

HM REVENUE & CUSTOMS (HMRC) EFFICIENCY TECHNICAL NOTE

To achieve total annual efficiency savings of at least £507 million by 2007-08, of which at least half will be cashable.

It was announced in the 2004 Budget that HM Customs and Excise and the Inland Revenue would be integrated to form a single department, HM Revenue and Customs (HMRC). This headline efficiency target applies to HMRC, which became a legal entity on 18th April 2005.

Introduction

This note expands on the original (October 2004) technical note and sets out how HMRC proposes to measure and monitor progress against the efficiency target set out in the Spending Review 2004. It does not include the Valuation Office Agency (VOA).

Background

HMRC has been set a target to position itself to achieve total annual efficiency savings of £507 million by the end of 2007-08. HMRC has also been specifically targeted to achieve a gross saving of 16,000 Full Time Equivalent (FTE) posts. During this period we plan to re-deploy at least 3,500 staff to frontline activities which will result in an overall net reduction of 12,500 (FTE) posts by 31st March 2008.

Following the Lyons Independent Review of Public Sector Relocation, HMRC is also committed to relocating 1,950 FTE posts out of London and the Greater South East by 31st March 2008. A further 2,300 FTE posts are to be relocated by 31st March 2010, giving a total of 4,250.

The HMRC resource settlement in the Spending Review 2004 did not include an element to cover inflation. This necessitates achieving in excess of 2.5% year-on-year efficiency savings to live within that ceiling. The planned FTE post savings will form an integral part of the planning and resource allocation process.

HMRC has been restructured into 35* Directorates responsible for separate identified business activities. These Directorates have agreed and been allocated revised staff (FTE) numbers together with efficiency and re-deployment targets. While it is possible to link these targets to the original Gershon workstreams, as set out at Annex A1-7, monitoring and reporting of progress will now be made by directorate rather than workstream. To report to the Department's Executive Committee, the 35 Directorates have been formed into nine related groupings. This reporting structure is shown at Annex B.

* Not including Valuation Office Agency

HMRC's efficiency savings will primarily result from the reduction in staff numbers. The planned savings will be delivered principally through realising the benefits of investment in Information and Communications Technology (ICT); continuing reform of back office functions; and re-engineering of business processes to improve productivity. Workstream areas are expected to generate approximately the following proportion of gross FTE savings: Transactional Services 80%; Productive Time 10%; and Corporate Services 10%. In addition there will be savings in procurement of goods and services and from rationalisation of HMRC's estate.

HMRC will use a series of measures to monitor progress against overall savings targets and the individual elements that contribute to these, as well as using business planning and HR systems to monitor and report re-deployment of posts to areas of existing and new work. Annexes A1-7 outline, by workstream, the activities and the measurement and monitoring arrangements to track efficiency savings.

"Cashable savings" are those savings that have the potential to be released in cash for other areas. These include savings realised through reduced procurement costs or reduced staffing levels for the same level of output. "Non-cashable savings" include improved outputs and increased productive time for the same level of input.

Calculation Methodology

In preparing our response to Sir Peter Gershon's Efficiency Review we calculated FTE savings using an appropriate average annual salary (including superannuation, national insurance contributions, and where applicable, allowances for additional/flexible attendance), but excluding general administration expenditure and accommodation costs. This was weighted to take account of the departmental population by band/grade level.

The FTE post reductions will be measured on a spot date basis – success will be judged by comparing the staff baseline figure for 1st April 2004 with the corresponding figure at 31st March 2008. The starting point for the reduction is staff in post at 1st April 2004 (98,337 FTEs*).

The £507 million financial target represents annual efficiencies at the end of the three-year SR04 period. The baseline is the annual cost of activities (excluding the Valuation Office Agency and Revenue & Customs Prosecutions Office) at the end of 2004-05 - £4,191 million.

The £507 million target represents both the efficiency savings required for HMRC to live within its SR04 baselines and additional savings that will be

* The published baseline for 1.4.2004 was 98,270 less Machinery of Government changes (150) as a result of the transfer of posts to the new tax policy teams in HM Treasury following the O'Donnell Review of the Revenue Departments. This was further adjusted upwards (440) to reflect changes in the definition for published data in respect of sickness absence. A further reduction was then made in respect of another machinery of government change to reflect the transfer of 223 posts to the Revenue & Customs Prosecution Office (RCPO). There will be additional changes in the future reflecting transfer of posts to the Serious Organised Crime Agency (SOCA).

largely redeployed within the Department to take account of:

- significant changes in Departmental workload growth – for example where volumes of work have increased;
- investment in new policy development or transformational change – for example investment in ICT and redeployment of 3,500 posts to front line activities); and
- the impact of pay and price increases.

Evidence that the target has been achieved will be demonstrated by the analysis of departmental expenditure, accompanied by an analysis of the impact on service continuity/performance.

The total efficiency savings have been adjusted to take account of inflation in future years using GDP deflators, as published by HM Treasury.

Outputs/Outcomes

The efficiency target will be fully met if the overall cash target and all the staff savings are achieved without detriment to HMRC's performance and quality of service.

In order to measure and monitor delivery and service quality alongside cost savings to demonstrate real efficiencies, we will refer primarily to the Department's key deliverables as set out in our Public Service Agreement (PSA), which can be found at:

<http://www.hmrc.gov.uk/psa/psa2005-2008.htm>

The PSA targets cover operational performance encompassing the direct and indirect tax activities; customer service and experience; and operational performance in protecting the UK's frontiers. They provide a baseline of delivery and service quality, against which we will need to maintain or improve standards while making staff and cost savings. Over the period we will be looking to refine our current measures as appropriate.

Overall performance (against PSA and efficiency targets) will be internally monitored via HMRC's management accounts and reported via the Department's published reports. PSA delivery will also be monitored as usual by HM Treasury, and will be reported regularly to the Office of Government Commerce (OGC) Efficiency Team.

In addition, our major enabling programmes are predicated on improving levels of performance and have in place measurement, monitoring and reporting processes.

We will also undertake qualitative assessments that cover both our PSA and wider activity, through the process of quarterly performance reports between individual Directors and the Chairman, where assurance will be sought that achievement of efficiencies is not to the detriment of the operational activity or quality of customer service.

ANNEX A-1

HM Revenue & Customs – Efficiency Technical Note

Overall	Departmental Summary	
Target 1		2007-8
Reduction in Full Time Equivalents (FTE) – Staff Year (FTE) 1st April 2004 to 31st March 2008	Overall Gross Staff Year (FTE) Reduction	16,000
	Less staff years (FTE) redeployed to frontline activities	3,500
	Overall Net (FTE) Staff Year Reduction	12,500
Target 2 Financial Savings (£m) 1 st April 2005 to 31 st March 2008 [based on gross FTE reduction.]	Total Monetary Savings from Full Time Equivalent Reductions	363
	Total Non Full Time Equivalent Monetary Savings	106
	Total Savings	469
	Inflation adjustment HMT	38
	Total Annual Efficiency Savings at the end of the SR04 period	507
Cashable	We estimate that over 90% will be cashable.	
Type	Reduced inputs – same or better quality outputs	
Measures	<p>Overall:</p> <ul style="list-style-type: none"> - Number of Full Time Equivalents (FTE) post reduction - Financial value of efficiency savings (£) - Current performance against the Departmental PSA is at least maintained – no detrimental effect caused by achievement of efficiency savings. 	
Monitoring	<p>In the main, monitoring against efficiency targets will be undertaken through use of:</p> <ul style="list-style-type: none"> - Monthly and annual Departmental reporting systems - Quarterly Performance Reports between Chairman and Directors - PSA framework - HR planning systems - Financial management systems - Individual programme/project governance/frameworks - Benefits realisation framework - Procurement: Office of Government Commerce (OGC) Purchasing Framework <p>Progress against the efficiency targets will be reported to the Executive Committee in HMRC via monthly management accounts.</p> <p>Progress will also be monitored by regular meetings of the Efficiency Programme Board, at which the Office of</p>	

	<p>Government Commerce (OGC) and the Treasury (HMT) are represented.</p> <p>OGC assess progress on the efficiency programme twice yearly against an established cross-Government framework.</p> <p>Progress against enabling project/programme milestones is monitored by programme boards and for larger projects reported up to HMRC Executive Committee level through the monthly management accounts, including RAG status markings.</p> <p>Financial and FTE savings will be monitored in the context of HMRC's Public Service Agreement (PSA) framework, maintaining or improving against PSA baselines to ensure that savings are realised without detriment to service delivery and quality. Performance against the PSA is monitored both internally through the management accounts and by HM Treasury, through regular assessments; as well as being published in HMRC's reports.</p> <p>In addition, efficiencies will be monitored and assessed through the qualitative process of quarterly performance reports between individual Directors and the Chairman, where assurance will be sought that achievement of efficiencies is not to the detriment of the operational activity or quality of customer service.</p>
Data Sources	Resource, financial and budgetary information systems; business plans; operational planning systems; Departmental HR planning; and financial activity costings model.
Quality & Validation	<p>Progress to financial and FTE savings will be reported within monthly management accounts and publicly reported in Departmental reports.</p> <p>The Department's Internal Audit Office will carry out validation of savings achieved, as well as targeted validation of quality measurement.</p>
Baselines	<p>The FTE post reductions will be measured on a spot date basis – success will be judged by comparing the staff baseline figure for 1st April 2004 with the corresponding figure at 31st March 2008. The starting point for the reduction is staff in post measured as 98,337 FTEs at 1st April 2004.</p> <p>The £507 million financial target represents annual efficiencies at the end of the three-year SR04 period. The baseline is the annual cost of activities (excluding the Valuation Office Agency and Revenue & Customs Prosecutions Office) at the end of 2004-05 - £4,191 million.</p>
Timeframe	By 31 st March 2008.

ANNEX A-2**HM Revenue & Customs – Efficiency Technical Note**

Workstream	Transactional Services We expect the majority of FTE savings to arise within this workstream.
Activity	<ol style="list-style-type: none"> 1) Modernisation of Departmental Transaction Services: <ul style="list-style-type: none"> • Moving customers to more efficiency channels where appropriate • Major shift to electronic processing 2) Our e-ICT (Information & Communications Technology) transformation, including: <ul style="list-style-type: none"> • Online customer services e.g. E-VAT registration, declarations and payments • MPPC – Modernisation of PAYE Processes for Customers encompassing end year filing and replacement of the old IT systems, resulting in reduction in processing requirements for end year filing. 3) Process improvements to enable more streamlined working, for example in processing returns.
Cashable	Cashable
Type	Reduced inputs for the same or better quality outputs
Measures	Measurement is as set out at Annex A-1. For this workstream the prime measure will be the FTE post reductions achieved, taken from staff year baselines; and allocations and usage from our Resource Information Systems.
Monitoring	Monitoring is as set out at Annex A-1. In particular for this workstream HR planning and resource management systems will be used to measure and monitor FTE efficiency savings. We make use of information within operational planning models or road maps, manpower delivery plans, business plans and individual project documentation to track benefits.
Data Sources	Resource, financial and budgetary information systems and operational planning systems.
Quality & Validation	In addition to the validation described at Annex A-1, there will be ongoing validation from business areas in relation to this workstream activity and the savings enabled, reported, via management accounts, to the Executive Committee.
Baselines	See Annex A-1
Timeframe	By 31 st March 2008

ANNEX A-3

HM Revenue & Customs – Efficiency Technical Note

Workstream	Corporate Services
Activity	<p>1) Activities giving rise to FTE savings:</p> <ul style="list-style-type: none"> • The former Customs and Revenue employee and manager self-service personnel systems will be replaced with an ERP (Enterprise Resource Planning) system for HMRC. ERP provides a single personnel database for HMRC and enhances self-service functions for HMRC staff. • ERP also provides a single finance system for HMRC together with an online self-service for procurement. Within Finance it will create a centralised invoice processing system. ERP will provide standardised and streamlined processes and better management information. • There will also be some further rationalisation/consolidation of back office functions such as facilities management <p>2) Activities giving rise to Non FTE (monetary) savings:</p> <ul style="list-style-type: none"> • Procurement of outsourced IT services (ASPIRE for former Inland Revenue services) • Upskilling of the Department's financial advisory services through CIPFA (Continuous Improvement through Performance and Financial Analysis).
Cashable	Cashable
Type	Reduced inputs for the same or better quality services.
Measures	<p>Details of measurement are set out at Annex A-1. The key measure for this workstream will be FTE reductions from overall workstream and by activity/initiative.</p> <p>Other specific measures for this workstream are:</p> <ul style="list-style-type: none"> - Decrease in the current number of HR staff dealing with the total number of Departmental staff - Cash savings arising from the ASPIRE contract.
Monitoring	Monitoring is as set out at Annex A-1. In particular in relation to ASPIRE, there are specific contract management/programme procedures in place that we will draw on in measuring efficiency
Data Sources	ERP programme reports and updates, resource and financial management information systems.
Quality & Validation	See Annex A-1
Baselines	See Annex A-1
Timeframe	By 31 st March 2008

ANNEX A-4**HM Revenue & Customs – Efficiency Technical Note**

Workstream	Productive Time
Activity	1) Use of risk management to inform and improve resource usage and enable more effective deployment 2) Greater use of intelligence systems to inform operational activities 3) Reduction in time lost through sick absence
Cashable	Cashable and a small amount of non cashable savings
Type	Reduced input for the same or better quality outputs
Measures	Details of measurement are set out at Annex A-1. In particular for this workstream we will measure: <ul style="list-style-type: none"> - Staff year allocations, deployment and usage from our Resource Information Systems - Increases in staff available time e.g. a reduction in sick absence, via HR information systems - Increase in staff deployed direct to frontline activity
Monitoring	See Annex A-1
Data Sources	Manpower and operational planning models, resource and financial management systems.
Quality & Validation	See Annex A-1. Management Units and Business Heads report workforce levels through Staff in Post, resource and activity information systems
Baselines	See Annex A-1
Timeframe	By 31 st March 2008

ANNEX A-5

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Workstream	Procurement – Goods and Services
Activity	Improved procurement of commodities and services. In procurement the Enterprise Resource Planning system (ERP) will result in better purchasing across a reduced supplier base
Savings	Cashable and Value For Money
Type	Cashable – reduction in the whole life costs or increased quality of procured items to demonstrable business benefit without increased costs, where the savings have the potential to be released for other areas of programme spend Value For Money – improvements in the combination of whole life costs and quality that meet the user's requirements, where it is not possible to realise a tangible monetary amount or "hard cash" value
Measures	<ul style="list-style-type: none"> - Commodity manager savings declaration required on completion of any contract award, contract management activity or commercial activity - Amount of procurement contract and non procurement contract spend - Number of centrally let contracts - Continued use of VFM/contractual benchmarking - Number of collaborative agreements - Real price reduction in rates - Reduction in processing costs
Monitoring	HMRC has developed a tracking/monitoring process across the two legacy Revenue and Customs systems, which provides regular and auditable data on contract spend and cashable and VFM savings, whilst also enabling contract compliance to be closely monitored. This process will be replaced with the introduction of ERP (SAP) in April 2006, although the core principles will be retained to ensure OGC requirements continue to be met
Data Sources	Existing accounting and e-procurement systems (CEBUY/CECAS and REVENUE PURCHASING/CGL), although these will be replaced when ERP (SAP) is implemented in April 2006. Relevant data is obtained where OGD commercial arrangements are utilised
Quality & Validation	See Annex A-1. In relation to this workstream in particular, financial information derived from existing accounting and e-procurement systems will be subjected to stringent data validation and audit. The compliance manager will also review declared savings and efficiencies. Annual savings audited prior to submission to OGC.
Baselines	OGC dictated baseline of 2002/03.
Timeframe	31 st March 2008

ANNEX A-6**HM Revenue & Customs – Efficiency Technical Note**

Workstream	Procurement – Estates & Supplies – Accommodation
Activity	Rationalisation of accommodation
Cashable	Cashable
Type	Reduced inputs for the same or better outputs
Measures	<p>- Floor area surrendered on the estate based on facility price saved and any necessary cost incurred under the contract to achieve surrender.</p> <p>Note: Buildings transferred to OGDs including Memoranda of Terms of Occupation (MOTOs) will count towards the HMRC target based on the net savings</p>
Monitoring	Reduction in size of estate monitored by Estates Contract Management Unit (ECMU)
Data Sources	Estate database managed by ECMU and financial management reports
Quality & Validation	See Annex A-1. For this workstream in particular, financial management information systems and our internal estate database will be used.
Baselines	2003-04 Estate holding financial information
Timeframe	31 st March 2008

ANNEX A-7**HM Revenue & Customs – Efficiency Technical Note**

Workstream	All	
Activity	Government Relocation	
Target Relocation (Full Time Equivalent)	Lyons Independent Review of Public Sector Relocation	2007/08
		1,950
Cashable	Part cashable (savings made in salary and accommodation differential)	
Type	Reduced costs for same output	
Measures	Actual Full Time Equivalent posts relocated from London and the South East	
Monitoring	Progress will be measured against the planned moves and reported at least half-yearly through management accounts	
Data Sources	HR plans	
Quality & Validation	Reported within published Departmental reports. Quality and validation is led by OGC and incorporated within their Gateway Review and regular assessments of the overarching Efficiency Programme	
Baselines	SIP in London and the South East at 1 st April 2004	
Timeframe	31 st March 2008	

ANNEX B**HM Revenue & Customs – Efficiency Technical Note****HMRC STRUCTURE FOR MANAGEMENT ACCOUNTS REPORTING PURPOSES**

Group	Directorates
<u>Group 1</u>	
Processing	Centralised Processing, Distributed Processing, LBS
<u>Group 2</u>	
Compliance and Enforcement	National Compliance, Local Compliance, Intelligence, Detection, Criminal Investigation, Serious Civil Investigations
<u>Group 3</u>	
Debt Management and Banking	Debt Management and Banking
<u>Group 4</u>	
Customer Contact	Customer Contact
<u>Group 5</u>	
Central Services	HR, Procurement, Estates, Communications and Marketing, Security and Business Continuity
<u>Group 6</u>	
Product and Process	CT/VAT, PAYE, SA, Benefits & Credits, Excise & Stamp Duty, IBS
<u>Group 7</u>	
IMS	IMS
<u>Group 8</u>	
Corporate Functions	Finance & IA, Legal & Governance, Organisation Development, KAI
<u>Group 9</u>	
Customer & Strategy	LBE, SME, Individuals, Frontiers, Central Compliance, Central Policy, Anti-Avoidance, Strategy Unit