



National Audit Office

## **HM Revenue & Customs**

PaceSetter: HMRC's programme to improve business operations

Detailed methodology

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**JULY 2011**

## Detailed Methodology

1 This document provides a detailed description of the methodology we used for our report, *PaceSetter: HMRC's programme to improve business operations* (HC 1280, Session 2011-12). A summarised methodology is available in Appendix One of the main report.

2 The report examines the value for money of the HMRC PaceSetter programme to date. The report covers the development of the PaceSetter programme, its costs and benefits and its implementation and maturity.

3 The main elements of our methodology are set out below:

- document review and secondary analysis of data;
- semi-structured interviews;
- case study site visits; and
- consultation.

4 The main elements of our fieldwork took place between January and March 2011.

### Document Review and secondary analysis of data

5 We reviewed a range of documents provided by the Department and the Public and Commercial Services Union to establish the history and development of PaceSetter, its achievements, costs and challenges. We also took into account previous NAO studies and academic literature on good practice in applying business improvement methodologies.

6 Key documents included:

- PaceSetter Strategy, business cases and internal audit reports.
- *Evaluation of PaceSetter: Lean, Senior Leadership and Operational Management within HMRC processing*, September 2007, Z. Radnor and G. Bucci.
- *Review of Business Process Improvement Methodologies, in Public Services*, May 2010, Dr. Zoe Radnor.
- *Employees' perceptions of the impact of Lean organisation in HM Revenue & Customs*. Report for the Public and Commercial Services Union 2009, B. Carter, A. Danford, D. Howcroft, H. Richardson, A. Smith, P. Taylor.
- *Joint statement on PaceSetter*, HMRC and Department Trades Unions, December 2010.

- NAO reports: *Accuracy in Processing Income Tax* (HC 605, 2007-08), *The efficiency of National Insurance administration* (HC 184, 2010-11), *Managing civil tax investigations* (HC 677, 2010-11), Reports by the Comptroller and Auditor General, *HM Revenue & Customs 2009-10 Accounts*, July 2010 and *HM Revenue & Customs 2010-11 Accounts*, July 2011.

7 We reviewed the evidence available on PaceSetter's impact on productivity and cost within the two parts of the organisation where the Department has reported the benefits – Customer Operations and Local Compliance. We examined the methodology used to estimate these benefits and data on overall trends in performance and costs within these business areas to assess the reasonableness of the benefits reported. We did not validate the underlying data.

8 We also reviewed the Department's analysis of its 2009 and 2010 People surveys. The People Survey is a Civil Service-wide survey of staff views, which includes five questions relating to staff engagement.

### Semi-structured interviews with Department staff

9 We conducted a number of face-to-face and telephone semi-structured interviews with Departmental staff, including senior managers, PaceSetter practitioners and others working full time on PaceSetter implementation, Finance and Internal Audit staff to complement the document review.

### Site Visits

10 We assessed the maturity of process management at four sites applying PaceSetter, chosen to represent a range of different types of work, and identified by the Department as good practice examples:

- **National Insurance Adult Registration** – this process involves recording on HMRC's database new National Insurance numbers issued to adults by the Department for Work and Pensions.
- **Child Benefit Claims** – this process deals with new child benefit claims and changes of circumstance, including validating new claims and updating the database.
- **Specialist Employer Compliance** – this process checks that employers are complying with their PAYE and other responsibilities such as collecting student loan repayments. The checks involve testing the robustness of employers' systems and assessing liabilities.
- **Business International** – this process provides legislative, policy and technical assistance relating mainly to double taxation relief, the Controlled Foreign Companies regime, and company residence.

**11** We assessed each site against a maturity matrix developed by the NAO, which covers five inter-related areas representing the key elements of strong process management: strategy; information; people; process; and improvement. The matrix consists of a set of questions and corresponding evidence statements that provide a test for maturity. Our assessment against each was based on what we read, what we heard and what we observed, though we placed more emphasis on what we observed happening in practice. We visited a further site where staff carry out processing related to Pay as You Earn returns to complement the more detailed assessments at the main four site visits. As part of our site visits we held workshops with front-line staff to understand their views on the programme and its impact on their day to day work.

### Consultation

**12** We engaged consultants from Deloitte to bring their experience of evaluating and implementing process improvement programmes and drew on process management expertise within the NAO. Deloitte interviewed senior executives from three private sector companies that have implemented Lean-based initiatives, Shell, IBM and Scottish Power, to put HMRC's implementation of PaceSetter in the context of wider private sector experience.

**13** We spoke to representatives from the Public and Commercial Services Union and the Association of Revenue and Customs. We liaised with Professor Zoe Radnor, Professor of Operations Management at Cardiff Business School, who carried out a review of PaceSetter in 2007.