



National Audit Office

HM Revenue & Customs' transformation programme

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 930 Session 2007-2008 | 18 July 2008



SUMMARY

Introduction

1 HM Revenue & Customs (the Department) plans to spend £2.7 billion from 2006-07 to 2010-11 on a transformation programme. The purpose is to provide a more efficient, customer focused organisation, making it easier for taxpayers and claimants to fulfil their obligations and for the Department more effectively to detect and deal with wilful non-compliance and thereby reduce the tax gap. Figure 1 on page 9 summarises the main change programmes involved.

2 This report examines the Department's early implementation of the programme during its first 18 months. It covers:

- an introduction to the transformation programme (Part 1);
- progress in delivering the transformation programme (Part 2); and
- managing the transformation programme (Part 3).

Appendix 1 provides details of our methodology.

- 3** The transformation programme is highly ambitious. The Department expects to achieve benefits valued at £11.5 billion by 2011, giving a benefit: cost ratio of 4.3:1, with further benefits beyond that date.
- 4** The overall value for money of the transformation programme depends on how far the Department achieves the benefits of the transformation programme within the planned timescales and costs. By March 2008, eighteen months into the programme, it had spent £851 million compared with planned spending of £893 million. It achieved estimated benefits of £2.4 billion. These benefits were largely from programmes which were underway when the transformation programme began.
- 5** As a result of changes in funding during 2007-08 the Department took the decision to defer some major programmes and revise other programmes following detailed assessment of the priority of each programme and projects and their interdependencies. The changes in funding and the content of the programme delayed completion of the business cases for individual programmes and the implementation dates for a number of projects. The Department's risk monitoring indicated that seven of the major programmes at March 2008 had identified risks to the delivery of the planned benefits which the Department is managing.
- 6** The Department expects most of the benefits up to 2011 to come from increased tax yield (£6.3 billion) and from transaction savings to business and government (around £4.1 billion). These estimates carry a high degree of uncertainty because the Department has yet to assess customer benefits for some programmes and fully validate the £4 billion transaction savings expected from the Business.Gov programme. The estimates of additional tax yield assume that the extra yield identified will be collected in full. The estimates of additional tax yield also represent the net effect of cutting out activities to reduce staff numbers and introducing new ways of working to increase tax yield. Consequently they are potentially more volatile than the net figures suggest. In winter 2007 the Department deferred approval of the Compliance and Enforcement programme business case pending finalisation of its Departmental Strategic Objective target on increasing the levels of tax yield.
- 7** The Department has developed its systems and processes and enhanced its project and financial management skills to deliver the programme. It has a range of assurance processes in place. Gateway reviews of individual programmes have indicated that for most programmes the Department had developed governance processes, set out responsibilities for managing the projects and engaged with customers. But for some programmes the Department lacked implementation plans and milestones and needed to improve risk management and develop robust contingency plans. The Department has action in hand to address these issues.
- 8** The Department faces a changing customer base which has increasingly complex affairs and rising expectations of service quality and responsiveness. As many improvements for customers are largely scheduled for 2011 and beyond, the Department will need to manage their expectations in the short term. Stakeholders have also expressed a wish to see equal attention to improving current services as well as new services.
- 9** The Capability Review in 2007 concluded that it was not clear how the Department's various initiatives for the future are prioritised and fit together into a coherent programme. It recommended cutting back the number of change initiatives and developing a realistic programme with a clear critical path. In response, the Department has finalised its strategic framework and is developing a clearer plan to map out the steps it intends to take to transform the business by 2017. It has revised the transformation programme further, scaling back parts of the programme while aiming to ensure it can achieve its Departmental Strategic Objectives and its efficiency savings. It also plans to strengthen its leadership of change and gain better staff support for the changes underway. Finalising the component parts of the transformation programme is a critical step, particularly as the Department expects the funding available to peak in 2008-09 and reduce thereafter.

Recommendations

Our recommendations are aimed at helping the Department to manage the transformation programme and deliver its expected benefits reinforcing and enhancing the progress the Department has made to its processes for managing the programme.

Issue 1 – Realistic planning: *Delivering a large, complex portfolio of change programmes requires a realistic programme with a clear critical path. The Department has made progress in developing its systems and processes and enhanced its project and financial management skills to deliver the programme. It is still evolving its detailed plans for some of the component programme deliveries to align them with its model for how the Department will work in 2017. It should:*

- **Set out more clearly what the programmes can realistically achieve with the likely resources available by identifying through gap analysis the transformational steps yet to be taken and the affordability of these in the short, medium and long term.**
- **In the light of the above, determine how far those programmes contribute to the achievement of the Department's Strategic Objectives and target operating model for 2017.**
- **Establish a clearer list of priorities, including specifying elements in individual programmes that could be foregone or deferred if needed, to help quicker decision making.**

Issue 2 – Financial constraints: *The Department has amended or delayed many of the component programmes during the first 18 months as it estimated that less funding was available and priorities changed. Monitoring of programme expenditure is separated between the transformation programme office and the finance teams in the business areas. The Department should:*

- **Unify its monitoring of all spending on the programme across the Department.**
- **Refine its annual assessment of the progress the transformation programme has made. We have suggested a structured mechanism for this purpose using a basket of measures combining the Department's new objectives and targets when they are set and measures for improving efficiency and cultural change.**

Issue 3 – Benefits realisation: *The component programmes have a number of aims – to achieve staff reductions, to improve customer services, prevent harm to society and reduce the tax gap. The expected benefits*

from the transformation programme are significant but there is uncertainty over their scale and timing. The Department should:

- **Finalise and baseline the expected benefits to customers and validate them with customer groups to test that they are realistic.**
- **Use recent experience on programmes to date to test the realism of the assumptions about increased tax yield.**
- **Validate that the benefits achieved each year are robust and arise from the transformation programme initiatives.**

Issue 4 – Customers: *The Department has undertaken customer research and is using the results to develop the programme initiatives. The Department will need to manage the expectations of customers who expected to benefit more quickly from the changes. Customer needs will also change during the course of the programme. It should:*

- **Outline clearly to customers the improvements in services and standards it expects to provide and when, through its ongoing work on individual programmes and through its consultation on plans to establish a taxpayer's charter. Subject to consultation it should include in the charter, customers' rights and obligations and arrangements for redress.**
- **Use further 'horizon scanning' with customers, taxpayers and its IT supplier to identify how developments in business operations and technology would affect the change programmes and customer expectations. The analysis should include seeking more radical opportunities to improve services and efficiency.**

Issue 5 – Staff: *Changing the culture of the Department to become more customer-focused is an important part of the transformation programme. In any change programme staff satisfaction might be expected to decline and recent surveys indicate morale remains at a low ebb. The Department should more actively demonstrate the benefits to staff of the changes. The Department should:*

- **More actively sell the vision of the changed Department to staff.**
- **In addition to call centre training planned under several programmes, provide further training for other staff to help them adjust to new roles and responsibilities, including relationships with customers, and support them with appropriate IT in these tasks.**