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HM Revenue & Customs

PaceSetter: HMRC's programme to
improve business operations

Summary

1 HM Revenue & Customs is a large and complex organisation, resulting from the merger in 2005 of Inland Revenue and HM Customs & Excise. In 2010-11, it collected £468.9 billion in taxes and national insurance contributions, paid out £40.5 billion in tax credits, child benefit and other entitlements and cost £3.5 billion to run. In March 2011, it employed around 67,000 full-time equivalent staff.

2 In administering the various taxes, tax credits and benefits, it deals with a customer base covering most individuals and businesses in the United Kingdom. Typically this involves registering people and organisations to pay tax, helping them to comply with their obligations, processing returns and other information, assessing and collecting the tax due, conducting further enquiries and investigations and imposing penalties for serious non-compliance. For tax credits and benefits it processes applications, provides help and checks entitlement, makes payments and undertakes a range of work to tackle fraud and error.

3 The Department's challenge is to balance three objectives: maximise revenues, reduce its costs and improve the experience of its customers. Building on savings achieved under previous Spending Reviews, it is required to reduce its running costs by 25 per cent in real terms by the end of 2014-15 and to reinvest around £900 million of these savings to bring in additional revenue of £7 billion a year by 2014-15, while stabilising and then improving customers' experience. The Department is also expected to reduce tax credit fraud and error by £2 billion a year by 2014-15. Operating efficiently and effectively its many processes is critical to its success.

4 The Department's PaceSetter programme is inspired by 'Lean' approaches to business improvement. In essence, Lean philosophy suggests that organisations can improve product or service quality for the same or less cost by continuously reviewing their processes from a customer perspective to remove waste by reducing duplication and inconsistency, and by identifying and resolving the root causes of operational problems.

5 The Department was one of the first public sector organisations to apply process improvement techniques. It started to experiment with Lean techniques in 2004, in the context of its requirement to make efficiency savings and headcount reductions. It first applied these techniques in large-scale processing operations, such as processing Income Tax Self Assessment returns. This early work evolved into the PaceSetter programme (the programme) which was launched in 2006. PaceSetter combines the Department's process improvement approach with developing leadership and management capability, to improve business performance and staff engagement.

6 Applying PaceSetter typically involves frontline teams and PaceSetter experts working together to analyse and then redesign existing business processes. It also includes training for frontline teams in techniques, such as visual management and a structured approach to problem solving, to enable them to continuously improve the way they work.

7 In 2008, the Department decided to start rolling out PaceSetter throughout the organisation. The Department sees PaceSetter as an important foundation in implementing its new business plan and change programme to become more efficient, more flexible in dealing with customers and more effective in bringing in revenue, over the 2011-15 Spending Review period. The Department has become an accredited partner with Cardiff University's Lean Enterprise Research centre, it is training staff from other government departments through its PaceSetter Academy and is working with the Cabinet Office to help engender good process management across the public sector.

8 This report examines the value for money of the Department's PaceSetter programme to date. Part One covers the development of the programme; Part Two examines the costs and benefits of PaceSetter, and Part Three looks at its implementation and maturity.

9 Our methodology included interviews with Department staff, document review, site visits to four processes using PaceSetter (Figure 2 on page 14), and draws on private sector experience in using process improvement techniques. Appendix One explains our methodology.

10 This report is part of our wider programme of audit on HMRC. The programme includes our annual audit of HMRC's accounts and examination of its systems for the assessment and collection of taxes, and value for money studies and other work either across government or focusing specifically on the Department. In devising our programme we have regard to the NAO's three strategic themes of cost-effective service delivery, financial management and informed government. Recognising the Department's challenge of balancing objectives on revenue, cost and customer experience, we seek to provide objective insight on how HMRC is:

- transforming its performance and improving compliance among taxpayers and benefit and tax credit claimants using its customer-centric approach; and
- achieving value for money by delivering a sustainable cost base while maintaining revenues.

11 In undertaking this study, we took account of the results of previous NAO reviews on the maturity of process management in central government, the efficiency of National Insurance administration, HMRC's Spending Review 2007 efficiency savings, HMRC's management of civil tax investigations and our reports on the Department's accounts. We also plan to publish shortly a report on the Department's plans for delivering cost reductions.

Key findings

12 The Department has pioneered the use of process improvement techniques in central government through its PaceSetter programme, and it was sensible to do so. Process improvement techniques offer the potential to help organisations achieve more with less resource by helping to redesign processes to eliminate waste, inconsistency and duplication and create an environment which enables frontline staff to continuously improve what they do. A number of public and private sector organisations have programmes to apply process improvement techniques.

13 PaceSetter has introduced new ways of working and the Department recognises that its success depends on how effectively leaders and managers apply the techniques. The types of improvements the Department has made vary but have included the redesign of claim forms, standardising procedures across offices and more tailored approaches to checks based on risk. Around two thirds of its workforce are now working in a team where PaceSetter techniques are used to some degree. The Public and Commercial Services Union has over time raised concerns about the way some managers have implemented the approach. In December 2010, the Department and its two main trades unions agreed a statement that PaceSetter contains tools and techniques that, where applied correctly, should help improve business productivity, quality and public service.

14 PaceSetter implementation has led to productivity improvements but the extent of overall efficiency improvements is not clear. The Department estimates that the productivity improvements due to PaceSetter between 2005-06 and 2010-11 are equivalent to £400 million of resource savings and £860 million of tax yield, where yield is a measure of the under-declared tax identified through compliance work. Most of these benefits derive from two parts of the organisation – Customer Operations and Local Compliance. Overall efficiency is the relationship between costs and performance. In Customer Operations, PaceSetter implementation was associated with substantial increases in the average output per person, and staff numbers have fallen substantially. However, there is limited evidence on overall trends in business performance to provide assurance that staff reductions attributed to PaceSetter were achieved whilst maintaining or improving customer service and quality. The evidence that is available on overall business performance shows improvements and deterioration. The picture is complicated by other changes in the organisation, volume and nature of the work in this part of the Department. Local Compliance has also reduced staff numbers and increased its yield:cost ratio. But it is difficult to isolate the effects of PaceSetter, given its implementation alongside other change projects.

15 The Department expects PaceSetter to help it achieve a more motivated workforce. It appears that so far the programme has had a small positive impact on staff engagement but it has not yet transformed the previous low levels. The Department's employee engagement index, derived from its 2009 People Survey, was 36 per cent, compared to an average of 58 per cent across other government departments. The analysis for areas where PaceSetter has been introduced gave an index of 37-40 per cent. The Department's preliminary analysis of its 2010 survey results suggests that staff working in PaceSetter areas continue to give more positive responses on this aspect, though again the impact appears small.

16 The Department has not had a full understanding of the costs it has incurred in implementing PaceSetter. In monitoring the costs of the programme the Department decided to consider only the additional funds provided for equipment and consultants. Its cost figures therefore exclude, for example, the salary costs of PaceSetter experts working with business areas to implement PaceSetter. Our analysis showed that including these costs brings the total spent on PaceSetter from £55 million to £115 million between 2005-06 and 2010-11 on staff, consultancy, equipment and travel costs. Both figures exclude the wider costs associated with implementing changes initiated by PaceSetter and staff time involved in programme activities. The Department considers that for most people the time spent on programme activities replaces other similar activities.

17 The Department's approach to PaceSetter has evolved over the last five years and it has further changes planned. But it has much further to go before it has a mature process improvement approach. Understanding what customers value and considering processes in their entirety across the organisation are important features of process improvement techniques. In applying PaceSetter the Department has used the experience of frontline staff to reflect customers' perspective and has required teams to use customer-related performance measures such as quality and lead time. The Department has started to make greater use of work to analyse 'customer journeys' to target improvements but it has not yet developed sufficiently structured and routine ways to incorporate customer insight into its PaceSetter approach. The Department's approach has lacked sufficient focus on end-to-end processes and using these to systematically prioritise where to apply PaceSetter resources. It has, though, begun to map its top 10-12 processes in detail which it expects to bring a greater focus to this aspect.

Conclusion on value for money

18 We endorse what the Department is seeking to achieve through PaceSetter. It has delivered value by increasing productivity through new ways of working, and it may also have contributed to greater staff engagement. The extent of the efficiency improvements is not clear, however, and some key principles of process improvement are not yet being applied strategically across the entire organisation and embedded into the Department's core processes. Although work has begun on these issues, after five years we would expect the Department's approach to process improvement to be further ahead, more sophisticated and more ambitious in its transformation of the Department. We conclude, therefore, that the programme is not yet value for money.

Recommendations

19 Our recommendations aim to help the Department to obtain the most from PaceSetter as it rolls out the programme further. It should take a more strategic approach, in prioritising its application to areas of greatest potential benefit and integrate PaceSetter with its wider change and cost reduction plans. In applying PaceSetter, it should look to assess entire processes from end to end and reflect more fully the customer perspective, as well as obtaining a better understanding of the planned and actual costs and benefits.

a **The examples of where the Department has implemented PaceSetter indicate it has further to go to make the most of process improvement techniques.** The Department should:

- apply PaceSetter principles to its processes 'end to end', across the organisation, and bring a stronger customer perspective to the work; and
- establish more structured ways to direct improvement efforts to areas that will gain most benefits.

b **The Department does not have clear guidelines on how business areas should prioritise the efforts of PaceSetter-trained staff.** The Department should:

- set central priorities for the deployment of PaceSetter practitioners aligned to its new business plan and informed by the results of its end to end review of processes; and
- ensure that PaceSetter is appropriately aligned to its wider change programme.

- c** The Department has a limited Department-wide understanding of the costs and benefits of PaceSetter at different sites and so cannot make fully informed decisions about how best to adapt the approach and prioritise effort. The Department should:

 - better track and validate the costs and benefits of changes in processes arising from the initial diagnostic phase of PaceSetter, and for significant changes arising from problem solving exercises;
 - where PaceSetter is more established, track how business performance is changing; and
 - carry out further pilots to more fully understand the costs and benefits of applying PaceSetter to 'considerative' parts of the organisation such as those dealing with policy and legislation.
- d** The Department's analysis suggests that PaceSetter is having a small positive impact on staff engagement, but staff engagement at the Department remains low. The Department should:

 - conduct further research into the key factors that affect staff engagement at sites with PaceSetter; and
 - ensure frontline managers have a good understanding of how to apply the approach effectively.
- e** Other government departments are applying business improvement techniques to help them meet expected cost reduction targets. In doing so they should have regard to our findings and recommendations above, our wider review of process management across government and particular features of the Department's experience, in:

 - using external expertise and planning for capability transfer; and
 - robust tracking of costs and benefits.