

PO-CH / NL / 0271

PART A

Part A

**CONFIDENTIAL**  
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Begin: 1/9/87.  
Ends: 24/6/88.

SENIOR STAFF IN CONFIDENCE

  
PO -CH /NL/0271  
  
PART A

Chancellor's (Lawson) papers:

RECONSTITUTION OF SENIOR  
STAFF AT THE INLAND  
REVENUE  
*a set of Inland Revenue*

Disposal Directions: 25 years



11/10/95.

PO -CH /NL/0271  
PART A



FROM: M F BOLLAND

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE

1 September 1987

PS/CHANCELLOR (Mr Taylor)

**RECONSTITUTION OF THE BOARD OF THE INLAND REVENUE**

1. I attach a copy of the letter I propose to send to the MPO.
2. I should be grateful if you would confirm that the Chancellor is content with the proposed reconstitution. Although there is no new Commissioner to be authorised, I have been advised by the MPO that, as a result of the retirement of Mr Taylor Thompson on 5 August, it would be proper for the Board to be formally reconstituted.

*Mark Bolland*

M F BOLLAND

*Ch*

*Formal OK needed.*

*OK*

*MA*

G E T Green Esq  
Senior Staff and Europe Division  
Management Personnel Office  
Great George Street  
LONDON SW1

**RECONSTITUTION OF THE BOARD OF THE INLAND  
REVNEUE**

From 6 August 1987, the Board of the Inland Revenue comprises the following:

Anthony Michael William Battishill - Chairman  
Anthony John Gower Isaac CB - Deputy Chairman  
Terence James Painter - Deputy Chairman  
David Bryan Rogers CB - Commissioner  
Albert Bennett Fallows CB - Commissioner  
Bernard Pollard - Commissioner

The two Deputy Chairmen are listed in order of seniority, as are the ~~three~~ Commissioners.

I confirm that the Chancellor of the Exchequer has approved the proposed reconstitution of the Board.

I confirm that the honours shown in the above list are correct to date.

Could you please arrange for the preparation of the Royal Warrant and Letters Patent reconstituting the Board.

M F BOLLAND  
(Private Secretary)



Ch/ The FSI is, of course,  
 unaware of this morning's meeting.  
 I understand that he proposes to telephone the CST

**CHANCELLOR**

this w/e went this minute. The CST will,

I think, want to say that this minute is

addressed to you, + that you will no doubt reply in due course! He

**INLAND REVENUE: MANPOWER**

will not comment on the substance.

cc Chief Secretary

FROM: FINANCIAL SECRETARY

DATE: 18 September 1987

*Thanks.  
 V. Atkinson.  
 Page 2 clear  
 hand  
 M.*

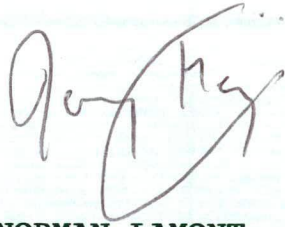
You might be interested in some of the things that came out of the general meeting I had with the Revenue yesterday (my private secretary's note below gives further details). Perhaps I could just highlight a couple of points?

2. First, I find it frankly astonishing that 2822 man-years of effort is expended each year on the basic task of shifting taxpayer files across the country from one tax office to another, tracing where taxpayers' assessments are done and so on. There must be scope for slashing the manpower requirement here when the National Tracing System comes on stream (combined with fully-computerised records-storage). This powerful system should cut out the apparently highly time consuming business of locating where a taxpayer's records are kept and getting the files transferred to where they should be. As far as I can see these two transactions should henceforth be capable of being effected by the pushing of perhaps half a dozen buttons.

3. Second, again, it is very revealing to see that the Revenue have made very few savings in manpower since 1979 except when policy has changed or when a specific scrutiny has been done (leaving aside computerisation). The effect of the Rayner scrutinies on manpower has indeed been most impressive. But, overwhelming dependence on scrutinies may, I think, be rather a bad thing. It means that management can become lazy in its search for other savings. And I think the aggregate evidence does support the view that savings through a general improvement in management and overall staff efficiency have been disappointing.

**CONFIDENTIAL**

4. I know Mark Call and Andrew Tyrie have it in mind to visit a few tax offices to see what is going on there. I, for my part, shall be following up some of the points raised at my meeting and will report back if anything interesting is turned up.



ff.

**NORMAN LAMONT**

Confidential *an* STAFF IN CONFIDENCE



Inland Revenue

The Board Room  
Somerset House  
London WC2R 1LB

*We seem to be going through a bumpy period. I have just learned that one of our key statisticians is also leaving us for the private sector.*

FROM: A J G ISAAC  
30 September 1987

- 1. CHAIRMAN *3-1/2*
- 2. CHANCELLOR OF THE EXCHEQUER

*Notes: Sorry for M. Draper. S.M. X*

I have to report that another of our Policy Assistant Secretaries - Mr Draper - is leaving us for a leading firm of chartered accountants. From today, we shall be taking him off all Budget related work, including work on forestry, where he has been taking the lead. This faces us with some difficulty - partly because Mr Draper holds a sensitive post in Central Division, and partly because of other losses and threatened losses at Grade 5 in the Inspectorate, where we might otherwise have hoped to look for a replacement on secondment. However, unless Ministers have any new initiatives in mind in this area, we may be able to close down Mr Prescott's present seat on share incentives, after we have published the consultative document on the review of Section 79.

X

*A J G ISAAC*

A J G ISAAC

cc Chief Secretary  
Financial Secretary  
Mr Cassell  
Mr Scholar  
Mr Cropper  
Mr Tyrie

Mr Battishill  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Pollard  
Mr Beighton  
Mr P Jones  
PS/IR



*Ch*  
*They clearly do have problems, but*  
*What are they proposing to do about them?*  
*Higher pay? Steal Andrew*  
*Hudson back?*  
*FW PREM intended?*

FROM: A J G ISAAC  
20 October 1987

- 1. CHAIRMAN
- 2. CHANCELLOR OF THE EXCHEQUER

*AA*

*For ask AMB*  
*into = personal*  
*ask - what*  
*he proposes*  
*is this*  
*problem -*  
*what*  
*to do*  
*2. Thank*  
*AJG: 1*  
*Am v.*  
*Mr Prescott*  
*negotiate*  
*the*  
*independent*  
*to the*

EMPLOYER-BASED TAX ON BENEFITS: STAFFING AND CONSEQUENTIALS

1. You may like to know of the arrangements I have put in hand to co-ordinate the work here, and push it through.
2. For the reasons you know, the present Grade 5 allocation responsible for work on benefits in kind is already stretched to the limit, if not beyond it. We cannot yet judge with any confidence the size of the new work. Certainly, we hope that it will be nothing approaching the Australian legislation, running to over 140 pages. But it is clear that the job is big enough - and I judge you consider it to be important enough - to employ a Grade 5 more or less full-time, at least during the Finance Bill months and possible subsequent consultations with employers.
3. We have decided that the best course is to ask Mr Prescott to take this on, as he begins to have spare time, when the Section 79 review runs down (he has of course previous experience of the benefits in kind legislation). I am sure he will tackle it with his usual energy.

cc Financial Secretary  
Sir Peter Middleton  
Mr Scholar  
Mr Cropper

Mr Battishill  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Pollard  
Mr P Jones  
Mr Lewis



4. We have taken these decisions with regret. It means that Mr Prescott will not be available to help fill the gap in our Assistant Secretary complement left by Mr Draper. Meanwhile, we have had news of yet a further resignation from a crucial Policy Division Assistant Secretary. Thus, in the last 2 years, we shall have lost through resignations fully one-quarter of our Grade 5 complement in Policy and Central Divisions here - and 3 in the last 3 months. And we know that recruitment enquiries are still going on. All this comes on top of our losses at Grade 5 level in the Taxes network - and on top of our shortage of fast stream Principals (we now have just 9 in the whole Department). So the problems of staffing Policy Division seats at Grade 5 level are becoming crucifying.

(10)

A J G ISAAC

I am getting very worried about maintaining the service for us from Policy Division against the new development of losses of Grade 5 people with policy (principally) experience. We are doing what we can to cover the holes, but it is increasingly difficult to find the right people.

So far this year we have also lost 4 Inspectors at Grade 5 and 36 at Grades 6 and 7.

AMB  
.. / 20/10

Ch

Cash + IR - just as  
one gets billed for

Sorry - is coded word  
"money"? Do you

mean transfer fees?

Don't mind. Transfer fees if  
workable, but I had a ~~AA~~ bill  
bill + name for every time then

AA



FROM: A M W BATTISHILL

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE  
30 October 1987

*Many Plans.  
I recognize the problem,  
as and please to see  
what you are doing & have  
a mind to do to mitigate the  
effects. It would be useful for  
me to attach to the account  
for you from me.*

*Ch...  
Shall I cc PERM? yls.  
For historical work  
AMWB? AMB*

CHANCELLOR OF THE EXCHEQUER

**INLAND REVENUE : LOSSES AT GRADES 5-7**

You asked what I am doing about staff losses at Grades 5-7 and what I would like to do.

2. There are two separate sides to the problem, though they come together at Grade 5. One is the loss of Inspectors; the other is the loss of people doing policy work. And in each case there are two questions. What are we doing to fill the gaps and how can we stop people going? I will say something about each.

Tax Inspectors

3. I start with Inspectors because that is the older phenomenon. We have always lost a steady trickle of fully-trained Inspectors to business and the professions. Typically the losses in Grades 5-7 used to be about 12 a year. They started rising sharply about 3 years ago; reached 63 in 1985-86; dropped back last year (following special pay additions for some Inspectors); but are rising again this year.

4. The latest figures show two new trends. The first is a growing loss of trainee Inspectors, either towards the end of training or just after qualifying. Second is a growing exodus of more senior people.

*yls, A. H. v. v.*

5. Since the beginning of April we have so far lost 4 Principal Inspectors (Grade 5) and 31 Inspectors (P) and (SP) (Grades 6 and 7). The latter include many District Inspectors in charge of Tax Offices and people doing specialist jobs at Somerset House (including the Oil Taxation Office) and in our other specialist offices.

6. It is not easy to be certain of the real causes. People may not always say what has really led them to leave. Indeed, they may not always know themselves. But we do ask them their reason for leaving and for those who reply the predominant reason is pay - they feel that the public sector has been left behind by the private sector, and particularly by the professions. Other factors mentioned are pressure and regard (other peoples') for the job. And we are seeing an explosive growth in interest by the accountancy profession in buying in tax specialists from the Revenue.

7. So what are we doing about it? Several things, many following up the recommendations of an internal committee (the Roberts Report last year).

(a) Exit London As you know, we are going full steam ahead on the planned dispersal of some 300 posts from London to provincial centres. This will drastically reduce the incidence of transfers into London and the South East in mid-career, when the gap in housing costs can be terrifying. It will help with the acute shortage of Inspectors in London and reduce the threat of London hanging over those in the rest of the country.

(b) For those who are prepared to move, more generous relocation terms for civil servants announced by the Treasury earlier this year will help - though it is clear that staff do not see them as dealing fully with the London housing cost problem.

(c) We are going as softly as we can on compulsory transfers, looking carefully at compassionate cases, and generally trying to respect family ties.

(d) We have just introduced a reinstatement scheme for those who leave the Department for a period for domestic reasons (typically, though not only, a married woman taking time off to bring up a family). In time this could help to attract back many of our trained women Inspectors.

(e) On the demand side we are taking a hard look at the work of the fully-trained Inspectors. We have discontinued the "management year", after qualifying, in favour of a later period of experience for the ablest as a deputy District Inspector. This will give us a once-for-all boost of 50 to 55 Inspectors at Grade 7 for other work. We have down-graded some work previously done by fully-trained Inspectors. We are looking at other ways of targetting their special training and experience on work that needs it.

(f) We have boosted recruitment to the Inspectorate, both external and internal, with considerable success. In the year to September we took in 151 new recruits (against a target of 120), and we are aiming for at least 100 internal candidates a year. But it will be another five years before we see the advantage of these new people - assuming we can keep them (and this is becoming more difficult).

8. In the context of Inspectors pay and the accountancy profession go together. It has long been the case that some Inspectors could go outside and earn more. They have a marketable skill. But the market now seems to be putting a premium on that skill that many are finding difficult to resist. The accountancy profession is setting the pace; and - not to mince words - many of the largest firms (and some not so large) are deliberately targetting our Inspectors as a matter of policy.

9. Some are offered partnerships (or the chance of one), some are not. All are being offered remuneration packages well ahead of what they are now getting, and in many cases prospects well beyond what they can expect with us. One or two people say they are also going for less pressure - though they may or may not be right in that judgment. Others say they are looking for better job satisfaction. But most people are enticed away by offers they simply cannot refuse - at all levels.

10. It is difficult to predict future trends. The measures we are taking, plus the special pay additions for some Inspectors in the last two years, may help a little. But we could just as easily find ourselves overwhelmed by a widening pay gap and the private sector's appetite for experienced people. We had an informal word with the English Institute of Chartered Accountants about a year ago; they expressed sympathy, but seem powerless to stop their members poaching. Nevertheless I shall raise the issue again, and we are doing what we can in our contacts with the larger firms. But in the last resort they will back their commercial judgment in bidding for tax expertise. (We are also beginning to detect the first signs of "raiding" in the Capital Taxes Office and the Superannuation Funds Office, albeit mainly at a lower level. And we have lost a lot of people just below Grade 7 in the Valuation Office.)

#### Policy people

11. Here the number of losses is very much lower, because the pool is smaller, but the problem of replacement even more acute.

12. The policy divisions are mostly staffed from the administrative group or from Inspectors who moved over to policy work fairly early in their career. And because of shortages, we nearly always have two or three serving Inspectors who have been asked to do a policy job for a while before returning to their more traditional role. In the past it has almost been unknown for someone working in one of our policy jobs to leave for the private sector.

13. In contrast five Grade 5s have resigned from policy jobs in the last two years, three of them in the last three months, and another 8 at Grades 6 or 7 (including 1 Statistician and 2 Accountants). There are signs that some of the larger accountancy practices are beginning to target people in policy divisions as well as Inspectors in Tax District or Specialist posts. Indeed, there are rumours of other offers in the wind at the present time. Of the Grades 5 who have left three of them (Tricker, Symons and Driscoll) were Principal Inspectors who had shown some flair for policy work. The other two (Battersby and Draper) were policy Assistant Secretaries. All but Driscoll have taken up highly attractive offers from firms of accountants.

14. So far we have managed to fill their places by a combination of Grade 7 promotions and by drafting in Principal Inspectors without previous policy experience. But, as a result, we are now very short of good quality Principals. Calling on Inspectors for policy work simply increases the shortages elsewhere in the Department. I have asked Peter Middleton if he can help us by seconding someone from the Treasury, and we have also approached Customs (though we already have Farmer on loan from them).

15. Frankly, there is not a lot we can do to keep Assistant Secretaries tempted by outside offers. Some are unlikely to leave anyway for a variety of reasons. Hopefully the better ones have their eyes on the higher posts in the Department in due course. But the offers are very tempting, particularly for people who may see their route to further promotion blocked (or at least for some years) or who want a change from the routine of Finance Bill pressure. In the last resort, it is difficult to keep people offered £20,000 or £30,000 more than they are getting, or can reasonably expect.

16. But there may be something we can do to use the people in our policy and technical divisions more effectively. In the summer I asked Barry Pollard and David Pitts to undertake an urgent personal study of ways we might bring the work and the staff of the divisions closer together. They were asked to explore the idea of single subject divisions (eg personal taxation, capital taxes, compliance etc) spanning both the specialist technical advice now given by our Technical Divisions to Tax Districts, the Board and (ultimately) Ministers and the advice on policy and legislation now given through Policy Divisions. The new Divisions, as now, would be headed by Grade 3s.

17. The team have produced an interesting report. They conclude that, though there would be some initial awkwardness, and some resistance to overcome, this form of organisation looks feasible, could offer a number of helpful advantages (including the opportunity for a better split of responsibilities at Grades 2 and 3 level), and should be seriously considered. I shall want to consult the staff concerned, the Staff Associations, and the official Treasury before we become committed to a reorganisation of this kind - and realistically it could probably not take place before next summer.

18. I do not see it releasing significant extra resources. But, in principle, single subject divisions with mixed staff of policy people and good Inspectors should eventually help to cover the present gaps a little more effectively. More important, I believe that mixed divisions offer a way of giving some of our best young Inspectors a flavour of policy work in their early careers and so in the longer run provide a wider pool in which to find people for the more senior policy jobs later on. And they provide a more flexible form of organisation than we have at present. If I may, I should like to send you and the Financial Secretary a fuller note about the report and consider with you how best to take it forward.



Summary

19. To sum up, our losses at Grade 5 to 7 are rising, seriously if not yet catastrophically. For some people pressure of work and a certain disillusionment may be contributory factors. But I am now convinced that the main reason are the generous offers from the accountancy profession. We are doing what we can for Inspectors to remove some of the irritants in the system; and increasing recruitment as fast as we can. And at a personal level trying to get the major accountancy firms to moderate their demands. We are also considering whether organisational changes can increase the effectiveness of the central core of people in Somerset House - though they would not bring a full or immediate answer (and if we get the changes wrong people may leave because of that).

20. I hope all these things will do something to help. But so long as the private sector can offer rewards for tax skills which the public sector cannot begin to match it is going to be a hard slog. Many will not want to go: but others certainly will, and I am afraid it is some of the better performers who are leaving.



(A M W BATTISHILL)



CH/EXCHEQUER	
REC.	26 NOV 1987 ✓
ACTION	—
COPIES TO	PS/FST SIR P. Middleton MR Scholar MR Culpin MR Cropper

INLAND REVENUE  
CENTRAL DIVISION  
SOMERSET HOUSE

FROM: R.K. CAMPBELL  
DATE: 26 NOVEMBER 1987

*Ch/Content for me  
to write as  
suggested?*

*OK ✓*

*26  
26/11*

PS/CHANCELLOR

**PUBLICATION OF BOARD OF INLAND REVENUE'S 129TH REPORT**

We are planning to publish the Board of Inland Revenue's 129th Report, for the period 1 January 1986 to 31 March 1987 on 9 December. It is customary for the date of publication to be cleared with the Prime Minister's Office and I attach a draft letter for you to send to No. 10 seeking clearance.

*R.K. Campbell*

R.K. CAMPBELL

*Be type front. for JG Taylor*

D.R. Norgrove Esq.,  
PS/Prime Minister  
10 Downing Street

November 1987

#### **PUBLICATION OF BOARD OF INLAND REVENUE'S 129TH REPORT**

The Board of Inland Revenue intend shortly to publish their 129th Annual Report, for the period 1 January 1986 to 31 March 1987. The Report covers a 15 month period as, following the recommendations of the Public Accounts Committee that all Departments should report annually in the Autumn on their performance in the previous financial year, the reporting period has been changed from a calendar year basis to a financial year basis.

The Report contains sections on changes in the Department's staff and organisation, improvements in the efficiency of the Department, collection and compliance work performance and recent direct tax developments. It also includes a number of diagrams illustrating key facts about the Department and its staff. There is in addition a special chapter on the analytic and research work done by the Inland Revenue's statisticians, economists and operational research staff.

Although the Report usually attracts some interest from the Press we do not consider that there is any politically sensitive material in it and it is unlikely to arouse controversy.

We propose to arrange for the Report to be laid before Parliament by 11 am on Wednesday 9 December and to publish it at 3.30 pm the same day.

I should be grateful if you would let me know as soon as possible whether the proposed publication date meets with your approval.

*M*  
J.G. TAYLOR  
*λ*



FROM: A M W BATTISHILL

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE  
2 December 1987

*Ch. Content for Mr B to let the staff + unions have this report, and to consult informally with them? (I don't think the 100sism which Mr B mentions in para 11 should cause this to be held up).*

*25 4/12*

*OK subject to comments No FSI any more have. That seems to be an fairly good reform.*

CHANCELLOR OF THE EXCHEQUER

**REVIEW OF POLICY AND TECHNICAL DIVISIONS**

I mentioned to you that Barry Pollard and David Pitts had completed the review of the organisation of our Policy and Technical Divisions at Head Office that I asked them to undertake. This was in the nature of a personal study of ways in which we might bring the work and the staff of the different Divisions closer together at Somerset House. The object was to see whether we could perhaps, with a different form of organisation, make better use of our scarce resources, particularly at more senior levels.

2. I said that I would want to take your mind on their main findings, and a possible way forward. The note below contains a brief summary of what they found. I should be happy to send you and the Financial Secretary copies of their full report if you would like to see them. Peter Middleton has already seen a copy.

3. Their central recommendation is to replace the existing structure of separate Policy and Technical Divisions with a series of mixed Divisions, each responsible for a particular subject area - personal taxation, capital taxes, compliance and so on. The new Divisions would each be responsible, within their

cc Financial Secretary  
Sir Peter Middleton

Mr Battishill  
Mr Isaac  
Mr Painter  
Mr Pollard  
Mr Rogers  
Mr Miller  
Mr Pitts  
PS/IR

area of interest, for both the specialist technical advice now given by our Technical Divisions to Tax Districts, the Board and (ultimately) Ministers and the advice on policy and legislation now given through Policy Divisions. The new Divisions would be headed by Grade 3s like the Divisions they would replace.

4. If we go ahead with the reorganisation, I do not see it releasing significant resources at Grade 4 and below. But I do think it would provide a more flexible structure within which to deploy the people we have to better effect and, for example, to focus more strongly on the financial sector than we can at present or could do otherwise. This has become even more important when we are suddenly losing so many key people at Grades 4 to 7 to the private sector. And I believe that subject divisions with mixed staffs of Policy people and good Tax Inspectors would do something to help cover the present gaps a little more effectively.

5. I have in mind two points in particular:

(a) First, it has always been the case that advice to you from Policy Divisions would be too superficial if it were not grounded in a full understanding of the Technical (as well as the Management and Operational) implications; just as advice to Tax Districts from Technical Division would be too narrow if it did not take account of broader policy implications. But the new organisation would bind these two strands still more closely together.

(b) Second, while Policy Divisions are staffed mainly by people who have followed an administrative career (though some of them started out as Inspectors of Taxes) and Technical Divisions mainly by Inspectors, there has for some years been a valuable practice of moving one or two Technical Division specialists into policy jobs for a period of 2 or 3 years. With the growing shortage of experienced people at these levels I would value the still greater flexibility that would come from bringing the two Divisions together into a single structure.

6. And in the longer run I believe that mixed Divisions of this kind offer a way of giving more of our best young Inspectors a flavour of policy work in their early careers and so eventually providing a wider pool in which to find people for the more senior policy jobs later on. By the same token, it is no bad thing to give our young Policy people an even closer awareness of the District implications of policy work by sitting them alongside Inspectors in the same Division.

7. For all these reasons, the Board are greatly attracted by the report's main recommendations. In some respects they can be seen as a natural development of the reorganisation of the Inland Revenue which Sir Norman Price put in place some ten years ago, which produced a more integrated management structure from top to bottom but which (for understandable reasons at the time) stopped short of the kind of Head Office integration we are now considering.

8. The issue needs careful handling. It directly affects the working relationships of a lot of fairly senior people in Somerset House - and the separate traditions which they have been brought up on. That we are looking at this sensitive area at all is giving rise to some uncertainty, and there is speculation (some of it pretty wild) about what we might do, and how the jobs and management relationships of specialist Grade 4 Inspectors and Policy Grade 5 Assistant Secretaries might be affected. So I should like to move fairly quickly to let people know what the report recommends and to consult the staff concerned and the Staff Associations on what is proposed. I do not want attitudes to harden before there has been proper discussions. We shall, of course, want to talk to the Official Treasury as well before we became committed to a reorganisation of this kind.

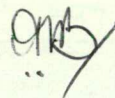
9. So, if you and the Financial Secretary are content, I propose to make the report generally available to staff in the two Divisions, and to consult with the AIT and the FDA here. By about Christmas we should then have had an opportunity to get people's considered reactions, point out what we see as the

benefits of a different organisation, and, if people have genuine anxieties, to measure any risks in going forward with it. If we then decide to go ahead the best time for the change would probably be next summer, between the end of one Finance Bill season and the beginning of the next. It could not safely be done earlier. A great deal of preparatory work on the nuts and bolts would be needed.

10. There is another timing problem. Barry Pollard will be retiring at the end of January, 1988 (having stayed on for a few months to do this work) and we cannot really decide properly upon his successor until we know whether he is to be replaced as Director General (Technical) - at the head of the Technical Divisions - or as a third Deputy Secretary (alongside John Isaac and Terry Painter) heading up mixed Divisions of Policy and Technical people. This is something I shall wish to discuss separately.

11. There is one final point. I have paused to consider whether the impending announcement of the Government's support for moving blocks of Civil Service work into separate agencies conflicts with the changes to our Head Office structure being considered here. If you had in mind early plans of this kind for the Inland Revenue, then I do not think I would want to consider changing the Head Office structure until those plans were much clearer. As it is, I think we can safely consider the Pollard proposals on their merits, and see where that might take us.

12. If you and the Financial Secretary see no objection I should like, therefore, to publish the report to the staff and the Trade Unions and have a period of informal consultation with them. I would then come back to Ministers when that was complete.



(A M W BATTISHILL)

REVIEW OF POLICY AND TECHNICAL DIVISIONS - BRIEF SUMMARY OF THE  
MAIN FINDING

1. Introduction

Against a background of an increasing shortage of quality and experienced staff at Grades 5 and 7, and a consequent need to make the better use of those that we have, Barry Pollard and David Pitts were asked to look at the organisation of Policy and Technical Divisions to see in particular whether there were any inefficiencies or overlaps in the present working relationships.

2. Present structure

The existing structure consists of separate Policy and Technical Divisions. Technical Divisions advise tax offices on operational issues and Policy Divisions on the technical input into policy advice, legislation and sensitive cases. Policy Divisions advise Ministers on policy issues and legislation and deal with the most sensitive cases and other issues which come to the Board. Policy and Technical Divisions have their own separate management structure right up to Grade 2 level; the six Policy Divisions report to two Deputy Chairmen and the two Technical Divisions to the Director General (Technical).

3. Organisational defects

The review did not find any significant overlap between Policy and Technical Divisions in the sense that two people in separate divisions were doing the same work. Generally where both were working on a particular subject, they were concerned with distinct areas of interest; and even in areas of work within one topic where both were involved - such as preparing new legislation - each brought its own expertise to bear. But in these areas, two different sets of people have to spend time getting to grips with a particular problem; and there is likely



to be scope for some improvement if a more flexible working structure is introduced. Efficiency improvements of this kind are constrained at present by the structural rigidity from having separate policy and technical streams.

4. The review pointed to a bigger defect - within the management structure of Technical Division. The senior tax expert in any particular aspect of tax law and practice is the Grade 4. Above this grade is a management structure of two Grades 3 and a Grade 2. Their role is not to have a better technical knowledge than the Grades 4, but to co-ordinate advice and manage the divisions. This work could be done without a separate Technical Division, some of it at a lower level. In addition, the present distribution of the total work at Grades 2 and 3 levels is uneven. The existence of a separate Technical Division results in practice in the two Deputy Chairmen and some of the Policy Grades 3 being overburdened.

#### 5. Main proposal

The report's main proposal is therefore to replace the 2 Technical and 6 Policy Divisions with 8 mixed Divisions - containing policy and technical people each under a single Grade 3 command - responsible for discrete subject areas: Personal Tax; Business Tax; Financial Sector (2 Divisions); International; Capital Taxes; Oil; and Compliance. The Grade 3s in charge of the mixed Division would report to one of three Grade 2s (in place of the present two). The post of Director General (Technical) as such would go.

#### 6. Advantages

One would be better use of Grades 2 and 3. The new structure would also offer some other reasonably early advantages too. By more closely integrating policy and technical disciplines at a more appropriate and lower level (Grade 3), better control of the issues relating to each tax area is possible; and the competing demands on scarce resources can be better regulated. The mixed

Divisions would also make possible a more flexible use of resources; and although the possibilities here are unlikely to be great (at least in the short term), our staffing difficulties are such that even relatively small easements can be disproportionately helpful.

Longer term, the new structure would help to make technical and policy boundaries less rigid, thereby enabling the Grade 3 to use his resources (of both disciplines) more efficiently. It would become a matter of who was available and could do a particular job rather than using staff only for work within their own disciplines.



FROM: A M W BATTISHILL

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE  
28 March 1988

Ch  
(FST had no comments)  
OK? Tony would like  
a quick response so he  
can get ahead with planning.  
He would also like 15 mins with  
you on Monday 11 April  
to discuss Barry Pollard's  
successor

*PKK  
proposed as  
proposals here*

CHANCELLOR OF THE EXCHEQUER

**REVIEW OF POLICY AND TECHNICAL DIVISIONS**

We have now completed the internal consultation on the organisation of our Policy and Technical Divisions that you agreed to in December.

Way forward

2. A wide range of views has been expressed on the Pollard/Pitts report. These have confirmed the sensitivity of the subject, as well as the varying perceptions among different staff groups of how a new organisation might affect working relationships, opportunities and career prospects (particularly as between those with a Tax Inspectorate background and those with an administrative and policy background). But we have found strong support for change among our Grade 3s.

3. The Board's own conclusion is that we should now move forward in the direction recommended by the report, and bring our technical and policy functions together in mixed subject divisions. But we believe we should do it in stages rather than in one big bang. I should like to complete the first (very significant) stage by the early autumn.

cc Financial Secretary  
Sir Peter Middleton

Chairman  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Miller  
PS/IR

## Detailed proposals

4. This would involve reshaping this part of our Somerset House organisation into the following Divisions:

- (a) Savings and Investment;
- (b) Financial and Oil;
- (c) Collection and Compliance;
- (d) International;
- (e) Insurance and Specialist;
- (f) Capital and Valuation;
- (g) Personal Tax;
- (h) Business Tax; and
- (i) Central and Board's Support Unit.

5. The first four of these new Divisions ((a) to (d)) would be fully "integrated" Divisions in the sense recommended by the review team. They would bring together, for the first time at Grade 3 level:

- (i) responsibility both for the specialist technical advice now given by our Technical Divisions to Tax Districts, the Board and Ministers;
- (ii) the advice on policy and legislation now given through Policy Divisions; and
- (iii) substantial operational responsibility for some more specialised areas of work.

Similarly, the new Compliance and Collection Division would bring together technical and policy work on compliance, eg on Keith, and responsibility for the operations of our specialist compliance units.

6. The next two, (e) and (f) would, at this stage, only be partly "integrated". The new Insurance and Specialist Division would be integrated on the Insurance side; but not the Specialist side (which would contain the rump of our present Technical Division). The Capital and Valuation Division, is already integrated for inheritance tax, combining policy work with technical and operational responsibility for the Capital Taxes Office; and we shall want to do the same for capital gains tax at a later date.

7. For the time being, (g) and (h), the Personal and Business Tax Divisions, would stay as they are, concentrating wholly on policy work, and looking to Inspectors in the Specialist Division for technical advice and support. Central Division would retain its present co-ordinating functions (including our input to the Budget and Finance Bill); but after the summer would hand back to the subject Divisions responsibility for things like the life assurance review and the work on residence. Mr Beighton originally took these on as an emergency measure to relieve pressures elsewhere in the office. Shorn of these responsibilities, the Central Division would be able to expand its role into a full Board's support unit, in line with current trends.

#### Benefits

8. I see considerable benefits in this new structure. Although it does not go all the way it will represent an important first step in establishing the principle of integrated Divisions in Somerset House. If all goes well I would expect to extend it in due course to the rest of the personal and business tax areas. It will improve our flexibility to use people's skills and aptitudes to best effect. And it will enable us to give some of our younger Inspectors and administrators more rounded experience of head office work in their early years.

9. It also has a number of particular aims:

(a) It will enable us to bring the various strands of work, and expertise, on savings and investment closer together in a single Division.

(b) It should allow us to give more time to the financial sector, something which has been needed for some time: by co-locating this with responsibility for oil, we plan to build up work on the former as work on the latter begins now to fall away.

(c) It provides a new unit for all the work on insurance.

(d) Bringing the various strands of our compliance and collection work together also makes a lot of sense.

(e) So too in the international field where the separation of policy and operational responsibility has looked increasingly odd to the outside world.

At the same time, I do not want at this stage to disturb present arrangements for those working on personal taxation when they are going to be so heavily engaged in getting independent taxation up and running.

10. Apart from being more manageable reorganising in stages has two other advantages. First, it will be much less of an upheaval (and cultural shock) and will enable us to test the strength of the new type of organisation before we extend it across the remainder of our policy and technical people. Second, it will enable us to take a closer look at the interface with other parts of our head office structure - particularly those responsible for information technology and our network operations which are being increasingly affected by the spread of computers. I am in no doubt of the virtue of an evolutionary approach to change so that our Head Office structure can more easily reflect shifts in priorities and developments on the ground.

## Grade 2 posts

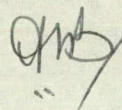
11. If we proceed with these changes there will also need to be some rearrangement of responsibilities at Grade 2 level to reflect the new organisation.

12. I propose that responsibility for the Personal Tax Division and for Capital and Valuation should stay together as now (this is the core of Mr Isaac's present job); but the Deputy Chairman would also take on responsibility for the Information Technology Division (where the link with independent taxation will be important), and possibly Statistics Division. Responsibility for the Business Tax Division and the enlarged International Division (the core of Mr Painter's present job) should also stay together; and I propose adding responsibility for the new Savings and Investment Division. The third Grade 2 (Mr Pollard's successor, whose appointment is awaiting the outcome of all this) would be responsible for the Compliance and Collection Division, the Financial and Oil Division, and the Insurance and Specialist Division. Each Grade 2 would have overall responsibility for policy and specialist technical work within his command. This would give a better balance than at present. The post of Director General (Technical) would disappear as such. That of Director General (Management), Mr Rogers' post, would continue as now.

## Timing

13. If you and the Financial Secretary are content with what is proposed, I should like to get ahead with planning the changes so that they are in place by the early autumn. They do not as such involve either changes in grading or our complement.

14. I am at your disposal if you or the Financial Secretary would like to discuss.



(A M W BATTISHILL)



FROM: A M W BATTISHILL

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE  
13 May 1988

*Ch/*  
I think you had a meeting on this last year.  
Want to see outcome of BT's meeting before deciding whether you want to hold one this year? \*

*Yes*

*Gratify if FSI scrubbed VO Particulars. ... BUT NB the "VO stuff" flagged, in the proposed Departmental Statement. Thanks*

FINANCIAL SECRETARY

**INLAND REVENUE : SENIOR MANAGEMENT SYSTEM AND DRAFT DEPARTMENTAL STATEMENT 1988**

We have now completed the fifth round of the Revenue's Senior Management System (SMS). This is our annual exercise in reviewing performance, setting forward plans, objectives and targets for the year ahead.

2. This year it involved seven full Board meetings and the usual detailed management information reports from Divisions. We have discussed with each of our senior divisional managers progress over the past year and their plans, targets and performance indicators for the coming year, and - where appropriate - into the PES period. As a result plans have been revised and agreed; and we have produced a new version of the Departmental Statement, which was published for the first time last year.

cc **Chancellor**  
Chief Secretary  
Economic Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Mr Culpin  
Ms Sinclair  
Mr Cropper  
Mr Tyrie

Chairman  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Fallows  
Mr Beighton  
Mr Crawley  
Mr Cherry  
Mr Matheson  
Mr Jones  
Mr Warden  
Mr Moore  
PS/IR



3. I now need to seek your approval

- to issue the 1988 Departmental Statement to our staff later this month, and
- to publish the detailed SMS returns during June (rather earlier than last year).

4. I am sending you with this note copies of the SMS Summary Report. This shows for each division its aims, organisation, costs, staff in post, together with main achievements for the past year, and plans, targets and performance indicators for the period ahead. I have also sent the more detailed SMS returns to your office.

5. This is the first of four management information reports about the Revenue. The second is the draft Departmental Statement for 1988 which is attached below. The third is our new Management Plan which will look forward in some detail to the period 1989-90 to 1991-92 and will accompany our PES submission later this month. The fourth is the Departmental Development Plan, with which you are already familiar; this looks at our major plans and projects over a longer period of 10 years or so.

A. Departmental Statement

6. The 1987 Departmental Statement set out for the first time in a single document available to staff and the public the Revenue's main aims, objectives, priorities and targets. You approved it provisionally last April, and finally (following the election) in July. We sent it in July to all our Senior Managers and to Managers in local offices. A shortened version was published in Revenue Record, our weekly notes to staff, so that it was also available to all who work in the Revenue. The Statement was also included in the published edition of the SMS in July 1987, and with the Board's Annual Report published last December.

## Form of the Statement

7. This year's Departmental Statement (Annex A) focuses mainly but not exclusively on activities in 1988-89. It follows the same broad pattern as last year but has been extended in coverage:

(a) Part 1 sets out the Department's main purpose and aims. The coverage is the same as last year but we have sharpened up the presentation and given a new emphasis to efficiency and effectiveness.

(b) Part 2 is new. It describes the strategic framework in which we operate and highlights six key themes which we see as likely to set the broad direction in which the Department will develop and improve its effectiveness. These two sections have emerged from the work we have been doing on our Management Plan and will form the introduction to it. I hope you will feel that all six key themes are important issues.

(c) Part 3 is also new in its present form. It describes the substantial programme of change to which we are publicly committed over the next two or three years, highlighting the most important current priorities.

(d) Part 4 contains the detailed Departmental targets for the year ahead. This has been extended to provide additional performance data covering a wider range of activities than last year.

8. We have the usual workstate targets for tax and collection offices, and the new style compliance targets you have already discussed and agreed with us. We have also added a line showing the percentage coverage of new cases taken up, which is - we think - a helpful addition. In addition to updating last year's section on input:output targets for the Stamp Offices' and the Valuation Offices' professional work, and on targets for the Superannuation Funds Office, we have also included targets this year for the Capital Taxes Office and the Inspector of Foreign Dividends, together with a wider range of recruitment targets and

forecasts for the Oil Taxation Office. Next year we plan still wider coverage. The work we are doing on unit costs will help to increase the range of efficiency targets, as well as bringing in some areas of departmental activity not yet included. But this work is still in the final stages and we shall need to discuss it with you over the summer in the context of PES. It can then be used as the basis for next year's round of target-setting.

9. I imagine you will want to go through the Departmental Statement in some detail before it is published. This might also be a convenient opportunity perhaps to review with you our performance against last year's targets (Mr Cherry has recently sent you a note about the excellent results achieved by tax offices) and look at this year's targets before the usual meeting with Sir Robin Ibbs. We expect him to ask for this during the summer.

10. I should like to stress one important general point from the outset. The next two years look like being as significant a period of change for the Revenue as many of our people can remember. Once you have approved the Departmental Statement, therefore, I should like to issue it to all managers and staff as quickly as possible. We need their wholehearted commitment to this year's targets as well as to the major changes they face over the next two or three years. These include further work on computerisation (nationwide extension of CODA and important new COP enhancements); substantial changes in work gradings and job content (which all call for extensive retraining); and the major new task of preparing for independent taxation. And for the Valuation Office, of course, there is the non-domestic revaluation to be accomplished.

#### Publication

11. I should also like, as last year, to make the Departmental Statement available to a wider audience by including it first in the SMS we publish in the summer, and later in the year as part of the Board's Annual Report. We have had some useful feedback, especially from the accountancy profession, that last year's Statement was quite well received.

B. The SMS Review (Annex B)

12. Perhaps I could first draw out a few of the key points from this year's SMS round.

Performance indicators

13. I start with these because, this year, we made a special feature of improving performance targets and developing a system of unit costs. This was something Ministers asked us to do this year following the PES bilaterals with the Chief Secretary last autumn. All Divisional heads were asked to concentrate particularly on these features of their work. This has proved to be helpful in preparing the new management plan and the unit costings we shall be sending you shortly. They include new output measures and performance indicators, some of which have been incorporated in the Departmental Statement. It has also focussed greater attention on the scope for wider use of indicators in day to day management.

Other matters

14. Discussions with divisional heads were wide ranging. Some 60 specific separate points were identified for follow-up action. The Board will be monitoring action on these closely over the next year, and I will not trouble you with the detailed list unless you would like to see it. It includes a wide variety of operational matters, new management initiatives, assignments for our management services and staffing inspection teams, as well as a range of personnel measures (not least aimed at our shortage areas).

15. I would pick out (in no particular order) the following, as the major issues on which we need to concentrate, as a management board:

- The continuing shortage of Inspectors of Taxes, and other technical staff.

- The perhaps even more threatening shortage of professional valuers.
- Our parallel, and endemic, difficulties in continuing to staff Policy Division with sufficient people of the right quality (to which the impending reorganisation of Policy and Technical Divisions is partly directed).
- The workstate elsewhere - notably in the Capital Taxes Offices, the Superannuation Funds Office and the collection service.
- The progress of our major computer projects, with COP in place and being enhanced, CODA being implemented, and with the Department now getting to grips with the big new challenge of BROCS.
- The new system of investigation targets and their implementation in practice.
- The overriding need to get ready for independent taxation in April 1989.

We have already consulted you on a number of these issues, which you will recognise. Some - like the need to provide some contingency against risks to our computer operations - have been mentioned to Treasury officials. Others figure in setting our managers realistically demanding targets, and in determining what we can deliver.

16. More generally, in drawing together the lessons of the SMS discussions and in preparing our Management Plan, we were conscious of the need to set in broader context the wide range of changes to which the Revenue is now committed. Both management and policy changes. In short, we need to explain not only what we are doing, but also how these changes come together, in a number of "key themes", to contribute to the Government's broader

objectives. To put it another way, we need to show our own staff, and a wider audience, not only the extent to which the Department is undergoing change, but also more clearly the direction of change and its reasons. Last year's Departmental Statement was a first move in that direction. I hope you will feel that Parts 1 and 2 of this year's Departmental Statement take this a valuable step further and that we should continue to develop this approach in the light of experience.

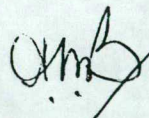
#### SMS Publication

17. My proposal here, as last year, is that we should publish all the SMS returns (summaries and details) for the Management and Operational divisions (apart from a few particularly sensitive references to points such as avoidance), but only the statement of aims and objectives and organisational details for Policy Divisions. Copies of the published returns are placed in the House of Commons libraries and we send advance copies to the Clerk to the TCSC and to our own trade unions. The National Audit Office get a copy at working level and we would be ready to make copies available to the PAC on request. We would also let it be known through a short press release that the SMS, including the 1988 Departmental Statement, is available at a price - £20 last year - from Somerset House. We would aim to publish during June.

#### C. Points for decision

18. I am sorry to have to bombard you with all this material just as you are busy on the Finance Bill, but I am afraid it too is governed by the annual financial and management cycle. I imagine you will want to ask your Private Office to arrange a time when some of us could discuss the form and content of the draft 1988 Departmental Statement before it is finalised for issue to staff. Meanwhile, subject to settling the details, it

would be helpful to have your agreement in principle to publish the SMS, along with the Departmental Statement, in the summer. We could then begin to put in hand the preliminary arrangements.



(A M W BATTISHILL)

INLAND REVENUE

DEPARTMENTAL  
STATEMENT

1988



MAY 1988



**Inland Revenue**

**DEPARTMENTAL  
STATEMENT**

**1988**

## DEPARTMENTAL STATEMENT 1988

This Departmental Statement (Departmental Statement 1988), which is the second of its kind, updates and replaces the Departmental Statement 1987 issued last summer. There are 4 parts:-

Part 1: Purpose and aims

Part 2: Key Themes

Part 3: Forward Look: the programme of change and main priorities as at April 1988.

Part 4: Specific Departmental targets for 1988/89.

Parts 2 and 3 are new features.

DEPARTMENTAL STATEMENT 1988

PART 1: INLAND REVENUE: PURPOSE AND AIMS

The Inland Revenue is responsible, under the overall direction of Ministers, for the administration of income tax, corporation tax, capital gains tax, petroleum revenue tax, inheritance tax and stamp duties; and valuation services for rating and Government departments.

Our purpose is:

to collect the proper amount of tax due by law, and to value property accurately

to advise Ministers on policies for tax and valuation, and to implement Government policies in those areas.

---

We are continually searching for new and better ways to do all these things more economically, efficiently and effectively, to improve our expertise, and to provide a fair and helpful service to the public.

In administering the tax system we will aim to:

- o advise the public of their rights and duties
- o treat people equally under the law
- o encourage co-operation between the Department and the public
- o pursue tax which is due
- o deter and detect evasion
- o value property to professional standards

In advising Ministers on matters of policy we will aim to consider:

- o their cost and yield
- o their social and economic effects
- o how they contribute to the Government's wider policies
- o how they affect compliance costs for taxpayers, and our own costs
- o the scope for consultation with taxpayers and representative bodies

We will prepare and publish our overall plans and account fully for our use of the resources provided by Parliament. We will, whenever possible, set clear objectives, allocate responsibility to staff for achieving them, and monitor progress and results.

## PART 2: KEY THEMES

The Inland Revenue carries out its duties in accordance with the law and under the general direction of Treasury Ministers. Our management plans must be consistent with Ministers' objectives and the resources made available to us. They will reflect Ministers' decisions on the shape of the tax system and on the way it should be administered and impinge on the community at large.

In the recent past our work has been particularly affected, for example, by the Government's tax reform measures, by the decision to computerise large parts of the assessment and collection of tax, and by various other measures to improve the Department's efficiency and effectiveness.

Looking ahead, we face another extensive programme of change over the next few years. This includes introducing the new system of independent taxation, completing the revaluation of non-domestic properties for rating purposes, and extending major computer applications to other parts of the Department's tax and valuation work. In common with other Departments the Government has also set us a target of improving overall efficiency by at least  $1\frac{1}{2}$  per cent a year in order to contain the growth in Civil Service running costs. These are challenging objectives, particularly at a time when there is growing competition for people with the skills and abilities we need.

In planning to meet these objectives we have identified a number of broad themes which we expect to see running through our management plans for the next three years and beyond. They cannot be regarded as overriding in all circumstances, and there may be tensions between competing priorities from time to time. We shall keep under continuous review the balance between them. Nevertheless, we believe the themes, which are described in the following 2 pages, will set the broad direction in which the Inland Revenue will develop and improve its effectiveness.

### **Better service to the public**

The public has a right to expect to receive proper service from the Inland Revenue just as our staff expect to give it. It is not enough for us to improve only our internal procedures. We must carry through this process of improvement into all our contacts with the public. This means training and helping our staff to act knowledgeably, effectively, fairly and courteously. It also means giving them better equipment so they can provide a more accurate and efficient service to the public.

---

### **More effective enforcement**

We need to search for ways of spending less time on routine work so that we have more time to try to see that people pay their proper tax. New computer systems, and other improvements in the way we organise our work, will help to provide better opportunities for doing this. At the same time we must take care to respect the rights of the public and do all we can to contain the costs, especially those for small businesses, of complying with the law.

We shall follow this general approach in our tax and valuation work.

---

### **Better staff development and training**

This means recruiting, promoting and employing staff according to their ability and performance, and making use of new flexibilities in Civil Service pay arrangements to improve recruitment, retention and motivation.

Much of our work calls for developed skills and qualifications. We shall aim to provide good training and opportunities for all our employees to develop their full potential. We shall want to take increasing account of performance, recruitment and retention within more flexible pay arrangements. We shall also want to take opportunities to locate work where we can best recruit and retain the staff we need, provide satisfying jobs and secure good accommodation.

Against this background of change, it is all the more important that we should inform and consult our staff and unions.

### **Greater specialisation**

This means seeking to match the expertise of those with whom we deal. In recent years we have put increasing reliance on specialist staff and offices in order to match the increasing complexity and sophistication of business and commerce. And where it was more effective we have developed and concentrated expertise in special units. We expect that trend to continue. Wherever necessary we shall be prepared to look to more such specialist offices and staff as a means of dealing effectively with specific groups of taxpayer and types of business.

---

### **Improved communications**

This means helping the public understand the tax system and know their rights and obligations under it. It also means listening to what the public say to us and about us.

We have already put a lot of work into providing clearer and simpler forms and leaflets. We intend to do more of that. We shall also try to help the public to understand how we do our job by publishing better information about our work and performance. We value and will develop our regular and continuing close contacts with the public and representative bodies, and will take their views into account in the service we provide and our advice to Ministers. We shall continue to initiate and participate fully in public consultation on changes whenever we are authorised to do so.

---

### **More accountability**

This involves giving our staff more individual responsibility for their work and being more accountable for our performance.

We have plans to develop our management, budgeting and reporting systems so as to be better able to set clear targets for staff, delegate more responsibility to managers for using resources to achieve them, and require people to account fully for their performance. These developments should help managers to manage. They will also provide a clearer basis for judging how well we are doing in discharging the duties placed upon us and in meeting the objectives we set.

**PART 3:**

**FORWARD LOOK: THE PROGRAMME OF CHANGE AND  
MAIN PRIORITIES AS AT APRIL 1988**

In meeting the tasks set out in its purpose and aims (Part 1) and consistently with the key themes (Part 2) the department has in recent years been carrying through a programme of major change. Specific major achievements include:

- a substantial reduction in staff numbers (from 84,645 in 1979 to around 68,000 now) as a result of legislative changes, efficiency scrutinies, computerisation and other management measures;
- the introduction of COP (Computerisation of PAYE), and successful piloting of CODA (Computerisation of Schedule D Assessing);
- network office reorganisations in taxes, collection and valuation offices (reducing local offices by 279 from 1,182 in 1983 to 903 now);
- new approaches to work management (including the "WIN" and "PACE" initiatives in taxes and collection offices and similar initiatives in Capital Taxes Offices (CTOs) and the Superannuation Funds Office);
- the extension of line management budgeting to the whole department (involving some 1500 budget holders).

The prospect for the period from 1988/89 into the early 1990's is again one of major and continuing change. The main specific areas of change to which we are already committed - and their approximate timing - are shown in the bar chart on page 9. In summary, they include the following. **Main priorities for 1988/89 are shown in bold type:-**

(a) **Tax and Collection Offices**

- o **Independent Taxation: Prepare for the effective implementation of independent taxation from 1990/91.** In his Budget speech, the Chancellor proposed the introduction, from April 1990, of a new system for taxing married couples. This will involve treating married women as taxpayers in their own right for the first time in the history of income tax. This means a substantial increase in the number of separate taxpayers to be served, a consequent increase in staff numbers, and a whole range of entirely new organisational arrangements. The changes will require an intense period of planning and preparation beginning in 1988/89. Tax office staff will have to be trained in the new rules; new forms and procedures must be introduced; the COP and CODA computer systems have

to be adapted to cater for the new system. During 1989/90 tax office staff will undertake preparatory work to ensure that the new system starts smoothly.

o Further Computerisation

- **Complete the implementation of CODA during 1988 by extending it to all other regions,** after successful piloting in 1987 in Wales and Eastern Counties regions.
- **Implement further major COP enhancements,** including in 1988 the phasing out of concards (the manuscript summary of taxpayer details), improvements in the system for transferring records when taxpayers change employment and the conversion of Centre 1 to COP.
- **The further development of BROCS** (the Business Review of the Collection Service) - the new fully on-line communication system between the central Accounts offices and local tax and collection offices planned to be introduced in stages from 1990.
- The initial development and introduction of on-line Corporation Tax assessing (OCTA) together with a new "pay and file" system for companies.
- The extension of the on-line system in districts to include annual repayment claim cases.

o Management changes arising from the recent IRSF (Inland Revenue Staff Federation) pay agreement

- **Implementation of all matters already agreed for action in 1988/89 under the IRSF pay agreement, including changes in procedures and grading of work.** The changes involve staff at Tax Officer (Higher Grade) to Revenue Assistant levels in tax offices and at Assistant Collector/Revenue Assistant levels in collection offices and involve a major retraining programme.
- Possible further changes in the light of the report (due by 30 June 1988) on collection procedures and work at Collector/Assistant Collector levels.
- Introduction of performance pay for IRSF grades from 1 April 1989.



- Possible changes arising from the recommendations of the Page report (on scope for delegation of fully trained (FT) Inspector duties), and the Neilson report (career prospects for non-fully trained (NFT) Inspectors).
- o Other management changes
  - **maintain, or where indicated (Part 4) improve, the workstate by meeting the new workstate targets.**
  - introduction of a new clerical staff resource allocation system for tax offices (CRAG).

(b) Valuation Office

- o Non-domestic revaluation: complete over the next two years the valuation of some 2 million non-domestic properties so that a new rating list can be given effect from 1 April 1990.
- o Computerisation: introduction by September 1988 in each local office of a stand-alone micro computer system to assist in the production of the rating list and related data
- o Changes flowing from the IRSF pay agreement
  - Introduction of performance pay for IRSF grades from 1 April 1989.
  - Possible changes in the light of the report on Valuation Technician/Valuation Clerk/Revenue Assistant work and procedures (due by 30 June 1988).
- o Proposed abolition of domestic rating and introduction of community charge: subject to legislation still to be enacted, these proposals, which have substantial implications for Valuation Office functions and staffing, are due to start to take effect from 1990 onwards.

(c) Other offices

- o Special Work Initiatives
  - **Reduce arrears in the Capital Taxes Office (England and Wales)** through special initiatives started in 1987 which are being extended to April 1989, including the transfer of some work to the CTO in Scotland.

- **Secure a significant reduction of arrears and an improved level of service by April 1989 in the Superannuation Funds office, through special initiatives launched in November 1987.**

- o Computerisation: introduction of computerisation in the Capital Taxes Office (England and Wales) and CTO (NI) to provide more efficient support services (filing, indexing etc) and in Stamp offices to enhance management and budgeting information systems and to pave the way for new accounting procedures.

(d) **General (across the whole Department)**

- o Recruitment: to ensure that adequate staff resources are available (within the department's financial limits) to meet work priorities, by achieving the recruitment targets at Part 4 and by other measures.
- o New staff appraisal system: a new staff reporting and appraisal system, which started in December 1987 (January 1988 for Taxes and Collection), is being introduced across the Department. The new system aims to promote a continuing dialogue about performance between manager and jobholder and to be more open. Its main features are the preparation of a forward job plan (including objectives) at the start of the reporting year, monitoring and reviewing throughout the year and evaluation at the end of the year on a new form.
- o Budgeting: further enhancements of line management budgeting, and possible further developments in the light of work on feasibility of closer integration of input and output systems.

## INLAND REVENUE : MAJOR CHANGES IN PROGRESS OR IN PROSPECT

	1988	1989	1990	1991	1992	1993	1994
<b>(a) TAXES &amp; COLLECTION</b>							
1 COP (Conversion of Centre 1 - Oct '88)	ENHANCEMENTS		→				
2 CODA	NATIONWIDE IMPL 'N		→				
3 COMPUTERISATION OF CLAIMS	PLANNING & DEVELOPMENT			IMPL 'N	OPERATIONS	→	
4 NEW COLLECTION SYSTEM (BROCS) (INC CT, PAY & FILE)	PLANNING & DEV		PHASE 1	REMAINING PHASES			→
5 ON LINE CT ASSESSING (INC CT, PAY & FILE)	PLANNING & DEVELOPMENT			OPERATIONS			→
6 INDEPENDENT TAXATION	LEGISL 'N	PREF 'N	INTRODUCTION		→		
7 REGRADING OF WORK (MATTHEWS WORKING PARTY & OPERATIONAL REVIEW OF TOSHG)	IMPL 'N						
8 EXIT LONDON & BALANCE OF IWG (C)	IMPLEMENTATION			→			
<b>(b) VALUATION OFFICE</b>							
9 NON DOMESTIC REVALUATION	LEGISL 'N	IMPL 'N	PUBLIC SCRUTINY MAINTAIN LISTS		→		
10 REORGANISATION OF REGIONAL & LOCAL OFFICE NETWORK	IMPLEMENTATION						
11 COMPUTER SUPPORT	IMPL 'N		→				
<b>(c) GENERAL</b>							
12 LINE MANAGEMENT BUDGETING	ENHANCEMENTS		→				
	1988	1989	1990	1991	1992	1993	1994

→ CONTINUING ACTIVITY

**PART 4: SPECIFIC DEPARTMENTAL TARGETS**

**INTRODUCTION**

The targets, forecasts and outturns shown in this part of the statement represent a selection of the management information for the main operational work of the department. Necessarily they do not reflect all the work carried out by people who work in the Inland Revenue, or all areas in which management is involved. In particular, the Board attaches great importance to the quality of its work, both in relation to operational and to personnel issues; and much management effort is directed to monitoring that and seeking possible improvements. Further background is available in the annually published Inland Revenue Senior Management System and in the Board's Annual Report.

**TAX AND COLLECTION OFFICES**

**Income Tax: Clerical Work**

**a. Post over 14 days**

**Objective:** To hold arrears of internal and external post at a low level during a year of substantial change.

**Targets/Outturns:**

<u>April 1987</u> <u>outturn</u>	<u>April 1988</u> <u>target</u>	<u>April 1988</u> <u>outturn</u>	<u>April 1989</u> <u>target</u>
136,000	100,000-150,000	37,000	100,000-150,000 $\phi$

**b. Schedule E open cases**

**Objective:** To reconcile and clear the liability of virtually all Schedule E taxpayers for 1986/87 and earlier years, and for the great majority of such taxpayers for 1987/88, by April 1989.

**Targets/Outturns\*:**

	<u>April 1987</u> <u>outturn</u>	<u>April 1988</u> <u>target</u>	<u>April 1988</u> <u>outturn</u>	<u>April 1989</u> <u>target</u>
% of cases cleared				
Current year	85.2%	90.6%	86.1%	87.5% $\phi$
Earlier years	97.3%	98.3%	97.8%	98% $\phi$

$\phi$  see notes on following page

\* " " " " "

**c. Schedule E returns examination**

**Objective:** To examine by early October 1988 the bulk of 1988/89 returns received.

**Targets/Outturns:**

	<u>October 86</u> <u>outturn</u>	<u>October 87</u> <u>target</u>	<u>October 87</u> <u>outturn</u>	<u>October 88</u> <u>target</u>
% of returns examined	93%	95%	94%	96%

**d. Schedule E employers' end of year returns**

**Objective:** To transmit (on form P228) to DHSS by early October 1988 the great majority of schemes received.

**Targets/Outturns:**

	<u>October 86</u> <u>outturn</u>	<u>October 87</u> <u>target</u>	<u>October 87</u> <u>outturn</u>	<u>October 88</u> <u>target</u>
% of schemes transmitted	94%	98%	96.4%	97%

**e. Schedule D principal assessing programme**

**Objective:** To make and issue all assessments by November 1988.

**Targets/Outturns:**

	<u>November 86</u> <u>outturn</u>	<u>November 87</u> <u>target</u>	<u>November 87</u> <u>outturn</u>	<u>November 88</u> <u>target</u>
% of assessments issued	98.3%	100%	98.4%	100%

∅ Provisional targets set at April 1988. The provisional target for April 1989, and other quarterly targets, are to be reviewed on a rolling basis and if necessary revised in the light of changing circumstances.

\* These % targets were set last year in terms of numbers of uncleared cases. The April 1988 target on this basis - shown in the 1987 Departmental Statement - was .5m (outturn .65m) for earlier years; for the current year 2.75m (outturn 4.05m)

## Collection

### Objectives: To:

- o check the growth in the collectible balance outstanding;
- o collect, by the end of the Account ending in October 1988, at least 95% of the principal assessed taxes (other than tax under appeal) first becoming due for payment in months 1-9 of that Account.

### Targets/Outturns:

	<u>A/C 86</u> <u>outturn</u>	<u>A/C 87</u> <u>target</u>	<u>A/C 87</u> <u>outturn</u>	<u>A/C 88</u> <u>target</u>
Local action notices cleared	58%	60%	59%	60%
% of principal assessed taxes due for payment in the first 9 months of the accounting year (other than tax under appeal) collected by the end of that year	94%	90%	95%	95%

## Investigation

### Objectives: Within existing resource constraints to:-

- o encourage voluntary compliance and act as a deterrent against fraud;
- o examine a small percentage of cases in detail;
- o verify, and as appropriate correct, the level of profits shown in accounts submitted.

**Targets/Outturns/Forecasts:**

**Company Accounts:**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target(T)/</u> <u>forecast</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
Percentage coverage (cases settled)	1.1%	1.0%(T)	1.1%	1.0%
Percentage coverage (new cases taken up)	1.0%	1.2%	1.3%	1.2%
Number of cases settled/taken up	9,520	10,050	10,538	10,350

**Schedule D Accounts**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target(T)/</u> <u>forecast</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
Percentage coverage (cases settled)	2.2%	2.1%(T)	2.1%	2.0%
Percentage coverage (new cases taken up)	2.2%	2.2%	2.3%	2.5%
Number of cases settled/taken up	90,702	93,576	94,578	106,800

**PAYE Audit**

**Objective:** to inspect the records of employers and construction industry contractors to check that the PAYE and special deduction scheme regulations are properly observed.

**Outturns/Forecasts:**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast</u> $\phi$
Weighted* inspection points system:	174,700	160,900	176,500	180,000

\*Efficiency is measured by a weighted points system related to completed inspections and available resources.

$\phi$  Targets are set quarterly in advance: the 1988/89 figure is therefore a forecast only.

## **Computer Projects**

### **COP/CODA**

#### **Objectives:**

To complete the implementation of COP/CODA (including COP enhancements) on schedule, including realisation of resulting manpower savings and financial targets.

#### **Target milestones:**

April 1988 - CODA launched in all regions except Centre 1

October 1988 - Centre 1 converting to COP

October 1988 - Tax Offices phase out concards (manuscript records of taxpayers personal and employment data)

January 1989 - COP enhancements for file movements

By December 1989 Centre 1 operating CODA.

Staff savings - by April 1989 (COP and CODA) - 5800  
by April 1990 ( " " ) 6370.

## **VALUATION**

### **Valuation Offices (England and Wales and Scotland)**

#### **Objectives:** To:

- o give proper professional advice to the other divisions of the Inland Revenue, other Government Departments and local authorities concerning the valuation, acquisition and disposal of property;
- o maintain the valuation lists for rating purposes (England and Wales only).
- o complete preparations for the non-domestic revaluation by the end of 1989, in time for the introduction of the new valuation list on 1 April 1990 (England and Wales only).



VO STAFF

**Valuation Office (England and Wales)**

**Professional Staff Output and Arrears**

**Targets/Outturns/Forecasts**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target(T)/</u> <u>forecast</u>
Output (weighted work units per valuer)	291	265*	not yet available	280(T)

\* Later increased to 280

**Outstanding work (weighted work units)**

Revenue	28,300	n/a	31,100	38,600
Work for other Government Depts and public bodies	58,800	n/a	59,600	93,300
Rating	158,400	n/a	154,200	188,700

*Do we really want to highlight this*

*good question*

*Why down on 1986/87 (later) outturn?*

*Why so different?*

**Valuation Office (Scotland)**

**Professional Valuation Outturns/Forecasts**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast</u>
Total cases reported	41,219	48,000	51,579	50,000
Work weighted cases* completed per man-year	328.73	321.78	349	325.24

\*provisional weighting system.

*Why down on 1987/88 outturn?*

**OTHER OFFICES**

**Inheritance Tax: Capital Taxes Offices**

**Objectives: To:-**

- o determine, assess and collect Inheritance Tax;
- o value shares not quoted on the Stock Exchange and other assets (excluding land in the UK) for Revenue purposes;
- o reduce arrears of work and the overall number of open cases.

### Capital Taxes Offices (E & W & NI)

#### Targets/Outturns/Forecasts:

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast/</u> <u>target(T)</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast/</u> <u>target(T)</u>
Tax collected (£m) (not a target)	905	1,010	999	912
Taxpaying death cases completed	25,750	26,500	23,850	23,500(T)
Taxpaying cases completed per manyear	40.17	42.67	38.62	37.87
Yield/cost ratio	96:1	98:1	100:1	84:1

### Capital Taxes Office (Scotland)

#### Targets/Outturns/Forecasts:

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast/</u> <u>target(T)</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast/</u> <u>target(T)</u>
Tax collected (£m) (not a target)	85	90	86	88
Cases completed (taxpaying and non- taxpaying)	10,323	9,200 (T)	8,758	9,000 (T)
Cases completed per man-year (taxpaying and non-taxpaying)	111	100	95	100
Yield/cost ratio	63:1	64:1	61:1	61:1

### Collection of Stamp Duty

#### Objectives:

To:

- o continue to collect stamp duty as inexpensively as possible;
- o maintain so far as possible the substantial efficiency gains achieved in recent years.

<u>Targets/Outturns:</u>	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>targets/</u> <u>estimates</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>targets/</u> <u>estimates</u>
Documents processed target (millions)	4.24	4.30	4.34	4.10 i
Stock Exchange transfers monitored (millions)	2.85	2.95	4.98	2.70 ii
Cost of processing each document (£)	1.05	1.02	1.01	1.18
Cost of monitoring each transfer (£)	0.02	0.02	0.01	0.03 iii
Duty collected on documents (£m)	1,265	1,475	1,746	1,440 iv
Duty collected on transfers (£m)	595	625	674	500
Cost/yield ratio documents	0.35%	0.30%	0.25%	0.34%
Cost/yield ratio transfers	0.01%	0.01%	0.01%	0.01%
Cost/yield ratio all work	0.24%	0.21%	0.18%	0.25%

- i. reduction due to elimination of small-duty documents;
- ii. substantial reduction due to fall-off in Stock Exchange activity;
- iii. costs included are the direct costs of stamp offices and valuations of land made at their request: superannuation and other overheads, and capital expenditure, are excluded;
- iv. substantial reduction due to abolition of capital duty.

#### **Oil Taxation Office**

##### Objectives:

To:-

- o review and settle the growing numbers of (PRT) petroleum revenue tax and corporation tax liabilities of oil companies in the depth appropriate to the substantial sums involved;
- o shorten, where possible, consistent with the need for adequate review, the time taken for settlement;
- o provide high quality advice on oil tax law and practice within Government and where appropriate, outside.

<u>Outturns/Forecasts:</u>	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast</u>
PRT returns	651	697	692	740
Net yield from adjustments by OTO (not a target)	£m124	£m85	£m60	£m85

#### **Inspector of Foreign Dividends**

**Objectives:** To:

- o to issue all large assessments within 4 weeks of receipt of returns
- o to improve the quality of examination of claims and reduce arrears

<u>Targets/Outturns:</u>	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
Assessments issued	2,054	2,000	1,984	2,000
Assessments per manyear	171	167	165	167
Claims dealt with	96,000	96,000	95,300	96,000
Claims per manyear	490	505	511	520

#### **Approval and Supervision of Pension Schemes**

**Objectives:** To:

- o reduce the arrears of work in the Superannuation Funds Office;
- o improve the speed at which scheme approvals are given.

**Targets/Outturns/Forecasts**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>forecast/</u> <u>target(T)</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>forecast/</u> <u>target(T)</u>
Applications for approval	52,000	57,000	45,000*	52,000
Arrears awaiting decision:				
monthly averages	6,979	12,400(T)	11,765	6,000(T)
actual at year end	10,101	7,500(T)	6,871	5,100(T)
Ratio of approvals to applications:				
monthly	79%	50%	40%*	72%
rate at year end	55%	85%	19%*	95%

\*Fall due to standstill following 1987 Budget and new requirements following F(no 2)A 1987.

**GENERAL**

**Recruitment**

**Objectives:**

- To:
- o ensure a continuing supply of key staff;
  - o reduce shortfalls.

**Targets/Outturns/Bids: ø**

<u>1987</u> <u>target</u>	<u>1987</u> <u>outturn</u>	<u>1988</u> <u>target</u>
------------------------------	-------------------------------	------------------------------

**Inspectors**

**FI Inspectors**

Graduate recruits taking up duty	120*	152*	120*
Internal Selections (TO(HG), Collector & Inspector)	100	141	100

øtargets/bids are set in the light of both the need for, and the availability of, recruits.

\*These figures are to 30 September each year (others are for calendar years).

	<u>1987</u> <u>target</u>	<u>1987</u> <u>outturn</u>	<u>1988</u> <u>target</u>
<b><u>NFI Inspectors</u></b>			
Graduate recruits taking up duty $\phi$	-	-	100
Selection for Accounts Investigation Course	500	579	500
Inspector (0) promotions	60	132	100

$\phi$  recruitment scheme commenced at the end of 1987.

#### **Valuers**

	<u>1987/88</u> <u>target</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
Recruitment to Senior Valuer	15	Nil	n/a
Recruitment to Regional Building Surveyor	6	5	n/a
Recruitment below Senior Valuer level	129	94	n/a
Total recruitment of professional staff	150	99	280

#### **Lawyers**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>bid</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>bid</u>
	4	4	3	10

#### **Accountants**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>bid</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>bid</u>
	5	13	0	18

#### **Direct Entry Principals**

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>bid</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>bid</u>
no CSC scheme		3	1	decision on CSC scheme awaited

### Administration Trainees

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
	2	5	4	5

### E0 Level

	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>bid</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>bid</u>
Delegated recruitment scheme recruits taking up duty	392	474 $\phi$	409 (107)*	590
Civil Service Commiss- ioners recruits taking up duty	433	196 $\phi$	164 ( 26)*	176
Total E0 level recruits taking up duty	825	680 $\phi$	573 (133)*	766

$\phi$  original targets

\* figures in brackets are numbers of those assigned but yet to take up duty.

### Departmental Expenditure

#### Objective

To ensure that departmental expenditure is kept within the overall costs limit, and that running costs are kept within the running costs limit, as required by Ministers and Parliament.

#### Cash/Running Costs Limits:

	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Cash Limit (net of receipts)	£m963.3	£m1042.7	£m1104.5
Running Costs Limit	£m923.86	£m1010.7	£m1081.2

### Financial Management

Objective: To secure, through delegated budgeting and other measures, better value for money within the overall resources allocated to the department.

### Target milestones:

- 1987/88 target (achieved)- extend coverage of line management budgeting to 100% of department (1,500 budget holders) from 75% (1,100 budget holders) in 1986/87;
- by autumn 1988 - develop unit costs for major areas of department's work;
- by end 1988 - complete feasibility study of scope/timetable for closer integration for management purposes of budgeting and work output systems.

### Accommodation Space

#### Objective:

To:-

- o identify and release surplus space in buildings;
- o maximise use of other space consistent with operational needs and maintenance of a good working environment.

<u>Target/Outturns:</u>	<u>Year ending</u> <u>30-9-86*</u>	<u>Year ending</u> <u>30-9-87*</u>	<u>Year ending</u> <u>30-9-88*</u>
Target for space reduction (sq metres)	26,900	13,200	12,800
Achievement (sq metres)	39,836	28,178	-
Achievement (percentage of estate)	2.96%	2.16%	1.00% (target)

\* figures reflect the programme for reductions in network offices (down from 1,182 in 1983 to 903 now) which was substantially completed in 1987/88.

### Purchasing

#### Objective:

to apply professional purchasing techniques to obtain the best possible value for money, in terms of cost, quality and fitness for purpose, from the goods and services purchased by the department.

<u>Targets/Outturns:</u>	<u>1986/87</u> <u>outturn</u>	<u>1987/88</u> <u>target</u>	<u>1987/88</u> <u>outturn</u>	<u>1988/89</u> <u>target</u>
% savings	4.9%	6%	not yet available	6%





FROM: M F BOLLAND *amp*

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE

2 June 1988

*Chc*  
Content with  
this (standard) letter?

PS/CHANCELLOR (Mr Taylor)

**RECONSTITUTION OF THE BOARD OF INLAND REVENUE**

I attach a copy of the letter I propose to send to the Office of the Minister for the Civil Service.

2. I should be grateful if you would confirm that the Chancellor is content with the proposed reconstitution.

*M F Bolland*

M F BOLLAND

*AM B/IR*  
*2/6*  
*OK -*  
*(this dir vnd - S)*  
*content @ X*  
*3/6*

G E T Green Esq  
Senior Staff and Europe Division  
Office of the Minister for the Civil Service  
Great George Street  
LONDON SW1

**RECONSTITUTION OF THE BOARD OF INLAND REVENUE**

From 25 May 1988 the Board of Inland Revenue  
comprises the following:

Anthony Michael William Battishill - Chairman

Anthony John Gower Isaac CB - Deputy Chairman and  
Director General

Terence James Painter - Deputy Chairman and  
Director General

David Bryan Rogers CB - Director General

Albert Bennett Fallows CB - Chief Valuer

Leonard John Hobhouse Beighton - Director General

X | The (Chairman and) the two Deputy Chairmen are listed in order of  
seniority, as are the other three Commissioners.

I confirm that the Chancellor of the Exchequer has approved the  
proposed reconstitution of the Board.

I also confirm that the honours shown above are correct to date.

Could you please arrange for the preparation of Royal Warrant and  
Letters Patent reconstituting the Board.



INLAND REVENUE  
FINANCE DIVISION  
SOMERSET HOUSE

*Ch.*  
Annex B (Flagged)  
Responds to your questions  
on the earlier draft.

*Comment*  
From: J M Crawley  
Date: 8 June 1988

- 8/6*  
1. CHAIRMAN  
2. FINANCIAL SECRETARY

INLAND REVENUE : SENIOR MANAGEMENT SYSTEM AND DEPARTMENTAL STATEMENT

1. You suggested (Mr Heywood's note of 23 and 24 May) a number of amendments to the Departmental Statement, which the Chairman sent you on 13 May.
2. I attach (Annex A) an amended print of the Statement, reflecting almost all the points you have made. In particular, changes (sidelined) have been made to show volumes for tax/collection office workstate targets (pages 10 to 13); the

---

cc Chancellor of the Exchequer  
Mr Culpin  
Mr Gilhooly  
Mr Hoare  
Mr Cropper

Chairman  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Fallows  
Mr Beighton  
Mr Crawley  
Mr Cherry  
Mr Corlett  
Mr Matheson  
Mr Pitts  
Mr Jones  
Mr Johns  
Mr Warden  
Mr Moore  
PS/IR

reference to resource constraints on investigations has been deleted (page 13); targets have replaced forecasts for PAYE Audit (page 14); Valuation Office arrears have been removed (page 16); and tax/duty figures for the Capital Taxes and Stamp Duty offices have been deleted (pages 17 and 18). We have also been able, after discussion, to make some increase in the workstate targets for the Capital Taxes Office (E & W & NI). These amendments have been discussed in outline with Mr Hoare, who is broadly content.

3. On your further points (note of 23 May) on the Valuation, Stamp Duty and Superannuation Funds Offices, I attach (Annexes B and C) notes explaining the background in each case. Annexes B and C also explain the movements in the two "fully-fledged VFM indicators" relating to the Valuation Office and Stamps, (Mr Heywood's note of 24 May) and answer the points about the Valuation Office raised by the Chancellor (Mr Taylor's note to you of 18 May). We think that Sir Robin Ibbs will be familiar with the underlying message that in evaluating all these targets, and performance against targets, it can be as important to understand the reasons for changes in the figures as to examine the changes in the figures themselves.

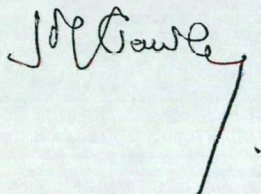
4. You also commented that in a number of areas in the Statement performance seems to be deteriorating. For the great majority of the Department's work, as the Statement shows, performance has improved in the last year (in some cases quite sharply), and is targeted to continue to improve this year. It is true that in a few smaller parts of the Department the targets are somewhat below last year's outturn. But this is largely because of outside factors beyond our own control - for example Stamp Duty (see Annex C) and possibly (the 1987/88 outturn figure is not yet available) the Valuation Office (Annex B). The target for investigations of company accounts shows a modest percentage reduction against outturn. But here we are constrained by increasing resignations of fully-trained Tax Inspectors. Even in these cases there is a reasonably good story to tell. We do not think that Sir Robin Ibbs would take an adverse view of our overall achievement because of special factors which affect these relatively small areas of our work.

Generally, the Statement shows good results for 1987 - 88, and with only a few exceptions (for which there are reasonable explanations) targets for 1988 - 89 have been set at higher levels than our 1987/88 achievement.

5. Finally there are two other points from Mr Heywood's note of 23 May which I ought to comment on. The first is on our recruitment targets. You wondered whether these were a necessary part of the Statement. We have discussed this further among ourselves, but remain of the view that it would be on the whole a pity to drop this section. We are generally anxious to develop the Departmental Statement and its targets, not just as a presentational device, but as a relevant and serious part of our management planning. There would be risk of losing credibility for this purpose if people saw us omitting major targets because they gave a message which they thought we found uncomfortable. Last year's Statement contained a fairly full account of our Inspector and Valuer recruitment targets; and it might be thought strange if we dropped them at a time when our losses of professional staff are rising still higher. The PAC (and more recently the TCSC) show a continuing interest in this area. The targets are very real, especially for our personnel people (and the CSC); and securing enough new recruits to replace those leaving us has to be a main priority for 1988-89. This is particularly reflected elsewhere in the Statement, both in the key themes shown in part 2 and in our main priorities at part 3. We have however shortened the section and, we think, improved presentation by omitting some of the more detailed figures on Valuers (concentrating on the one line of professional staff recruitment), by aggregating the figures for lawyers and accountants, and by dropping two of the smallest recruitment <sup>figures</sup> - Direct Entry Principals and ATs (though achieving the small numbers required is crucial to the policy work we do for Ministers). I hope that in this amended form you may find the section acceptable.

6. The second point relates to differences between the SMS report and the Departmental Statement. SMS documentation is prepared by divisional heads in October each year at the start of the SMS round; the figures relate to their outline plans which are then considered in detail by the Board. The targets in the Departmental Statement take account of these further discussions and are finalised in the light of the latest outturn information five months later. Inevitably, therefore, there will be differences between provisional targets in the SMS and the final targets in the Statement. This did not seem to give rise to any misunderstanding last year; but to avoid any possible confusion we suggest that the preface to the SMS should include a suitable explanation of this timing difference.

7. If you are content, we should like to circulate the Statement to our managers in local offices as soon as possible so that everyone knows the complete set of Departmental targets for the year. But if you would like a further meeting, we would of course be happy to discuss the revised Statement with you in more detail.

A handwritten signature in cursive script, appearing to read 'J M Crawley', with a long vertical stroke extending downwards from the end of the signature.

J M CRAWLEY

*Agreed.  
Re offer  
X  
Vch. genuine*

FROM: MS D J SEAMMEN

DATE: 24 June 1988

CHANCELLOR

*Tony Balkishill mentioned  
these pay proposals at his bilateral  
with you on 11/4 (note behind).  
Agree with Ms Seammen's advice  
(yes to Inspectors, no to Administration)?*

cc Chief Secretary  
Paymaster General  
Financial Secretary  
Sir P Middleton  
Dame Anne Mueller  
Mr Anson  
Mr Culpin  
Mr Kelly  
Mr Hoare  
Mr Graham

PS/Inland Revenue

*25 24/16*

**GRADES 5-7 PAY IN THE REVENUE**

1. The Revenue have discussed with us their wish to use the flexibilities in the new Grades 5-7 Pay Agreement to pay more to tax Inspectors and certain administration group staff at Grades 5-7 in key policy areas. An increase for tax Inspectors is justified on retention grounds and proposals are about to be put to the AIT. The more difficult issue is the administration group proposal.

**Background**

2. The relationship between the pay of Inspectors and admin group staff (especially those on Budget and Finance Bill work) has been an issue for some time. But it has been growing over the last two years with improvements in Inspector pay, including special additions for Inspectors at Grade 7 level in London. Hitherto the problem has been confined to Grade 7 level. This has been a source of some friction. But now that improvements are proposed to Inspector pay at Grades 5 and 6 levels to deal with the problem of resignations at these higher levels, parity would be broken at these levels also and the existing differentials at Grade 7 level widened further. This would pose a particular problem at Grade 5 where there are already worrying losses in both groups. The

position is made more difficult with the reorganisation of the policy and technical divisions being undertaken with effect from 1 September.

3. Key areas of the Revenue's Head Office include the Policy, Technical and Central Divisions responsible for delivering the Finance Bill, and there are already close working relationships. Policy and Central Divisions are largely staffed by the administration group and the Technical Divisions by the fully trained Inspectorate. Staff shortages in these Divisions have now become very serious and were the main reason behind the impending reorganisation. The changes now being introduced will go some way to give management more flexibility in using scarce resources which is missing in the present structure. Under the proposals now being implemented by stages, the existing Policy and Technical Divisions will be merged to form subject-based Divisions and Central Division will be given wider responsibilities. This involves radical changes in the structure of Head Office and an even closer working relationship of the two groups of specialists under the same line management within the merged Divisions.

#### Pay proposals for the Inspectorate

4. At present, tax Inspectors at Grade 7 receive special pay allowances (within the scale maximum for all Grade 7s) worth £3,200 or so in London and £1,600 elsewhere. Resignation rates for tax Inspectors at Grade 7 declined following the introduction of these allowances in 1986 but have risen again to over 5% (51 resignations in Grade 7 alone in 1987/88) and are still rising. There are no extras for Inspectors above Grade 7 and losses at Grade 5 have risen sharply to over 4% (6 in 1987/88) with a further sharp rise in the first few months of 1988/89. At the most senior level (Grade 4) there were 2 resignations in 1987/88 representing a loss of 5½%. Altogether some 155 FT Inspectors left the Revenue last year (including trainees) and another 104 Non Fully Trained Inspectors. They can only be replaced by new recruits or by selecting people for training within the department. The Revenue are now extremely worried about this



accelerating level of losses, which has now reached very serious proportions.

5. On grounds of retention and because of the revenue implications of Inspector shortages we have accepted that there is a case to improve pay under the new long term agreement. Significantly, as under the earlier agreement, the AIT are prepared to give a valuable commitment to co-operate with a number of management initiatives under way in the Revenue and, in particular, to accept the downgrading of a number of District Inspector posts from Grade 6 to Grade 7 where - primarily as a result of proposals to delegate some work from fully trained to non-fully trained Inspectors - the amount of fully trained work will not justify Grade 6 status. The proposal, in effect, is to add an additional scale point (worth between £875-£1,200 per annum depending on grade) from 1 October. The date ties in well with the start of implementing the HO reorganisation.

#### Proposals for certain administration group Grades 5-7

6. Linked with the proposal on Inspectors, the Revenue are keen to provide a comparable pay incentive to a limited number of Head Office Admin Group staff at Grades 5-7 who work cheek by jowl with Inspectors. In the case of Grade 5 staff, they also argue that there is a strong case based on recent resignation rates. They consider that to open up new pay differentials at Grades 5 and 6 levels, and wider pay differentials at Grade 7 level, just at the time when Grades 5-7 with a largely "policy" background are beginning to resign for the first time and there is to be closer integration will give damaging signals to this key group of staff who work on the Budget and Finance Bill.

7. In addition, the Revenue point out that:

(a) within the spectrum of Administration Group jobs the work of this group is very much at the specialist/technical end, as opposed to the generalist end, of Administration Group work. It centres on the annual Finance Bill/Budget cycle with annual legislation of very considerable

complexity and bulk. Uniquely at present it is this group of administrators, rather than lawyers, who instruct Parliamentary Counsel on the legislation involved.

(b) These are staff who, as a result of their special marketable skills, are leaving and wastage rates (particularly at Grade 5) are well above the average and very worrying. In less than 3 years there have been 7 resignations from this area of work at Grade 5 level out of 23 posts at this level (though 3 of these were Inspectors doing policy work). This has led to some real problems in handling Ministerial priorities.

8. The Revenue would like, on retention grounds, to improve pay for a wider range of Administration Group staff. But, in view of repercussions and cost pressures they are aiming to target the field more closely. Their proposal, as it stands, would achieve closer parity for this group with Inspectors working alongside by giving easier access to the range of performance points available under the new long term pay agreement. The Revenue believe that their proposal could be adequately ring-fenced within the department. In the short term up to 60 staff at most would qualify (representing around 18% of staff of these levels in the Revenue's Administration Group) though in time this could increase to around 80. The special nature of the work and its links with a newly integrated organisation would in the Revenue view limit the risk of repercussions elsewhere in other departments.

9. We find considerable difficulties with this proposal. Because it would be effectively the first use of new flexibilities under the Grades 5-7 Agreement other than for specialist groups such as Inspectors or Lawyers it requires special scrutiny; inevitably it will set something of a precedent for administrative staff in other departments even if it can, as the Revenue believe, be ring-fenced in that department. We expect such claims from a number of departments including the FCO and the DTI and a Chancellor's department will inevitably draw particular attention. Against this background, we need to be sure that the proposals are fully justified on appropriate grounds.

10. Our chief problem with the Revenue proposals is that they will be seen as based very largely on internal relativities between Tax Inspectors and Administration Group people working alongside. Although we recognise that the Revenue's concern about these relativities is based on existing and potential retention problems (especially with the reorganisation), the thrust of our pay policy is to get away from this kind of 'fairness' argument to a policy based firmly on recruitment and retention grounds. Inevitably this will mean, and the Revenue accept this, that people with different skills with different market rates will attract different remuneration. Often people will be working closely in interdisciplinary teams with others paid less or more. By accepting the Revenue's case we would risk encouraging others to use an argument that because people work alongside each other, they must be paid the same.

11. We have further difficulties with the means proposed by the Revenue - that is, loosening the performance criteria to give easier access. We want to keep performance pay as a way of rewarding above average performance and not to allow it to degrade as a way of making up for perceived deficiencies in the level of basic pay.

12. This is not to deny that the Revenue have genuine problems of retention in these Administration Group grades. But the figures in Annex A do not suggest that these are so far out of line with the service as a whole. Even adjusted to pinpoint fast-stream posts (Annex B) they are not so acute as for the Treasury (Annex C). The question is whether the Revenue's difficulties are sufficient to justify additional action now. The staff concerned will benefit from the 4 per cent increase on 1 April and the assimilation increase of 3 per cent or so under the Grades 5-7 Agreement in October, and from the 14 per cent increase in London Weighting in July. The best of them will gain from the extension of performance pay. There is the promise of the levels survey from next August. There is, moreover, the long term assurance provided to grades 5-7 under the Agreement that pay settlements will fall within the interquartile range of settlements elsewhere

and will not be allowed to become seriously inconsistent with relevant jobs outside the civil service.

**Conclusion**

13. On the Inspectors, we would like to make an offer along the lines of paragraphs 4 and 5 above as soon as possible.

X | 14. On the Administration Group, we have not been persuaded by the Revenue arguments, despite our sympathy for the difficulties they are currently facing. In our view the right way is to look again at the group in the context of the 1989 levels survey. But we have agreed with the Revenue that we should put their claim to you specifically in case you take a different view.

15. Sir Peter Middleton agrees.



MS D J SEAMMEN

# INLAND REVENUE AND

Amex A

## SERVICE-WIDE RESIGNATIONS

	GRADE 5		GRADE 6		GRADE 7	
	1985/86	1986/87	1985/86	1986/87	1985/86	1986/87
LONDON						
-----						
INLAND REVENUE						
Staff in post	52	55	36	43	150	166
Resignations	1	0	1	2	6	3
Rate %	1.9	.0	2.8	4.7	4.0	1.8
OTHER DEPARTMENTS						
Staff in post	1264	1258	1000	1138	5380	5249
Resignations	16	7	9	17	109	83
Rate %	1.3	.6	.9	1.5	2.0	1.6
ELSEWHERE						
-----						
INLAND REVENUE						
Staff in post	1	1	8	14	74	83
Resignations	0	0	0	0	1	0
Rate %	.0	.0	.0	.0	1.4	.0
OTHER DEPARTMENTS						
Staff in post	619	633	1554	1588	4693	4843
Resignations	6	5	5	11	56	45
Rate %	1.0	.8	.3	.7	1.2	.9
ALL LOCATIONS						
-----						
INLAND REVENUE						
Staff in post	53	56	44	57	224	249
Resignations	1	0	1	2	7	3
Rate %	1.9	.0	2.3	3.5	3.1	1.2
OTHER DEPARTMENTS						
Staff in post	1883	1891	2554	2726	10073	10092
Resignations	22	12	14	28	165	128
Rate %	1.2	.6	.5	1.0	1.6	1.3

NOTE: The 'other departments' figures are from Mandate, and relate to all staff in the unified grades. To make the comparison with the Revenue as consistent as possible, the following non-unified grades are excluded from the figures supplied by the department

Grade 5 Principal Inspector, Solicitor (Scotland)  
 Grade 6 Inspector (SP), Senior Legal Assistant  
 Grade 7 Inspector (P), Actuary, Chief Examiner

ANNEX B

RESIGNATIONS - INLAND REVENUE (ADMIN GROUP)

	<u>1985/86</u>			<u>1986/87</u>			<u>1987/88</u>		
	<u>SIP</u>	<u>RES</u>	<u>%</u>	<u>SIP</u>	<u>RES</u>	<u>%</u>	<u>SIP</u>	<u>RES</u>	<u>%</u>
<b>GRADE 5 (See Note)</b>									
London	35	2	5.7%	37	1	2.7%	39	3	7.7%
Elsewhere	-	-	-	-	-	-	2	-	-
<b>TOTAL</b>	<b>35</b>	<b>2</b>	<b>5.7%</b>	<b>37</b>	<b>1</b>	<b>2.7%</b>	<b>41</b>	<b>3</b>	<b>7.3%</b>

**NOTE** These resignation figures include 3 Inspectors employed on Policy work (1 in each year). On the basis of AG Grades 5 only, the percentage figures are 3%, 0%, 5.1%. Additionally, 1 AG Grade 5 resigned in May 1988.

<b>GRADE 6</b>									
London	40	1	2.5%	38	2	5.3%	39	0	0.0%
Elsewhere	4	0	0.0%	5	0	0.0%	9	0	0.0%
<b>TOTAL</b>	<b>44</b>	<b>1</b>	<b>2.3%</b>	<b>43</b>	<b>2</b>	<b>4.7%</b>	<b>48</b>	<b>0</b>	<b>0.0%</b>

<b>GRADE 7</b>									
London	154	4	2.6%	165	2	1.2%	167	3	1.8%
Elsewhere	67	1	1.5%	68	0	0.0%	72	1	1.4%
<b>TOTAL</b>	<b>221</b>	<b>5</b>	<b>2.3</b>	<b>233</b>	<b>2</b>	<b>0.9</b>	<b>239</b>	<b>4</b>	<b>1.7%</b>

**NOTE** Staff in post and resignation figures exclude the Tax Inspectorate (subject to the note on Grade 5 figures above), Valuers, Accountants, Statisticians, Solicitors and Scientists not normally employed on traditional Admin Group work.

ANNEX B

RESIGNATIONS - INLAND REVENUE (ADMIN GROUP)

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**NOTE** Staff in post and resignation figures exclude the Tax Inspectorate (subject to the note on Grade 5 figures above), Valuers, Accountants, Statisticians, Solicitors and Scientists not normally employed on traditional Admin Group work.

## RESIGNATION RATES: COMPARISON BETWEEN HMT AND THE CIVIL SERVICE AS A WHOLE

	1984	1985	1986	1987
	HMT CS	HMT CS	HMT CS	HMT CS
<u>Fast Stream Administrators:</u>				
<u>Grade 5s</u>				
SIP (1 Jan)	40 432	40 444	40 473	40
Resignations (nos.)	1 7	1 13	4 7	2
Wastage rate %	2.5 1.6	2.5 2.9	10 1.5	5
<u>Grade 7s</u>				
SIP (1 Jan)	45 845	45 859	45 835	45
Resignations (nos.)	2 20	2 27	6 24	4
Wastage rate %	4.4 2.4	4.4 3.1	13.3 2.9	8.9
<u>Economists:</u>				
<u>Economic Advisers</u>				
SIP (1 Jan)	36 201	33 198	37 200	35.5 19
Resignations (nos.)	4 11	2 9	5 18	10 17
Wastage rate %	11.1 5.5	6.1 4.5	13.5 9	28.2 8.
<u>All Economists</u>				
SIP (1 Jan)	69 356	69 366	78 390	78.5 39
Resignations (nos.)	10 28	6 19	10 27	18 41
Wastage rate %	14.5 7.9	8.7 5.2	12.8 6.9	22.9 10

Footnotes: There has been little variation in the SIP figures for fast stream administration grades 5 and 7 in HMT over these years.

Civil Service numbers for fast stream administrators in 1987 are not yet available.



RESIGNATIONS : TREASURY

ANNEX C  
Page 2 \*

	1982	1984	1984	1985	1986	1987	TOTAL IN GRADE
Grade 3	1	2		1			23
Grade 5							
Generalists	2		1	2	3	1	45
Economists				1		1	10
Grade 7							
Generalists	5	6	2	2	6	5	45
Economists	3	4	4	2	4	6	40
AT/HEO(D)				2	3	2	15
Economic Assistants/ Snr Ec. Assistants	4	1	5	2	5	4	30

\*There has been little variation in these numbers over the years in question.