

**As set out in Budget 2004, the Chancellor's Departments will realise ambitious efficiency savings over the 2004 Spending Review period, with departmental administration expenditure frozen in nominal terms and a significant reduction in posts by 2008.**

**With these efficiencies releasing extra resources for front-line work, this Spending Review provides for:**

- **implementation of the recommendations of the O'Donnell Review, with the creation of HM Revenue and Customs providing improvements in customer service, compliance and effectiveness for the benefit of all tax payers;**
- **further action to combat tax and national insurance contributions losses to safeguard revenues and fair competition; and**
- **delivering the Government's commitment on Lorry Road-User Charging, which will ensure a level playing field for all hauliers using UK roads irrespective of their nationality.**

## DELIVERING A WORLD CLASS ECONOMY

**21.1** The Chancellor's Departments have a key role to play in delivering the Government's objectives. HM Treasury is responsible for developing and implementing economic policy with a view to achieving rising prosperity and a better quality of life for all, while Inland Revenue and HM Customs and Excise collect the revenues that pay for essential public services.

### Reform and Modernisation

#### Review of the Revenue Departments

**21.2** In July 2003, the Chancellor announced that the Permanent Secretary to the Treasury, Gus O'Donnell, would lead a major review of the organisations dealing with tax policy and administration – HM Customs and Excise, the Inland Revenue and HM Treasury. This review reported in March 2004<sup>1</sup>. The Chancellor announced at Budget 2004 that he had accepted the recommendations of the review. Accordingly, the work of the Inland Revenue and HM Customs and Excise is being integrated with the creation of a new department, HM Revenue and Customs (HMRC), while HM Treasury will strengthen its responsibility for tax policy, with support from the new department.

#### A world class tax system

**21.3** The major reforms flowing from the O'Donnell Review are intended to provide a world class tax system, with improvements to:

- customer service and compliance costs, through coherent policy advice and service planning, customer education and advice, processes and systems, and compliance activity;
- effectiveness, through alignment of strategies, a coherent approach to information, new approaches to compliance, and flexible resource allocation. By helping to ensure that the right tax is paid by the right people, fairness will also be enhanced;

<sup>1</sup> Financing Britain's Future: The Review of the Revenue Departments, March 2004.

- efficiency, through economies of scale and the impetus of transformational change, particularly in transactional processes; and
- tax policy, through a new coherent approach where HM Treasury will lead on strategic work and policy development, while the new department will lead on policy maintenance and delivery.

**Box 21.1: Key Public Service Agreement (PSA) targets and objectives**

The Chancellor's Departments' new PSAs include:

- a target to further reduce revenue losses from excise and VAT fraud;
- a target to reduce underpayment of direct tax and national insurance contributions;
- an objective to improve HMRC customer experience;
- a new objective to strengthen frontier protection against threats to the UK, such as those from illegal drugs and firearms;
- a target, joint with the Department for Work and Pensions, to halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020; and
- a target to demonstrate further progress by 2008 on the Government's long-term objective of raising UK productivity growth, improving competitiveness and narrowing the gap with the UK's major industrial competitors.

**A level playing field for hauliers**

**21.4** The Chancellor has made clear that the Government remains committed to delivering on the aims, timetable and funding of Lorry Road-User Charging. This will ensure that all hauliers, regardless of their nationality, pay an amount related to the distance they travel on UK roads. It will be revenue neutral overall to hauliers who already contribute through UK fuel duty.

**Efficiency and Effectiveness**

**21.5** Following on from the work of the Efficiency Review, the administration budgets for all of the Chancellor's Departments (including HMRC and HM Treasury) are flat in nominal terms with provision for 2005-06 rolled forward into 2006-07 and 2007-08 without further additions. An outline of how efficiencies will be realised is set out in Box 21.2.

**Box 21.2: Efficiency**

**Agreed target**

Across the Chancellor's Departments total annual efficiency savings of around £550 million will be achieved by 2007-08, of which at least half will be cashable, releasing resources for front-line activities.

**Implementation plan**

As part of this programme of savings the departments plan, by 2007-08, to:

- achieve a total net reduction of 13,350 departmental civil service posts with a further 3,500 posts redeployed to front-line activities and be on course to have relocated at least 2,550 posts out of London and the South East by 2007-08, and a further 2,500 by 2010 giving at least 5,050 relocations in total;
- further develop electronic channels so that customers can seek the information they need, and discharge their responsibilities under the tax systems, in ways which are more convenient for them and more cost-effective for government, such as filing tax returns online;
- rationalise back office functions by greater use of ICT and economies of scale as HM Revenue and Customs is created, and improve procurement, together saving £100 million by 2007-08; and
- exploit the opportunities to achieve efficiencies generated by the creation of HM Revenue and Customs.

**Table 21.1: Key figures**

	£ million			
	2004-05	2005-06	2006-07	2007-08
<b>Chancellor's Departments</b>				
Resource Budget	4,770	5,083	5,133	5,183
<i>Of which Administration Budget</i>	4,640	4,962	4,962	4,962
Capital Budget	341	310	410	510
<b>Total Departmental Expenditure Limit<sup>1</sup></b>	<b>4,891</b>	<b>5,169</b>	<b>5,319</b>	<b>5,469</b>
HM Revenue & Customs <sup>1</sup>	4,330	4,582	4,736	4,891
HM Treasury <sup>1</sup>	228	237	239	236
Office for National Statistics <sup>1</sup>	163	181	175	173
National Savings & Investments <sup>1</sup>	170	168	168	168
Government Actuary's Department <sup>1</sup>	1	1	1	1

<sup>1</sup> Full resource budgeting basis, net of depreciation.

