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HM Revenue & Customs

The Compliance and Enforcement Programme

Key facts

£4.32bn	£387m	3,374
HMRC's assessment of the Programme's additional yield over 2006–2011	Programme spending, 2006–2012	headcount reduced through the Programme

On the Programme's achievements

36 per cent	estimated improvement in staff productivity over 2006–2011
£8.87 billion	HMRC's forecast of additional yield that the Programme will deliver between 2011 and 2015 – bringing the forecast of total Programme yield to £13.19 billion
£239 million	spending on five new ICT systems, representing 62 per cent of overall spending

Broader context

7.9 per cent	estimate of tax gap in 2009-10 as a proportion of total tax due, which is a similar level to 2006-07. In cash terms, the tax gap was £35 billion

HMRC's future commitments

£7 billion a year	HMRC's commitment to raise additional tax revenues by 2014-15 – from a baseline of £13 billion in 2010-11 – by re-investing £917 million of savings in tackling non-compliance

Summary

1 Protecting tax revenues against fraud and evasion is essential for the tax system to operate fairly and support the Government's economic and social objectives. Most taxpayers seek to comply but a minority deliberately evade their obligations. HM Revenue & Customs (HMRC) estimated that the tax gap – the difference between taxes being paid in full and the amount actually collected – was some £35 billion in 2009-10, equivalent to 7.9 per cent of the total tax liability. HMRC's objective is to improve the extent to which individuals and businesses pay taxes due. It employs various methods to do this, from supporting those who want to comply through to identifying tax evaders and imposing civil and criminal sanctions.

2 Between 2006 and 2011 HMRC sought to transform its compliance work by implementing the Compliance and Enforcement Programme (the Programme). The Programme aimed to increase compliance yield – the measure of additional tax arising from compliance work – by £4.56 billion over the five-year period 2006–2011. HMRC also sought to improve operational efficiency, reduce staff numbers and improve the customer experience of dealing with HMRC. The ultimate aim was to help reduce the tax gap.

3 HMRC invested £387 million to 2011-12 in more than 40 projects, including:

- Information and Communications Technology (ICT) systems and processes to improve risk targeting and identify non-compliance more effectively;
- ICT systems and processes to improve how compliance cases are managed and documented;
- introducing new processes and training to streamline compliance work and develop workforce skills; and
- implementing legislative change to bring more consistency in investigating non-compliance and applying penalties where fraud and evasion is identified.

4 HMRC's aims are to be more efficient, more flexible in dealing with its customers and more effective in bringing in revenue. It plans to invest in work to tackle tax avoidance and evasion to bring in additional tax revenues of £7 billion a year by 2014-15, from a baseline of £13 billion in 2010-11. HMRC will build on the capabilities introduced by the Programme and implement a range of new initiatives to achieve this commitment.

5 This report examines whether HMRC managed the Programme effectively to deliver its intended objectives. Part One gives an overview of the Programme. Part Two covers its achievements and assesses how HMRC measured the reported benefits. Part Three evaluates how HMRC managed the Programme. Part Four assesses how HMRC implemented projects and whether these have improved its compliance work. Appendix One contains our methodology.

Key findings

The Programme's achievements

6 **HMRC aligned the Programme with its strategic objectives and vision for compliance work.** The Programme's objectives were consistent with broader departmental objectives to increase tax revenues, reduce costs and improve customer experience. HMRC devised the Programme to implement a new operating model for compliance work, which directs resources at risks based on a better understanding of taxpayer behaviours. The Programme has improved capabilities and will help deliver HMRC's long-term vision. It has already contributed to HMRC's performance in increasing compliance yield, from £8.8 billion in 2006-07 to £13.9 billion in 2010-11. HMRC had not fully delivered the planned transformation in compliance work by the end of the Programme and will continue to embed new approaches over coming years.

7 **Figure 1** summarises the Programme's achievements against its forecasts for 2006–2011. We reviewed HMRC's performance in each area.

Figure 1
Performance against forecasts, 2006–2011

	Forecast in 2008	Out-turn at 2011
Compliance yield increase	£4.56 billion	£4.32 billion
Productivity gains	42 per cent improvement	36 per cent improvement realised[1]
Headcount reductions	3,387 staff	Achieved
Customer experience	(not quantified)	Not routinely measured

NOTE
1 In the Programme's final business case, produced in November 2011, HMRC assessed that the Programme had improved productivity by 15 per cent. It has since revised the figure to approximately 36 per cent.

Source: Forecasts from Treasury approved business case, 2008

8 **The Programme has successfully delivered substantial increases in yield and wider improvements in HMRC's compliance work.** HMRC assessed that the Programme delivered additional net yield of £4.32 billion over the five years to March 2011, approximately 7 per cent of HMRC's total compliance yield over this period. The Programme achieved these increases by enhancing HMRC's ability to assess risks; re-designing systems; improving the productivity of the workforce; and implementing a range of projects to improve its ability to engage with taxpayers and tackle non-compliance. The Programme will continue to deliver benefits as projects are embedded into working practices. HMRC forecasts that it will generate a further £8.87 billion of yield between 2011-12 and 2014-15.

9 **HMRC has delivered a significant return from projects to improve risk targeting and tackle offshore evasion.** The Programme delivered £1.4 billion of additional yield by 2011 through using new data-matching technology to target non-compliance more effectively and identify fraudulent VAT claims. It also collected £0.5 billion from campaigns to target offshore tax evasion. The yield increases can be linked directly to the new interventions introduced by these projects.

10 **HMRC has not systematically identified how other projects contributed to yield increases.** The Programme included projects to improve HMRC's approach to compliance work by making better use of data and improving staff productivity. HMRC assessed that these projects generated additional yield of £3 billion between 2006 and 2011. It also assessed that the Programme's wider deterrent effect had delivered £0.5 billion by improving voluntary compliance with tax obligations. It is harder to isolate the impact of these projects given other changes in compliance work. HMRC developed a range of approaches but the level of rigour in attributing benefits varied. In some cases, HMRC based assessments on planning assumptions of improved productivity. In other cases, the Programme team apportioned yield based on negotiations with business areas. This approach restricted HMRC's understanding of the impact of projects on business performance.

11 **HMRC delivered the Programme's planned headcount reductions early but productivity improvements to 2011 were lower than expected.** The Programme met its headcount reduction forecast by 2008-09, ahead of schedule. HMRC estimated the financial impact of having fewer staff – and thus conducting fewer compliance interventions – by reducing the gross yield attributable to the Programme by £1.1 billion. HMRC assessed that productivity – defined as the level of yield generated by each full time equivalent – had improved by around 36 per cent at the end of 2010-11, below its forecast of a 42 per cent improvement.

12 **HMRC did not routinely measure the impact of the Programme on customer experience.** The Programme implemented projects to improve customer experience. The central Programme team established a series of measures to evaluate the impact on customer experience but did not routinely measure performance against these.

How HMRC managed the Programme

13 **HMRC exercised appropriate budgetary control over annual Programme spending.** It planned to spend £364 million over 2006–2011. The Programme Board developed comprehensive governance arrangements and good management information to monitor spending on projects and progress towards annual funding limits. Programme expenditure to the end of 2010-11 was £350 million, with a further £10 million of implementation costs deferred into 2011-12 as projects were completed.

14 **HMRC deferred or changed the scope of projects in order to keep within annual funding limits.** HMRC prioritised funding to deliver the Programme's key projects, including new ICT systems to improve risk targeting. Its emphasis on tight budgetary control led it to reduce the scope of some projects or defer delivery. The five largest projects delivering ICT systems, accounting for 62 per cent of Programme spending, all missed planned delivery milestones.

15 **As a result of delays or reduced functionality, some projects did not deliver expected yield increases by the end of the Programme.** For example, two projects costing £104 million and forecast to deliver additional yield of £743 million by March 2011 had not delivered any yield at that point. HMRC now forecasts that these projects will generate £547 million of yield by 2014-15. HMRC told us that it did not seek additional funding as it delivered the Programme within the broader context of its commitment to reduce running costs while ensuring that investment in the Programme was maintained. Following the success of the Programme in generating additional yield, HMRC has since agreed with HM Treasury that it will reinvest £917 million of its cost savings in tackling tax evasion and avoidance by 2014-15.

Improving HMRC's compliance work

16 **The Programme has improved HMRC's ability to undertake compliance work but it has yet to exploit the full potential of the new systems.** In particular, the new ICT systems can substantially improve how HMRC assesses evasion risks to identify cases for investigation. HMRC is embedding new systems and approaches into working practices. We assessed the implementation of a sample of projects:

- **Project design.** Overall, HMRC managed design phases well but, particularly on projects to implement new ICT systems, it did not sufficiently consider redesigning business processes or developing the staff capability needed to exploit the full potential of the new technologies.
- **Implementation.** HMRC did not always communicate clearly the rationale for projects and, although it provided training and guidance, these were not always timely or requirements were underestimated.
- **Assessing the performance of new systems.** HMRC has established management information on the use and performance of new systems and, over time, will seek to use this to better understand the impact on business performance.

Conclusion on value for money

17 The Compliance and Enforcement Programme has helped HMRC to substantially increase tax yield and reduce staff numbers, and will continue to make an important contribution to its commitment to bring in additional tax revenues by 2014-15. The Programme has delivered a range of new technologies and approaches that will strengthen HMRC's compliance work in future, although it is yet to exploit the full potential of these new systems. While overall yield increases provide evidence of the Programme's impact, in some areas attributions to projects were based on untested assumptions or negotiations between business areas. This restricted HMRC's understanding of the impact of projects on business performance. HMRC also deferred and reduced the scope of projects to keep within annual budgetary limits, leading to reductions in forecast benefits. HMRC could achieve better value for money from its investment in compliance work by developing a fuller understanding of the impact of projects and embedding new systems fully into working practices.

Recommendations

18 Delivering a multifaceted programme is a challenging task and, over the next four years, HMRC will reinvest £917 million of its cost savings in compliance work. Our recommendations are intended to help HMRC apply lessons from this Programme to strengthen its programme management and exploit the potential of new systems.

Improving programme management

a **HMRC did not have sufficiently detailed information on the Programme's benefits.** HMRC used different approaches to assess the impact of projects, which demonstrated elements of good practice but, in some cases, could have gone further to validate yield increases. Over the spending review period, HMRC will need more timely and accurate management information on the impact of projects to inform investment and resource allocation decisions. HMRC should build on current practices by:

- substantiating yield increases by routinely testing assumptions against metrics on actual business performance;
- more systematically assessing the success factors common to high performing projects;
- establishing a clear baseline and distinguishing between different types of yield when reporting achievements;
- improving communications with business areas so they understand the changes needed to embed new approaches into working practices; and
- evolving its governance arrangements for embedding projects by setting stretching targets for delivering benefits and ensuring staff are held accountable for delivery.

Strengthening the approach to compliance work

b **HMRC is seeking to exploit the full potential of new capabilities.** Integrating new systems and approaches into working practices takes time. HMRC has not yet sufficiently developed staff capabilities or fully integrated new systems into working practices. It should focus on the business changes needed by:

- refining operating models to ensure new ICT systems and approaches are integrated into business processes. This should specify the staff capabilities and training needed to effectively use the new technologies and processes;
- improving the performance of new systems by monitoring regularly against a range of indicators to assess how systems are being used and their impact on working practices;
- making sure full project costs, including the whole-life costs of ICT systems, are included in business cases, including decommissioning costs; and
- ensuring ICT systems that are no longer needed are decommissioned promptly.

Going forward

c **HMRC faces a unique challenge of maximising tax revenues while maintaining tight budgetary control.** Should HMRC propose to defer or de-scope a project as a result of budgetary pressures, it should fully assess any associated loss of tax revenue in doing so. HMRC should maintain a regular dialogue with HM Treasury about further opportunities to increase tax revenues and reduce the tax gap.