



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1595
SESSION 2010–2012
2 DECEMBER 2011**

HM Revenue & Customs

Core skills at HM Revenue & Customs

Key facts

£96.5m

estimated total investment in skills 2010-11

215,495

Number of days of training undertaken in 2010-11

38%

Respondents to 2011 staff survey who agreed that training completed had improved their performance

- £96.5 million** estimate of HMRC's total investment in skills in 2010-11
- £6.3 million** HMRC expenditure on external training costs in 2010-11
- £19.7 million** total cost of developing the tax professionalism programme since 2006
- 215,495** number of days training undertaken during 2010-11
- 2,037** number of training courses undertaken during 2010-11
- £1,419** average cost of learning per head in 2010-11
- 38 per cent** respondents to 2011 staff survey who agreed that training completed had improved their performance
- 44,000** number of HMRC staff employed in the operational delivery profession
- 17,000** number of HMRC staff employed in the tax profession
- 9,000** number of staff due to be retrained and redeployed into high value enforcement and compliance work
- 16 per cent** the HMRC workforce aged 56 or over

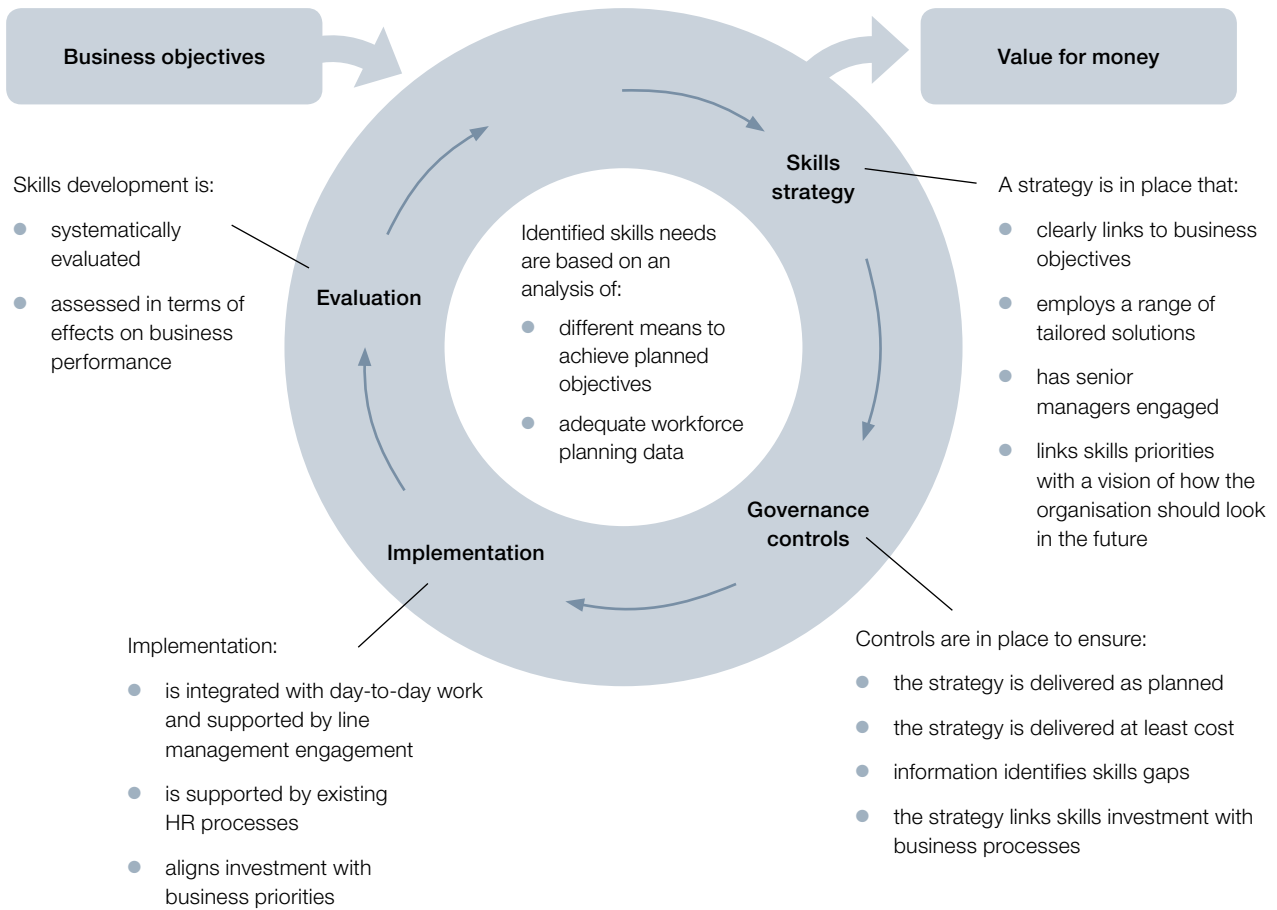
Summary

1 HM Revenue & Customs (HMRC) employs some 68,000 staff at an annual salary cost of £2,219 million. Most staff are directly involved in tax collection and administering benefits and credits. Around 17,000 staff are tax professionals, carrying out compliance and enforcement, working with businesses and dealing with technical issues for all taxpayers. A further 44,000 are in operational delivery roles dealing directly with the public. They include staff working in telephone contact centres and face-to-face enquiry centres, and those processing tax returns and post. The remaining staff are in other roles such as policy, project management and human resources.

2 Staff skills are vital to HMRC achieving its business objectives of collecting the appropriate amount of tax, ensuring customers feel the tax system is simple for them and even-handed, and being seen as a professional and efficient organisation. Tax professionals need technical expertise and supporting skills such as negotiation, interviewing and risk management. Operational delivery staff also need an appropriate level of tax knowledge as well as customer-service skills. HMRC develops staff skills through formal training, coaching, mentoring and on-the-job experience. It also increasingly uses technology to support skills, such as online guidance or systems to support decision-making. We estimate that in 2010-11, HMRC invested around £96.5 million in delivering skills.

3 This report focuses on HMRC's core tax and operational delivery roles, and the technical and generic skills and knowledge those staff need to undertake their roles effectively. It does not examine the skills required by staff in other specialisms such as finance, information technology and human resources. Our 2011 report, *Identifying and meeting central government's skills requirements*, set out the features that can ensure value for money in delivering skills. The key elements include a skills strategy supported by workforce data and skills gap analysis, governance controls and an aligned implementation plan (**Figure 1** overleaf). This report assesses whether HMRC is achieving value for money from its investment in skills and examines how far these elements are used. While the report focuses on tax and operational delivery roles, we have covered more general aspects of HMRC's management of skills such as its skills strategy and how it assesses skills gaps, prioritises investment and evaluates whether training is leading to improved business results. Part One sets out the challenges facing HMRC in delivering skills and the action it has taken. Part Two examines the structures and information that HMRC employs to manage delivery of skills. Further details of the scope of the study and how it fits with the wider programme of audit we conduct on HMRC are at Appendix One.

Figure 1
Elements required to achieve value for money in delivery skills



Source: National Audit Office Assessment Framework from C&AG's report, *Identifying and meeting central government's skills requirements*, HC 1276, 2010-12 (adapted for this report)

Key findings

Skills are crucial to HMRC achieving its business objectives

4 HMRC faces significant challenges and it will need skilled staff to meet them. HMRC faces significant challenges in delivering its change plan and Spending Review commitments to reduce its running costs by 25 per cent by 2014-15 and bring in additional tax revenues of £7 billion a year. HMRC recognises these challenges and has identified not having enough people in the right places with the right skills as a significant risk. By March 2015, 50 per cent of HMRC staff will either have moved to different work in the organisation or will have left. In addition, since its formation in 2005, HMRC has faced significant operational challenges. These result from many complex underlying issues but the organisation recognises that maintaining and improving skills will raise performance.

5 HMRC is doing much to ensure it has the skills it needs including developing major professional programmes and using new technologies. HMRC is developing training programmes for its tax and operational delivery professions. The operational delivery programme is still in its early stages while the tax programme will be fully implemented in 2012. The latter has gained external accreditation but it is too early to assess fully whether the tax training is meeting business needs. In addition, HMRC is making more use of e-learning than other departments and uses online systems to help contact centre staff deal with queries.

HMRC needs to direct its investment in skills at business priorities more systematically and at a more strategic level

6 There are examples of HMRC directing investment in skills at business priorities to contribute to business results. HMRC is addressing investment in skills in some key business areas, for example, by training those staff transferred into enforcement and compliance work to collect more tax and in its management of IT skills. There is also evidence of HMRC changing learning programmes to address new priorities. Existing learning programmes have been reviewed and content revised in the light of the challenges HMRC faces.

7 HMRC considers that investment in skills contributed to the recent improvements in business results. There has been an increase since 2009-10 of over £1 billion of tax generated by enforcement and compliance activity, increased accuracy of PAYE coding from 80 per cent to 90 per cent and a reduction of taxpayer debt of £3.5 billion since 2010. While staff skills will have been a factor in achieving these results, it is not yet possible to identify a direct evidential link between results and learning and development activity.

8 HMRC does not yet have a strategic and systematic approach to its investment in skills at the level of the organisation as a whole. It does not know the scale of its full investment in skills across HMRC and cannot say whether it is being spent in the right places. HMRC is taking steps to develop a skills strategy, but it has not yet carried out workforce planning to clarify the investment required and further strategic planning will be necessary before finalising a detailed skills development plan. Currently there is no link between a strategy and a model of how the organisation should operate in the future, given its business objectives, and the contribution that investment in skills can make. Without this, it is difficult to compare existing skills with what will be required in the future and identify systematically priorities for investment and set them out in a workforce plan.

9 HMRC's human resources function needs to develop its capacity for a more enhanced strategic role. Because HMRC has focused on a decentralised approach to skills management, the human resources function has not built up the capacity required to develop skills strategy in the way it needs to, for example to ensure a systematic alignment of investment in skills with business priorities.

10 HMRC needs better data and information on its skills gaps which would help it take a more strategic approach. As well as having limited information on its investment in skills, HMRC does not, at the level of the organisation as a whole, know its current skills gaps or gain an early warning of future skills gaps. There are good examples of action taken by business areas to identify skills gaps but the approach taken has varied. It does not, for example, systematically identify key roles in the 'value chain', that is, those roles that are critical to business performance, and identify skills gaps in those roles. Evidence from the staff survey, customer survey and external stakeholders suggests that HMRC does not have all the skills it needs to meet business objectives. This evidence is based on individuals' perceptions but, in the absence of a systematic approach to identifying skills gaps, it is the only information available. Depleting skills as experienced staff retire is also a risk with nearly one in five staff in key business areas being over 55. HMRC is aware of this risk but its information is insufficiently segmented to identify which roles are most affected.

11 HMRC also needs better information to hold the organisation to account for its investment in skills. There are governance structures in place for managing skills but there is no clear line of sight from HMRC's Executive Committee to business areas that would enable the Executive Committee to evaluate whether business areas are delivering expected business benefits from their investment in skills. There is little performance information to give assurance to the Executive Committee and its supporting committees that investment in learning and development is value for money. Problems are slow to be resolved. Many of the points in this report were raised by HMRC's own reviews in 2008 and 2009, but HMRC has not made the changes needed. For example, HMRC's total number of courses has not reduced since 2009, when an internal review found there were 2,000 training courses and raised concerns about poor focus in training provision.

12 HMRC has not effectively communicated and embedded with business areas and staff its approach for aligning skills with business objectives. Without a strategic workforce plan, business areas are not set clear expectations from senior management about skills investment and what must be delivered to meet business objectives. Similarly, there is a mismatch between staff's expectations of learning and development as reported in the staff survey and HMRC's interpretation of the survey findings. In 2011, 54 per cent of staff said that they were able to access the right learning and development opportunities when they needed to. Only 38 per cent said that training they had completed had improved their performance. There may be a need for improved communication on 'the deal' in terms of the level of investment in training staff can expect and what improvement in business performance is expected as a result. HMRC has not, however, carried out any analysis to confirm whether this is the case. In addition, although HMRC is moving in the direction of aligning training with business needs, more can be done. Other organisations, for example, give operational staff more of a formal role in identifying training and development needs and performance.

13 Evaluation of learning does not give HMRC a clear view of whether training contributes to business results. Evaluation of learning is widely recognised as challenging, particularly establishing that training has led to business results. HMRC is moving in the right direction, for example by developing best practice guidance for evaluating training, but we found the guidance was not consistently applied and that evaluating the contribution of training to achieving business outcomes was rare. Management information on evaluation of learning is poor and it is not clear how the results are captured, disseminated and fed back.

14 HMRC's current arrangements for managing investment in skills are not out of line with those in the rest of central government, which also need to be improved. Our 2011 report, *Identifying and meeting central government's skills requirements*, illustrated a similar picture across government on the issues outlined above, and concluded that departmental skills strategies and governance arrangements have not been adequate to ensure that skills development is well aligned with departmental business needs, while data weaknesses limit departments' understanding of the skills they already have.

Conclusion on value for money

15 HMRC is doing much to develop the skills of its staff, investing £96.5 million in 2010-11. It has taken on the challenge of redeploying a large number of staff, has developed its professional tax programme and is at the forefront of central government practice in using more IT-based training than other departments. Staff skills will also have been a factor in the improvement of business results such as the extra £1 billion tax generated by enforcement and compliance activity, although there is not a direct evidential link between business results and training and development activity. HMRC could, however, get better value for money if it directed its investment more systematically at business priorities. In common with other departments, HMRC lacks:

- an effective skills strategy supported by a workforce plan, embedded in its change programme, to direct investment towards areas that produce the most important business results and which links investment in skills to a model of how the organisation should operate in the future;
- governance arrangements or structures to hold the organisation to account for delivering investment in training and to evaluate its impact on business objectives; and
- effective communication with staff so that they understand ‘the deal’ in terms of the level of investment in training and development they can expect and what improvement in business results is expected of them.

Recommendations

16 Our recommendations aim to help HMRC achieve value for money from its investment in skills. HMRC should take a more strategic and informed approach to its investment. Senior management can then align skills needs and learning and development with business objectives, and can hold business areas to account for performance. Organisations that have done this, for example KPMG, have reduced waste and inefficiency, which has met the cost of taking this approach.

- a** **HMRC’s current approach to learning and skills focuses on service delivery at business area level but it does not manage its investment in skills at the level of the organisation as a whole.** HMRC has begun to develop a skills strategy but there is an absence of engagement in staff skills at senior level, and learning and development is not sufficiently recognised as an agent for change. HMRC needs to develop a detailed workforce plan so that it can establish the investment required to take forward its skills strategy. It should fully integrate learning and development with the overall strategy for delivering business objectives, as well as aligning it with the change programme. To take a more strategic approach, HMRC should also build up capacity within the human resources function.

- b** **HMRC's vision for learning and development and its role in achieving business objectives is not communicated effectively to business areas and staff.** Staff surveys show that staff feel they need greater levels of skills but this may be because staff don't have a clear understanding of how their skills will support delivery of HMRC's business objectives. HMRC needs to have a clear contract with business areas and staff that sets out how HMRC is preparing to invest in them and their skills and what is expected in return.
- c** **There is no specific body in HMRC that examines the total investment in skills across the organisation and decides whether it is being made in the right places.** HMRC needs a body, for example the performance committee, that considers the investment in learning and development and how it contributes to the organisation's business objectives and vision.
- d** **Senior management needs better information on where skills gaps are, or where they may arise, for HMRC to assess whether its investment in skills is effective.** HMRC has not systematically analysed skills gaps, and the action taken by business areas has varied. Information on gaps emerging, as experienced staff retire, is patchy. To get a better picture of skills gaps, HMRC should analyse whether staff in the roles that are key to the delivery of business objectives have the skills they need now and in the future and what investment is needed. It should also investigate the poor results in staff and customer surveys and use individual performance data more systematically. This would avoid additional expensive or resource-intensive analyses of skills.
- e** **There is insufficient performance information for skills and learning and development to show that it is having the desired impact on the business.** In common with many other organisations, HMRC's evaluation of learning and development does not demonstrate whether training is contributing to business results and mostly measures the immediate reactions of staff. Performance indicators on skills should be introduced that allow a senior management body (possibly the same body as suggested in 16c above) to assess performance and the impact of key training, drive out waste and duplication, and to hold the business areas to account for their investment in skills.
- f** **HMRC's decentralised approach for managing skills means that information and issues are escalated to senior management by exception.** Senior management do not have assurance that business areas have taken the actions they have agreed or information about the outcomes. To ensure that the decentralised model works effectively, HMRC should improve its governance controls on skills in similar ways as it has done in other areas, such as by introducing a self-certification system, where business areas need to confirm to senior management that they have taken the actions they need to.
- g** **Many of the findings in this report have been raised in previous internal reviews but HMRC has not taken action to address the issues.** HMRC now needs to ensure that appropriate action is taken to manage skills and achieve business objectives and should identify an individual at Executive Committee level with accountability for the changes we propose.