contract price.

<sup>5</sup> "Other IS projects" includes all capital projects currently on site regardless of duration. Costs include infrastructure and non-infrastructure project costs, but not staff costs.

<sup>6</sup> The number of long term capital projects has decreased due to the transfer of both the IS Infrastructure and the Estate as a result of PFI contracts.



## APPENDIX 6: RECRUITMENT

### 1. SENIOR CIVIL SERVICE REMUNERATION

Remuneration during the year to 1.4.00

Range*	Number of SCS staff
£40,000 – £44,999	0
£45,000 – £49,999	0
£50,000 – £54,999	10
£55,000 – £59,999	22
£60,000 – £64,999	16
£65,000 – £69,999	7
£70,000 – £74,999	2
£75,000 – £79,999	3
£80,000 – £84,999	5
£85,000 – £89,999	4
£90,000 – £94,999	0
£95,000 – £99,999	0
£100,000 – £104,999	1
£105,000 – £109,999	0
£110,000 – £114,999	0
£115,000 – £119,999	1
<b>Total</b>	<b>71</b>

*includes allowances and bonuses paid in the year to 1 April 2000*

### 2 RECRUITMENT PRACTICE

#### 1999-2000

H M Customs & Excise has systems in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit and in accordance with the recruitment code laid down by the Civil Service Commissioners and that they are subject to internal check.

### 3 EXCEPTIONS TO THE FAIR AND OPEN COMPETITION RULES

#### Extension of Appointment of up to 12 months to a maximum of 24 months

Number of cases	Reasons
One	This individual was retained for an additional 3 months (until the end of the financial year) to ensure business continuity due to the increased work load following the Cabinet Office drive to reduce sickness absence.

#### Casual appointee temporarily appointed to a higher job

Number of cases	Reasons
One	This individual was temporarily appointed to a higher job band to ensure business continuity following internal office moves.

#### 4 CURRENT AND PLANNED ACTIVITY FOR SCS RECRUITMENT

**2000-01** – We recruited three Senior Civil Servants in the early part of the year (the Permanent Secretary, Director Logistics and Head of Business Operations: Law Enforcement). All posts are permanent and will have observed the fair and open competition rules.

**2001-02** – We plan to recruit a Head of Technology and an Accountancy Advisor and to identify potential external recruitment opportunities with a view to increasing diversity within our Senior Civil Service. The Department has no plans to use exceptions to fair and open competition at this stage.

#### 5 ANNUAL RECRUITMENT STATISTICS 1-4-99 - 31-3-00

Collection	JB5/6 EO	JB3/4 AO	JB1/2 AA	JB3/4 SG1	JB1/2 SG2	JB1 Typ	JB4 PS	Total	Permanent	FTA (jb)	Casual	Other JB
Anglia			18					18	18			
Central England			7					7				7
Eastern England			15					15	9	5	1	
London Airports								0				
London Central			34		1			35	6	29		
HQ London			33	8	40			81	50			31
HQ Liverpool								0				
HQ Manchester			19			4		23				23
HQ Southend			50		22			72	72			
NIS/NID	9		26		4			39	39			
Northern England			6					6		5		1
Northern Ireland			11		4			15	14			1
North West								0				
Scotland					6			6	6			
South East England			5		5	1		11	11			
Southern England								0				
South London & Thames		3	72		4			79	41	4		34
Thames Valley	2	29	84		12			127	109			18
Wales West & Borders		3	49					52	52			
<b>Total</b>	<b>11</b>	<b>35</b>	<b>429</b>	<b>8</b>	<b>102</b>	<b>1</b>	<b>0</b>	<b>586</b>	<b>432</b>	<b>38</b>	<b>116</b>	
Permanent	11	27	334		59	1		432	432			
FTA			31		7			38		38		
Casual		8	64	8	36			116			116	

	ETHNICITY						Total	M	F	Unknown
	White	Black	Asian	Other	unknown					
5/6 (EO)	11						11	8	3	
3/4 (AO)	27		8				35	14	21	
1/2 (AA)	323	60	31	2	13		429	192	212	25
3/4 (SG)	3	2	2	1			8	6	2	
1/2 (SG)	62	4	10	4	22		102	55	47	
1 TYP	1						1		1	
4 PS							0		0	
<b>Total</b>	<b>427</b>	<b>66</b>	<b>51</b>	<b>7</b>	<b>35</b>		<b>586</b>	<b>275</b>	<b>286</b>	<b>25</b>

## **APPENDIX 7: PUBLICITY AND ADVERTISING**

The restructuring of Departmental communications to bring together national and regional publicity efforts as well as internal communications was completed in April 2000. This has enabled the new Communications Division to promote a better understanding of the work of HM Customs and Excise by producing integrated communications.

In particular, communications to national and regional free media have supported the Department's major new advertising campaign, 'Don't be Blind to the Crime', aimed at changing public attitudes to tobacco smuggling. This campaign is part of the Government's Tackling Tobacco Smuggling strategy published in March 2000. The campaign was launched in September 2000 and uses mainly the national tabloid press, with supporting posters and ambient media, including beer mats and washroom posters in pubs and truck stops. There is also an innovative internet strand to the campaign, with pop-ups on major search engines and relevant sites warning that excise duty is payable on cigarettes bought over the internet.

## APPENDIX 8: PAC REPORTS

### UPDATES TO RECOMMENDATIONS ACCEPTED BY THE DEPARTMENT

#### “IMPROVING VAT ASSURANCE” – 22 NOVEMBER 1999 (HC15 SESSION 1999-00)

##### *Recommendation 4 (pt i)*

*Over the period 1992-93 to 1998-99, the number of audits undertaken by the Department fell from 350,000 to 180,000 per annum but the extra revenue identified as a result of these audits increased by £130 million from £862 million to £992 million. This greater productivity is likely to reflect in part at least the Department's improved targeting of those traders who present the highest risks to the revenue. However, the fact that such audits are uncovering more undeclared revenue may also point to a greater tendency on the part of traders not to comply with the rules. It will be important for the Department to find better measures of the level of compliance by traders.*

##### **Action since Treasury Minute**

The Department is continuing to run and refine its compliance sample visiting programme and now has a mid year evaluation of the VAT data. This evaluation supports the view that the greater productivity is due to improved risk targeting rather than a general fall in compliance. For example, in the random testing programme, which covers all categories of risk, only twenty-one per cent of visits have revealed errors over £500 compared to fifty-three per cent in the Department's risk based programme. In the random sample group the average underdeclaration is £1,228 compared to £9,982 on a risk based audit.

In the new Public Service Agreement covering UK Revenue and International Trade Customs has set challenging targets to achieve year on year improvements in trader compliance. Performance against these targets will be monitored over the 3 year period 2001-04 and will ensure that facilitating compliance, as well as detecting non-compliance, remains a high Departmental priority.

##### *Recommendation 4 (pt ii)*

*The Department audited only 38 per cent of traders in the high and exceptional risk groups compared with their target of 65 per cent but they carried out three times as many visits to low-risk traders as planned. They obtained £2,362 on average from each visit to low risk traders compared with £16,000 on average from visits to high risk traders. Essentially, this is because the Department's staff are not located where they can be used to best effect. We look to the Department to set a timetable for achieving a better match between needs and supply.*

##### **Action since Treasury Minute**

The Department continues to use and refine its resourcing to risk model. Risk profiles have been revised for 2001-02 and resourcing levels for assurance staff in each region will again be set to reflect their share of national risk.

**Recommendation 6****On the Prevention of Drug Smuggling**

*It was clear that the Department has taken seriously the points we raised. But cross Channel smuggling of alcohol and tobacco remains an increasingly serious problem with 93% of smuggled tobacco going undetected representing £2.5 billion in lost revenue. The Department have yet to demonstrate that they are capable of reversing these trends, but it is very important to the protection of the revenue and the interests of legitimate traders that they should be able to do so.*

**Action since Treasury Minute**

The Government's Tackling Tobacco Smuggling strategy is now being implemented. In the first six months of the strategy Customs have seized nearly 1500 million cigarettes (930 at home and 547 abroad which were destined for the UK) and broken up twenty five organised criminal gangs who supply large volumes of illicit cigarettes. Customs have also taken delivery of the first two x-ray scanners, recruited the vast majority of the extra staff due to be recruited in the first year and recruited in advance some of the staff due to appear in 2001-02. At present the strategy is on course to meet its targets for 2000-01.

**Recommendation 7 (i)****On focusing the Department's audit resources**

*Since 1992-93 the number of VAT assurance staff has declined from 4,548 to 4,179 but between 1994-95 and 1998-99 the total amount of time spent by these staff on auditing traders fell even further. This greater decline reflects an increase in staff time for activities other than direct audit. We endorse the Department's approach in ensuring that efficiency savings do not come from front line activities, and we believe that the Department should aim to deploy a greater proportion of their resources on direct audit work (paragraph 22).*

**Action since Treasury Minute**

Further to issuing the indicative guide, the Department has introduced systems to monitor the deployment of direct audit time. Evaluation of the 2000-01 deployment will take place by June 2001.

**Recommendation 7 (ii)**

*Whilst there is evidence to show that sifting to identify the most appropriate traders for audit increases the resulting additional revenue, a question remains as to the balance of effort to be spent between identifying traders to be audited and actually undertaking audits. We note that the Department is keen to test what would happen if there was a significant increase in the proportion of higher risk traders audited to examine whether this would generate more revenue. We believe that such a test would provide valuable information to ascertain the benefits of sifting (paragraph 23).*

**Action since Treasury Minute**

The Department is running a series of trials to measure the value of the sift process and these are on course to deliver their findings by April 2001. The outcome of the trials will be implemented by September 2001 as planned.

**Recommendation 7 (iii)****On selecting and auditing individual traders**

*In 1998-99 74,000 traders were seen as presenting sufficiently low risks not to warrant an audit, although there was always the chance of a trader being audited through the Department's sample visiting programme. The audit of a three per cent sample of compliant traders also tested the soundness of judgements made by locally-based sift teams in selecting traders for examination. Earlier samples examined during the trial phase were insufficient to allow the Department to draw any firm conclusions about the effectiveness of the sift process. The Department should monitor local offices' performance and results of their sample audit programmes and act on the findings (paragraph 31).*

**Action since Treasury Minute**

The sift sample audit programme for 2000-01 is underway and the results will be evaluated by June 2001.

**Recommendation 7 (iv)**

*The Department are putting increasing emphasis on the quality of the visits to traders in helping businesses to comply with their tax obligations. They agreed, however, to look further into whether more structured feedback could be given to traders after a visit. We believe that traders would find such feedback helpful (paragraph 32).*

**Action since Treasury Minute**

The next Business Needs Survey starting in Autumn 2001 will include questions about the quality of information provided by Customs both during and after the visit; this customer feedback will be used to refine procedures if necessary.

**Recommendation 7 (v)****On Checking Large-Traders' VAT Liability**

*The Department told us that further work had been undertaken to find out why the share of VAT receipts attributable to large traders had declined from 32 per cent in 1996-97 to 29 per cent in 1998-99. They assured us that the decline had not been due to tax avoidance schemes but to structural changes in the large VAT trader group. For example net VAT receipts from local authorities are lower because they now reclaim large amounts of VAT paid on contracted out services (paragraph 45).*

**Action since Treasury Minute**

The Department continues to monitor the VAT receipts of all large businesses to identify trends and factors affecting yield within trade sectors. This informs national risk and resourcing processes; the data is also used by large business auditors to address areas of concern with individual businesses.

For 1999-2000 the VAT receipts attributable to large traders have increased by £550 million to £12.69 billion which as a share of total receipts has remained broadly constant at 28.4%.

The Department appointed National Business Managers, operational from May 2000, specifically to manage the assurance of the top businesses and report on factors which have impacted on tax yield to further inform national level monitoring. The focus will remain on yield management following structural changes within the Large Business arena in April 2001.

**Recommendation 7 (vi)****On the Prevention of Drug Smuggling**

*We welcome the work the Department are doing in conjunction with the Home Office and other Agencies to improve their understanding of the drugs market and the cost effectiveness of law enforcement interventions. For example research is being undertaken to quantify the size of the UK drugs market and the cost effectiveness of law enforcement intervention at different stages of the process. We look to the Department to use the results of this research to target their resources more effectively (paragraph 46).*

**Action since Treasury Minute**

Customs, in conjunction with the Home Office and other Agencies, are improving their understanding of the drugs market and the cost effectiveness of law enforcement intervention by taking part in many aspects of drugs research.

Research projects underway include:

- **Sizing the market** – An initial study has been completed and a methodology for estimating drug consumption in the UK has been agreed. The aim is to repeat this annually and the data will be continually refined to generate estimates of drug use.
- **Middle Market study** – understanding what happens between importation and retail sale. This is a study of the dynamic and geographical distribution of drug supply networks in the UK. This project has been completed and a final report will outline the dynamics and scope of the middle level drug distribution networks.
- **Key Informants Study UK** – understanding trends in availability. This research is aimed at gauging the views of practitioners about how the availability of drugs is changing. The first round has been completed but the results have proved unreliable. Consequently, the methodology has been refined and the exercise is due to be repeated in Spring 2001.
- **European Flows 2002 Feasibility study** – method and model for understanding seizures as a percentage of flow. The flow analysis has been completed and a method of estimating the scale of drug supply to the UK has been identified and agreed.

A performance indicator to measure the Government's Key Performance target: to reduce access to all drugs amongst young people (under 25) and to reduce the drugs which cause the greatest harm, particularly heroin and cocaine by 25% 2005 and by 50% by 2008 will be established as a preliminary baseline by 30.06.01.

**Recommendation 7 (vii)****On Cross Channel Smuggling: 1996-97 Appropriation Accounts, HM Customs and Excise**

*Cross Channel smuggling of tobacco now exceeds £2.5 billion a year in lost revenue, and it is astonishing that 93 per cent of this amount goes undetected by the Department. The Department is taking steps to curb smuggling by increasing staff resources from 1,000 to 1,300 and by measures such as the purchase of scanners. The Department will need to demonstrate the effectiveness of these initiatives by increasing detections and showing that they can curb the loss of revenue (paragraph 47).*

**Action since Treasury Minute**

The Government's Tackling Tobacco Smuggling strategy is now being implemented. In the first six months of the strategy Customs have seized nearly 1500 million cigarettes (930 at home and 547 abroad which were destined for the UK) and broken up twenty five organised criminal gangs who supply large volumes of illicit cigarettes. Customs have also taken delivery of the first two x-ray scanners, recruited the vast majority of the extra staff due to be recruited in the first year and recruited in advance some of the staff due to appear in 2001-02. At present the strategy is on course to meet its targets for 2000-01.

## APPENDIX 9: SOURCES OF FURTHER INFORMATION

### INTERNET SITE

For further Customs & Excise information visit our website at [www.hmce.gov.uk](http://www.hmce.gov.uk)

### NOTICES

We publish a range of information booklets (known as 'Notices') for businesses and the public, giving details of Customs and Excise requirements and procedures. These are available free of charge from local Advice Centres (for your nearest Advice Centre see the phone book under 'HM Customs & Excise'). Alternatively you can contact our National Advice Service on 0845 010 9000. For the full list of Notices ask for Notice 999.

### BUSINESS INFORMATION SERVICE

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### STATISTICS

We prepare details of monthly tax receipts for publication by the Office for National Statistics (ONS) in "Financial Statistics". Monthly statistical bulletins on clearances of alcoholic drinks, tobacco products and hydrocarbon oils and on receipts of betting, gaming and lottery duties are made available through marketing agents, Business and Trade Statistics Ltd of Lancaster House, More Lane, Esher, Surrey KT10 8AP (01372 463121).

### SUSTAINABLE DEVELOPMENT

Further information on our work on sustainable development may be obtained from our Environmental Policy Manager, Geraldine Gallan (tel 020 7865 5740) and from the Intranet and Departmental Internet site under Environment. Copies of the Green Ministers Annual Report are also available from the DETR.





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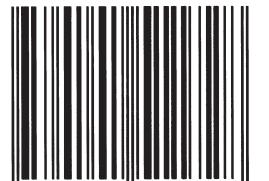
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