

e-Revenue



**REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 492 Session 2001-2002: 14 February 2002**

Summary & recommendations

Introduction

- 1 The development of the internet over the last decade has opened up new opportunities for individuals and organisations to communicate electronically. The United Kingdom is one of the world's leading e-commerce markets, and some 37 per cent of the public have internet access at home. Such electronic, or 'e', services offer Government the opportunity to improve services in innovative ways at potentially low cost.
- 2 The Inland Revenue e-strategy (July 2001) sets out how the department will contribute to Government initiatives to make the United Kingdom the best place to do e-business and how it intends to achieve its targets that:
 - Fifty per cent of services will be available electronically by 31 December 2002.
 - All services will be available electronically by 31 December 2005.
 - There will be a 50 per cent take up of the Inland Revenue's electronic services by 31 December 2005.



- 3 The Inland Revenue is at the forefront of the development of e-services in the public sector and their experience acts as a valuable exemplar to other Government departments. Early developments focused on providing e-services to core customer groups, in order to meet the 50 per cent availability target by 2002. To date, some 30 per cent of services are available electronically, either from the internet or by using other electronic communication systems. Key achievements include an award winning web site for the provision of tax information, the provision of forms and guidance on-line, the option to complete and return Self Assessment forms electronically and that large organisations can send tax details for their employees and subcontractors across an electronic data interchange facility. The Inland Revenue developed one of Government's first transaction based e-services in a very short space of time. The introduction of the internet service for Self Assessment, however, met teething problems, making it difficult for taxpayers to send their tax returns electronically.

- 4 The Inland Revenue has learned from its experience and we examined what progress has been made in applying these lessons. In particular, our report focuses on the take up of existing services and what is being done to improve those available to business and individuals.
- 5 We have collated information from within the Inland Revenue and elsewhere. In addition to reviewing documents and interviewing key staff, we have sought the views of a panel of experts, commissioned research into the constraints to using e-services, invited the department's Internal Audit Office to review staffing issues on our behalf and examined developments with leading private sector companies and overseas revenue authorities.

Main findings and conclusions

- 6 Lessons learned from the Inland Revenue's experience to date are applicable to other Government departments and agencies. The annex to this summary highlights a number of specific good practices on how to encourage take up and improve services available.
- 7 The department won an award for its web site in 2000, and it contains a wealth of useful information (<http://www.inlandrevenue.gov.uk>) (Figure 1). Legislative changes enable the department to rely on electronic submission via the internet as confirmation of receipt of a tax return, and the Inland Revenue is the first central Government body to offer customers the opportunity to pay any outstanding amounts via the internet. Whilst initial achievements focused on meeting the 50 per cent availability target by 2002, the Inland Revenue recognises that more fundamental change will be required in future to encourage take up.
- 8 Particular difficulties were experienced in submitting completed returns. System records showed that nearly 4 out of 5 attempted submissions in 1999-00 did not succeed first time. The department noted that there could have been a number of reasons – the taxpayer may, for example, have input invalid data or not filled in a box that needed to be completed. And there are a number of instances of taxpayers making numerous attempts – which distort the figures. But it is indicative nonetheless of early problems. Many of these have been resolved and performance has improved - although the proportion of successful attempts for first time submission had only reached 44 per cent on average between April and September 2001, it improved further to an average of 70 per cent for the quarter ending December 2001.

1 The Inland Revenue web site

The Inland Revenue web site is at www.inlandrevenue.gov.uk



Source: Inland Revenue



- 9 The public are concerned about the security of transactions made across the internet. The Inland Revenue has addressed this issue by building appropriate measures into their systems and by commissioning an external evaluation of the effectiveness of security measures for the Self Assessment internet service. The evaluation confirmed the system is secure.

Encouraging take up

- 10 The Inland Revenue sees its target of achieving a 50 per cent take up of e-services by the end of 2005 as a clear expression of its commitment. But the target is ambitious and, based on progress so far and experience elsewhere, is unlikely to be achieved.
- 11 The target was set at an early stage of the programme to cover all e-services and the Inland Revenue recognises that it has acted as a useful stimulus in developing initiatives to encourage take up. The department acknowledges, however, that the target is a formidable challenge and levels of take up to date vary between its different customer groups. Whilst the target might be achievable for some, such as large businesses, it is unlikely to be attained across all groups.
- 12 Whether or not the target is met, it remains important to encourage taxpayers to take up the Inland Revenue's e-services. A high take up is not only an indicator of a good quality e-service, but would enable the Inland Revenue and users to achieve considerable financial savings. A company's employee tax details sent or received via the electronic data interchange service each month, for example, improves accuracy by up to 50 per cent. The greater accuracy requires less administrative checking and fewer queries, saving time for the business organisation and the Inland Revenue. Experience elsewhere suggests that significant savings can be realised in successfully implementing e-services. Whilst it is difficult to predict confidently the savings achievable, the department estimates that when take up reaches 50 per cent across all activities, this might enable savings of some 1,300 posts. Where savings materialise, it is likely the Inland Revenue will seek to re-deploy staff into other areas of work.
- 13 The Inland Revenue has actively promoted public awareness of its e-services. Marketing of e-services in 2000-01 and 2001-02 cost some £4.4 million and focused on the internet service for Self Assessment. The majority of expenditure was on the television campaign where the Inland Revenue expected the advertisements not only to boost internet filing but also to remind people generally of the 30 September filing deadline. Other initiatives included internet and newspaper advertisements and leaflets sent with each Self Assessment form.
- 14 Take up of e-services has varied according to the services available.
- Business interest in the electronic data interchange service for Pay As You Earn tax returns has been high. Some 660 businesses have contacted the Inland Revenue to inquire about this new service and 49 of them, which because they include payroll bureaux represent 5,000 employers, now send tax data for 6 million employees electronically to the department each year. The main constraint on take up has been the need to deal with a large number of requests from companies, and the Inland Revenue has not been able to actively pursue larger companies that might not realise the service exists.
 - The take up of the internet service for Self Assessment, however, has been less encouraging. Some 39,000 taxpayers used the service for the tax year 1999-00 to submit returns by 5 April 2001, compared to a projection of 315,000. Compared with the projection for submission of 2000-01 tax returns by 5 April 2002 of 200,000, 50,125 people had completed their returns by 4 January 2002.

- 15** High take up of the Inland Revenue's e-services depends on taxpayers finding some clear benefit for themselves in dealing with the Inland Revenue in that way. There are already clear benefits to organisations able to send Pay As You Earn tax data to the Inland Revenue by electronic data interchange. The Carter Review¹, commissioned by the Chancellor of the Exchequer and published in November 2001, also noted the benefits of e-services for payroll and proposed that it should be mandatory for large employers. There are also some benefits for taxpayers using the Self Assessment internet service, in particular: an assurance that the return is arithmetically correct; convenience; confirmation that the return was received; and faster processing of any tax refunds. But taxpayers expect further added value from completing their tax returns electronically. Internet users typically look for a time saving - such as a simplified form or being able to rely on the department completing many of the questions from existing data on the taxpayer's behalf.
- 16** The Inland Revenue is actively addressing customer needs to encourage take up. The department appointed a Marketing Director from the private sector in January 2001 to develop a departmental strategy which will include initiatives to promote the internet service for Self Assessment. In Spring 2001, the department's Electronic Business Unit contacted those people who had successfully or unsuccessfully filed their tax return electronically by 5 April 2001 to seek their views of the service.
- 17** Take up of the internet service for Self Assessment will only improve significantly once on-line forms offer further added value to customers. The Inland Revenue is moving from its existing arrangements for taxpayers to file a tax return towards a 'portal' environment offering secure personalised services, such as the option for taxpayers to view their account as well as the facility to file a tax return electronically. It will take time and resources to re-design existing services. Simplification of the form would require legislative change and drawing on data stored elsewhere in the department to complete many of the questions on behalf of users would require new software to link existing computer systems. The Inland Revenue commissioned Ezgov Inc. in Summer 2001 to examine how to increase take up of the internet service for Self Assessment in 2002. Based on their findings a number of changes are planned to make the service easier to use and to validate entries before taxpayers submit the completed form to the Inland Revenue.

Improving and expanding the range of services available

- 18** The Inland Revenue has an ambitious programme to develop further e-services for customers. From early 2002, the Inland Revenue will begin a pilot exercise with 20 companies to allow them to check their account details on-line with a full launch later that year. The Inland Revenue is also looking to offer this service to Self Assessment customers at a later date. The success of the future programme rests largely on how the Inland Revenue manages the associated risks. Some risks, such as the scale and speed with which the public access the internet are outside the Inland Revenue's control. Other risks, such as the likely take up of e-services, can be addressed, to some degree, by the department.

¹ *'Review of Payroll Services', 2001 Pre-Budget Report by Patrick Carter*

- 19** E-services require a more customer orientated approach which will require changes in the way the Inland Revenue operates. The Inland Revenue set up an Electronic Business Unit in Spring 1999 to provide support to customers and the software industry, and to encourage intermediaries, such as the Consumers Association who provide a bespoke service for taxpayers that is compatible with the Inland Revenue's own e-services.
- 20** The Inland Revenue recognises that it will be difficult to achieve high take up simply by e-enabling existing tax return services. Radical changes to some processes will be required in order to provide services that users want and which offer added value, and this will require the Inland Revenue to identify exactly what a customer wants from a service. The Inland Revenue has adopted this approach by fully involving all stakeholders in the development of Corporation Tax e-services.
- 21** In order to remain at the forefront of the development of e-services in the public sector, the Inland Revenue recognises the need for effective and professional project management. Indeed, its existing processes and departmental methodologies already reflect many of the government wide recommendations from the McCartney report² on improving IT project management. Drawing on the good practices identified from this report, the Inland Revenue's experience and our discussions with other organisations, we identified five important factors particularly relevant to e-services:
- Clear and visible leadership from the top.
 - E projects need to be part of a wider business change.
 - Project risk analysis.
 - Skilled staff to develop and deliver each project effectively.
 - Monitoring the outcome of each project to learn lessons.
- 22** The Inland Revenue has adopted a number of good practices, such as build and learn, from the private sector on how to manage e-service projects and to minimise the risk of failure. The programme for the development of e-services has been broken down into over 40 projects and each product is tested before it is finalised. But deciding when a product is ready to be market tested is critical; too late and work may prove nugatory, too early and the organisation's reputation might suffer. The Inland Revenue encountered such difficulties in the first year of Self Assessment internet filing and have applied the lessons learnt to future projects such as the planned Corporation Tax e-service. Good practices we identified within the Inland Revenue included making sure key risks are addressed fully, progress is monitored closely and that potential problems are dealt with promptly.
- 23** The Inland Revenue, like overseas revenue authorities, has outsourced much of the work around the development of e-services. Inland Revenue staff manage each project and operate the service once it is available to the public. The Electronic Business Unit have successfully recruited and trained sufficient staff to date, and such efforts will continue to be a high priority in future as new services become available and take up increases. Most staff have been in post six months or less and the fast turnover has meant it is imperative that individuals are trained quickly.

² McCartney report: *Successful IT: Modernising Government in Action*, Cabinet Office, 2000

Recommendations

- 24** Based on progress so far and experience elsewhere, it is unlikely that the Inland Revenue's target to encourage 50 per cent take up of its electronic services by the end of 2005 will be met. The department needs to build on the progress made in developing e-services to provide a clear benefit to taxpayers to use such services in future. The Inland Revenue should:
- i Undertake a comprehensive programme of customer needs analyses to establish what individuals and businesses require from the department's e-services. The department has started such work for Corporation taxpayers and, to a lesser extent, for Self Assessment taxpayers.
 - ii Review the existing target of 50 per cent take up of e-services by December 2005. One overall target does not take account of the variations in customer interest and the range of possible financial savings across each e-service. A number of targets tailored to specific customer groups, such as businesses or individuals might be more appropriate.
 - iii Target short term efforts to improve take up of the electronic data interchange service for Pay As You Earn tax data because this offers clear added value to large businesses and efficiency savings to the department.
 - iv Continue to re-organise existing Inland Revenue e-services to reflect more closely customer demands. This might involve further development of customer facing areas, in accordance with the private sector good practices identified in paragraphs 3.10 to 3.13.
 - v Build on existing progress to refine the management and development of e-services along the lines of the good practices identified in Part 3. In particular:
 - Test products early.
 - Remedy issues arising and, if necessary, be prepared to stop development or withdraw the service from users.
 - Carry out timely project evaluations to learn lessons and disseminate good practice.
- 25** Many of the Inland Revenue's good practices identified in this report are applicable across Government. Other departments and agencies should seek to emulate the good practices in the following section.

Good practices applicable to other Government departments and agencies

Our examination of the Inland Revenue's e-services identified a number of good practices applicable to other Government departments and agencies. The good practices include:

- 1 E-services is a fast changing environment and it is important to be near the forefront of developments. This will involve taking well managed risks and might involve accepting that some projects will not be a success.

On encouraging take up

- 2 Encouraging take up is not straightforward and persuading the public to use a new service takes time. This means consulting the public and other key customers to identify: what they require from the e-service; what would encourage them to use it; their concerns; and, wherever possible and cost effective, to make sure the product meets them.
- 3 Each new service needs to offer additional benefits to persuade potential customers to use it. Benefits might include a more convenient and easy to use service, being able to complete a transaction more quickly, being able to rely on the e-service to pass relevant information on to other Government organisations, or a cash saving. Building on the research into customer views and needs, each e-service should offer appropriate benefits and these should be highlighted when marketing the service.

On improving the e-services available

- 4 The successful introduction of e-services requires changes in the way an organisation works as much as technological innovation. It is vital to have the commitment of all staff, especially senior managers, as well as suppliers and other key stakeholders. Anticipating and managing the cultural changes needed is essential.
- 5 The e-services programme needs to be flexible to accommodate new developments in the sector and to be responsive to customer demands. Development work for the programme should be broken down into a number of smaller projects that can be prioritised. Each project should be pilot tested at an early stage to gauge customer reactions and remedy any teething problems.
- 6 The e-services programme should differentiate more complex projects, such as those that might offer joined up transaction based services, from more straightforward projects, such as services that offer information only. More ground breaking projects might meet customer needs better, but will often involve changes to an organisation's 'back office' computer systems and, therefore, will take longer to develop.
- 7 It is important to have the right people with the right skills to develop and operate e-services and to provide appropriate help desk support. Existing staff might require training and support to handle the new systems. And it might be better to encourage private sector organisations to develop front end software for customers to use. Such an approach enables Government to continue to concentrate on improving its own core activities.
- 8 Marketing the product only when satisfied that it is working properly and meets customer needs. To do otherwise risks destroying confidence in the product which can take considerable time and effort to recover.
- 9 Regularly evaluating each project and monitoring customer reactions closely. Timely project evaluations ensure lessons are learned and disseminated. Build opportunities into each e-service for customers to provide feedback and act on the comments received.