



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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HM Revenue & Customs

The expansion of online
filing of tax returns

Key facts

£341m

HMRC's estimated cost of the online filing expansion programme by 2011-12

£190m

cumulative savings HMRC expects to achieve by 2011-12

£60m–97m

estimated annual benefits to customers of online filing

£373 million	initial expected cost of the programme; later reduced in response to wider funding constraints
£341 million	current estimated cost of the expansion programme by 2011-12 (excluding £68 million costs incurred in 2006-07 and £44 million cost to HMRC for using the Government Gateway)
£190 million	cumulative savings HMRC expects by 2011-12 with annual savings of £66 million thereafter
£126 million	cumulative savings delivered by the end of 2010-11
£60 million–£97 million	estimated annual benefits to customers of online filing
2012-13	when HMRC estimates the programme will break-even (in net present value terms)
77 per cent	percentage of Income Tax Self-Assessment returns filed online in 2010-11
94 per cent	percentage of Pay-As-You-Earn in-year returns filed online in 2010-11, rising to 98 per cent in first 5 months of 2011-12
67 per cent	percentage of VAT returns filed online in 2010-11, rising to 78 per cent in first 5 months of 2011-12
42 per cent	percentage of Corporation Tax returns filed online in 2010-11, rising to 93 per cent in first 5 months of 2011-12

Summary

1 Filing tax returns online is more efficient for HM Revenue & Customs (HMRC) than paper returns as it reduces processing, storage, stationery and postal costs. It can also be faster and more accurate for customers. Online filing forms part of HMRC's drive to reduce costs and persuade customers to use lower-cost channels of communication. It is also central to HMRC's customer-centric strategy, which tailors how HMRC interacts with customers according to their ability and willingness to comply with their tax and benefit obligations.

2 Between 2000 and 2003, HMRC introduced the facility to file tax returns online for Income Tax Self-Assessment, VAT, Corporation Tax and Pay-As-You-Earn (PAYE) in-year returns. Lord Carter's 2006 review noted that HMRC was ahead of most other government departments in the range of transactional services it offered online, but, while there had been progress, take-up rates were relatively low. The review recommended an aspirational goal for HMRC to achieve by 2012 universal electronic delivery of business tax returns and of individuals' tax returns from IT literate groups, and that online filing for VAT, Corporation Tax and PAYE in-year returns become mandatory. In 2007, HMRC launched its programme to expand online filing.

3 Expanding online filing has long been part of government plans for increasing digital and online services. This was further reinforced with the government's plans that public services should be delivered 'digital by default', and the Cabinet Office's 2011 Information and Communications Technology (ICT) strategy that promised easier access to online government services and information.

4 This report examines how HMRC has expanded online filing since 2006 (Part One); the policies, strategies and governance of the expansion programme (Part Two); and the operation of online filing systems (Part Three). Appendix One summarises our methodology.

5 This report is part of our wider programme of audit of HMRC. The programme includes our annual audit of HMRC's accounts and systems for assessing and collecting taxes, value for money studies and other work either cross-government or focusing on HMRC. In developing the programme we have regard to the NAO's three strategic themes of cost-effective service delivery, financial management and informed government. Recognising HMRC's challenge of creating a more efficient, flexible and effective tax administration, we seek to provide objective insight on how HMRC is:

- improving its performance and the compliance of taxpayers and benefit and tax credit claimants, using its customer-centric approach; and
- achieving value for money by reducing its costs while increasing revenues.

6 This report is also part of our work examining how government uses ICT for efficiency and reform, and its performance in delivering digital services. Our forthcoming reports on shared infrastructure and services for government online and on the government's ICT Strategy are other examples of work in this area.

Key findings

Service delivery improvement

7 To evaluate whether HMRC has delivered an improved and effective online filing service for customers, it is necessary to assess whether the programme's planned benefits have been delivered to schedule and within the approved budget. Take-up rates are one way to assess whether the service meets the needs of the customer.

8 **To date HMRC has delivered the online filing expansion programme to time.**

HMRC has introduced the online capability for the four taxes in stages as planned, to meet the revised timetable set by Ministers. The latest stage completed was for Corporation Tax which took place in April 2011. The final stage on VAT for smaller businesses is planned for April 2012.

9 **Take-up rates are good and increasing but HMRC has lowered some of its forecasts in the light of take-up achieved to date.** Take-up rates have increased significantly, particularly after mandatory online filing requirements have come into force. Rates also compare reasonably well with those achieved by other tax authorities, although such comparisons are not straightforward. By the end of 2010-11, take-up rates for PAYE in-year returns and Self-Assessment had increased to 94 per cent and 77 per cent respectively, broadly in line with 2008 forecasts. The rates for VAT and Corporation Tax had increased to 67 per cent and 42 per cent, respectively, some 20 per cent below 2008 forecasts. Rates for PAYE, VAT and Corporation Tax have increased further during 2011-12. In the light of actual rates achieved and greater knowledge of customer behaviour, HMRC has lowered its original forecasts of 100 per cent take-up by 2012 to around 97 per cent by 2013-14 for the three business taxes. The 2013-14 forecast for Self-Assessment is 84 per cent. Customers generally recognise the efficiencies and practical benefits online filing offers, although professional bodies have told us of their concerns about the cost and usability of filing VAT and Corporation Tax returns online.

10 **HMRC has delivered the programme so far within a reduced budget.** The original budget for the programme between 2007-08 and 2011-12 was £373 million, which HMRC later reduced to £341 million because of department-wide funding pressures. By 2010-11, HMRC had spent £303 million and it expects the final cost to be £332 million. These figures exclude £68 million in sunk costs incurred in 2006-07 and costs of £44 million for using the Government Gateway between 2007 and 2012.

11 Online filing is delivering significant savings to HMRC, although 14 per cent less than it originally predicted and it is unclear whether benefits are being maximised. In 2007, HMRC forecast cumulative savings of £220 million by 2011-12, mainly through reductions in staff no longer needed to manually process tax returns. In 2010, following changes in programme funding and deliverables, it revised this down to £190 million. By the end of 2010-11, with the 2011-12 outturn not yet known, HMRC estimated that expanding online filing had delivered savings of £126 million. While HMRC has department-wide systems for reducing budgets to reflect planned savings and for tracking staff reductions and savings, these systems do not enable it to demonstrate how savings from different projects within the programme aligned to actual staff reductions in the business directorates. It also cannot demonstrate if it has maximised the benefits since it has not identified the relative costs of processing paper and online returns, nor has it assessed the marginal costs and benefits of seeking greater take-up of online filing.

12 HMRC has yet to measure whether the anticipated benefits and costs to customers are being achieved, but plans to do so. HMRC's business case placed less emphasis on evaluating benefits and costs to customers, but sought to quantify these in annual regulatory impact assessments. In 2009, it estimated savings to be between £60 million and £97 million a year, with one-off costs of £39 million and annual costs of £5 million. HMRC is not in a position to compare actual customer benefits and costs against these estimates because it has not measured them, although it plans to do so.

Policies and strategy

13 It is important for change programmes such as the expansion of online filing to have a vision for what they are to achieve and for that vision to be updated over time, as necessary.

14 HMRC had a clear vision for online filing at the start of the expansion programme but it has not refined its strategy to identify how and when it expects to achieve universal online filing in the context of lower levels of take-up. HMRC's original vision was to achieve universal online filing of tax returns for the main business taxes and for Income Tax Self-Assessment from IT-literate groups by 2012. It has since reduced its forecast take-up levels. It has not refined its strategy nor assessed the costs, benefits and practicalities of achieving higher levels of take-up. HMRC has also not developed, as we previously recommended, an integrated channel strategy plan with which to gauge progress towards its overall goal of migrating customers to the most cost-effective means of communication, whether by telephone, face to face, post or online. HMRC recognises that it needs to produce an integrated plan which will support its developing approach to channel migration. It has recently commissioned work into the overarching principles for channel migration to refresh its current channel strategy. It also recognises it needs to better understand customer needs and behaviours in using different channels.

15 The expansion of online filing has been consistently aligned with past and current government initiatives to improve public services. The expansion supported the Transformational Government agenda to simplify customers' interactions with government. It also supports the current government's 'digital-by-default' initiative to improve access to public services. HMRC is reviewing all its online and digital activities to increase future use of these channels. HMRC is also well aligned with the Government's ICT strategy in facilitating the interoperability of its systems to allow the private sector to provide online filing software. Online filing also supports its customer-centric strategy of tailoring interactions with customers according to their behaviours and ability to comply with their tax and benefit obligations.

16 HMRC faces a significant challenge in developing its online services at the same time as delivering other important change programmes. HMRC is developing its online services in line with wider government initiatives, while also introducing wide-ranging changes to reduce costs, increase revenues and improve its service. This includes work to stabilise the PAYE service and transform it by introducing a real-time information system, and measures to reduce the level of avoidable contact and improve its telephony operations. These plans carry significant risks that will require detailed understanding of the interdependencies and measures to address the risk of under-delivery.

Operational performance

17 Online filing needs to be secure and reliable if it is to be effective and fully used by customers. Information on customer satisfaction, service performance and ICT costs is key to measuring whether this is being achieved and allows rational choices to be made when prioritising service improvements.

18 HMRC achieved an ambitious timetable to expand the use of its online filing and large numbers of customers are using these services, although there is some dissatisfaction with aspects of the service. More than 11.5 million customers a year now submit one or more tax returns online and steadily rising take-up rates suggest growing customer confidence in the service. The ICT systems are meeting availability targets. Since 2008, apart from an isolated occasion in July 2009, the online filing systems have provided a robust service capable of dealing with the peaks in traffic around filing deadlines. There has been repeated dissatisfaction, however, about delays in receiving login details to gain access to the Self-Assessment online service during peak periods. Levels of satisfaction with the assistance offered through the various helpdesks vary, and HMRC's website does not currently meet accessibility standards in full. HMRC uses various methods to collect customer feedback but it has not benchmarked customer satisfaction with that of other online services.

19 HMRC uses a range of measures to assess the performance of its ICT systems but does not yet have sufficient information to assess whether the costs it pays for the online filing systems provides value for money. HMRC uses a range of indicators to measure the performance of its ICT services, which include online services, and it measures availability that relates specifically to online filing. HMRC has a high-level view of the overall costs of ICT provision through the ASPIRE contract. It has been taking steps

to improve that information and achieve cost savings. It does not yet have a detailed breakdown of the costs of online filing services, so it cannot benchmark those costs to assess their value for money. HMRC is currently negotiating with the ASPIRE contractors to obtain a clearer breakdown of the costs of ICT services provided.

Governance and assurance

20 Successful change programmes require effective governance and scrutiny to provide assurance about progress and the use of resources, and proper accountability for the costs and business decisions.

21 **Most aspects of HMRC's programme governance reflect good practice.** The Office of Government Commerce reviews of the programme highlighted the programme's clear outcomes; strong leadership; effective control mechanisms; and effective engagement with external stakeholders. In 2007, it identified the need for contingency plans and to keep the risk register up to date, which HMRC addressed. HMRC's practice of updating the programme business case annually and only measuring progress against the most recent business case creates a risk that HMRC loses sight of how well it is doing against its overall objectives and value for money proposition.

Conclusion on value for money

22 The progress HMRC has achieved in expanding online filing represents a real achievement. The programme is on track to deliver to time and budget, 11.5 million customers are now filing online, and there is evidence that savings are being achieved as a result. HMRC does not, however, have sufficient understanding of the relative costs it incurs in online filing compared to filing of paper returns or of the costs and benefits to customers. For these reasons it is not possible to conclude whether benefits are being maximised and value for money has been achieved. Significant improvement is needed in these areas to drive future development on an informed basis.

The Department's view on value for money

23 "HMRC welcomes the recognition of the achievements made, and the finding that this programme has delivered to time and budget, and is on course to deliver significant savings. We accept the recommendation to improve our understanding of the relative costs and benefits. However, although this programme may not be generating its full value for money potential yet, it will recoup the investment made and deliver ongoing savings in excess of £60 million a year. On this basis, HMRC considers that the programme is already demonstrating value for money."

Recommendations

24 Our recommendations are designed to help HMRC secure value for money in its online filing programme.

Benefits to HMRC

a **HMRC does not know whether it is maximising the benefits of expanding online filing.** It should:

- show the extent to which staff savings from the programme are translating directly into reductions in staff numbers as well as in staffing budgets;
- calculate the relative costs of processing online and paper returns, and use this information to check that anticipated reductions in processing costs from online filing are realistic; and
- determine the scope and potential benefits and costs for HMRC and its customers of increasing take-up rates further, beyond current forecasts.

Benefits to HMRC's customers

b **HMRC does not yet know if customers are receiving the benefits expected from online filing, nor the costs they incur.** It should assess:

- customer benefits by, for example, measuring the time spent by customers filing a return and the speed with which tax assessments are finalised; and
- the costs incurred by customers in preparing for, and using, online filing.

Policies, strategy and governance

c **HMRC does not have an up-to-date strategy for migrating customers to online services.** It should:

- produce an integrated plan that brings together the costs, benefits and milestones of the different programmes covering its communication with customers; and
- identify ways to encourage more vulnerable groups to file online, including establishing arrangements with appropriate intermediaries to assist such customers to make the most of digital services; and ensuring that the speed of transition does not exclude those who remain unable to access online services.

d **HMRC requires a detailed understanding of the cumulative risk of developing online services at the same time as progressing other change programmes.** It should:

- clarify the interdependencies between these various programmes;

- ensure its governance arrangements are working effectively to provide early sight of possible under-delivery; and
 - build on the experience of managing the online filing expansion programme to ensure it has the necessary programme management skills to deliver future online programmes.
- e The operating model for online services requires updating to reflect wider government initiatives and organisational changes.** HMRC should:
- ensure the model adequately reflects the interrelationships between operational directorates, the Information Management Services and Change Directorate and the ASPIRE contractors, including reflecting, where appropriate, programme-specific as well as cross-department activity and information flows;
 - include relevant targets to measure the performance of the model over time; and
 - reflect the role that online filing will play in supporting the customer-centric strategy.

Operational performance

- f There are gaps in how HMRC specifically measures the performance of online filing systems.** It should:
- establish a clear set of performance measures for the relevant systems;
 - assess the practicality of linking its service level agreement with ASPIRE with these performance measures; and
 - identify who, outside of the Information Management Services and Change Directorate, would benefit from routine performance information against these measures.
- g HMRC does not yet have sufficient assurance that the costs it pays for specific online filing services provided by its ICT suppliers represent value for money.** It should proceed with its plans to identify ICT costs specific to online filing services and ensure that current negotiations with the ASPIRE contractors provide sufficient breakdown of cost information for regular benchmarking of costs.
- h HMRC has limited information about customer satisfaction with its online filing systems.** It should:
- devise methods for monitoring customer satisfaction with online filing and benchmarking customer satisfaction against that of other public and private sector online services; and
 - establish responsibilities for coordinating action on changes in system design and operations in response to customer feedback.