



National Audit Office

Report

by the Comptroller
and Auditor General

HM Revenue & Customs

The quality of service for personal taxpayers

Key facts

32%

real cost reduction in income tax services since 2010-11 to 2014-15

72%

of income tax calls handled from 1 April 2015 to 31 March 2016

15 minutes

average time spent waiting to speak to an adviser on the taxes helpline in 2015-16

47 minutes average time callers to the self-assessment line spent waiting during the October 2015 deadline week for paper tax returns

5 minutes average time callers to the self-assessment line spent waiting during the January 2016 deadline week for online tax returns

£66 million estimated value of income tax customers' own time, waiting for calls to be answered in 2015-16

58% proportion of customers rating HMRC's service as good or excellent

21% proportion of customers rating HMRC's service as poor or terrible

£544 million the gross cost of income tax services in 2014-15

£271 billion tax revenue raised from income tax and national insurance in 2014-15

Summary

Introduction

1 HM Revenue & Customs' (HMRC) mission is to collect the money that pays for the UK's public services and help families and individuals with targeted financial support. It aims to administer the tax system in the most simple, customer focused and efficient way, helping the honest majority to get their tax right.

2 HMRC's customer charter pledges to provide customers with a helpful, efficient and effective service. HMRC recognises that taxpayers do not have a choice about whether to interact with HMRC, and that this places an obligation on it to provide an acceptable standard of service.

3 Taxpayers pay around £270 billion a year in income tax and national insurance, around half of all tax revenue. Many people who pay income tax do not need to engage with HMRC on a regular basis. Most income tax (86%) is collected from employees under Pay-As-You-Earn (PAYE) and administered by employers. The remaining 14% of taxpayers who are self-employed or have other income sources are required to assess their own tax liabilities.

4 Taxpayers have three main ways to contact HMRC – online, by telephone or by post. HMRC also offers face-to-face contact through a mobile team to those taxpayers who need extra support. HMRC measures its performance primarily through targets it sets for answering the phone and replying to mail (Appendix Three). In 2011, HMRC set a target to answer at least 90% of calls to its taxes helpline by March 2013 and to respond to 80% of post within 15 working days. In 2012-13, it implemented a target to answer 80% of call attempts within 5 minutes.

5 A central feature of HMRC's funding settlement in 2010 was its aim to reduce the costs of processing people's tax affairs while investing more of its resources in tackling tax evasion and avoidance. HMRC planned to reduce costs over a five-year period, with the majority of savings coming in the last two years. Most of these savings were to come from HMRC's personal tax operations, where it aimed to reduce its annual running costs by £193 million (24%) by 2014-15. HMRC's plan was to increase automation and improve productivity while moving more customers to online services, thereby reducing demand for its telephone, postal and face-to-face services. This report looks at how HMRC sought to maintain the quality of customer service as it implemented these changes.

6 Over the next five years, HMRC aims to continue to transform tax administration through digitising its services. It identified three objectives in its single departmental plan published in February 2016. These were to: maximise tax revenues; design and deliver an efficient organisation; and transform tax and payments for its customers. HMRC is introducing digital tax accounts, so that by 2020 most taxpayers will provide information through a live tax account rather than by completing an annual tax return. HMRC expects these changes to increase its efficiency, reduce the administrative burden for customers, and improve overall levels of tax compliance. It expects to reduce the number of personal tax staff by a further 34% over this time.

7 In July 2015, we reported that HMRC's transformation will be complex, and more radical than previous change programmes, and that HMRC will need to balance ambition with realism about its critical assumptions and contingency planning. We consider implementation problems are inevitable and HMRC will need commitment and resilience to deliver its vision.

Scope of this report

8 During the last five years, the National Audit Office and the Committee of Public Accounts have reported several times on HMRC's customer service (Appendix Four). In 2013, the Committee of Public Accounts expressed concern that the prospects of fewer staff and more calls were a real risk to HMRC achieving an acceptable standard of service. In its response, HMRC said it would safeguard front-line activities so it could sustain improved service levels as it continued to reduce its running costs.

9 For HMRC's customer service to be value for money it must help customers to pay the right tax at the right time, without undue cost to customers or the public purse. HMRC has set its customer service targets as proxy measures of its performance, but meeting these targets alone would not necessarily equate to good customer service. In this report, we have used other relevant data collected by HMRC, such as survey data, to assess taxpayers' experience of the accessibility of the service. We have also generated our own evidence, including an omnibus survey of taxpayers, consulting organisations who represent different taxpayer groups, and estimating the costs borne by customers. Appendices One and Two set out our evidence sources and methodology.

10 This report considers:

- how HMRC has reduced costs since 2010-11 while seeking to sustain an effective service to its customers (Part One);
- the impact of changes in the quality of HMRC's service on personal tax customers (Part Two); and
- whether there is evidence that the quality of HMRC's customer service affects the amount of tax it is able to collect (Part Three).

11 In this report, we cover HMRC's services to personal taxpayers. These are income taxpayers who are required to submit self-assessment tax returns, or use the PAYE system. It considers all aspects of HMRC's service to help income taxpayers get their tax right, including online guidance and services, telephone contact centres, postal services and face-to-face contact. We do not consider the service provided to corporations or tax credit customers explicitly. However, HMRC manages some of its telephone enquiry teams interchangeably across two main helplines: the taxes helpline provides support and advice to personal taxpayers; and the tax credit helpline provides a similar service for tax credit claimants. Where it is not practical or meaningful to report call handling performance separately, we have included aggregated data across all call centres. We intend to look at the quality of HMRC's service to corporations and tax credit customers in future reports.

Key findings

How HMRC has reduced costs while seeking to sustain effective customer service

12 Between 2010-11 and 2014-15, HMRC reduced the cost of its personal tax operations by £257 million (32%). This exceeded the savings of £193 million it had agreed to make in its 2010 spending review settlement. It reduced the number of staff in personal tax from 26,000 to 15,000. To achieve the reductions it planned to increase automation of the PAYE system, operate on a more flexible basis so staff could move between different services, and move customers from traditional channels to less expensive contact such as automated telephony and digital services (paragraph 1.7).

13 Against this background, HMRC maintained or improved customer service up to 2013-14. Until 2013-14, HMRC maintained or improved performance against its key service measures while also reducing costs by £111 million in real terms (a 14% reduction compared with 2010-11). It trained personal tax staff to work more flexibly, and moved people from elsewhere in the business to the tax helpline at times of high demand. It answered 79% of calls to helplines in 2013-14 compared with 48% in 2010-11 (paragraph 1.13).

14 HMRC then misjudged the cumulative impact of its complex transition and released too many customer service staff before completing changes to its service. HMRC expected to have reduced demand for contact with customers towards the end of the spending review period. It introduced two new services, automated telephony and paperless self-assessment, in 2013-14. But demand for telephone advice did not fall. To live within its budget, it released 5,600 staff from personal tax in 2014-15, reducing customer service capacity. HMRC believes it was over-optimistic about the scale of change its staff could take and had not built sufficient contingency into its plans (paragraphs 1.11 and 1.14).

15 The quality of service deteriorated in 2015 when the full extent of the staff reductions took effect. Despite losing a quarter of the personal tax workforce in 2014-15, HMRC still managed to handle 88% of the call volume compared to 2013-14. But calls handled fell to 71% overall, and it met its target to handle 80% of calls in only 10 weeks of the year. HMRC's performance deteriorated further over the first seven months of 2015-16. Average waiting times tripled compared with 2014-15 levels, peaking at 34 minutes for the taxes helpline in October 2015 before improving substantially in the latter part of 2015-16 (paragraphs 1.15 and 2.6).

16 HMRC had to move staff from essential work to maintain PAYE records to help improve service levels in 2014-15. HMRC recorded in its board minutes in December 2013 that it had challenging budgets for 2014-15 and 2015-16 and customer service performance would be adversely affected. HMRC concluded it could maintain services by deploying staff more flexibly. To protect the service experienced by callers to the tax helpline in 2014-15, HMRC transferred to its call centres back-office staff who had been maintaining PAYE tax records. As a result, maintenance work was deferred and the stock of outstanding discrepancies in tax records requiring investigation rose from 2.4 million at March 2014 to 4.6 million at March 2015. Of these items, 3.2 million were high priority cases, carrying a risk that employees will have paid the wrong amount of tax (paragraph 1.22).

17 Performance improved in the second half of 2015-16 after HMRC recruited 2,400 additional staff. HMRC's call handling performance improved significantly with the recruitment of 2,400 staff to the taxes helpline in the autumn of 2015. The recruitment also allowed HMRC to re-prioritise processing of its PAYE records. It reduced the total number of unresolved items to below 3 million by December 2015, of which less than half were priority items (paragraphs 1.16 and 1.23).

18 The sustainability of cost reductions will depend on the success of new digital services in reducing demand for telephone and postal contact. HMRC's plans rest again on introducing new digital services and persuading customers to use them. HMRC is learning from its past experience that it needs to allow sufficient capacity for implementing operational and service change. It recognises the benefits will not be immediate and that, in moving to a primarily online service, telephone and post will remain important channels of contact for personal taxpayers. Its current plans specify how many staff it considers necessary to manage the transition: it will reduce staff in personal tax by 3.5% in 2016-17 and by 9.5% each year from 2017-18. In the March 2016 budget, it secured additional funding of £71 million between 2016-17 and 2017-18 to provide this capacity. Nevertheless, we consider that its plans to reduce the cost of its personal tax service in 2017-18 and beyond remain very challenging in the light of HMRC's experience to date (paragraph 1.29).

The impact on personal tax customers

19 Most taxpayers appear satisfied with HMRC services but one in five rate them poorly. We asked a sample of customers using HMRC services to rate the service they received, 58% rated the service as good or excellent, 21% rated it as average and 21% rated it as poor or terrible. Satisfaction was highest among those whose most recent contact with HMRC had been online, and lowest among those whose most recent contact had been by phone. We found little difference in satisfaction between self-assessment and PAYE customers. Most of HMRC's customer survey measures have remained stable since 2008. These include: satisfaction with the final outcome (76%); whether customers see HMRC as straightforward to deal with (78%); HMRC staff's ability to deal with the issue (71%); and ease of completing processes (72%) (paragraphs 2.2 and 2.4).

20 HMRC's service has become harder to access, and demand for help with tax from the voluntary sector has risen. HMRC started measuring the proportion of 'customers who find it easy to get in touch' in 2008-09. Since then, the proportion has dropped from 75% in 2008-09 to 58% in 2014-15. Most customers continue to interact with HMRC by post or telephone. HMRC has estimated that up to 1.37 million taxpayers might need extra help each year from HMRC, the third sector, or friends and family. The voluntary sector is positive about the quality of HMRC's service to provide outreach and telephone support to those customers needing the most help, but is concerned that HMRC does not have the capacity to meet demand. During 2014-15, the service helped 72,000 people. Citizens Advice, TaxAid and Tax Help for Older people have faced rising demand since 2014. HMRC has provided £14 million between 2010-11 and 2015-16 to support voluntary organisations working with its customers (paragraphs 1.20 and 2.5).

21 Call waiting times increased between 2012-13 and 2015-16, but have improved since. Average waiting times for the taxes helpline were below 10 minutes for most of 2012-13 and 2013-14 but grew progressively longer throughout 2014-15 and the first seven months of 2015-16. Customers waiting for an adviser at busy times have faced a long wait, sometimes over an hour. Average waiting times peaked at 34 minutes for the taxes line and 47 minutes for self-assessment calls in late October 2015 before improving. They were around five minutes in January 2016, which included the peak in demand created by the online deadline for self-assessment taxpayers (paragraphs 1.16 and 2.6).

22 As a consequence of longer waiting times, the cost burden on customers needing telephone advice rose by more than half. Using the value recognised by HMRC of £17 an hour to estimate the economic cost of customers' time, we estimate that the cost incurred by customers who have called the taxes helpline increased by 54%, from £63 million in 2012-13 to £97 million in 2015-16. Within this estimate, the cash cost to customers of making calls fell by £2 million because HMRC reduced call charges by moving to local-rate '03' telephone numbers in September 2013. But an increase in the economic cost of time spent waiting for an answer or speaking to an advisor more than offset this saving. When compared to HMRC's data on the annual cost of answering calls, we estimate that the increased cost to customers was £4 for every £1 saved by HMRC over the period (paragraphs 2.15 to 2.18).

23 HMRC does not have reliable data on the cost burden incurred by personal taxpayers or employers who administer PAYE. In 2014-15, HMRC reported that it had cost personal taxpayers £63 million less than in 2011-12 to comply with their tax obligations, based on HMRC's projections of the impact of changes it made to its services. But this figure was not based on any evidence collected after introducing services and did not include the cost of customer time on the telephone. HMRC also estimated annual savings of £300 million for employers from the introduction of real-time PAYE information (RTI). HMRC's Administrative Burdens Advisory Board has expressed scepticism about this figure. Payroll providers and tax professionals told us RTI has increased, not reduced, their costs (paragraphs 2.19 to 2.21).

Whether the quality of customer service affects the amount of tax HMRC collects

24 The quality of service experienced by personal taxpayers may have an impact on tax compliance. In a recent response to a Committee of Public Accounts recommendation, HMRC said that while it believed customer service and compliance were inextricably linked, there was no evidence that recent spells of poor service had impacted on tax revenues. To date, HMRC has not found a causal relationship between quality of service and compliance. It commissioned focus groups to improve its understanding and found most people did not recognise a link (paragraphs 3.3 to 3.6).

25 There is evidence of a relationship between the service taxpayers receive and their attitudes to evasion and compliance. HMRC has found that customers who have a more positive experience are more likely to think evasion is unacceptable. Our own survey found taxpayers who had a positive experience were more likely to think HMRC would detect tax evaders. Though these findings indicate that taxpayers' attitudes to compliance might be influenced by service levels, they do not demonstrate to what extent, if at all, their behaviour is affected. We have agreed to work with HMRC over the next year to explore in more detail the links between taxpayers' experience of HMRC's services and tax compliance (paragraphs 3.12 and 3.13).

Conclusion on value for money

26 HMRC's goal of reducing costs while maintaining customer services was not, and is not, in question. HMRC's strategy is based on delivering technological improvements, such as increased automation and better online services. These have potential to reduce the need for manual processing and the number of taxpayers contacting HMRC by telephone and post, thereby reducing the need for staff in these areas. We do think that HMRC should consider time and other costs to customers as it evaluates its planned savings.

27 HMRC's plans in the last Parliament were to deliver significant cost reductions in the last two years by reducing the headcount in its personal tax teams. It maintained or improved customer service until the end of 2013-14, but then released staff before it had made all the changes it needed to reduce demand. As a consequence, though HMRC continued to live within its agreed budget, the quality of its service to taxpayers collapsed in 2014-15 and the first half of 2015-16. In hindsight, this was a mistake, and not value for money.

28 HMRC has since recovered the service levels it provides to taxpayers in responding to phone calls and letters by recruiting 2,400 staff and moving people to call centres from elsewhere in its business. But this level of resourcing is transitional and numbers are intended to go down again, as HMRC's digitisation strategy due to be implemented by 2020-21, is designed to improve both the efficiency and quality of customer service significantly. The strategy continues to carry delivery risk which HMRC must manage to deliver adequate service levels, minimise the compliance burden for taxpayers and protect tax revenue.

Recommendations

29 HMRC will need to learn and apply the lessons of the last five years and build realism into its assumptions if it is to provide a consistently effective service to taxpayers. It should:

- a** **Base future decisions on spending on an assessment of the full impact they will have on the delivery of its objectives.** HMRC needs a better understanding of the direct and indirect impact of different spending decisions. When it reduces costs, it must take a realistic view of the consequences for customer service and the potential risk to tax revenue.
- b** **Set targets that strike a balance between its running costs and costs borne by customers.** HMRC has not met its pledge to answer 90% of calls by 2015 or to answer 80% of calls within 5 minutes. It should build greater resilience in its call centre services so it meets or exceeds the service standards it sets. In setting targets for future years it should take into account its own running costs and the cost to taxpayers.
- c** **Be clear and open about how the configuration of its service to taxpayers will change.** HMRC should be transparent about how it intends to reduce costs and what it expects of taxpayers. It should provide taxpayers with a good service for all channels.
- d** **Estimate the administrative burden on personal taxpayers and the voluntary sector and use this to inform its decisions.** HMRC estimates the burden on businesses of complying with their tax obligations, but not on individuals or the voluntary sector. Alongside savings to customers from new services, HMRC should take into account the additional costs its savings measures could impose on taxpayers, such as the cost of increased time spent waiting on the telephone.
- e** **Explore how the behaviour of taxpayers might be affected in response to changes in the way HMRC intends to deliver its services.** As part of this work, it should model the impact on tax compliance of planned changes to the way services are provided.