DATA ASSURANCE SUMMARY REPORTS

HM Revenue & Customs

Background and scope

1 In 2012, the government published updated departmental business plans. These focused on coalition priorities and are monitored by a set of input and impact indicators. Departments are expected to publish performance against these indicators quarterly. In addition, the Civil Service Reform Plan, published in June 2012, set out additional requirements for departments in sharing management information on back-office functions such as estates, HR or finance.

2 The National Audit Office (NAO) has undertaken to review the input and impact indicators systems of all central government. Our first review was carried out in 2011-12 and a summary report was published on each department.[1] This report covers our second review on HM Revenue & Customs (HMRC). In this second review we examined the systems that support eight of HMRC's performance indicators. We also examined HMRC's information strategy and the extent to which the information used by HMRC is complete.

3 In 2012-13, we have reviewed the data systems that underpin three of the impact indicators in HMRC's business plan. We chose:

- HMRC's measures of **customer experience** and of the **cost to customers** of dealing with HMRC; and

1 Available on the NAO website at: www.nao.org.uk/search/pi_area/data-assurance-summary-reports/type/report

- Three elements of HMRC's estimate of the **tax gap**: for VAT, tobacco and hydrocarbon oils. The tax gap is defined as the difference between the amount of tax paid and the amount that should have been paid, according to the letter and the spirit of the law. The overall measure of the tax gap is supported by multiple measures of the gap for different types of tax and taxpayer behaviour, each with their own data system. HMRC reports the size of the tax gap annually; however, it does not consider the tax gap to be a performance measure because the estimates are not sufficiently accurate or timely enough to use as the basis for setting targets or for performance measurement.

4 We also chose to review three of HMRC's operational performance indicators: **reducing low-value contact; the number of call attempts handled**; and the **efficiency indicator** reported to the Change Delivery Committee. We chose these indicators as examples of performance information HMRC collects to report internally, and which senior management uses to assess how efficient HMRC is in different aspects of its work. In addition, we completed initial work to understand the data systems underpinning HMRC's measure of total revenue raised and will report our findings on the robustness of HMRC's different revenue measures, including its supporting data systems, separately where they are relevant to other areas of NAO work.

5 This report provides an overview of the results of our assessment. It does not provide a conclusion on the accuracy of the outturn figures included in HMRC's performance statements. This is because the existence of sound data systems reduces but does not eliminate the possibility of error in the reported data. We have assigned each indicator a numerical score, based on the extent to which departments have put in place and operated internal controls over the data systems that are effective and proportionate to the risks involved.

Our findings on completeness of information

6 HMRC's stated objective is to be a more focused and effective tax administration. We found that the performance indicators HMRC reports on in its business plan support the delivery of its overall objective and all the major commitments in its Structural Reform Plan. As would be expected, there are no business plan indicators in support of projects that are yet to be rolled out completely such as HMRC's commitment to collect real-time information on PAYE from employers. HMRC's Change Delivery Committee oversees this project while HMRC's Performance Committee receives monthly updates on the progress of such projects through the progress report on its Structural Reform Plan.

7 Overall, the performance information provided to HMRC's board and to its Performance Committee is complete, robust and at a level of detail appropriate to the audience. HMRC's Performance Committee receives a monthly overview of performance and a detailed report on progress against the indicators in HMRC's business plan and Performance Measurement Framework, including financial information where applicable. The Central Performance team review and challenge the data they receive from across HMRC before it is shared with senior management. The board receives a summary performance report and an overview of the issues raised by the Performance Committee. Members of the Performance Committee also sit on the HMRC board.

8 HMRC aims to reduce the cost of its administrative functions by 33 per cent between April 2011 and March 2014. HMRC does not collect specific data on the cost of reporting on its performance as in many cases the cost of generating performance data cannot be easily separated from what is business as usual. The Central Performance team keep reporting processes, the number of indicators and data systems under review to monitor whether the costs are proportionate to the benefits of collecting, and reporting data.

Our findings on HMRC's information strategy

9 The NAO's wider work on HMRC has identified areas where the Department's performance data systems have been unable to generate information of the type we would expect, or at the right time to support the business decisions that HMRC needs to make.[2] However, HMRC takes seriously the need to produce good quality information and to manage effectively the information that it holds.

10 HMRC has a Data Quality Strategy, to improve the ownership and governance of data across the Department and increase awareness of data quality and monitoring requirements. Its Data Quality Policy makes a commitment to value data as an asset; to make sure the ownership of information is clear; and to apply HMRC's data standards consistently across HMRC. To be fit for purpose, HMRC specifies that its information should be complete, valid, accurate, timely, relevant and consistent. We found that, for some of the indicators we examined, HMRC's data do not meet these criteria. For example, our work to validate the data systems that underpin HMRC's estimates of the tax gap found that while HMRC uses relevant data from reliable sources, the time-lag between data collection and reporting was such that 2010-11 estimates of the tax gap were first published in autumn 2012.

11 HMRC relies on data from internal and external sources to inform its estimates of the tax gap. Using data generated by other government departments is a cost-effective way of accessing relevant, good quality information, particularly where they are classified as national or official statistics. Currently, HMRC must wait for such data to be released, which can result in a time-lag between data collection and HMRC's reporting. For example, HMRC does not have a service-level agreement with the Office for National Statistics (ONS) that covers the provision of data or advance notice of methodological changes and relies on ONS publication timetables to anticipate when data will be available. When ONS changed its approach to calculating consumer trends data in 2011-12, HMRC did not receive the new data when expected and did not have any warning of the impact the change would have on its calculation of the VAT gap.

Our assessment of data systems

12 Our review of HMRC's data systems identified examples of good practice. For example, HMRC's estimates of the VAT gap are reviewed and signed off by a group of staff that includes data analysts and experts on different aspects of VAT. This group provides challenge to the VAT gap figures and has input into changes to HMRC's methodology. HMRC also demonstrates a strong emphasis on risk control and data quality throughout the collection, processing and data reporting process for its measure of 'customer experience'.

13 HMRC's Performance Committee also identified that it wanted to better understand what drove change in the cost to businesses and individuals of complying with their tax obligations, as previously HMRC reported a net figure. As a result, HMRC reviewed its approach and from February 2013 began to report increases and decreases separately for its key customer groups. From March 2013, HMRC also reports the change in cost to businesses and individuals separately within its quarterly performance update of its business plan indicators.

14 The table in **Figure 1** overleaf summarises our assessment of these data systems.

2 National Audit Office, *A summary of the NAO's work on HM Revenue & Customs 2011-12,* October 2012; Comptroller and Auditor General, *HM Revenue & Customs annual report and accounts 2011-12*, Session 2012-13, HC 38, National Audit Office, June 2012; *Tackling tax credits error and fraud*, Session 2012-13, HC 891, National Audit Office, February 2013; *HMRC: Progress on reducing costs*, Session 2012-13, HC 889, National Audit Office, February 2013; *Tax avoidance: tackling marketed tax avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012.

Figure 1
A summary of the results of our data assurance exercise

Score	Meaning	Indicators we reviewed
4	The indicator's data system is fit for purpose	Customer experience Tax Gap – VAT
3	The indicator's data system is fit for purpose but some improvements could be made	Tax Gap – Tobacco Tax Gap – Hydrocarbon Oils Low-value contact Efficiency Cost to customers
2	The indicator's data system has some weaknesses, which the Department is addressing	Call attempts handled
1	The indicator's data system has weaknesses which the Department must address	
0	No system has been established to measure performance against the indicator	

Source: National Audit Office

15 Our work to validate individual data systems found that:

- HMRC's estimates of the **tax gap** for the indirect taxes we looked at are generally fit for purpose. HMRC's methodology for estimating the **VAT gap** is well-established and robust, although there are some improvements that HMRC could make to its estimates of the tax gaps relating to tobacco and hydrocarbon oils:
  - HMRC is in the process of reviewing its assumptions for **tobacco**. It expects to revisit its upper and lower estimates of the cigarette tax gap and to use new data to provide more timely estimates of the tax gaps for both cigarettes and hand-rolling tobacco, by the time of the next *Measuring tax gaps* report, due in autumn 2013.
  - HMRC's model for estimating the tax gaps for **hydrocarbon oils (petrol and diesel)** is highly sensitive to changes in the underlying data and it considers the published figure for 2010-11 to be provisional. In April 2013, HMRC reviewed the assumptions that underpin its model and found that the assumptions and data used were correct, but new evidence identified a small amount of consumption that was not included in the model. HMRC has now taken steps to include an estimate of this amount.

- We found that the data system for the **customer experience** indicator is fit for purpose. HMRC has demonstrated a strong emphasis on risk control and data quality throughout the collection, processing and data reporting process. The involvement of HMRC analysts and the checks and balances to the data give assurance of HMRC's oversight of the Customer Survey and the Customer Experience score. There is a risk of non-coverage bias because, for example, the survey excludes those without a landline. HMRC considers the impact of this to be minimal.

- HMRC's **cost to customers** indicator is designed to show how changes in HMRC's products, services and processes change the overall cost to customers of complying with their tax obligations. HMRC uses two models (the Standard Cost Model and the Total Cost to Serve calculator) to derive the change in customer costs. Businesses make up the majority of movement in costs to customers and their costs are largely calculated by the Standard Cost Model. Due to the development costs involved, HMRC is not able to introduce a similar model to the Standard Cost Model to measure the impact on individuals and claimants and instead uses the simpler Total Cost to Serve calculator. Within these constraints, the current approach is reasonable.

- The **low-value contact** indicator measures the proportion of telephone calls that are considered to be 'low value' both to HMRC and to the customer. Overall, we found that the data system for identifying and classifying low-value calls is fit for purpose. The call classification system may be too rigid to identify new types of calls quickly and the high number of possible classifications (currently 150) increases the risk of inconsistency in the system. HMRC has processes in place that go some way to mitigating this risk. HMRC's processes for checking data quality are robust.

- HMRC's data system for **call attempts handled** counts the calls that are successfully answered by an adviser or handled by the automated messages. It does not count as a valid call attempt or as a call handled, calls made to HMRC when their lines are closed. These customers will generally hear a message telling them that the line is closed and what the opening hours are, after which the call will end. The system currently includes 95 per cent of the telephone calls HMRC receives. HMRC told us it only includes the calls that are routed through its contact centres as it wants to make its data comparable with industry performance. Performance on the remaining 5 per cent of calls is reported to the relevant area of business, but not to the Performance Committee. Where a caller hangs up while listening to one of HMRC's customer service messages, HMRC assumes that the caller has received the information they need and treats the call as handled. In many cases this will be correct, however in some cases customers call HMRC again within 24 hours. As we recommended in our Customer Services report, HMRC needs to undertake further analysis of why its customers hang up when they do, so that it can revise its assumptions and adjust its performance reporting accordingly.

- The **efficiency** measure is reported internally to HMRC's Change Delivery Committee. The data system that underpins this measure is fit for purpose. HMRC's detailed performance reporting includes a breakdown of efficiency savings by the activity that HMRC has undertaken to improve its efficiency; however, the overall figure is not a sophisticated measure of whether HMRC has improved its efficiency as it includes, for example, savings from the civil service salary freeze.

Recommendations

16 Where HMRC relies on data collected by other government departments, it should have current and valid service-level agreements with the supplying departments that set out when data will be provided and how it will be quality assured. Using data generated by other government departments is a cost-effective way for HMRC to make its calculations of elements of the tax gap, but a delay in receiving data during 2011-12 prevented HMRC from reporting on time.

17 Some of HMRC's performance indicators exclude specific customer groups or activities from the data collected on practical or on cost grounds. HMRC should review periodically whether there is scope to expand the coverage of these indicators:

- HMRC should extend its coverage of low-value contact to include all contact. HMRC's existing system for classifying telephone contact could be more responsive to changes in the nature of calls; however, HMRC needs to balance adopting a more flexible classification system against the administrative burden created by regularly reviewing the types of classifications.
- For its measure of 'customer experience', HMRC should review periodically the impact of non-coverage bias and make adjustments where necessary to make sure the survey continues to represent accurately the views of its customers.

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