HM TREASURY

Financing Britain's Future

Review of the Revenue Departments

Gus O'Donnell

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the Chancellor of the Exchequer
by command of Her Majesty

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Foreword by Rt Hon Gordon Brown MP, Chancellor of the Exchequer

HM Customs and Excise and the Inland Revenue are two of the most important civil service departments in the UK. They represent almost a fifth of the entire civil service and together deliver some of the most important functions for the Government, the public and the business community. Without their work, none of our public services could operate.

This report is the culmination of a wide-ranging review whose remit has been to examine the best organisational arrangements for achieving the Government's tax objectives. I am very grateful to Gus O'Donnell for leading the review, for the invaluable contributions from the departments involved, led by Sir Nick Montagu and Mike Eland, to others who contributed, particularly the leading business people who acted as 'external examiners' for the review, and for the input from Sir Peter Gershon.

As the report makes clear, Customs and the Revenue can and should be proud of their work, achievements and histories. Their sense of duty, expertise and integrity are deeply felt and make them what they are today. The changes recommended here, which I accept in full, will help ensure the talents of staff can continue to be used to best possible effect, in an organisation that commands respect and is a good place to work.

In going about their business, the two departments work with most individuals in the country and all businesses. Their decisions have a real effect on entrepreneurship and enterprise, and therefore on creation of wealth and jobs, particularly by small firms. International best practice shows that achieving the best possible customer understanding is essential to delivering world-class performance. This understanding permits and drives the development of better services. At present, the UK effectively has two separate business tax systems. I am convinced that by removing departmental barriers and focusing on the customer, the departments can make a step change in performance and efficiency.

In announcing today the creation of a new department, integrating the work of Customs and Revenue, my aim is to ensure that we are best placed to deliver the benefits of customer service, and of effective and efficient operations, to the country. To ensure the greatest possible transparency and performance, the new department will benefit from a new accountability framework.

The review has also looked at issues associated with policy development. Many of the current challenges of tax policy involve considering the effects of taxes that fall across current departmental divides, and of integrating tax issues with other economic levers. As a result I have decided that the Treasury should lead tax policy development and strengthen its capability for high level analysis of the tax regime, and the new department should lead policy maintenance and delivery.

The recommendations within this report represent a very important public service reform agenda, and an enormous challenge for all the departments concerned. It is a long-term investment in the infrastructure of the Government that will pay real dividends for people and businesses throughout Britain.

Rt Hon Gordon Brown MP, Chancellor of the Exchequer

1 SUMMARY AND RECOMMENDATIONS

FINANCING BRITAIN'S FUTURE: REVIEW OF THE REVENUE DEPARTMENTS

Successful record

1.1 In July 2003 the Chancellor of the Exchequer announced a major review of the organisations dealing with tax policy and administration:[1] HM Customs and Excise, the Inland Revenue, and HM Treasury.[2] The Chancellor stressed when announcing the review that the departments have a successful record, and that the staff of the three departments do an excellent job. This review aims to build on that success.

Conduct of the review

1.2 This report to the Chancellor is the responsibility of Gus O'Donnell, Permanent Secretary to the Treasury. A steering group and other officials have assisted the review (see Annex F).

1.3 The review's evidence base has included:

- visits to the revenue departments' operations;
- workshops to develop an understanding of similarities and differences in the departments' functions;
- a programme of visits to countries that have undergone significant change, led by Sir Nick Montagu, chairman of the Revenue, and to tax administration experts at the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) (see Annex A);
- comparisons with other Government departments, particularly the Department for Work and Pensions (DWP); and
- input from leading private sector individuals with relevant experience (see Annex D), and from Sir Peter Gershon (see Annex E).

1.4 The review has also drawn upon discussions with interested parties, including tax experts, businesses and their representatives, and unions. Further comments on all aspects of the review are invited to help inform the implementation of its recommendations.[3]

REMIT

1.5 The review's remit has been to examine the best organisational arrangements for achieving the Government's tax objectives, including:

- ways to improve the arrangements for tax administration. Customs and the Revenue provide important services for the Government, the public, and businesses, and the money they collect funds our public services. The review has examined whether closer working between the departments or

[1] Treasury Press Notice, 2nd July 2003, available at www.hm-treasury.gov.uk

[2] Referred to in this report as 'Customs', 'the Revenue' – together known as 'the revenue departments' – and 'the Treasury.'

[3] By e-mail to revenuedepartmentsreview@hm-treasury.gov.uk or in writing to Revenue Departments Review, HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ.

organisational change could reduce costs to compliant taxpayers and businesses, encourage enterprise, and improve compliance (Chapter 3);

- more coherent use of information, to enhance effectiveness and improve customer service (Chapter 4);
- the most appropriate structure for providing policy advice to Ministers, currently spread across three departments and mainly based around individual taxes. The remit highlighted that more co-ordinated tax policy advice was desirable (Chapter 5); and
- developing a new framework for accountability for those working on tax, to set out more clearly the roles and responsibilities of all those involved. The review's remit noted that greater clarity would provide better certainty both for officials and Ministers (Chapter 6).

1.6 The review focuses on the tax and tax credit work of the departments, and particularly on the business customers that currently deal with both departments. However, the review also takes into account the needs of the wider customer bases of the two departments, personal taxpayers and tax credit claimants in particular, and the need to improve customer service and reduce compliance costs for all of the revenue departments' customers. While the review has implications for the departments' other important functions (such as Customs' enforcement of controls at the borders, and the range of other activities undertaken by the Revenue, such as collecting student loans), these have not been a special focus of the review.

Other reviews

1.7 The review takes account of:

- work to establish the Serious Organised Crime Agency (see Chapter 2);[4]
- the first report of the Allsopp review into Government statistics;[5]
- an internal review of banking services in the Chancellor's departments (see Annex C);
- the Devolving Decision-Making review's analysis of high-performing public sector organisations;[6]
- the early findings of the Lyons review into public sector location;[7] and
- the work of the Gershon review of public sector efficiency, feeding into the 2004 Spending Review (see Annex E).[8]

CONTEXT

Economic context...

1.8 The taxation system is at the heart of the modern state. The Government's approach towards the taxation system reflects domestic and global trends that are shaping economic structures and policy. These changing structures, the greater integration of the economy, and rapid change, increase the economic challenges. To be

[4] Home Office Press Notice, 9th February 2004, available at www.homeoffice.gov.uk

[5] *Review of Statistics for Economic Policymaking – First Report*, Christopher Allsopp, December 2003.

[6] *Devolving Decision Making: 1- Delivering better public services: refining targets and performance management*, March 2004, available at www.hm-treasury.gov.uk

[7] *Independent Review of Public Sector Relocation – Interim Report*, Sir Michael Lyons, 9th September 2003.

[8] Treasury Press Notice, 7th July 2003, available at www.hm-treasury.gov.uk.

successful, economies' structures have to be flexible in response to short and long-term change. Rigidities, for example in the organisation of tax policy and administration, could be costlier and riskier in the future.

...and objectives

1.9 The Government's economic objective is to build a strong economy and a fair society, with opportunity and security for all. It has introduced reforms that aim to establish economic stability and to promote work and enterprise, tackle poverty (for example through tax credits) and provide sustained investment to modernise public services.[9]

Tax objectives

1.10 One of the Government's Public Service Agreement objectives is "promoting a fair and efficient tax and benefit system with incentives to work, save and invest."[10] This objective, and the way the administration is organised to achieve it, are an integral part of the Government's objectives and strategy for the economy. The Government's reforms to product, labour and capital markets aim to boost Britain's productivity. These have included tax reforms to help small and growing businesses and encourage enterprise. To ensure that the UK remains a hub for global business, the corporate tax system needs to continue to keep pace with changes in the global business environment. The Government has aimed to improve the fairness of the tax system and improve incentives to work by introducing tax credits to enable the tax system to recognise the needs and circumstances of particular households and provide the greatest support for those who need it most.

Evolution of the system

1.11 The tax system has evolved substantially over recent years. One important decision in 1973 was to make Customs, the department responsible for frontier control and excise duties, responsible for administering VAT as well as collecting it at the border. This resulted in the UK having a structure of tax administration that is now used only by Malawi and Israel.[11]

1.12 As outlined above, the Government has made significant changes to the tax and benefit system, in particular the introduction of tax credits in 1999. These changes were the Government's first priority. Having dealt with these changes, and having given closer working between the revenue departments a chance to deliver, now is the time to consider the best structures and accountability for tax policy and administration, as well as the role of information in supporting them.

REVIEW OBJECTIVES

1.13 The review assesses options for change against five objectives, which are consistent with the approach taken by academics, the OECD, IMF and World Bank:

- **fairness**, covering the need for an impartial tax system (an end in itself and because it encourages compliance), the use of the tax system to promote social justice, and the fact that taxes finance public services;

[9] See, for example, *Reforming Britain's Economic and Financial Policy: Towards Greater Economic Stability*, HM Treasury, 2002 (Palgrave), and *Microeconomic Reform in Britain: Delivering Opportunities for All*, HM Treasury, 2004 (Palgrave).

[10] Treasury PSA objective VII. See www.hm-treasury.gov.uk.

[11] Israel has announced plans to integrate its customs and revenue services in July 2004.

- **customer service improvements**. The departments score well in customer surveys and strive to improve service and minimise compliance costs. Nevertheless, compliance costs are significant and fall disproportionately on small businesses, many of which are customers of both departments and which have most to gain from a more coherent approach e.g. to information and guidance, tax returns, and payment and debt handling;

- **effectiveness**, involving maximising collection of the taxes required by legislation. It seems likely that the UK has a gap between tax due in law and what is paid (the 'tax gap') of a similar order to other developed countries. The US estimates that they have a gap amounting to almost 13% of total revenue, while Sweden estimates that it has a gap of 8%. While all of the tax gap could not be realistically collected, the review points to ways to reduce its size without increasing costs to the vast majority of law-abiding taxpayers;

- **efficiency**, and the related idea of productivity, refer to the rate at which inputs are transformed into outputs. The revenue departments will spend £4.2 billion on administration in 2003-04, so greater efficiency could involve large savings. The review highlights the similarity of functions between the departments, meaning that further economies of scale should be possible; and

- **confidentiality** for taxpayers and other customers, which is central to maintaining confidence in the system.

1.14 Organisational changes are the means of achieving the review's objectives, rather than ends in themselves. The objectives involve, for example, better collection of tax, which in turn lead to better financed public services, such as schools and hospitals, contributing to outcomes for citizens, such as better education and health. At the same time, the interests of the 100,000 staff in the three organisations, almost a fifth of the civil service, are a high priority.

Successful management of change

1.15 The revenue departments have managed successfully a significant amount of change in recent years, achieving better service to their customers, the introduction of several new services, and more efficient administration. The recommendations that follow should be seen in this light.

A strategic review

1.16 The review's recommendations are strategic and deliberately stop short of setting out a detailed blueprint. Detailed implementation will be a matter for the relevant management teams. The recommendations are intended to stand the test of time and provide a long-term foundation for the way tax policy and administration are delivered in the UK.

DELIVERY AND INFORMATION

1.17 The case for organisational change rests on potential improvements in customer service, effectiveness and efficiency. It results from an analysis of:

- international experience, which has shown that the current separation of direct and indirect taxes in the UK, as opposed to organising around functions and customers, is behind best practice;

- the functions of the revenue departments, which shows that there are benefits from bringing them closer together;

- the experience of closer working between the departments since 1994, which has produced promising but limited results; and
- the success of the creation of the Department for Work and Pensions, with the formation of several customer-oriented agencies, including the integration of benefits and employment advice in Jobcentre Plus, which has helped more people into work, and provided a better service for customers.

1.18 Potential benefits from change would derive from developing:

- more complete information and analysis to improve risk management across the tax system, potentially reducing the burden on the honest, and making life more difficult for the dishonest. There would be particular benefits in developing a 'whole customer' view of business customers, and in integrating compliance activity, using real-time VAT information to inform direct tax work;
- better and more flexible use of resources. At present resources are allocated separately to Customs and the Revenue, and the respective boards decide how to deploy them with the direct and indirect tax split pre-determined. This means that decisions are taken without knowledge of marginal returns on activities and investment across the tax system, and certain types of activity, particularly customer focussed activity, are hard to establish or implement;
- a more focussed approach to compliance across the taxation system. Following a period of greater VAT and tobacco losses in the 1990s, Customs has developed a more focussed approach to indirect taxes, which shows signs of success, and may reduce tax gaps back to 1992 levels. Similar approaches should be introduced on direct taxes, and an integrated approach taken to compliance; and
- better deterrence. New arrangements with the flexibilities described above would increase voluntary compliance, allowing greater targeting of the non compliant.

Organisational options

1.19 The review has considered several options for change, including options such as transferring responsibility for administering particular taxes between the departments. However, it has focussed its analysis on three leading options:

- *status quo* plus, under which organisational change would be limited to that necessary to implement the recommendations on policy and accountability (see below);
- creating a new single department, which integrates Customs and the Revenue; and
- strategic alignment, under which a strategic board would be formed to promote the long-term alignment of the existing departments.

Benefits of integration

1.20 The review assesses that the creation of a new department offers net benefits greater than the other two options, 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 would also be enhanced; and

- efficiency, through economies of scale and the impetus of transformational change, particularly in transactional processes.

1.21 These gains are dependent upon dealing with shared customers in an integrated way, and would not be achieved under the *status quo* plus option. Their achievement through strategic alignment would be uncertain. Under this option, the roles of Ministers, the strategic board and the management of the revenue departments would be difficult to set out clearly, creating accountability difficulties.

Costs…

1.22 Any change will involve some costs, including the changes currently planned by the departments. It is also necessary to consider opportunity costs, particularly for the *status quo* plus option. Because of the nature and size of the departments, there are potentially significant human resources costs associated with the creation of a new department, and areas where there will be early priorities for investment before any savings are achieved (such as creating a common intranet for the new department). But these costs can be considered in the context of the potential efficiency savings which are outlined below.

…and risks

1.23 Risks are potentially more significant than direct financial costs. They could include risks to 'business as usual' (including tax collection) and the disruption of projects already planned. International experience suggests that these risks are manageable. Canada and Denmark have integrated their direct and indirect tax administrations in recent years and officials in the integrated tax administrations assess that revenue has increased as a result of merger, including in the short term. The review assesses that strong management can mitigate the potential risks, with a focus on priority areas (much of the business would not be directly affected by the creation of a new department), and with a clear focus on delivery as the core business of the department, to ensure existing priorities are met and areas for change are identified. There are also risks in the *status quo* plus option in terms of rigidity and constraints on the ability to adapt effectively to change. Overall, the risks are outweighed by the potential long-term benefits of integration.

1.24 In making this assessment, the review has benefited from the advice of leading figures with relevant experience. Their written conclusions are set out in Annex D.

Delivery and information recommendations

The review recommends that:

- a new single revenue department should be established, integrating Customs and the Revenue.

The details of the implementation of this recommendation would be a matter for the management of the new department, but subject to this, the management should:

- create a new culture and identity for the department, building on the cultures of Customs and the Revenue;

- expand career opportunities for staff, developing strong career paths to provide experience across the new department, with frequent interchange between the new department and the Treasury;
- structure the new department as far as possible around customers and functions rather than taxes, so that customer needs can be better met and compliance improved, for example by establishing an integrated large business office, and more specialised service to small businesses;
- develop a better focussed PSA target on customer service and compliance costs for the 2004 Spending Review, supported by work to develop understanding of compliance costs;
- develop a better focussed PSA target on compliance across the tax system for the 2004 Spending Review, supported by work to develop understanding of the tax gap and other compliance measures;
- generate significant cost savings through improved efficiency, in line with the proposals of this review and that of Sir Peter Gershon;
- look to identify economies of scale and scope by developing new national services, and reviewing the local office network, including with other departments.

On information, the review recommends that the new department's management should:

- establish a unified information strategy, with strong information governance arrangements and a joint knowledge centre, as part of a re-engineering of business processes. Existing information activities should be reassessed in the light of this; and
- seek to achieve a whole customer view starting with business customers, working progressively towards understanding customers across their interactions with the department, with the aim of reducing compliance costs, improving service, and minimising non-compliance.

Flowing from these recommendations:

- investment in management information systems should be a priority, in order to support more effective and efficient resource deployment and accountability for it;
- the Treasury, in partnership with the new department, should bring forward legislation to allow the best use of information in the new department, to improve customer service, effectiveness, and support for policy, taking account of the need to preserve confidentiality and proportionality;
- the new department should consider the possibility of introducing a single business identifier as part of its efforts to improve interactions with business customers; and
- as part of the creation of the new department, links to other parts of Government such as the ONS and DWP, and external organisations, should be maintained and strengthened.

COORDINATING TAX POLICYMAKING

1.25 Tax policy should aim to:

- raise sufficient revenue for the funding of public services and macroeconomic stability;
- control compliance and administration costs;
- achieve a fair burden between taxpayers;
- encourage enterprise and productive economic activity; and
- promote efficiency by addressing market failures.

1.26 Any changes should promote these aims. Currently, responsibility for tax policy advice is split between Customs, the Revenue and the Treasury. This makes it more difficult to meet the increasingly important need to ensure coherence across the tax system and with other Government policies. The current arrangements also fail to play to the comparative advantages of the three departments.

1.27 There would be some advantages in concentrating all policymaking in one place. However, transferring all policy staff to the Treasury would create unacceptable risk by divorcing policy advice from delivery. Policy maintenance, which aims to protect the taxation system against challenge, depends particularly upon a detailed practical understanding of how the law works. Concentrating all policy advice in the Treasury might also cause problems for the handling of confidential taxpayer information.

1.28 The review therefore proposes that there should be a new division of work between the Treasury and the new department, designed to build upon their comparative advantages. The Treasury would lead on strategic work and policy development, and the new department would lead on policy maintenance and delivery. To ensure continued joining up and partnership working, both departments would assist the other in the discharge of its duties. As part of this, the Treasury's capacity to advise on tax policy should be enhanced. For the operational policy that remains in the revenue department, the creation of the new department will help to ensure coherence across the tax system.

Policy recommendations

The review recommends that:

- the Treasury should have lead responsibility and accountability for tax policy, with support from the new department, and subject to this, the new department should lead on policy maintenance, with support from the Treasury; and
- the Treasury's capability for high-level analysis of the tax regime should be strengthened, to develop a better evidence base for tax policy and a clearer focus on tax policy objectives.

Flowing from these recommendations:

- the new arrangements should be founded on an outward facing culture of policymaking, with greater contact between officials and external stakeholders. To facilitate this and to broaden the perspectives on tax policymaking, the number of external secondees in the policy centre should be increased;
- the Treasury and the new department should ensure that the links between implementation and policy continue to improve as a result of the proposed changes to policy arrangements; and
- a significant new tax analysis and statistics unit should be established in the new department, with a work programme and resources governed by a steering group including important Government stakeholders, incorporating and building on existing analysis and research functions in Customs and the Revenue.

CLEARER ACCOUNTABILITY

1.29 The accountability framework of the revenue departments has served them over many decades, in particular the legal separation of the departments from Ministers, to safeguard the independent exercise of its legal powers (subject to appeal to the courts) and its duty to maintain customer confidentiality. However, experience has shown that some elements of the framework are unclear, and not suitable for the demands of modern administration. The review recommends clarifying these elements.

1.30 As set out above, the policymaking roles of the new department and the Treasury should be more clearly defined. The review also proposes that the new department should have greater discretion for administering its affairs and for implementing policy, within the strategic and organisational framework agreed with Ministers. The experience of the Government's public sector reform programme is that this greater discretion will help to improve performance. The corollary of this greater discretion will be clearer accountability.

1.31 The new and clarified roles and responsibilities should be set out in a new Framework Document. This Document will be an opportunity for Ministers to set out long-term principles to govern the new department's approach to implementation and the management of the department. The Chancellor should also issue an annual Remit to the revenue department as part of the budget process. This should describe in outline any changes in the main tasks of the new department for the year, and set out any new approach to policy maintenance.

Accountability recommendations

The review recommends that:

- the new department should have lead responsibility and accountability for implementation, with clearer and greater discretion to manage the department.

Flowing from this recommendation and the policy recommendations:

- the new department should, like its predecessors, be a non-ministerial department, as an underpinning of customer confidentiality;
- each year the Chancellor should issue a Remit to the Executive Chairman outlining the new department's main new and ongoing tasks. This should be focussed on what should be achieved, and why, rather than how, which should be a matter for the new department;
- a Framework Document setting out who is accountable to whom, for what, in the new department, should be published. The Framework will be an opportunity for Ministers to set out long-term principles to govern the work of the department; and
- structures should be established to ensure that the Treasury and the new department have a close dialogue, developing a shared view of key issues, and agreeing advice to the Chancellor on the form of the annual Remit.

A NEW TAX SERVICE

1.32 This review is about building upon the success of Customs and the Revenue in order to provide a fair, modern and effective tax service, for its customers, and for society by ensuring that public services are well financed. This new service should build on the history and strengths of Customs and the Revenue, preserving values such as integrity, objectivity, and commitment to public service, and recognising the diversity of talents and cultures that will contribute towards success in the future.

A step change

1.33 The new service must also become something different from its predecessors, achieving a step change in the Government's approach to tax, providing benefits for companies, public services, and staff by:

- using the discretion provided by the new accountability arrangements to create a first class service;
- using information provided by taxpayers to develop a better understanding of customer needs so that policies and services can be best targeted. This means that the burden for compliant taxpayers should be reduced by simplifying interactions with the new service;
- using information so that honest businesses in the UK are not subject to unfair competition from the non-compliant;
- ensuring resources are allocated effectively so as to minimise tax losses to the Exchequer and so ensure public services are well financed;
- developing the skills and knowledge of existing staff and ensuring that Government tax careers are viewed as an attractive option;

- building modern and professional transactional and support services where both quality of service and efficiency can be favourably compared to the best in the world; and
- maintaining the momentum in existing strategies and policy developments that are guarding the UK against tax fraud, modernising systems and processes, delivering key Government objectives and securing the country's borders.

An efficient service

1.34 One of the objectives of the review has been to make recommendations to improve efficiency in the revenue departments. The review has worked closely with the Gershon efficiency review, which is informing the 2004 Spending Review. As set out in Annex E, Sir Peter Gershon assesses that very substantial resources could be released by making greater use of E-services, processes, and E-filing. The reforms discussed as part of the Gershon review dovetail with the proposed organisational and information reforms of this review. Overall, this review assesses that on the basis of existing plans, reforms proposed by the Gershon review, and additional changes from integration, there could be scope for overall efficiency savings equivalent to up to 14,000 jobs across the two departments by the end of 2007-08, the last year of the 2004 Spending Review period. This process of efficiency savings would need to be carefully managed by working closely with staff to ensure that the departments' effectiveness and service to customers is not undermined.

Early priorities

1.35 An early task for the new service will be to assess current commitments and agree how best to manage delivery in the short-term. Some improvements could be introduced in the short-term, but other areas will require extensive planning and consultation. The following discussion draws upon input from the leading individuals set out in Annex D. Priorities could include:

- making sure all staff understand their ongoing roles and responsibilities and the legal framework within which they are working;
- identifying and insulating those areas unlikely to be affected by change in the short-term, such as frontiers and tax credit work;
- assessing organisational capacity and refocussing priorities as necessary;
- initiating work on strategy and business design;
- identifying potential 'early winners' and setting pilot projects in place; and
- communicating with staff and unions to ensure they understand the change process and are involved as appropriate.

Leadership

1.36 Because of the scale of the task, it is clear that creating the new department and managing existing work will be a considerable leadership challenge. The external examiners had different views on the best senior structure for the new department. A pure private sector model would point to the need for a split between the Chair and Chief Executive roles. There is a case, in terms of clear accountability, for a single person to be responsible for leading the organisation. There is also a case, at least at the outset, for additional senior capacity to be available. On balance, the need for clear accountability is decisive, particularly in view of the review's recommendations in this area. As such, the new organisation should be headed by a full time Executive Chairman. The aim should be a management that includes the best of public and private sector experience.

Organisation of the service

1.37 Ultimately the tax service should be organised around the various functions and customer groupings, in order to overcome the limitations of the current organisation around tax. For example, the organisation might be organised around three main areas:

- strategy, and change management: incorporating strategic planning, finance, human resources, support services, analysis and information, and national services (e.g. call centres, debt management);
- customer service and compliance: split between personal tax and credits, business tax (further segmented by size of business); and
- law enforcement: comprising Customs' frontiers, investigation and intelligence work plus fraud investigations from the Revenue.

1.38 The new department and the Treasury will over time examine services and law to ensure they reflect and take full advantage of the new customer centred structure. The focus throughout the review has been on finding the right balance between meeting customer needs and effective management of the tax base. Simplification is one of a range of possible ways to help achieve that but is not a universal remedy. Sometimes the best response to customer needs is a tailored solution, and some risks to the tax base cannot be effectively managed without the use of some complex measures.

1.39 For hundreds of years Customs and the Revenue have provided vital services, and their history and the commitment of their staff should be highlighted. The staff who are being asked to define the future of UK tax administration are more than capable of building upon the existing strong foundations to create a world-class service.