



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 184
SESSION 2010–2011**

30 JUNE 2010

HM Revenue & Customs

The efficiency of National Insurance administration

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.



National Audit Office

HM Revenue & Customs

The efficiency of National Insurance administration

Ordered by the House of Commons
to be printed on 28 June 2010

Report by the Comptroller and Auditor General

HC 184 Session 2010–2011
30 June 2010

London: The Stationery Office
£14.75

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

Amyas Morse
Comptroller and
Auditor General

National Audit Office

22 June 2010

National Insurance involves obligatory payments to the Exchequer by people working in the UK and their employers. A person's payment history, including any credits awarded, determines entitlement to certain welfare benefits.

© National Audit Office 2010

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Contents

Summary **4**

Part One

Organisation and management
of National Insurance
administration **12**

Part Two

HMRC's progress in improving
the efficiency of National
Insurance administration **17**

Part Three

National Insurance administration
governance arrangements **28**

Appendix One

Methodology **33**

The National Audit Office study team
consisted of:

Guy Atkins, Sid Kalita, Andrew Packer
and Philippa Paul, under the
direction of Jane Wheeler

This report can be found on the
National Audit Office website at
www.nao.org.uk/ni-administration-2010

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

Summary

1 National Insurance involves obligatory payments to the Exchequer by people working in the UK and their employers. A person's payments history (including any credits awarded, for example as a registered jobseeker) determines entitlement to certain retirement and working-age welfare benefits, notably the basic State Pension and Jobseeker's Allowance.

2 Within the system of National Insurance, HM Revenue & Customs (HMRC) has the major role of collecting payments and maintaining the National Insurance database of some 71 million personal histories (**Figure 1**). Other parties are also involved in National Insurance administration (**Figure 2** on page 6), notably:

- the Department for Work and Pensions which, in Great Britain, awards some National Insurance credits to individuals and issues National Insurance numbers to adults, and passes this information to HMRC. The Department for Work and Pensions is also responsible for welfare policy on National Insurance matters. It uses the National Insurance database to administer welfare benefits; and
- employers calculate the National Insurance liability of their employees, deduct this from their pay and pay this to HMRC, along with their own liability for National Insurance.

3 National Insurance receipts totalled £97 billion in 2008-09. There are four classes of National Insurance:

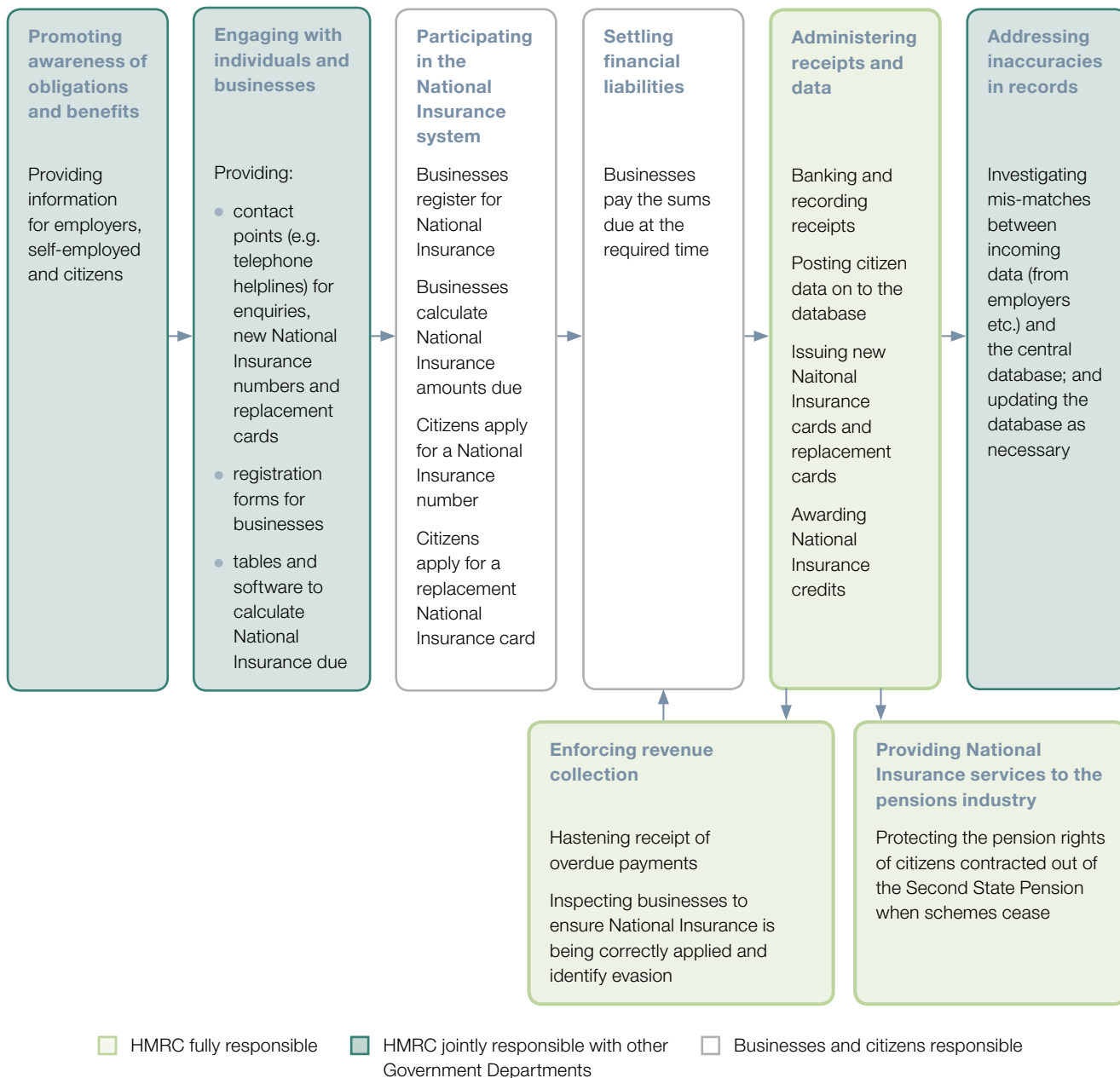
- Class 1 paid by employers and employees (97 per cent of receipts in 2008-09);
- Class 2 paid by the self-employed at a flat rate;
- Class 3 voluntary payments by citizens to increase their entitlement to welfare benefits; and
- Class 4 paid by the self-employed on profits.

4 The operational structure within HMRC splits responsibilities as follows:

- the National Insurance Contributions Office (the Contributions Office) is responsible for maintaining the personal histories on the National Insurance database;
- PAYE, Self Assessment and National Insurance Contributions Directorate is responsible for designing and maintaining administrative processes;
- certain activities, such as debt management and checking compliance, are conducted through HMRC-wide systems that cover other taxes, thereby allowing HMRC to deploy resources more efficiently and minimise burdens on business; and
- support activities, such as IT and accommodation, are organised and controlled centrally to help secure benefits from economies of scale.

Figure 1

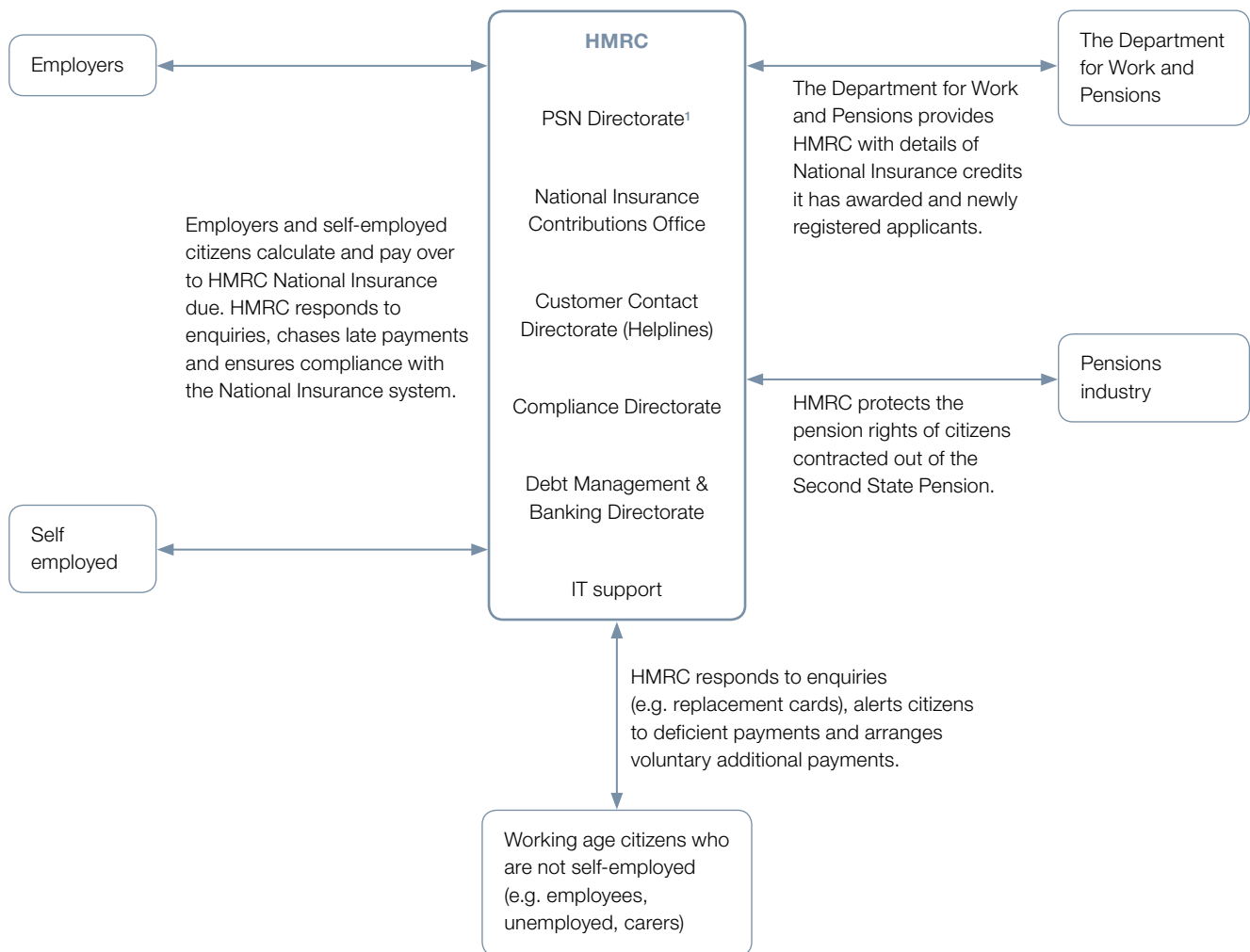
Summary of the main stages of National Insurance administration involving HMRC



Source: National Audit Office

5 This report looks at how HMRC has administered its National Insurance responsibilities, focusing on efficiency in using resources since 2006-07. We look in detail at the Contributions Office. We also consider the roles of other units administering National Insurance: the customer contact helplines handling National Insurance enquiries; and the Debt Management & Banking and Local Compliance directorates, where National Insurance forms part of their work alongside other taxes, and separate National Insurance information is not routinely available.

Figure 2
HMRC's interaction with others



NOTE

1 PSN: PAYE, Self Assessment and National Insurance Contributions Directorate.

6 Part One explains HMRC's approach to administering National Insurance and increasing efficiency. Part Two provides our analysis of value for money, based on:

- the extent to which HMRC has minimised costs by eliminating waste and adopting more efficient practices;
- whether productivity and quality of service have been maintained or improved; and
- whether the level of work awaiting processing has remained stable or reduced.

Part Three looks at the governance arrangements for National Insurance administration, covering the arrangements for joint working within HMRC and between HMRC and the Department for Work and Pensions; and medium to longer term planning arrangements. Appendix One explains our main research methods.

Key findings

Reductions in staff

7 HMRC has successfully reduced the number of staff deployed on National Insurance administration. Staffing levels in the main operating units fell by between 16 and 31 per cent in the four years to 2009-10. The reduction at the Contributions Office was 31 per cent, equivalent to 1,209 full time staff. The staff reductions have contributed to HMRC's wider savings targets set by the Spending Reviews of 2004 and 2007.

8 The Contributions Office achieved its staff reductions through a new system for managing operational performance, a series of procedural changes to eliminate waste and a reduction in workload partly from greater automation. The innovative management changes form part of HMRC's wider PaceSetter initiative to improve the efficiency of operations. Where activities were comparable over the period since 2006-07, the Contributions Office has successfully increased productivity by between 22 per cent and 45 per cent up to March 2010. The availability of funding for IT improvements is in part constraining further operational changes that the Office has identified to make better use of staff.

The effect of staff reductions on efficiency

9 It is likely that the reduction in staff numbers has led to an improvement in overall efficiency, although the extent of the improvement is not clear. We define efficiency as the relationship between costs of the system and the operational performance achieved. HMRC does not have a clear picture of the total costs incurred in administering National Insurance, and how these have changed. In 2008-09, it spent £343 million administering National Insurance. Precise comparisons with previous years (2007-08: £383 million and 2006-07: £321 million) are of limited value as HMRC has progressively improved the way it captures costs associated with National Insurance administration and how it allocates central costs to different activities. For example, compared to 2007-08,

in 2008-09 indirect costs from central department expenditure allocated to National Insurance administration fell by £21 million as the Department improved its management information. Within the Contributions Office, direct paybill costs fell from £84 million (2006-07) to £65 million (2008-09).

10 On operational performance, there have been no major failures in systems but trends at a business unit level create uncertainty about how far National Insurance administration has become more efficient. The Contributions Office's operational performance has been mixed. In 2009-10, the Contributions Office achieved 92.9 per cent for processing data accurately against its target of 96.5 per cent, and was below target on its response times on correspondence. Since 2007-08, the Contributions Office has improved its performance for overall accuracy of processing but response times for correspondence have deteriorated. On productivity, the Contributions Office has demonstrated improved performance where comparisons are possible. Against productivity targets set to challenge teams to improve their performance each year, 50 per cent of its 129 measured activities met their targets in 2009-10. Of the 20 activities using most staff, nine met or exceeded their productivity target, with two missing their target by more than 25 per cent. More generally, the Contributions Office achieved accreditation to the Cabinet Office's Customer Service Excellence standard in 2009.

11 As regards other business units, while the revenue yield to cost ratio of compliance work has increased, much of the work focuses on Income Tax so the effects on National Insurance compliance are uncertain. On the telephone helplines, performance has fluctuated reflecting the wider trends in HMRC's handling of telephone enquiries on which we reported in January 2010. On debt management, levels of National Insurance write-offs and Class 2 debt have increased, as HMRC has tended to prioritise higher value debts.

12 Across the wider system of National Insurance there remains a number of long-standing data accuracy issues which if not resolved may affect people's future pension and benefit entitlements. In 2009, HMRC and the Department for Work and Pensions established a Credits Steering Group to resolve inaccuracies arising from data mismatches between the two Departments. Errors requiring action include incorrect recording of individuals' periods of incapacity on HMRC's database during the period from 1994 to 2004, and omissions in recording some people's entitlement to Home Responsibility Protection that determines State Pension qualification for individuals with caring responsibilities.

Steps taken to improve the efficiency of entire processes

13 In complex administrative systems, overall efficiency will only be maximised if processes are managed in their entirety rather than as a series of discrete activities. Where connected activities are located in different operating units, there is a risk that opportunities to reduce duplicated or low value work are not taken. In the context of National Insurance, HMRC and the Department for Work and Pensions both recognise this risk, and have actively encouraged operating units to work together to resolve issues and take advantage of opportunities to secure efficiency savings.

14 In line with HMRC's approach on implementing PaceSetter, the Contributions Office has largely focused on activities within its immediate control rather than reviewing end-to-end processes across operating units. A number of important efficiency enhancing projects got underway in 2009. For example, the Contributions Office and the customer contact centre are working together in using PaceSetter techniques to streamline processes to resolve more queries at the first point of contact. HMRC has also begun to work with the Department for Work and Pensions to make the process of issuing National Insurance numbers to adults more efficient. The timing reflects HMRC's approach of embedding PaceSetter within operating units as a realistic first step. Scope exists therefore for a more coordinated approach, starting with a systematic review of where the different operating units engage with each other.

Management information

15 Additional management information could facilitate further efficiencies:

- It is good practice for annual productivity performance information to facilitate year-on-year comparison. The Contributions Office's performance information does not allow this, in part due to the changing nature of its work.
- HMRC has also not determined the full cost of individual activities and, where appropriate, married costs with linked activities in other operating units.
- It does not monitor all volumes of activity in administering National Insurance, or how costs of fully automated systems for processing incoming work compare with systems requiring staff input.

Strategic planning

16 A key strategic aim for the National Insurance system is maintaining accurate records on the database. This is because of the effect of an individual's record on future entitlements to pension and other benefits. While improving the quality of data on the database is a key priority for the Contributions Office it should not be regarded as the responsibility of the Contributions Office alone. There is a need for closer working across the different business units within the National Insurance system, and with employers, to drive up accuracy in the data they submit to the Contributions Office. In addition, qualifying criteria for pensions and benefits can change, for example, the number of years of contributions required. The Department therefore needs to ensure that in setting the required standards of accuracy it takes account of all reasonable scenarios of future welfare changes.

Conclusion on value for money

17 HMRC has taken significant steps to improve the efficiency of National Insurance administration but it needs to demonstrate more clearly that it is achieving value for money from the £343 million spent on this work. The highlights of the change achieved include the significant reduction in the number of staff deployed, action taken to require employers to communicate with HMRC electronically and examples of increased staff productivity in the Contributions Office. These are significant achievements, not least as there have been no significant system failures during the period of change. However, HMRC is achieving some but not all of its operational targets, a number of long-standing data accuracy issues persist and it has achieved limited progress in implementing efficiency initiatives involving more than one operating unit. Better information on the impact of operational changes and on how units interact with each other would allow HMRC to secure further efficiency savings.

Recommendations

18 Steps that would help improve efficiency in the short term: These recommendations should enable HMRC to identify opportunities for increasing efficiency more systematically, and facilitate a more informed approach to setting operational priorities.

- a** **HMRC has restricted its process reforms to activities within each operating unit rather than as part of an end-to-end review of processes across units.** To help maximise efficiency in National Insurance administration HMRC should develop its approach in two ways. It should give priority to applying PaceSetter principles to whole processes, encouraging operating units to work together to secure efficiencies. HMRC should also give renewed effort to maximising the value from resources applied to corrective work, either by dealing with root causes or applying priorities for securing the accuracy of the National Insurance database most cost-effectively.
- b** **The full cost of individual activities within the Contributions Office has not been determined and, where appropriate, married with linked activities in other operating units.** To inform decisions on future design of activities, especially the mix between staff and IT support, HMRC should at regular intervals, and not less than annually, determine the full costs incurred on individual activities, within the Contributions Office and across other operating units.
- c** **The performance data of the Contributions Office does not show clearly how productivity has changed over time.** Where the mix of work varies significantly from year to year for individual activities, HMRC should consider adopting a system of unitisation, which grades the complexity of work into standard units of processing time, to enable comparisons between years.

19 Steps that would help to increase efficiency in the longer term: These recommendations should enable HMRC to adopt a more strategic approach to increasing efficiency and provide operating units with a clearer planning framework.

- a **There is limited planning across National Insurance administration to ensure that the goal of accuracy of the National Insurance database is consistently applied and its targets take account of the longer term costs and consequences of inaccurate processing.** HMRC should be clear about the standard of accuracy it is seeking to achieve over the longer term and take account of possible scenarios of future welfare changes.
- b **The operating units in HMRC set their priorities largely independently of each other.** Notwithstanding its strategic approach to administering National Insurance, HMRC should set guidelines to the operating units on increasing efficiency over the next three years. The guidelines should specify the areas of investment that should have priority; which underlying problems should have greater attention; and where operating units should endeavour to work more closely.
- c **There is limited strategic thinking around the system's long-term future.** HMRC is developing an overarching operational strategy based on its approach to different types of customer behaviour. To inform future investment decisions, the strategy should be underpinned by a clear and costed picture of the end-to-end processes it administers – including National Insurance. This should cover long-term objectives, key issues that could have a major impact on efficiency and the potential contribution of further automation.
- d **There is low visibility of how existing costs compare with the cheapest possible administrative solution.** Although there are presently very limited funds available for major IT enhancements, HMRC should consider how individual administrative procedures might undergo a more fundamental change over the longer term to achieve optimum efficiency. It should also consider the opportunities for reducing incorrect or incomplete incoming data and for exerting greater control of how work is received, with special attention to further reducing the use of more costly paper-based processes. Such consideration would help provide strategic direction to operational changes, determine the strength of opportunities for investment and ensure that HMRC is ready to progress changes should funds for further automation become available.

20 A step that would help demonstrate more clearly the progress made by HMRC in optimising efficiency: This recommendation should enable HMRC to meet its obligations in *Managing Public Money* for managing resources and help drive value for money across the system.

- a **HMRC has not clearly demonstrated the extent to which it is achieving value for money. Unlike other taxes, National Insurance spans two Departments and has important objectives that go beyond the collection of revenue.** HMRC's monitoring and reporting of performance on National Insurance should reflect its various objectives. Senior management should have full visibility of results across the end-to-end process, progress in improving joint working between operational units and areas where action could improve the efficiency of the process and benefit the customer.

Part One

Organisation and management of National Insurance administration

1.1 This Part looks at the following aspects of National Insurance administration:

- how it is organised;
- the approach to improving efficiency; and
- management information requirements.

How National Insurance administration is organised

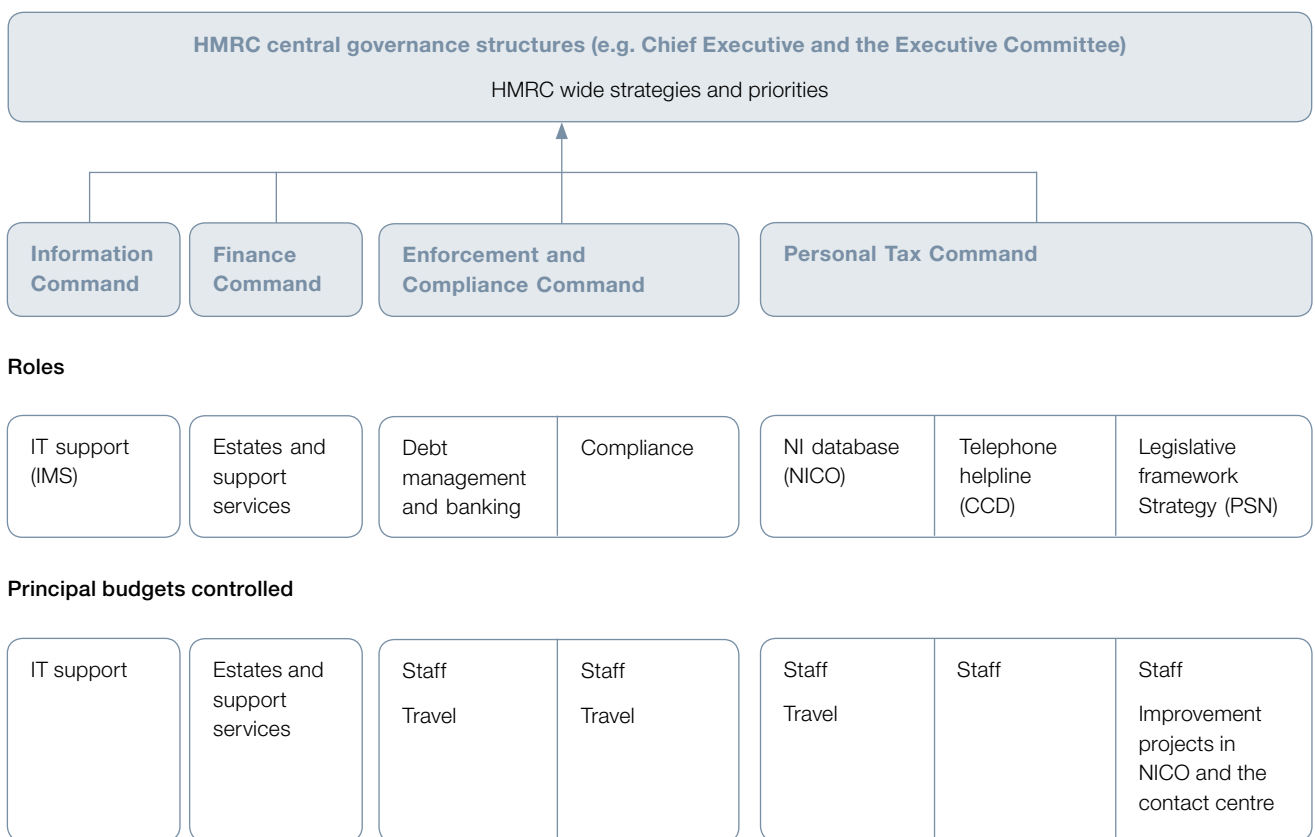
1.2 The administration of National Insurance involves several HMRC business units. These process incoming receipts and data, develop and deliver the legislative framework and implement overall departmental priorities, such as minimising revenue losses. The organisational structure aims to assign the control of budgets to those best placed to exert downward pressure on costs while still achieving productivity and quality of service objectives (**Figure 3**). The main features of National Insurance administration are:

- The Contributions Office has lead responsibility for maintaining the 71 million personal histories on the National Insurance database. It updates about 40 million of these histories each year. The database includes dormant histories where citizens who have left the UK may return and where a deceased person gives a benefit entitlement to a living relative. The Contributions Office is part of the Personal Tax command, thereby establishing a clear line of responsibility to the HMRC's Executive Committee and Chief Executive.
- PSN (PAYE, Self Assessment and NI Contributions) Directorate within the Personal Tax command is responsible for the legislative framework and for ensuring the administrative processes are designed to operate efficiently, thereby providing a single point for strategic matters while ensuring that such matters are an integral part of the administrative structure.

- HMRC conduct certain activities through departmental-wide systems that cover other taxes, such as the processing of returns from the self-employed and employers, the management of debt and enforcement. For example, when HMRC investigates whether a business has met its tax obligations, it considers National Insurance at the same time as Income Tax. This approach has potential value for money advantages as it allows HMRC to deploy resources more efficiently across taxes and minimise burdens on business.
- Support activities, notably IT support and accommodation, are organised and controlled centrally to help secure benefits from economies of scale.

Figure 3

HMRC’s organisational structure for administering National Insurance and controlling administrative expenditure



NOTE

1 Abbreviations: IMS (Information Management Services); NICO (National Insurance Contributions Office); CCD (Customer Contact Directorate); and PSN (PAYE, Self Assessment and National Insurance Contributions Directorate).

1.3 The Contributions Office undertakes around 140 discrete activities. A key task is dealing with incomplete and incorrect data. These centre around handling incoming data that requires a manual intervention before the National Insurance database can be updated and ensuring revenue accords with amounts due. The Contributions Office also pays rebates into private pensions schemes contracted out of the State Second Pension. **Figure 4** illustrates the activities undertaken by the Contributions Office.

1.4 Three other main operating units are directly involved with the administration of National Insurance:

- the **Debt Management and Banking Directorate** banks incoming receipts and chases monies calculated as due but not received;
- the **Local Compliance Directorate** inspects businesses to ensure that National Insurance is correctly applied and, in particular, that evasion is not taking place; and
- the **Customer Contact Directorate's helplines** handle telephone enquiries from the public and businesses relating to National Insurance.

1.5 Operational priorities in the administration of National Insurance in the four years to 2009-10 reflect departmental-wide developments, in particular:

- the Carter Programme requiring employers to increasingly send their returns to HMRC electronically;
- the staged bringing together of PAYE and National Insurance records on to a single computer platform, in a large computer project known as MPPC (Modernisation of PAYE Processes for Customers), which has restricted opportunities to make system changes to the National Insurance database; and
- the implementation of major policy changes related to the basic State Pension, which have been in planning since 2007 and take effect from 2010.

HMRC's approach to improving efficiency of National Insurance administration

1.6 HMRC's Departmental Transformation Programme is a series of initiatives to improve its operational performance. Introduced in 2006-07, the Programme seeks to transform the customer experience, improve the effective management of revenue and reduce costs through improved management of staff, processes and assets. A key element of the Programme is PaceSetter, a process improvement programme seeking to eliminate waste, increase productivity and quality, and reduce the time taken to complete activities.

Figure 4

Examples of activities undertaken by the Contributions Office

Activities	Staff input (Full Time Equivalents) 2009-10
Ensuring the accurate maintenance of self employed customer records and overseeing the collection of Class 2 and Class 3 National Insurance	183
Liaising with occupational pension schemes to ensure that the pensions rights of members contracted out of the Second State Pension salary-related schemes are safeguarded, when scheme ceases	139
Recording information from individuals becoming self employed on relevant systems	113
Arranging refunds which have been paid in error or in excess of the annual maximum	88
Matching incoming National Insurance histories with the central database after initial rejection by the automated validation and tolerance checks	44
Processing applications to register for National Insurance numbers	42
Investigating and arranging refunds paid in error by employers	35

Source: HM Revenue & Customs

1.7 The Contributions Office began implementing PaceSetter in January 2006. Its application of PaceSetter includes daily and weekly meetings of managers and operational staff that review progress against targets, resolve problems, and capture and progress ideas for improvement. Advanced visual management techniques monitor performance against daily and weekly quality of service and productivity targets (**Figure 5** overleaf). In line with HMRC's approach to implementing PaceSetter, the Contributions Office has largely focused its Pacesetter on activities within its unit rather than as part of an end-to-end review of processes across operating units. For example, it has generally focused on mapping the parts of processes that it undertakes rather than whole processes. HMRC's approach was a practical measure to facilitate quicker application of PaceSetter principles. However, it is good practice to consider processes in their entirety to identify the full opportunities to deliver further savings, especially options to stop work arising in the first place, and ensure changes in one part of a process do not create problems in another.

1.8 HMRC's strategy for PaceSetter since 2009 is to accelerate its implementation across the Department, with priority given to areas likely to produce the greatest benefits. Debt management and banking, enforcement and compliance, and customer contact are the three priority areas.

Figure 5

The Contributions Office's performance boards

Board	Information captured by board
1 Team performance board	Daily and weekly productivity trends, results of quality checks, staff availability and ideas for improvements to processes
2 Process performance board	Performance at a process level, (e.g. comparing actual productivity against targets)
3 Performance hubs	Performance of activities grouped together for senior management

Source: The Contributions Office

Part Two

HMRC's progress in improving the efficiency of National Insurance administration

2.1 This Part examines the costs of administering National Insurance and the steps taken to reduce these costs. It also examines operational performance.

The total costs of administering National Insurance

2.2 In 2008-09, HMRC incurred £343 million administering National Insurance, which included £17 million for central HMRC overheads and a share of unallocated central costs (**Figure 6**). HMRC used informed estimates to calculate the costs of banking receipts, ensuring compliance with regulations, managing debt and providing IT support because National Insurance related work is not a discrete activity. Comparisons of total costs for 2008-09 with previous years are of limited value as HMRC has progressively improved the allocation of costs to National Insurance work. For example, compared to 2007-08, in 2008-09 indirect costs from central department expenditure allocated to National Insurance administration fell by £21 million as the Department improved its management information. The £343 million for 2008-09 represented 0.35 pence for each pound of National Insurance revenue collected. This compares with 0.37 pence in 2007-08 and 0.35 pence in 2006-07.

Figure 6

HMRC's costs for National Insurance administration in 2008-09 (£ million)

Operating unit	Direct costs		Indirect costs			Total
	Payroll	Other	Accommodation and support services	IT support	Other	
Contributions Office	65	2	19	42	21	149
Debt Management and Banking Directorate	27	4	7	8	7	53
Local Compliance Directorate	32	1	7	5	8	53
National Insurance helplines	10	<1	3	4	4	21
Other	17	13	3	18	–	50
Total direct costs	151	20	39	77	39	326
Apportioned central HMRC overheads						17
Total costs						343

NOTE

1 Figures may not total due to rounding.

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

2.3 There is limited awareness within HMRC of the total costs of administering National Insurance. This reflects how HMRC has organised itself to deliver its functions. Improvements since 2007-08 in how HMRC calculates costs associated with National Insurance administration mean that reported costs provide a reasonable measure of the costs being incurred that could be useful for medium and long term planning across National Insurance administration as a whole. HMRC has not sought to use the information in this way. More generally, operating units have limited awareness of how their costs relate to the total costs of National Insurance administration.

2.4 In 2008-09, the Department for Work and Pensions incurred £24 million issuing National Insurance numbers to adults. It also incurred just under £2 million on work giving citizens who reached state pension age before October 2004 the belated opportunity to make voluntary additional payments to improve their state pension. The Department estimated that in 2008-09 the National Insurance element of benefits administration was £1.0 billion.

Improving efficiency by using fewer staff and deploying them more productively

2.5 To help deliver required financial savings HMRC has reduced the number of staff it employs. This has resulted in substantially fewer staff on National Insurance work. Between 2006-07 and 2009-10, staffing levels in the main operating units involved in administering National Insurance fell between 16 and 31 per cent (**Figure 7**), with the Contributions Office showing the largest percentage reduction.

Figure 7
Reduction in staffing levels in National Insurance administration between 2006-07 and 2009-10

	Average number of staff in the period		Reduction	
	2006-07	2009-10	Number	%
Operating units where National Insurance work is separately identified				
Contributions Office	3,840	2,631	1,209	31
National Insurance helplines	477	358	119	25
Operating units where National Insurance work is subsumed within total operations¹				
Debt Management and Banking	9,001	7,190	1,811	20
Local Compliance	15,853	13,314	2,539	16

NOTE

¹ Figures for Debt Management and Banking and Local Compliance are for the operating unit as a whole. National Insurance work is undertaken alongside other taxes and separate staffing figures are not available.

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

2.6 The Contributions Office achieved its staff reductions in part through measures that have reduced the amount of work requiring manual processing:

- Moving to fully automated processes** Fully automated processes are typically much cheaper than manual processing. Figures are not available to show the total volume of National Insurance work processed electronically, so it is not possible to determine whether this element has been increasing or decreasing. However, processing of end of year returns (**Figure 8**) is an example of where increased automation has saved 32 posts between 2006-07 and 2009-10 in the Contributions Office. Online filing of employers' annual returns became mandatory for large employers in 2004-2005 and for medium-sized employers in 2005-06. These changes form part of the wider Carter Programme for increasing the proportion of business and individual tax returns received electronically.
- Dealing with the root causes of corrective work** Much of the Contributions Office's work arises when businesses do not complete their tasks accurately and private pension administrators do not keep proper records. Although these factors are beyond the Contributions Office's immediate control, it has taken steps to influence external behaviour to help reduce the corrective work it undertakes. For example, in 2009 it began discussions with the Pensions Regulator about addressing poor record keeping by pension administrators. This problem results in the Contributions Office having to deploy additional staff on casework. The Contributions Office also works with HMRC's Customer Unit in educating businesses to help them comply with their responsibilities; and with citizens to understand the National Insurance system and obtain feedback on the quality of services. For example, research by HMRC in 2007 led the Contributions Office to redesign its letter accompanying National Insurance cards sent to young adults around their 17th birthday.

Figure 8

End of year returns requiring the Contributions Office's attention

Tax Year	End of year returns submitted to the Contributions Office	End of year returns processed by the Contributions Office manually	
	Number (million)	Number (million)	%
2005-06	55.3	14.7	27
2006-07	56.1	4.2	8
2007-08	59.0	2.9	5
2008-09	58.0	2.4	4
2009-10	58.7	2.2	4

NOTE

¹ End of year returns are submitted by employers to record the PAYE and National Insurance paid in respect of their employees.

Source: Contributions Office

2.7 The limited funds available for IT enhancements are affecting the speed with which the Contributions Office can implement improvements. A common way to reduce costs is increasing IT support to reduce staff input and replace paper based systems. The Contributions Office makes extensive use of IT to carry out its tasks, although not always with up-to-date functionality. For example, it has to type in the whole address on letters to the public because there is no postcode-based search link. For some activities, staff have to search paper files and micro-fiche to find key information, which is more time-consuming and less successful than an electronic facility would be. The funding of IT improvements is prioritised across HMRC, and the selection criteria have become progressively more stringent. From 2010-11, HMRC will only fund enhancements if they are related to the implementation of legislation.

2.8 A further way to increase efficiency is in the use of staff. The Contributions Office monitors ongoing performance against targets for the year using productivity data on the number of work items an employee processes per day. Of the 20 activities using the most staff, nine met or exceeded their productivity target in 2009-10. Of the remainder, two missed their target by more than 25 per cent. Overall, half of the Contributions Office 129 measured activities met their productivity targets in 2009-10.

2.9 The Contributions Office's performance information does not allow year-on-year comparisons of productivity for all activities, in part due to the changing nature of its work. However, six key processes that have not changed substantially since undergoing Pacesetter showed a significant improvement in productivity of between 22 per cent and 45 per cent (see examples in **Figure 9**).

2.10 The Contributions Office has been working with other operating units to implement improvements. In 2009, to avoid making unnecessary contact with individuals and businesses, the Office began working with the Customer Contact Directorate to reform how data is collected. Similarly, discussions have started with Debt Management and Banking Directorate to address the situation where the Contributions Office prepares casework of unpaid National Insurance that the Directorate rarely pursues because its strategy is to focus on higher risk debts. The Contributions Office also began progressing initiatives with the Department for Work and Pensions to improve the process of issuing National Insurance numbers to adults through further automation. But as yet there has been no systematic review of how to reduce costs across National Insurance administration as a whole.

2.11 There is no routine consideration of the end-to-end costs for individual activities that involve more than one operational unit, which lessens the ability to exert effective control. Within HMRC, the Contributions Office and the Customer Contact Directorate's National Insurance helplines have a number of linked activities. For example, the Contributions Office issue replacement National Insurance cards with some requests originating through individuals telephoning the helplines. There are also linked activities between the Contributions Office and the Department for Work and Pensions, such as issuing National Insurance numbers to adults and awarding of National Insurance credits, which lead to the Contributions Office updating the National Insurance database.

Figure 9

Contributions Office – Examples of productivity improvements post PaceSetter

National Insurance activity	Changes introduced	Date activity underwent PaceSetter	Productivity increase: End of PaceSetter to March 2010 (%)
1 Accurately maintaining individual histories	Improved post distribution and carrying out more work over the telephone, leading to quicker clearance times.	2007	45
2 Arranging refunds of Class 1, Class 2 and Class 3	Better file management, with a reduction in duplicate handling. Better understanding of the peaks of work, leading to improved movement of staff between activities. Closer working with other Departments helped speed up the decision making process.	2006	40
3 A ratio check comparing the Class 1 amounts paid prior to 2004-05 with the total amounts due	The scope of the checks was rationalised.	2007	38
4 Checking Class 1 amounts paid are compatible with the liability recorded on the National Insurance database; and pursuing underpayments and refunding overpayments	Improvements in file management, with a reduction in duplicate handling and better distribution of work, resulting in a reduction in non-productive time.	2007	22

Source: National Audit Office analysis of Contributions Office data

The impact of staffing reductions on operational performance

2.12 There are potential risks that reducing staff numbers adversely affect operational performance. Those most relevant to National Insurance administration are a reduced quality of service to the public, a less accurate National Insurance database, more work awaiting processing, and reduced revenue. We sought to assess whether the staff reductions have significantly affected operational performance in the business units undertaking National Insurance work by examining trends in their performance and workload.

i) The Contributions Office

2.13 The Contributions Office's performance information for the four years to 2009-10 focuses on the accuracy of processing and response times to correspondence (**Figure 10**). The Contributions Office met some of the associated targets in 2009-10:

- The Contributions Office improved the overall accuracy of its processing work from 90.3 per cent in 2007-08 to 92.9 per cent in 2009-10, although it did not reach its target of 96.5 per cent. The introduction of a more robust system for measuring outturn from 2007-08 partly explains the fall in recorded performance from 2006-07. Inaccurate processing can result in incorrect information on the National Insurance database, with the risk that the Department for Work and Pensions may subsequently take wrong decisions about the entitlement to welfare benefits.
- Written correspondence makes up a significant proportion of the Contributions Office's interaction with customers. It receives 12 million items of post a year and dispatches 18 million items. It met its targets in 2009-10 for the accuracy of correspondence, defined as the completeness and correctness of its responses, but not those for the time taken to reply. Its performance on both was lower than in the three preceding years.

Figure 10

The Contributions Office performance in meeting its quality of service targets

	2006-07		2007-08		2008-09		2009-10	
	Actual (%)	Target (%)	Actual (%)	Target (%)	Actual (%)	Target (%)	Actual (%)	Target (%)
Accuracy of processing	96.0	96.0	90.3	96.5	92.5	96.5	92.9	96.5
Letters sent meeting accuracy standard (15 days)	94.9	85.0	93.1	90.0	90.6	90.0	93.3	90.0
Letters sent meeting accuracy standard (40 days)	95.4	85.0	91.9	90.0	90.2	90.0	91.7	90.0
Letters responded to within 15 days	85.2	80.0	71.1	80.0	60.5	80.0	55.3	80.0
Letters responded to within 40 days	94.4	95.0	95.2	95.0	91.9	95.0	91.1	95.0

NOTE

1 In 2006-07, operational teams assessed performance. In subsequent years, independent quality review teams collected the data, with their processes validated by HMRC's internal audit branch.

Source: Contributions Office

2.14 In some areas of its work the Contributions Office has historically had limited engagement with customers to establish their requirements. To address this shortfall it set up a Customer Focus Unit in 2007. The Unit has introduced a number of initiatives (e.g. a survey of customers in 2009 on desired turnaround times), and in 2009 the Contributions Office was awarded Customer Service Excellence. This Cabinet Office scheme involves an independent assessment on 57 criteria. Three particular strengths were identified: Understanding its customer types and their needs; a clear corporate commitment to customer service; and considerable improvements in published, verbal and web-based information to meet the needs of customers.

2.15 A possible consequence of staff reductions is an increasing stock of work awaiting completion. **Figure 11** shows that between March 2006 and March 2010 the Contributions Office sustained a significant reduction in its stock of work, except for work on the cessation of private pension schemes. The stock of work on scheme cessations at March 2007, the latest reliable figures available, equalled all other outstanding work in the Contributions Office at that time and was broadly equivalent to 408 staff years.

Figure 11

Contributions Office – Stock of National Insurance work at 31 March

	31 March 2006 (000 days)	31 March 2007 (000 days)	31 March 2008 (000 days)	31 March 2009 (000 days)	31 March 2010 (000 days)
Employer Group	130	82	101	72	78
Evening Work Centre	<1	<1	<1	<1	1
Individuals Group	36	19	29	27	16
Pensions Group without Scheme Cessation	9	4	6	5	7
Sub-total (excluding Scheme Cessation)	175	105	136	104	102
Scheme Cessation ^{2, 3}	90	102			
Total	265	206			

NOTES

- 1 Figures may not total due to rounding.
- 2 Scheme Cessation work protects the pension rights of those contracted out of the Second State Pension when private pension schemes cease.
- 3 From 2007-08, the Contributions Office changed the way it progressed and measured the clearance of individual files for Scheme Cessation work. As a result, the figures for March 2008 (141,000 days), March 2009 (166,000 days) and March 2010 (157,000 days) are not directly comparable with earlier years and are not necessarily representative of the actual stock of work.

Source: National Audit Office analysis of Contributions Office data

ii) National Insurance helplines

2.16 The telephone is one of the main channels people use when contacting HMRC on National Insurance issues. HMRC run ten National Insurance helplines. Each is dedicated to either a specific customer group (e.g. employers) or a specific topic (e.g. registration of a National Insurance number). HMRC routes most calls to these helplines to a contact centre specialising in National Insurance. The contact centre aims to provide an accessible service, ensure advice given is of suitable quality and play its part in ensuring the end-to-end system of National Insurance operates as efficiently as possible.

2.17 As we reported in *Handling Telephone Enquiries* of January 2010, although the staff cost per call minute across all HMRC contact centres fell by around 9 per cent between 2006-07 and 2008-09, its performance in answering calls in 2008-09 was well below industry best practice benchmarks. The National Insurance contact centre's performance reflects this wider trend in the Department's overall performance. In 2007-08, it answered 96 per cent of call attempts on National Insurance matters compared to only 61 per cent in 2008-09, although the percentage improved to 73 per cent in 2009-10 (**Figure 12**).

2.18 As well as enabling individuals and businesses to fulfil their obligations more easily, providing quality advice to callers contributes to the overall efficiency of National Insurance administration as it reduces the likelihood of errors entering the system. On quality of advice provided to callers, the National Insurance contact centre exceeded its target performance in recent years. Partly because of the considerable experience of staff at the contact centre, in 2009-10, 96.5 per cent of calls met the standard of advice required and followed appropriate security procedures, compared with a target performance of 89 per cent.

Figure 12
Performance of the National Insurance helplines

	Call attempts answered (%)	Call attempts answered within 20 seconds (%)	Callers answered on the day (%) ¹
2007-08	96	91	100
2008-09	61	59	86
2009-10	73	66	80
2008 best practice industry benchmark ²	95	90 per cent answered within 10 seconds	Not commonly used as industry benchmark

NOTES

1 Covers repeat callers whose attempts to speak with HMRC earlier in the day were not successful.

2 Best practice benchmark from the Dimension Data Global Benchmarking Report 2008.

Source: Contributions Office and National Audit Office report (January 2010) "HMRC: Handling Telephone Enquiries"

2.19 As with other HMRC helplines, the National Insurance helplines experience peaks and troughs in workload during the year. HMRC must manage significantly more calls at certain times of the year, for example in the tax credits renewal period (April to August), and in periods following the quarterly billing of Class 2 National Insurance and dispatch of letters notifying people of potential gaps in their National Insurance payments (January and September peaks). Response times for callers wanting assistance with National Insurance matters reduced significantly during the summer of 2008, and to a lesser extent in the summer of 2009, when calls on tax credits renewals increased.

2.20 HMRC intends to reduce demand by eliminating unnecessary calls and identifying where callers can be provided with information through more cost-effective means, e.g. by redirecting callers to information on HMRC's website. In 2009, HMRC launched a project to classify calls on the National Insurance helplines. This has identified types of calls that could be directed to other communication channels and thereby release capacity.

iii) Local Compliance

2.21 The Local Compliance Directorate works to reduce evasion and other error across all taxes. In recent years it has taken steps to reduce staff (Figure 7 on page 18), focus on higher return investigations, and for teams to work across different taxes rather than specialising in a particular tax.

2.22 HMRC estimates the gap between total National Insurance receipts if all employers and others complied fully with their obligations and revenue to be between £1.3 billion and £2.5 billion a year, representing between 1 and 2 per cent of total National Insurance revenue. A major area of loss arises from businesses classifying employees as self-employed to avoid Class 1. The economic downturn and proposed increases in National Insurance rates from 2011 may increase this risk.

2.23 The Directorate does not prepare a separate National Insurance compliance strategy as this work is managed alongside associated Income Tax work (e.g. Class 1 with Pay As You Earn (PAYE) and Class 4 with Self Assessment). For work on PAYE/Class 1 compliance the Directorate met its yield targets in 2007-08 and 2008-09 (**Figure 13** overleaf), although total levels of yield decreased in real terms. The number of visits reduced in the three years to 2008-09, but yield to cost ratios increased. For work on Self Assessment/Class 4 compliance the Directorate narrowly missed its annual yield target in 2007-08 and 2008-09.

2.24 Because much of the work focuses on Income Tax, the effect of these trends on National Insurance is hard to judge. The number of cases that compliance teams refer to the Contributions Office to update the National Insurance database has fallen. There is a risk that cross-tax teams do not have the specialist National Insurance knowledge to investigate fully cases involving technical issues.

Figure 13Local Compliance performance for PAYE and Class 1
National Insurance visits

	2006-07 ¹	2007-08 ¹	2008-09	2009-10
Visits				
Target	18,130	17,440	14,981	10,800
Actual	16,993	17,310	13,000	10,945
Yield				
Target	–	£316m	£358m	£275m
Actual	£386m	£385m	£363m	£309m ²
Yield to cost ratio ³	7.0:1	6.9:1	7.4:1	9.5:1

NOTES

- 1 Amounts for 2006-07 and 2007-08 are shown at 2008-09 prices.
- 2 Comprises actual yields from April 2009 to November 2009 and forecast yields for the remainder of 2009-10.
- 3 The ratios are based on staff costs as data on full costs is not available. The ratios would be lower if based on full costs.

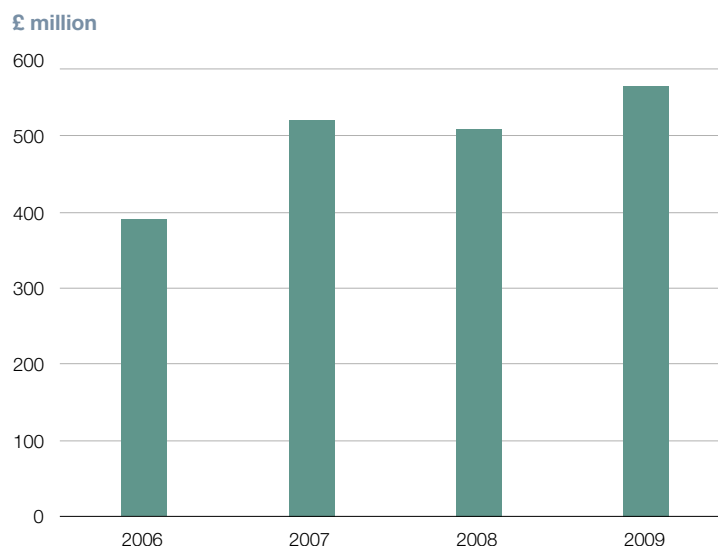
Source: National Audit Office analysis of Local Compliance data

iv) Debt Management and Banking

2.25 HMRC is moving to a risk based approach to pursuing debt. By tailoring action according to each debtor's previous behaviour, the risks attached to the debt and the debtor's likely ability to pay, HMRC is aiming for earlier settlement of tax obligations. It is also making greater use of campaigns to encourage and support payment on time. Previously HMRC's Debt Management and Banking Directorate prioritised its work by value, aiming to minimise the amount of debt written-off. Write-offs are legally due debts that cannot be collected, for example because of insolvency or because the debtor cannot be traced. HMRC also measures remissions, which are legally due debts that are not pursued on value for money grounds. Write-off and remissions for Class 1 National Insurance increased by 45 per cent in real terms from 2006 to £567 million in 2009 (**Figure 14**). Class 4 meanwhile steadily decreased from £2 million to £1 million. National Insurance receipts totalled £97 billion in 2008-09.

Figure 14

National Insurance Class 1 debts written-off and remitted from 2006 to 2009

**NOTES**

- 1 The periods shown are for the 12 months to 31 October.
- 2 All amounts are shown at 2009 prices.

Source: National Audit Office analysis of Debt Management & Banking Directorate data

2.26 On Class 2 National Insurance debt the Directorate revised its approach in 2008 so that it does not normally take enforcement action on debts unless the opportunity for reminder action arises. Class 2 comprises a high number of low value debts that would be relatively costly to pursue. Class 2 debt increased from £645 million in March 2007 to £755 million at March 2009, falling to £624 million in October 2009 as time-barred debt was written-off. Not all of this debt is confirmed because once HMRC record a person as self-employed, it assumes there is a liability for Class 2 payments until informed that self-employment has ceased.

2.27 It is difficult to gauge how far changes in the levels of write-off and remissions may reflect reductions in staff numbers, because of wider changes in debt levels. We reported on the increase in HMRC's total level of debt in 2008-09, including the effects of the economic downturn, and the help that HMRC provides through the Business Payment Support Service, as well as changes it was introducing in its debt management approach. Failure to settle National Insurance debts can have wider implications for individuals' future entitlement to State benefits and pensions.

Part Three

National Insurance administration governance arrangements

3.1 This Part considers the governance arrangements for National Insurance administration. It covers:

- the arrangements in place;
- management of National Insurance administration over the short term; and
- medium to long term strategic planning.

The governance arrangements for National Insurance administration

3.2 The PAYE, Self Assessment and National Insurance Contributions Directorate is responsible for developing, maintaining and improving the policy and legislative framework for National Insurance receipts, within the strategic policy set by HM Treasury. The Directorate is also responsible for designing and maintaining processes that implement the legislation, support voluntary compliance by customers and can operate efficiently. A main priority since 2007 has been working closely with the Department for Work and Pensions to implement major legislative changes in welfare benefits and pensions. The Directorate has also focused on progressing projects to improve the efficiency of National Insurance administration and implement other policy changes, such as exploring the scope to simplify the collection of Class 2 by moving from quarterly to six monthly billing and aligning billing dates with those for other taxes.

3.3 The Directorate has sought to ensure operating units involved in National Insurance administration work together to address common operational issues in a timely way and to effect efficiency improvements:

- It established a National Insurance Management Board in 2007 comprising the operating units within HMRC and the Department for Work and Pensions. The Board primarily focused on operational performance, with less emphasis than anticipated on strategic issues. Following a major re-organisation of HMRC, the Directorate replaced the Board in early 2009 by the National Insurance Improvement Board to focus more on process improvement. In practice, the new Board found it necessary to focus on current operational risks and issues. So a new governance structure of a National Insurance Management Board, to focus on risks to processes, and a Change Group, to focus on operational improvements and associated investment projects across National Insurance and Income Tax, is being introduced.

- Until 2009 a post of *Process Owner* was responsible for managing the end-to-end processes for National Insurance within HMRC, with the specific aim of ensuring that they are efficient and effective as possible. It ceased following wider changes in the PAYE, Self Assessment and National Insurance Contributions Directorate. The present governance structure for National Insurance administration now has posts focusing on potential improvements to the overall system and the impact of high-level strategic issues.
- In December 2008, HMRC and the Department for Work and Pensions established a Credits Steering Group to oversee the investigation and resolution of issues relating to National Insurance credits. The Group comprises senior managers in policy, operations and IT from both Departments.

Management of National Insurance administration over the short term

3.4 There have been no major failures in the administration of National Insurance since 2006-07, the period covered by our examination. We also found the operating units working together to improve efficiency with several important initiatives now underway, but that a more structured approach might achieve swifter results. The following examples illustrate the mixed picture:

- **Joint working on initiatives to improve accuracy** – HMRC has been working with the Department for Work and Pensions, and others, to address a number of long-standing issues affecting the accuracy of National Insurance records (**Figure 15** overleaf). The establishment of the Credits Steering Group to oversee the work on National Insurance credits is an important step, but HMRC's internal audit has advised further strengthening of the governance framework to help ensure the prevention and early detection of problems. More generally, the Contributions Office and the Department for Work and Pensions senior managers meet quarterly to identify and implement joint improvements.
- **Joint working on operational issues** – The Local Compliance Directorate and the Contributions Office are discussing the introduction of a higher, but strictly applied, threshold so that the Directorate informs the Contributions Office of at least some cases where its policing work results in additional payments for specific employees. The Directorate has given low priority to this task in the past, thereby affecting the accuracy of the main National Insurance database.
- **Joint working on efficiency improvement projects** – Although operating units are working together to effect efficiency improvements that need joint participation, several important initiatives only got underway in 2009 (paragraph 2.10) and arose due to the initiative of individual officials.
- **Joint working on fraud issues** – To help reduce fraud in the benefit and tax credit systems, HMRC and the Department for Work and Pensions are reviewing how they can work together on sharing intelligence and liaise better on preventing inappropriate applications for National Insurance numbers.

Figure 15
Long-standing issues affecting accuracy

Issue	Duration	Action to address the issue
<p>1 Non-matching information Data from employers that cannot be matched to the record of individuals on the National Insurance database is stored in a suspense file until it can be resolved.</p>	Since before 2004-05	<p>Working to improve the quality of the data submitted from employers.</p> <p>An internal audit review is planned.</p>
<p>2 Incapacity Benefit Credits Due to problems in the interface between the computer systems of HMRC and the Department for Work and Pensions, some periods of incapacity were recorded incorrectly on HMRC's database during the period from 1994 to 2004.</p>	Since 2004-05	HMRC and the Department for Work and Pensions established a joint Credits Steering Group to oversee ongoing work to resolve remaining cases.
<p>3 Home Responsibilities Protection Before May 2000, HMRC could not always match the Child Benefit data used to award HRP with the correct National Insurance record. This resulted in a group of people whose entitlement could not be recorded.</p>	Since 2006-07	<p>The Department for Work and Pensions and HMRC are working together to identify those customers affected.</p> <p>Where Child Benefit data is still held, HMRC has compared and aligned these records with its own database.</p>

Source: National Audit Office analysis

3.5 Information on activity levels and the costs incurred is an essential precursor to maximising the efficiency of a process. There are three significant gaps in such information within the National Insurance system:

- There is limited information available on the relative volume of incoming work that is processed using fully automated systems, work received electronically but requiring manual attention and work received in paper form. For example, HMRC does not know the proportion of self-employed registration applications received by post and those received online. It is not therefore possible to determine whether this element has been increasing or decreasing. Fully automated processes are typically much cheaper than manual processing.
- In the Contributions Office the full cost of individual activities has not been determined and, where appropriate, married with linked activities of other operating units. Such knowledge can provide greater focus to addressing the root causes of tasks that correct incoming errors, provide a clearer understanding of the financial impact of providing paper based options to customers, and lead to a more accurate value for money assessment of direct services to citizens.

- The relative costs of different methods of undertaking the same basic activity are not known. Linking volume information to the costs of different methods would provide greater clarity on the relative efficiency of processing an incoming piece of work using fully automated systems compared to those requiring staff input. It would also help inform whether the investment needed to move all of an activity to fully automated systems would be worthwhile; and determine how far HMRC has progressed in maximising efficiency using existing systems.

Medium to long term strategic planning

3.6 HMRC is considering a number of longer-term issues as part of its ongoing work on National Insurance, but its thinking is not formalised into a clear strategy. There are further developments underway, including a departmental-wide customer strategy, which may influence National Insurance administration. HMRC's workload involves significant corrective work and manual processing. There are also some major challenges to improving efficiency.

3.7 Four areas of particular significance to National Insurance could have a major impact on future efficiency:

- **The size of the National Insurance database** – This is likely to increase as the United Kingdom's working population grows and National Insurance credits become more widely available. There is a continuing need to maintain a full National Insurance history for each citizen. Although welfare policy changes from 2010 reduce the number of qualifying years needed to receive a full basic State Pension, the entitlement criteria for the Second State Pension and Bereavement Benefits still require a record for a citizen's entire working life. In addition, a history for the last three complete tax years is presently required to administer the Employment and Support Allowance based on National Insurance records. From October 2010 this requirement reduces to two years, the same as the National Insurance related Jobseeker's Allowance.
- **The target level of accuracy for the National Insurance database** – The implicit goal of maintaining accurate National Insurance records needs clarification. We found no mention of accuracy in central planning objectives, or those of the Contributions Office even though it takes the view that accuracy is paramount and underpins what it does. In practice, there are a range of problems that result in inaccurate records that could affect, now or in the future, people's entitlement to welfare benefits and pensions. Such inaccuracies could have greater effect in future with the removal, from April 2010, of the requirement to have a minimum of qualifying years to gain entitlement to basic State Pension. Having a formal statement on accuracy would help to ensure a consistent approach across operating units, and determine priorities on different types of work to improve accuracy, balancing the costs of action now against the costs and consequences of errors in the future.

- **The use of fully automated systems to process incoming work** – Although there is a departmental-wide policy progressively requiring all employers to file their returns online, the self-employed may continue to use paper based systems which are more costly to process.
- **The availability of funds for IT improvements** – The Contributions Office has identified a significant number of further improvements it would like to implement but constraints exist on realising them. The selection criteria across HMRC for IT projects have become more stringent and there is no funding in 2010-11 for routine improvements.

Appendix One

Methodology

Our main research methods are outlined below.

Method	Purpose
<p>1 Cost data analysis</p> <p>Analysis of costs and methods of calculating and reporting costs for National Insurance, by Directorate, processes and units of activity.</p>	<p>To understand current cost structures and the drivers of costs; and to highlight significant changes in the five years to 2009-10, including steps by HMRC to reduce costs, and to establish whether further scope for reductions exists.</p>
<p>2 Performance data analysis</p> <p>Analysis of HMRC's performance against targets for the administration of National Insurance in the four years to 2009-10.</p>	<p>To analyse how far HMRC has maintained and improved its operational performance in administering National Insurance, focusing on: the National Insurance Contributions Office, the National Insurance helplines of the Customer Contact Directorate, Debt Management and Banking Directorate and Local Compliance Directorate.</p>
<p>3 Review of Governance structure</p> <p>Review of the governance arrangements for the day-to-day administration of National Insurance highlighting significant changes in structure since 2004-05, and an overview of the budget setting process.</p>	<p>To assess the governance arrangements for National Insurance administration including an assessment of how these structures facilitate efficient administration of National Insurance in the short, medium and long term.</p>
<p>4 Document review</p> <p>Review of corporate documentation covering strategy and operations for HMRC and the Department for Work and Pensions; and internal planning and research papers.</p>	<p>To assess the cost, performance, governance and strategic context in the administration of National Insurance.</p>
<p>5 Expert review</p> <p>We commissioned PricewaterhouseCoopers to carry out an in-depth review of four key activities in the Contributions Office.</p>	<p>To assess how further cost saving and efficiency improvements might be achieved in the Contributions Office and to identify the barriers to achieving these.</p>

Method	Purpose
<p>6 Interviews</p> <p>We conducted around 40 semi-structured interviews across HMRC and the Department for Work and Pensions. These involved managers and frontline staff in operational units, and officials working on strategic matters.</p>	<p>To gather evidence on HMRC's goals; the costs that HMRC incur administering National Insurance; the efficiency of its operations; and the governance arrangements within HMRC and between HMRC and the Department for Work and Pensions.</p>
<p>7 Site visits and process familiarisation</p> <p>We saw the Contribution Office's processes in operation, followed by a more in-depth examination of four key activities.</p>	<p>To gather information on how the processes for administering National Insurance work in practice and identify the areas for further improvement including any barriers to change.</p>



Design and Production by
NAO Communications
DP Ref: 009327-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation this ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

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

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

£14.75

