

B

ANNEX B: ANALYSIS BY FUNCTION

Introduction **B.1** As set out in Chapters 2 and 3, the main revenue-related operational activities of Customs and the Revenue follow a similar model. The review has reflected international best practice as detailed in Annex A in undertaking an analysis of these activities by function. This Annex describes the similarities and differences between the two departments for the following generic functions:

- data capture and processing;
- receipts and payments;
- audit, investigation, and disruption;
- education and advice;
- debt management; and
- support services.

B.2 Knowledge and information, and policy, are functions, and are addressed in Chapters 4 and 5 respectively. The Revenue does not have an analogous activity to frontiers activity in Customs, and this work is not considered here.

B.3 The analysis was developed from a series of workshops held in autumn 2003 with front line staff from the Revenue and Customs. Although it has necessarily been conducted at a high level from the baseline of the current approach it identifies those areas where different ways of working between the two departments might deliver improved customer service and greater effectiveness and efficiency.

DATA CAPTURE AND PROCESSING

The main aim of data capture and processing is to provide accurate and timely information for other departmental functions, striking the right balance between customer facilitation and the protection of revenue against fraud. Both departments are applying increasingly sophisticated risk assessment and management techniques to their data capture processes, particularly in indirect taxes where there is greater evidence of systemic fraud.

Current approach **B.4** Both departments run a number of processing operations across the UK, and both deal with a range of taxes that have different information requirements, due dates and associated peaks and troughs of activity. They use a similar range of manual and electronic data capture mechanisms and both have facilities in place to deal with specific needs.

B.5 The departments collect a broad range of similar, though not identical, information, but are unable to fully share and rationalise this, in part because of data protection and human rights laws, as currently interpreted. As set out in Chapter 4, where data sharing does take place it can be difficult. The departments are aware of the importance of keeping returns as simple as possible to encourage timely and accurate filing by customers, and a range of initiatives is in progress to achieve simplification.

B.6 The departments are committed to ambitious targets for increasing the capacity for and take-up of electronic transactions. The efficiency savings to be gained from electronic data capture will only be realised in line with take up, but should be significant. Unlike a commercial organisation, Government needs to ensure social inclusion and compliance by delivering tax and benefit systems through channels that are accessible to all their customers.

Potential for improvement

B.7 Rationalised electronic capture has the potential to improve data capture and processing in the following ways:

- predicting the impact of changes across the taxation system and building that into operational plans;
- reducing the burden on customers and keeping both departments' records up-to-date with minimal duplication of effort by rationalising the collection and storage of data;
- pre-population of forms with the most current information held by the departments. (Although some on-line forms do so, this is not yet universal for government data, as in Sweden); and
- reducing the non-arithmetical error rates within incoming information.

B.8 Manual processing of data is slow, resource-intensive and liable to error¹. This can be contrasted with the processing benefits already gained from the growing numbers of tax returns being processed electronically:

- 97% of self-assessment returns completed on-line are validated as data is entered and 100% of those validated will enter the system that day; and
- the 7.5 million electronic End of Year National Insurance Submissions from employers achieve 99.8% data accuracy.

B.9 The departments are developing innovative systems for the future, informed by customer surveys, but these are department specific and, as such, do not offer a whole taxpayer perspective. The Revenue pilot of a shortened Self-Assessment return for customers with simple tax affairs, which also offers the option to complete the return over the telephone, is a good example of customer service that could be replicated in other situations.

B.10 One survey² found that E-enablement was not a high priority for businesses but co-ordination by Government of its approaches to business was. In general, customers are not concerned with data capture, although respondents to surveys from both departments want simple guidance and easy-to-complete forms when transacting for tax purposes.³

B.11 Electronic filing of returns is still developing, but 'e' is becoming a more widely used channel. Each step that increases electronic submission of data has the potential to increase data accuracy in tax and benefit systems. There is an obvious incentive for departments to encourage take up by making this process as simple as possible.

¹ Manual transcription of alphanumeric forms has basic error rates of around 5 characters a thousand, while for data collected by electronic means, error rates higher than 5 per million are exceptional – source: PA Consulting.

² Research for the Business Information in Government project, 1999. Further details of the project are available at www.statistics.gov.uk

³ Customs Business Needs Surveys 2001-2002, available at www.hmce.gov.uk, and Revenue's customer service performance indicator 2002-2003, summarised in the Inland Revenue Annual Report 2003 available at www.inlandrevenue.gov.uk

RECEIPTS AND PAYMENTS

Receipts and payments is the process by which the revenue departments receive money from taxpayers, make payments to taxpayers and benefit claimants and update customer accounts accordingly. This includes the activity required to bank the money received.

Table B.1: receipts and payments

	Number of sites	Number of tax customers	Value of Receipts (est. for 2002-03)	Other
The Revenue	3 plus 150 local offices	29 million income tax payers; 6 million families receiving tax credits; 0.5 million corporation tax payers	£216.5 billion	700,000 tax repayments and 13 million tax credit payments per month
Customs	1 plus some distributed activity	1.7 million entities registered for VAT; varying (much smaller) numbers for other duties.	£108.8 billion net	2.5 million VAT repayments (£43 billion each year) and seized cash from law enforcement activity

Source: revenue departments.

Current approach **B.12** Both departments' receipts and payments teams collect revenue directly from taxpayers, their actions being governed by Government Accounting rules. They are both fully engaged in the Treasury review of banking services across the Chancellor's departments (see Annex C).

B.13 Due dates for tax payments are different across all the taxes, as are penalties and surcharges for late payment or filing of returns. This is not necessarily a problem as it can even out the flow of work to be managed and provide an even flow of cash payments to the Exchequer.

Potential for improvement **B.14** Nonetheless, better planning for due dates and methods of collection could improve Government cash flow forecasts and borrowing requirements. Dates and methods of collection matter when considering how to make payment easier and incentives for take up of electronic filing.

B.15 There is a risk that technological decisions to deliver E-payments and receipts may push the departments' infrastructure further apart, which would make integration in the future progressively more expensive. From a customer point of view, there appears to be particular room for improvement in:

- maintaining accurate customer accounts which are easily accessible by customers;

- reducing the number of separate transactions for each customer through unified account management;
- providing easy payment options that meet customer needs and so reduce the occurrence of debt; and
- setting appropriate guarantee requirements so as to manage revenue risks without unnecessary negative impact on customer cash flow.

B.16 Electronic transactions will be truly effective only where easily combined with electronic payment. Simple payment methods and better customer account information have the potential to improve the effectiveness of other revenue department functions. Easy payment mechanisms affect levels of debt: a recent Government survey⁴ showed that 19% of debts arise as a result of forgetfulness rather than cash flow or similar problems. Accurate customer account details also contribute to effective risk analysis, which enables the revenue departments to target their debt management and audit interventions effectively.

B.17 Both departments are using a mixture of promotion, incentives and prescription to encourage further take up of electronic options, as low volume electronic services have high fixed costs but low marginal costs.

B.18 Many businesses feel that better availability of information would improve their ability to manage their obligations.

B.19 The Australian Taxation Office has developed an integrated instalment account. Taxpayers tally up the liabilities and/or credits for various reported taxes, including GST (VAT equivalent) and PAYG (pay as you go – equivalent to PAYE), and calculate a single net amount. As a result they make one payment or receive one refund amount, which has been further facilitated by a policy of harmonising dates for lodgement and payment of different taxes where possible. As part of the new system taxpayers are required to provide the details of a bank account. All refunds are direct debited to this account. No cheques are issued. With the ATO administering the full range of taxes, GST credits can be offset before being issued as refunds against any other tax debts of the same entity, such as income tax.

B.20 In Canada and Scandinavia the tax authorities also collect in taxes on behalf of some of the sub-national geographical regions (in Canada this means that the Business Number (see Chapter 4) is also being used in many provinces).

⁴ Source: Revenue and Customs.

AUDIT, INVESTIGATION AND DISRUPTION

Audit covers the departments' efforts through desk-based audits, and visits to confirm that a taxpayer is working within the regulations and the right tax is being paid or tax credits paid out, and litigation to tackle avoidance schemes. It includes the processes by which revenue departments check the validity of declarations, ensure compliance with regulations, and adjust customer accounts accordingly.

Investigation and disruption are processes by which the revenue departments investigate and resolve tax and associated revenue frauds and develop and implement strategies to diminish the profitability of such criminal activity and so reduce its occurrence.

It is difficult to standardise definitions for audit, investigation and disruption work across the two departments. Both deal with taxpayers at different points on the compliance continuum. Audit is dealt with first, followed by investigation and disruption.

Audit

Current approach **B.21** Both departments have large numbers of research and risk assessment teams and seek to differentiate their response according to the intelligence presented: responding with continual review (e.g. for large businesses), a full audit, or specific action in a given area. Where errors have occurred, staff work with customers to ensure no future repetition. Closer working is carried out across many aspects of compliance and assurance activity, with formal joint and closer working taking place in areas such as the shadow economy, computer audit and large business. Risk analysis teams in the two departments work to national standards for information exchanges.

B.22 While Customs have always worked in 'real-time', the Revenue is also exploring this approach, within the constraints of the direct tax system. Although legal constraints mean that the Revenue relies on customer goodwill to do so when looking at business profits, it makes use of its powers to carry out real time checks on employer liabilities (such as PAYE and National Insurance Contributions).

Potential for improvement **B.23** International experiences suggest that by organising direct and indirect taxes together the combined yield will increase, especially for direct taxes (see Annex A). At present, the departments are not structured to allow optimal decisions on resource allocation across all taxes. Resources are allocated separately to Customs and the Revenue and operational decisions are then taken with the direct and indirect tax split as a pre-determined constraint. Even if there were information about marginal returns for investment in particular areas, the current departmental structure makes it harder to take an overview of resource allocation. There is currently no one with both the incentives and the ability to provide the sort of accurate information necessary to make optimal resource decisions across the taxes at operational level.

B.24 Improved information sharing could deliver some increases in yield, but the capacity of the information gateways would need to be explored to establish whether or not the broad exchanges needed would be legally possible (see Chapter 4). Although integrated audit activity is not thought to be feasible for all businesses, other countries have successfully implemented integrated audits for some customers (see Chapter 3).

B.25 The audit function plays a key role in identifying and rectifying errors in customers' tax accounts and in identifying both tax evasion and avoidance schemes, and thereby contributes directly to the closure of the UK tax gap (see Chapter 2).

B.26 Both departments are increasingly employing specialised staff with particular knowledge of functional or business areas, and who bring new skills and innovative approaches to audit work. The expertise of these staff could further enhance the effectiveness of joint programmes.

B.27 In general, customers feel they are dealt with in a professional manner by both departments, but a significant minority of businesses feel that the departments do not understand the commercial pressures they face. The recent employment of Trade Sector Consultants in Customs, many of whom have been brought in from the commercial sector, is bringing a better understanding of key trade sectors. As a shared resource these specialist staff could provide more commercial experience for both departments, it would be more cost effective to develop and deliver joint commercial awareness training packages rather than separate departmental training programmes, and this would also encourage cross-fertilisation of ideas.

B.28 Many customers have little or no contact with the revenue departments. Outreach work is now targeted upon those customers where a light intervention can help them understand and comply with their obligations more easily, offering on-going advice and support for those that need it. Research shows that small businesses in particular experience anxiety and lack of confidence when contacting the tax authorities, and often check with an agent before doing so.⁵ A timely and helpful intervention may help them to reduce their reliance on agents, and a joint approach would further reduce the compliance burden by minimising the number of contacts.

Investigation and disruption

Current approach

B.29 Customs and the Revenue employ a range of investigation and disruption techniques to tackle non-compliant, fraudulent and criminal activities in the UK. In the Revenue investigation techniques are used to tackle fraud associated with taxes, credits and Child Benefits. In Customs, where the focus is most often on dealing with 'real time' criminal attacks on the systems, the scope is much wider than the taxation field, incorporating prohibitions and restrictions, including, until the formation of the Serious Organised Crime Agency, drugs. In tax administration terms, both departments aim to hit fraudsters hard and make it as difficult as possible for them to continue, using a combination of prosecution and civil action to resolve cases involving fraudulent under-declarations of taxes due.

B.30 Another commonality is the use of intelligence, research and analysis to focus operational activities on priority areas, though each department has different intelligence needs, flowing in part from Customs' law enforcement responsibilities. Nonetheless, it seems likely that the Revenue will know many of the criminals dealt with by Customs (although not necessarily in the criminal context).

B.31 Reflecting the different activities, Customs have significantly more powers than Revenue (e.g. powers of entry, ability to conduct unannounced visits and requests for security as a condition of continuing to trade). The different areas of work also mean that Customs deal more with determined and serious criminality than the Revenue. Law enforcement is an important element of Customs' work, and to some extent,

⁵ Source: Peppers and Rogers Group for the Inland Revenue.

Customs has a law enforcement culture. Customs' law enforcement work will change as a result of the creation of the new Serious Organised Crime Agency (see Chapter 2).

Potential for improvement **B.32** There is only a small overlap of activity in tackling revenue-related crime at present but nonetheless improvements could be made in:

- developing intelligence based on a comprehensive view of the customers in question to inform and direct investigation and disruption activity;
- clarifying the strategic approach to tackling fiscal fraud in such a way that all key players share common objectives and priorities; and
- ensuring trained staff and infrastructure are used to best effect, with a particular emphasis on sharing burdens imposed when a major fraud is uncovered.

B.33 The critical measures of revenue effectiveness relate to:

- 'real time' intervention to protect against revenue losses (i.e. parameter or physical checks of repayment claims before payment is made);
- the successful use of intelligence to identify fraud at strategic and operational levels; and
- the success of action taken in reducing revenue leakage and/or recovering tax evaded.

B.34 However, different approaches by the departments to tax and VAT evasion are limiting the overlap of activity so that wider benefits in shared intelligence and improved deterrence are not being achieved.

EDUCATION AND ADVICE

The education and advice function does not sit within clear organisational boundaries. Although there are some related specialisms, such as providing advice via contact centres, all staff have a responsibility for educating customers through:

- specialist advisors e.g. for specific trade sectors;
- inbound and outbound telephony;
- conferences, exhibitions and other publicity and advertising;
- various written media; and
- specialist large business support.

B.35 Education and advice affects compliant behaviour and therefore tax yield. The extent to which organisational change might have a positive impact is constrained to some degree by the broad range of subject matter dealt with by the departments. Since the subjects covered tend to be product-specific, the main overlap between Customs and the Revenue would be a joint 'front end' for business customers.

Current approach **B.36** The effective use of Internet self service and contact centres are a key part of the education and advice function. Many customers have a preference for telephone contact and in response, Customs and the Revenue have set up very large specialist operations, supported by up-to-date telephony systems and technology. Contact

centres operate outside normal office hours in accordance with customer needs and have challenging grade of service targets, in line with best practice in the private sector.

B.37 The two departments are also working together with intermediaries, such as Business Link, to provide education and advice on tax matters. Notices and guidance are being rewritten, to make them more understandable, for both contact centre use and web publication.

Potential for improvement

B.38 Education and advice has changed significantly over the past few years. However, there is room for improvement by:

- providing more coherent interfaces for customers;
- increasing customer use of Internet self-service;
- capability to answer questions posed by customers without referring them elsewhere;
- developing effective partnerships with other education and advice providers (e.g. Business Links, Citizens' Advice, DWP);
- targeting customers with offers of assistance on the basis of risk analysis (either individual risk or sectoral); and
- rationalising the number of contact centres and locations from which advice is offered.

B.39 Traditionally it is difficult to measure the impact of education and advice but without it Customs and the Revenue believe the tax gap would be larger. Improved effectiveness should both reduce the revenue lost through customers' unintentional errors and release audit resources to concentrate on the more serious cases of non-compliance.

B.40 The critical measures of revenue effectiveness for education and advice therefore relate to:

- accessibility of education and advice to customers;
- accuracy of information and advice provided; and
- impact of targeted education campaigns (e.g. behavioural change).

B.41 The revenue departments' current quantitative targets for the advice lines served by their contact centres are set out in Table B.2.

Table B.2: contact centre performance

	The Revenue	Customs
Number of telephone numbers	63	5 ⁶
Number of inbound telephone calls p/a	35 million	2.6 million
% of calls answered in 20 seconds (2002-03)	64	78
% of calls abandoned by caller (2002-03)	4	4
% of calls complete/accurate (2002-03)	77	99

Source: revenue departments

B.42 Revenue have a very high and increasing volume of calls whilst Customs provide a more specialised service. Overall compared with private sector benchmarks there is still room for improvements to industry standards on average in both departments. However, a more important indicator for customers is likely to be accuracy of information.

B.43 The example of NHS Direct shows how a single number contact centre can use call handlers to source more specific levels of advice (see Box B.1).

Box B.1: NHS Direct

NHS Direct handles over half a million telephone calls each month, and NHS Direct Online receives the same number of visitors to the website. A survey carried out in 2003 of patients using primary care services in England (such as GP surgeries) found that 22% had contacted NHS Direct in the last 12 months.⁷

NHS Direct employ call handlers who field in coming calls, nurse advisors and health information advisors. It employs the full-time equivalent of 1,150 highly qualified nurses in 22 call receiving sites who provide advice to callers using advanced computer clinical decision support software.

People contact NHS Direct for a wide range of problems, ranging from emergencies, and minor injuries, to health advice. Public satisfaction is consistently high at over 90%.

NHS Direct is off-setting around half of its running costs by encouraging more appropriate use of NHS services⁸ and demonstrates how a well managed help line can provide good customer service and contribute to the organisation's core purpose.

⁶ This includes the 0845 single-point-of-contact number for the National Advice Service and the Customs Confidential hotline for reporting criminal activity.

⁷ Commission for Health Improvement, What CHI has found in NHS Direct services, 2003, available at www.chi.nhs.uk

⁸ National Audit Office report NHS Direct in England, 21st January 2002, HC 505 Session 2001-2002, available at www.nao.gov.uk

B.44 In a tax call centre, one would expect call handlers to manage simple requests for information and be able to route calls to experts in each and any of the tax types. This would mean that the customer does not need to understand the organisational structure to resolve a query or seek help. Both departments have identified large volumes of calls that do not need in-depth tax expertise to handle – 50% of calls to Customs’ National Advice Centre are for Public Notices and the Revenue has identified 40% of Account Office calls that could be automated using voice recognition technology.

B.45 Survey data shows that the public do not easily understand departmental boundaries for tax – 60% of those interviewed for a recent survey thought that the Revenue collected VAT.⁹ Customers do not want a plethora of contacts with tax departments, but would like clearly signposted gateways to consistent and easily understood advice. If tax systems and associated guidance can be made simpler, it is possible that customers will feel less obliged to rely on professional advisors (although there are clearly other factors at play here). All other things being equal, this would mean compliance costs would fall. Customers often complain about the complexity of guidance: 30% of people found Customs’ Notices and Leaflets difficult to understand. Chapter 4 sets out the departments’ efforts to address these concerns, within the constraints of the requirement to present the law accurately to customers.

B.46 Although research has not identified a strong desire for joint written information or websites by taxpayers, uniformity in the way that tax information is provided and further efforts to use plain language would help customers read information more easily. The Revenue’s Better Guidance Programme is taking forward work to improve performance in this area.

DEBT MANAGEMENT

Debt management is the process by which the revenue departments ensure tax is received on time, identify tax that is overdue and contact taxpayers for payment. This includes telephone and written reminders, time-to-pay arrangements for viable businesses with cash flow difficulties, and more robust debt recovery action where necessary. A joint debt recovery strategy has been worked up by Customs and Revenue independently of this review and is being considered by Ministers.

B.47 Debt management has a direct effect on the tax gap and ongoing business viability and rescue. Early action can prevent large debts arising in the first place and early recovery action can help a business get back on track.

Current approach

B.48 Both departments seek to differentiate their response according to the risk presented by the debtors in question, and see advantages in a more robust risk profiling capability based on a whole customer approach. The differing structures for the various taxes collected by the departments directly affect how the organisation is set up to collect any ‘overdue tax’. For example, debt management for PAYE tends to be much more ‘real time’ than for other Revenue taxes because liabilities become overdue each month.

⁹ Inland Revenue: Brand Tracking, 2003, Research Business International exercise on behalf of the Revenue.

B.49 Both departments operate debt management as a national function, but operations are much more centralised in Customs. The key for a merged debt recovery operation is the identification of the debt that triggers contact. Robust information links are critical to this.

Potential for improvement

B.50 Within debt management there is particular room for improvement in:

- being able to take a whole customer view of debt;
- tailoring debt management interventions in accordance with risk;
- rationalising debt repayment negotiations for customers and improving consistency of treatment;
- rationalising communications with Insolvency Practitioners;
- making better informed time to pay and write-off decisions; and
- flexibility of systems and processes to deal with new tax structures.

B.51 While some of the above could be achieved as a result of better use of information within existing organisational structures, the more fundamental changes could only be achieved through a fully joined-up service. Information system and legislative changes would be required to allow one department to negotiate and pursue the debt of the other.

B.52 Many other revenue departments measure the amount of tax that remains uncollected (see Box B.2). Maximising the collection of tax due contributes to enhancing effectiveness. Sweden, a well-regarded international benchmark, currently has a collection loss of no more than 0.5% of tax due. Collection losses are not measured on a comparable basis by departments. Customs write-off level for 2002-03 was around the 1% mark. The Revenue figure for write offs for the same period is only 0.2% but the considerable amounts of tax stood-over (£27.3 billion at October 2001)¹⁰ suggests that write off levels alone may not be a good indicator of the collection losses at any time. The review believes that there is significant potential for improving the availability and use of management information in the Revenue for debt management. It is difficult to accurately measure collection losses and therefore strategically focus upon reducing them.

¹⁰ *Comptroller and Auditor General's Standard Report on the Accounts of the Inland Revenue 2001-02*. National Audit Office, 8th November 2002, available at www.nao.gov.uk

Box B.2: National Audit Office and debt management practice

The National Audit Office¹¹ is due to report on collection of debt by the Revenue in 2004. As a part of its analysis, it has carried out international benchmarking studies. Some examples of European best practice are:

- where possible, it is better to take a holistic view of debt across all tax types. A number of countries, including Sweden, have developed a single tax account system, through which all direct and indirect tax charges, repayments, receipts and payments flow. Although there are practical difficulties to implementing this in the short term for UK taxes, such a system can provide better information for customers and government to manage cash flow and debt
- better analysis of new business registrations for direct tax can provide information for a system of security and credit limitations for those with previous bad debt histories. If current debts are built up they are not allowed to become old, and the debtor can be registered with a credit information institute, which limits their options for further private or public debt; and
- tax certificates can be given to companies to show they are up to date on their tax, and where this happens, as in Ireland, many businesses display them to customers. Public entities must ask for certificates, and they are seen as an incentive to firms bidding for public contracts. Some cash businesses need a certificate to start up, which prevents shadow economy trading.

B.53 Greater cooperation between government agencies, and with the private sector, could help some businesses avoid serious debt problems. Business recovery trials are taking place within the revenue departments (see Chapter 3). However, these currently operate without a specific mandate for the departments to provide business recovery support where appropriate. They also lack an understanding of the position across all tax debts, which could allow better risk assessment and more satisfactory negotiation and settlement for multiple debts.

B.54 More than one in four small businesses had been in debt to one or both of the revenue departments in the five years to 2002.¹² All surveys of business pressures on SMEs report cash flow as a prime concern and, in line with this, MORI found that 56% of late paying companies with turnovers under £100,000 specified cash flow problems as a cause of debt to the revenue departments. Customs' research shows that delaying a tax payment is seen by many businesses as part of day-to-day financial management, rather than non-compliance. After cash flow problems, forgetting to pay was the second most common reason for debt arising in small businesses.¹³ For direct taxes the early notification of the amount owed was seen by 33% of small businesses as being the most effective tool to help them avoid debt.¹⁴

B.55 Small debtors and those who miss due dates through forgetfulness are a burden on the capacity of the two departments. Joint activity would administratively be more efficient, and allow a better service through more efficient use of business recovery and

¹¹ National Audit Office *Work in Progress: Collection of debt by the Inland Revenue Study Outline*, www.nao.gov.uk

¹² MORI, *Debt Management in Small Businesses*, research study for Revenue and Customs, Sept-Nov 2002.

¹³ MORI, *Debt Management in Small Businesses*, research study for Revenue and Customs, Sept.-Nov. 2002.

¹⁴ Source: Revenue and Customs.

reminder services (including outbound telephony services, text and email reminders). Electronic payment options should also reduce the risk of debt.

SUPPORT SERVICES

These services support the other functions and include human resources, legal services, asset management, finance and internal audit, technology, communication and contract management and procurement.

Current approach **B.56** The review has also examined a range of support services. Since roughly 12% of total Customs and Revenue staff are engaged in such work, it is an important factor when considering operational efficiency.

B.57 There is a distinction between strategic functions that play a key part in determining the shape and extent of departmental activities (e.g. finance and human resources strategy), and those that are essentially about supporting the departments' business activities (e.g. processing travel claims and human resources advice and services). Because the strategic activity is tightly linked to senior management decision making in each organisation, it would be difficult to do anything other than maintain separate functionality where Customs and the Revenue retain separate identities or integrate the activity where the departments are integrated. If strategic activity of this nature were integrated it would be difficult to keep operational activity separate.

Potential for improvement **B.58** In the more process-based areas, there is likely to be scope for realising economies of scale through joint activity. The review's analysis has been shared with the Gershon review. The extent of such economies would depend on a number of factors, most importantly:

- the degree to which the activities have already been automated;
- the need for new activity to support wider organisational change;
- existing contractual obligations; and
- the extent to which support relates to specialist operations where there is minimal Customs/Revenue overlap.

B.59 As with many Government departments, there are relatively high ratios of support to front-line staff, as compared to the private sector. It is likely that there is significant scope for simplifying and standardising unnecessarily complex business processes, and achieving economies of scale through increased volumes in shared services centres between the revenue departments.

C

ANNEX C: BANKING REVIEW

C.1 The revenue departments review provides an opportunity to highlight the key findings to date of the review of the banking operations of the Chancellor's departments. This review of the revenue departments, National Savings and Investments (NS&I), and the Office of the Paymaster General (OPG), was started in early 2003 and will be completed soon. The first three organisations undertake banking operations in support of their own businesses. OPG provides a banking service to over 900 public sector bodies, and has the nature of a normal clearing bank operation from the perspective of its customers.

C.2 These departments all engage in high volume financial business, with over 200 million transactions annually. Each department currently handles its banking business independently (i.e. managing payments and receipts and monitoring associated bank accounts). The four organisations conduct similar banking operations, involving:

- interaction with the clearing banks on automated payments in and out (especially through BACS, CHAPS and to an increasing degree credit and debit cards);
- processing of outward paper based payments (issue, security checking and clearing);
- processing of inward cheques (receipts, batching, entering into clearing system and reconciliation); and
- development and use of e-payments technology.

C.3 Although the volumes of flows vary between the participant departments (see Table C.1), each use almost all the standard banking interfaces.

Table C.1: banking flows in Chancellor's departments

	Main volumes in 2003, million					
	Payments			Receipts		
	BACS	PO/CW ¹	Other ²	BACS ³	Cheques	Other
The Revenue	145.4	6.9	0.005	21.2	14.4	7.0
Customs	2.1	0.4	0.001	0.6	4.7	0.2
NS&I	10.3	8.6	n/a	0	1.0	0.5
OPG	36.1	12.0	0.070	0.4	1.2	0.4
Total	208.5	27.9	0.076	20.1	21.9	4.3

Source: Banking review, drawing on Chancellor's departments' data.

¹ Payable Orders and Crossed Warrants.

² Excludes some 12.7 million Girocheques made via Post Office.

³ Including direct debits.

C.4 Institutional arrangements vary. At one extreme the operational business of NS&I is conducted totally through an outsourced contract with Siemens Business Systems. The other departments use a variety of sources of banking services, including contracts with external service providers, individual clearing banks and the Bank of England.

C.5 The Banking review has worked at a detailed level, examining the banking processes, error and exception handling, IT interfaces and resource deployment of each department.

C.6 At the level of basic banking operations each departments' processes are very similar. This is not surprising, since the external interfaces are predominantly with an industry that is highly 'commoditised'. However, the interface between banking operations and other departmental processes vary quite widely, reflecting internal business organisation, system needs (e.g. tax regimes) and history. The clearest separation between business process and banking process is for OPG, where its role as separate banking provider has to a very large extent required a clear distinction from departmental processes, such as the determination of a payment obligation. The closest interconnection between banking and business processes is within Customs, where the banking processes are often linked directly into a specified tax regime. Particular effort has been needed during the review to separate out the 'straight through' banking processes from other departmental requirements, so that the common factors can be assessed.

C.7 The banking review has looked at consolidation experience in the commercial banking sector and noted the developing trend towards outsourcing of commodity processing, e.g. cheques received. External experience also indicates that there are gains from consolidation and industrialisation of processes.

C.8 The review has identified opportunities in several areas, where a more joined up approach should be considered. These include:

- consolidation of core clearing bank functionality, including operation of bank accounts, with single point procurement of bought-in services, combining volumes to secure economies of scale;
- consolidation of paper processing, involving handling inward cheques, and processing of outward payable orders. Consolidation would help hold down unit processing costs as paper volumes decline; and
- joint development of e-receipts facilities to better facilitate take up of e-business and avoid duplicated investment costs.

C.9 Consolidation of the banking services across the departments would promote economies of scale and provide a single concentration of knowledge and expertise, to better engage with the commercial banking sector. This would have benefits for ongoing routine business and for development of new services as the market evolves.

C.10 Current work is assessing the costs, benefits and risks associated with changes in these areas. Although banking costs are a very small part of total departmental administrative expenditure, it is essential that the related processes operate effectively and in a way that minimise risk. Across all departments fast banking of receipts, efficient payments to suppliers, customers and beneficiaries and provision of financial data for the updating of records are essential requirements, for Government, for

customers and for citizens. This would continue to be the case in a more joined up operation across the departments.

C.II The review will report to Treasury Ministers in the Spring. The timing of the implementation of recommendations will of course need to be considered against changes resulting from the wider Revenue Departments Review.

D

ANNEX D: EXTERNAL EXAMINATION

INTRODUCTION

D.1 Following intensive work involving the revenue departments, the review concluded that there was a case in principle for moving to an integrated tax authority, to allow the development of coherent services for businesses who deal with both departments (particularly in order to reduce the burden of complying with the tax rules), improve the ability to target resources to areas of risk, and offer opportunities for greater efficiency.

D.2 The work had also demonstrated the extent of the challenge in these goals, not only in bringing together two distinct cultures to work in new ways and in improving the use of information, but at the same time in managing the on-going work of the departments.

D.3 It was recognised that, whilst the review would stop short of setting out a blueprint in coming to final conclusions, it was important to test the practicality of the sort of change programme that could be involved. The review therefore sought external input from leading individuals with relevant experience and skills. This Annex briefly describes that work and sets out conclusions from three of these individuals.

D.4 The aim was not to duplicate the work already conducted by the review team and the departments concerned, but to provide a fresh perspective on the achievability of benefits in practice, the risks of change and how those could be mitigated.

D.5 The review identified and approached a small number of senior figures from the private sector with relevant experience. Three of these – John Coombe, Martin Taylor and David Varney – agreed to assess the work conducted and offer written comments. Others were prepared to offer commentary in private. The work of these individuals has been invaluable, both for their perspectives on the principled case for change, and on possible ways of implementing the review’s recommendations.

JOHN COOMBE

D.6 John Coombe is Chief Financial Officer for GlaxoSmithKline, formed following the merger of Glaxo Wellcome and SmithKline Beecham. His other business appointments include being a Non-Executive Director of the Supervisory Board of Siemens AG and membership of the Code Committee of the Takeover Panel. He served in 2000 and 2001 as Chairman of The Hundred Group of Finance Directors. He examined the work of the review, and his conclusions are reproduced below.

I have examined the work of the review as we discussed, and this letter sets out my thoughts. I give these as someone who is not immersed in the public sector or in tax issues, but who has had first hand experience of financial oversight of large organisational change in the private sector at GlaxoSmithKline.

This experience is less relevant to the policy and accountability sections than it is to the delivery parts of the review. As a result, while I support the thrust of the changes to policy formulation and accountability arrangements (particularly the framework document combined with annual remit), I do not intend to comment on these at length. My comments below relate to the main structural question considered by the review.

Overall I think that the strategy of bringing the two departments together to form a new organisation is fundamentally sound. It is a different case from that commonly seen in business, where the focus often falls on efficiency and cost reduction, but is not less valid for that.

The move being contemplated should be beneficial for “customers” of the department, through increased customer focus rather than tax focus. I think there could be particular value in a single office dealing with the affairs of large companies, another for smaller companies, and one for personal affairs.

It should also be possible to make better use of information to the benefit of the exchequer. Although the review has struggled to be precise about the extent of this effect, I believe this will be true in the longer run.

I am not attracted by alternative ways to trying to achieve the same results, for instance through boards overseeing the two existing departments. Such arrangements in my view could well be ineffective.

The clarity of the task given to the new organisation and its management will be very important for its success and ability to manage risk. Several things follow from this:

- *the first is that it is very important the Government should set out the roles and aims for any new organisation – in this case for example agreeing quantitative targets on revenue raising and cost reduction. The new management team need to be very clear what their key deliverables are and who is going to do what;*
- *the second is that the staff have to know whether change is actually a takeover, or a merger to form something new. As I understand it, the intention would be for a distinctively new organisation, but the relative numbers in the two existing departments mean that the perception would be most likely to be of a takeover. This would need attention and effort to address; and*
- *the third is the Government should think carefully about the scope of the organisation. The main focus for the new body would be tax. The Government might be wise to consider at the same time whether some of the functions currently discharged by the departments are best located with the tax authority or elsewhere.*

The composition of the top team will also be absolutely crucial in success. Given the size of the undertaking, my feeling is that there is a case for both a chair and a chief executive, at least while integration is pursued. In steady state, the balance could be different.

How the top team pursue the agenda set out will be up to them. At GlaxoSmithKline, we used a merger committee involving key top-level action people who in turn led teams to drive particular areas of work as well as using external advice. This requires a big investment in taking a number of the very best people out of normal business activity for a period, but worked well for us, and may be a model that would be useful.

MARTIN TAYLOR

D.7 Martin Taylor was Chairman of WHSmith Group plc from 1999 to 2003, and Chief Executive of Barclays plc from 1994 to 1998. He has worked with both Customs and the Revenue previously on particular issues. As well as examining the work of the review, he conducted a series of meetings with senior managers in the revenue departments and other interested parties. His conclusions are reproduced below.

You asked me to give you a view on the proposal to integrate Inland Revenue and Customs and Excise to form a new organisation. I have not sought to duplicate the analysis conducted in the review, but have had the opportunity to meet with key players from the two departments and elsewhere and to examine the results of existing work.

What follows draws not only on the review sources and meetings, but also on my previous experiences of working with the two departments on specific issues and of organisational issues in the private sector.

Comments on main recommendations

Like the authors of the review, I regard the separation of the tax-gathering departments as anomalous in a modern economy. I believe that benefits will accrue to Government and to honest taxpayers by creating a new organisation that brings their functions together, as well as new challenges and opportunities for staff. There is a real chance to make a sensible long-range reform now which it would be a pity to miss. My perception is that the review has created widespread expectation of change inside and outside the departments themselves.

A change of this sort would be risky, perhaps very risky. My conclusion however is that the risks are manageable and the long-term prize is worth pursuing, although the way in which change is approached will be very important. I explore this further below.

The proposal to transfer tax policy to the Treasury was in my discussions universally seen as sensible, so long as the right links continue to be made between policy and operations. The importance of this link has been well covered in the work of the review. I should add only that tax in modern economies is highly complex, and the overall costs of collection (those incurred by taxpayers and the agents of the state) are influenced by this complexity. Beyond a point, diminishing returns must be expected. Although I cannot pretend to identify that point, I believe that a simpler tax system would cost less to administer and would produce a smaller gap between tax due and tax paid. As such, integration of tax administration would be more likely to succeed if backed by a Government commitment to simplification as part of the enterprise agenda.

The policy change will mean that the new organisation will become more exclusively operational. Tax expertise of the highest quality will of course continue to be essential, but the overwhelming majority of the work will consist of using huge information systems to perform set tasks to a high degree of professionalism and accuracy.

This links well with the common desire I encountered to clarify the relationship between the new organisation and Ministers – in an ideal world, Ministers would be happy to grant considerable operational autonomy in return for greater accountability for decisions elsewhere. Some kind of memorandum of

understanding governing the nature and extent of Ministerial involvement would clearly be desirable. The political reality that Governments are held responsible for the errors of their agents is not – and should not be – easily abolished. Public perception is unlikely to be determined by purity of drafting. Experience of the operation of the new system in practice, including the willingness of Ministers and officials to challenge established patterns of behaviour, will be important.

Objectives in integration

The most important point to emerge from my discussions was that mere absorption of one department by the other would serve no positive purpose. The clear aim in change would be creation of an organisation that builds on the strengths and history of the two revenue departments but which is distinctively different. In doing so, it is essential to be clear about the priorities and aims. My strong advice would be that Ministers agree explicit aims with the management of the new organisation.

The agenda outlined in the review seeks three important prizes: reduction of the tax gap; better services to (and therefore an easier life for) compliant taxpayers and particularly shared customers; and cost reduction across the three departments.

In the private sector, the last of these would often come first. Here, the reduction of the tax gap is far the bigger prize, and should be the priority rather than costs. If Ministers decide for a new organisation, this should be made clear to the new management, who should not be judged primarily on the attainment of secondary objectives.

Managing integration

My view is that delivering the agenda described above would be best done by a Chief Executive who does not come from either department, working with a senior team set up to be a blend of people from both.

I believe there is a case for a Chair in addition to the Chief Executive role, particularly if it allows for a mix of public and private sector experience at the top of the organisation and to make it easier for the Board to guide the executives on behalf of Ministers. I am not convinced that the Chair would be a full time position, but there will clearly be a very great deal of work to be done, particularly in the early years.

Given the size and importance of the information systems in the new organisation, it would need a very highly qualified chief information officer. The post would be one of the most important CIO jobs in the country and should be staffed accordingly.

Pace of integration

It would clearly be important to set up the management structures for the new organisation as quickly as possible, which requires rapid identification of its senior team. Having done that, the new team should dictate the pace, taking into account the on-going work of the departments.

The biggest overlap in the activities of the two current departments is where there are shared customers, that is to say the business facing parts. Here I would expect reasonably speedy bringing together of activities or planning that would underpin that. The new team would doubtless also want to integrate the staff functions, especially human resources, finance and technology.

Beyond this, there seems to me no hurry to integrate for the sake of it. For most people who work in the organisation, business should be business as usual at least initially. The areas facing immediate challenges (such as tax credit renewals) would need to be protected from all disruption.

DAVID VARNEY

D.8 David Varney was appointed Chairman of mmO2 in June 2001. From 1996 to 2000 he was Chief Executive designate and then Chief Executive of BG plc. Before joining BG, he held a series of posts in Shell, culminating in his becoming Director of Shell International Petroleum Company. He is Chairman of Business in the Community, and a member of the President's Council of the CBI. He examined the work of the review, and his conclusions are reproduced below.

I am pleased to have the opportunity to contribute to your review of Customs and Excise, the Inland Revenue and Treasury. I bring general commercial expertise rather than specific knowledge of the Inland Revenue and Customs and Excise.

The thrust of your conclusions is sensible. There is a good case for a single department dealing with tax administration. International trends support integration, particularly to ensure that VAT is administered as an integrated part of a business tax system and the potential effectiveness benefits are harvested. In my experience inter organisational co-operation has limited benefits and these are primarily at the margins of the organisations concerned rather than at their hearts. In situations like this where there are potential benefits from more intense linkages it makes sense to reflect those in structures.

The emphasis on greater customer focus and service is welcome and in my view right. When they are successful, businesses understand the value of deep and rich customer knowledge, and work hard to acquire and use that knowledge. At mmO2, we have improved our performance by using more sophisticated customer segmentation. Customer focus is not easy, and does not happen by accident: the aims for the organisation must be reflected in the mission and structure of the organisation itself.

Government is increasingly internalising the same lesson, and building the customer or citizen into the heart of public service delivery. This is a good thing, and your review is an opportunity to take a further step along this road in a very important area. As your report makes clear, there is a great deal of expertise and energy within the two departments, which when harnessed could be a formidable force. I also believe that business know-how can help Customs and Excise and the Inland Revenue to rise to their challenges, and hope that a new department would look both inwards and outwards when shaping its future.

None of this means that creating a single department will be easy. It is quite clear it will be a tremendous challenge, for everyone involved. That includes the staff, who will have to balance the demands of the on-going work with the uncertainty of change. But it also includes Ministers, who will have to find a new way of working with the Department, and customers, who will have to help the new body develop its services and approach. It will be a challenge to keep a long-term focus on the effectiveness prizes and not fall prey to the temptation to substitute short term cost reduction objectives.

In the oil business, a project like integrating the two departments would be referred to as “brownfield engineering”. You do not have the luxury of a blank sheet, but work with an extensive set of existing processes and infrastructures. This makes planning difficult, though not impossible. Outside perspectives are useful, but planning has to be done with a heavy dose of familiarity with existing structures. As a result, I believe your report should set out desirable outcomes, but cannot attempt to set out how they could best be achieved.

That said, you might want to recognise in the report that the process of establishing a single new department would not and should not be quick. Although doubtless some action could and should be taken fast, other areas, such as development of new services for small companies, would have to be taken forward in consultation with the customers and at a pace that ensures they can be piloted and rolled out in a way that builds confidence. Integration of the two departments and the creation of a new identity will also involve costs, at least in the short term. These should be worked out at the early stages of business planning.

In terms of senior structure, in steady state my suggestion would be for a single leader for the Department who also discharges the accounting officer role. I would suggest in the transition, when there will be particular strains on the senior team you need to seriously consider more full time resources in the leadership to deliver this change programme. As with service planning, I would advise against attempting to specify in your work the composition of the Board, perhaps limiting yourself to defining overall size and certain key roles (such as finance director). Flexibility is powerful: you need a team able to adapt to particular challenges it faces.

If a single department is established, it would have huge risk management tasks – risk relating to revenue streams as well as IT projects. An absolute requirement for the new organisation will be good processes to deal with those risks – particularly on IT. I suspect that the material on information you have gathered may conceal a very complex pattern of data. Developing this into something coherent for the new department would be a very intensive exercise.

I hope these thoughts are helpful. The project is clearly an important and valuable one. I believe it has potential to pay real dividends for the people working in the departments and its customers - to achieve this will require both delivery of the current business imperatives and managing the change process to deliver the effectiveness gains.

E

ANNEX E: VIEWS OF SIR PETER GERSHON

E.1 As set out in Annex F, the review has benefited from the input of a range of senior figures, including from Sir Peter Gershon, whose review of efficiency in Government, and whose work in the Office of Government Commerce (OGC), and private sector experience, are particularly relevant.

E.2 Sir Peter Gershon became the first Chief Executive of the OGC in 2000 after 30 years in the private sector. He worked for ICL, STC and GPT, and was later managing director of GEC's defence business, and a member of BAE's board. His conclusions are reproduced below.

I have been heavily involved in the O'Donnell review of Customs and Revenue since it started – both on the review steering committee and leading the group looking at IT and information issues.

Now that the shape of analysis and broad conclusions are clear, I thought it worth setting out how the emerging picture looks from my perspective, and particularly because of the links with my broader work in OGC and the Efficiency Review.

I fully support the recommendation to integrate Customs and the Revenue, and the other recommendations in the report. The work of the review has highlighted important gains to be made in terms of customer service, effectiveness of revenue collection and efficiency that require change to secure. I think it is right that you do not attempt to specify in detail the programme to achieve these: this must be the job of a new high calibre management team who own the task.

As we have discussed, and as the external examiners have highlighted, the way in which the new team approach the task will be very important. I am familiar with the departments' position on IT through my role at OGC and through the work of your review. They have some very large contracts, some of which are entering sensitive periods. These should be ring-fenced carefully to ensure continued effectiveness of service delivery. I would support the early creation of a professional CIO post on the board of an integrated department to manage this critical part of the business.

The links between the work and that of my project on efficiency in Government more generally have been very strong, and the recommendations pick up the main themes of the broader work. Their implementation will provide a good basis on which to pursue in practice the efficiency gains highlighted by my work.

There are two specific aspects of the review that I would particularly highlight.

The emphasis on identifying transformational change in services for shared customers is particularly welcome. The review has pointed to a set of actions that will positively influence delivery levels and efficiency externally – for example by improving the services for businesses through cross-cutting operations, or consolidating operations like debt management – and internally – for example by making better use of resources like information through a shared approach to knowledge management, and by creation of shared support services.

The development of E-channels and accompanying re-engineering has also been a constant theme in the work of the efficiency review. This has also been picked up in the work of the O'Donnell Review. E-services bring together the three drivers of

change for the revenue departments. They provide the scope for better customer focus, for example through targeted information or education. They offer improved effectiveness, by creating flexible data sets enabling assurance activity to be better matched to risk. They also offer very real scope for greater efficiency when high levels of take up of these services can be realised.

It is important that we fully exploit the opportunities to increase the use Government makes of E-services. By greater use of technology and new processes, I believe there is scope for releasing very substantial resources which can be deployed for further improvements in the quality of public services.

The importance of information was built into the remit of the review from the start, and rightly so. I hope that the result will be fresh impetus towards a determined, co-ordinated and structured approach to the E-agenda, building on and accelerating existing plans, and believe that there is scope to make significant further improvements in value for money as a result.

F

ANNEX F: CONDUCT OF THE REVIEW

F.1 Gus O'Donnell, Permanent Secretary to the Treasury, has led the review of the revenue departments, and he is responsible for this report. He has been assisted by a Steering Group consisting of the Chairmen of the Revenue and Customs, Sir Nick Montagu and Mike Eland, and other senior officials from the Treasury (Nick Stern, Ivan Rogers, Dave Ramsden, and Stephen Parker), Home Office (Leigh Lewis), Office of Government Commerce (Sir Peter Gershon), and National Savings and Investment (Alan Cook).

F.2 Four sub-groups have assisted the review:

- **tax policy and analysis**, which included Ivan Rogers (Chair), Graham Parker and Andrew Lewis (Treasury), Alison French and Derek Hodgson (Customs) and Dave Hartnett and David Ulph (the Revenue).
- **accountability, governance and legislation**, which included Ivan Rogers (Chair), Stephen Parker and Andrew Lewis (Treasury), Caroline Mawhood (National Audit Office), Mike Hanson (Customs), and Helen Ghosh and Phillip Ridd (the Revenue).
- **information**, which included Peter Gershon (Chair, Office of Government and Commerce), Peter Short, (Treasury), Chris Parker (Office of the e-embassy), David Ulph, Gwenda Sippings, Ian Pretty, John Yard, and Ron Skelley (Inland Revenue), Carol Gray, Kevin Franklin, Len Morris, and Nigel Green (Customs) and Stephen Holt (Department for Work and Pensions).
- **delivery**, which included Alan Cook (Chair, National Savings and Investment), Ann Chant, and John Middleton (the Revenue), David Garlick, and Mike Wells (Customs), Michael Richardson (Department for Work and Pensions) and Ivan Rogers, Peter Short, and John Kingman (Treasury).

F.3 Crosscutting projects have supported the sub-groups, including:

- **international comparisons**. Sir Nick Montagu, Chairman of the Revenue, has assisted this project.
- **service delivery**, covering work on customers, the departments' vision, and specific areas for improvement in services and compliance, undertaken by Anthony Zacharzewski (Treasury).

F.4 A Treasury review team, with secondees from the revenue departments, has supported the review as a whole. They are: Dave Ramsden (Team Leader), Michael Feliks, John Fiennes, Lesley Hart (Customs), Gideon Hoffman, Sowdamini Kadambari, Chris Knight, Tania Rawle, Helen Smith (the Revenue), Daniel Thornton, and Tamsin Woodeson (Customs).

F.5 Co-ordination teams in the revenue departments have also assisted the review: in Customs, Simon Woodside (team leader) Emma Broadbent and Michael Forsythe; and in the Revenue, Mary Aiston (team leader), John Harrison, Michael O'Callaghan, and Melissa Tatton.

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GLOSSARY

Administration costs	The gross costs of a department’s administration, including the pay of civil servants and all associated expenditure such as accommodation, travel, and training. It excludes programme expenditure, which is procurement of goods and services delivered directly to the public, and of transfer payments such as social security and subsidies.
Audit	The term used in this report to describe assurance activity in Customs and enquiries in the Revenue.
Avoidance	Exploitation of tax loopholes to reduce liability.
Business cycle	The fluctuation in the level of national income around its long-term trend. The business cycle is a well-observed economic phenomenon, though it has a variable time span.
Child Trust Fund (CTF)	The CTF is a savings and investment account for children. The Government will make payments to children through this account to help build up a useful stock of assets for when they reach the age of 18. The CTF account is intended to help to strengthen the savings habit of future generations, spread the benefits of assets ownership to all, educate people in the need for savings and give young people a basic understanding of financial products.
Collection losses	Tax liabilities that are identified by tax authorities but which are not collected.
Compliance activities	Any action or intervention to ensure that customers meet their obligations and claim their entitlements, from offering advice to support voluntary compliance, to investigating evasion and fraud.
Compliance costs	Costs incurred by taxpayers and other parties (e.g. banks, employers) in meeting the requirements imposed by the operation of the tax laws.
Customs Duty	Indirect taxes raised on imported goods and collected on behalf of the EU that, among other things, provide protection for Community industry.
Data processing	The process of inputting, amending, or deleting data, or extracting the information that constitutes the data – for example inputting details from a paper tax return.
Economies of scale	Where the average cost of producing goods or services falls as the scale of production increases.
Efficiency Review (Gershon Review)	Review undertaken by Sir Peter Gershon to assess where the efficiency of government machinery can be improved.
Evasion	Illegal activity to defraud the tax system.
Excise duties	Taxes levied on certain categories of goods, such as alcohol and tobacco.

Fiscal policy	Government economic policy in which changes in taxation, benefit payments, and government expenditure and borrowing are used to influence the economy.
Function / functional analysis	Functions are the areas of activity carried out by the revenue departments, for example investigation of possible non-compliance, as opposed to the organisational or management units of the departments to which functions may or may not align.
Golden Rule	One of the UK Government's two fiscal rules (the other being the sustainable investment rule). It states that over the economic cycle, the Government will borrow only to invest and not to fund currently spending.
Import duty	The customs duties and charges having equivalent effect as well as agricultural levies, and other import charges under the CAP, or under specific arrangements applicable to certain goods resulting from the processing of agricultural products. The term 'import duty' does not include excise duty.
Incidence	The incidence of a tax describes where the burden of payment falls. This may be the immediate (formal) incidence, for example businesses having the legal obligation to pay CT means they bear the immediate incidence of that tax; or the ultimate (effective) economic incidence, for example on individual shareholders or customers who bear the eventual cost as taxes are passed on in lower dividends or price increases.
Metadata	A summary of the form and content of a resource, for example in electronic information structures, the 'data about data' that records when an item of information was created or defines its format.
Monetary policy	Policy with respect to the official interest rate and other monetary variables, for example the quantity of money in the economy.
Opportunity cost	The cost of taking one action rather than another, or of not taking an action – for example future revenue not collected because a current investment in IT is not made.
PAYE (Pay As You Earn)	Main source of income tax collection, where tax is collected at source by employers through deduction from employees' salaries, along with National Insurance Contributions.
Public Service Agreement (PSA)	Government departments each have a public service agreement setting aims, objectives and targets for departments. PSAs represent an agreement between Government and the public, reflecting key priorities in public service. Progress against PSA targets is published regularly at www.hm-treasury.gov.uk
Receivables	Unit in the Inland Revenue that deals with the management of debts and liabilities.
Revenue departments	Her Majesty's Customs and Excise and the Inland Revenue.

Spending Review	Sets spending plans for the following three financial years. They have replaced the annual PES, and are held at less frequent intervals. The first was the Comprehensive Spending Review in 1998. The most recent was Spending Review 2002, which reported in July 2002, and set spending plans for the years 2003 to 2006. The next Spending Review will report in the summer of 2004.
Stamp Duty	Duty levied on transactions in certain property (e.g. the purchase of land). Also Stamp Duty Reserve Tax on shares.
Tax Credits	Working Tax Credit and Child Tax Credit are adjustments made to employees' pay packets, and direct payments to others, to encourage people into work and support them in the care of children. The payments are recorded as social benefit expenditure in national accounts, with the income tax being recorded gross. In cash based presentations of public finances they are netted-off gross income tax.
Tax gap	The gap between the theoretical tax payable and the amount collected.
Tax year	Starts on 6 th April in one year and finishes on 5 th April in the next.
Transactional activities	Work to ensure the basic operation of the tax system through handling regular transactions, for example processing tax returns, taking payments, or answering straightforward factual enquiries.
Whole customer view	The ability to treat a single customer (individual, business or other) as a single entity across their tax obligations and entitlements, rather than separately according to their different roles e.g. as employer, income tax payer and so on. A large range of services and systems can contribute elements of a whole customer view, for example risk assessment across different taxes, or a single customer account.

ACRONYMS AND ABBREVIATIONS

ATO	Australian Taxation Office
CBI	Confederation of British Industry
CEO	Chief Executive Officer
CGT	Capital gains tax
CCRA	Canada Customs and Revenue Agency (see CRA)
CPA	Comprehensive Performance Assessment
CRA	Canada Revenue Agency
CT	Corporation Tax
CTF	Child Trust Fund
DEFRA	Department for Environment Food and Rural Affairs
DGCP	Direction Generale de la comptabilite publique (France)
DGI	Direction Generale des Impots (France)
DLF	Direction de la Legislation Fiscale (France)
DMA	Debt Management Account
DMO	Debt Management Office
DMR	Debt Management Report
DPA	Data Protection Act
DPTC	Disabled Person's Tax Credit
DTCA	Dutch Tax and Customs Administration
DTI	Department of Trade and Industry
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
EBT	Employee Benefit Trust
ECA	Enhanced Capital allowance
EFSR	Economic and Fiscal Strategy Report
EIS	Enterprise Investment Scheme
EITC	Earned Income Tax Credit
ESRC	Economic and Social Research Council
ETS	Emissions Trading Scheme
EU	European Union

FA	Finance Act
FDA	First Division Association (civil service union)
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FSA	Financial Services Authority
FSBR	Financial Statement and Budget Report
G7	Group of Seven. A group of seven major industrial countries (comprising Canada, France, Germany, Italy, Japan, UK and US)
GAAP	Generally Accepted Accounting Practices
GAD	Government Actuary's Department
GDP	Gross Domestic Product
GOGGS	Government Offices Great George Street (part-occupied by HM Treasury)
GST	Goods and Services Tax
GTPP	Generic Tax Policy Process
HMCE	Her Majesty's Customs and Excise
HR	Human Resources
HRA	Human Rights Act
ICT	Information and communication technologies
IMF	International Monetary Fund
IRD	Inland Revenue Department (NZ)
IRS	Internal Revenue Service (USA)
ISA	Individual Savings Account
ISB	Invest to Save Budget
IT	Information Technology (or Income Tax depending on context)
JoSETs	Joint Shadow Economy Teams
LBG	Large Business Group (Customs)
LBO	Large Business Office (Revenue)
MPC	Monetary Policy Committee
MPPC	Modernising PAYE Processes for Customers
MTIC	Missing Traders intra-Community
NAO	National Audit Office
NICs	National Insurance Contributions

NICO	National Insurance Contribution Office
NMDs	Non-ministerial departments
NS&I	National Savings and Investment
NTC	New Tax Credits
NTSSC	Net taxes and social security contributions
OECD	Organisation for Economic Cooperation and Development
OGC	Office of Government Commerce
ONS	Office for National Statistics
OTP	Office of Tax Policy
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PAYG	Pay As You Go
PBR	Pre Budget Report
PCS	Public and Commercial Services Union (civil service union)
PDMR	Provisional Debt Management Report
PES	Public Expenditure Survey (replaced by Spending Reviews)
PESA	Public Expenditure Statistical Analyses
PIN	Personal Identification Number
PSA	Public Service Agreement
RAB	Resource accounting and budgeting
R&D	Research and development
RPI	Retail Price Index
RPIX	Retail Price Index excluding mortgage interest payments
SA	Self-Assessment
SBIC	Small Business Investment Companies
SBS	Small Business Service
SDA	Service Delivery Agreement
SFLG	Small Firms Loan Guarantee
SMEs	Small and Medium-sized Enterprises
SOCA	Serious Organised Crime Agency
SSC	State Services Commissioner
TMA	Taxes Management Act

TSC	Treasury Select Committee
TTR	Ratio of total tax Revenues to GDP at market prices
UK	United Kingdom
USRO	Union of Senior Revenue Officials (civil service union)
VAT	Value Added Tax
VCT	Venture Capital Trust
VED	Vehicle Excise Duty
WFTC	Working Families' Tax Credit
WGA	Whole of Government Accounts
WTC	Working Tax Credit

Printed in the UK for the Stationery Office limited
on behalf of the Controller of Her Majesty's Stationery Office

166396 03/04