



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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HM Revenue & Customs

Customer service performance

Key facts

£900m

spent on customer service, 2011-12

74%

of calls answered, 2011-12

66%

of post answered in 15 days, 2011-12

- 79 million** telephone calls received, 2011-12
- 25 million** items of post received, 2011-12
- 72.8** scored out of 100 against 'customers find us straightforward to deal with' measure, 2011-12
- 91 per cent** of calls answered, October 2012 – highest monthly performance since December 2009
- 6.5 million** customers waited more than ten minutes to have their call answered, April to September 2011-12
- £34 million** comprising **£9 million** in 2012-13 and up to **£25 million** in 2013-14 to be spent on up to 1,000 additional advisers, to answer 90 per cent of calls by March 2013
- £103 million** estimated value of customers' own time, waiting for calls to be answered, 2011-12
- £33 million** estimated cost of call charges for customers waiting for calls to be answered, 2011-12

Summary

1 HM Revenue & Customs' 'customers' (taxpayers and claimants) do not have a choice about whether they interact with HMRC.¹ This obliges HM Revenue & Customs (HMRC) to ensure that customers get a good service. Good service also makes economic sense, as poor service imposes costs on HMRC and its customers.

2 We estimate that HMRC spends around £900 million each year (around a quarter of its £3.7 billion expenditure) serving customers, including all staff costs and overheads. Its main performance indicators to assess service levels are the proportion of phone calls it answers, the proportion of post it answers within a particular time, the accuracy of its responses, and customer experience, which it monitors through a quarterly customer survey.

3 The report examines HMRC's performance in meeting its customer service standards and its plans to improve the experience customers have when they deal with HMRC. It focuses on HMRC's performance in handling telephone calls as this is where HMRC has faced the greatest challenges in the past. We set out HMRC's current performance and the investment it has made to improve performance from a poor position in 2010 (Part One). We also examine HMRC's plans to sustain and improve customer service as it cuts customer-facing staff, and its strategy to improve the customer experience beyond 2015 (Part Two).

4 We have judged whether HMRC achieved value for money on: its performance in meeting customer service standards; the impact on customer experience; its plans for maintaining and improving customer service with fewer staff; and its strategy for improving customer experience beyond 2015. Further detail is provided in Appendix One.

Key findings

HMRC has made efforts to improve performance in a challenging environment

5 HMRC intends to improve customer service but has to balance investment with other priorities. HMRC has committed to making its customer service more accessible, accurate and timely by 2015. HMRC, however, has difficult decisions to make about prioritising resources, given its spending review commitments to reduce costs by 25 per cent (taking account of inflation) and to increase tax revenues by £7 billion a year by 2015 (paragraphs 1.3 to 1.4, 1.24 and 2.2).

¹ Some commentators object to taxpayers and claimants being called customers, because they have no choice about interacting with HMRC. However, we use HMRC's terminology in this report.

6 HMRC has restored levels of customer service from a low point in 2010.

In 2010-11, HMRC's customer service levels dropped sharply when problems with the new National Insurance and PAYE System (NPS), which combined pay and tax details, increased customer queries. In total, HMRC received 122 million phone calls in 2010-11 (compared with 80 million in 2009-10) of which it answered 48 per cent. We reported on HMRC introducing the NPS system and the impact on customer service in 2011.² It has now restored service to previous levels and dealt with long-term backlogs by employing 2,500 temporary staff, enhancing phone technology and improving productivity (paragraphs 1.6 to 1.10).

7 HMRC has taken steps to improve support for key customer groups. It has enhanced online services for small businesses and introduced a dedicated helpline to support bereaved customers. Although not yet fully implemented, HMRC's agent strategy aims to transform its relationship with tax agents (paragraph 2.17).

Despite improvements, customers are still not getting a good service

8 In 2011-12, HMRC met a lower interim target for the percentage of phone calls answered and targets for phone and post quality, but did not meet targets for answering post (Figure 1). HMRC answered 74 per cent of phone calls compared to a target of 58 per cent. This interim target was set following problems introducing NPS as part of a staged approach to improve performance and answer 90 per cent of calls by 2015. The performance achieved in 2011-12 is nevertheless a low level of service. For example, 20 million calls (including calls where customers rang back because they did not get through first time) were not answered. All customers who hang up during the automated message are counted as being answered. For many callers this will be correct because they will have their query answered by the message. This, however, may overestimate the number of answered calls. HMRC has told us that it is aware that some callers will hang up dissatisfied and is looking at how to address this (paragraphs 1.12 to 1.14).

9 HMRC's service targets are lower and cover fewer areas than those of other organisations. In particular, HMRC does not have a target for answering calls within a specified time, unlike some other government departments and overseas tax authorities. A common industry benchmark is to answer 80 per cent of calls within 20 seconds and some organisations now aim to answer 90 per cent within ten seconds. We also found that HMRC's targets to respond to post are less challenging than some other government departments that interact with citizens. HMRC does not have standards for online services, for resolving queries first time or for measuring customer satisfaction at point of contact. Other organisations often receive fewer, less complex phone calls and in developing its targets a key question HMRC will face is whether a public body should seek to achieve targets set by commercial organisations. It estimates that it would need to spend between £40 million and £50 million extra each year on staff and management to answer 80 per cent of calls within 20 seconds (paragraphs 1.23 to 1.27).

² Comptroller and Auditor General, *HM Revenue & Customs 2010-11 Accounts*, Session 2010-2012, HC 981, National Audit Office, July 2011.

Figure 1
HMRC customer service performance

HMRC's performance in meeting customer service standards

	2009-10 target	2009-10 performance	2010-11 target	2010-11 performance	2011-12 target	2011-12 performance	2012-13 target	2012-13 year to date (to Oct)	Target by 2015 ⁵
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Accessibility¹									
Percentage of phone calls answered	–	76 (61 million of 80 million calls received)	–	48 (58 million of 122 million calls received)	58	74 (58 million of 79 million calls received)	75	68	90
Timeliness²									
Percentage of post answered within 15 days	80	54	80	51	80	66	80	81	80
Percentage of post answered within 40 days	95	83	95	85	95	92	95	97	95
Quality³									
Percentage of phone calls passing quality checks	95	96	96	97	96	98	96	98	96
Percentage of post answered within 15 days passing quality checks	90	91	90	92	90	92	90	92	90
Customer experience⁴									
Customer experience score	–	75.4	–	71.2	–	72.8	–	72.9	75.8

NOTES

- 1 Internal targets for percentage of calls answered for 2009-10 to 2012-13 have not been published externally.
- 2 HMRC has reported its targets for responding to post extensively e.g. in response to a Parliamentary Question and in the 2011-12 Annual Report.
- 3 Internal targets for percentage of calls and post passing quality checks for 2009-10 to 2012-13 have not been published externally.
- 4 HMRC's methodology for measuring the customer experience score changed in 2011-12. Earlier scores have been re-estimated so may not be directly comparable.
- 5 HMRC published targets for 2014-15 in its 2012–15 Business Plan, with the exception of targets for percentage of calls and post passing quality checks, which have not been published externally.

Source: HM Revenue & Customs

10 In 2011-12, once customers got through to HMRC, they had to wait longer in a queue to be put through to an adviser. The average call waiting time has increased from 107 seconds in 2009-10 to 282 seconds in 2011-12. Performance can be substantially worse than average in some months and at peak times. For example, between April and September 2012, nearly 6.5 million people (25 per cent) waited longer than 10 minutes (paragraphs 1.16 to 1.17).

11 So far in 2012-13, HMRC has improved its post handling but its performance in answering calls varies. Between April and October 2012, HMRC answered 81 per cent of post within 15 days, against its target of 80 per cent. Overall, HMRC answered 68 per cent of calls between April and October 2012, compared with 73 per cent for the same period in 2011-12. In October 2012, it answered 91 per cent of calls, its highest monthly performance since December 2009 (paragraphs 1.15 and 1.19).

12 Customers incur costs waiting for HMRC to answer the phone. Depending on the tariff they pay their phone company, customers are charged once their call is connected even if they are held in a queue. We estimate that in 2011-12, it cost customers £33 million in call charges while they waited for HMRC to answer the phone and the estimated value of customer time while they waited was £103 million. We estimate that if HMRC improved performance to answer 90 per cent of calls and reduced waiting times, it could save customers around £52 million a year. HMRC currently plans to spend £34 million to achieve this level of performance (paragraphs 1.31 to 1.32).

13 The majority of HMRC phone helplines are still 0845 numbers. The Committee of Public Accounts recommended that HMRC replace its helpline numbers with cheaper 03 numbers unless there was an overriding case for not doing so, such as significant costs to the customer or to HMRC. HMRC has introduced a cheaper 03 helpline for tax credits customers and is investigating alternatives to 0845 numbers as it negotiates its new telephony contract. It estimates customers will save £13 million annually if all 0845 numbers are replaced with 03 numbers. Cable & Wireless provides HMRC's phone service and receives a proportion of the call charges borne by the customer. HMRC has chosen not to receive a share of the revenue and does not know how much Cable & Wireless receives because it has no contractual access to this information. In return, HMRC receives additional services which Cable & Wireless says are worth £4.7 million. The contract is based on HMRC receiving a minimum of 400 million minutes of customer calls to 0845 numbers a year. In 2011-12, customers were on the phone for some 600 million minutes, so Cable & Wireless could have received 50 per cent more revenue than it expected under the contract terms. However, in 2009, a regulatory change reduced the share of call charges Cable & Wireless received so the service provider sought to negotiate a price increase to offset the loss. HMRC refused on the basis that customer call minutes were higher than the contract minimum. HMRC expects to enter into a new telephony contract in June 2013 (paragraphs 1.33 to 1.34).

HMRC has plans to achieve service targets but they are ambitious, given previous performance and the need to reduce staff

14 HMRC needs to improve customer service while reducing costs. HMRC plans to meet its 2010 spending review settlement by reducing the size of its workforce and estate, and by simplifying the IT it uses. In particular, it plans to reduce staff in its personal tax business by 8,500 (about one-third) by 2015. Many of these staff directly support customers by answering phones or processing post and tax returns (paragraphs 2.2 to 2.4).

15 Our analysis indicates that HMRC could answer 90 per cent of calls by March 2013. HMRC has assessed that through investing in additional contact centre staff, reducing call volumes and using staff more flexibly, it should be able to achieve its target of answering 90 per cent of calls by the end of 2012-13 and through 2013-14. To support its analysis, HMRC has improved its modelling of the number of calls it expects to receive given its assessment of demand and the number of staff available to take calls (paragraphs 2.6 to 2.7).

16 By 2014-15, HMRC will need to redeploy substantial numbers of processing staff to answer phone calls, and there is a significant risk that demand could be higher than HMRC has projected. By 2014-15, HMRC will have reduced numbers of both contact centre staff and processing staff. We estimate that to achieve its target of answering 90 per cent of calls, HMRC will have to redeploy an average of 700–800 processing staff throughout the year and more at peak times. HMRC will need to redeploy more staff if it receives more calls than it has forecast. Previous experience indicates that unanticipated events can increase volumes of calls. HMRC acknowledges that while work is in hand, there is uncertainty about the impact on call volumes of large-scale changes such as the introduction of real time information and the transition to universal credit, where many of the underlying assumptions need to be worked through with the Department for Work and Pensions. HMRC recognises that it needs to refine its plans for 2014-15 and, in particular, needs to assess the impact on processing work of redeploying substantial numbers of processing staff (paragraphs 2.8 to 2.14).

17 HMRC is starting to consider measures where there is significant scope to improve customer experience beyond 2015. HMRC could reduce expensive and inefficient contact by phone and post by improving business processes and offering greater accessibility through the internet. Many of the current contacts are around checking progress, or querying and correcting basic information. Eliminating some contacts, migrating contact online and increasing self-service might cut phone and post contacts by around one-third. Customer service could also be improved by building on the work HMRC has started to segment the customer base and by offering services tailored to 'life events'; by not asking for information that the HMRC already has; by resolving customer queries at first contact; and by working collaboratively with other agencies (paragraphs 2.15 to 2.19).

Conclusion on value for money

18 HMRC faces difficult decisions about how much it can afford to spend on customer service given its other priorities. Setting aside the poor performance following the introduction of the new PAYE system, where the circumstances were exceptional, HMRC's customer service arrangements still represent poor value for money for customers. Despite some welcome improvements, HMRC has acknowledged that its performance in providing services to the public has been unacceptable. In 2011-12, it met three out of five customer service targets, and its targets for 2014-15 are lower and cover fewer areas than those of other organisations. Some of the costs of poor service, such as the time spent waiting for HMRC to answer the phone (£103 million for the value of the customers' own time and £33 million of call charges), are passed on to customers. In addition, the majority of its phone numbers are 0845 numbers, which result in high call charges for some customers.

Recommendations

- a** **HMRC has increased the sophistication of the modelling of its customer contact but should refine it further to confirm that it has sufficient resources to meet its performance targets by 2015.** In particular, HMRC should review its planning assumptions and ensure that they sufficiently consider past performance, to avoid over-optimism. It should:
- Refine forecasts of call demand between 2012 and 2015 and assess the impact of introducing universal credit on customer contact and whether any contingency margin is required.
 - Establish how many processing staff it will need to redeploy in 2014-15 to achieve a good telephone service during peaks in demand and whether it will be feasible to redeploy large numbers without causing backlogs in processing work.
 - Better understand the skills profile it will require to maintain customer service in 2015. If HMRC is successful in eliminating avoidable contact, for example by migrating simple information requests online, it will have a more complex caseload of phone calls and post.
- b** **HMRC should ensure when agreeing its new telephony contract that the contract provides for alternatives to 0845 numbers, to reduce costs to customers, in line with previous Committee of Public Accounts' recommendations.** It estimates it would save customers £13 million if it replaced all 0845 numbers with 03 numbers, although there would be some cost to HMRC. If it enters into contracts where service providers get a share of call revenues, it should insist on open-book accounting and transparent arrangements for sharing benefits.

- c** **HMRC needs to set out its strategy to improve customer service beyond 2015.** HMRC is considering measures, in line with those taken by many organisations, to improve customer service and these need to be set out in a formal strategy. It should establish what level of performance HMRC aims to achieve, how it will measure performance to ensure that it is meeting customers' needs and priorities, and what operational change and investment would be required. The strategy should be ready by the time HMRC next agrees its budget with HM Treasury.
- d** **As part of its strategy, HMRC should develop new customer service performance targets focused on customer priorities.** HMRC should set a target for the percentage of calls answered within a specified time. It should consider complementing existing service standards with targets to monitor the quality of advice for complex queries, performance in resolving queries at first contact, website usability and face-to-face contact. HMRC should publish its key customer service targets, and how it performs against them, at least annually.
- e** **The strategy should build on work under way to design services more around the customer.** In forming its strategy HMRC should consider:
- doing more to design services around life events, such as starting work or becoming a pensioner, as it is doing around bereavement;
 - facilitating more contact on the web and increasing customer self-service, while ensuring services remain available for those less able to use the internet;
 - improving the customer experience at peak times by providing information on waiting times or offering call-back options, once there is capacity to manage this; and
 - working collaboratively with other government departments, such as the Department for Work and Pensions, to have a common approach and common customer service standards.