



HM Revenue & Customs: Progress and next steps

Foreword

The first Capability Reviews were published in July 2006. Their purpose was to give honest and robust assessments of capability to central government departments and to identify the specific measures needed to ensure that the Civil Service is equipped to meet its future challenges. My aim was to develop a culture of excellence and continuous improvement in every part of the organisation and to ensure that the Civil Service was at the heart of the Government's commitment to delivering world-class public services.

Since then, the Capability Reviews Team in the Cabinet Office has reviewed 17 departments and worked with them to address areas highlighted for improvement. The team has worked with more than 100 external reviewers drawn from a wide range of backgrounds in the private, wider public and voluntary sectors, as well as directors general from other government departments. The team members have added a much-welcomed independence to the reviews and have shared their insights and experiences to help departments in their development.

Our progress report and the external validation of the Capability Review process by the Sunningdale Institute in 2007 demonstrated a picture of improvement, often against very challenging internal and external pressures. Our challenge is to sustain this improvement and build on this to deliver excellence in the Civil Service.

We know that the pace of external change will continue to increase so we need a Civil Service that is flexible and able to respond quickly and professionally to all new and emerging challenges. To that end, we are now revisiting the departments we have reviewed to assess progress and to discover and share best practice. This report on progress and next steps for HM Revenue & Customs (HMRC) is the first step in that process.

HMRC faced significant challenges following its Capability Review in 2007 so I would like to congratulate HMRC on the good progress made over the last two years. In particular, I have been pleased with how effectively the Department has worked both internationally and with UK business, providing well-structured and practical support, in response to the changing economic climate.

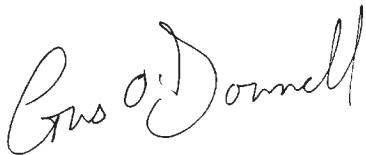
Effective departmental leadership remains the key to unlocking capability and departmental performance and I am pleased that there has been a strengthening of top teams in departments, supported by a new Civil Service leadership framework for the Senior Civil Service as a whole.

It is important that the Civil Service is able to turn the changes following the reviews into improved delivery in new and complex environments, with and through a range of delivery partners and stakeholders. To meet increasing public expectations, it will be important for departments to enhance their delivery capability and improve the way they work across departmental and sector boundaries. Although there is evidence of strong performance in these areas, I will look to the Capability Review programme to be the catalyst for further change.

I would like to thank and acknowledge the support of the review team who have made this progress and next steps report possible. The members of the team were:

- Peter Ellwood CBE DL, Chairman, Rexam PLC;
- Lin Homer, Chief Executive, UK Border Agency; and
- Jane Platt, Chief Executive, National Savings and Investments.

This report marks a further step towards the achievement of excellence and continuous improvement. Each department will respond by addressing particular areas for improvement identified in its review. The Capability Reviews Team, on my behalf, will continue to review progress but I will also expect departments to maintain a self-assessment of their capability in light of their current and future challenges.

A handwritten signature in black ink that reads "Gus O'Donnell". The signature is written in a cursive, flowing style.

Sir Gus O'Donnell KCB
Cabinet Secretary and Head of the Home Civil Service
December 2009

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1. The Department

The purpose of HM Revenue & Customs (HMRC) is to make sure that money is available to fund the UK's public services. It also helps families and individuals with targeted financial support. Annually, HMRC collects around £435bn in tax and pays out £35bn in benefits and tax credits, touching the lives of almost every individual and business across the UK.

HMRC was established in April 2005 with 105,000 staff, merging the Inland Revenue and HM Customs and Excise. HMRC is a non-ministerial department, accountable to the Chancellor of the Exchequer. Tax policy advice is provided in partnership with HM Treasury.

HMRC's vision is to close the tax gap (the difference between the tax collected and that which should be), for its customers to feel that the tax system is simple for them and even-handed, and to be seen as a highly professional and efficient organisation. HMRC has two Departmental Strategic Objectives, which support its contribution to the delivery of seven Public Service Agreements. These are to:

- improve the extent to which individuals and businesses pay the tax due and receive the credits and benefits to which they are entitled; and
- improve customers' experience of HMRC and contribute to improving the UK business environment.

HMRC has four further strategic objectives to:

- improve professionalism in dealing with the security of customers' information, its stakeholders and its external impact;
- deliver an affordable and sustainable cost base providing value for money for the taxpayer;
- create a working environment which motivates and develops its people to take pride in working for HMRC, contributing to the transformation of HMRC's business; and
- transform the performance of the Department through the exploitation of information and technology services.





HMRC's annual administration budget is around £4bn. It is one of the largest government departments, currently employing over 80,000 people in over 450 offices. In 2008/09, HMRC made value-for-money savings of around £200m and reduced its staffing by almost 3,000 full-time equivalent posts.

In 2008, HMRC clarified the accountabilities of its senior team and now operates within a new governance structure. It has a Chief Executive, who is the Permanent Secretary and Principal Accounting Officer and responsible for running HMRC, supported by the Executive Committee. The Department also has a Non-Executive Chairman who is responsible for effective governance. The Board, which includes six Non-Executive Directors and all members of the Executive Committee, provides strategic leadership.

2. Assessment of capability for future delivery

The pace of change at HMRC has increased in the last 12 months. The new Executive Committee (ExCom) has the potential to transform the Department in line with the new vision, and now needs space and stability to finalise and embed the changes. It is critical to HMRC's success that the wider leadership team understands why current efforts to tackle poor staff engagement are not working and what needs to change.




Leadership

L1	Set direction		Well placed
L2	Ignite passion, pace and drive		Urgent development area
L3	Take responsibility for leading delivery and change		Development area
L4	Build capability		Development area

Strategy

S1	Focus on outcomes		Development area
S2	Base choices on evidence		Development area
S3	Build common purpose		Well placed

Delivery

D1	Plan, resource and prioritise		Well placed
D2	Develop clear roles, responsibilities and delivery model(s)		Development area
D3	Manage performance		Development area

The model of capability is shown at Annex A.
The assessment categories are shown at Annex B.

3. Review findings

Leadership

The senior leadership of the Department has improved and the HMRC vision is clear and recognised throughout the organisation. There is strong recognition of the Chief Executive's personal leadership among staff and stakeholders. HMRC faces a huge transformation challenge which will take both time and leadership attention, in particular to rebuild staff confidence in HMRC's leadership and inspire staff to be a part of HMRC's future. It is critical to HMRC's success that the leadership team understands why current efforts to tackle poor staff engagement are not working and what needs to change.

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- HMRC has articulated and communicated a vision which is recognised by staff and is starting to drive work in the Department. In a recent sample of staff, 93 per cent of respondents said they were aware of the vision and 66 per cent said they understood it.
- Senior staff and key stakeholders view the personal leadership of the Chief Executive as impressive and comment on her commitment and drive to improve HMRC.
- ExCom is much stronger and is increasingly taking ownership of, and personal and collective accountability for, improving the Department. The Non-Executive Directors, led by the Non-Executive Chairman, are high quality and making a real contribution to the strategic direction of HMRC.
- The Chief Executive and Non-Executive Chairman's roles are sufficiently clear and understood at a senior level but not yet throughout the whole organisation.
- Some staff say that ExCom has made progress over the past year to transform the Department and are positive about the future.
- The PaceSetter change programme has been refreshed and is being rolled out to drive continuous improvement in the way HMRC leads, works and provides services.

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- Staff morale and engagement are very low and, in some cases, are lower than in 2007. In the 2009 staff survey, only 25 per cent of HMRC staff compared with 61 per cent of its Senior Civil Servants were proud to work for the Department. Current efforts by the senior leadership team to tackle poor staff engagement and improve visibility and communications are not working and this is affecting the productivity of staff. HMRC has a very high rate of sickness absence.
- The last few years have been challenging for the Department with a number of structural and leadership changes. Staff and stakeholders point to examples of change within HMRC that have not been well managed. It is not clear how the senior leadership team takes responsibility for and leads change within the Department. In the 2009 staff survey, only 11 per cent of all staff and 17 per cent of Senior Civil Servants felt that change is well managed in HMRC, which is significantly below the central government benchmark.
- Staff say that poor leadership and management skills among middle management is preventing the Department from building a unifying culture which inspires pride and passion. HMRC needs to engage with its staff and build the leadership skills of the Department as a whole, starting with the Senior Civil Service (SCS).
- While the Board and ExCom are making good progress, they are not yet seen as a corporate team and they need to ensure that they find more space to lead delivery of HMRC's strategy.
- The senior leadership team does not have a wide enough base of expertise and credibility to manage senior, strategic relationships with key customers and stakeholders.
- While work is under way to transform the People Function, HMRC does not yet have a people strategy to deliver the right skills for the whole organisation.

Strategy

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- A good start has been made on developing strategy which supports the Department's strategic objectives. At a recent Board away-day, the review team saw first-hand how the Board is developing an over-arching strategy, building on work done across the business.
- Staff and stakeholders say that the six refreshed strategic objectives are starting to inform the work of the Department. In the 2009 staff survey, 67 per cent of staff and 95 per cent of Senior Civil Servants understood how their work contributed to HMRC's objectives.
- Stakeholders praise HMRC's customer segmentation work highly; the Department is developing a customer strategy and this is progressing well.
- Staff and stakeholders say that the relationship with other government departments – particularly HM Treasury – has improved and they would like HMRC to take the opportunity to build on this success.
- Staff and stakeholders report much better relationships with business and cite a number of initiatives that have been well received; for example, the Customer Relationship Management role and administration of the VAT reduction.

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- While a good start has been made, HMRC needs to clarify what the impact of the strategy will be – particularly in driving business decisions – and how it will be embedded across the lines of business, the front line and the departmental change programmes.
- Staff and stakeholders are unclear about who at HMRC is responsible for strategy and question the extent to which the Department's six strategic objectives will withstand larger-scale changes in the future.
- It is not clear how the implications of the strategy work will be communicated to stakeholders.
- While HMRC has improved its analytical capability, staff and stakeholders see less evidence of it taking decisions which allocate resources to deliver the best value outcomes.
- Not all stakeholders – particularly those outside the business community – see positive improvements over the last two years. Working more strategically with partners, for example other government departments, is an area where staff and stakeholders say that there is more work to do.

Delivery

HMRC has improved its financial management and business planning. Its operating model and roles and responsibilities are clearer and the Department has continued to deliver in challenging times. HMRC needs to improve the use of the data it holds to facilitate better planning and resource decisions that are focused on outcomes.

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- Stakeholders say that HMRC has started to improve its business planning process which is more robust and forward looking. There is a better grip on financial management through the lines of business.
- Staff and stakeholders see improvements in clarity of roles, sharper accountabilities down lines of business and a simpler operating model.
- There are improvements in organisational performance management structures and processes, and the management information that the Board uses to take decisions has improved. For example, there is a clearer line of sight from the Board to the front line, through performance hubs at director general-level and visual management in PaceSetter sites further down the organisation.
- HMRC has continued to deliver during the economic downturn. Particular initiatives to help with the tougher economic climate, such as the Business Payment Support Service ('Time to Pay'), have been very well received by business groups. In addition, the recently upgraded PAYE service has been well received and Businesslink remains well regarded.
- HMRC has helped shape the international tax agenda which has contributed to the essential maintenance of tax revenues in the UK.

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- Building sufficient financial capability in HMRC more widely remains a challenge. While the business planning process for next year has improved, staff say that budgeting is not sufficiently robust and there is a lack of corporate behaviour necessary to implement it. Once the plans have been finalised, it will remain a challenge to implement and sustain them.
- Despite a move towards the more intelligent use of information, it is still the case that the businesses are largely run on inputs, and therefore schemes which focus on increasing outputs or outcomes are not systematically considered.
- Staff and stakeholders say that decision making in the past has been poor and point to a need for improved prioritisation, particularly given the likelihood of increasing budget pressures over the next few years.

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- The Department needs to continue to refine its delivery model in the light of its new strategies.
 - There is more to do to ensure that all performance mechanisms are aligned and appropriate. The ExCom performance report is detailed and technical; there is no 'at-a-glance' analysis of performance against its objectives/outcome measures and this makes it difficult for ExCom to have strategic discussions about performance and risk.
 - The effectiveness and alignment of HMRC's recently established committees should be kept under review.

Capability Reviews Team
December 2009

4. Departmental response: plans for continuous improvement

We welcome the findings in this report which are aligned with our vision and strategic objectives, in particular our aim to create an environment that motivates and develops our people. The review team has acknowledged the distance we have travelled since our first Capability Review in 2007 and has endorsed our strategic direction. The review commends the strong leadership provided by our Chief Executive, Executive Committee, the Non-Executive Chairman and Non-Executive Directors which has driven the visible progress in many areas since our first review. We are proud that we have continued to deliver against our key objectives, to bring in the money that funds the public services provided through every government department. Our support for business in the UK during the recession has been considerable, while playing a significant role internationally to tackle tax evasion. The hard work and dedication of our people has made all of this possible.

Our challenge

HMRC's operating environment is increasingly more complex and challenging; despite this, our objectives must be delivered within an affordable and sustainable cost base providing value for money for the taxpayer. We have taken huge steps along the journey to build our capability, but we cannot resolve everything at once. Our Executive Committee has made a firm commitment to embedding our progress and delivering ongoing improvement through strengthened capability in the key areas highlighted by this review. Our priorities are grouped under four key themes.

1. Embed our strategy

We have set a clear direction for HMRC, which is underpinned by our vision, departmental strategy and strategic objectives. The customer face of our vision – the Charter – was launched in November this year, and sets out the rights and obligations of customers when dealing with HMRC.

The work we have championed to better understand our customers and how they interact with government is acknowledged as the best in Whitehall, and we will now utilise this understanding to further strengthen the relationships we have built with our key delivery partners and to ensure that our strategic objectives are robust enough to withstand potential future economic and political pressures.

We are finalising plans to implement our strategy building on work which has already been happening in parts of HMRC but which is now being brought together for the first time in one over-arching departmental strategy. Our new Design Authority will drive more aligned and prioritised decision making and deliver a coherent change programme – vital in a difficult economic climate where resource pressures continue to mount.

2. Build leadership capability and engage our staff

Building leadership capability in HMRC is our biggest challenge and is fundamental to igniting passion, pace and drive in our people. We will build on the foundations we have in place to develop our leaders across HMRC, starting with the SCS. This work has already begun through the expansion of our Senior Leadership Forum and will progress through the broader implementation of our strategy. The business planning and objective-setting process for 2010/11 will make the SCS in HMRC the owners and champions of the strategy, making them accountable for using the strategy in everyday decision making.

This has been, and continues to be, a challenging time for our people. HMRC's senior team recognises the need to step up and own the issue of improving our staff engagement and meet the challenging targets we have set ourselves. We will finalise our engagement strategy which, together with our established network of engagement champions, will grow our understanding of the root causes of low staff engagement. The new HMRC people strategy will enable us to sharpen our people policies and empower our managers to manage effectively.

We will finalise the new HMRC leadership behaviours framework and, coupled with the continued roll-out of PaceSetter, we will build the capability of the SCS, as this group will drive the long-term solution to the wider employee engagement challenge.

3. Align our delivery model and strategy

We recognise that we need to finish the programme we started to rationalise the size of our workforce and estate, and have prioritised funding to make this happen. Going forward, we need to continue to reshape our organisation to successfully deliver our strategy and meet customer expectations with fewer people in fewer locations. We will draw on the lessons learnt to date and will re-design and align our delivery model to our strategy, better positioning changes as part of business as usual.

The strength of our leadership capability will be critical to our success in this area, and we do not underestimate the value of strong and innovative leadership to meet this challenge.

4. Implement our business plans

We now have a robust business planning process, and plans for next year are at an advanced stage. Our Executive Committee is driving delivery through a robust performance and risk management framework, and our Performance, Investment and Change committees will enable more effective in-year prioritisation.

While the review praised our work to develop and implement this framework, we understand that we must place a greater emphasis on the relationship between inputs and outputs and we will continue to refine this framework. At the same time, our efficiencies programme places an emphasis on our ability to deliver more for less in the current challenging economic climate.

Building a culture of continuous improvement

This review acknowledges the huge progress made and the strength of the foundations now in place; equally, we understand the scale of our leadership challenge. We will continue to use this process and the refreshed model of capability to build our capability. Our strategies and the strategic relationships we have built with our partners, together with our robust performance delivery framework, provide a firm platform from which we will be well placed to meet the challenges ahead and continue to deliver our business in a difficult economic climate.

HM Revenue & Customs
December 2009

Annex A: The model of capability



The model of capability has been designed specifically for the Capability Reviews. It was developed through consultation with senior leaders in Whitehall and external experts. The model is deliberately selective and designed to focus on the most crucial areas of capability – leadership, strategy and delivery.

The scope of the reviews is to assess the capability of departments’ senior leadership in the areas above, using the model of capability. The model enables judgements to be made against 10 elements across leadership, strategy and delivery, using an underlying group of 39 questions. For further information on the model of capability, see www.civilservice.gov.uk/capabilityreviews.

Each review has been carried out by the Capability Reviews Team with a team of external reviewers assembled specially for the department under review. These reviewers have been drawn from the private sector, the wider public sector and boards of other government departments.

The Capability Reviews Team will regularly review progress and provide support to help ensure that the department is on track to deliver.

Annex B: Assessment categories



Strong – good capability for future delivery in place, in line with the capability model. Clear focus on the action and improvement required to deliver transformation over the medium term.



Well placed – well placed to address any gaps in capability for future delivery through practical actions that are planned or already under way. Is making improvements in capability and is expected to improve further in the medium term.



Development area – the department should be capable of addressing some significant weaknesses in capability for future delivery by taking remedial action. More action is required to close those gaps and deliver improvement over the medium term.



Urgent development area – significant weaknesses in capability for future delivery that require urgent action. Not well placed to address weaknesses and needs significant additional action and support to secure effective delivery. Not well placed to deliver improvement over the medium term.



Serious concerns – serious concerns about current capability. Intervention is required to address current weaknesses and secure improvement in the medium term. (NB only used infrequently, for the most serious gaps.)

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