



National Audit Office

DEPARTMENTAL OVERVIEW

A summary of the NAO's work on HM Revenue & Customs 2010-11

SEPTEMBER 2011

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 NAO, which employs some 880 staff. He and the NAO 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 led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

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Introduction

Aim and scope of this briefing

The primary purpose of this Departmental Overview is to provide a summary of the work by the National Audit Office on HM Revenue & Customs (HMRC) since June 2010. It is one of seventeen we have produced covering our work on each major government department. The briefing draws out the key points from the Department's Annual Report and Accounts 2010-11 and material from other published sources where relevant. The content of the briefing has been shared with the Department to ensure that the evidence presented is factually accurate, but the content of the briefing is the sole responsibility of the NAO.

We will continue to support all select committees in 2011-12, providing briefing on each major department and supporting specific inquiries wherever our expertise and perspective can add value.

Part One

About the Department

HMRC's responsibilities

1 HMRC is the principal UK revenue-collecting department. Its purpose is to make sure that money is available to fund the UK's public services, by collecting UK taxes. In 2010-11, HMRC collected £469 billion in revenue. Income Tax, National Insurance and VAT accounted for 73 per cent (**Figure 1**).

2 HMRC also helps families and individuals with targeted financial support. In 2010-11 it paid:

- £28.1 billion in Tax Credits;
- £12.0 billion in Child Benefit; and
- £0.2 billion in Child Trust Fund endowments.

3 In addition, HMRC enforces the National Minimum Wage; collects student loans; and supervises compliance with Money Laundering Regulations for organisations in finance sectors that do not have a supervisory body.

How the Department is organised

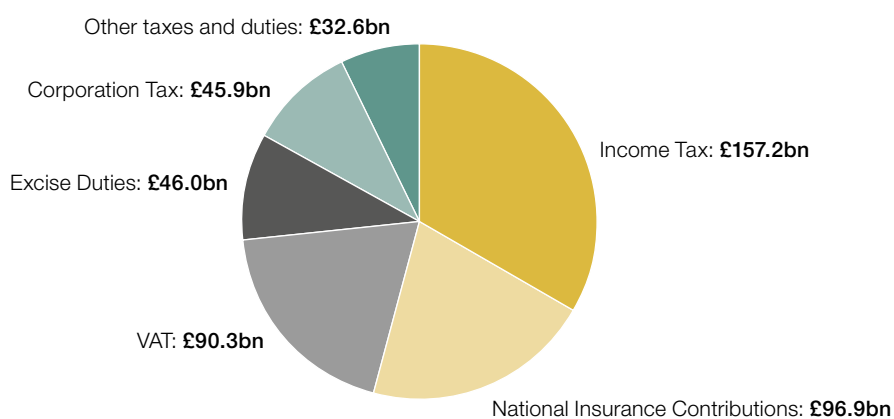
4 The non-executive Chairman leads the Board, which is attended by HMRC's non-executive directors and HMRC's top officials. The Board provides strategic leadership and is responsible for the effective governance of HMRC. Final responsibility for running all aspects of HMRC lies with the Chief Executive who chairs the Executive Committee of HMRC's senior officials. The Permanent Secretary for Tax, who is the Deputy Chief Executive, has specific accountabilities in the areas of tax policy and tax strategy.

5 HMRC is organised into operational groups (Personal Tax, Business Tax, Benefits and Credits, Enforcement and Compliance) and departmental wide support groups (**Figure 2** overleaf) that report to the Executive Committee.

6 HMRC has one Executive Agency, the Valuation Office Agency (Appendix One).

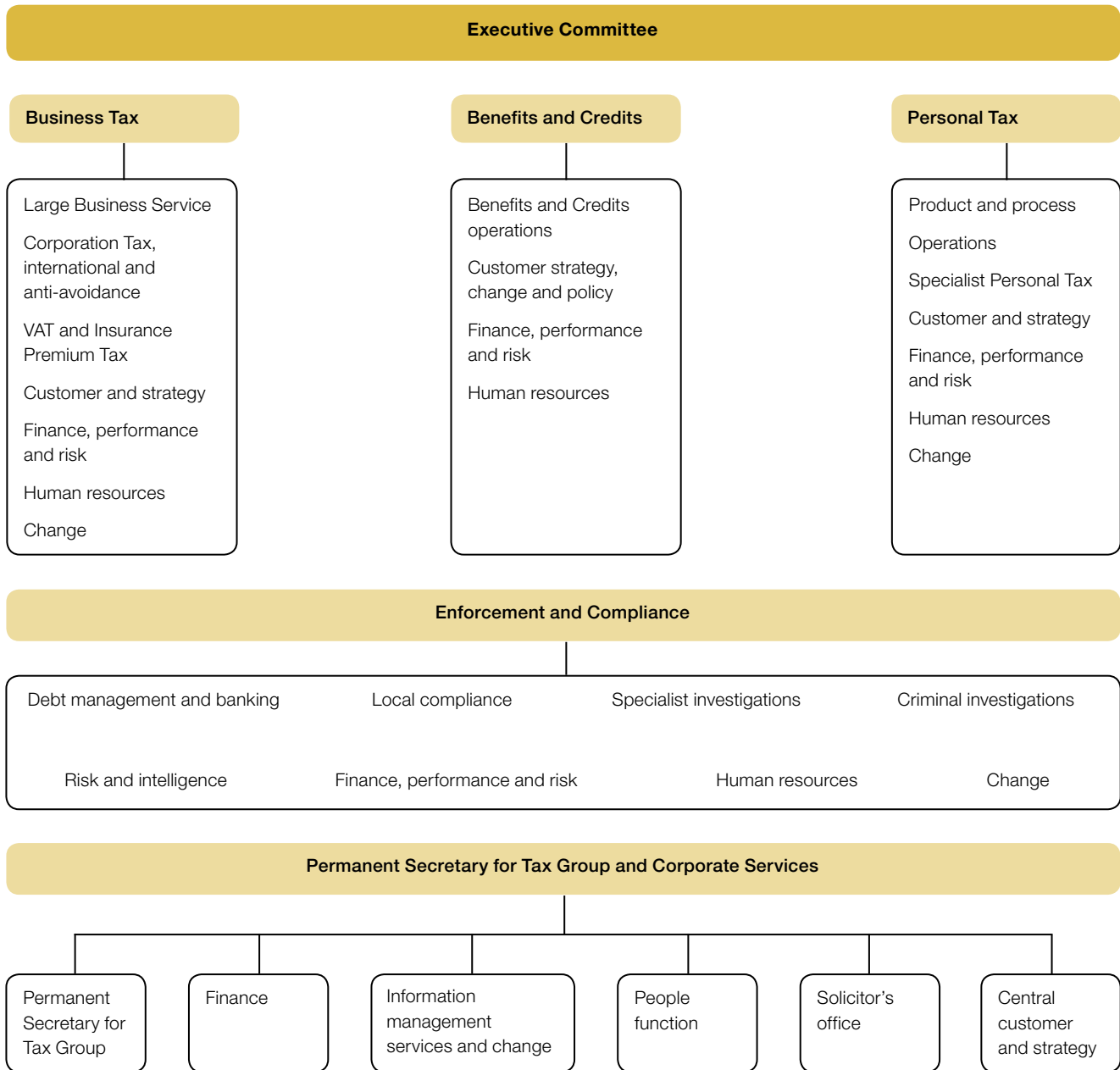
Figure 1

Main types of revenue collected by HMRC in 2010-11



Source: HMRC Annual Report and Accounts 2010-11

Figure 2
Summary of HMRC's organisational structure



Source: HM Revenue & Customs

Where the Department spends its money

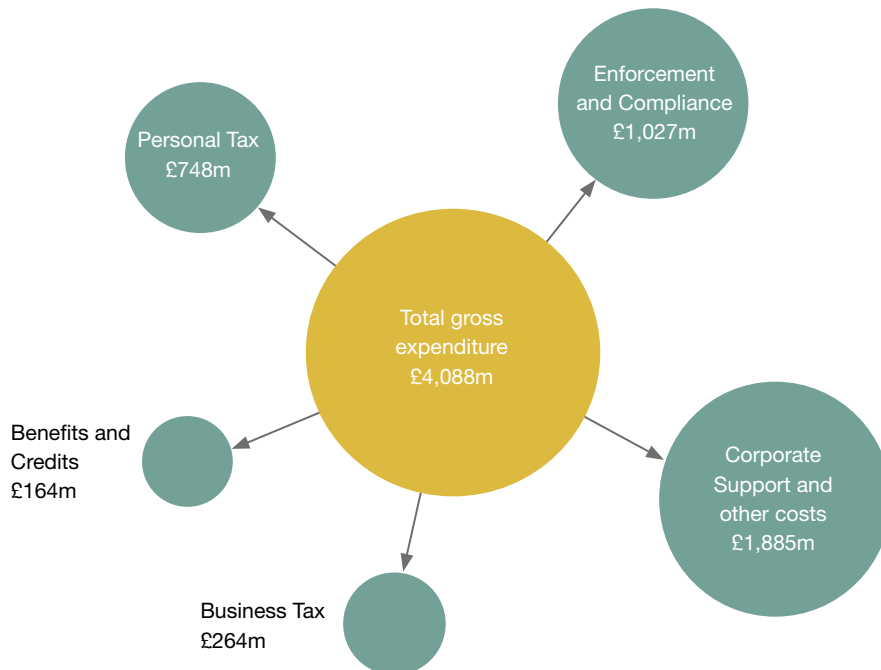
7 In 2010-11, the gross cost of running HMRC was £4.1 billion. A break-down of expenditure by main business segments is presented in **Figure 3**. With income of £0.5 billion mainly from charges to the National Insurance Fund for the collection of National Insurance contributions and the maintenance of individual records, its net expenditure was £3.6 billion. The Department employed 67,748 full-time equivalent staff¹ at a cost of £2.4 billion during 2010-11.

Recent developments and current challenges

8 The Department has committed to deliver efficiency savings of 25 per cent in real terms by 2014-15, which translates into reduced spending of £1.6 billion over the four year period. A considerable share of these savings (£917 million) will be re-invested in tackling tax evasion and avoidance to bring in additional tax revenues of £7 billion a year by 2014-15.

Figure 3

Summary of HMRC's gross running costs in 2010-11



NOTE

¹ The main item in Corporate Support and other costs is IT support at £1,021 million.

Source: HMRC Resource Accounts 2010-11, Note 24 (Segment information)

¹ This is the average number of full-time equivalent staff in HMRC during 2010-11, excluding 3,758 Valuation Office Agency and 62 other staff.

9 To deliver these commitments the Department is pursuing a Change Programme, including introducing a Real-Time Information System:

- The Change Programme will alter the size and shape of HMRC substantially. Over the next four years it plans to reduce staff numbers by 10,000; redeploy, retrain or recruit 9,000 staff into high value Enforcement and Compliance work; significantly reduce the number of offices; and reorganise corporate services. The Change Programme also includes the stabilisation of the National Insurance and PAYE system and the reduction of error and fraud in Tax Credits (see Part Four).
- The Department plans to introduce a Real-Time Information System in 2013, which will report employees' income tax and national insurance deductions when they are paid rather than at year end. The Department for Work and Pensions will rely on this information to calculate benefit payments under the new Universal Credit scheme.

Capability and leadership

10 In 2006 the Cabinet Office launched Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Since publication of the last round of external assessments, between April 2008 and December 2009, departments are now required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.² Departments must rate their capability against ten criteria under three themes:

- **Leadership criteria** – 'set direction'; 'ignite passion, pace and drive'; and 'develop people'.
- **Strategy criteria** – 'set strategy and focus on outcomes'; 'base choices on evidence and customer insight'; and 'collaborate and build common purpose'.
- **Delivery criteria** – 'innovate and improve delivery'; 'plan, resource and prioritise'; 'develop clear roles, responsibilities and delivery models'; and 'manage performance and value for money'.

11 All self-assessments are due for completion by March 2012, with the first self assessment nearing completion. In addition to self-assessment, departments also have the option of asking the Cabinet Office to undertake a full external Capability Review assessment.

12 The Civil Service People Survey aims to provide consistent and robust metrics to help government understand how it can improve levels of engagement across the Civil Service. As part of this survey, civil servants across all participating organisations are asked a range of questions across nine themes which seek to measure their experiences at work. We present here the results of the second annual people survey for HMRC – undertaken between mid-September 2010 and the end of October 2010 – covering the themes of leadership and managing change, and understanding of organisational objectives and purpose (**Figure 4**). Results of 17 major departments are in Appendix Two.

13 HMRC's employee engagement index in the 2010 survey was the lowest across the Civil Service at 34 per cent, compared to an average of 57 per cent. The survey's conclusions were that staff generally take pride in their work, but are not engaged with HMRC as an organisation, and that the Department had not managed change well. The Department has agreed a new organisational design aimed at appointing to senior positions people with the right skills to deliver its key strategic objectives. It also expects its PaceSetter programme, which combines HMRC's process improvement approach with developing management and leadership capability, to help it achieve a more motivated workforce. In our July 2011 report on PaceSetter we found that it may have had a small positive impact on staff engagement but it had not yet transformed the previous low levels.³ HMRC's Executive Committee recognises the need to further improve staff engagement and ensure the leadership is more visible and accessible. It has launched a communication strategy to keep staff informed and engage them in the process of change. It has also introduced its One HMRC/One Deal to rebuild its relationship with staff, by setting out what they can expect of HMRC as an employer and its expectations of employees.

² More information about Capability Reviews is available at <http://www.civilservice.gov.uk/about/improving/capability/index.aspx>

³ PaceSetter: HMRC's programme to improve business operations <http://www.nao.org.uk/publications/1012/pacesetter.aspx>

Figure 4
2010 Civil Service People Survey: HM Revenue & Customs

Theme	Theme score (% positive) ¹	Difference from 2009 survey	Difference from Civil Service 2010 ²
Leadership and managing change			
I feel that the Department as a whole is managed well	12	-1	-29
Senior Civil Servants in the Department are sufficiently visible	23	+1	-22
I believe the actions of Senior Civil Servants are consistent with the Department's values	19	0	-20
I believe the Executive Committee has a clear vision for the future of the Department	15	-1	-20
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	11	-1	-25
I feel that change is managed well in the Department	11	-1	-17
When changes are made in the Department they are usually for the better	9	-1	-15
The Department keeps me informed about matters that affect me	31	-2	-24
I have the opportunity to contribute my views before decisions are made that affect me	16	+1	-16
I think it is safe to challenge the way things are done in the Department	21	0	-18
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	65	-1	-19
I have a clear understanding of the Department's objectives	62	+2	-15
I understand how my work contributes to the Department's objectives	65	+1	-16

NOTES

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.
- 2 The 2010 benchmark is the median per cent positive across all organisations that participated in the 2010 Civil Service People Survey. The difference between the Department and the Civil Service (Appendix Two) may differ due to rounding.

Source: HMRC People Survey Results Autumn 2010

Part Two

Financial management

14 The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Organisations have to publish Statements on Internal Control⁴ with their Annual Financial Statements which describe their arrangements for risk management, internal control and governance.

Financial outturn for 2010-11 and comparison with budget

15 We audit HMRC's two main annual accounts. The Trust Statement records revenue collected and expenditure on Tax Credits. The Resource Account reports the costs incurred by HMRC in collecting those revenues and paying Child Benefit. We also audit the National Insurance Fund and the accounts of the Valuation Office Agency, an executive agency of HMRC.

16 For the year ended 31 March 2011 the Trust Statement records total revenues of £468.9 billion, compared to £435.8 billion in 2009-10. This increase reflected the economic situation, as well as the impact of rate and duty rate changes. In addition, the Trust Statement recorded tax credits expenditure totalling £28.1 billion, compared to £26.8 billion in 2009-10.

17 HMRC has never spent more than the resources approved by Parliament. The 2010-11 Resource Accounts reported a net outturn of £16.1 billion, which includes £12.5 billion programme expenditure on Child Benefit, Child Trust Fund and Health in Pregnancy Grant. The outturn was £354 million or 2 per cent

below the estimate of £16.5 billion. The majority of this underspend was in respect of Child Benefit where payments were £252 million less than predicted.

18 The Valuation Office Agency seeks to recover its costs in full. Income from fees and charges was £209.7 million in 2010-11, compared to operating costs of £193.3 million, generating a surplus of £16.4 million.⁵

Progress on efficiency

19 Departments are under increasing pressure to reduce costs. The scale of cost reduction required means that they will have to look beyond immediate short term savings and think more radically about how to take cost out of the business and how to sustain this in the longer term. Our **Short Guide to Structured Cost Reduction**,⁶ published in June 2010, sets out the high level principles that we expect departments to follow in taking a structured approach to cost reduction. It covers the three stages of cost reduction – tactical efficiency savings, strategic operational realignment, and sustainable cost reduction – and outlines nine principles underlying structured cost reduction, including having a data-driven approach to understanding, comparing and interrogating costs.

20 We have published detailed information and guidance on a number of the principles underpinning effective structured cost reductions, including **Managing risks in government**,⁷ **Progress in improving financial management in government**,⁸ and **Taking the measure of government performance**.⁹

21 Under the **2007 Comprehensive Spending Review (CSR07)**, HMRC was required to reduce its annual expenditure by £674 million during the three years from April 2008 to March 2011, a reduction of 14 per cent in real terms. The Budget 2009 increased this savings target to £754 million, but HM Treasury allowed the Department to recycle the additional £80 million savings into frontline services. Outturn

4 From 2011-12, departments will produce a Governance Statement rather than a Statement on Internal Control.

5 Of this, £11.2 million was a one off accounting gain that arose on the adoption of a revised accounting treatment for pension scheme liabilities. The balance was paid to the Exchequer.

6 A short guide to structured cost reduction http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx

7 Managing risks in government, June 2011 http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx

8 Progress in improving financial management in government http://www.nao.org.uk/publications/1011/financial_management_in_govt.aspx

9 Taking the measure of government performance http://www.nao.org.uk/publications/1011/government_performance.aspx

figures for 2010-11 indicate HMRC met its target, and it has reported savings totalling £1.4 billion since it was created in 2005.

22 Our July 2010 examination¹⁰ of HMRC's reported savings under CSR07 reviewed whether these fairly represented realised cash savings. We focused on the major savings in staffing, estates, IT and procurement which totalled £288 million a year by September 2009. We concluded that £250 million were sustainable annual savings, although HMRC had excluded one-off investment costs, such as exit payments to staff of £71 million, when reporting these savings.

23 Under the **2010 Spending Review**, covering the four year period to March 2015, HMRC is required to reduce its annual running costs by 25 per cent in real terms by 2014-15. This translates into a cash saving of £1.6 billion over the four years. Our report in July 2011 on how HMRC is planning to meet its commitments¹¹ found that it faces a significant challenge in reducing running costs by £1.6 billion over the four year period to 2014-15, at the same time as reducing welfare payments by £8.3 billion, increasing tax revenues and improving customer service. We concluded that the Department has put in place many of the necessary arrangements for delivering its cost reductions. However, it has yet to develop a sufficiently defined operating model and a full understanding of the dependencies between projects and the critical delivery path. Further, the cost reduction proposals involve much uncertainty. Assumptions that underpin proposed savings of £412 million have not been fully tested, including planned reductions in sickness absence and savings from the roll-out of the PaceSetter programme.

NAO reports on financial management

24 During the last year we have not reported specifically on Financial Management in HMRC, but our wider examinations have identified a number of relevant issues.

25 Cost information: Our report on **Reducing Costs in HM Revenue & Customs**¹² found that HMRC has comprehensive governance arrangements to deliver cost reductions, a good understanding of the administrative costs it incurs and has benchmarked accommodation and IT costs against the private sector and other government departments. However, it has only limited understanding of the link between the cost and value of its activities, including the cost of end to end processes and of servicing different customer groups. Our report on **Managing Civil Tax Investigations**¹³ also highlighted insufficient information on the cost-effectiveness of different types of enforcement activities.

26 Contingency in cost reduction plans: Our report on **Reducing Costs in HM Revenue & Customs** also found that the Department had not made any allowance for under-delivery or slippage in its current cost reduction plans. HMRC expects business areas to live within their annual budgets while maintaining performance and has also developed governance arrangements to identify early signs of under-delivery. While it can point to its past performance in reducing costs, there remains the risk that measures to compensate for any shortfall could involve short-term non-sustainable cost reductions that could have an adverse impact on customer experience or business performance.

NAO financial audit findings

27 Our financial audit work involves understanding HMRC's operations; examining its internal controls; agreeing the accounting policies; auditing its transactions, liabilities and assets; and confirming that the accounts present a true and fair view. We also consider the regularity of the transactions of the Department in accordance with Parliament's intentions.

10 HMRC: Independent review of reported CSR07 value for money savings http://www.nao.org.uk/publications/1011/vfm_savings_compendium.aspx

11 Reducing costs in HMRC http://www.nao.org.uk/publications/1012/reducing_costs_in_hmrc.aspx

12 Reducing costs in HMRC http://www.nao.org.uk/publications/1012/reducing_costs_in_hmrc.aspx

13 Managing civil tax investigations http://www.nao.org.uk/publications/1011/civil_tax_investigations.aspx

28 In each of the last five years, we have given unqualified audit opinions on the revenues collected and the costs of their collection reported in the Department's accounts. However, since the introduction of working tax credits and child tax credits in 2003 we have qualified our opinion on the regularity of this expenditure because of the estimated levels of error and fraud. HMRC's latest estimate is that in 2009-10 error and fraud resulted in overpayments to Tax Credits claimants of between £1.75 billion and £2.14 billion, which is between 6.6 and 8.1 per cent of the expenditure on Tax Credits. This is an improvement on the previous year, when the Department estimated overpayments to have been between £1.95 billion and £2.27 billion (8.3 and 9.6 per cent of Tax Credits spending in 2008-09).

Issues raised in Statements on Internal Control

29 We work with departments and their sponsored bodies to improve their published Statements on Internal Control. We aim to ensure that the Statements are supported by robust evidence and, where appropriate, provide assurance that controls are reliable and comply with Treasury guidance.

30 During 2010-11, HMRC reported on progress in tackling a range of key challenges and risks, including: the **Change Programme**; the threat of **criminal attacks against HMRC systems** and responses to specific threats; the work to prevent **internal fraud and corruption**; progress on the new strategic approach to **debt management**; initiatives to combat the low **employee engagement**; and developments in regarding the **estates strategy and contract management**.

31 Material control weaknesses reported in 2010-11 included:

- **Data Quality and its impact on HMRC's readiness to change.** The Department experienced major difficulties in introducing the new National Insurance and PAYE Service (NPS) in July 2009. NPS brings together all information held by HMRC on an individual's employment and pension income into a single record. HMRC encountered a number of challenges in operating the new system. These were largely the result of poor quality of PAYE data transferred from the predecessor system. The NPS specification also resulted in more processing exceptions (or work items) than originally anticipated. HMRC recognises that it must address the issue of PAYE data quality if it is to realise the full benefits of NPS. A recovery programme was instigated to address this, which the Department considered was making good progress in stabilising NPS. A number of measures have also been introduced to clear backlogs that existed before implementation of NPS, and HMRC has plans to clear all these outstanding overpayment cases by the end of 2012.
- The Department acknowledges that **Service to customers** has not been good and levels of customer satisfaction decreased in 2010-11 (see Part Four). Problems with the introduction of NPS were cited as a major factor.
- **Sickness absence** levels remain high, with on average 9.65 working days lost per full time employee in 2010-11. An Attendance and Wellbeing Project has been in place since October 2010 and a number of short term and longer term measures have been introduced to improve attendance.
- The high levels of **Tax Credit error and fraud** have in 2010-11 again resulted in the qualification of the accounts. HMRC aims to reduce this to no more than 5 per cent of the value of final awards by March 2011. The results of its revised strategy to tackle this issue will not be available before July 2012, but the latest figures show an improvement compared to the previous year (see Part Four).

Part Three

Use of information

32 Government needs robust, timely information on context, activities, costs, progress against its objectives, and the cost-effectiveness of its activities. It also needs to be able to interpret that information, by reference to trends, expectations, benchmarks and other comparisons, to identify problems and opportunities. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.

33 The Coalition Government have pledged, under the transparency agenda, to make more government information available to the public to help improve accountability and deliver economic benefits. In June 2010 the system of Public Service Agreements ended and instead, departments are to be held accountable to the public based on the data they use to manage themselves.

Reporting performance: Annual Reports and Business Plans

34 Each government department now reports its performance against the priorities and objectives set out in its Business Plan. The Plan's transparency section includes performance indicators selected by the department to reflect its key priorities and demonstrate the cost and effectiveness of the public services it is responsible for. These indicators fall broadly into two categories:

- input indicators: a subset of the data gathered by the department on the resources used in delivering services; and
- impact indicators: designed to help the public judge whether departmental policies are having the desired effect.

35 The Plan's structural reform section provides a detailed list of actions and milestones designed to show the steps the department is taking to implement the Government's reform agenda.

36 Departmental progress against indicators is published regularly in a Quarterly Data Summary, most recently in July 2011. The Quarterly Data Summary is designed as a standardised tool for reporting selected performance metrics for each government department, in a way that facilitates comparison across departments where this is appropriate. Data published in the summary can be compared to the previous quarter (April 2011) which will also be the baseline for this data set. The information in the summary has not been audited and the Cabinet Office has said that the accuracy of the data for all departments needs to improve.¹⁴ However, the Cabinet Office expects that over time, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner. An annual version of this information is expected to be formally laid in Parliament in departments' Annual Reports and Accounts from 2012 onwards.

37 It is too early to comment on departmental performance reported against the new performance indicators. Through its review of departmental business planning, however, the House of Commons Committee of Public Accounts¹⁵ identified some essential elements to help ensure effective accountability and value for money, including the need for:

- monitoring arrangements which align costs and results for all significant areas of departmental activity and spending; and
- clear definitions of expected outcomes and standards, rigorous timelines and appropriate strategies to intervene when expectations are not met.

Performance reported by HMRC

38 HMRC's Business Plan¹⁶ sets out its vision and priorities for 2011-15, as well as the key commitments involved in delivering its Change Plan. The Business Plan sets out the indicators which HMRC considers are most useful to the public in understanding the costs and outcomes of its revenue collection and benefits administration activity. Input indicators include the unit costs of collecting the main taxes and administering credits and benefits. The latest published figures show a reduction of unit costs for all indicators compared to the previous year.

¹⁴ <http://www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary>

¹⁵ *Departmental Business Planning* (Thirty-seventh Report of Session 2010-12), House of Commons Committee of Public Accounts, May 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/650/650.pdf>

¹⁶ Business Plan 2011-15, <http://www.transparency.number10.gov.uk/transparency/srp/view-srp/32>

39 HMRC has also defined a number of impact indicators, which include performance measures for enforcement and compliance, debt recovery, tackling benefit fraud and customer service. Data for those indicators will only become available later in 2011-12.¹⁷

40 In the most recently published data on its performance against its Structural Reform Plan Actions, HMRC reported that none of the 21 actions within the Plan were overdue. These actions mainly relate to planned changes in tax administration and policy, including steps to improve enforcement and compliance and service.

Testing the reliability of performance data across government

41 Some of the data systems used to report against the new performance indicators will be the same as those already being used by the Department to report against Public Service Agreements. In July 2010, we published our Sixth Validation Compendium Report¹⁸ on our work to test the systems used to report against Public Service Agreements. Our report found that the quality of data systems had improved but a third of the systems examined needed strengthening to improve controls or transparency and 10 per cent of systems were not fit for purpose.

42 Over the next three years we will complete work to validate the data systems underpinning departmental business plans and other key management information.

Use of information by HMRC

43 A number of our reports have highlighted issues with the management information HMRC collects and how it uses it.

44 Information on productivity and efficiency:

Our reports have shown that HMRC needs more comprehensive cost information if it is to assess whether it is getting value for money from its activities. Our report on **Reducing Costs in HM Revenue & Customs**¹⁹ found that while HMRC has good information on the different costs it incurs, it has limited information on the cost of its end-to-end processes, the cost of servicing different customer groups, and on the links between costs and value. This has restricted its ability to assess long term efficiency gains. Similar issues were also identified by our report on **The efficiency of National Insurance administration**²⁰ where we found that the Contributions Office did not have the performance information to allow year-on-year comparisons of productivity, in part due to the changing nature of its work. Where activities were comparable over the period since 2006-07, we found that the Contributions Office had successfully increased productivity by between 22 per cent and 45 per cent up to March 2010.

45 Information to assess outcomes: A number of our studies have highlighted concerns regarding the quality of management information HMRC collects to measure the outcome of some of its interventions. Our report **Managing civil tax investigations**²¹ found that HMRC is making important changes to gain a better understanding of its performance. However, the Department needs to better understand the relative returns and costs of different enforcement activities. This information will help the Department make more informed decisions on deploying resources and demonstrate its achievement of value for money. Good quality management information on the outcome of interventions is also crucial for the success of the Department's strategy to reduce error and fraud in Tax Credits. This will determine its ability to target those cases that are most likely to yield the highest levels of error and fraud. In our 2009-10 report on **HMRC's accounts**,²² we recommended that the Department improve the accuracy and reliability of its measurement of intervention yields. During 2010-11, we have continued to find inconsistency in measurement and some instances where the results of interventions were inaccurately recorded.²³

17 HMRC Business Plan Quarterly Data Summary, July 2011 http://www.hmrc.gov.uk/about/hmrc_qds_july11.xls

18 Taking the measure of government performance http://www.nao.org.uk/publications/1011/government_performance.aspx

19 Reducing costs in HMRC http://www.nao.org.uk/publications/1012/reducing_costs_in_hmrc.aspx

20 The efficiency of National Insurance administration http://www.nao.org.uk/publications/1011/ni_administration.aspx

21 Managing civil tax investigations http://www.nao.org.uk/publications/1011/civil_tax_investigations.aspx

22 HMRC 2009-10 Accounts http://www.nao.org.uk/publications/1011/hmrc_accounts_2009-10.aspx

23 HMRC Annual Report and Accounts 2010-11 http://www.nao.org.uk/publications/1012/hmrc_accounts_2010-11.aspx

46 Using information to ensure customer

compliance: Our reports have also shown that the Department needs to make better use of information on its customers if it is to achieve its business objectives, in particular to ensure customer compliance and correct tax outcomes. Our report **Engaging with tax agents**²⁴ found that the Department does not currently analyse data on the compliance track record of individual tax agents. With better use of data, the Department could make more targeted interventions based on risk and either achieve greater tax revenues with the same resources, or potentially the same revenues at lower cost. We recommended that the Department establish a system for regularly collecting and monitoring compliance data and use this information to target its interventions according to the track record of each agent.

24 Engaging with tax agents http://www.nao.org.uk/publications/1011/tax_agents.aspx

Part Four

Service delivery

47 Public services are different in the ways they are delivered but their quality and cost-effectiveness depends on a number of common minimum requirements. For example, service delivery requires a well thought-out delivery model, sound programme and project management, strong commercial skills, mature process management and a real understanding of customer needs. Many of our reports to Parliament cover these issues.

48 Over the last year HMRC has continued to implement initiatives that aim to create a more efficient, flexible and effective tax administration that focuses on customer needs. Improving service delivery is an integral part of this suite of initiatives. Our reports during this period examined the service delivery aspects of some of these initiatives. While we found worthwhile achievements and commitment to improve, further improvements could be made in both service quality and the effective administration of tax and benefits.

Service quality

49 The impact on service quality of the new National Insurance and PAYE Service: In 2009, HMRC introduced its National Insurance and PAYE Service (NPS) which aims to help ensure the correct amount of tax is collected from PAYE taxpayers in-year and help them to manage their tax affairs more easily. We reported on the difficulties of the initial introduction in our report on HMRC's 2009-10 Accounts.²⁵ In October and November 2010, the Committee of Public Accounts examined the implementation of NPS and concluded that the Department had failed in its duty to process PAYE accurately and on time, deliver an acceptable standard of service to PAYE taxpayers, and to understand the risks of poor quality data.²⁶

50 Against this background, in our Report on HMRC's 2010-11 Accounts²⁷ we found that the Department had made significant progress in stabilising the administration of PAYE during 2010-11. It has reviewed over 11 million taxpayer records, almost 25 per cent of the NPS database, and, as necessary, repaired the records. The Department plans to complete the stabilisation of PAYE by 2013 and has allocated an additional £34 million in 2011-12 to begin its clearance of all processing arrears. HMRC accepts that its service for many individuals has not been good in 2010-11, mainly as a result of the problems with NPS. It has made commitments to at least recover customer satisfaction to 2009-10 levels by 2014-15 and to improve some other aspects of customer experience, such as responding to telephone calls and reducing the backlog of customer correspondence.

51 Service to tax agents: In our report **Engaging with tax agents**,²⁸ we note that HMRC has taken action to improve the experience of agents and the services they use. It recognises the importance of this customer group in collecting the correct amount of tax from represented taxpayers. Initiatives such as the agent priority helpline and greater encouragement to file online have improved the experience of agents. However, there is scope to improve tax compliance through tax agents, as represented taxpayers still have a substantial proportion of under-declared tax liabilities, and to reduce costs of dealing with agents, especially around reducing the volume of post from tax agents.

52 Understanding the effects of changes on customer service: In July 2011 we reported on **HMRC's PaceSetter programme**,²⁹ which is aimed at introducing process improvement inspired by 'Lean' principles. Understanding what customers value is an important feature 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. It has started to make greater use of work to analyse 'customer journeys' to target

25 HMRC 2009-10 accounts. Report by the Comptroller and Auditor General, Part 2. http://www.nao.org.uk/publications/1011/hmrc_accounts_2009-10.aspx

26 HMRC's 2009-10 Accounts, Committee of Public Accounts, 18th Report of session 2009-10, HC 502. <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/502/502.pdf>

27 HMRC's Annual Report and Accounts 2010-11. Report by the Comptroller and Auditor General, Part 3. http://www.nao.org.uk/publications/1012/hmrc_accounts_2010-11.aspx

28 Engaging with tax agents http://www.nao.org.uk/publications/1011/tax_agents.aspx

29 Pacesetter: HMRC's programme to improve business operations. <http://www.nao.org.uk/publications/1012/pacesetter.aspx>

improvements but it has not yet developed sufficiently structured and routine ways to incorporate customer insight into its PaceSetter approach. We also found that there was limited evidence to provide assurance that Pacesetter-related staff reductions were achieved whilst maintaining or improving customer service and quality. There had been some improvements, but deteriorations in other areas. Our July 2011 report on **Reducing Costs in HM Revenue & Customs**³⁰ also concluded that while the Department had established a clear vision for 2015 it had not yet sufficiently defined the business performance and customer service it intends to achieve.

Effective tax and benefits administration

53 Ensuring tax compliance: HMRC aims to close the gap between the amount of tax that should be collected and that which is actually collected. The Department's most recent estimate of the tax gap, for 2009-10, was £35 billion, around 8 per cent of estimated total tax liability.³¹ Our 2010 report on how **HMRC manages civil tax investigations**³² found that returns on investigations had increased between 2007-08 and 2009-10 from £9:£1 to £15:£1, reflecting a reduction in resources deployed and increasing levels of revenue generated. HMRC had also introduced a number of other activities to prevent future tax losses and increase compliance. We concluded that HMRC was making important changes to understand its performance and strengthen resource management. However, we also found that it could achieve greater value by using a more risk based approach to investigations, concluding cases more quickly and strengthening the deterrent effect. Our report on **Reducing Costs in HM Revenue & Customs**³³ also found that HMRC has not set targets for improving the overall level of customer compliance, for example by increasing the proportion of taxpayers in the more compliant, cheaper to serve segments. Analysis of intended business performance and levels of customer compliance would provide a framework for assessing the overall cost base needed, and for evaluating the changes that are needed.

54 Resolving tax disputes: In 2007, HMRC published its Litigation and Settlement Strategy, setting out its framework for concluding tax disputes across all taxes, duties and tax credits streams. At 31 March 2011, the Department was investigating over 2,700 issues with the largest companies, with estimated tax under consideration of £25.5 billion. In our report on **HMRC's 2010-11 Accounts**³⁴ we concluded that the strategy provides a sound framework for resolving disputes. A substantial majority of the settlements that we examined complied with the Strategy and the Department's processes for involving relevant technical experts and for approving settlements. We found two significant exceptions to this.

55 Reducing error and fraud: In April 2009, HMRC launched a revised strategy to reduce the levels of error and fraud in Tax Credits. The strategy was based on getting a better understanding of Tax Credit claimants and their behaviours to support a more tailored approach. There is evidence that this new approach is working. In the first year of the strategy, 2009-10, HMRC estimates that error and fraud fell from between 8.3 and 9.6 per cent to between 6.6 and 8.1 per cent. The Department's target is to reduce this to no more than 5 per cent of the value of finalised entitlements by the end of March 2011, as measured in 2012. In October 2010, HMRC launched a joint fraud and error strategy with the Department for Work and Pensions. In the context of that strategy, HMRC has a further target to prevent £8 billion of Tax Credits error and fraud over the four year period to March 2015.

30 Reducing costs in HMRC http://www.nao.org.uk/publications/1012/reducing_costs_in_hmrc.aspx

31 HMRC: Measuring Tax Gaps (21 September 2011) <http://www.hmrc.gov.uk/stats/mtg-2011.pdf>

32 Managing civil tax investigations http://www.nao.org.uk/publications/1011/civil_tax_investigations.aspx

33 Reducing costs in HMRC http://www.nao.org.uk/publications/1012/reducing_costs_in_hmrc.aspx

34 HMRC Annual Report and Accounts 2010-11 http://www.nao.org.uk/publications/1012/hmrc_accounts_2010-11.aspx

56 Creating efficient delivery systems: HMRC

has pioneered the use of process improvement techniques in central government. Its PaceSetter programme reviews processes from the customer perspective in order to reduce waste, duplication and inconsistency, and tries to resolve the root causes of operational problems. In our report on the programme³⁵ we concluded that Pacesetter was travelling in the right direction and had delivered value by increasing productivity, but we considered that the pace and scale of change should be more sophisticated and ambitious. We also found that 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.

57 Our 2010 report on the efficiency of National

Insurance administration³⁶ also found that Pacesetter techniques and greater automation introduced since 2006-07 had reduced staff by 31 per cent whilst increasing productivity by between 22 and 45 per cent.

35 Pacesetter: HMRC's programme to improve business operations. <http://www.nao.org.uk/publications/1012/pacesetter.aspx>

36 The efficiency of National Insurance administration http://www.nao.org.uk/publications/1011/ni_administration.aspx

Appendix One

HMRC's sponsored bodies at 1 April 2011

HMRC has one Executive Agency, the Valuation Office Agency. The Agency provides the Government with valuations of land and buildings, together with property advice, to support taxation and benefits. The work of the Agency encompasses:

- compiling and maintaining lists of rateable values of the 1.7 million non-domestic properties in England, and the 100,000 in Wales, to support the collection of around £25 billion a year in business rates;
- compiling and maintaining the lists of council tax bandings of some 23 million domestic properties in England and 1.3 million in Wales, to support the collection of around £26 billion a year in council tax;
- determining local housing allowances across some 150 Broad Rental Market areas for housing benefit purposes and registering some 60,000 Rent Act 1977 fair rents in England;
- delivering a range of statutory and non-statutory valuation and surveying services to central and local government departments and the wider public sector; and
- providing valuation advice to HMRC in connection with capital gains, inheritance tax and other tax compliance work.

Appendix Two

Results of the Civil Service People Survey 2010

Question scores (% strongly agree or agree)

Leadership and managing change

I feel that the department as a whole is managed well	41
Senior Civil Servants in the Department are sufficiently visible	45
I believe the actions of Senior Civil Servants are consistent with the Department's values	39
I believe that the Departmental Board has a clear vision for the future of the Department	35
Overall, I have confidence in the decisions made by the Department's Senior Civil Servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	54
I have the opportunity to contribute my views before decisions are made that affect me	32
I think it is safe to challenge the way things are done in the Department	39

Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	78
I understand how my work contributes to the Department's objectives	80

Civil Service overall

Appendix Three

Reports by the NAO on HMRC since 2008

Publication date	Report title	HC number	Parliamentary session
20 July 2011	Reducing costs in HM Revenue & Customs	HC 1278	2010-12
15 July 2011	PaceSetter: HMRC's programme to improve business performance	HC 1280	2010-12
7 July 2011	HMRC's 2010-11 Accounts	HC 981	2010-12
17 December 2010	Managing civil tax investigations	HC 677	2010-11
13 October 2010	HMRC: Engaging with tax agents	HC 486	2010-11
20 July 2010	HMRC's 2009-10 Accounts	HC 299	2010-11
20 July 2010	HMRC: Independent review of reported CSR07 value for money savings	HC 293	2010-11
06 July 2010	Short guide to the NAO's work on HMRC		
30 June 2010	HMRC: The efficiency of National Insurance administration	HC 184	2010-11
15 January 2010	HMRC: Handling telephone enquiries	HC 211	2009-10
3 December 2009	HMRC's estate private finance deal eight years on	HC 30	2009-10
23 October 2009	Dealing with the tax obligations of older people	HC 961	2008-09
20 July 2009	HMRC's 2008-09 Accounts	HC 464	2008-09
15 May 2009	HMRC: Managing variations in workload	HC 507	2008-09
20 November 2008	HMRC: Management of tax debt	HC 1152	2007-08
7 November 2008	The control and facilitation of imports	HC 942	2007-08
18 July 2008	HMRC's transformation programme	HC 930	2007-08
14 July 2008	HMRC's 2007-08 Accounts	HC 674	2007-08
3 April 2008	Tackling the hidden economy	HC 341	2007-08

Appendix Four

Cross-government NAO reports since December 2008 of relevance to HMRC

Publication date	Report title	HC number	Parliamentary session
6 June 2011	Managing risks in government	http://www.nao.org.uk/publications/1012/managing_risks_in_government.aspx	
26 May 2011	Option Appraisal: Making informed decisions in Government	http://www.nao.org.uk/publications/1012/option_appraisal.aspx	
28 April 2011	Lessons from PFI and other projects	HC 920	2010-12
11 March 2011	Managing staff costs in central government	HC 818	2010-11
03 March 2011	Progress in improving financial management in government	HC 487	2010-11
17 February 2011	Information and Communications Technology in government. Landscape Review	HC 757	2010-11
21 December 2010	Short Guide to reorganising arm's-length bodies	http://www.nao.org.uk/publications/1011/arms_length_bodies.aspx	
14 October 2010	Central government's use of consultants and interims	HC 488	2010-11
18 August 2010	A framework for managing staff costs in a period of spending reduction	http://www.nao.org.uk/publications/1011/managing_staff_costs.aspx	
20 July 2010	Progress with VFM savings and lessons for cost reduction programmes	HC 291	2010-11
14 July 2010	Taking the measure of government performance	HC 284	2010-11
1 July 2010	Assessing the impact of proposed new policies	HC 185	2010-11
21 June 2010	Managing complex capital investment programmes utilising private finance	http://www.nao.org.uk/publications/1011/complex_pfi_projects.aspx	
18 June 2010	A short guide to structured cost reduction	http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx	
03 June 2010	Assurance for high risk projects	http://www.nao.org.uk/publications/1011/project_assurance.aspx	

Publication date	Report title	HC number	Parliamentary session
18 March 2010	Reorganising central government	HC 452	2009-10
12 March 2010	The cost of public service pensions	HC 432	2009-10
6 November 2009	Commercial skills for complex government projects	HC 962	2008-09
16 October 2009	Government cash management	HC 546	2008-09
29 April 2009	Addressing the environmental impacts of government procurement	HC 420	2008-09
26 March 2009	Innovation across central government	HC 12	2008-09
27 February 2009	Helping Government Learn	HC 129	2008-09
13 February 2009	Recruiting civil servants efficiently	HC 134	2008-09
5 February 2009	Assessment of the Capability Review programme	HC 123	2008-09
19 December 2008	Central government's management of service contracts	HC 65	2008-09
28 February 2008	Managing financial resources to deliver better public services	HC 240	2007-08
8 February 2007	The Efficiency Programme: A Second Review of Progress	HC 156	2006-07

Appendix Five

Other sources of information

Reports from the Committee of Public Accounts since 2010

Publication date	Report title	HC number	Parliamentary session
24 May 2011	Departmental Business Planning	HC 650	2010-12
17 March 2011	Managing civil tax investigations	HC 765	2010-11
1 February 2011	HMRCs' 2009-10 Accounts	HC 502	2010-11
8 April 2010	HMRCs' estate private finance deal eight years on	HC 312	2009-10
25 March 2010	HMRC: Handling telephone enquiries	HC 389	2009-10
25 February 2010	HMRC: Dealing with the tax obligations of older people	HC 141	2009-10
10 December 2009	HMRCs' 2008-09 Accounts	HC 97	2009-10
9 June 2009	HMRC: management of tax debt	HC 216	2008-09
24 March 2009	HMRC: Tax Credits and Income Tax	HC 311	2008-09
11 November 2008	Revenue and Customs Prosecutions Office	HC 601	2007-08
15 May 2008	HMRC: Helping individuals understand and complete their tax forms	HC 47	2007-08
5 February 2008	Tax Credits and PAYE	HC 300	2007-08

Recent reports from Central Government

Publication date	Department	Report title
April 2011	HMRC	Business Plan 2011–15
April 2011	HMRC	Planned expenditure 2011-12 excluding depreciation
February 2011	HMRC	Change Plan – Outline of planned programmes and projects
February 2011	Department for Work and Pensions	Welfare Reform Bill introduced to Parliament
November 2010	Department for Work and Pensions	White Paper 'Universal Credit: welfare that works'
April 2010	HMRC	Business Plan 2010-11 ('Delivering our Vision')

Cabinet Office Capability Reviews of HMRC

December 2009	Re-review (HMRC: Progress and next steps)
December 2007	Original review

Where to find out more

The National Audit Office website is
www.nao.org.uk

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