National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Investigation into HMRC's contract with Concentrix

HC 915 SESSION 2016-17 17 JANUARY 2017

Key information

1 Error and fraud in tax credits has been a significant challenge for HMRC

Apr 2003
Government introduced tax credits to support low-income families. In 2003-04 the rate of error and fraud due to overpayments as a percentage of entitlement was **9.7%**

Jul 2008
HMRC introduced a target to reduce tax credits losses due to error and fraud to 5.0% by Mar 2011. In 2008-09 the rate of error and fraud was **8.9%**

Apr 2009
HMRC introduced a new strategy for tackling error and fraud, moving from detecting to preventing error and fraud. In 2009-10 the rate of error and fraud was **7.8%**

2010-11
HMRC increased the number of error and fraud interventions from 123,000 in 2008-09 to 2 million. In 2010-11 the rate of error and fraud was **8.1%**

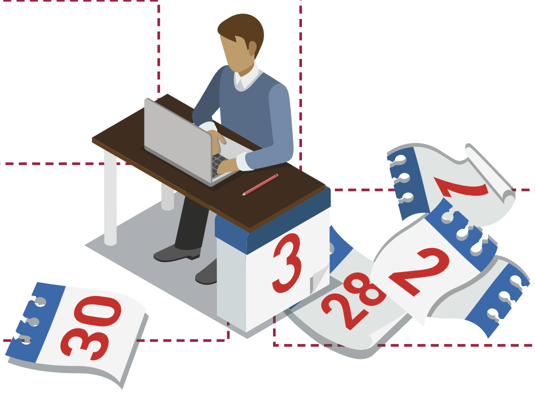
2014-15
In 2014-15 the rate of error and fraud was **4.8%**

2 HMRC contracted with Concentrix to add operational capacity to review and correct tax credits claims

May 2014
HMRC signed a three-year contract with Concentrix

Sep 2014
Original contract start date

Nov 2014
Actual start date for the contract



Sep 2016
HMRC announced it would not be extending the contract beyond May 2017

Nov 2016
HMRC and Concentrix agreed to terminate the contract with immediate effect

May 2017
Planned contract end date

3 Concentrix had to follow HMRC's process for investigating claims

a HMRC carried out analysis to identify cases it considered to have characteristics that suggest the award may be incorrect

b Concentrix carried out further analytics, including data-matching and identitfication of anomalies using other third-party data

c Concentrix wrote to claimants requesting further evidence where it considered characteristics existed that suggested awards were incorrect

d Claimants submitted evidence and Concentrix made a decision, or claimants did not submit evidence and Concentrix made a decision

e Claimants either accepted the decision or requested a reconsideration of the decision

4 Roles and responsibilities of HMRC and Concentrix under the contract

HMRC
Responsible for ensuring tax credits are paid to claimants accurately, managing tax credits appeals and complaints, and monitoring Concentrix's actions

Concentrix
Responsible for engaging with tax credits claimants, collecting and assessing evidence and making decisions on whether amendment is necessary on an award

Daily, weekly and monthly
review of performance information from Concentrix

5 The contract in numbers

104 of 242
Applicable monthly performance indicators met by Concentrix, Nov 2014 to Sep 2015

35%
Percentage of calls answered in five minutes by Concentrix in Aug 2016, against a target of 90%

£1bn original estimated savings over the life of the contract

£193m estimated savings from the contract

12%
of investigated cases stopped or amended throughout the contract

32%
cases overturned following a reconsideration

3.9%
Commission rate paid to Concentrix between Nov 2014 and Sep 2015 for meeting performance and quality targets

11%
Commission rate paid to Concentrix under the contract between Oct 2015 and Sep 2016

£32.5m
total paid to Concentrix over the life of the contract

670
Weekly average of full-time equivalent staff HMRC reallocated to work on clearing outstanding Concentrix cases

243
full-time equivalent staff Concentrix transferred into HMRC via a TUPE arrangement

What this investigation is about

1 Personal tax credits were introduced in April 2003 to support low-income families. Awards are based on initial estimates, and finalised at the end of the year. Overpayments and underpayments are an inherent part of the system. The process for finalising awards relies on claimants providing complete and accurate data, and HM Revenue & Customs (HMRC) calculating awards accurately. Error and fraud in tax credits has been a significant challenge for HMRC since the government introduced tax credits in 2003 (**Figure 1**).

2 In July 2008, HMRC announced a target to reduce tax credits losses (overpayments) due to error and fraud to no more than 5.0% of the value of finalised awards by March 2011. To help it achieve the target, HMRC increasingly focused activities on cases with characteristics suggesting the tax credits award might be incorrect. However, by 2012, losses remained above this level. With pressure on public sector spending and resources, HMRC looked at different ways to further increase its capacity to review awards and reduce levels of error and fraud. This included a pilot to determine whether it could use a third party to check additional cases to create more processing capacity and innovation in the use of data.

3 In May 2014, HMRC signed a three-year contract with Synnex-Concentrix UK Limited (Concentrix) to provide additional capacity and analysis to review and correct personal tax credits as part of HMRC's compliance process for tax credits. Under the contract Concentrix was responsible for examining the risk of error and fraud in a proportion of cases either during the year or as part of the renewals process at the end of the tax year. Claimants are required to renew their claim each year by reporting actual income and circumstances.

4 In August 2016, MPs and the public raised concerns that Concentrix had incorrectly suspended or terminated a number of claimants' tax credits awards. For example, Concentrix mistakenly believed claimants were living with individuals unconnected to them. Substantial numbers of claimants also had difficulties contacting Concentrix to discuss their awards. It became clear the contract was not working as HMRC intended. Concentrix was not working on as many cases as HMRC had expected or meeting performance standards. In November 2016, HMRC and Concentrix agreed to end the contract and a number of Concentrix staff transferred to HMRC.

Figure 1

Timeline of tax credits error and fraud and the Concentrix contract

1 Error and fraud in tax credits

HMRC's actions to tackle error and fraud in tax credits

Apr 2003
Government introduced tax credits to support low-income families

Jul 2008
HMRC introduced a target to reduce tax credits losses due to error and fraud to 5% by March 2011

Apr 2009
HMRC introduced a new strategy for tackling error and fraud, moving from detecting to preventing error and fraud, and increased front-line staff to investigate error and fraud from 1,100 to 1,500

2010-11
HMRC increased the number of error and fraud interventions from 123,000 in 2008-09 to 2 million

2013
HMRC estimated it would need 1,000 more staff to achieve its revised 5.5% target

Rate of error and fraud in tax credits (as a percentage of finalised entitlement)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
9.7%	8.2%	9.6%	7.8%	9.0%	8.9%	7.8%	8.1%	7.3%	5.3%	4.7%	4.8%

2003 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017

2 The contract

May 2014: Following a pilot, HMRC signed a three-year contract with Concentrix with a commission rate of 3.9% from savings achieved

Sep 2014: Original contract start date

Nov 2014: Contract started after IT system issues

May 2015: Concentrix said contract not profitable

Oct 2015: Contract renegotiated to revise performance management and increase commission rate to 11%

Jun 2016: Concentrix raised concerns on financial viability of contract

13 Sep 2016: HMRC announced that it would not extend the contract beyond May 2017

11 Nov 2016: HMRC and Concentrix agreed to terminate the contract with immediate effect

May 2017
Planned contract end date

Source: National Audit Office

5 This report sets out the facts about the contract between HMRC and Concentrix and its termination. Our investigation covers:

- the aims of the contract;
- the management of the contract;
- the decision to terminate the contract; and
- the impact of the contract termination.

6 Our findings are based on documents provided by HMRC and Concentrix, and interviews with staff from both organisations. Appendix One sets out our methodology.

Key findings

HMRC's aims for the contract

1 **HM Revenue & Customs' (HMRC's) contract with Concentrix aimed to provide additional processing capacity to check and amend cases, and innovation in the use of data to identify cases for investigation.** Concentrix selected cases to investigate from a group of cases that HMRC considered to have characteristics to suggest the tax credits award might be incorrect. These cases included claimants that HMRC considered to be at risk of misreporting childcare costs or hours worked, or failing to declare a partner. For example, Concentrix used credit reference agency data to identify potential undeclared partners (paragraphs 1.11 to 1.17 and 2.6 to 2.8).

2 **HMRC expected its contract with Concentrix to provide good customer service standards for claimants.** The contract required Concentrix to follow the same procedures as HMRC when investigating tax credits awards, after training provided by HMRC. Concentrix collected and assessed evidence on claimants' circumstances and determined whether the award was accurate. Concentrix then made amendments to those claimants' tax credits or stopped them altogether where it believed the award to be incorrect. HMRC continued to manage awards, recover any overpayments and deal with claimants' appeals (paragraphs 2.2 to 2.10).

3 **HMRC estimated in November 2013 that its contract with Concentrix would save £1 billion over the life of the contract.** HMRC estimated that Concentrix would provide additional capacity to investigate up to a further 1.5 million awards per year. Savings would come from stopping incorrect claims, reducing overpayments and the recovery of money already paid out. HMRC expected to pay Concentrix between £55 million and £75 million over the three-year life of the contract (paragraph 1.17).

4 **In March 2016, HMRC had reduced its forecast of expected savings to £405 million.** HMRC analysis identified that two main factors led to the reduction: a two-month delay to the contract start date because of delays in developing the IT infrastructure to transmit and manage cases; and Concentrix working fewer cases than HMRC originally expected. Concentrix, however, believes that the reduced level of savings was as a result of less fraud and error in the system and changes in the mix of cases it was given to work (paragraph 1.18).

HMRC's management of the contract

5 **The contract included incentives for Concentrix to meet customer service and quality targets.** HMRC's business case recognised the risk of the supplier increasing profits at the expense of customer service. To mitigate this risk, HMRC reviewed a sample of decisions and associated actions each month to measure the quality of Concentrix's compliance decisions. HMRC also required Concentrix to meet key performance indicators (KPIs) for customer service. Concentrix reported to HMRC its performance against these KPIs on a daily, weekly and monthly basis (paragraphs 2.23 and 2.24).

6 **Between November 2014 and September 2015 Concentrix consistently failed to achieve more than half of its performance targets.** During this period Concentrix met 104 of a total 242 applicable monthly performance indicators. Its performance was worst during the peak renewals period in mid-2015. For example, in July 2015, it answered an average of 4.8% of calls within five minutes against the target of 90% (paragraphs 3.2 and 3.14).

7 **HMRC reduced Concentrix's commission payments by a total of £3.5 million over the life of the contract, after it missed quality and customer service targets.** HMRC paid Concentrix only for the percentage of cases meeting quality standards throughout the contract. In October 2015, HMRC introduced a further penalty that reduced the commission paid to Concentrix when it failed to meet customer service targets for handling calls and post (paragraphs 3.6 to 3.7).

8 **In October 2015, HMRC and Concentrix agreed to vary the contract, introducing a revision to the performance management arrangements and an increase in the level of commission payments.** Concentrix was set to earn less commission than it predicted as the savings identified by its work were lower than expected, and it questioned the value of continuing the contract. Concentrix's level of commission increased to 11%, compared with 3.9% (with a possibility to earn 6.9% if savings reached particular thresholds) in the initial contract. Under the revised contract, HMRC required Concentrix to report data under new performance measures and to enhance its planning (paragraphs 3.3 to 3.5).

Termination of the contract in November 2016

9 **After some improvement, the performance of Concentrix fell again during the 2016 renewals process.** A number of factors contributed to the fall in Concentrix's performance in August 2016. Concentrix's failure to process compliance cases in accordance with its plan meant resourcing in call centres was not sufficient to meet the resulting increase in customer calls. Higher than expected terminations where claimants failed to renew their tax credits awards and IT issues in August further increased call volumes and delayed processing (paragraphs 3.10 to 3.11 and 3.16 to 3.17).

10 **By 20 September 2016 when the high-risk renewals process was scheduled to complete, there was a backlog of 181,000 open cases.** Although Concentrix opened 324,000 compliance investigations on high-risk renewal cases, as was planned, it did not conclude its enquiries and close the cases as it expected. This backlog of cases contributed to the higher than expected call volumes and to the higher than expected award terminations when claimants failed to renew (paragraphs 3.18 to 3.21).

11 **Concentrix was unable to cope with the volume of calls from claimants during August 2016, which were significantly above forecast.** Concentrix had initially estimated weekly call volumes at around 8,000 during August 2016, but call volumes reached six times this level. For example, in the week commencing 15 August, Concentrix received a peak of 48,000 calls, of which 19,000 were unanswered. Concentrix redeployed staff to call centres but this was insufficient to cope with the volume of calls and meet service standards, and was below the resourcing set out in its plan. This meant that some claimants were unable to contact Concentrix to discuss their award (paragraphs 3.22 to 3.24).

12 **More awards were terminated as a result of the renewals process than were expected, increasing demand on the call centre.** HMRC stops making provisional awards to tax credits claimants where they fail to renew their claim by 31 July. In 2016 the number of provisional awards terminated as part of the high-risk renewals process conducted by Concentrix was significantly higher than expected, at 45,000 against 21,800 anticipated in its plan. These higher than expected terminations would have been lower if Concentrix had processed more cases prior to 31 July (paragraphs 3.28 to 3.31).

13 **Concentrix's performance in August 2016 was also affected by IT failures.** A routine technical update to Concentrix's systems on 11 August 2016 prevented its staff from accessing or updating claimant details for a total period of 26 hours. This lack of access led to higher call volumes from 12 August onwards. There is evidence that some claimants had to call multiple times to get in contact with Concentrix. Concentrix cites two further IT failures in its and HMRC's systems as contributing factors (paragraphs 3.32 to 3.35).

14 **HMRC took steps to mitigate the impact of Concentrix's performance on claimants after the problems were escalated to its senior management on 5 September 2016.** On 7 September 2016, HMRC stopped passing new cases to Concentrix. HMRC reallocated a weekly average of 670 full-time equivalent staff between 12 September and mid-November 2016 to work on clearing a total of 181,000 cases returned from Concentrix. These staff were reallocated from working on HMRC's own tax credits compliance activity (paragraph 3.36).

15 **In November 2016, HMRC and Concentrix agreed to terminate the contract with immediate effect**. In September 2016, HMRC announced that it would not use the option to extend the contract beyond May 2017. Following discussions and consideration of options both parties agreed to terminate the contract (paragraphs 3.41 to 3.42).

Impact of termination

16 **In total, Concentrix stopped or amended tax credits awards in around 12% of cases investigated, of which 32% of these decisions were overturned following a mandatory reconsideration.** Concentrix has stated that the average length of time for which claimants had their tax credits stopped and then subsequently reinstated was between six and eight weeks. Between November 2014 and mid-December 2016, HMRC had paid a total of £86,815 in compensation for complaints relating to cases handled by Concentrix (paragraphs 2.16 to 2.18).

17 **The contract with Concentrix delivered estimated savings of £193 million against a payment of £32.5 million.** Estimated savings are assessed as £223 million net of opportunity costs of £30 million relating to the diversion of HMRC staff to complete Concentrix cases. The payments to Concentrix included £23.1 million in commission and £6.9 million that related to mandatory reconsiderations where decisions were overturned and HMRC agreed as part of termination not to adjust payments to Concentrix, along with amounts for partly worked cases and sub-contractor costs following termination, and additional IT-related costs. HMRC did not meet any severance costs for staff leaving Concentrix following the agreement to terminate the contract. Concentrix told us that it made a loss of £20.5 million on the contract (paragraphs 1.19 and 3.45 to 3.48).

18 **HMRC will not replace Concentrix with another third-party provider.** It transferred 243 staff from Concentrix under TUPE regulations who will now work on tax credits error and fraud interventions.[1] HMRC told us it had concluded that the risks of a third-party arrangement to customer service outweighed the benefits, notwithstanding the 'net positive' savings against costs it reports (paragraphs 3.49 and 3.50).

1 TUPE refers to the Transfer of Undertakings (Protection of Employment) Regulations, which preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer.