



National Audit Office

## **HM REVENUE & CUSTOMS**

# Managing variations in workload

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***Tim Burr***  
**Comptroller and Auditor General**  
**National Audit Office**

**11 May 2009**

The National Audit Office  
study team consisted of:

Helen Evans, Ross Haydock, Nick Lacy,  
Agata Morrison, Andy Morrison, and  
Amelia Willis, under the direction of  
Jane Wheeler

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://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](mailto:enquiries@nao.gsi.gov.uk)

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# SUMMARY

## Introduction

**1** In 2007-08 HM Revenue & Customs (the Department) employed 86,000 staff and cost £4.3 billion to run, of which £2.7 billion was on staff. Over a quarter of the Department's staff are involved in administering Income Tax and Tax Credits at a total cost of £1.4 billion a year including overheads. The Department faces increasing peaks in its processing workload linked to various deadlines for submitting Income Tax Self Assessment returns and Tax Credit claims (**Figures 1 and 2 on pages 8 and 9** show the deadlines). Peaks can lead to additional costs, backlogs of work and associated peaks in calls to the Department's contact centres.

**2** This report examines:

- the causes, extent and impact of variations in workload (Part 1);
- how the Department manages its resources to deal with peaks in workload (Part 2); and
- what the Department has done to smooth peaks in workload (Part 3).

**3** It focuses on the Department's processing work on Income Tax Self Assessment and Tax Credits forms dealt with by the Tax Credit Office, though not on telephone Tax Credit renewals which are handled by the Department's contact centres. We identified these areas as having significant variations in workload and illustrative of the challenges the Department faces in managing variations in workload. It also considers the knock-on effects of variations on the workload of contact centres. Our methodology is at Appendix 2.



## Key Findings

### On the impact of variations in workload

**4** The Department experiences significant variations in processing workload because of statutory deadlines for submitting Income Tax Self Assessment returns and Tax Credit renewal claims. In 2007-08 it received more than a quarter of the annual caseload of four million Tax Credit renewals forms in July as the renewal deadline approached, and it processed half of the 8.2 million Income Tax Self Assessment returns during January to March. Its contact centres also experience significant peaks in work from dealing with customer queries about their Income Tax and Tax Credit forms. As a result, callers may experience delays during peak periods when the Department cannot deal with all call attempts. In January 2008 before the Income Tax Self Assessment return deadline, it answered two-thirds of the seven million call attempts.

**5** During peaks in workload, the Department postpones less urgent Income Tax work, which builds up a stock of work and reduces its ability to provide a consistent service. The accuracy of the Department's processing does not appear to be affected by peaks in workload but it tends to process simpler cases at peak times, postponing resolution of queries, more complex checks and other types of work until later. The accuracy of returns submitted by taxpayers does decline nearer to the tax return deadline. During peak periods the Department experiences increased staff sickness absence.

### On deploying staff

**6** The Department varies the staff it deploys within Tax Credits and Self Assessment processing areas during the year. For example, the number of staff directly involved in processing Self Assessment forms each month varies between 1,400 and 3,200 and the number working on Tax Credit renewal forms varies between 100 in the quieter months and 600 at the peak in July. Productivity varies over the year. For example, Self Assessment returns processed per staff day ranged from an average of 10 in April 2007 to 18 in March 2008. The number of Tax Credit renewal forms processed per staff day ranged from an average of 19 in July 2008 to four in February 2009. The average staff cost of processing a Self Assessment return varied between £6 and £11 during 2007-08 and between £5 and £7 during 2008-09. The cost of processing a Tax Credit renewal form varied between £5 and £18 during 2008-09. These costs do not take account of the work done in the quieter periods to resolve queries and exceptions that were deferred during the peak. The average costs in part reflect the complexity of cases and the lower volumes of returns and renewals the Department processes outside the peak periods.

**7** The Department moves staff within Income Tax Self Assessment work using processing staff to clear post on hand. It does not move staff between Income Tax and Tax Credit activities because of the need to train staff and limitations in its IT systems. While the Tax Credit processing peak coincides with the trough in Income Tax processing work, the amount of other Income Tax work such as post which has built up limits the number of staff which can be redeployed. The Department is implementing a new Pay As You Earn Service which is planned to go live in 2009 and should enable it to prioritise and deploy Income Tax work more widely between offices.

**8** Tax Credits and Income Tax processing staff are mostly on full time permanent contracts, but some are on temporary fixed term contracts for up to 11 months. These areas spent £44 million in 2007-08 on overtime and temporary working to deal with peaks in work. The experience of other organisations we consulted and that of the Department's contact centres is that improved training, overtime and evening shifts can increase staff flexibility to meet variations in workload. Other organisations make more use of short term and temporary staff on permanent contracts. For example, the Identity and Passport Service employs people on part-year permanent contracts to meet peaks in workload.

### On smoothing variations in workload

**9** By introducing different filing deadlines for paper and online Income Tax Self Assessment returns, the Department has smoothed the peaks in workload. In contrast, the peak in Tax Credits work has increased as the renewal deadline has progressively been brought forward to reduce overpayments. To reduce contact centre workload at peak periods, the Department has used standard pre-recorded messages to deal with common questions and referred callers to information on the Department's website.

**10** The Department has also reduced workload by removing the need for some taxpayers to file an Income Tax return, which saved an estimated £2 million in 2007-08. It has encouraged online filing which has saved an estimated £5 million in processing costs in 2007-08. It has extended the period when it sends out PAYE tax code notices to relieve the pressure on contact centres from related taxpayer enquiries. To reduce overpayments on Tax Credits, it calls claimants to check that their circumstances are up to date and reminds them to renew on time, thereby reducing the amount of follow up work.

**11** The experience of other organisations and the Department's pilot work suggests that between 15 and 40 per cent of contacts with customers are avoidable. The Department could reduce demand by making more use of pre-recorded messages as it has for Tax Credits, greater use of outbound telephony, joining up services with other departments, using automation to sort post and contracting out high volume, less sensitive data capture work as it has for Tax Credits.

**12** The Department has encouraged taxpayers to file Income Tax Self Assessment returns online as it saves processing costs and reduces the level of errors made by taxpayers. It had an online Tax Credit facility, but closed it because of organised fraud. It is seeking to reopen the facility once it has successfully piloted a new secure service and identified the necessary funding. Expanding online services would reduce the volume of processing of paper forms at peak times. Using different processing targets through the year combined with providing more information to its customers about expected processing times in peak periods could help to spread the work.

## Conclusion on Value for Money

**13** The Department spends £433 million a year in staff costs on processing Income Tax and Tax Credits including £44 million (10 per cent) on overtime and temporary staff to deal with peaks in work. While work volumes vary significantly during the year, it is hard to identify the additional costs involved because of the ebb and flow in different elements of work such as processing returns and claims, dealing with customer correspondence and updating customer records. There is also a changing mix of paper and online forms and phone contact with customers, and the Department tends to defer processing of more complex cases to quieter periods. By introducing different filing deadlines for online and paper Income Tax Self Assessment returns and removing the need for some returns the Department has released resources estimated at £7 million a year. The Department and other organisations' experience suggest between 15 and 40 per cent of all contact with customers is avoidable. In the Department's contact centres the cost of 15 per cent of contact is some £23 million, equating to 11 per cent of the annual spending on contact centres.

**14** Peaks do not appear to affect the accuracy of the Department's processing work and staff productivity is higher during peak periods, partly because of the volume of work and because more complex cases are deferred until quieter periods. Customers do experience delays in dealing with their correspondence and receive a less responsive service from contact centres during peak periods, and the Department experiences higher levels of sickness absence.

**15** The Department's methods of managing variations in workload are generally consistent with approaches adopted by other organisations. There is scope for further automation and development of online services to reduce workload and costs. The Department's flexibility to move staff between major business areas to deal with peaks in work is reduced by the need to clear other work that has built up, limitations in IT systems and the additional training staff would need. Other organisations make wider use of employing staff on part-year permanent contracts as a way of meeting peaks in workload.

## Recommendations

**16** Our key recommendations are set out below. Appendix 1 provides more detailed recommendations aimed at improving efficiency from more flexible use of staff to deal with peaks and by smoothing demand.

### Smoothing peaks in workload

**1 The Department faces increasing peaks in workload at the same time as making staff reductions to meet efficiency saving targets. Peaks in work increase costs and can reduce the quality of service provided. Influencing customer demand for the Department's services can help reduce costs and improve the service provided.**

The Department should provide more information to customers about expected processing times and call answering times during peak periods to encourage customers to submit tax returns and Tax Credit renewals early to avoid the busy periods. Building on existing advertising, it should also raise customer awareness through increased contact with customers outside the peak period to get more claimants to update their circumstances at the point they change, rather than when they renew their claims (paragraphs 1.16, 3.10 to 3.12 and 3.16).

### Reducing avoidable contacts

**2 Contacts with customers that are avoidable increase the costs of the Department and waste customers' time.** Building on the examples identified in this report, the Department should identify and improve or remove from use those forms and information it routinely requests but for which there is no longer an operational need. It should take further steps to use where appropriate standard telephone messages. It should extend the work it has started to target specific groups of customers who have higher error rates in forms submitted to encourage them to provide accurate and complete information on time (paragraphs 3.11 to 3.18).

## Staff flexibility

**3** While the trough in processing work on Self Assessment returns coincides with the Tax Credits processing peak, the Department tends not to deploy staff flexibly across the two processing areas. Contact centres have used staff on both business streams. Backlogs in other Self Assessment work, training and IT limit the numbers of staff that can be redeployed and the work that can be transferred between offices. Other organisations make wider use of staff on part-year permanent contracts. The Department should employ more modern employment and flexible working practices to better match the annual peaks in work and to tackle the backlogs of other work (paragraphs 1.18 to 1.20 and 2.6 to 2.9).

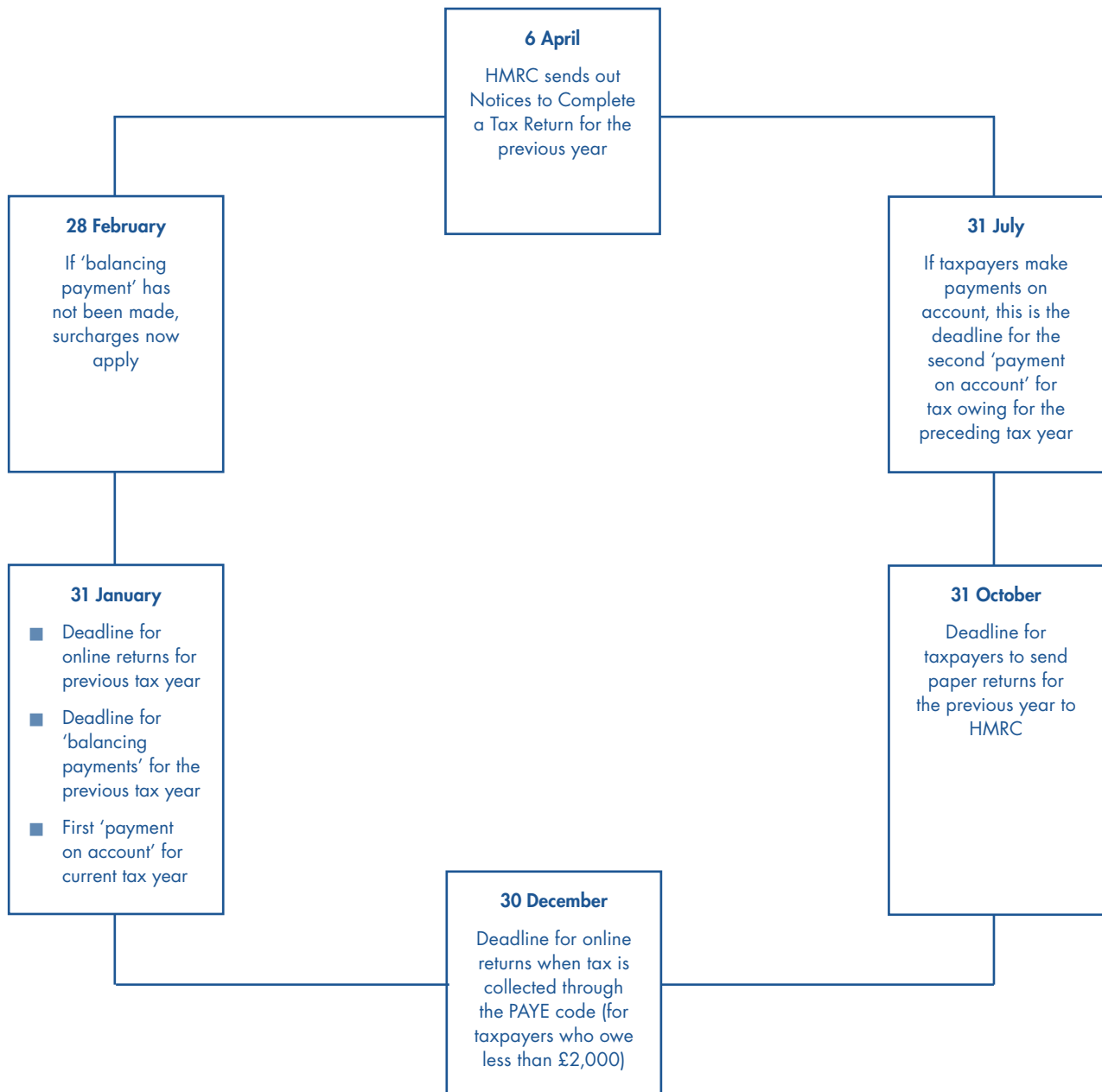
## Processing productivity

**4** Productivity in processing varies, in part because the complexity of cases handled varies and the higher volume of cases at busy times tends to reduce unit costs, but the reasons for the variations cannot be fully explained and the Department does not have comparative information on Income Tax Self Assessment processing productivity across offices. The Department should develop its information on productivity levels and the unit costs of complex and more straightforward cases, and analyse this information by office to identify good performance and practices. The Department should look to maintain more consistent productivity levels in processing Tax Credit forms and Income Tax Self Assessment returns. We estimate, for example, that increasing monthly levels of processing to that achieved in the third most productive month could release resources of around £12 million a year (paragraphs 2.17 to 2.21).

## Online services

**5** It costs the Department more to process paper, rather than online, forms and information, and online services can also reduce levels of errors through validation checks. The Department has increased online filing of Income Tax returns and it is seeking to reinstate the online service for Tax Credit claimants once it has successfully piloted a new secure service and identified the necessary funding. Encouraging more customers to use online services reduces processing costs and releases staff for other work. The Department should widen the provision of online services by e-mailing rather than posting PAYE tax coding notices to those who have filed their Income Tax Self Assessment returns online and by offering a secure online service for Tax Credit claimants, after having resolved the security issues and identified the necessary funding. In doing so, it should draw on its experience of increasing the use of online filing of Income Tax Self Assessment returns. The Department should explore the benefits and costs of contracting out more high volume, less sensitive, automated data capture work, as it has for Tax Credit new claims (paragraphs 1.4, 2.9 to 2.11 and 3.5 to 3.8).

## 1 Income Tax Self-Assessment deadlines in 2008-09

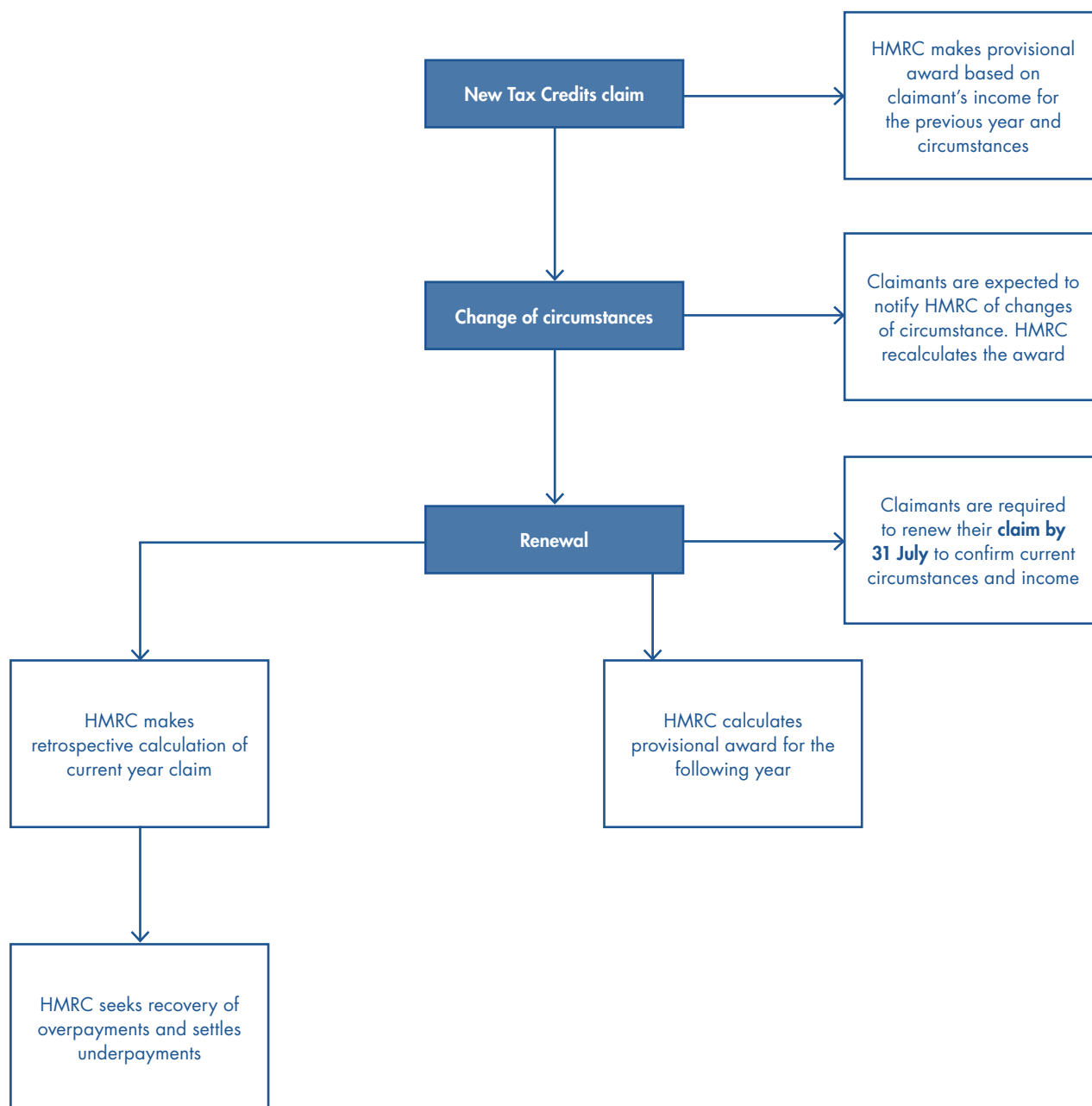


Source: National Audit Office analysis of HM Revenue & Customs' data

### NOTE

Appendix 3 gives further details of the Income Tax Self Assessment process.

## 2 Stages in the Tax Credit Process



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

### NOTE

Appendix 3 gives further details of the Tax Credit process.

# PART ONE

## Variations in workload

**1.1** This part considers the causes, extent and impact of variations in HM Revenue & Customs' (the Department's) workload in processing Income Tax Self Assessment forms and Tax Credits claims and renewals. In 2007-08 the Department employed 86,000 staff and cost £4.3 billion to run including IT and staff costs. It has a target to make efficiency savings of five per cent a year in real terms from 2008-09 to 2010-11. The Department has a new strategic objective and targets for 2008-09 to 2010-11 aimed at improving customers' experience (Appendix 4).

**1.2** In 2007-08 the Department collected £30.2 billion (net of repayments) through Income Tax Self Assessment and paid £20 billion in Tax Credits. In doing so it processed 8.2 million tax returns, 1.2 million new Tax Credit claims and over four million Tax Credit renewals. Over a quarter of the Department's staff are involved in administering Income Tax Self Assessment and Tax Credit applications and renewals, at a cost of £805 million a year on Income Tax Self Assessment and £581 million a year on Tax Credits. These costs include direct costs, staff costs and an overhead apportionment.

### Why managing variations in workload is important

**1.3** Peaks in workload can lead to additional costs, backlogs of work and associated peaks in calls to the Department's contact centres. Timely submission and processing of returns and claims helps in assessing and collecting tax due and paying Tax Credits on time. It also helps in resolving queries promptly and using up to date information to set customers' tax codes and Tax Credit awards for the following tax year. Dealing with the returns and claims also gives rise to many millions of contacts with customers, either face to face, by post, telephone or online.

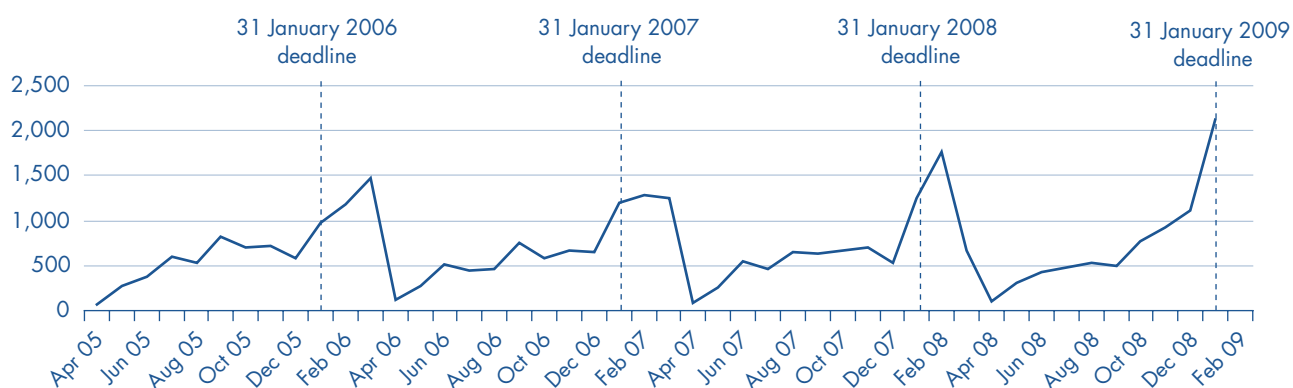
### The extent of workload variations

**1.4** The Department deployed 15,000 staff at a staff cost of £345 million to manage Income Tax processing and 3,720 staff in the Tax Credit Office to process paper Tax Credit forms at a cost of £88 million in 2007-08. Staff who work on Income Tax processing also deal with customer correspondence, update customer records and Pay As You Earn cases. Staff who work on Tax Credits also deal with customer correspondence, customer complaints and recovery of overpayments.

**1.5** The Department experiences significant and increasing workload peaks in the period before the statutory deadlines for submitting Income Tax returns and Tax Credit renewal claims (**Figures 3 and 4**). In 2007-08 the final deadline for Income Tax Self Assessment returns was 31 January with an earlier deadline of 30 September for customers who wanted the Department to calculate the tax for them. The Department processed half of the 8.2 million Income Tax Self Assessment returns during January to March. From 2008-09 the deadline for paper returns was brought forward to 31 October while that for online returns remains 31 January (Figure 1 and Appendix 3). The nature of the work has changed as more returns are submitted online, which are cheaper for the Department to process and allow basic data verification checks to be carried out before the return is accepted.

### 3 Variations in Self Assessment returns processed

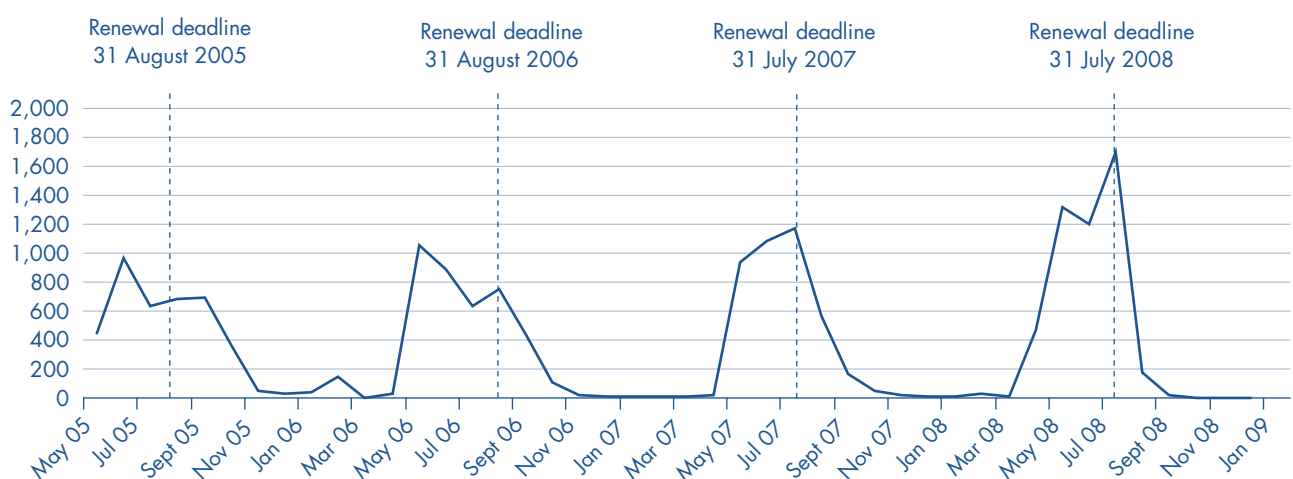
Returns processed in month ('000s)



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

### 4 Variations in Tax Credit renewals received

Number of Renewals ('000s)



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

#### NOTES

- 1 No reliable data was available for March 2006.
- 2 The Tax Credit renewals peak has increased in size as the deadline for submitting renewals was brought forward progressively to July.
- 3 Renewals received include paper forms and those renewed by phone.



**1.6** The current system of Tax Credits (Figure 2 and Appendix 3) was introduced in April 2003, and the number of families benefiting from Tax Credits has increased steadily over the five years, from 4.6 million in 2003-04 to 5.7 million in 2007-08. The net amount paid has also increased, from £13.5 billion to £20.0 billion over the same period.<sup>1</sup> The scheme has resulted in high levels of overpayments and underpayments, as reported in the C&AG's Report on the HM Revenue & Customs 2007-08 Accounts (HC 674 Session 2007-08), which also outlines the Department's work to address the continued high level of claimant error and fraud.<sup>2</sup>

**1.7** Once a claim is set in payment, claimants have to apply to renew the claim each year, and they are required to notify the Department of changes in their circumstances as they occur. The Department sends out renewal packs to claimants to renew their Tax Credit claims which includes an annual review notice. Most people will also get an annual declaration form in their pack as well. Claimants can renew their Tax Credit claim using a paper return or by phone by calling the Tax Credit Helpline. Those claimants who are only sent an annual review notice only need to notify the Department about a change in their circumstances or income. If the Department does not hear from the claimant by the 31 July deadline it treats the information in the annual review notice as correct and automatically renews the award. The number of new Tax Credits claims fell from 1.5 million in 2005-06 to 1.2 million in 2007-08. The Department receives more than a quarter of the four million Tax Credit renewals forms in July. Although the Department has run advertising campaigns to encourage prompt notification of changes in circumstance, claimants often submit them around the same time as their renewal forms.

**1.8** The Department for Work and Pensions also processes benefits. It does experience variations in its workload over time, but as the benefits it administers do not have set deadlines for renewals the variations are less seasonal. They instead reflect the interaction of a variety of social, economic and demographic factors. Changes in employment patterns affect both Departments' workload. For example, the number of people moving in and out of work affects the number of new Tax Credit claims, change of circumstances notifications and Income Tax Self Assessment returns.

**1.9** The mix of paper and online returns also affects the workload because usually there is less work involved in processing an online return than a paper return. The capture of data from online returns is automated with staff needing to work only on those which the system rejects because of possible errors. The number of Income Tax Self Assessment returns processed has remained broadly constant in the past three years, at between 8.2 and 8.3 million (Figure 5). Online filing has increased from 14 per cent of all returns in 2004 to 66 per cent of all returns in 2008-09, exceeding the number of paper returns (almost 5.9 million filed online out of 8.9 million).

**1.10** The Department's contact centres also experience significant peaks in work from dealing with customer queries about their Income Tax and Tax Credits (Figure 6 and Figure 7 overleaf). Eighty per cent of all calls handled in 2006-07 and 65 per cent of those handled in 2007-08 were about Income Tax and Tax Credits. Peaks in the number of calls are associated with the Income Tax return and Tax Credit renewal deadlines. In January 2008 there were seven million calls to the contact centres, higher than the monthly average of five million.

**1.11** The number of calls has been increasing. In 2007-08 the Department's contact centres handled around 60 million calls, a 4.7 per cent increase on 2006-07. The Department expects the volume of calls handled to remain constant but the number of callers to increase by about seven per cent in 2008-09 compared with 2007-08, and by a minimum of four per cent a year thereafter, which would mean longer waiting times for callers.

## The effect of workload variations

**1.12** We examined whether variations in workload have any impact on accuracy of processing and service quality, the build up of other work and on staff absence rates. The additional cost of dealing with peaks is examined in Part 2.

## Accuracy of processing and service quality

**1.13** As part of its wider Public Service Agreement target to improve customer experience, the Department has internal targets to process 97.5 per cent of Income Tax Self Assessment and 95 per cent of Tax Credit returns accurately based on its quality monitoring checks (Appendix 4). In 2007-08, when it met the target for Income Tax Self Assessment forms and narrowly missed it for Tax Credits, its accuracy in processing of Income Tax returns and Tax Credits was not significantly different at peak periods and at other times.

<sup>1</sup> NAO, *HM Revenue & Customs 2007-08 Accounts: Report by the Comptroller and Auditor General*, p. 10, Figure 1. (HC 674, Session 2007-08)

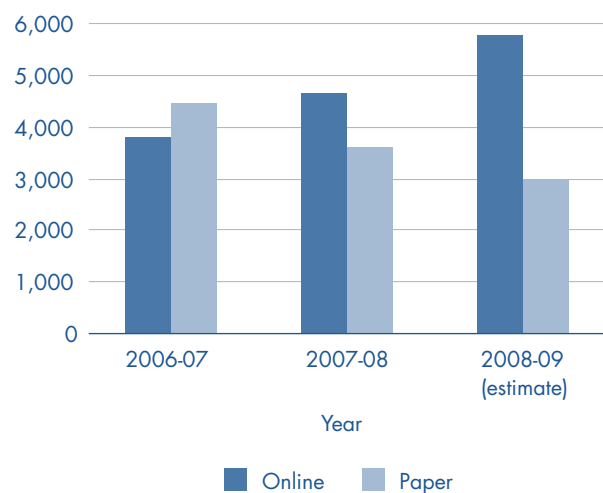
<sup>2</sup> *Ibid.*, pp. 14-15, Figures 5 & 6.



## 5 Numbers of forms processed each year

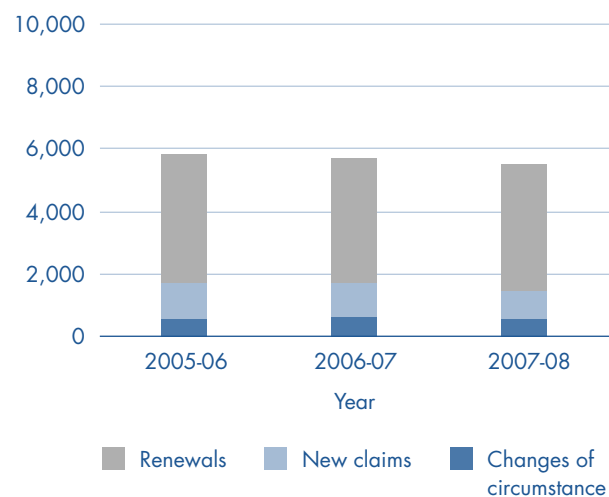
### Income Tax Self Assessment returns processed

Returns processed ('000s)



### Tax Credit forms processed

Forms processed ('000s)



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

#### NOTE

The Tax Credit renewals processed by the Tax Credit Office of around four million exclude 'auto renewals', which do not require a reply from the claimant unless there is a change in their circumstances.

## 6 Variations in Income Tax Self Assessment calls handled by the Department's contact centres

### Volume of calls handled vary according to the peaks in Income Tax Self Assessment work

Volume of calls ('000s)



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

**1.14** The accuracy of returns submitted by taxpayers does appear to decline nearer to the deadline. We visited four Income Tax processing offices and three Tax Credits offices and held six focus groups with managers and other staff to understand how the processing systems operate in practice (Appendix 2). Data from one processing centre suggest that the monthly percentage of returns rejected increases from four per cent in off peak periods to 20 per cent at busy times. The increase in the percentage of returns rejected may arise, in part, because at quieter times staff seek to resolve minor queries as they arise whereas at peak periods such queries are flagged up for later action.

**1.15** Customers receive a variable service from processing centres in dealing with their correspondence. The Department has internal targets of replying to 80 per cent of Income Tax postal queries within 15 days and 95 per cent within 40 days, and dealing with 90 per cent of post correctly and completely. It did not achieve these targets throughout 2007-08. In March 2008, after the Income Tax Self Assessment peak, 85.9 per cent of post was dealt with within 40 days and 82.8 per cent of post sent was dealt with correctly and completely. Several customer representative groups we consulted commented that the amount of time taken by the Department to respond to post seemed to them excessive.

**1.16** The effect on the contact centres of the variation in the number of queries relating to Income Tax Self Assessment and Tax Credits means that customers receive a less responsive service from contact centres at peak times as the Department cannot handle all the call attempts. The highest number of call attempts was in July 2007, at the time of the Tax Credit renewal deadline, when only half of all incoming calls were answered. In January 2008, at the time of the Income Tax Self Assessment filing deadline, it answered two-thirds of the call attempts. In 2007-08 the monthly average time to answer a call was highest during peaks in July (2.9 minutes) and January (2.2 minutes) and lowest during December (29 seconds). Several customer representative groups we consulted reported waiting times of 15 minutes or longer at peak times. The Department considered that waiting times of over 15 minutes were the exception, as it has a queuing system which limits the number of callers or time spent in the queue. For example, the Tax Credit time limit is 10 minutes. The Citizens Advice Bureau told us that a less responsive service is a particular concern for Tax Credit claimants as a fifth of people on low incomes do not have landlines and the cost of phoning from a mobile phone is usually higher than a landline.<sup>3</sup>

## 7

## Variations in Tax Credit calls handled by the Department's contact centres

## Volume of calls handled vary according to the peaks in Tax Credits work

Volume of calls ('000s)



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

3 Report by the National Audit Office: Department for Work and Pensions *Delivering effective services through contact centres* (HC 941 Session 2005-2006, March 2006).

## Tackling backlogs of work

**1.17** To deal with peaks in workload the Department prioritises the processing of tax returns and Tax Credit renewals over other work such as updating customer records. One effect is that it stockpiles less urgent work, which it aims to complete before the next peak. It has reduced some of the stockpiles. For example, Income Tax post in hand has reduced from 1.2 million items in August 2007 to 0.5 million in November 2008, against an annual flow of 18 million items. Tax Credits had work in hand of 1.9 million items in March 2008, which included 600,000 new claims and 380,000 changes of circumstance compared to 3.5 million tasks in March 2006.<sup>4</sup>

**1.18** The Department's overall work in hand in dealing with Pay As You Earn and Income Tax Self Assessment cases stood at around 22 million items in April 2008, equivalent to 2,500 staff years' worth of work. The largest category is 'open cases'. When its systems identify discrepancies in taxpayer records or are unable to match a return to a record, the Department establishes an 'open case' for manual checking. At the end of March 2008 there were 16.2 million PAYE 'open cases', 30 per cent above its target of 12.5 million.<sup>5</sup> The Department estimates there were 20 million 'open cases' at the end of March 2009.

**1.19** Delays in clearing open cases can mean that taxpayers are not notified promptly of additional tax payable or refunds due. The Department estimates that at the end of March 2009 there were around 4.5 million individuals who are owed on average £350 each, or £1.6 billion in total. It also estimates that there were around 1.5 million individuals who owe tax of £300 each on average, or £436 million in total.

**1.20** The Department is investigating technical solutions to better match data, piloting more automation to clear open cases, and analysing the open case population to risk assess uncleared cases to target those where it is likely that the tax position is wrong. It has used evening shifts from 8pm-10pm, employed more staff on fixed term appointments, and offered more overtime to deal with the workload. The Department expects some five million automatic clearances in 2009 and that the new Pay As You Earn service<sup>6</sup> in 2009 will reduce the creation of new open cases by 75 per cent, so it expects to clear the backlog of open cases by April 2011.

## Staff sickness absence

**1.21** There is a strong correlation between sickness absence rates and the volume of Income Tax processing work. During the peak months on Income Tax Self Assessment processing, staff absence rates are 14 per cent higher than average. Average working days lost due to sickness absences were 21 per cent higher in January 2008 compared to April 2007. (18,000 days of sickness absences were recorded in January 2008, compared to less than 13,000 in April 2007). There is a weaker correlation between sickness absence and volume of Tax Credit processing work, although sickness absence was highest at times of greatest demand which are at the start and end of the renewals window. In contact centres, sickness rates were highest in January and July when they receive most calls. While sickness absence may be expected to rise during the winter months, a report by Committee of Public Accounts on The Management of Staff Sickness Absence in the Department for Transport and its agencies (Sixty-fourth Report of Session 2006-07) in October 2007 identified the type of work undertaken by staff and the staff grade mix as the most significant factors influencing sickness absence. It found a high correlation between sickness absence and the proportion of repetitive administrative work. Reducing peaks and automating repetitive work might therefore help to reduce the rates of absence.

<sup>4</sup> HM Revenue & Customs does not have information on the age of the 600,000 new claim items in hand.

<sup>5</sup> NAO, *HM Revenue & Customs 2007-08 Accounts: Report by the Comptroller and Auditor General*, paragraphs 3.10 and 3.11. (HC 674, Session 2007-08)

<sup>6</sup> A new computer application Modernise PAYE Processing for Customers (MPPC).

# PART TWO

## Deploying resources to deal with variations in workload

**2.1** This part considers how the Department deploys its resources to deal with peaks in workload. It reflects the experience of other organisations in managing workload variations (Appendix 5) and identifies ways of further matching resources to demand to manage peaks in workload.

### Allocating resources to meet workload variations

**2.2** The Department's ability to respond to changing workload depends on the flexibility of its staff, office accommodation and IT systems. In 2007-08 the total cost of administering Income Tax Self Assessment was £805 million and for Tax Credits £581 million including direct costs, staff costs and an overhead apportionment. It deployed 15,000 staff across 240 offices at a staff cost of £345 million to manage Income Tax processing. It deployed 3,720 staff at six sites of the Tax Credit Office to process Tax Credits at a staff cost of £88 million. The Department's contact centre staff process telephone Tax Credit renewals, and during peak periods it redeploys contact centre staff from other lines of business and staff working in operations to take Tax Credit calls.

**2.3** The Department does not move Income Tax staff around its various offices, so each office has to manage variations in workload locally. It moves some work between offices by post, but it cannot routinely move Income Tax Self Assessment work electronically. The Department plans to implement in 2009 a new Pay As You Earn service and is currently reviewing the costs, which it estimated at £236 million in February 2008. It expects the new system to enable it to prioritise and allocate PAYE work to staff based on their availability rather than their location. Regarding Tax Credits, the computer systems allow work to be moved electronically between staff.

**2.4** In 2005 we recommended that the Department improve efficiency in processing Income Tax returns by reducing the numerous centres that input data, in order to achieve economies of scales in handling the volumes of work and peaks in workload.<sup>7</sup> The Department has reduced the number of Income Tax staff in post from 19,600 in 2005 to 15,000 in 2008 to meet efficiency targets. It has announced plans to move work from 150 Income Tax processing offices and to move staff to larger processing centres. Staff participating in our focus groups were supportive of the principle of moving resources or workload to cope with peaks.

### Workforce flexibility

**2.5** Income Tax Self Assessment and Tax Credits business areas spent £44 million on overtime and temporary staff in 2007-08, around 10 per cent of their staff costs. Overtime is used in most months to deal with peaks in workload. Overtime can be an effective short term solution to small or unexpected peaks in workload. The Canada Revenue Agency uses overtime as a short term solution when there are small peaks in demand, as it is more cost efficient than recruiting staff for a short period.

**2.6** Some Income Tax processing centres use evening shifts. The Department plans to increase its use of evening shifts for this area of work as it has for Tax Credits processing work. Tax Credits use staff up to around 9-10pm on the twilight shift. This shift is particularly useful for outbound telephony, as staff can catch people at home. It also uses evening shifts in its contact centres, which are open to 10pm at peak times.

<sup>7</sup> NAO report *HM Revenue & Customs Filing of Income Tax Self Assessment Returns*, HC 74 June 2005.

**2.7** The Department's call centres seek to increase staff flexibility by training advisors to answer queries on different taxes and benefits (Appendix 5). The Canada Revenue Agency provides training to staff across different activities so it can move staff to areas of high demand when needed. Managers and union representatives we interviewed expressed concerns that staff should not be moved too frequently between different tasks without sufficient training. Graduated work experience for processing staff could give them more flexibility to undertake different tasks across taxes and benefits, as it does in call centres. The tax administration in Ireland has used graduated training to offer a career path for contact centre staff into other areas of work such as processing. This training has allowed greater cross-working at busy times.

**2.8** Around 90 per cent of staff who work in the Tax Credit Office and Income Tax processing are on full time permanent contracts. The Department does not employ temporary staff on permanent contracts specifically to help with processing work at peaks. It uses 'temporary fixed term appointments' to employ staff for a minimum period of between three and 11 months to deal, for example, with customer calls. In 2007-08, temporary fixed term appointments accounted for seven per cent of Income Tax processing staff costs. On Tax Credits they accounted for 14 per cent of staff costs. Temporary staff are usually retained for the full 11 months, which may indicate that temporary staff are filling gaps left by full time staff released to meet the Department's efficiency targets.

**2.9** Other organisations we consulted make greater use of temporary staff. Fujitsu, which undertakes data input from Tax Credit forms for the Department, vary their workforce over the year. Around half of their workforce work for three to five months a year on data input for Tax Credit renewals. The Identity and Passport Service has a significant number of staff on 'part-year' contracts. These staff are employees all-year round, but have contracts that require them to work for certain periods, typically January to September. They may take on additional employment elsewhere. The Department's contact centres increase their staff complement during peaks and allow the staff numbers to reduce during quieter periods, through natural turnover.<sup>8</sup>

## Using external resources

**2.10** Outsourcing work at certain times of year can increase capacity to deal with peaks. It can also provide access to expertise and technology that is better able to cope with large volumes of work. The Department uses

Fujitsu for data capture work by scanning paper forms including Tax Credit claims and the short Self Assessment Returns, though not the main Self Assessment form. There is around 40 per cent surplus capacity at the rapid data capture centre, and the Department could make greater use of the existing contract to reduce processing costs by an estimated £3 million each year, by scanning the main self assessment return instead of manually inputting individuals' data.

**2.11** Income Tax offices use separate post codes for sorting tax compliance correspondence from tax returns, but they use staff to manually sort tax forms. Other organisations make greater use of the postal service to separate all forms. Fujitsu receives tax credit and tax forms from the post office in separate batches, because it uses different postcodes for forms and marks envelopes with barcodes. The tax administrations of Ireland and the Netherlands use self addressed envelopes with different PO boxes to route the post.

## Moving workload or resources between and within operational groups

**2.12** The Department is organised into four operational groups: Personal Tax, Benefits and Credits, Business Tax, and Enforcement and Compliance (Appendix 6). Workload is not routinely transferred between different operational groups, so each must manage its own peaks and troughs over the year. The Department considers that each group is sufficiently large to cope with changes in workload. Learning needs and IT constraints restrict the potential for sharing resources between operational groups. Opportunities to share resource between different directorates at busy times are therefore limited.

**2.13** Ideally the Department would be able to move processing staff between the operational groups to respond to different peaks over the year. Staff who work on the Self Assessment peak from January to March could assist with the Tax Credits renewals peak from May to July.

**2.14** The Department has found it difficult to move staff between work streams. It used to operate 'expansion units' which would help with Income Tax processing and Tax Credits work at busy times. In reality the work was too different, so staff worked on one stream or the other. The Department closed the expansion units when it created the separate operational groups.

<sup>8</sup> The NAO report on Recruiting Civil Servants Efficiently examines how departments including HM Revenue & Customs recruit to deal with annual variations in demand. (HC 134 Session 2008-09, 13 February 2009).



**2.15** The Department varies the number of staff allocated to different work activities within Tax Credits and Income Tax processing in response to changes in workload. For example, **Figure 8** shows the variations in staff numbers and forms processed over the year. The Department varies the number of:

- Staff processing Self Assessment forms between 1,200 and 3,200 to meet the peaks in work caused by the filing deadlines. Staff also work on correspondence and the maintenance of taxpayers' PAYE records at quieter times of year.
- Staff in the Tax Credit Office dealing with Tax Credit renewals between 100 in the quieter months and 600 at the peak in July.
- Staff in the Tax Credit Office dealing with Tax Credit changes of circumstance between 100 and 400 to meet peaks generated by the renewals deadline and publicity campaigns.

**2.16** The Department is in the early stages of developing a measurement system to track and compare Income Tax office productivity. It has found it difficult to set meaningful targets to compare office processing productivity and identify good practice, because the nature of work and the processing activity varies from office to office (Appendix 2). It has begun to set productivity targets for 'Lean offices' (paragraph 2.19) and monitors performance hourly on Pay As You Earn and Self Assessment and every two hours on Tax Credits. Other organisations have set different targets at different times of the year to reflect the changing working environment and the different challenges affecting each office throughout the year. For example, the New Zealand Inland Revenue changes its income tax processing and call answering targets at peak times of the year, to make them more realistic and attainable by staff.

**2.17** Our analysis showed that staff are most productive when they have a large number of forms to process. The daily output of staff and the associated costs vary significantly:

- The average number of Self Assessment forms processed per member of staff each day was 14 in 2007-08, and it ranged from 10 to 18 at the Department's processing deadline in March. The variations are partly because the Department receives during the peak months a greater proportion of more straightforward returns and electronic returns which are quicker to process. It postpones until after the peak an estimated 300,000 work items that are usually completed shortly after a return has been processed. The Department considers that staff may be more focused during peak periods, but are not able to sustain the levels of productivity for long periods.

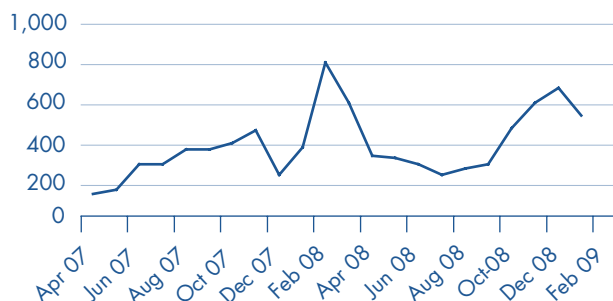
- Productivity levels for processing Tax Credit renewal forms varied between 30 a day in May 2007 and three a day in December 2007, with an average of 14 a day in 2007-08. In 2008-09 the number of Tax Credit renewal forms processed per staff day ranged from an average of 19 in July 2008 to four in February 2009. The Department's operational target is 27 a day. The large variation is because the Department prioritises cases which are easiest to resolve which increases productivity levels at peak times. After the deadline of 31 July the computer systems automatically finalise any renewals still outstanding, so over 75 per cent of renewal forms (and over 90 per cent of all renewals) are finalised at the end of August. The most complicated cases are resolved after the peak.
- The average number of changes of circumstance processed per member of staff per day was 13 in 2007-08, with a range from nine to 21. The target is 15 a day. Staff are most productive around the renewals period, when most changes of circumstance are received. When fewer change of circumstances are being processed staff work on other activities.

**2.18** The average productivity for Tax Credits renewals is below the Department's operational target (paragraph 2.17 refers). The Department processed 79 per cent of Income Tax returns within 21 days in 2007-08; below the target of 95 per cent in 21 days. The Department processed 63 per cent of Tax Credit claims within 15 days, above its target of processing 60 per cent in 15 days. Overleaf, **Figure 9(1)** shows that the average cost each month for staff to process a Self Assessment return varied between £6 and £11 in 2007-08, and between £5 and £7 during 2008-09. **Figure 9(2)** and **Figure 9(3)** show that it cost between £4 and £46 in staff time to process a Tax Credits renewal form in 2007-08, but the range reduced to between £5 and £18 during 2008-09. The range in costs for processing a change of circumstance was between £4 and £9 for 2007-08 and between £5 and £8 in 2008-09. While some of the variation may be explained by the complexity of cases handled at peak times when more straightforward cases are processed, the reasons for the variations cannot be fully explained. If the Department were to increase monthly levels of processing to that achieved in the third most productive month, it could release resources of around £12 million a year (Appendix 7).

## 8 The number of forms processed each month and the Department's allocation of staff for: (a) Self Assessment, (b) Tax Credit Renewals, and (c) Tax Credit Changes of Circumstance

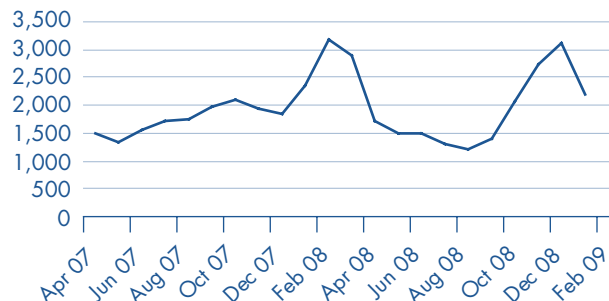
**a1 Number of Income Tax forms processed**

Number of forms ('000)



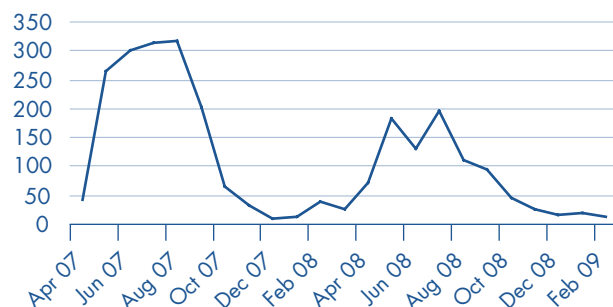
**a2 Number of Income Tax staff**

Number of staff



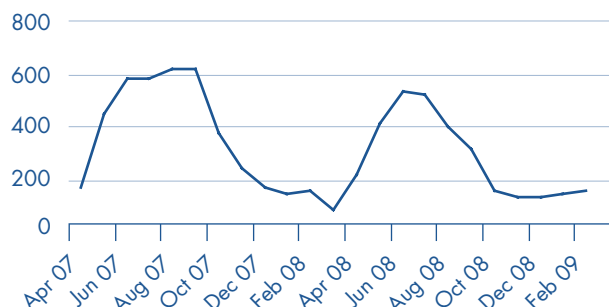
**b1 Number of Tax Credit renewals processed**

Number of renewals ('000)



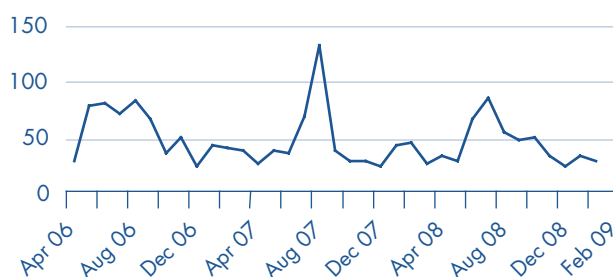
**b2 Number of Tax Credit renewal staff**

Number of staff



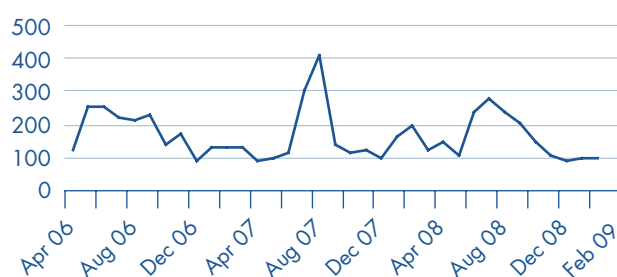
**c1 Number of Tax Credit changes of circumstance processed**

Number of changes of circumstance ('000)



**c2 Number of Tax Credit changes of circumstance staff**

Number of staff



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

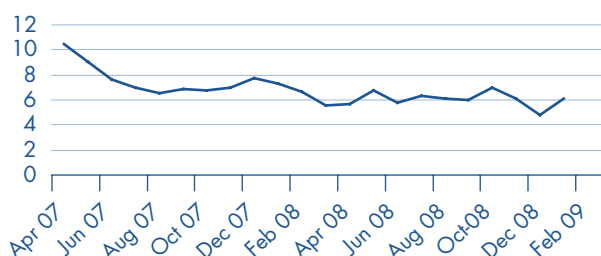
### NOTES

- 1 No reliable data was available for Income Tax Self Assessment and Tax Credit renewals in 2006-07.
- 2 Staff time is based on the annualised full time equivalent (FTE) direct time for staff directly involved in processing work, calculated from the staff time deployed in month.
- 3 The renewals processed are those processed manually after initial scanning and exclude those telephone renewals processed by contact centres and automatic renewals.
- 4 The peak in change of circumstances processing is due to claimants notifying change of circumstances at the same time as renewing their Tax Credit.

## 9 Variations in cost

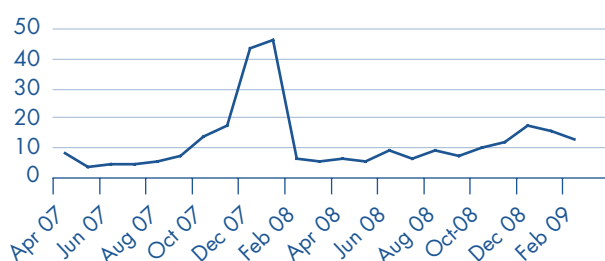
### 1 Staff cost per Income Tax form

Staff cost per form (£)



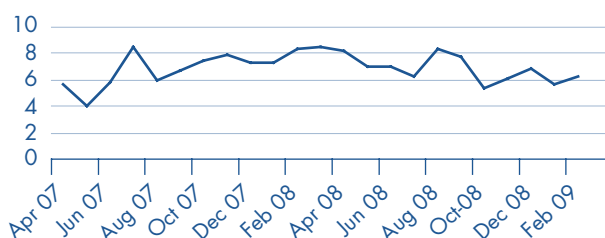
### 2 Average cost of processing a Tax Credit renewal

Cost per renewal (£)



### 3 Average cost of processing a change of circumstance

Cost per change in circumstance (£)



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

**2.19** The Department introduced 'Lean' working in 2005 to three pilot centres to improve efficiency by simplifying and standardising processes. The NAO report *'Accuracy in processing Income Tax'* (HC 605 Session 2006-07) found that although the Lean pilots had improved productivity (items completed per day), no firm conclusions could be drawn about the impact of Lean on quality of processing; and that further analysis with more monthly data would be beneficial to learn more about the effects. By 2007-08, the Department had applied Lean processing to almost 60 per cent of Income Tax Self Assessment tasks. Since the NAO report, the Department has used the same quality measurement procedures to carry out ongoing analysis.

The Department has found that over the last three years, the quality of processing work carried out in its larger locations (where Lean methodology is used) has increased at a greater rate than in its smaller locations (where Lean methodology was generally not used). Income Tax/PAYE processing has begun using a productivity measure of work done per person per day to compare outputs across locations. Because of different product mixes in different offices, productivity baselines have been agreed on an individual office basis.

**2.20** We examined the Self Assessment process at two Lean offices to consider the efficiency of the process in more detail. While productivity in the two offices differed, both exceeded the Department's average staff processing rate of 14 forms a day. One office processed on average 18 forms a day and the other office 15 forms a day. Processing practices in the offices varied:

- During peak periods in 2008, and to meet its target to process 99 per cent of returns by 31 March, Office One allocated 20 per cent more staff to Self Assessment processing at the peak time and was able to cope with the peak period without changing the process. Office Two abandoned some tasks such as telephoning taxpayers with minor queries about their tax returns until after the deadline.
- Office One allocated virtually no staff to Self Assessment processing until mid June and stockpiled returns to achieve economies of scale, while Office Two processed returns as they were received. Office Two was able to clear 81.5 per cent of returns within 21 days. Office One cleared 72.4 per cent within 21 days. Both fell short of the Department's operational target of 95 per cent within 21 days.

**2.21** We used simulation modelling to identify opportunities for improving staff deployment. Our analysis of work at the two offices suggests that there are opportunities to release resources by getting the right mix of staff and stockpiling returns for some periods. Online filing should allow more even use of staff which would release resources to reduce stockpiles of work and improve customer service. In 2008-09 the Department established separate deadlines for filing paper and electronic tax returns. It now aims to clear 99 per cent of paper returns by 9 January, ahead of the peak in online filing. Our simulation model estimates that this change will lead to a more consistent use of staff over time, and that it could reduce the size of the Self Assessment backlogs generated in year.



# PART THREE

## Measures to smooth variations in workload

**3.1** This part considers what the Department has done to smooth the peaks in work and identifies how the Department can further smooth demand for its services.

### Measures taken to smooth demand

**3.2** We compared the measures used by the Department to smooth demand and their effect with measures used by other organisations, including other tax administrations (Appendices 2 and 5). Although the Department has adopted many of the measures used by other organisations, there are opportunities to extend the use of some measures, for example, wider adoption of online services. On Income Tax Self Assessment, it has changed filing deadlines, promoted online filing, and reduced the need for some taxpayers with simple tax affairs to submit a tax return. On Tax Credits it has attempted to smooth the peaks in calls.

### Changed filing deadlines

**3.3** The Committee of Public Accounts' report *Filing of Income Tax self assessment returns* in February 2006 recommended that because of major peaks in processing returns the Department should consider bringing forward the filing dates and/or have differential filing dates. Following the publication of Lord Carter's *Review of HM Revenue and Customs Online Services* in 2006, the Department changed, with effect from 2007-08 tax year, the filing deadline for paper returns to 31 October and retained 31 January as the deadline for filing online. As online returns are automatically processed, the changes reduce the amount of manual processing work and allow the Department an extra three months to process paper returns.

**3.4** As part of a series of measures to reduce overpayments, the Department has progressively brought forward the Tax Credit renewal deadline to the end of July. This change has increased the peak in renewals

work (Figure 4) and changes of circumstances work as they are often submitted around the same time. Tax Credit claimants are expected to notify the Department immediately of changes in their circumstances so it can recalculate the award, but many claimants wait until they renew their claim to notify the Department of any changes. Other tax administrations, for example, New Zealand, also face similar peaks in Tax Credit work.

### Online filing

**3.5** The Department has encouraged taxpayers to file online, which has benefits for both the taxpayer and the Department, saves processing costs and reduces the level of errors made by taxpayers. It estimates it saved £5 million in processing costs in 2007-08, and that it will save a further £5 million in 2008-09. Some 5.8 million taxpayers (69 per cent) filed online by 31 January 2009. The Department is spending around £170 million to improve its online services, including additional IT capacity to deal with the expected volume of online returns. The online service coped much better in 2009 than in 2008, with the volume of online returns (*Report by the Comptroller and Auditor General on the Accounts of HM Revenue & Customs 2007-08, July 2008* refers), although there were some minor problems which were quickly resolved.

**3.6** Our consultation with stakeholders indicated that while the Department's online service had improved, there were some areas which could be improved further to increase take up:

- Publicising that taxpayers need an activation PIN to file online and the time it takes to send the PIN before a taxpayer can file online.
- Claiming tax refunds online. Taxpayers who do not have to file a Self Assessment return cannot claim refunds online, but need to submit paper claims which can take two months to process.

On the former the Department sent letters to 862,000 taxpayers who had not filed by 31 October informing them that they would be required to file online by 31 January and that it would take seven days to receive a PIN.

**3.7** The Department could make more use of online services to reduce workload. For example, sending out by e-mail PAYE tax coding notices to those taxpayers who have already filed their Income Tax return online and for whom the Department has up-to-date e-mail addresses could save costs. In 2007-08 it issued 35.2 million tax coding notices by post at a cost of £13 million. Where taxpayers file electronically and the Department holds e-mail addresses, the Department could issue reminders to file and payment reminders to individuals' e-mail accounts.

**3.8** Tax Credit claimants cannot make a claim online. Some other welfare benefits have a partial online service. The Department closed its Tax Credits online claim facility in December 2005 after a serious attack by organised criminals. Our consultation with customer groups indicated that re-opening a secure Tax Credit online portal would make renewals easier for those customers with internet access. The Department is developing a framework for validating the identity of individuals who claim online and by telephone. In time it is seeking to re-open the internet system once it is confident that it can incorporate authentication to the high level necessary and identify the necessary funding. People can register an interest to claim Income Support, Jobseeker's Allowance, Employment Support Allowance or Incapacity Benefit online. But claimants still need to deal with a contact centre to complete the application and have an interview to check their identity and documentation. The Department for Work and Pensions intends to introduce full online applications for Jobseeker's Allowance and State Pensions from July 2009. While Tax Credit customers are a different customer group from that which files Income Tax Self Assessment returns, there are likely to be lessons from the Department's experience of increasing the take-up of online Income Tax returns for any new Tax Credit online service. One lesson is emphasising to customers the benefits of the online service in carrying out basic validation checks on the information they submit which reduces customer error.

## Processing accurately and on time

**3.9** Errors can occur when customers make mistakes in completing returns and claims. Errors can also occur when the Department processes returns and claims. Errors in processing increase costs and work as the Department has to rework cases to correct errors. Our Report on

HM Revenue & Customs *Accuracy in processing Income Tax*<sup>9</sup> found that since 2001-02 the Department had improved its accuracy in processing Self Assessment cases, achieving 96.5 per cent accuracy rate and 95.1 per cent for PAYE in 2006-07. **Figure 10** shows processing accuracy for Income Tax and PAYE returns and Tax credits. Around 25 per cent of PAYE cases are more complex and require manual processing, and the accuracy rate for these was 82.1 per cent in 2006-07. Since then improved quality monitoring and automatic coding of taxable benefits have increased slightly PAYE and Self Assessment processing accuracy. The Department has also set targets for the accuracy of its processing of Tax Credit awards. After experiencing difficulties in the first year of operating the new system, the Department has exceeded its target of 95 per cent processing accuracy in 2006-07 to 2008-09.<sup>10</sup>

**3.10** Workload is also affected by processing targets. For example, tighter processing time targets narrow the window for processing returns, which may increase the peak in workload unless additional resources are deployed. The Department aims to deal with 86 per cent of Tax Credit new claims, renewals and changes of circumstances within five working days, and 95 per cent within 30 working days. In 2007-08 it processed 76 per cent in five working days, and 90 per cent within 30 working days. During 2007-08 the Department for Work and Pensions took 11 days on average to process a Jobseeker's Allowance claim and it took 26 days

### 10 Processing Accuracy

	2006-07 %	2007-08 %	2008-09 (to end November) %	2008-09 target %
Self Assessment (Tax Effect only) <sup>1</sup>	96.5	97.6	96.6	97.7
Self Assessment (Departmental Strategic Objective) <sup>1</sup>	78.1	80.5	80.8	86.0
PAYE	95.1	95.1	95.2	96.0
PAYE Worked cases <sup>2</sup>	82.1	83.4	84.6	87.0
Tax credits	96.8	97.7	97.7	95.0

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

#### NOTES

1 The basis for the calculation of the Department's processing accuracy for 2008-09 onwards for Income Tax Self Assessment was changed to include tax coding accuracy as well as errors which affect only the tax calculation.

2 PAYE worked cases are generally more complex cases.

<sup>9</sup> HMRC *Accuracy in processing Income Tax* (HC 605, 2006-07 July 2007).

<sup>10</sup> NAO, *HM Revenue & Customs 2006-07 Accounts: Report by the Comptroller and Auditor General*, p. 23, Figure 10.

on average to process new Housing Benefit claims in 2007-08 which are administered by local authorities. The speed of Tax Credit processing varies within the year. HM Revenue & Customs processed 56 per cent of claims, renewals and changes in circumstances in five working days in September 2007 during the renewals peak, compared to 92 per cent in January 2008.<sup>11</sup>

## Contacting customers to smooth peaks in work

**3.11** The Department has run advertising campaigns to remind individuals of the deadlines for submitting forms and claims, and has contacted Tax Credit claimants to remind them of the need to renew their claims. These campaigns have raised customer awareness of the deadlines and prevented overpayments, but also increased the level of calls to the Department's contact centres (**Figure 11 overleaf**). The Department seeks to reduce the peak in workload caused by claimants renewing their claims up to 31 July deadline by staggering the issue of renewal packs between April and June. The volume of new Tax Credit claims ranges from around 60,000 to 120,000 a month. As part of its Tax Credits Transformation Programme, the Department plans to have fully operational by September 2009 an assisted claims service to support customers who would benefit from additional help in making their claim accurately. This assistance should also help to ensure that they receive their payments quickly and accurately and reduce the need for subsequent rework by the Department.

**3.12** The Department has also used its website to smooth demand by putting pre-recorded messages on helplines directing customers to its website for answers to common questions. It has used the business.gov website to reduce enquiries from businesses by providing an e-mail alert service for filing dates and other deadlines, such as payment dates. The Department needs to ensure its website information is kept up to date when deadlines change. In August 2008 we found that the listings had not been updated for the new Income Tax Self Assessment paper filing deadline of 31 October, and it incorrectly told people that the deadline for all returns was 31 January.

## Reducing avoidable contacts with customers

**3.13** Workload can be reduced by cutting out unnecessary contact with customers and reducing the need to complete forms. Reducing contact time and forms could release resources to use elsewhere or contribute to the Department's efficiency targets. From 2004-05, the Department removed the requirement to file a Self

Assessment return for over 1.6 million individual taxpayers (16 per cent), mainly those with relatively straightforward tax affairs who largely pay their tax through Pay As You Earn. As a result, it saved £2 million in 2007-08 in processing costs. Since 2004-05 it has also moved taxpayers with simple tax affairs on to the short Income Tax Self Assessment tax return, and raised the income threshold for filing a main tax return from £15,000 to £30,000. It has also simplified the main tax return. There are likely to be other opportunities to reduce contact, such as in the 2.9 million letters it sends to higher rate taxpayers asking if they need to file a Self Assessment return.

**3.14** Workload can be reduced by cutting down the amount of paper-based forms which need to be processed. When claimants renew their Tax Credits, differences between the provisional award and the actual entitlement give rise to overpayments or underpayments (Appendix 3). In April 2006, the income threshold at which awards are re-assessed was raised from £2,500 to £25,000 to provide greater certainty for claimants. This change had the effect of reducing overpayments.<sup>12</sup> It also reduced the number of paper based changes of circumstance from 706,000 in 2005-06 to 566,000 in 2007-08.

**3.15** Many calls to the Department from customers seek information about progress on a query. Other organisations we consulted estimate that between 15 and 35 per cent of contact is avoidable, such as progress chasing, and that reducing contacts would release capacity in meeting rising volumes of work. The Department has found that it can use demand management techniques such as pre-recorded messages and improved forms, to reduce customer demand in Contact Centres. Early evidence from pilots suggests that the Department could reduce demand by up to 20 per cent. For example, the Department in 2007 reviewed 4,500 calls to the Tax Credit Helpline over a six week period and found that customers often did not have all the paperwork to hand when they called the centre, requiring one or more callbacks. It estimated that as many as 40 per cent of calls were of limited value. Avoiding these calls would give potential for savings. The Department currently has a mismatch between supply and demand in its contact centres, so reducing calls which are avoidable would free up advisers to take other calls, and so improve customer accessibility. The cost to the Department of handling 15 per cent of calls is around £23 million, based on average call costs (Appendix 7). The value of resources that might be released by making a 15 per cent reduction could be lower because many avoidable calls are likely to be short, for example, where the customer does not have the right paperwork to hand. The Department is in the process of agreeing targets for managing caller demand.

<sup>11</sup> HMRC does not have data on Income Tax Self Assessment processing times.

<sup>12</sup> NAO, *HM Revenue & Customs 2006-07 Accounts: Report by the Comptroller and Auditor General*, paragraph 2.30.

## 11 Impact of Department's measures to raise customer awareness of Income tax and Tax Credit deadlines

### Advertising campaigns

In 2007-08 the Department spent just over £14.5 million on advertising campaigns to raise awareness of the Income Tax Self Assessment and Tax Credit renewal deadlines and encourage claimants and taxpayers to complete returns or claims on time and accurately.

The Department times the respective campaigns so they do not run at the same time to maximise the impact.

- The Income Tax Self Assessment campaign supported the Department's aim of maintaining levels of on-time filing at 88.5 per cent and increasing levels of online filing to 35 per cent.
- The Department's Tax Credit advertising campaign had a higher level of recognition than previous campaigns and the percentage of respondents who renewed by phone increased from 47 per cent in 2007 to 56 per cent in 2008.

### Contacting Customers

Around 250,000 claimants a year do not renew their Tax Credits claims on time. Many of these claimants face having to make a new claim and repaying all the provisional payments they have received between April and July.

In August 2007 the Department started to contact Tax Credit claimants whose circumstances have changed to remind them to renew before the deadline and, if required, renew their claim by phone. It contacted 146,000 customers. It also contacted taxpayers to resolve minor Income Tax queries.

The Department took the opportunity when calling Tax Credit claimants to ask additional questions. It found that over a third of them had additional circumstances to report.

By dealing with these changes promptly the Department estimates that this exercise reduced potential overpayments by £2.2 million before renewal, and reduced over and underpayments after renewal by £1 million each.

It also reduces the cost in administering over and underpayments, responding to disputes and recovering overpayments.

Tax Credit Renewals can be made by phone, as well as paper. The Department has reduced the number of paper renewals by encouraging claimants to renew by phone.

### Impact on workload

The timing of advertising campaigns influences the amount of calls to the Department's contact centres.

Advertising tends to increase the level of calls to the Department's contact centres as people become more aware of obligations to file a return or renew their Tax Credits and inform the Department of changes in their circumstances. There are, however, offsetting savings for customers from improved compliance with their tax obligations and in making claims.

The increase in contact centre workload from advertising is similar to the experience of other tax administrations in the Netherlands, Sweden, the United States and Canada who have also run advertising campaigns on filing/renewal deadlines.

### Impact on workload

Making the most of direct contacts with customers can result in savings in workload later in the process and prevent overpayments.

The Department estimates that its direct contacts with Tax Credit claimants prevented overpayments of £22 million, mostly from contacting customers who had not renewed on time.

Similarly calls to taxpayers about potential minor errors in their Income Tax returns increased tax yield by £12 million and saved processing costs in subsequent work to correct the errors.

A campaign to get customers to renew by telephone has helped to reduce the number of paper returns to four million paper renewals a year from around 5.5 million.

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

**3.16** The Department has used pre-recorded messages to reduce the enquiries it may otherwise have to deal with, for example, to deal with callers asking about the payment of tax and PAYE coding notices. The Department does not advertise call waiting times, so customers are not aware of how long it might take to respond to their enquiry. In the Netherlands Tax Administration call centre, average waiting times and targets are published online each week, and recorded messages are used to ask people to call back later at less busy times.

**3.17** The Department's actions can generate further customer contact. Sending a form or letter to a taxpayer may result in a call or letter from the customer. The Department is reviewing the need for some forms and other contacts with customers to reduce unnecessary contact (**Figure 12**).

**3.18** Clear information for taxpayers can also reduce the need for them to contact the Department and prevent taxpayers from submitting unnecessary supporting evidence which the Department must then return. The Department carries out additional checks to compare Tax Credit claims to claimants' rough workings if they send them in.

**3.19** Joining up services with other departments and agencies at the point of delivery can also reduce unnecessary processing and multiple contacts. Since September 2007 HM Revenue & Customs and the Department for Work and Pensions have piloted with local authorities a single point of contact for customers as they move in and out of work. There are currently 32 local authorities participating in the project. Usually these customers have up to 30 contacts with three different agencies and 30 per cent of information is asked for more than once. The pilot is to collect information once and share it. In research, three-quarters of customers considered the new process was easy to understand and half reported improvements such as quicker receipt of Tax Credits and Housing Benefit.

## 12 Examples of how the Department can reduce contact with its customers

### Example 1

The Department sends out around 17 million **Statements of Account** to customers advising them of the amounts due and paid on Income Tax Self Assessment. The Department has no legal obligation to issue a Statement of Account, but for customer service reasons issues a statement in certain circumstances.

Customers registered for Self Assessment online can view online the latest copy of their Statement and those issued in the previous three years. Authorised agents can also view all liabilities and payments for their clients.

**Sending the details online would save £18 million. Sending out paper details tends to prompt a contact from the customer or agent because the information is often out of date, whereas the details online show the most up to date position.**

### Example 2

The Department sends around 900,000 forms a year (P810 Targeted Review form) to taxpayers who are no longer required to submit a self assessment form because they have simple tax affairs. The aim is to check whether their circumstances have changed. The form is important for determining whether tax revenue is at risk because taxpayers are no longer required by the Department to file a tax return. (NAO Report on *Filing of Income Tax returns* June 2005 refers).

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

An Internal Audit Report in July 2008 found that as the form is the main way taxpayers inform the Department about changes to their circumstances, it is important that the information is processed. It found an inconsistent approach to processing the forms in the Department's offices. Some logged and processed soon after receipt, but others stockpiled the forms to work later. The Department is reviewing the need for and the design of the form. The Department needs a way of capturing significant changes in taxpayers' circumstances which are then all processed. It also needs a way of evaluating the criteria it applies in taking people out of the need to file, and the level of tax lost as a result. **If the Department selected a random sample of forms it could assess the overall tax at risk and reduce the level of processing work.**

### Example 3

Taxpayer groups we consulted considered that improved signposting on correspondence could help to reduce contact. For instance, the PAYE tax coding notice should state clearly that no action is required unless the coding appears wrong. In January 2009 the Department changed the letter accompanying the PAYE tax coding notice to make it clearer. It also put additional information on its website, increased advertising and used standard messages for inbound calls to help customers resolve common questions.



# APPENDIX ONE

This Appendix sets out our detailed recommendations.

## Smoothing peaks in workload

**1 The Department faces increasing peaks in workload at the same time as making staff reductions to meet efficiency saving targets. Peaks in work increase costs and can reduce the quality of service provided. Influencing customer demand for the Department's services can help reduce costs and improve the service provided. The Department should:**

- Provide more information to customers about expected processing times and call answering times during peak periods to encourage customers to submit tax returns and Tax Credit renewals early (paragraphs 1.16 and 3.10).
- Encourage customers to contact the Department outside peak times by, for example, using voice recorded messages, web information, including information about busy periods on forms and other information sent to customers and in advertising (paragraph 3.16).
- Raise awareness through increased telephone contacts outside the peak period in addition to advertising to get more claimants to update their circumstances at the point they change, rather than when they renew their Tax Credit claim. It could also offer a secure online facility to notify changes (paragraphs 3.11 to 3.12).

## Detailed recommendations

### Reducing avoidable contacts

**2 Contacts with customers that are avoidable increase the costs of the Department and waste customers' time. Building on the examples identified in this report, the Department should:**

- Reduce unnecessary work by identifying and improving or removing from use those forms and information it routinely requests, but for which there is no longer an operational need such as the 2.9 million letters it sends to higher rate taxpayers asking if they need to file a Self Assessment return (paragraph 3.13).
- Make further use of standard telephone messages to deal with frequently asked questions and provide more consistent information on the web about how to interact with the Department to reduce contact centre demand (paragraph 3.12).
- Reduce internally generated demand, for example, by putting statements of account online instead of sending out paper details to advise customers of the amounts due and paid on Income Tax Self Assessment. Paper details tends to prompt a contact from the customer or their agent because the information is often out of date, whereas the details online show the most up to date position (paragraph 3.17).
- Target specific groups of customers, in line with the approach adopted by the Tax Credit Assisted Claims Service, who are most prone to making errors such as those completing new claims and returns for the first time, and those on low incomes and pensions. The aim would be to use advertising and pre-recorded telephone messages covering the main types of errors and deadlines to encourage them to provide accurate and complete information on time (paragraph 3.15).
- Signpost on all types of forms the action, if any, the recipient should take and ensure that related information on the website is kept up to date (paragraph 3.12).

## Staff flexibility

**3 While the trough in processing work on Self Assessment returns coincides with the Tax Credits processing peak, the Department tends not to deploy staff flexibly across Tax Credit and Income Tax processing areas although contact centres have used staff on both business streams. Backlogs in other Self Assessment work, training and IT constrain the work that can be transferred and limit the numbers of staff that can be redeployed elsewhere. Other organisations make wider use of employing staff on part-year permanent contracts. The Department should:**

- Employ more modern employment and flexible working practices to better match the annual peaks in work, for example, using permanent fixed term staff for four to six months to cover annual peaks in processing workload. Changes in staffing should take account of the cost of any accompanying training and IT support needed to develop staff so they can in time be deployed across processing areas (paragraphs 2.6 to 2.9).
- Using its proposed new IT facilities, further analyse the work items in the backlogs of open Income Tax cases to identify highest risk cases that require further work, for example, those cases with underpaid or overpaid tax. It should then give these cases priority in its work to reduce the backlogs of work. The Department should contact those taxpayer groups which are most likely to have underpaid or overpaid tax (paragraphs 1.18 to 1.19).

## Processing productivity

**4 Productivity in processing varies, in part because the complexity of cases handled varies and the higher volume of cases at busy times tends to reduce unit cost. But the reasons for the variations cannot be fully explained. The average productivity for Tax Credits renewals processing is below the Department's operational target. The Department does not have comparative information on Income Tax Self Assessment processing productivity across offices. The Department should:**

- Develop its information on productivity levels and the unit costs of complex and more straightforward cases, and analyse this by office to identify good performance and practices (paragraphs 2.17-2.19).
- Revise internal processing targets to allow for the peaks of work and complexity of cases. Revised targets combined with information to customers about processing times during peak periods would give the Department flexibility to spread the work over the longer period to smooth the annual peaks in work (paragraphs 2.18 and 2.19).

- Maintain more consistent productivity levels through the year, for example, by batching Income Tax Self Assessment work in trough periods and stockpiling returns to achieve economies of scale (after consulting customer user groups). We estimate, for example, that increasing monthly levels of processing to that achieved in the third most productive month could release resources of around £12 million a year (paragraphs 2.20 and 2.21).

## Online services

**5 It costs the Department more to process paper forms and information than dealing with them online, and online services can also reduce levels of errors through validation checks. The Department has increased online filing of Income Tax returns and it is seeking to reinstate the online service for Tax Credit claimants once it has successfully piloted a new secure service and identified the necessary funding. Encouraging more customers to use online services and introducing more automation reduces processing costs and releases staff for other work.**

## On Income Tax Self Assessment the Department should:

- Publicise better that the Income Tax Self Assessment online enrolment needs an activation PIN to file online, and the time it takes to send the PIN before a taxpayer can file online. It can take up to a week for taxpayers to register for online submission and so taxpayers need to register well before the filing deadline. Greater publicity and better signposting of the time delay would help customers to submit their forms on time (paragraphs 3.5 to 3.6).
- Extend online services by e-mailing rather than posting PAYE tax coding notices to those who have filed their Income Tax Self Assessment returns online (paragraph 3.7).
- Explore the benefits and costs of contracting out more high volume, less sensitive, data capture work, as it has for Tax Credit new claims (paragraph 2.10).
- Pre-sort more post by using PO box addresses for its inbound mail instead of sorting it internally by hand and take advantage of spare capacity available to scan more forms (paragraphs 2.10 to 2.11).

## On Tax Credits the Department should:

- Widen the provision of online services for Tax Credit claimants once it is confident it can incorporate authentication to the high level necessary for a secure online service and it has identified the necessary funding. Services could include online notification of changes of circumstances, and making use of e-mail and text messaging to remind customers of the need to inform the Department of their changes of circumstances (paragraph 3.8).
- Once it has restored the Tax Credits online service, draw on its experience of increasing online filing of Income Tax Self Assessment returns by explaining the advantages of the online service such as reducing the level of customer errors (paragraphs 1.4, 3.5 and 3.8).



# APPENDIX TWO

## Scope and methodology

### Scope of the study

**1** This report examines the causes, extent and impact of variations in workload. It considers how the Department manages its resources to cope with peaks in workload, what it is doing to improve productivity, and looks at what the Department has done to smooth peaks in workload and how it can further smooth demand for its services.

**2** Our work focused on the Department's processing work on Income Tax Self Assessment and Tax Credits forms dealt with by the Tax Credit Office having first identified that these areas have significant variations in workload. (The Department's contact centres deal with telephone Tax Credit renewals). We considered the impact of variations on costs, operational performance and quality of service. We examined the impact on the demand in the Department's contact centres, but did not review the specific operations of the contact centres.

### Methodology

**3** The rationale for our methodology was to identify the main peaks and trends in Income Tax Self Assessment and Tax Credits processing. We then tested whether there is a correlation between peak workload and operational performance variations. We explored how work flows through the Department and the end-to-end process and the impact on its customers and other areas of the Department's business such as telephone contact centres. We then sought to identify the impact of workload variations on costs, performance and quality of service. We looked at the options to reduce cost or improve operational performance by comparing the (demand and supply side) approaches to manage variations in workload used by the Department with other organisations. We estimated the cost and the benefit of different options available to improve workload management in the context of wider organisational changes under way in the Department and the changing profile of work, for example, growth of online transactions.

### Our methodology included:

**4 Analysis of key financial and other data:** This involved quantitative analysis of HM Revenue and Custom's performance data to determine the main variations in workloads, the costs of peaks in workload and whether there was any difference in the Department's performance at times of high demand. This involved:

- review of workload data volumes;
- workflow mapping of key activities;
- financial analysis of the costs of peaks;
- review of monthly performance data including the accuracy and timeliness of processing, quality monitoring results and levels of sickness absence;
- comparisons with other international tax administrations and other public and private sector organisations; and
- analysis of statistically significant correlations between volumes of returns and forms received and rates of sickness absence, accuracy and productivity.

**5** We surveyed Department directors from Income Tax, Tax Credits, VAT, Debt Management and Banking, Tax Compliance and Charities, Assets and Residence to identify the main areas affected by workload variations. We chose to focus on Income Tax and Tax Credits processing because these experienced the largest variations in workload.

### Data Limitations

**6** Before 2006-07, the Department did not set productivity targets across its processing operations. The Department found it difficult to measure productivity as unit costs at national level included overheads such as accommodation and other non paybill costs. It also had found it difficult to set targets for specific offices as the work varied from office to office. Since 2006-07, the Department with the implementation of 'Lean' ways of working has

used a productivity measure based on the outputs per person per day in individual offices. It set productivity targets for individual offices to be reached 20 weeks after Lean implementation. These targets were set on the basis of current performance, staff experience levels and the precise type of work being undertaken and included the aim to improve current or baseline productivity. Since 2006-07 the Department has set up groups of offices changing the experience mix of the staff and the type of work being done. New strategic sites have also been identified. The Department has yet to complete the transfer of work from the non-strategic sites. Processing work is a mix of Lean and non Lean process activity and the type of work differs between offices. These changes have made it more difficult for the Department to compare office productivity. In May 2009 the Department was at an early stage in developing a measurement system to track and compare office productivity and identify good practice.

**7** We conducted 27 **structured interviews with the Department's staff**. This included interviewing those in charge of Income Tax and Tax Credits processing and those in the support functions such as marketing, HR, and contact centres. We also consulted representatives from the Public and Commercial Services Union.

**8** We commissioned KPMG to perform six **focus groups** with managers and other staff involved in administering Tax Credits and Income Tax. This comprised groups of staff from the Income Tax processing centre in Manchester, as well as groups from the Preston, Liverpool, and Washington offices. The focus groups centred on how staff and managers cope with peaks and troughs in workload and barriers to coping efficiently with fluctuations in demand.

**9** We visited four Income Tax processing offices in Portsmouth, Cardiff, and Kent and three Tax Credits offices in Liverpool, Netherton and Preston to understand the systems. We performed a **walkthrough of the following processes**:

- Income Tax Self Assessment.
- Customer Correspondence.
- PAYE Employers Maintenance.
- PAYE Open Cases.
- Tax Credits New Claims.
- Tax Credits Renewals.

Income Tax Processing has 240 offices and we could not have visited a representative sample. We selected Portsmouth because it is the model office for how the Department will operate in the future. We selected Cardiff because it is a large office and two Kent offices because

they have not yet been modernised. Tax Credits has six offices. We selected three offices which process the greatest number of new claims and renewals.

**10** We used **simulation modelling** of Self Assessment data provided to us by the Portsmouth and Cardiff offices to review the efficiency of the processes and consider alternative scenarios such as changing the mix of staff.

**11** We visited the tax administrations in Canada, Ireland, the Netherlands, and the United States and interviewed 20 staff members. We also carried out desk research of other tax administrations' annual reports. This enabled us to identify workload management practices used by other tax administrations that may benefit the Department.

**12** We also commissioned research from KPMG to identify the ways in which other private and public organisations cope with similar problems of peaks and troughs in workload. They identified these through interviews with five organisations, supplemented with desk-based research of other organisations. The five organisations interviewed were:

- AXA Insurance.
- Criminal Records Bureau.
- Identity and Passport Service.
- Leeds City Council.
- Marks and Spencer.

**13** We **consulted eight stakeholder groups (see below)** which represent individuals and tax professionals. We also consulted relevant parts of Department for Work and Pensions to identify the extent to which it is affected by in year variations in workload.

### Stakeholders consulted

Name	Organisation
Paddy Millard	TaxHelp for Older People
Janet Allbeson	One Parent Families/Gingerbread
Katie Lane	Citizens Advice
John Andrews	Low Incomes Tax Reform Group
Chas Roy-Chowdhury	Association of Chartered Certified Accountants
Robin Summers	Institute of Chartered Accountants in England and Wales
Philippa Stedman	Institute of Chartered Accountants in England and Wales
Elaine Gibson	Institute of Payroll Professionals
Tina Riches	Chartered Institute of Taxation

## APPENDIX THREE

### Stages in Tax Credit claims and Income Tax Self Assessment

#### Tax Credits

##### Timetable

During year

##### Stages

New tax credits claim – the Department accepts **Tax Credit claims** at any time of the year.

During year

Claimants are required to tell the Department immediately of any **change in circumstances**, because this can affect the amount of their entitlement.

by 31 July

Claimants must complete an **annual renewal form** which confirms their current circumstances and income.

Differences between the provisional award and actual entitlement give rise to **overpayments or underpayments**.

##### Workload Implications

The Department receives over 1.2 million new Tax Credit claims annually. It pays Tax Credits to claimants based on their income and family circumstances. The Department initially calculates a provisional award based on the claimant's income for the previous year and their current family circumstances.

If there have been changes to a claimant's circumstances the Department recalculates the award and amends the payments to reflect the latest information.

The Department receives around 4.5 million Tax Credit renewal forms and uses this information to assess the final award and where appropriate establish a provisional award for the new year.

HM Revenue and Customs seeks recovery of overpayments and settles underpayments as a lump sum.

The Department overpaid £7.3 billion in the first four years of the scheme and underpaid more than £2 billion.

#### Income Tax Self Assessment

##### Timetable

6 April

##### Stages

At the end of the tax year, those taxpayers with more complicated tax affairs have to complete a tax return. There are also certain circumstances in which taxpayers will always need to complete a tax return – for example, if they are self-employed, a company director or a trustee or if they have foreign income.

Taxpayers who have very simple financial affairs may not need to file a return. If Taxpayers pay tax on their earnings or pensions through PAYE (Pay As You Earn) their employer or pension provider deducts tax on their behalf and as such the taxpayer won't usually need to complete a tax return.

31 July

If taxpayers make payments on account, this is the **deadline for making a second 'payment on account' for tax owing for the preceding tax year**.

##### Workload Implications

After the end of the tax year, HM Revenue and Customs sends out a Notice to Complete a Tax Return to around 8.5 million taxpayers with more complicated tax affairs. If the taxpayer files their return on paper, the 'Notice to File' is the paper tax return itself. If they usually do it online, the Department sends the taxpayer a letter (called the 'Notice to File') telling them to do the return online.

The Department also sends out around 0.9 million Tax Review Forms to taxpayers who do not need to file a return, normally every three years to check that their circumstances have not changed. Taxpayers have to provide details of their taxable income.

If taxpayers still owe tax due to be paid by the previous 31 January, the Department will charge a second automatic five per cent surcharge on top of the amount they owe.

*continued*

**Income Tax Self Assessment *continued*****Timetable****Stages**

31 October

**Deadline for taxpayers to send back most completed paper Tax Returns to HM Revenue & Customs.****Also deadline for those who want the Department to calculate their tax.**

There are different types of tax return and different 'supplementary pages' taxpayers may need to complete depending on their circumstances. Taxpayers who are sent, or request, the main Self Assessment tax return receive a basic core return of 10 pages. There is a short four page tax return mainly for employees, the self employed with turnover of less than £30,000, pensioners, people with property income in the United Kingdom of below £15,000 and people receiving saving and investment income.

30 December

**Deadline for online returns (for tax to be collected through the taxpayer's tax code).**

31 January

**Deadline for a taxpayer to file their Tax Return online and some paper tax returns where the return cannot be filed online.**

Where a notice to complete a tax return is issued before 31 October, this is the deadline for sending back an online tax return.

Where a notice to file a tax return is issued after 31 October, the deadline to send it back is three months after the date of issue of the notice.

**Deadline for a taxpayer** sent a notice to complete a tax return by the previous 31 October, **to pay any balance** of tax that they owe. This is referred to as the '**balancing payment**'.

Taxpayers may also at this time be asked by the Department to **make a first 'payment on account' for the current tax year.**

28 February

**Deadline for taxpayers who have still not paid the balancing payment due by 31 January.****Workload Implications**

**Taxpayers can either complete the online or paper tax return** in order to tell HM Revenue & Customs about their income and capital gains (profits on the sale of certain assets), or to claim tax allowances or reliefs against their tax bill.

If a taxpayer submits a paper return the Department will:

- calculate the tax for the taxpayer;
- tell the taxpayer what to pay by the following 31 January; and
- collect tax through their tax code (if possible) where they owe less than £2,000 unless they tell the Department otherwise.

If the paper return arrives after this deadline the Department will charge an automatic £100 penalty.

If taxpayers send the Department their tax return online they must do it by this date if they want the Department to collect tax through their tax code.

Filing online gives the taxpayer three months longer to file the return than if they use a paper form – until 31 January following the end of the tax year instead of the previous 31 October.

If a return arrives after this deadline the Department will charge an automatic £100 penalty.

The Department will charge daily interest after this date, until they receive payment.

The Department will charge an automatic five per cent surcharge on top of the amount still owing. This is in addition to any interest payments.

## APPENDIX FOUR

# HM Revenue & Customs' performance against Public Service Agreement targets for 2007-08 relating to the processing of Income Tax returns, Tax Credits and contact centres

The Department had a Public Service Agreement target for the period up to the end of 2007-08 to improve the customer experience. It met its targets for online filing and the accuracy with which contacts were handled. While performance improved in other areas, the Department did not meet its targets for accuracy of processing, customer understanding of forms and customers success at the first point of contact.

Indicator	Target	Performance
<b>Respond accurately and completely to requests for advice</b>		
By 2007-08, increase to at least 80 per cent the proportion of individuals and businesses who said they achieved success at first point of contact	80% 2007-08	73.3% November 2007
By 2007-08, increase to at least 90 per cent the accuracy and completeness of information and advice given and action taken in response to the contact	90% 2007-08	93% March 2008
<b>Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easier and at minimum cost</b>		
By 2007-08, increase to at least 85 per cent the proportion of individuals who find their Self Assessment (SA) Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand	85% 2007-08	79.6% November 2007
<b>Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum</b>		
By 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and National Insurance Contributions	95% 2007-08	93.5% March 2008
By 2007-08, increase to 35 per cent the percentage of SA tax returns received online	35% 2007-08	45.97% March 2008

Source: HMRC 2008 annual report

## HM Revenue & Customs Departmental Strategic Objectives for 2008-09 to 2010-11

HM Revenue & Customs' Departmental Strategic Objectives (DSOs), as published in its 2008 annual report, are:

- DSO 1 – Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled;
- **DSO 2 – Improve customers' experiences of HMRC and improve the UK business environment; and**
- DSO 3 – Reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being.

**DSO 2 like the other DSOs is supported by a number of key performance indicators. These are:**

- Improve customers' perception of their experience of dealing with HMRC.
- Reduce by 10 per cent the administrative burden of forms and returns on business customers.
- Reduce by 15 per cent the administrative burden of audits and inspections on compliant business customers.
- Increase access to business facing content and business facing transactions from [businesslink.gov.uk](http://businesslink.gov.uk), delivering at least 95 per cent of cross-government agreed scope of website convergence.
- **Improve accuracy of processing in large-volume business areas, achieving at least 96 per cent on a composite indicator of accuracy.**
- **Improve timeliness of processing in key areas, covering VAT registration and Tax Credit and Child Benefit payments.**
- Improve correctness of advice and information given, and actions taken, in respect of contact from customers.

The key target indicators for Accuracy of HMRC processing in large volume business areas are:

### PAYE 97.6 per cent accuracy by 2010-11

	2007-08 (baseline) %	2008-09 %	2009-10 %	2010-11 %
DSO2 PAYE Accuracy	95.1	96.0	96.5	97.6

### Income Tax Self Assessment (ITSA) 90 per cent accuracy by 2010-11

	2007-08 (baseline) %	2008-09 %	2009-10 %	2010-11 %
DSO2, Self Assessment (SA) Accuracy	80.5	86.0	87.0	90.0

### Post Quality (Correctness of advice) 90 per cent accuracy by 2010-11

	2007-08 (baseline) %	2008-09 %	2009-10 %	2010-11 %
DSO2, (Accuracy at 40 days)	82.5	88.0	89.0	90.0





## APPENDIX FIVE


### Good practice in workload management identified in comparator institutions


#### Theme A: Maximising the flexibility and motivation of core staff

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Part-year contracts</b> 	<p>Identity and Passport Service (IPS) has a significant number of staff on 'part-year' contracts. These employees are classified as permanent, and have the appropriate security clearances, but have contracts of employment that require them to work for certain periods (typically January to September). These staff remain employees all-year round, but may take on additional employment elsewhere.</p>	<p>HM Revenue &amp; Customs (HMRC) does not use part-year permanent contracts, although they do employ staff on fixed term contracts for up to 11 months.</p> <p>The Department's contact centres increase the staff numbers during peak periods and reduce numbers at less busy times through staff turnover.</p>	<p>Training costs.</p> <p>Impact on achievement of efficiency targets and staff reductions.</p> <p>Revisions to employment contracts.</p> <p>Security clearances.</p>
<b>Offer overtime</b>	<p>The Canada Revenue Agency uses overtime as a short term solution when there are small peaks in demand as it is more cost efficient than recruiting staff for a short duration.</p>	<p>HMRC uses overtime to deal with peaks in workload and priority work.</p>	<p>Consult with staff and staff representatives to assess the appetite for working overtime.</p> <p>Take account of any wider policy which restricts overtime as anything other than a short term solution to resource shortages.</p> <p>Staff productivity can drop if overtime is overused.</p>
<b>Limiting when staff can take leave</b>	<p>The Dutch <i>Belastingdienst</i> (Tax Administration) forbids leave for its call centres at times of high demand.</p> <p>The Identity and Passport Service (IPS) flex leave allowances according to the time of year and demand requirements. For example, over the Christmas period it provides customer service and therefore sufficient staff cover whilst allowing as many people as possible to have a break without impacting on its service provision.</p>	<p>HMRC manages work through workforce planning, but it recognises that having permanent staff with generous flexi-time, annual leave, and who work around school term-times can make limiting leave difficult. However, local managers restrict leave at busy times. The Department's contact centres adjust leave allowances at busy times to help meet demand.</p>	<p>Consult with staff and staff representatives to ascertain the implications of placing restrictions on when leave can be taken.</p> <p>Make more use of leave planning and consider revising contracts for new staff to include restrictions on leave periods.</p>
 Opportunity for HMRC to use  Opportunity for HMRC to extend its use			


Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Evening shifts</b> 	<p>The staff make up an evening shift in Identity &amp; Passport Service offices, which means there is no need for additional IT or office accommodation investment.</p>	<p>Evening shifts are used at some of HMRC's offices and contact centres as this is often when contact is made by customers (outside of standard working hours). It also maximises the use of IT and buildings. The Department is increasing the number of locations using evening shifts.</p> <p>There are no night shifts as IT systems update at night.</p> <p>The Tax Credit helpline is open seven days a week from 8am to 8pm and agents are still very busy answering calls in the evenings (after 6pm). Calls received by the online services help desk have been on the increase year on year as more customers file their returns online.</p>	<p>The potential savings and additional costs of night shifts.</p> <p>The capability and availability of IT systems.</p>
<b>Using targets as a motivational tool for staff. This may involve setting different targets at different times of the year to reflect the changing working environment and the different demands affecting each office throughout the year</b> 	<p>In New Zealand the corporate targets are changed at peak times of the year and made easier to meet. This makes them more realistic and attainable by staff.</p> <p>Year-round targets have been used by the Canada Revenue Agency (CRA) and Irish Revenue Commissioners to encourage staff to process a certain number of cases per hour.</p> <p>In Canada staff use a 'traffic lights' system where data is reported for each tax centre. A colour coded system shows if various parts of the organisation are meeting their targets. This system brings about accountability, but also shows which areas have high demand so work can be shifted or resources reallocated.</p>	<p>HMRC has internal productivity targets, monitors teams on an hourly basis and makes a weekly assessment of performance against predetermined targets. This enables teams to see how well they are performing.</p>	<p>Ensure management IT systems can set and monitor variable targets effectively.</p>
<b>Cross/Graduated Training. Training of staff for a number of different skills at once (cross training) or training staff for a core skill, then adding extra skills gradually (Graduated training)</b> 	<p>The tax administrations in Ireland and Canada have used cross training. It allows staff to move to areas of high demand when needed. However, they have found that the effort of transferring a piece of work to someone may not have a net saving in time.</p> <p>The US Internal Revenue Service has used graduated training through which they offer a training programme where staff initially train on basic tax law and then move onto more complex areas. This ensures they gain a complete understanding of the systems and that they can eventually work in all departments of the business.</p>	<p>HMRC's contact centres have used cross training to increase staff flexibility by training on different taxes and benefits. Agents have trained to answer different types of queries. Timely provision of training is crucial so that staff can handle customer queries efficiently during peaks.</p>	<p>Build on existing cross training, for example, for transferring staff and 'blending of lines' between Self Assessment and Tax Credits for example for dealing with less complex data processing and capture.</p> <p>Flexible working depends on appropriate IT being in place.</p> <p>A move from specialist towards generalist may affect the quality of its work.</p> <p>The costs of training may preclude transferring work.</p>

## Theme B: Moving workload or resources



Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Moving workload to sections with spare capacity</b> 	<p>The Identity &amp; Passport Service operates a number of processing centres throughout the UK. It moves workload between centres in two ways:</p> <p>On a <b>planned</b> basis, where analysis of future demand suggests permanent changes to workload in particular areas. In these cases they 'redraw the boundaries' so that different areas send applications to different centres.</p> <p>On a <b>responsive</b> basis, where there is an increase in volume at one centre, or if there has been a problem at a processing centre.</p> <p>AXA Home Insurance switched incoming calls to contact centres in other parts of the AXA business when faced with high and unanticipated demand during the 2007 floods. Although not trained in home insurance products to the same extent, these staff managed to deal with a significant proportion of incoming calls.</p>	<p>At HMRC's office in Portsmouth a Customer Priority team of 48 staff works on items which are deemed a priority. Last year HMRC redirected 30,000 items of post from Maidstone to Portsmouth to reduce backlogs.</p> <p>Tax Credits allocated some of their work to other parts of HMRC to smooth out troughs of work elsewhere.</p> <p>HMRC has used expansion units for processing Tax Credits and Self Assessment; however, these were disbanded as it was felt they were an inefficient use of resources.</p> <p>A major barrier to moving work around has been the legacy PAYE system which has very limited flexibility. HMRC expects that the programme to Modernise PAYE Processing for Customers (MPPC) in 2009 will give it more flexibility to manage and prioritise work better.</p>	<p>Time to implement especially if it involves reprinting parts of the forms which tell customers where to post their applications/correspondence.</p> <p>The level of IT and staff training required to support the transfer work.</p>
<b>Move staff with spare capacity to other areas with high demand for resources</b>	<p>In Marks &amp; Spencer, all 'head office' employees below director level are expected to work for at least three days in stores over the Christmas period. This is partly to reduce the need for temporary staff, but also gives head office staff a broader appreciation of the business.</p> <p>In 2006, KPMG established an Audit Response Team, which is a body of resource with no recurring client work. Client Service Managers can call on the team if they are unable to deliver work with their existing resources.</p>	<p>HMRC has transferred staff for roles within the Income Tax team. These transferees receive advice from 'floorwalkers' where necessary.</p> <p>HMRC's contact centres have trained staff to answer different types of queries. Timely provision of training is crucial so that staff can handle customer queries efficiently during peaks.</p>	<p>Consult with staff.</p> <p>Assess the cost and time of extra training.</p> <p>With flexible IT systems this can involve moving the work rather than the staff.</p>

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<p><b>Use adjusted historic data to predict future resource requirements</b></p> 	<p>In the Canada Revenue Agency (CRA) call centre managers have information on every call made (including geographic area and time elapsed). They monitor this information in real time and ensure that calls are sent to call centres with spare capacity. This information feeds into future budgeting, which then becomes more accurate.</p> <p>In CRA tax processing centres managers use electronic spreadsheets to prepare work disposal plans based on known historical data such as anticipated workload and productivity rates. These are adjusted for technological or procedural changes, allocated funding and new processing targets.</p> <p>The work disposal plans provide information on how many employees are required and for what periods of time. They identify both the number of permanent employees that a work area should have as a base as well as the number of temporary staff needed to complete the work within the required timeframes.</p>	<p>HMRC delegates allocation of resources to different operational groups. Allocation of resource by central finance is largely made by:</p> <ul style="list-style-type: none"> <li>■ looking at what happened in the year before;</li> <li>■ adjusting in line with general resourcing pressures (for example, the five per cent efficiency target); and</li> <li>■ adjusting for any known events/ changes that may require changes to the amount of resource needed.</li> </ul>	<p>Reliant on quality management information being available.</p> <p>Some staff flexibility in the hours that they work would help to meet predicted resource needs.</p>

## Theme C: Using other resources to deal with peak periods

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Greater cooperation with the private sector</b> 	<p>Fujitsu and the tax administrations of Ireland and the Netherlands use self addressed envelopes with different PO boxes to route the post. This reduces the processing work required.</p> <p>Leeds City Council has outsourced some services that have a variable resource requirement, such as grass cutting and catering.</p> <p>Criminal Records Bureau (CRB) provides its service in conjunction with an external partner, Capita. The partnership takes the form of responsibility for different parts of the process, rather than as a top-up to in-house resource.</p>	<p>HMRC's area management programme included providing separate Postcodes for compliance and processing work which uses different PO box addresses in order to sort post.</p> <p>HMRC use Fujitsu for Tax Credit forms and Short Self Assessment Returns Processing and to capture data from paper returns.</p>	<p>Cost of process for sorting post.</p> <p>Evaluating the outsourced performance.</p> <p>Protecting customer data.</p>
<b>Using temporary staff</b>	<p>Many NHS Trusts operate staffing banks, especially for specialist skills such as midwifery and nursing. Under these arrangements, qualified practitioners are invited to apply to be on the 'bank' and security cleared, and once accepted are contacted (often at short notice) when there is a peak in demand (or to cover for sickness etc).</p> <p>Marks and Spencer (M&amp;S) recruit a large number of temporary staff for the Christmas period. M&amp;S contact staff who have previously worked for them and who have been assessed as performing well. Once previous employees have been targeted, M&amp;S makes up any shortfall through an open recruitment process.</p> <p>The Internal Revenue Service (IRS) in the US uses seasonal staff to provide more flexibility in resourcing. Seasonal staff work between 7-11 months a year and is generally a stable workforce (most come back year to year). They are regular IRS employees and have a contract to work a minimum number of months per year.</p>	<p>Since 2004 HMRC has reduced staff in post by 18,000. It has used staff on fixed term appointments (FTA) to provide workforce flexibility during periods of efficiency savings. As a general rule, HMRC uses temporary fixed term contracts for a maximum of 11 months. During 2004 to 2008 the numbers of FTAs increased to 6,000. It has since reduced the numbers of FTAs and expects to reduce them further.</p> <p>The Department has some 1,600 staff on fixed term (temporary) contracts but only 120 are employed for periods of less than 11 months. Retention rates have not been materially different and the cost of training has been proportionate to the role. For example, staff employed on temporary fixed term contracts carry out basis data capture activities which require limited knowledge.</p> <p>Fujitsu also uses temporary staff on their outsourced work. In fact, more than half of their workforce is temporary staff who work for 3-5 months per year to deal with renewals. There tend to be a lot of repeat workers each year.</p>	<p>Whether sufficiently qualified staff can be recruited.</p> <p>The capacity to train temporary staff.</p>



## Theme D: Reducing or postponing workload

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Harnessing technology</b> 	<p>The Department for Work and Pensions is currently piloting a voice risk analysis tool for reviews of housing benefit. This will offer assistance on possible fraudulent claims allowing only limited work to be conducted on those where no problems are thought to exist.</p>	<p>Tax Credits are using outbound telephony to resolve issues, as opposed to waiting for further correspondence. This closes cases on a more timely basis.</p> <p>The new PAYE service in 2009 should enable greater work sharing opportunities between offices when it comes into operation in 2009.</p> <p>HMRC is planning to pilot voice risk software by the Tax Credit Office in 2009 when telephoning a specific segment of customers.</p>	<p>Whether IT systems can handle developments.</p>
<b>Reducing workload through the automation and computerisation of processes including the use of bar-coding on tax submissions</b> 	<p>Many countries have introduced e-filing, including France, Italy, Mexico and Chile. In Chile in 2005, more than 95 per cent of taxpayers declared their income and taxes online.</p> <p>In Canada and the Netherlands the tax administrations use bar-coding for paper returns which reduces the need for data entry staff.</p> <p>They also use scanning of returns, automatic risk assessment software and automatic call routing to ensure the calls are matched to the appropriate members of staff.</p>	<p>HMRC is moving towards increased online filing of Self Assessment returns and is encouraging its customers to do so.</p> <p>HMRC uses Fujitsu to electronically scan Tax Credit applications.</p>	<p>Scope to use more scanning and automation in processing of claims/submissions.</p> <p>Outsource to reduce the set up costs.</p>
<b>Process re-engineering</b>	<p>Many organisations have used Business Process Re-engineering to identify duplicated or non-value-added tasks. The removal of such tasks increases capacity in other areas.</p>	<p>HMRC introduced Lean in 2005, primarily to remove waste by simplifying and standardising processes with an ultimate aim to increase efficiency and productivity of processing. The processing areas are now activity based and each employee is responsible for completion of a certain task/tasks within a process.</p>	
<b>Allow backlogs to build up and prioritisation of more important work</b>	<p>The Internal Revenue Service (IRS) prioritises work if it is not feasible to respond to all correspondence. Items of less importance are backlogged and worked on in quieter times of the year.</p> <p>AXA Home Insurance when faced with an increased volume of work following the floods of July 2007 amended its information requirements relating to household insurance claims. Instead of requiring two written quotes for any claim up to £500, AXA temporarily amended its requirements to a single written quote for any claim up to £2,000. This reduced the workload of AXA staff and the burden on customers. Subsequent research has suggested that the reduced requirements did not have a detrimental financial effect, and AXA is therefore considering easing its requirements permanently.</p>	<p>At the Maidstone office staff backlog post at busy periods. To keep track of backlogs incoming and outgoing post (distributed to other sites) is counted and recorded in an excel spreadsheet.</p> <p>At the Chatham office, worklist items are not worked at peak times; these are picked up later if possible. There is also a 'stock' system whereby priority is given to the tasks which are felt to be more important at that particular time of day/year.</p>	<p>Management systems to prioritise items and keep track of workload.</p> <p>Consider impact on operational performance.</p> <p>Explore customers' views on prioritising work.</p>



Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Perform staff training at quiet times of the year</b>	<p>The Dutch tax administration has found that the best time to train staff is during the quiet periods of the year. This includes temporary staff who they feel will stay on long enough for them to see the benefits. Temporary contracts in the Netherlands can last for up to three years.</p> <p>A similar approach has been adopted at the IRS where the planning process starts around June each year. From June to December the IRS carries out work planning and training so the workforce is ready for the peak workload.</p>	HMRC has adopted this technique where possible. However, due to the high staff turnover in the contact centres there has to be a rolling training programme.	High staff turnover would prove to be a barrier.
<b>Offer assistance to vulnerable groups</b>	In Canada they offer a Community Volunteer Income Tax Program, which is sponsored by the CRA and is delivered by community volunteer organisations that help low income Canadians fill in their income tax returns. This has helped reduce the number of errors being made on Canadian Income tax returns. In addition, the program facilitates low income Canadians receiving their rightful entitlements.	Taxpayers can get assistance at their local enquiry centres where face-to-face assistance is available. However these are not heavily publicised and so those who need help may not be aware that it is available.	Cost effectiveness of programmes.

## Theme E: Smoothing demand over longer periods

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<b>Timing of outbound communications</b> 	<p>In the Netherlands, the Belastingdienst call centres experience a peak in demand when customers respond to forms. To lessen the effect, they stagger the sending out of forms, for example, income tax statements are sent out over a month with over 1.5 million sent per week.</p>	<p>Around 9-10 million statement of account details are sent by HMRC to agents each year. Putting the details online would save £18 million as the mailshot is a 'snap shot' and tends to prompt a contact whereas the details online show the up to date position and would reduce contact.</p> <p>The strategy is now to send a statement of account twice a year and/or send an e-mail alert.</p> <p>25-26 million P2 coding notices are sent in Jan–March. HMRC has already smoothed the contacts by sending the notices out in tranches over 12 weeks. If these can be done electronically, it would save further costs.</p> <p>In advance of the May 2008 Income Tax changes which resulted in around three million P2 coding notices being sent to taxpayers, HMRC put a message for those calling the helpline to explain the purpose of the P2 notice.</p> <p>This was supported with more detailed information on HMRC's website about what it meant for those affected. This smoothed the expected peak in calls to the contact centre, improved the service and potentially saved taxpayers' time.</p>	<p>Potential to stagger sending out of forms.</p> <p>Impact on customer demand of staggered communications.</p>
<b>Advertising</b>	<p>In the Netherlands advertising has been used to attempt to change customer behaviour. This has not been particularly effective in the case of filing earlier as there is no incentive for customers to do so. There is, however, a disincentive (a fine) to file late.</p> <p>The experience of the Canada Revenue Agency is that advertising of the website or tax deadlines has actually increased general enquiries to call centres as people become more aware of general tax issues.</p>	<p>HMRC has a separate directorate devoted to understanding customer behaviour and advertises extensively around the Self Assessment filing and Tax Credit renewal deadlines.</p>	<p>Assessment of the benefits of advertising.</p>
<b>Reduce the number of people required to file returns and develop an understanding of taxpayer behaviour</b> 	<p>Around five per cent fewer Income Tax returns are now required than in 2002-03 as a result of removing some taxpayers from the SA regime.</p>	<p>HMRC is continuing to develop its understanding of taxpayer behaviour and has commissioned external research on how taxpayers react to different actions by a tax authority. The findings of this study should be available later this year and will be made publicly available.</p>	<p>Assessment of how necessary certain communications are.</p>

Potential technique	Case examples	Extent of use in the HMRC	Factors to consider if using the technique
<p><b>Create an information link between different taxes, so that customers do not have to provide the same information separately for different taxes</b></p> <p>●</p>	<p>This scheme has been used in Australia and has reduced the administration burden significantly. The IT systems have been developed to cope with these more complex submissions.</p>	<p>Improving HMRC's information on its customers is a central theme of its transformation programme up to 2017.</p>	
<p><b>Online returns and email alerts</b></p> <p>●</p>	<p>People can register an interest to claim Income Support, Jobseeker's Allowance, Employment Support Allowance or Incapacity Benefit online. But claimants still need to deal with a contact centre to complete the application and have an interview to check their identity and documentation. The Department for Work and Pensions intends to introduce online applications for Jobseeker's Allowance and State Pensions from July 2009.</p>	<p>On the Business Link Website if you file your VAT/Self Assessment/PAYE returns online, you can register to receive e-mails. These may remind you that your VAT return will soon be due or update you with VAT information, including the latest changes in VAT notices.</p> <p>This is an automatic process and can reach a number of people for a limited cost.</p> <p>HMRC is considering using e-mail alerts.</p>	<p>Data protection issues need to be considered before extending the online service.</p>
<p><b>Publicise average call waiting times so the public know when best to call</b></p> <p>●</p>	<p>In the Netherlands Belastingdienst call centre average waiting times and targets are published online each week.</p> <p>Furthermore, call centres use recorded messages at busy times to ask people to call back later.</p>	<p>Although recorded messages are used by HMRC, waiting times are not published.</p> <p>HMRC's contact centres used pre-recorded messages to publicise standard opening hours; additional opening hours if extended during peak periods and periods when IT systems are not available. For example, it used standard messages to deal with expected callers asking about the payment of their tax credits on the August Bank Holiday in 2008 to explain that payments would be made on the preceding Friday. This significantly reduced demand on the contact centres. It is also considering targeting customers who call without the required information using pre-recorded messages. The Department's Contact Centres were working on a project in 2009 to inform customers of processing timescales via pre-recorded messages, as well as more generally informing customers of the time it will take for correspondence to be answered.</p>	
<p>● Opportunity for HMRC to use      ● Opportunity for HMRC to extend its use</p>			

## APPENDIX SIX

## The Department's organisational structure

### Overview

HM Revenue & Customs was formed in April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments. It is one of the largest Government departments and one of the most complex organisations in the UK. Its impact is extensive – employing about one-fifth of all Civil Servants with staff working in over 300 locations, dealing with over 40 million individual and corporate customers and costing around £4.3 billion to run (excluding programme costs such as child benefit and child tax trusts). Over a quarter of the Department's staff are involved in administering Income Tax and Tax Credits.

### The Department's organisation

The Department is organised into four operational groups supported by other Corporate groups:

**Personal Tax.** Responsible for helping some 60 million individual customers across the UK to fulfil their tax obligations.

**Benefits & Credits.** Responsible for ensuring families receive the payments they are entitled to, that customers get it right first time, and that losses from fraud and error are reduced.

**Business Tax.** Responsible for ensuring businesses pay the right amount of tax while improving customers' experience and the overall UK business environment.

**Enforcement and Compliance.** Responsible for ensuring that the Department successfully collects the full and correct amount of money due from UK taxpayers.

### Resource Allocation

Each business group has discretion over how it allocates resources. Central finance allocates resources to the groups based on expenditure the year before. Budgets are adjusted in line with general resource pressures (a five per cent spending reduction). Budgets may be increased to take account of future events. For example, the Department has expanded Contact Centre capacity by 1,325 posts to improve the level of customer service.<sup>13</sup>

### Office Structure

Processing of Income Tax takes place in around 240 offices across the UK. The Department plans to move processing work to fewer large sites as part of its plans to reduce its estate costs by £100 million a year. There are six Tax Credit sites. The Department does not move Income Tax staff around its offices so each office has to manage variations in workload locally. It moves some work between offices by post but it cannot routinely move work electronically. This processing work is supported by the telephone contact centres, to which all the customer telephone enquiries are routed.

Staff who work on Income Tax processing also deal with customer correspondence, update customer records and Pay As You Earn cases (PAYE Employers Maintenance and PAYE Open Cases). Staff who work on Tax Credits also deal with new claims and renewals, customer correspondence, customer complaints and recovery of overpayments.

<sup>13</sup> HM Revenue & Customs Departmental Report 2008.

# APPENDIX SEVEN

## Potential areas for releasing resources

### Estimate of resources already released by the Department

Nature of activity	Resources released	Source
The Department when contacting Tax Credit claimants who have not renewed by the July deadline asks additional questions to check that claimants circumstances are up to date.	Such contacts have reduced overpayments by £22 million. (One-off saving).	HM Revenue and Customs: based on data from its 'Reach Out Renewal' pilot.
The Department has taken some taxpayers out of the need to file a tax return.	This has saved £2 million in 2007-08. (Based on 329,000 taxpayers and a net average saving of £7 per case).	HM Revenue and Customs.
Further use of online Self Assessment filing in 2007-08.	£5 million in processing costs.	HM Revenue and Customs.

### Further opportunities to release resources

Nature of activity	Potential to release resources	Source
The Department considers it could reduce the customer demand to its call centres by 20 per cent as up to 40 per cent of calls are avoidable. Other organisations consulted suggest 15 to 35 per cent of contact is avoidable.	Potentially up to £23.4 million each year. If the Department were to achieve a 15 per cent reduction in caller demand, based on the evidence from its pilots of demand management techniques and the experience of other organisations, customer accessibility and experience would improve. The Department is working on specific targets for this reduction. 15 per cent of calls handled equates to 9.4 million calls each year. On average a call costs the Department £2.50 to handle. Avoidable calls may cost less as there are likely to be shorter and less complex so the resources released may be lower than £23.4 million.	NAO Calculations.
Maintain more consistent productivity levels through the year such as by batching Income Tax Self Assessment work in trough periods and closer matching of Tax Credit and Income Tax Self Assessment staff to volumes.	Potentially £12 million could be released each year excluding training costs. Based on the Department achieving productivity for the third most productive month across the year and retaining the productivity levels in the most productive months.	NAO calculations.
There is spare capacity to increase the scanning of tax returns at the Netherton office.	Could release over £3 million each year. There were three million paper returns submitted to the Department in 2007-08 that were not scanned. On average it takes around four minutes longer to process a paper return than an electronic return. This costs around £1 in staff time per return.	NAO calculations.

# GLOSSARY

<b>Workload</b>	The total amount of work to be performed by an individual, a department, or other group of workers in a period of time.
<b>Part-year permanent contracts</b>	Permanent contracts for staff which require them to work for a minimum amount of time in a year, as used by the Identity and Passport Office and the Internal Revenue Service in the United States.
<b>Productivity</b>	This is the output of units of work (for example, of tax returns processed) for the amount of work input (such as full time employee days).
<b>Tax Credits</b>	These are payments made by the Government to people who look after children or young people (Child Tax Credit), as well as to people who work on low incomes (Working Tax Credit).
<b>Income Tax Self Assessment</b>	Self Assessment involves the taxpayer completing an online or paper tax return to declare income and capital gains or to claim tax allowances or reliefs against their tax bill. From this information either the individual or the Department calculates the tax due.
<b>Pay As You Earn</b>	This is when tax is collected directly from an employee's salary by the employer on behalf of the Government.
<b>Temporary staff</b>	These are staff used on a short-term basis to meet peak demand. A temporary worker who has worked for 11 months will be treated as a permanent worker thereafter in HM Revenue & Customs.
<b>Work on hand</b>	This is work that the Department has not done at the end of the month. This can include forms which require further checks because of apparent data inconsistency and returns to be processed.
<b>Backlogs</b>	We use backlogs to describe work that the Department has not been able to do at a certain point in time. This should be distinguished from work that has been deliberately left to build up so that it can be done more productively in a large batch.