

# Transforming the performance of HM Customs and Excise through electronic service delivery



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
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# executive summary

- 1 Customs are in the early stages of implementing a major IT-based change programme to improve services and efficiency. This e-business programme aims to transform Customs' main business areas to make service improvements, improve customer compliance and secure efficiency gains mainly through electronic service delivery. Some of the Department's older IT systems need replacing because the increased demands being placed on these systems are affecting their reliability.<sup>1</sup>
- 2 Customs expect to spend £48.5 million during 2003-04 on implementing the e-programme, mostly on existing systems which are critical to the continued operation of the business. They are already making use of new technology to deliver improvements in performance across the range of their law enforcement, tax and business service activities and have targets to offer 100 per cent of services electronically by 2005 and achieve a 50 per cent take-up by March 2006. These delivery targets are only the start, though, as the Department's e-programme is intended to produce step changes in performance and capability in the longer term.



- 3 Customs produced their first e-strategy in October 2000, which they updated in July 2001 to better reflect their aim to become a leading practitioner of modern e-enabled government.<sup>2</sup> Since then, Customs have developed an e-programme and are now developing new ways of working. They are committed to delivering services in a way that their customers want, encouraging high take-up of these services, and realising the efficiencies that Government should expect from its investment in new technology. Customs plan to publish a further updated e-strategy at the end of 2003. It is important now that the Department work on putting their aspirations into practice and realising the benefits.
- 4 Instead of buying separate IT systems to meet each new need, the Department are identifying the common features in each set of business needs and building new systems around these common features. Given the scale of the changes this is potentially high risk so they intend to implement the programme incrementally through a number of carefully planned stages. These plans are likely to need revision during the programme and to respond to new commitments and services.

<sup>1</sup> National Audit Office Standard Report 2001-02 in HM Customs and Excise Annual Report 2001-2002 (CM5671).

<sup>2</sup> See the C&AG's report "Government on the Web II" (HC 764 2001-2002) for a review of Customs' first and second e-business strategies.

- 5 Against this background we reviewed Customs' implementation of their e-programme, in particular:
- how e-technology can improve Customs' services (Part 1 of this report); and
  - Customs' progress in developing e-services (Part 2).
- 6 To assess Customs' progress and the extent to which e-technology can be used to improve services we reviewed the e-programme and carried out four case studies (the National Co-ordination Unit which provides improved intelligence sharing to support the detection and seizure of smuggled drugs, tobacco, hydrocarbon oils and alcohol; the New Export System; electronic VAT; and electronic Human Resources). We also compared Customs' overall approach to the implementation of e-technology with that adopted by the private sector and customs and tax administrations in other countries. We did this to test whether UK Customs' approach to delivering e-services is in line with other organisations and to draw wider lessons and assess Customs' progress in making use of new technology. In addition we commissioned PricewaterhouseCoopers to undertake some work on our behalf looking at the extent to which Customs have examined the vulnerability of the e-programme and e-services to fraud and the capacity and capability of the technology proposed under the e-programme to deliver the business needs the Department want. More detail on our methodology is provided in Appendix 1. Against this background we found that:

## How e-technology can improve Customs' services

- 7 The development of online services provides opportunities for Customs to tailor services to the needs of different groups such as small businesses or particular trade sectors. A lot of Customs' transactions are already completed electronically. Nearly 67 per cent of VAT revenue by value is received electronically, but 89 per cent of VAT payments by volume are still made by cheque. The significant number of transactions involved means that switching to electronic submission could generate significant improvements in processing times and costs.
- 8 The e-programme is at an early stage and it is therefore too early to assess its effect on service delivery. However, there are clear indications that the wider use of e-technology and new ways of working are likely to transform the Department's performance in their core business areas. For example, the Department can use integrated IT systems to consolidate the information they hold on traders. This should make updating information more efficient and timely, improve the accuracy of information, enable more sophisticated targeting of resources, and secure increased revenue and compliance.

## Progress in using new technology to deliver service improvements

- 9 The Department appear on course to make all their services available online by 2005. The target for 50 per cent take-up of services would mean that Customs have to run both paper-based and electronic systems. In order to maximise efficiency gains, they are aiming for a far higher take-up of e-services which would minimise the necessity of such dual operations. Customs have, however, recognised take-up of the electronic VAT service as high risk, and are developing strategies to encourage customer use. Some delays have already occurred with the e-programme. Now that changes have been made to the PFI IT infrastructure contract with Fujitsu and the programme can proceed, Customs recognise the importance of keeping to their revised timetable as slippage would inevitably delay the realisation of benefits for the Department, such as the additional revenue from improved compliance, and for their customers and put even more pressure on the Department's existing outdated IT systems.

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- 10 There have been several changes to the governance arrangements for the programme, including responsibilities and personnel, as Customs have sought to achieve the right balance between the centre and the business areas. But Customs have made good progress in getting their core business areas to accept the change programme and have set clear responsibilities for delivery. They have also gone a long way to ensure that they have assessed the necessary capacity - human and IT - to deliver the improvements in efficiency and services. Whilst those responsible for managing projects have some experience in this field, it is important that they receive appropriate support. The Department are building up the programme management competencies of their staff to manage major change programmes and to implement, use and market the new systems. They have taken advice from and drawn on the experience of the Office for Government Commerce (OGC) and private sector consultants. Our case studies have emphasised the value of OGC Gateway reviews as a means of providing assurance at key stages to help keep projects on course.
- 11 The Department are developing a take-up strategy to encourage greater use of e-services by specific groups, such as small businesses and their agents. Although UK industry's use of the internet is high, the use of online business transactions is still relatively limited, particularly among small and medium sized enterprises. Customs' research indicates that 48 per cent of their customers would be willing to transact with the Department electronically - the figure is higher for new businesses. Customs are planning to stratify their take up strategy for specific groups (such as new traders) and this may need to be reflected in their targets, for example, a higher percentage of larger firms may be expected to use the e-VAT service than smaller enterprises.
- 12 Getting firms to submit VAT returns online will be a major challenge, not least because paper-based returns are relatively cheap and easy to use. Customs' first attempt to offer an e-VAT return service was unsuccessful mainly because customers had to obtain a digital certificate and there was little incentive compared to the paper-based system. Customs have moved to the use of PIN numbers and passwords and are now seeking to get firms to submit VAT returns online voluntarily by developing a service which benefits firms and by targeting online services at particular groups, such as software and management consultancies. In their take-up strategy, Customs are exploring and developing new options, including the use of marketing, targeting, incentives and compulsion. The Inland Revenue, for example, have offered financial incentives for employers to file their end of year tax returns electronically.
- 13 The Department's IT infrastructure was taken over by ICL (now Fujitsu) from April 2000 under a PFI contract.<sup>3</sup> The total cost of the services provided for in the original ten-year contract was £500 million (with an estimated net present value of £398.2 million). At the outset, the Department recognised that further services would be necessary and the original contract provided a mechanism for procuring them at agreed prices. During the initial three years of the contract a series of additional services and contract changes were made which increased the overall value of the contract to £680 million. As the e-programme was developed, the need for further increases in scope was identified and the contract was again amended in 2003. As a result, the total cash cost of the contract rose to £929 million (giving a revised net present value of £631 million). The time needed to negotiate the changes and assess that value for money was maintained resulted in Customs' infrastructure operating at near full capacity during 2003 and delayed the launch of, for example, the new website and the pilot e-VAT service. It should be noted that concerns about entering into inflexible long-term deals in areas characterised by rapid technological change have led the Government to adopt a presumption against the use of

<sup>3</sup> The contract was awarded on 15 September 1999.



PFI in future IT projects.<sup>4</sup> The amendments to Customs' contract are intended to introduce further flexibility into the deal so that it can remain effective in such an environment.

- 14 Customs' progress in developing their website since the NAO report on "Government on the Web II" in April 2002 has been slow. They planned to introduce a new website in June 2003, but this has been postponed until November 2003 due to delays in agreeing the amendments to the new contract which in turn delayed the introduction of the new IT infrastructure. The Department are working hard to achieve the November deadline as any further delays would affect the launch of the e-VAT pilot service, which depends on the new website being in place. Electronic VAT will also be provided on a new Business.gov website ([www.businesslink.gov.uk](http://www.businesslink.gov.uk)). The Department's website is often the first point of contact for new customers. There are other points of contact, such as through Customs' VAT assurance officers who visit a proportion of registered traders each year, which provide opportunities to promote the use of e-VAT to traders.
- 15 Government policy is that "all departments should involve private and voluntary sector intermediaries for e-government services as part of their overall e-government strategy".<sup>5</sup> Take-up of e-services can be improved by using intermediaries such as software developers, banks and accountants, acting on customers' behalf, to submit returns electronically. This approach has been used abroad and by the Inland Revenue. Customs are working with the private sector to develop software packages which will integrate returns such as VAT into firms' accounting systems.

## Developing a clear plan of what improvements Customs expect from the e-programme

- 16 The Department's current e-business strategy was developed in July 2001 and is being updated to reflect new ways of operating within the Department. A new operating model has been developed by Customs with assistance from Accenture and shows all the business processes and capabilities which Customs need to operate. The independent review of the technological solution underpinning the e-programme, which the Department commissioned in 2002, will need updating to reflect this new model. The Department have produced a plan (the 'road map') for implementing the planned changes.
- 17 The Department have identified significant potential benefits in terms of increased revenue and efficiency gains from implementing the whole e-programme up to 2010. However, these benefits may not materialise if important elements such as the take-up of e-VAT returns fall short of the targets. Customs are developing a strategy to encourage the use of electronic VAT and are developing plans to secure benefits from this and other services. Specific priorities, detailed estimates and how benefits will be realised have yet to be established. Analysis of the outline business case revealed that more work is needed in validating the estimates and demonstrating how benefits will be realised and tracked. The Department plan to produce a revised outline business case in November 2003 and a full business case by the end of March 2004.

<sup>4</sup> HM Treasury (2003) PFI: Meeting the investment challenge.

<sup>5</sup> Office of the e-Envoy (May 2003) Policy Framework for a mixed economy in the supply of e-government services.

- 18 International comparisons and private sector practice suggest that Customs are developing services in line with their peers. Nonetheless, there are some big risks in a programme of this size and the Department need to consider how these can be mitigated. Customs have developed some short-term contingency plans, for example, to support the e-VAT pilot and the proposed new website, for slippage to the programme caused by the delays in agreeing a new infrastructure contract with Fujitsu. However, they must have contingency plans to deal with any breakdowns in services when new e-services go live to ensure continuity of service for customers. The case study of the New Export System also highlights the need to address the needs of all stakeholders, for example by understanding the impact that data has on decision making in other parts of government. The review of Customs and the Inland Revenue, chaired by Gus O'Donnell, may affect Customs' IT needs. The flexibility introduced into the infrastructure contract should enable the e-programme to respond to any changes resulting from the review.<sup>6</sup>
- 19 **On getting sufficient numbers of customers to use e-based services**, we therefore recommend that Customs should:

- **Develop and implement take-up strategies for their main online services by focusing on specific customer groups**, for example, by developing specific take-up targets for each main customer group. These should be regularly reviewed to ensure they remain effective in what is a fast changing environment. They could also make wider use of incentives to encourage take-up and consider making e-based returns compulsory for certain customer groups. Customs should continue to explore the use of intermediaries to deliver services. As take-up strategies are implemented they should include measures to assess their success in delivering improvements in efficiency and service quality.
- **Learn lessons from their initial electronic VAT returns service**, such as the importance of fully evaluating pilot tests to determine whether e-services offer sufficient benefits to encourage take-up and the costs to users of switching from paper-based to e-services.
- **Identify whether there are early 'quick wins' such as the National Co-ordination Unit to demonstrate to customers and staff the benefits of the e-programme**. This would help ensure that subsequent products are developed and implemented with reference to the experience of putting accessible, secure and well-used e-services into action. It would also help to encourage wider take-up of e-services.
- **Develop further the links with other government departments such as the Department of Trade and Industry and the Inland Revenue to identify common client groups and develop integrated electronic services**. The services that customers want are likely to come from various departments. Customs are, with the Office of the e-Envoy, leading on cross-departmental work on developing links with intermediaries across government and are in discussions with the private sector about the development of software packages to enable traders to submit VAT information without a return form. Customs need to ensure that their programme is scheduled to make the most of e-technology to deliver services across departmental boundaries. They need to identify opportunities to provide an integrated service and, where applicable, combine resources for common ends, for example in work to review customer preferences and in the delivery of services via a common portal such as Business.gov.



<sup>6</sup> On 2 July the Chancellor announced a major review of the organisations dealing with tax policy and administration. He asked Gus O'Donnell, Permanent Secretary to the Treasury, to chair the review and for work to be completed in time to announce initial conclusions and any next steps in this year's Pre-Budget Report.

20 On ensuring that the e-programme delivers the planned benefits, we recommend that Customs should:

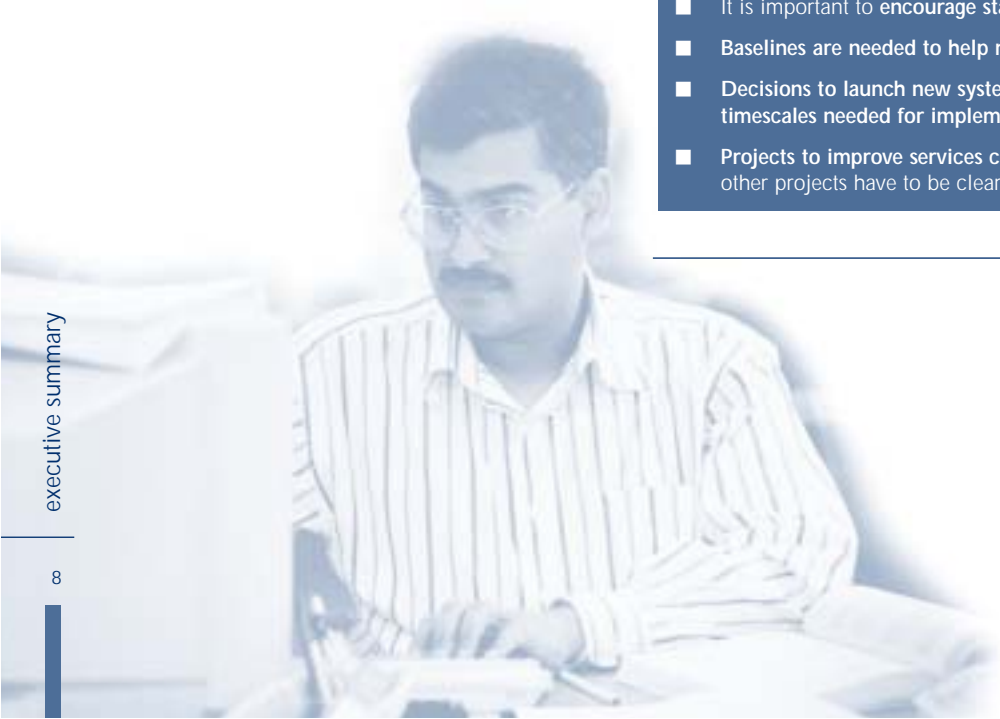
- **Finalise their plans before any further new electronic services are introduced.** This will involve updating their e-strategy, operating model and road map and setting the priorities for the e-programme to determine which systems and services need to be taken forward first.
- **Develop the business case to support the e-programme.** This should build on the work already started on understanding the implications of the programme for estates, human resources and procurement and include assignation of clear responsibilities for taking work forward in these areas.
- **Ensure they have systems in place to capture and assess information on benefits realised** such as improved performance and on the costs of the e-programme. On benefits realisation, the Department need to strengthen their analysis in this area using sensitivity analysis and regular monitoring and evaluation of benefits against time and cost to keep the programme on track.
- **Commission a further independent review to confirm that the technology aspects of the e-programme are fit for purpose** given the developments in the Department's plans and operating model since the initial review in August 2002.

## On the Department's approach to the e-programme

21 Customs should apply the lessons from our four case studies of previous business-change projects they have undertaken when implementing the e-programme (Figure 1).

### 1 Lessons learned to date from case studies of four of Customs' business-change projects

- **Thorough piloting and testing of IT projects before roll-out** and final procurement of software is a means of ensuring the proposed solutions match user needs.
- **New electronic services need to offer tangible benefits to encourage take-up.**
- **It is important to encourage staff to buy-in to the concept of e-business.**
- **Baselines are needed to help measure and monitor performance and benefits.**
- **Decisions to launch new systems should not be taken before the full cost and timescales needed for implementation have been properly assessed.**
- **Projects to improve services cannot be managed in isolation:** linkages with other projects have to be clearly mapped and managed.



22 We therefore recommend that Customs should:

- **Improve their internal control and management of the e-programme in three key areas:**
  - strengthening their internal quality management;
  - getting greater continuity for those responsible for taking forward the e-programme; and
  - developing a procurement strategy for consultants and IT suppliers to ensure that new e-services can be delivered as planned.
- **More generally, conduct regular reviews of progress at key stages of the e-programme** against the 'health check' criteria developed for the study (Appendix 3), for example, after the first six months of a new service being delivered.
- **Review the costs and benefits supporting the PFI IT infrastructure contract deal as they become firmer to confirm that the deal provides good value for money.** This assessment should take account of the sensitivity of the amount and timing of the cost and benefit streams from the e-programme. It should also draw on the enhanced information on IT system and supplier performance that the Department expect from the contract amendment agreed in August 2003.





23 Customs have made good progress in developing their thinking on how benefits will be realised; generating the management information needed to monitor the progress of the various parts of the e-programme; and in assessing customers' potential use of e-based services. The Department are looking at the vulnerability of the e-programme to fraud and the capacity and capability of the technology proposed. Our 'health check' of the e-programme showed that development of the business case and benefits realisation plans are the main areas which the Department need to address (Figure 2).

2 The Department are on track but some improvements are necessary

	Department have no major weaknesses	Basically sound and the Department are taking steps to address minor weaknesses	On track but with one major or some minor concerns about delivery	Some major areas still need to be addressed	Immediate action is needed to keep the programme on track
Approach	✓				
Programme management		✓			
Capacity			✓		
Contingency arrangements			✓		
Efficiency gains			✓		
Procurement			✓		
Take-up			✓		
Benefits realisation				✓	
Business case				✓	

Source: National Audit Office 'health check' of Customs' e-programme

24 We also identified a number of lessons from our examination of Customs' progress in developing e-services which have wider application across Government. These include the need to:

- secure buy-in to new strategies from business areas within the Department;
- develop supporting strategies for risk, contingency management, procurement, human resources and estates;
- develop the business model at the same time as the technical model;
- have a clear idea of the costs and benefits and when they are going to be delivered;
- ensure that mechanisms are in place to control and monitor the performance of consultants and IT suppliers; and
- implement change programmes in incremental steps and allow time to pilot new services before launching them.

