National Audit Office

HM Revenue & Customs' transformation programme

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

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 850 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year: at least £9 for every £1 spent running the Office.

HM Revenue & Customs' transformation programme

LONDON: The Stationery Office
£13.90

Ordered by the
House of Commons
to be printed on 16 July 2008

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

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Tim Burr
Comptroller and Auditor General
National Audit Office

15 July 2008

The National Audit Office study team consisted of:

Jayna Hirani, Nick Lacy, Angie MacArthur, Harry Marin, Andy Morrison and Anna Ward, under the direction of Jane Wheeler

This report can be found on the National Audit Office web site at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

CONTENTS

Photographs courtesy of Alamy.com

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.**

PART ONE

Introduction to the transformation programme

HM Revenue & Customs and the Government's transformation programme

1.1 HM Revenue & Customs (the Department) was created in April 2005, by merging the Inland Revenue and HM Customs & Excise to improve customer service, efficiency and effectiveness in collecting tax due.

1.2 The 2005 "Transformational Government Strategy" set out a stronger focus across government on the delivery of public services, making them more responsive to the needs of citizens and businesses. The Department's response includes a range of measures to improve its customer services.[1]

1.3 In common with other departments, HM Revenue & Customs underwent a Capability Review in late 2007 which identified strengths and weaknesses in its leadership, strategy and delivery and recommended action to improve its skills, productivity and flexibility to meet rising public expectations.

HM Revenue & Customs' responsibilities

1.4 The Department administers the majority of the UK's taxes, national insurance contributions, European Union customs requirements, tax credits, Child Benefit and the Child Trust Fund. It enforces the national minimum wage and administers the recovery of student loans. Until the UK Border Agency was founded on 1 April 2008, HM Revenue & Customs was responsible for protecting the UK's borders against illicit and harmful trade, including the illegal import or export of drugs, counterfeit and illicit alcohol and tobacco and other goods. In 2007-08, it collected £457 billion in tax revenue and paid £30.4 billion in tax credits, child benefits and Child Trust Fund endowments.

1.5 In 2007-08, the Department cost £4.3 billion to run, employing 86,000 staff and using over 250 major information technology systems. Almost every UK individual and business is a direct customer of HM Revenue & Customs. The Department has over 30 million individual customers and 4 million business customers.

1 HM Government: Service Transformation Agreement October 2007 page 44 – HMRC.

1.6 HM Revenue & Customs' Departmental Strategic Objectives include improving: the extent to which individuals and businesses pay the tax due (reducing the tax gap) and receive the credits and payments to which they are entitled; improving customers' experiences of the Department; and reducing the risk of illicit import and export of material that might harm the UK. At the time of the merger the Government set the Department a target to reduce staff numbers by 12,500 posts, redeploy a further 3,500 staff and make a total annual efficiency saving of £507 million by March 2008.[2] The Department has a further target to make efficiency savings of five per cent a year in real terms from 2008-09 to 2010-2011.

The transformation programme

1.7 The aims of the transformation programme refined in February 2008[3] are to create a customer-focused organisation that transforms the customer experience, making it easier for the customer and HMRC to fulfil their obligations[4], and by doing so:

- improve effective management of revenue flows; and
- reduce running costs of the Department by improving management of processes and assets and getting the best out of people.

1.8 The Department plans to spend £2.7 billion from 2006-07 to 2010-11 on this programme to achieve benefits valued at £11.5 billion by 2011. Benefits include administrative savings, additional tax yield and transaction savings for customers.

1.9 The transformation programme is a large portfolio of change programmes spanning the Department. These include programmes which:

- started before the merger such as the drive to increase online filing of tax returns;
- arise from the merger and Spending Review commitments to reduce staff numbers and improve efficiency;
- arise from commitments to reduce the tax gap; and
- carry the badge of transformation but are more about routine business improvement **(Figure 1)**.

2 HM Revenue & Customs Departmental Report 2007 May 2007 (Cm7107).
3 HM Revenue & Customs' Value for Money Delivery Agreement February 2008.
4 HM Revenue & Customs Five Year Plan August 2006.

1 The main change programmes as at March 2008

Programme and summary of main outputs	Expected Benefits (2006-2011)[3] £m	Planned Expenditure (2006-2011)[1] £m
Business.Gov to develop a single government website for business by 2011.	4,284	126
Compliance and enforcement to reduce staff and achieve reductions in the tax gap by targeting responses to different customer groups.	5,398	354
Construction industry scheme to introduce a verification service, replacing the need for cards and certificates and; a new monthly return supported by an employment status declaration, rather than vouchers.	549	41
Customs service transformation to enhance import and export procedure controls, strengthening UK frontiers while complying with EU and national legislation.	1	111
Debt management and banking to recognise customers' total liabilities and entitlements; facilitate flexible methods of payment; streamline processes; and improve management information.	217	29
Enterprise infrastructure foundation to deliver improved service and efficiency levels from IT services at reduced costs, for example customer contact will be supported by an enhanced telephone system and improved computer desktops.	28	112
Estates consolidation to streamline office locations while meeting the needs of customers and operational requirements.	168	131
Estates transformation to deliver customer-focused and cost efficient services via a single Estates and Facilities Management contact point measuring performance against agreed service standards.	79	19
Expanding online services to deliver robust, reliable and customer-focused services, with the aspiration that all returns from businesses and IT literate individuals will be filed online by 2012.	91	341
Government Banking Agency to deliver the future banking needs of the Department, the Office of HM Paymaster General, and National Savings & Investments through a shared service provider.	3	37
Pacesetter to streamline processes by increasing management capability and implementing Lean techniques to deliver continuous improvement.	175	51
Pensions simplification into a single online service to make life easier for employers and savers for retirement alike.	44	19
PAYE a new national view of employee data, underpinned by streamlined processes and increased automation.	93	140
Security to improve data security	0[2]	155[2]
Tax credits to improve customers' experience by targeting higher engagement for those who need it while lowering the burden on customers who require little or no assistance.[4]	386	48
Workforce change to ensure staff with the right skills are in the right location and to enable the reduction of the Department's estate.	0	209
Other around 30 smaller programmes including Data Quality, Customer Understanding and Interactions.	25	416
Programme overheads, ASPIRE changes and IT service line costs	–	319
Overall programme	11,541	2,658

Source: HM Revenue & Customs

NOTES

1 The £2.7 billion planned expenditure includes £406 million of operational directorates' staff time and other costs in developing the programmes.

2 Data security programme benefits and business costs to be assessed by the Department.

3 The Department has estimated the Net Present Value for 12 of the major programmes up to 2017. This includes benefits arising after 2011. All have a positive Net Present Value (paragraph 2.27 refers).

4 C&AG's Report on HM Revenue and Customs 2007-08 Accounts, HC 674.

PART TWO

Progress on delivering the transformation programme

This part sets out the rationale for the transformation programme, and examines progress to date in delivery against time and costs and in realising expected benefits.

Why a transformation programme is needed

2.1 The Department launched the transformation programme in 2006 as the means of bringing about the improved customer service, effectiveness and efficiency anticipated from the merger of its predecessor departments. These aims are reflected in the objectives and efficiency targets the Department is expected to achieve by 2011 following the 2007 Comprehensive Spending Review.

2.2 In developing the transformation programme the Department has brought together various programmes that were already underway, for example in developing online services. It includes new programmes such as compliance and enforcement to achieve reductions in the tax gap, business.gov to develop a single government website for business, and various programmes to streamline tax administration and reduce the costs and improve supporting functions (Figure 1). The Department plans to spend £2.7 billion from 2006-07 to 2010-11 on the transformation programme and aims to achieve benefits valued at £11.5 billion by 2011. The Department has yet to determine expenditure and benefits beyond 2011. Benefits include additional tax yield, reduced transaction costs for customers and administrative savings. Appendix 3 provides further details on four of the major programmes we examined.

2.3 The Review of the Revenue Departments recommended the creation of a new single Department, structured as far as possible around customers and functions rather than taxes.[5] HM Revenue & Customs' customer focus strategy is central to the delivery of its business objectives. By designing and delivering products and services that meet customers' needs and addressing factors that affect customer behaviour, the Department aims to improve its efficiency and effectiveness and increase compliance. Following on from its efficiency savings targets for 2005-2008, the Department has a target to make efficiency savings of five per cent a year in real terms from 2008-09 to 2010-2011 resulting in annual savings of £673 million by March 2011.[6]

Progress against early milestones

2.4 The Department developed in 2006 a five year high level plan for the first part of its service transformation. In 2008 it developed a model for how it expects to operate in 2017 known as the target operating model.

2.5 The Department expected that in the first year of the programme it would develop the business cases for each change programme and translate these into detailed plans to deliver the expected benefits. It planned to start work on new programmes and progress work on inherited programmes which were already underway when the transformation programme started.

5 HM Treasury, *Financing Britain's Future – Review of the Revenue Departments*, Cm 6163, Para 1.24.
6 2007 Pre-Budget Report and Comprehensive Spending Review (Box 3.2).

2.6 The Department developed and approved the outline business cases for the individual programmes by February 2007 as planned. It initially aimed to approve the full business cases by May 2007. Approval of the full business cases was delayed because of changes to the funding and content of the transformation programme (see paragraphs 2.9 to 2.16). The Department subsequently approved full business cases for 10 of the major programmes by January 2008. The remaining three programmes are due to be finalised and approved during Summer 2008. A timeline showing the development and changes in the programme is at Appendix 2.

2.7 During the first 18 months of the programme the Department completed one major programme and it also completed phases of other projects and programmes. The Pensions Simplification programme was completed in 2007 at a total cost of £76 million (including running costs to 2011), compared to an original budget in June 2005 of £68 million. The additional £8 million cost was because the Department's IT supplier was unable to deliver the full functionality of the system planned in April 2006 and 2007. The service enables the pension industry to file information on line and view pension scheme records.

2.8 As a result of changes to the overall programme, the Department has deferred the proposed implementation dates of a number of projects in the change programmes on Compliance & Enforcement, Enterprise Infrastructure, Government Banking and PAYE. According to the Department's risk monitoring, seven of the major programmes at March 2008 had issues requiring attention to ensure delivery of the benefits within the planned timescales set out in the business cases. These risks were being reported to the Department's senior management and were being managed by the programme teams.

Changes in the funding and content of the transformation programme

2.9 In developing its high level plan in 2006, the Department estimated that the overall funding available for the transformation programme would be £2.8 billion, with a potential further £300 million funding available from the Treasury's Modernisation Fund.

2.10 In March 2007 the Department appraised its overall financial position and found that it faced funding constraints. The Department considers that the funding constraints arose because it received the same level of cash funding as in 2006-07 and needed to absorb the costs of the merger and new policy initiatives and inflationary pressures. The funding available was also dependent on the Department delivering savings from staff reductions and drawing on the Modernisation Fund. While it was on course to meet its Departmental target for reducing staff numbers, most of the staff reductions were 'leavers' related to lower paid staff so realisable cash savings were less than planned. It had also incurred higher than planned spending on pay increases and early release schemes.

2.11 As a result the Department concluded the funding available for the transformation programme would be around £2.1 billion[7] to 2011. The reduction in funding reduced the Department's capacity to deliver all the planned change programmes in their initially planned timescales. In March 2007 it reviewed the programmes to reduce the scope of the transformation programme and the number of the main change programmes from 21 to 13. It prioritised the programmes on the basis of the Department's existing commitments, the scale of investment already made and the requirement to reduce staff numbers. It also took account of whether each programme was important in enabling other priority programmes to be delivered.

2.12 In consolidating the programmes some elements of the change programmes were revised. Some other elements were postponed, including plans to improve services and to restructure records and processes around the customer rather than by tax, and planned improvements to management information systems.

2.13 The Department also modified its change programmes in response to consultation, to mitigate the risk that IT systems would not be ready in time and increase the time available for stakeholders to prepare for changes to services. For example as a result of stakeholder consultation the programme for expanding online filing of business tax returns (the Carter Programme – Appendix 3) will be now be introduced in phases (PAYE from 2009, VAT from 2010 and Corporation Tax from 2011).

7 This includes some £200 million for the running costs of new services.

2.14 In December 2007 the Department further revised its plans for the transformation programme. The Department prioritised the programmes by classifying the programmes into four categories – those which were unavoidable due to firm legislative and spending review commitments, prioritised interventions, potentially desirable but unaffordable and those which were impractical. It added a data security programme following the loss of Child Benefit data[8], and programmes responding to the Capability Review (paragraph 3.2 refers). From 2008-09, the Department brought within the transformation programme governance and monitoring arrangements other change programmes such as workforce change to equip staff to meet the changes in working practices. The scope of the other programmes such as Debt Management and Banking was reduced to keep within the funding allocation (Figure 1).

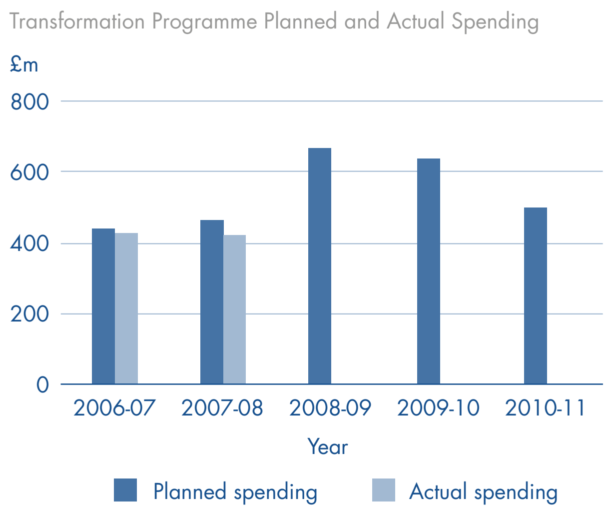
2.15 The overall planned cost of the programme up to 2011, derived from individual programme business cases as at March 2008 was £2.7 billion. £2.0 billion is to be funded from the transformation programme's budget. The Department expects that operational directorates will separately fund from their business as usual budgets an estimated £406 million for staff time and operational costs. The Department has also allocated £319 million for programme overheads and IT service line costs involved in implementing the programme.

2.16 Going forward, the Department will determine the funding for the programme annually taking account of its wider financial position, which may lead to further changes in the content of the programme, and the timing of planned deliveries. If changes are required the Department plans to manage these by re-negotiating or challenging supplier prices; reducing what is being delivered; or rescheduling the work to another year while working to maximise the delivery of benefits. If changes have a significant impact on a programme, the Department would revise the business case, recalculating costs and benefits.

Progress against cost budgets

2.17 Planned spending on the programme varies over the five years to 2011, ranging from £422 million in 2007-08 to £670 million in 2008-09 **(Figure 2)**. While the Department reduced the funding for the programme partly because of expected pressures on 2007-08 budgets, in practice the Department under spent its total budget by £113 million and its transformation programme budget by £42 million in 2007-08. By March 2008 (18 months into the transformation programme) the Department had spent some £851 million, 32 per cent of the £2.7 billion planned spending. Some £7 million was spent on projects which are not going forward currently, mainly relating to planned improvements for customers.

2 Planned and actual spending on the programme 2006-07 to 2010-11



Source: National Audit Office analysis of HM Revenue & Customs data

NOTE

The cost forecasts are based on the transformation programme Business Case costs and benefits summary as at March 2008.

8 The Final Report by Kieren Poynter on *Review of information security at HM Revenue and Customs* was published in June 2008.

2.18 **Figure 3** shows the spending to date on programmes alongside total planned spending. Most of the £851 million has been spent on planned releases of the Construction Industry Scheme (£41 million), further phases of the modernisation of PAYE systems (£91 million), progress on the Compliance and Enforcement programme (£131 million), work to expand online services (£108 million) and 14 smaller projects (£10 million). The Department has also spent some £19 million completing the Pensions Simplification programme (para 2.7 refers).

3 Spending to date against total planned spending for each programme

	Total spending in 2006-07 and 2007-08	Total planned spending £million
Business.Gov	21.0	126
Compliance and enforcement	131.2	354
Construction Industry scheme	40.8	41
Customs Service Transformation	18.9	111
Debt Management and Banking	21.1	29
Enterprise Infrastructure Foundation	27.5	112
Estates Consolidation	45.3	131
Estates Transformation	2.7	19
Expanding Online Services	107.7	341
Government Banking	13.6	37
Pacesetter	30.3	51
Pensions Simplification	19.1	19
PAYE	90.8	140
Security	0	155
Tax Credits	9.9	48
Workforce Change	0	209
Other (14 smaller projects)	205.0	416
Overheads and service charges	65.2	319
Total	**851.1**	**2658**

Source: National Audit Office analysis of HM Revenue and Customs data

NOTE

Budget and spending includes operational costs to develop services such as staff costs and planning spending to 2011 based on programme business cases.

2.19 In common with many business change programmes, the Department's programme involves a substantial investment in IT. Many of the benefits arising from the component programmes depend on the introduction of new and improved IT systems and e-based services. Around 65 per cent (£552 million) of the expenditure on the programme in 2006-07 and 2007-08 was on IT services, consultancy and software.

2.20 The Department has a contract[9] (ASPIRE) with Capgemini for the provision of IT services. The Department and Capgemini revised the ASPIRE contract in November 2007 to reduce running costs in exchange for a contract extension. The revisions were designed to meet the Department's internal target to cut its IT running costs by 10 per cent by 2010-11, as part of its drive to achieve its wider efficiency savings targets. The contract has been extended by a further three years to 2017: the original contract provided for an extension of up to eight years. Under the revised ASPIRE contract Capgemini has agreed to provide the Department guaranteed savings of £658 million by the end of the extended contract term. The Department has secured the above agreement without providing any volume or revenue guarantees to Capgemini and the changes do not affect the existing mechanisms to secure value for money (including price benchmarking and market testing), nor its right to non-exclusivity in terms of tendering for IT services outside the ASPIRE contract. The Department retains the ability to terminate the contract for poor performance.

9 *HM Revenue & Customs ASPIRE- the re-competition of outsourced IT services*, NAO Report HC 938 Session 2005-06, July 2006 and Report by the Committee of Pubic Accounts Twenty-eighth Report of Session 2006-07, HC 179, June 2007.

Progress in realising the early benefits of the transformation programme

2.21 The Department expects to achieve benefits from the transformation programme of around £11.5 billion by 2011, an estimated overall benefit to cost ratio of 4.3:1 up to 2011. The Department estimates the ratio could increase to 10.5:1 by 2016. The Department intends to review these ratios once it has completed further work to quantify and verify customer benefits. The expected benefits come from:

- **increased tax yield of some £6 billion over the five years to 2010-11** through improved targeting of the Department's compliance activities on key risks and customers, tightening up existing processes and systems and tailoring responses to customer groups to increase compliance;
- **staff savings of around £600 million over the five years to 2010-11** from a net reduction of 18,000 staff;
- **other administrative savings of some £500 million over the five years to 2010-11**, for example from savings through reducing the estate by up to 40 per cent[10], and reducing paper outputs, postage, and storage requirements;
- **savings and benefits to businesses and government of some £4 billion over the five years to 2011** by converging government-to-business material including around half of all transactions from around 150 government websites on businesslink.gov.uk; and
- **reductions in the administrative burdens on business in dealing with the tax system**, amounting to £150 million.

Most of the benefits above are expected to arise in 2009-10 and 2010-11. **Figure 4** shows the five year profile of benefits in terms of increased tax yield, savings from staff reductions, other administrative savings and transaction savings to customers.

2.22 The Department had achieved estimated benefits of £2.4 billion as at March 2008. The estimated benefits comprised some £1.5 billion in additional yield, an estimated £231 million in savings from reductions in staff and £86 million in reductions in administrative burdens on businesses, and £600m in benefits to businesses from Business.Gov, and £14 million in non-staff savings. The Department is in the process of validating the actual benefits achieved. The benefits in 2006-07 and 2007-08 largely come from programmes and projects that were underway at the start of the transformation programme.

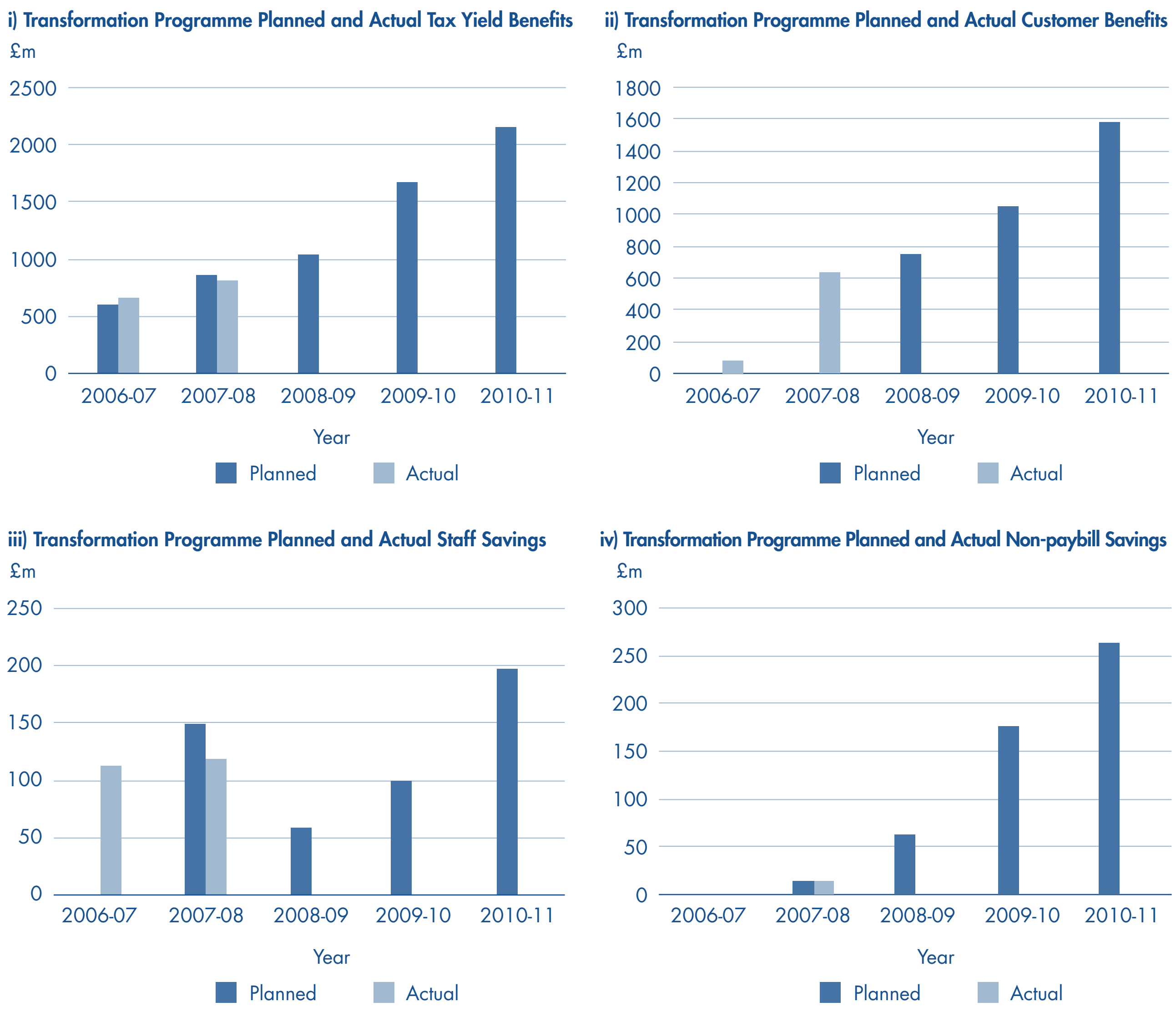
2.23 The Compliance and Enforcement programme (Appendix 3) achieved estimated additional tax yield of around £1.4 billion in 2006-07 and 2007-08, broadly in line with expected benefits at that stage of the programme. This included additional tax yield of £400 million in voluntary payments from its Offshore Accounts Scheme which encouraged taxpayers to declare any unpaid tax on interest earned from money held offshore. Our report on Tackling the Hidden Economy in April 2008 examined the success of this scheme.[11] It also included £80 million in additional tax yield following the development of a data matching tool to link databases to identify underpayments, for example by comparing Corporation Tax and Self Assessment returns. It also includes £750 million from better data to improve the targeting of the Department's Corporation Tax compliance work but the benefits are less than the original target (£1664 million) and some arise from changes in economic activity.[12] The Construction Industry Scheme (Appendix 3) achieved estimated additional tax yield of £110 million in 2007-08 through increased levels of compliance in line with the business case approved in 2006.

2.24 The Department achieved staff savings of £231 million in 2006-07 and 2007-08 from the transformation programme. The savings contributed to the Department's overall target to reduce staff numbers by 12,500 posts by March 2008. The Department initially expected the average saving from staff reductions to be £29,500 (the average salary at the Department). Most of the staff reductions of 8,243 full time equivalent staff have been from lower paid staff and the Department has had to reduce its staff by more than the target number to meet its cash savings target for 2007-08. The Department has subsequently revised its estimate of average staff savings down to £27,500 per employee.

2.25 On benefits to customers, the Department estimated that in March 2008 it had achieved £600 million in time and costs savings to businesses from developing the government website for businesses. It also estimated that it had achieved reductions in the administrative burdens[13] on compliant businesses of £43 million in 2006-07 in dealing with the Department's forms for the simplified pensions regime, and £43 million in dealing with audits and inspections as a result of the reformed Construction Industry Scheme launched in April 2007.[14] The scheme involves a new online monthly return for contractors supported by a new IT system with electronic and telephone contact centres.

10 *HM Revenue & Customs Autumn Performance Report 2007*.
11 NAO report *HM Revenue & Customs Tackling the hidden economy*, HC 341 2007-08 April 2008.
12 NAO Report *Fourth Validation Compendium Report: Volume 2* (HC22-II 2007-08) 19 December 2007.
13 *Departmental Service Transformation Plans – Service transformation agreement* HMRC 2007.
14 *Departmental Spring Report 2007* Section 2.1.

4 Five year profile of planned and actual benefits in terms of increased tax yield, transaction savings to customers savings from staff reductions, and other administrative savings



Source: National Audit Office analysis of HM Revenue & Customs' data

NOTES

1 The benefits forecasts are based on the transformation programme Business Cases benefits summary as at March 2008.

2 The Department did not set targets for staff savings and non-paybill savings in 2006-07 because the transformation programme started in October 2007, half way through the year. The Department did not quantify expected customer benefits for 2006-07 and 2007-08. It has yet to verify the actual customer benefits and staff savings achieved in 2007-08.

3 893 staff savings planned for 2007-08 were actually realised in 2006-07.

The robustness of the benefit estimates

2.26 The transformation programme has an estimated overall benefit to cost ratio of 4.3:1 up to 2011. Further benefits are expected to arise after 2011. The Department is continuing to refine its business cases and revise the estimated benefits following reductions in the funding for some programmes, including Compliance and Enforcement, Enterprise Infrastructure Foundation, and Debt Management and Banking, so planned costs, timescales, and benefits remain uncertain. The current estimates also carry a high degree of uncertainty, particularly in terms of the level and timing of additional tax yield and savings to business. The Department estimates the transaction savings from the Business.Gov programme to develop a single government website for businesses at £4.1 billion for business and £240 million for government giving a ratio of 34:1. These estimates have yet to be agreed with other departments. The overall benefit to cost ratio for the remainder of the transformation programme is 3:1 up to 2011.

2.27 Most programmes have a benefit to cost ratio of less than 1 over the first five years of the programme. The Department has also estimated the Net Present Value for 12 of the major programmes up to 2017. All have a positive Net Present Value indicating that in the longer term the benefits of each programme are expected to exceed their costs in real terms.

2.28 We reviewed the benefits model for the Compliance and Enforcement programme. The benefits model is designed to forecast the effect of programme initiatives which when implemented make staff more effective in collecting tax yield when staff levels are reducing. The Department estimates that its spending of £354 million on the programme will increase tax settlements by £5.3 billion over four years, giving a return of 15:1, although the Department recognise they could range from £4.3 billion to £6.4 billion. The model however does not estimate how many settlements will result in actual cash collected from taxpayers so the increase in tax collected could be lower. Similarly it does not allow for changes in economic conditions which could increase or decrease the amount of tax collected. The Department considers it is unnecessary to factor assumptions about economic changes into business cases. It takes account of wider economic conditions in the setting of targets for its Departmental Strategic Objectives which cover tax yield and if these change it would re-assess the expected benefits from the programme.

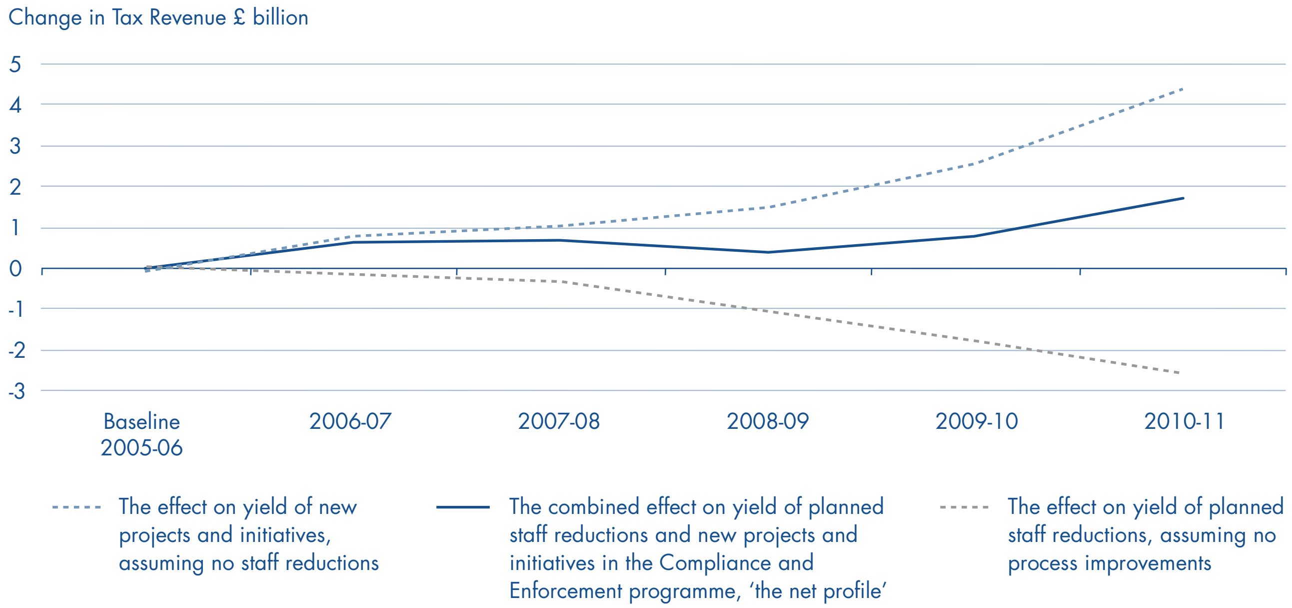
2.29 To keep within its budget, the Department is making staff reductions across all its business areas. Many of these business areas also have change programmes. In calculating the benefits arising from staff reductions the Department estimates the numbers and likely costs saved. The wider effects of those reductions are taken into account in individual programmes. For example the Compliance and Enforcement programme reflects the effect of lower tax yields as a result of lower activity alongside increases in yield from new projects and initiatives. The benefit to cost profile of the programme represents the net effect of combining two separate profiles for the staff reductions and the change programme. This is illustrated in **Figure 5**.

2.30 The Department assesses the risks in securing additional tax yield from the new initiatives. It also assesses the risks associated with reductions in staff and the impact that has on tax yield. The Department estimates that the administrative savings from staff reductions on the Compliance and Enforcement Programme will total £109 million to 2011. Figure 5 shows the Department expects the net effect of the staff savings and change programme to be £1.7 billion a year in additional yield by 2011. This reflects the combined effect of an assumed reduction in yield of just under £3 billion from staff reductions alongside an assumed increase in yield of over £4 billion from improvements in processes. It would not have been possible to pursue the option of increasing yield without making staff reductions given its need to meet its efficiency savings target. The Department in winter 2007 deferred approval of the Compliance and Enforcement business case as it was finalising the Departmental Strategic Objective target on increasing tax yield.

2.31 As a result the benefit to cost profile for the programme is potentially much more volatile than would appear from undertaking sensitivity analysis on the net profile. Varying the assumptions in each profile by +/-10 per cent would increase or decrease the yield by £0.69 billion a year by 2011, whereas a +/- 10 per cent change on the net profile would increase or decrease the yield by £0.17 billion a year by 2011.

5 The effects on tax yield from staff reductions and the Compliance and Enforcement change programme

The estimated impact on tax yield from the Compliance and Enforcement Programme



Source: National Audit Office analysis of HM Revenue & Customs' data

PART THREE

Managing the transformation programme

3.1 This part considers how the Department is equipped to deliver the transformation programme and how it is addressing the expectations of its customers. It reflects our review of the experience of other organisations in carrying out major change programmes (Appendix 4), a health check we conducted on the Department's development of systems and processes to support the transformation programme (Appendix 5), and consultations with stakeholders. It also draws on the results of the Department's Capability Review which was completed in December 2007.[15] Appendix 1 provides further detail on the methodologies used.

The results of the Department's Capability Review

3.2 The Capability Review examined the Department's capability for the future in three key areas; Leadership, Strategy, and Delivery. The review found the Department has many committed staff with high levels of professional competence, has met some stretching targets and shown an increased willingness to engage with its stakeholders. It also identified a number of areas which require development to secure effective delivery **(Figure 6)**. While the review considered the Department's business as a whole, the findings are relevant to the transformation programme given its significance to the future of the Department.

The Department's leadership and strategy to deliver the transformation programme

3.3 The Capability Review found that while staff's awareness of the Department's vision had increased, there was a need for the senior leadership to articulate what the vision meant for all business areas, what the Department would look like in five year's time, from a customer and an operating perspective, and how it intends to get there. Senior leadership should inject greater pace into decision making, particularly on the transformation programme. Customer focus was a significant element of the vision but had not yet been translated into something that was fully understood and embraced throughout the Department and by stakeholders. While some improvements had been made in strategic planning, the process was complex and still untested, and there was at that time no clear, coherent and achievable strategy linked to the future vision.

3.4 The Review also found that the Department had focused effectively on the core outcome of delivering revenue, but it was not clear how the Department's various initiatives for the future were prioritised and fitted together into a coherent and realistic programme. The Review recommended that the Department should be ruthless in cutting back the number of change initiatives and those that remained should be brought together into a realistic programme with a clear critical path. It considered that the Department should also take the opportunity to present Ministers with more radical options to transform the business.

15 Transformation Government Implementation Plan, Cabinet Office March 2006.

6 Findings of the Capability Review

HM Revenue & Customs – Assessment of capability for future delivery

Leadership	
Set Direction	Urgent development area
Ignite passion, pace, and drive	Urgent development area
Take responsibility for leading and delivering change	Development area
Build capability	Development area
Strategy	
Focus on outcomes	Development area
Base choices on evidence	Urgent development area
Build common purpose	Well placed
Delivery	
Plan, resource and prioritise	Well placed
Develop clear roles, responsibilities, and business model(s)	Urgent development area
Manage performance	Development Area

Source: The Capability Review of HM Revenue & Customs December 2007

NOTE

Assessment categories

Strong – good capability in place for future delivery.

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

Development area – capable of addressing some significant weaknesses, more action required to close gaps and deliver improvement in medium term.

Urgent development area – significant weaknesses in capability require urgent action, not well placed to address weaknesses and needs significant action to secure effective delivery and not well placed to deliver improvement in the medium term.

Serious concerns – serious concerns about current capability.

3.5 The Cabinet Office noted in April 2008 that the Department had made a good start in responding to the key areas for action identified by the review team. Specifically the Department has:

- brought together responsibility for managing change programmes and improving business performance through the appointment of a Chief Operating Officer;
- introduced a revised organisational structure[16] to clarify accountabilities at senior levels in the Department;
- launched a programme to explain to staff and its stakeholders what continuous improvement and being customer-focused means in practice;
- completed its Strategic Framework in March 2008 to aid decisions on what changes to focus on and to help communicate the changes to the Department's staff and customers; and
- prioritised the programmes using the categories outlined in paragraph 1.14 and scaled back some of the programmes.

It also plans to:

- create a single HM Revenue & Customs' plan by Summer 2008 to map out the steps to transform its business, which will be used to report progress to staff and stakeholders; and
- simplify its business planning process by September 2008 and ensure that 2009-10 business unit plans include only activities that are in line with its strategic direction.

3.6 The Department approved its Strategic Framework and Target Operating models in March 2008 which cover the Department's Strategic Objectives and set out the look and feel of the Department by 2017. The Department is in the process of developing a Roadmap to show how the component programmes contribute to achievement of these plans. The Department intends to review this on a regular basis, and identify gaps to inform future investment priorities. It also proposes to form a strategic planning group in 2008 to determine strategic investment options which will feed into the ongoing business planning process.

16 The revised operating model.

3.7 Our review of other organisations which have undergone change (Appendix 4) emphasised the importance of empowering staff to influence the change, and the role of senior management in 'championing' the changes. In most change programmes there is an initial fall in staff morale as changes impact on the day to day work. This is evident in the recent surveys of the Department's staff which the Department has run twice a year to canvass staff perceptions.[17] These showed reducing levels of satisfaction on leadership and change management, which are below the Civil Service benchmarks **(Figure 7)**.[18] The Department is increasing the level of staff consultation with senior management. There are some areas of improvement. In the November 2007 staff survey, 20 per cent said they have had the opportunity to contribute their views before changes are made which affect their job compared to 13 per cent in November 2006. The number of staff who felt able to cope with the pace of change rose from 49 per cent in November 2006 to 58 per cent in November 2007.

3.8 Our discussions with Trade Union representatives highlighted some staff concerns that some managers in the Department have experienced difficulties in managing change. These include uncertainty about their responsibilities, dealing with low morale and the lack of the right tools for the job.

7 Comparative results of staff surveys, November 2006 to November 2007

	November 2006	June 2007	November 2007
Percentage of staff surveyed that:			
Felt senior management provided effective leadership	20	17	15
Felt change is well managed in the Department	12	11	10
Had confidence in senior management	23	22	21[1]
They have the opportunity to contribute views before changes are made which affect their job	13	20	20

Source: HM Revenue & Customs staff surveys

NOTE

1 Civil Service Benchmark 34 per cent in 2007.

Developing the systems and skills to manage the transformation programme

3.9 The Department recognised when the programme began that it needed to develop new systems and arrangements for managing the change programmes spanning the merged Department. The programme is overseen by a Departmental transformation programme team which is responsible for reviewing individual programme business cases before submission to the Department's Executive Committee, and for monitoring and reporting overall progress (Appendix 6). Each programme has a Senior Responsible Owner who is responsible for delivery against the agreed business plans. Each major programme is also sponsored by a member of the Department's Executive Committee. The Department has recruited externally to bring in relevant skills. Since the transformation programme began there have been a number of changes in the team managing the programme.

3.10 The Department has assessed its staff capacity to deliver the transformation programme. An initial review in July 2007 of its programme and project management staff identified that the transformation programme required 574 programme/project management staff, of which 46 (8 per cent) were unfilled – over half of which were programme management team roles. Of those in post, 64 per cent were assessed as experienced programme/project staff and 13 per cent inexperienced. An Internal Audit report in May 2008 found that consultants are being used to address shortfalls in skills and a continued shortage of skilled financial resources in some programme and projects. The Department is continuing to take steps to address shortfalls in its programme and project management skills through coaching, online training and guidance and education courses. As part of a wider reorganisation of the Department's Finance function to improve the Department's financial monitoring arrangements, it has assigned finance directors to each of the main business areas. One of these is responsible for financial oversight of the transformation programme, and the others are responsible for financial oversight of individual change programmes within their business area.

3.11 The Department has a governance framework in place. It has required the business cases for the component programmes to be prepared using the Treasury's Green Book guidance, reviewed by an investment appraisal team and approved by senior management. The estimates of costs and benefits are subjected to optimism bias and sensitivity analysis. The business cases and any significant changes to programmes, costs, benefits and timescales require senior

17 The Department uses sample surveys rather than a census. The organisation is sufficiently large that it can use a sample basis.
18 *Capability Review of HMRC* December 2007.

management approval. Programme owners report on benefits (yield and efficiency improvements) delivered on a monthly basis.

3.12 The Department's Transformation Programme Office monitors monthly expenditure on each programme/project which is funded from the transformation programme. Other finance directors monitor other programme expenditure funded out of the business budgets (largely paybill costs). This separate tracking of expenditure meant that the Department did not have a readily available unified view of spending on the programme, as a whole during 2007.

3.13 The Department has processes for managing risks which programme owners are required to report, and suppliers and staff are included in risk identification exercises. It has introduced a best practice team to share practice between programmes, with 'lessons learnt' exercises to identify improvements that can be made for the future.

3.14 All programmes are also subject to Office of Government Commerce Gateway reviews. There have been 16 Office of Government Commerce Gateway reviews of the 12 programmes from September 2007 to March 2008 (covering Gateways 0, 2, 3 and 4 – strategic assessment, delivery strategy, investment decision and readiness for service). They concluded that:

- A number of programmes had robust governance processes, evidence of active engagement with customers, strong leadership and clear project roles and responsibilities.
- The principal aims of most programmes were clearly stated.

However, some of the programmes needed to:

- improve baseline plans, implementation milestones, critical path analysis and benefits realisation plans;
- identify fully the whole life costs and explicitly articulate what funding will be used for;
- demonstrate evidence of active management of interdependencies with wider programmes;
- improve risk management and develop robust contingency plans;
- improve internal communication with stakeholders and clarify responsibilities within project teams; and
- develop further project management skills.

The Department is taking action to address the above issues.

3.15 The Department has used a template to ensure that businesses cases are submitted in a common format for review. Individual programmes have developed their own benefit models. A single, common system to model benefits across the whole portfolio of programmes would allow the Department to model the extent to which the amount of tax collected would be increased by improvements in both debt management and compliance activities. It would allow programme dependencies and benefits/savings to be reviewed at a transformation programme level to help ensure the consistency and robustness of assumptions, avoid double counting, and inform decision making over the life of the programme.

3.16 The Department was in May 2008 undertaking further work to develop the measurement of planned and achieved customer benefits. The Department has initial estimates of the benefits for customers for the Business.Gov programme but not for all other programmes. The Department is developing and evaluating its benefits realisation plans for each programme which will show how it intends to deliver the benefits expected.

Addressing the expectations of its customers

3.17 The Department's customers have a variety of service needs and expectations. Almost every UK individual and business is a direct customer of HM Revenue & Customs. The Department has over 30 million individual customers and 4 million business customers.

3.18 The Review of the Revenue Departments in 2004 that led to the creation of HM Revenue & Customs, identified improvements in customer service, education and advice and compliance costs as the main benefits from integration, alongside improvements in effectiveness and efficiency. It saw these gains as being dependent upon dealing with shared customers in an integrated way, principally by structuring the new Department as far as possible around customers and functions rather than taxes, and seeking to achieve a whole customer view across their interactions with the department.

3.19 The Capability Review found that the Department had made good progress in building a common purpose with some of its key stakeholders, citing improved relationships with the insurance industry, and many large business customers. It recognised that the Department faced a changing customer base which has increasingly complex tax affairs and rising expectations of service quality and responsiveness.

3.20 The Review concluded that some stakeholders recognised an increased willingness to engage. But the Department needed to do much more to transfer and adapt this good practice, particularly for large-volume customer groups, such as individuals and small to medium sized businesses. It also concluded that, while customer focus was a significant element of the Department's vision, it needed to translate what being "customer focused" meant in different business areas so that staff could identify with it and see how it related to their work.

3.21 Our review of other large organisations which have undergone change (Appendix 4) identified that it is good practice to base change on sound research into customer needs and to build research into the management of the programme. One of the main criteria the Department uses to prioritise its research projects is alignment with the transformation programme. The Department spent some £1.8 million on customer research in 2006-07[19] on its customer understanding and insight programme, and a further £2 million in 2007-08 on other research to support the transformation programme for example to help the Department redesign its website (paragraph 3.27 refers).

3.22 In 2006 the Department's five year plan for priorities drew on a customer experience standard which it had developed at the time HM Revenue & Customs was created, based on consultation with small and medium sized businesses. As the change programmes were redesigned to meet the reduction in funding, a number of planned improvements in customer services were deferred, for example developing a single customer record to provide a joined up service to customers which in time would allow them to see their liability and payments across all taxes.

3.23 The Department should have ideally undertaken extensive customer research before the transformation programme began. It has during 2007 drawn together results of customer research from around the Department on to a central database. It has undertaken research to fill some gaps in its understanding and commissioned further research into the needs of businesses and individuals and is using the research to support the change initiatives.

3.24 Some external stakeholders we consulted had positive experiences of dealing with the Department, for example the simplification and improvement of some documentation and forms, and the assistance provided by the Business Support Teams. Others suggested they had not yet experienced the improvements to services they would expect in a customer focused organisation. They indicated that the Department needed to consider customers' capacity to handle change, as the amount of both legislative and organisational change occurring could make it increasingly difficult for taxpayers to comply.

3.25 Overall, the external stakeholders consulted felt that the Department should give equal attention to improving current services as well as developing new services, for example they wanted to see an improvement in the speed of VAT registration and a reliable service. My Report on HM Revenue and Customs 2007-08 Accounts (HC 674) looked at the improvements the Department has made to speed up the processing of VAT registrations and its response to the difficulties some taxpayers experienced with the Self Assessment online system on the 31 January 2008. The Department and its supplier have updated the Self Assessment online system and reviewed the testing of online services to ensure peak demands are successfully managed in future.

3.26 Consultation with external stakeholders identified some common themes of what customers want from the transformed Department which are consistent with the Department's customer research. Our review indicated that individual change programmes are seeking to meet some customer expectations. For example:

- Improved staff training at call centres – covered by several programmes such as the Tax Credits and the Construction Industry scheme programmes which aim to improve call handling and provide staff with training.
- Named points of contact – covered to some extent by programmes such as Tax Credits which have specific aims for customers to be successful at the first point of contact, although none include assigning a named point of contact that the taxpayer can deal with to resolve their issue.
- Improved speed of response and levels of call answering – covered to some extent by improvements to online services and the Pacesetter programme, although widening the availability of structured email communication is not an aim of the transformation programme.
- Improved education and guidance – covered to some extent by education components in a number of programmes for example Business.Gov, Compliance & Enforcement, PAYE and Online Services. Improved online guidance is dealt with by the Web Convergence project and also by Business.Gov. Improved guidance is covered by the Tax Credits and the Customs Service Transformation Programme.

19 HMRC Customer Understanding Team.

- Improved understanding and services to deal with the needs of specific groups, such as those with disabilities. The Department's approach to service design includes an approach, known as SIMPLE, which encourages the use of direct contact with the customer and staff experience of customer life to improve customer understanding. It identifies key stages at which user testing should be carried out, for example to ensure that online services meet accessibility standards.

3.27 Our review of individual change programmes (Appendix 3) confirmed that the Department is consulting with customers in developing its services. Previous reviews have described the Department's website as huge and unwieldy, and found that the search function severely undermined usability. The Web Convergence Project aims to transform the Department's website and converge it with the cross-government portals (Directgov and Businesslink). The Department launched some of the new Web content pages and search facilities in May 2008 covering about a fifth of the Website information. Initial views of customers who have trialled the new pages on the website indicate that the site is easier to understand, the design is more intuitive and easier to navigate, and that it has better search tools. As most of the planned improvements in customer experience are unlikely to come into force before 2011[20], the Department will need to actively manage customer expectations for example by consulting on planned developments and explaining clearly what will be delivered and by when.

3.28 Our discussions with Trade Union representatives highlighted some staff concerns that:

- if one programme does not produce the expected efficiencies staff reductions will need to be found from another area, which may lead to services being affected.
- the high number of staff moves, as part of the estate reorganisation, is likely to have an initial effect on customer service as employees get used to new roles and responsibilities.
- the Department could improve staff focus on customer needs. For example, it needs to provide adequate training for staff at lower grades so that staff dealing directly with taxpayers have the skills and knowledge to assist them effectively, and to communicate better the changes to working practices so staff understand the purpose of these initiatives, and can implement them effectively.

3.29 A number of stakeholders commented that they would like to see a taxpayer's charter setting out the Department's commitment to its customers. Both Inland Revenue and HM Customs & Excise had a taxpayer's charter but following the merger their status became unclear. The OECD report on Tax Administration in the OECD found that an emerging trend in revenue tax administration practice is the increasing recognition of taxpayers' rights in the form of a taxpayer's charter. Examples include Australia, Ireland, New Zealand, Singapore and South Africa. The Department announced in January 2008 that it will work with interested parties on the development of a Taxpayer's Charter, which will set out both taxpayer rights and responsibilities.

20 Committee of Public Accounts – HM Revenue & Customs: Filing of VAT and Company Tax returns paragraph 29.

APPENDIX ONE

Methodology

Scope and parameters of this examination

This report examines the progress of the Department's transformation programme during the first 18 months of the programme. The report covers whether the Department has the processes, capability and capacity to successfully deliver the transformation programme to meet the needs of customers, staff and other stakeholders. We reviewed the transformation programme at an early stage to assess the Department's progress in implementing the transformation programme and how the Department is managing the programme.

The report complements the Committee of Public Accounts' report on delivering successful IT-enabled business change[21] which sets out common principles that underpin successful delivery including ensuring senior level engagement, acting as an intelligent client and realising the benefits of business change.

Our methodology included:

1 **A 'Health check'** to get an early view of the Department's capacity to deliver a transformation programme. The health check criteria were based on existing Office of Government Commerce guidance and recommendations drawn from Committee of Public Accounts' reports. The Department's progress was scored in terms of the development of processes and systems to support the transformation programme under six main themes – people management, stakeholder management, portfolio management, risk management, benefits management and supplier management (the results are at Appendix 5). The evidence for the health check draws on interviews with key staff, review of procedures and programme documents and systems, evidence from case studies of change programmes and completed Office of Government Commerce gateway reviews.

2 **Interviews with HMRC staff** including the Senior Responsible Owners for the case study programmes and the Department's transformation team and review of key papers such as the Department's strategic framework and five year plan.

3 **Case studies of programmes.** The case studies were selected to provide a range of programmes some of which were ongoing and developed at the start of the transformation programme and some of which were at early stages of development. The Department's transformation programme consists of 13 main change programmes and some smaller projects. We walked through the process for investment appraisal, challenge of costs and benefits, programme governance, and methods for performance measurement. The case studies (Appendix 3) include a mature programme – the Construction Industry Scheme, the Online Services (Carter) programme to increase the take up of online filing of tax returns, Compliance and Enforcement which aims to segment customer groups and improve the analysis for assessing risks to target compliance activities, and Businesslink, a website providing businesses with information, advice and the opportunity to transact with government departments.

21 Twenty-seventh Report Session 2006-07, HC 113 June 2007

4 **Consultation with stakeholders** (see below) and focus groups and review of departmental surveys of customers and staff. We commissioned ORC to conduct three focus groups, two with HMRC staff and one with key stakeholders. In addition the United Kingdom Disabled People's Council held on our behalf a focus group with individuals with a range of disabilities who had contact with the Department for a variety of reasons. The focus groups with stakeholders considered: what good services the Department already provided; where improvements to service could be made; and the consultation undertaken by the Department. We have drawn on the focus group findings throughout the report in our overall evaluation of Department's consultation with staff and stakeholders in developing its services. We would like to thank each participant for their contributions.

5 **Commissioned an academic paper on best practice in tax administration** by Prof John Hasseldine (Nottingham University) (http://www.nao.gov.uk/publications/nao_reports/07-08/0708_HC930_international_review.pdf). The focus of most tax administration research has largely been on technical aspects of specific countries, this research used available research for example from the OECD published material on tax administrations[22] and contacts with tax administrations in other countries to assess best practice in the areas of the organisation and management in tax administration. It provided assurance that the changes underway in HMRC are in line with the fundamental characteristics demonstrated by other tax administrations worldwide.

6 **Commissioned Gartner** to identify metrics frameworks to measure progress and used this to develop some key success measures for the programme.

7 **Contacted other bodies from public and private sectors which have carried out major change programmes to draw out lessons learnt** to compare with the Department's approach and added good practice identified from the Department. The Department's Strategy Unit had consulted with a number of organisations as part of formulating the Department's transformation programme. We decided to use HMRC existing research, supplemented with findings of our own, to broaden the scope of our research whilst avoiding duplication. We met with members of the strategy unit and were given access to summaries of their research.

Desk research

Literature review and internet search were used to identify published material related to customer-focused change, change management, and IT enabled transformation. The published materials reviewed are:

- Delivering Successful IT – enabled business change (NAO 2006)
- Managing Reform – elements of successful improvement initiatives (United States General Accounting Office)
- Results-oriented cultures– implementation steps to assist mergers and organisational transformations (United States General Accounting Office)
- Case Study from Birmingham City Council – managing business change (IDeA report)
- Case Study from Northumberland County Council – Addressing Large Scale Change (IDeA report)
- Project Portfolio Management Framework – Cambridgeshire County Council, Programme, project and change management
- Change Management Toolkit – Programme, project and change management
- Transformational Government (enabled by technology) – Annual Report 2006.

Key financial and data analysis

- Analysis of results of the Department's customer survey(s)/consultation into what services customers expect by 2011.
- Review of business cases supporting the four main case studies.
- Analysis of the costs and expected spending and benefits from the 13 change programmes.
- An analysis of the Net Present Value for each programme and comparison between programmes to ascertain reasons for variations.
- Review of the Department's programme management capacity to deliver the transformation programme.
- Review of relevant Office of Government Commerce and internal audit reports.

22 OECD tax administration in OECD and selected non-OECD countries: comparative information series (October 2006)

Organisations consulted

Name	Organisation	Name	Organisation
Liz Bridge	Construction Confederation	Andrew Hubbard	Chartered Institute of Taxation
Frances Corrie	Taxaid	Rosina Pullman	Taxaid
Chas Roy-Chowdhury	ACCA	Tina Riches	Chartered Institute of Taxation
Gavin Dollin	Small Business Service	Philippa Steadman	ICAEW
Elaine Gibson	Institute of Payroll Professionals	Robin Summers	ICAEW
Matthew Goodman	Forum of Private Business	Simon Sweetman	Federation of Small Businesses
Matt Hardman	Forum of Private Business	Jan Turner	UK Disabled People's Council
Frank Haskew	ICAEW	Mervyn Woods	Confederation for British Industry

APPENDIX TWO

Timeline of the Department's transformation programme

1 October 2006	The transformation programme is established: ■ Proposals for 21 programmes are to be developed by the end of January 2007 ■ £2.8 billion and £300 million funding from HM Treasury is thought to be available.
January – February 2007	Outline business cases for 20 of the programmes are approved with full business cases expected to be approved by May 2007.
March 2007	The transformation programme's funding allocation is reduced to £2.1 billion. Funding for 2007-08 is reduced from £550 million to £396 million. Eight programmes, with estimated life cycle costs of £135 million are closed down and incorporated into other programmes, smaller projects, or are deferred. Various improvements for customers are postponed. The target date for full business cases is rescheduled for the end of September 2007.
End September 2007	Full business cases are submitted for the 13 programmes. The business cases identify a number of consequences of the changes to their funding.
December 2007 and January 2008	Full business cases for 10 major programmes and several smaller projects are approved. A data security project is added to the transformation programme at an expected cost of £155 million over the next three years. The 'Workforce Change' programme is included at an expected cost of £209 million over the next three years. Reductions of around £140 million are made to other programmes' allocations. The most significant changes are to PAYE (£140 million) and Debt Management & Banking (£20 million). The Departmental Transformation Programme budget for 2008-09 is increased to £518m. The timetable for the business cases is postponed to Summer 2008 for Enterprise Infrastructure Foundation; and Estates Transformation and for Compliance & Enforcement – the latter pending finalisation of its Departmental Strategic Objective target on increasing the levels of tax yield.
March 2008	There are some revisions to the content of the programme. A new programme for the Capability Review is added. Reducing Administrative Burdens is merged with the 'Agents and Employers Programme'. Funding in 2008-09 is reduced by some £50 million to £468 million.

APPENDIX THREE

Change programmes reviewed

1 – Online Services programme (following Lord Carter's Review in 2006[23])

What does the programme aim to achieve?

1 Lord Carter's 'Review of HMRC Online Services' published in 2006, included recommendations, accepted by Government, to increase further the use of online services (aiming for universal electronic delivery of business tax returns and individual tax returns from IT literate groups by 2012). The timetable, which was amended at Budget 2007, includes phased mandatory online filing of business tax returns (PAYE from 2009; VAT from 2010 at the earliest; and Corporation Tax from 2011) and new differentiated paper and online Self Assessment filing dates came into force for 2007-08 and subsequent years' returns. The deadline for paper returns will be the 31 October followed by a later deadline for online returns of 31 January.

2 The programme improves and expands existing online services to handle the increased transaction volumes, with support and guidance for taxpayers to use the service to ensure a smooth transition from paper to online returns. The programme also seeks to provide a robust, reliable and secure online service, and improve the paper and online Self Assessment main tax return in response to customer feedback.

3 The programme is estimated to cost £341 million over the five years between 2006-07 and 2010-11 of which £171 million is funded from the transformation programme. Costs in 2006-07 and 2007-08 amounted to £107 million. For the five years to 2010-11, the Department estimates staff savings will amount to £68.8 million (61 per cent expected between 2009-10 and 2010-11), with additional savings of £22.4 million (63 per cent expected between 2009-10 and 2010-11) due to reduced stationery and postage costs. These savings are from increased take-up of online filing and online self-service facilities reducing manual processing work and reductions in stationery and postage costs. More user-friendly forms and improved validation should reduce incorrect or incomplete returns.

4 Benefits to taxpayers include simpler forms, online validation of figures, automatic calculations, electronic confirmations of receipt, earlier certainty over tax due, and reduced need for follow-up contact with the Department. This should contribute to the Department's targets to reduce administrative burdens for taxpayers. The Department introduced a new simplified online Self Assessment and PAYE employers' returns in April 2008 which have received positive comments from agents – 11,000 Self Assessment returns were filed online and 54,000 PAYE returns were filed in the first week.

23 Lord Carter of Coles review of HM Revenue & Customs Online Services March 2006 (http://www.hmrc.gov.uk/budget2006/carter-review.pdf)

2 – Construction Industry Scheme Reform programme

What does the programme aim to achieve?

1 The construction industry has posed a risk to tax revenues for a long time. Previously it was possible for subcontractors to be incorrectly classed as 'self-employed' and so be paid by the contractor without any deductions for Income Tax or National Insurance Contributions, leading to a risk that some subcontractors never declared this income. In 1999 the then Inland Revenue introduced the Construction Industry Scheme to tighten up the system of payments by contractors to subcontractors. The Construction Industry Scheme Reform programme is the Department's response to industry concerns about the scheme.

2 The reformed scheme aims to deliver new business processes and a new online monthly return form for contractors, all supported by a new IT system with electronic and telephone contact centres to enhance customer service in April 2007. The scheme has cost £166 million up to March 2008. £40 million has been spent by the transformation programme with a further forecast spend of £1 million in 2008-09 to conclude implementation.

The Department's estimate of the programme benefits are:

- Reduced cost to the industry of complying with the scheme, expected to be in the range of £22 million a year based on Departmental research. However research by KPMG suggests that the costs of the original scheme to the industry were much higher than Department's estimate so the savings to industry could also be much higher (the Department estimated that the previous scheme cost the industry £52 million a year to comply, whereas KPMG estimates the figure to be in the region of £200 million a year);
- An increased tax revenue through increased levels of compliance, expected to be in the range of £110 million in 2007-08 and £130 million a year from 2008-09 to 2010-11; and
- Improved customer experience through a reduction in the regulatory burden, and help for construction businesses to get the employment status of their workers right.

3 – Compliance & Enforcement programme

What does the programme aim to achieve?

1 The Compliance and Enforcement Programme aims to change the way in which the Department interacts with its customers through improved risk targeting, a more refined suite of responses appropriate to the risk identified and an appropriately skilled workforce.

2 Those who deliberately do not comply will be targeted with an intervention finely tuned to shift their behaviour. The Department will focus its action against smuggling and criminal attacks on the Department's systems. Those who pay the right tax at the right time will be supported.

3 The Programme also aims to deliver improved operational efficiency, improved staff productivity, headcount reductions, improved compliance and sustainable reductions in the tax gap. The programme is estimated to cost £354 million between 2006-07 and 2010-11 (with costs being fairly evenly distributed across the five years). Money already spent on the programme amounted to £131 million up to March 2008. The Department estimates that additional tax receipts from the compliance and enforcement programme are £5.3 billion over the five years 2006-07 to 2010-11 with additional receipts beyond that period. Staff reductions are estimated at 3,387 full time equivalents by 2010-11, which will save an estimated £108 million over the five years to 2010-11. There is also the deterrent effect arising from compliance and enforcement activities which is estimated by the Department to be six times that of direct intervention yield.

4 – Business.Gov programme

What does the programme aim to achieve?

1 Sir David Varney's review of service transformation in 2006 proposed that by 2011 all government-related business information and transactions with Government should be available through the existing businesslink.gov website, rather than across various Government websites. Following this review responsibility for implementation has transferred from the former Department for Trade and Industry (now Business, Enterprise and Regulatory Reform) to HM Revenue & Customs. One of the main projects within this programme is the International Trade Single Window (ITSW) project. This aims to provide a single gateway where traders can find all the information and guidance they require relating to importing and exporting goods into and out of the United Kingdom. In time a range of transactions with Government may also be carried out via the single window. The first transactions began in 2007-08.

2 The running cost of the existing website, which includes maintenance and development, is £21 million in 2007-08. To support service transformation the funding has been increased to £35 million a year from 2008-09 to 2010-11 (a total cost of £105 million). The programme has spent £21 million to March 2008. The Department estimates the benefits to business over the period 2008-2014 to be £9.7 billion with benefits to Government over the same period estimated to be £240 million. For businesses the main benefits come from two sources:

- from time and cost savings, for example: not having to refer to multiple sources for advice and support some of which they may have paid for, such as the advice from a solicitor or accountant; using templates available online, such as a written statement of employment, rather than creating their own from scratch; using information on the website to start up or improve existing businesses.
- increased sales and profits, by making use of the business advice on the site.

3 For the Government the use of businesslink.gov as the primary web channel brings potential benefits from increased use of online transactions, which reduces the use of high cost channels such as paper and phone. Providing access to the information businesses need in clear language written specifically for them should reduce the level of basic contacts to call centres and letters requesting information.

APPENDIX FOUR

Good practice/ lessons learnt

Key lessons learnt by the Department and other large organisations

Governance and leadership in managing change

- Identify a clear transformation strategy and objectives, and select targets carefully.
- Provide leadership supported by senior management buy-in and a united management team.

Implementation and continuity

- Keep change achievable and design in flexibility with a strong focus on outcomes.
- Consider a phased delivery if the programme is complex.
- Ensure that there are clear processes in place to manage change.

Customer focus and research

- Base change on sound research into customer needs and build research into programme management.
- Manage the expectations of stakeholders, customers and suppliers as the transformation programme develops.

Transforming culture and people

- Develop core promises for customers and staff that communicate what the organisation stands for.
- Invest in and empower staff to effect the change and recognise the importance of customer service skills.

Source: National Audit Office research

APPENDIX FIVE

Health check

1 The Department expected to approve the business cases for the programme in September 2007. We carried out the 'health check' at this date. The good practice criteria and results are below. We scored out of 5 the maturity of the Department's processes to baseline its progress in September. At this time the Department was still developing its business cases and completing its planning of the first phase of the transformation programme.

2 We compared the Department's score to the progress we would expect to see at the end of the planning phase. There has been limited opportunity to determine the actual effectiveness of many of the processes because the programme is at an early stage. We would not expect a score of '5' in many areas as although the systems may have been developed, the Department had not finalised its plans, and they had yet to be tested in practice and evaluated. We would also expect some areas to be more developed than others. For example we would expect there to be clear processes for governance and identification of risks as these are important foundations for the programme. Processes for evaluating the accuracy of benefits achieved are likely to require further development as the programme gains pace. However expected benefits should be identified and a system for measuring progress in delivery established.

Progress made by the Department in planning the programme as at September 2007

Area of Review	Expected Maturity[1]	Actual Maturity[2]
Portfolio Management	4.0[3]	4.0
■ A Senior Management Team is in charge, supported by skilled advisers	5	5
■ The aims of the component programmes are mapped to the aims of the transformation programme	3	3
■ An overall plan brings together the full timetable for each programme	3	3
■ Pre-existing programmes are assessed for how they fit with the transformation programme	5	5
■ The risk registers of programmes are reviewed to see how they impact on each other	4	4
■ There is regular and frequent monitoring of the transformation programme	4	4
Stakeholder Management	3.6	3.0
■ External stakeholders are widely consulted with to inform planning	4	3
■ Internal stakeholders are consulted in designing the programme	4	3
■ The design of services links to the results of these consultations	3	2
■ Stakeholders are updated and consulted throughout the programme	4	4
■ New services are tested with representative groups of customers	3	3
People Management	3.9	3.6
■ The leaders demonstrate their commitment to the programme	4	4
■ Staff in charge have proven programme management expertise	4	4
■ Staff working on the transformation programme are given respect and listened to by colleagues	4	3
■ The organisational culture gives a hearing to different views	4	2
■ The staffing capacity of the programme is assessed and monitored	3	3
■ The systems architect has a range of IT and programme management expertise	4	4
■ The transformation programme has clear lines of authority in place	4	5
Risk Management	3.6	3.6
■ There are risk registers for the transformation programme and component programmes	3	3
■ Each risk has a fully documented plan for mitigation	4	3
■ A system is set out for monitoring and updating risks by risk owners	3	4
■ Risk management includes 'lessons learnt' exercises	4	4
■ Include staff at all levels and IT contractors in risk identification	4	4
Supplier Management	3.8	3.8
■ Teams clarify and agree new outputs with suppliers	4	4
■ Discuss with the supplier their capacity to deliver the requirement	4	4
■ Suppliers produce a cost projection which is built into plans	4	4
■ Key milestones and criteria for recognition are agreed	4	4
■ Review existing performance measures to ensure their relevance	3	3
■ A special team liaises with the IT suppliers and measures their performance	4	4
Costs and Benefits Management	3.3	3.0
■ Outputs (new services) and Outcomes (changes arising from services) are separately identified in business cases.	3	3
■ Expected benefits are calculated to the end of each programme	4	4
■ The benefits are subject to a rigorous investment appraisal process	4	4
■ Benefits and costs are clarified with suppliers	4	3
■ The programme's benefits are monitored throughout the process	3	2
■ Original costs and benefits are revisited to assess whether the programme has delivered	2	2

Source: National Audit Office analysis

NOTES

5 = Fully implemented and evaluated, 4 = Being used in practice but not yet evaluated, 3 = Developed and tested, 2 = In Development, 1 = Not Developed

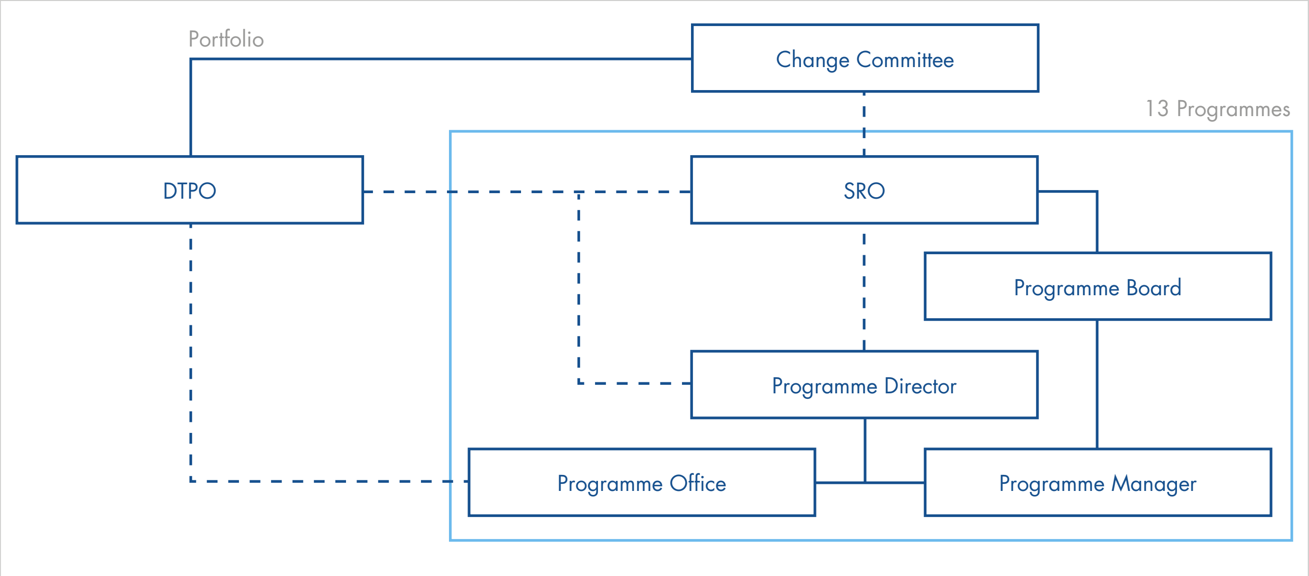
1 Maturity level the NAO would expect to see at the end of planning the transformation programme.

2 NAO Analysis.

3 Average score.

APPENDIX SIX

Organisation chart and responsibilities for the transformation programme



NOTES

1 The Departmental Transformation Programme Office **(DTPO)** is responsible for assuring the successful delivery of the Department's Ambition by ensuring that governance across the transformation portfolio is robust, and that progress and performance against plans and business cases are tracked and reported on effectively. It is supported by the **Change Committee**, containing representatives from Finance, Information Management Services, Human Resources and the Department's main business and programme areas. Under powers delegated from the Strategy Committee, it is also responsible for assessing individual programme business cases and for prioritising proposed business or IT changes.

2 The HMRC Strategy Committee has ultimate authority to approve the Programmes that create and shape the Departmental transformation programme.

3 Each programme has a sponsor (for the main programmes, an Executive Committee member) and a Senior Responsible Owner **(SRO)** who is accountable for its successful delivery, and for ensuring that benefits realisation plans are in place in line with the approvals given by the Change Committee. Each SRO is supported by a **Programme Director** responsible for directing the achievement of the programme's objectives and deliverables within the agreed timescales and approved financial and resource allocations. They manage their programme's key risks and impacts on other projects, programmes or business areas. Each programme has a **Programme Manager** responsible for allocating resources to projects reporting on progress and performance against plan, operating quality measures and control processes, and for liaising with the DTP to resolve risks that may affect the delivery of high level milestones. A **Programme Board** supports, advises and challenges the SRO and Programme Director to ensure that the programme remains aligned with strategic Departmental goals, meets its delivery commitments, and achieves its agreed business objectives, and outcomes successfully, on time and within budget. It will typically review and approve scoping and delivery plans – including proposed changes during the lifecycle – endorse draft business cases, set priorities and act as an escalation point for critical risks and issues arising at project level.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
5861312 07/08 7333

Design and Production by
NAO Marketing & Communications Team
DP Ref: 8397VA

This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.

HM Revenue & Customs' Transformation programme

A report by the Comptroller and Auditor General

Published by TSO (The Stationery Office) and available from:

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax Orders 020 7219 3866
Email bookshop@Parliament.uk
Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

£13.90

ISBN 978-0-10-295424-1

9 780102 954241

The Stationery Office