National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs 2016-17 Accounts

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JULY 2017

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National Audit Office

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Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

12 July 2017

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £574.9 billion of tax revenue for 2016-17. We cover this in Part One. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in the Trust Statement are true and fair; and • HMRC has used income and expenditure for purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate subject to the observations in this report and our other reports to Parliament (paragraphs 35 and 36).
Resource Accounts	The annual cost of running HMRC was £3.3 billion in 2016-17. HMRC paid £38.8 billion in benefits and credits, including £27.1 billion of Personal Tax Credits payments and £11.7 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG: • found the Resource Accounts are true and fair; but • found material levels of error and fraud in Personal Tax Credits expenditure (Part Four).
Annual Report	HMRC reported £28.9 billion compliance yield in 2016-17. We reviewed compliance yield data with the agreement of HMRC. Our conclusions about compliance yield are in Part One. We review whether HMRC is getting value for money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983. We refer to our recent work on value for money in this report.

Summary

HM Revenue & Customs' performance, 2016-17

1 This report is our commentary on HM Revenue and Customs' (HMRC's) performance in 2016-17. We report findings from all our statutory audits of HMRC this year including audits of HMRC's financial statements, the adequacy of its systems for collecting revenue and the value for money it achieved from its spending. Each audit comes under different legislation (see Coverage of this report, page R4).

2 Our audit of HMRC covers the tax revenues the government raises and the benefits HMRC pays out. HMRC raised £574.9 billion of tax revenues this year (some 85% of total revenues raised by government) and paid out £38.8 billion in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The annual cost of running HMRC, which is the second-largest government department in terms of staff numbers, was £3.3 billion in 2016-17.

3 Each year, we choose parts of HMRC's business to report on in more detail. Last year's report considered HMRC's transformation plans and improving the management of tax reliefs.

4 This year's report has four parts:

- Part One considers HMRC's objective of maximising revenues and looks at the main components of the £574.9 billion raised during 2016-17;
- Part Two looks at HMRC's progress in transforming the way it administers taxation;
- Part Three considers HMRC's customer service performance; and
- Part Four examines HMRC's progress in managing fraud, error and debt in Personal Tax Credits and Child Benefit and explains the basis of the Comptroller and Auditor General's (C&AG's) qualification of his regularity audit opinion on HMRC's Resource Accounts.

Summary findings

5 HMRC's vision, as published in its *Single Departmental Plan*, is as follows: "We are the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system."[1]

Tax revenues in 2016-17

6 The Trust Statement reports that HMRC collected total tax revenue of £574.9 billion in 2016-17, an increase of £38.1 billion (7.1%) on 2015-16. HMRC records revenues in the Trust Statement on an accruals basis (tax due rather than actual cash received) (paragraphs 1.3 and 1.4).

7 Of the £574.9 billion of total revenue, £127.8 billion relates to amounts that had not been collected as at the year-end. Of this balance, £99.6 billion relates to accrued revenue. While some of the accruals balance can be derived from tax receipts relating to 2016-17 and collected after the end of the financial period, HMRC is required to produce estimates to establish the total tax that will be due where assessment and collection is yet to take place. These estimates are inherently uncertain, as explained in Note 6 of the Trust Statement (paragraphs 1.6 to 1.9).

8 HMRC's estimate of compliance yield in 2016-17 was £28.9 billion, against a target of £27.0 billion.[2] HMRC achieved £26.6 billion of yield in 2015-16 against a target of £26.3 billion. Compliance yield measures the effectiveness of HMRC's compliance and enforcement activities. It is one of HMRC's main internal performance measures and is used to agree targets with HM Treasury for spending on compliance work. It comprises both cash expected and estimates of assessed tax for future accounting periods as a result of compliance activities completed in the year (paragraphs 1.15 to 1.18).

9 **HMRC has robust processes in place for estimating and reporting the value of the yield that it has generated through its compliance activities**. It has continued to develop its governance over compliance measures; its assurance of reported yields; and improve the consistency of its measures across the categories of yield. HMRC recognises, however, that there is inherent uncertainty in some elements of the yield being recorded given the nature of the estimates being made (paragraphs 1.21 to 1.25).

1 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated February 2017.
2 Note that the £28.9 billion total for compliance yield reflects a change in the methodology for calculating Future Revenue Benefit. The total 2016-17 compliance yield if calculated under the old methodology would be £28 billion.

HMRC's transformation plans

10 In 2015, HMRC committed to highly ambitious plans to transform the tax system by 2020. HMRC's vision is to be one of the most digitally advanced tax administrations in the world, automating the collection of tax data, and encouraging taxpayers to use its new digital services. At the same time it has embarked on a long-term estates replacement programme, and it must make changes to systems, support the introduction of Universal Credit, and implement the Tax-Free Childcare scheme. When we first reported in 2015 it was already clear the scale of the transformation was more complex and far-reaching than previous change initiatives.[3] In 2016, we found that HMRC had a strong rationale for its plans to use technology to modernise services and reduce its costs. However, the plans carried a significant delivery risk and we raised the risk of optimism bias, particularly in assumptions about taxpayers' take-up of new online services (paragraphs 2.1 to 2.4).[4]

11 It is becoming clear that transformation as originally scoped, and its intended benefits, will be challenging to deliver within the timescale. As part of the Spending Review 2015, HMRC received a budget of £1.8 billion for its transformation for the period 2016-17 to 2019-20. In return it committed to achieving total efficiencies of £1.9 billion by 2019-20 and to collect £920 million of additional tax revenue by 2020-21. HMRC is delivering its transformation through 15 main programmes. The latest programme business cases estimated that transformation could cost £2.2 billion, including additional elements that HMRC is able to fund from existing budgets such as the costs of changing IT contracts, programme staff, redundancy costs and contingencies. Early requests for funding based on business cases totalled £710 million in 2017-18, exceeding that year's transformation budget of £457 million. HMRC recognised that it needed to slow, stop or de-scope activity to live within its budget, and subsequently reduced the difference to around £60 million for 2017-18. There are still budget pressures and HMRC is managing the risk through ongoing prioritisation of its programme. This is difficult as many of the programmes are interdependent and some are implementing necessary changes, such as the new customs system. The UK's exit from the EU will add further pressure to the programme and timetable (paragraphs 2.4 to 2.6, 2.13, 2.20, 2.23 to 2.25 and 2.40).

3 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts,* Report by the Comptroller and Auditor General, National Audit Office, July 2015.

4 Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2016.

12 HMRC has recognised these challenges, and has improved the way it is managing transformation. HMRC has developed its leadership capacity, and improved its accountability arrangements and its financial forecasting. It is managing the programmes as a single portfolio, providing increased visibility of programme risks and interdependencies and enabling better management of cost and delivery pressures. HMRC continues to seek improvements in its approach, and is enhancing its management information and streamlining governance. It is also developing its financial forecasts to narrow the range of uncertainty around the savings it plans to deliver (paragraphs 2.7 to 2.10).

13 HMRC forecasts its 15 transformation programmes may contribute fewer efficiencies than expected, but it still aims to achieve its efficiency target from change activity elsewhere in the business. In 2016-17, HMRC made £254 million of efficiency savings against a target of £203 million. Only £181 million of these were sustainable, so it will need to make additional savings in future years. It fell behind its planned profile for achieving sustainable efficiencies from its transformation programmes, reporting £78 million of savings against £189 million originally expected. HMRC made other operational savings and one-off cost reductions which helped to compensate. HMRC assesses that recurrent transformation savings are more likely to fall below target than to achieve it, and HMRC is actively managing a number of risks to delivery. Work to shift customers to online services has not reduced customer demand for telephone contact to the levels expected. HMRC also needs to define further how compliance activities will evolve and release efficiencies. HMRC is managing its overall financial position by targeting efficiency savings from operational activities, for example from its continuous improvement initiatives (paragraphs 2.29 to 2.33).

Recommendations

14 Overall, we have seen that HMRC has made significant progress in managing its transformation plans. The combined scale of these programmes means HMRC must maintain its pace of delivery to secure more sustainable efficiencies. There are risks that transformation will need more funding than the resources available. It is important that HMRC carries out a thorough review of progress to date and reviews alternative options for achieving its objectives to collect more revenue, and reduce its costs and the costs of its customers. HMRC should:

- **Review its plans given the pressures on the cost and affordability of programmes. It should align the transformation portfolio with the funding it has available.** In particular it should ensure it assesses the operational and customer impacts of changes to its plans, and ensure that attempts to prioritise activities to meet short-term budget constraints do not lead to a cycle of reduced savings and further pressures on resources.
- **Ensure it can turn efficiency gains into cash savings without adversely affecting performance.** It should monitor customer service and compliance performance in detail to ensure that resource is only released in areas where transformation has delivered the tools or changed ways of working that will enable adequate performance levels to be maintained.

HMRC's customer service performance in 2016-17

15 Over the past five years the National Audit Office and the Committee of Public Accounts have reported several times on the performance of HMRC's customer services. In 2012, we reported that HMRC's performance in providing services had been unacceptable.[5] HMRC's performance subsequently improved. However, in May 2016, we reported that HMRC's customer service to personal taxpayers had suffered in 2014-15 and 2015-16 because HMRC had, under budget pressure, released staff too quickly.[6] HMRC could not sustain service levels and HMRC's speed to answer the telephone and respond to post were greatly reduced. Performance improved in the second half of 2015-16 after HMRC recruited 2,400 additional staff. HMRC again plans to reduce costs significantly as it implements new digital services. We previously highlighted that poor service can have adverse consequences: the cost to customers from waiting on the telephone can be significant; and the quality of service experienced by personal taxpayers may have an impact on tax compliance. In 2016, HMRC committed to exploring these issues further and improving services significantly (paragraphs 3.2 to 3.8).

5 Comptroller and Auditor General, *HM Revenue & Customs: Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.

6 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

16 **In 2016-17, HMRC improved customer service performance significantly, achieving its best performance in the past five years against its key targets.** HMRC reported its best performance against both its key telephony measures: the percentage of calls to its helplines that it handled; and the average speed to answer calls from when a caller enters a queue to speak to an adviser. Its performance against the time for processing overseas Tax Credits and Child Benefit claims was also at its highest level. HMRC reduced significantly the time customers spent in queues to speak to a call adviser, from 12 minutes in 2015-16 to under four minutes in 2016-17. HMRC does not routinely measure the cost to all individual customers of using its services. Using a model, we estimated that shorter queue times for the Income Tax and Tax Credits helplines saved customers £8 million in telephone charges in 2016-17 and reduced the opportunity cost of the time they spent in queues by around £73 million. Customer experience measures show improvements of between three to seven percentage points between 2015 and 2016 (paragraphs 3.9, 3.10, 3.24 and 3.25, and Figures 13, 14 and 19).

17 **To improve performance HMRC recruited additional staff in 2016-17 and increased service flexibility.** In 2016-17, HM Treasury provided HMRC with £28 million as part of a £71 million investment into HMRC's customer service to make it quicker and easier for individuals and small businesses to deal with HMRC.[7] The programme is intended to help HMRC bridge the gap between its customer service levels and industry standards for call-handling. The programme's objectives include HMRC providing a "top-class, multi-channel, seven-day service", and reducing call answering times by April 2017. The programme enabled HMRC to increase its customer service workforce by more than 800 in 2016-17, with new staff recruited on flexible contracts. The additional staff helped HMRC return telephone adviser numbers to 2013-14 levels. HMRC has increased its capacity to meet demand by employing staff on flexible contracts and training advisers to deal with a range of query types (paragraphs 3.6, 3.7, 3.15 and 3.16, and Figure 18).

18 **HMRC's operating environment remains challenging as its advisers had to deal with eight million more calls in 2016-17 than forecast.** The overall number of call attempts reduced from 61 million in 2015-16 to 50 million in 2016-17 but the number of calls reaching advisers increased. The number of calls handled by advisers increased from 29 million to 34 million while calls terminated in the automated telephony system fell from 14 million to 12 million. In previous years, customers may have been deterred from holding on for advisers because of long waiting times. Other factors have also contributed to higher than expected demand. In 2016-17, HMRC received 1.6 million more calls from customers and agents asking for pay and tax records, or employment histories (paragraphs 3.12 to 3.14, and Figure 17).

7 HM Treasury, *Budget 2016*, March 2016, paragraph 7.38. A further £43 million is being provided in 2017-18.

19 **HMRC's set of performance measures could be improved to better reflect customer experience**. HMRC has made significant progress improving service levels and as a result it achieved the more ambitious targets set for 2016-17. HMRC's existing telephone measures, however, risk miscategorising or excluding important aspects of customer experience. HMRC's established approach to measuring call-handling counts most calls terminated in its automated telephony system as successfully handled. Independent research commissioned by HMRC concluded that HMRC cannot assume that all customers have had their query resolved at the point a call ends, meaning HMRC could have resolved fewer queries than it has reported (92% in 2016-17). While HMRC includes calls handled by automated telephony, it has excluded customers' time in the automated telephony system when measuring its speed to answer. HMRC told us that typically its customers spend two to four minutes in automated telephony before entering a queue for an adviser. Industry practice in measuring speed to answer is mixed. While some organisations focus on queue time, others measure the time taken for all the stages before a customer's call is answered. HMRC's current approach to measurement could overstate calls handled, and understate the time to answer as experienced by the customer. There is also opportunity for HMRC to improve some of its other performance measures to better reflect customer experience, including whether it resolves customers' queries first time, and the quality of its advice (paragraphs 3.9 and 3.28 to 3.34, and Figures 13, 20 and 21).

Recommendations

20 HMRC has significantly improved its performance against its customer service targets by deploying additional resource and using its workforce more flexibly. HMRC has also signalled its ambition to become a leading customer services organisation, while recognising that this will take time. However, it has not yet defined what this means. In the coming year, HMRC plans further cost reductions, which could put the service under pressure once again. To safeguard customer services while making cost reductions, HMRC should:

- **improve its performance measures so that these better reflect customer experience;**
- **reduce the time, and improve the experience for customers using automated telephony,** for example by improving call routing and offering more self-service options;
- **consider the cost to customers when making strategic decisions about the overall level of resources for customer services.** It has a target to reduce costs for businesses, and a similar target for individuals would help protect against cost transfer from HMRC to individuals; and
- **set out a clear plan for achieving its ambition to be a leading customer service organisation, including timescales and performance levels.**

Progress in reducing error and fraud in Tax Credits and Child Benefit

21 The C&AG has again qualified his regularity audit opinion on the 2016-17 Resource Accounts because of material error and fraud in Personal Tax Credits (Tax Credits). HMRC's central estimate of error and fraud resulting in overpayments in 2015-16 is 5.5% of Tax Credits expenditure (4.8% in 2014-15) and its estimate of error resulting in underpayments is 0.7% of Tax Credits expenditure. This equates to overpayments of £1.57 billion and underpayments of £0.21 billion. These estimates of error and fraud are the most recent available (paragraphs 4.3 to 4.5 and 4.8 to 4.13).

22 HMRC's estimated increase in error and fraud within Tax Credits is contrary to the significant reductions achieved in previous years, and the rate is expected to increase further. HMRC analysis shows that during 2015-16 the increase in estimated error and fraud was associated with the income, work and hours, childcare and undeclared partner risk categories. HMRC also expects the level of error and fraud to increase when reported for 2016-17, due to the impact of introducing the 'Commercial with a view to a profit' test for the self-employed as well as the impact of the ending of the Concentrix contract. HMRC forecasts that the new self-employed test will reduce the cost of Tax Credits by over £500 million in the period up to 2021 (paragraphs 4.8 to 4.13, 4.17 to 4.19 and 4.24).

23 Following the ending of the contract between HMRC and Concentrix, HMRC is undertaking a number of actions aimed at ensuring that the failings of the contract are not repeated. This includes actions designed to ensure that its compliance interventions achieve an appropriate balance between identification of error and fraud and providing the necessary level of customer service. The proposed changes reflect a change in approach to HMRC's delivery of error and fraud interventions and will come into effect for the High Risk Renewals 2017 compliance campaign (paragraphs 4.25 and 4.26).

24 HMRC will face further challenges in administering Tax Credits as claimants transfer to Universal Credit. Some 95,000 claimants have transferred to Universal Credit (62,000 in 2016-17), with a further 220,000 expected to transition in 2017-18. Full transition and migration of claimants to Universal Credit is not expected to be completed until 2022. Uncertainties in the migration to Universal Credit will leave HMRC managing a diminishing but proportionally more complex caseload, with a reducing and potentially less stable workforce as staff transfer to the Department for Work & Pensions (DWP). HMRC has plans in place to ensure a smooth transfer of Tax Credits claimants to Universal Credit over the timeframe for transition. Due to the long timeframe for the transition of Tax Credits claimants to Universal Credit, and relatively small numbers of cases transitioned so far, it is too early to conclude on HMRC's performance in meeting the challenges this transition presents (paragraphs 4.27 to 4.30).

25 The 2016-17 estimate of error and fraud of 1.0% of total spending on Child Benefit is a significant reduction from previous years. HMRC has carried out detailed analysis of the cases where claimants do not respond to contact and their award is counted as error or fraud. This work indicates that the rate of error and fraud may be lower than estimated. HMRC has identified further interventions that it is planning to introduce both over the next 12 months and in the longer term that will seek to reduce the rate of error and fraud further (paragraphs 4.31 to 4.36).

Recommendations

26 HMRC should seek to fully understand the reasons for the increase in error and fraud in Tax Credits in 2015-16 and the reasons behind the predicted increases in error and fraud in 2016-17, to consider how it can best target its error and fraud activities going forwards.

27 HMRC should continue to monitor the transition of claimants to Universal Credit and ensure that its plans meet the challenges that this transition, and the transfer of staff to DWP, will bring, including ensuring that there is an effective response to the risks of error and fraud.

28 HMRC should ensure that it delivers the actions it has identified in response to the failings of the Concentrix contract, and those recommended by the Committee of Public Accounts, to avoid further disruption to claimants.

29 HMRC should continue its work to understand the causes of error and fraud and how best to engage with the Child Benefit claimant population, to support its delivery of Child Benefit systems reform.

Summary of findings from our value for money work

30 We have reproduced below the concluding paragraphs from our value for money work published up to the end of June 2017. We published two reports on HMRC: HMRC's approach to collecting tax from high net worth individuals; and managing the HMRC estate.[8] We also produced two investigations: HMRC's contract with Concentrix; and overseas sellers failing to charge VAT on online sales.[9]

8 Comptroller and Auditor General, *HMRC's approach to collecting tax from high net worth individuals*, Session 2016-17, HC 790, National Audit Office, November 2016; Comptroller and Auditor General, *Managing the HMRC estate*, Session 2016-17, HC 726, National Audit Office, January 2017.

9 Comptroller and Auditor General, *Investigation into HMRC's contract with Concentrix*, Session 2016-17, HC 915, National Audit Office, January 2017; Comptroller and Auditor General, *Investigation into overseas sellers failing to charge VAT on online sales*, Session 2016-17, HC 1129, National Audit Office, April 2017.

HMRC's approach to collecting tax from high net worth individuals

31 Assessing the correct amount of tax owed by high net worth individuals is a challenge for all tax authorities. The tax affairs of the wealthiest in society are complex, making it harder for tax authorities to ensure that they are paying the right amount of tax. HMRC has a dedicated team to handle the tax affairs of high net worth individuals, which is a sensible approach given the tax at stake, and follows the best-practice advice of the Organisation for Economic Co-operation and Development. It has allowed HMRC to get a better understanding of the tax affairs and behaviours of these taxpayers, and the yields from HMRC's work in this area have increased. HMRC has now aligned the work of the high net worth unit more closely with other parts of its business that focus on compliance risk. This change should help HMRC increase the expertise it brings to bear in identifying and challenging the behaviour of the wealthiest taxpayers where they do not comply with HMRC's interpretation of tax law.

Managing the HMRC estate

32 It is important to see HMRC's estate strategy in two ways. First as a major programme in its own right, and second, as a component in HMRC's wider business transformation. From the standpoint of the estate strategy itself, we can conclude that the handling of HMRC's STEPS contract has improved, and is more likely to deliver value for money, although significant risks remain. As far as the new programme is concerned, HMRC has already recognised that its original plan was unrealistic and it is considering how it can adjust the scope and timing of the programme to reduce the cost and delivery risk. It is, of course, better management practice to recognise cost underestimates early and to consider options for recovery early as well. However, we think it important for HMRC to step back and consider the benefits afforded by the wider business transformation, and whether they might be reduced or placed at risk by cutting back on, or delaying, the estate plans, before going ahead.

Investigation into HMRC's contract with Concentrix

33 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. This report set out the facts about the contract between HMRC and Concentrix and its termination. Our investigation covered: the aims of the contract; the management of the contract; the decision to terminate the contract; and the impact of the contract termination.

Investigation into overseas sellers failing to charge VAT on online sales

34 Online VAT fraud and error causes substantial losses to the UK Exchequer and undermines the competitiveness of UK businesses. Compliance with the VAT rules is a legal requirement. Not knowing about the rules does not excuse non-compliance. The UK trader groups who raised the issue report having experienced the impact of this problem through progressively fewer sales. They consider HMRC has been slow in reacting to the emerging problem of online VAT fraud and error and that there do not seem to be penalties of sufficient severity to act as a substantial deterrent. It is too soon to conclude on the effectiveness and impact of HMRC's new powers, and whether the resources devoted by HMRC to using them match the scale of the problem. We recognise that HMRC must consider effort and efficiency in collecting VAT but its enforcement approach to online trade appears likely to continue the existing unfair advantage as perceived by UK trader groups. This is contrary to HMRC's policy of encouraging voluntary compliance and it does not take account of the powerful effect that HMRC's enforcement approach has on the operation of the online market as a whole.

Conclusion

35 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2016-17 HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

36 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General has again qualified his regularity opinion on the Resource Accounts due to material levels of error and fraud in Tax Credits. The estimated error and fraud rate in Tax Credits has increased and HMRC has forecast a further increase for the next year as that estimate will include the impact of introducing the 'Commercial with a view to a profit' self-employed test as well as the impact of the failings of the Concentrix contract. HMRC must consider how it can address the causes of error and fraud to reduce levels and prevent further increases, while coping with the challenges presented by the transition of claimants to Universal Credit.

Part One

Performance in 2016-17

1.1 HM Revenue & Customs' (HMRC's) objectives are to:

- maximise revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.[10]

1.2 This part considers HMRC's performance against the first of these objectives. This is measured by the revenues reported in HMRC's Trust Statement, and by compliance yield, which is disclosed in its Annual Report.

Revenues in 2016-17

Tax revenue

1.3 The total revenue HMRC reported in its Trust Statement in 2016-17 was £574.9 billion (£536.8 billion in 2015-16) (**Figure 1**). HMRC prepares the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received.

1.4 In 2016-17, £154.8 billion of receipts collected by HMRC were paid over to other government departments, with further receipts of £409.3 billion paid over to the Consolidated Fund.

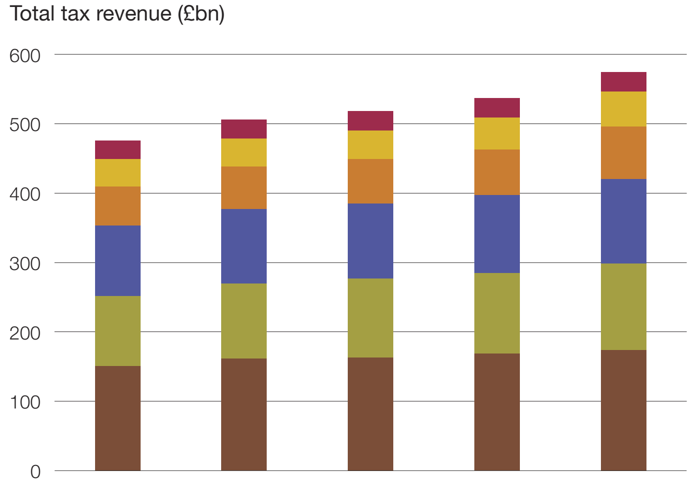
Repayments

1.5 The total revenue figure of £574.9 billion disclosed in the Trust Statement is net of £107.2 billion of repayments to taxpayers (£105.5 billion in 2015-16). Repayments are a necessary part of tax administration and can arise for a variety of reasons. HMRC may receive payments on account which can lead to repayments when the taxpayer's liability is subsequently assessed. VAT registered taxpayers can claim back VAT on certain purchases they have made, where they relate to the sale of goods and services. In 2016-17, £82.4 billion (76.9%) of repayments related to VAT (**Figure 2** on page R18).

10 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated February 2017. Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

Figure 1
Tax revenues 2012-13 to 2016-17

Tax revenues have increased in each of the past five years



	2012-13	2013-14	2014-15	2015-16	2016-17
Hydrocarbon oils	26.5	26.9	27.2	27.7	28.0
Corporation Tax	39.2	40.3	41.4	45.5	51.1
Other	56.3	61.6	64.1	66.2	75.1
National Insurance Contributions	101.7	106.7	108.0	112.0	122.5
VAT	101.0	108.2	113.9	116.0	124.4
Income Tax	150.9	162.1	163.1	169.4	173.8
Total revenue	**475.6**	**505.8**	**517.7**	**536.8**	**574.9**

Source: HM Revenue & Customs Annual Report and Accounts 2012-13 to 2016-17

Receivables, impairment and revenue losses

1.6 As at the financial year end (31 March 2017) £127.8 billion – 22.2% of revenue (2015-16: £122.4 billion, 22.8%) was due to be received. This balance consisted of:

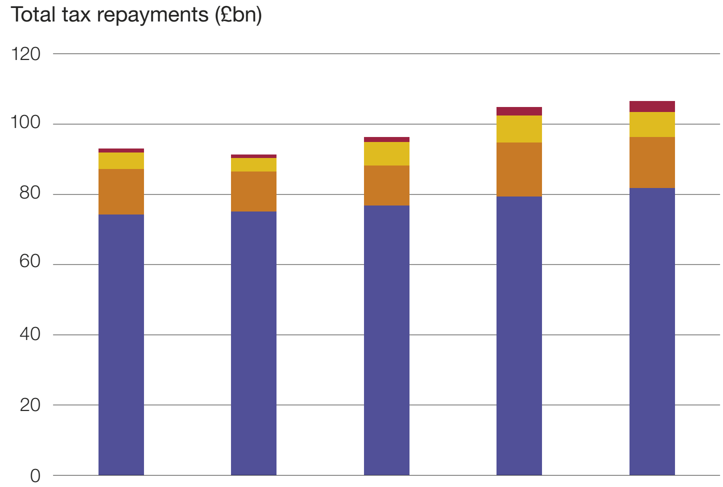
- £99.6 billion (2015-16: £95.7 billion) of taxes not yet due from taxpayers, but earned in the financial year (**accrued revenue receivable**); and
- £28.2 billion (2015-16: £26.7 billion) due from taxpayers but not yet received (**receivables**).

1.7 Of the £99.6 billion **accrued revenue receivable** balance, 92.4% is comprised of taxpayer liabilities for Income Tax and National Insurance Contributions (£42.3 billion); VAT (£31.6 billion); and Corporation Tax (£18.1 billion). For Income Tax – Self-Assessment, and Corporation Tax in particular, the accrued revenue receivable amounts calculated by HMRC are subject to a high degree of estimation, as explained in Note 6 of the Trust Statement.

Figure 2

Repayments by tax type 2012-13 to 2016-17

Repayments are a necessary part of tax administration



	2012-13	2013-14	2014-15	2015-16	2016-17
Other	1.1	1.0	1.4	2.4	3.0
Corporation Tax	4.6	3.8	6.6	7.7	7.2
Income Tax/National Insurance Contributions	13.2	11.5	11.5	15.5	14.6
VAT	74.7	75.6	77.4	79.9	82.4
Total repayments	**93.6**	**91.9**	**96.9**	**105.5**	**107.2**

Source: HM Revenue & Customs Trust Statements 2012-13 to 2016-17

1.8 HMRC has developed models to calculate these estimated taxpayer liabilities. This is required because, although taxable income will have been earned by taxpayers during 2016-17, HMRC will not yet have details of all of this, for example where tax returns are not yet due to be submitted. The models are complex and require HMRC to make assumptions about the income earned by taxpayers and the related tax that is due to be paid.

1.9 The National Audit Office (NAO) reviews those models and assumptions as part of its financial audit. Although HMRC's estimates are inherently uncertain for those taxes and collection processes where assessment has yet to be finalised, particularly for Corporation Tax and Self-Assessment, we are satisfied that the estimates are reliable and have been formed on a reasonable basis with reference to the appropriate data available to HMRC at the time.

1.10 The **receivables** balance of £28.2 billion reflects where taxpayers have yet to make a payment but have a liability to pay at the end of the financial year.

1.11 There is a risk that some of the £28.2 billion receivables balance will not be collected or may prove not to be due. Accounting standards require that the Trust Statement reflects this risk. As a result, HMRC has estimated that it may not be able to collect £6.4 billion (2015-16: £6.9 billion) of these receivables. Reflecting this impairment, the overall receivables balance due from taxpayers is £21.8 billion (2015-16: £19.8 billion).

1.12 In some cases HMRC assesses that the tax is unlikely to be collected. When this happens it is either written off, where there is no practical way to pursue it, or it is remitted, where HMRC decides not to pursue a tax liability on value for money or hardship grounds. An amount of £3.6 billion was written off by HMRC during 2016-17 with a further £0.3 billion of remissions.

Provisions and contingent liabilities

1.13 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already paid to it in this and previous financial years in accordance with accounting standards. HMRC includes two categories of such probable repayments:

- **Legal claims** where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. In 2016-17, HMRC made repayments of £1.8 billion with respect to legal provisions. As at 31 March 2017 HMRC expects it will have to repay £7.8 billion (2015-16: £5.9 billion).

  HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax. Contingent liabilities decreased by 61.9% to £18.7 billion at 31 March 2017 (2015-16: £49.1 billion). This is due to revisions of estimates for cases currently in litigation, reduced likelihood of payment for certain cases, and cessation of litigation action.

- **Oil and gas field decommissioning costs** where companies offset the losses arising from decommissioning oil and gas infrastructure in the North Sea against tax they have previously paid on those fields. These costs can be carried back almost indefinitely to earlier years' tax history, in contrast to other taxes that are time limited. As at 31 March 2017 HMRC has estimated that between 2017-18 and 2045-46 it will have to repay £6.4 billion of Petroleum Revenue Tax (PRT) (2015-16: £6.9 billion). In 2016-17 the carry-back of decommissioning losses resulted in the repayment of £0.3 billion of PRT.

Tax developments during the year

1.14 The following developments are reflected in these financial statements:

- The Scotland Act 2012 introduced powers for the Scottish Parliament to apply a Scottish Rate of Income Tax (SRIT) to the non-savings, non-dividend income of Scottish taxpayers from 6 April 2016. HMRC continues to collect the income tax due from Scottish taxpayers and has estimated that £4.6 billion of 2016-17 tax revenues relate to the SRIT.
- Diverted Profits Tax (DPT) is set at a higher rate (25%) than Corporation Tax to encourage businesses to change their arrangements and pay Corporation Tax in line with their economic activities. DPT charging notices were issued for the first time in 2016-17, raising £138 million. HMRC has estimated that the DPT regime has also driven behavioural change in companies that has led to an additional £143 million of Corporation Tax being raised in 2016-17.
- From 1 January 2016, a new banking surcharge of 8% has been levied on the taxable profits of banking companies and building societies resident within the UK. The surcharge raised £1.5 billion in 2016-17, the first full financial year since the surcharge was introduced.

Compliance yield

1.15 Compliance yield is an estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented, from its compliance and enforcement activities. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work.

1.16 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. They fall within three groups:

- Promote: where HMRC makes complying with tax law easier for the majority of its customers who are willing and able to comply with their tax obligations, for example by designing compliance into its systems and processes.
- Prevent: where HMRC stops non-compliance from entering the system.
- Respond: where there is non-compliance, HMRC detects it and corrects it.

HMRC's performance in 2016-17

1.17 In 2016-17, HMRC achieved £28.9 billion (2015-16: £26.6 billion) of compliance yield against a target of £27.0 billion. HMRC reports the compliance yield it has recorded under five categories (**Figure 3** overleaf).

- **Cash expected – £10.3 billion (36%):** an estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.
- **Revenue losses prevented – £7.9 billion (27%):** the tax revenue HMRC has protected each year either by refusing or reducing repayment claims because they are in error or fraudulent (£4.8 billion) or by disrupting organised criminal activity (£3.1 billion).
- **Future revenue benefit – £6.3 billion (22%):** an estimate of the revenue benefits where HMRC considers it has changed the behaviour of the taxpayers.[11]
- **Product and process yield – £3.0 billon (10%):** the annual impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.
- **Accelerated payments – £1.3 billion (5%):** the amount that users of avoidance schemes have paid to HMRC upfront while their dispute is being resolved.

1.18 From 2016-17, following our recommendation, HMRC is reporting future revenue benefit in the year of impact rather than the year in which it is assessed. The new method is more consistent with the way in which compliance yield is reported, although there is still some uncertainty around the estimation. The change in the estimation methodology has increased the estimate from £5.4 billion (old method) to £6.3 billion (new method) and so is responsible for £0.8 billion of the £2.3 billion total increase in compliance yield this year.

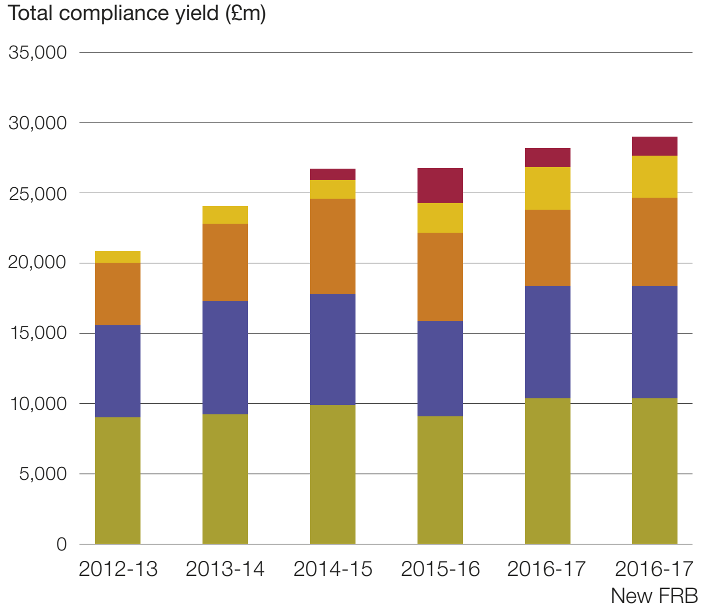
1.19 In its April 2016 report on tackling tax fraud, the Committee of Public Accounts concluded that the way HMRC reported its performance was too confusing and that the impact HMRC claimed for its work far exceeded any reduction in the tax gap. The Committee recommended that: "HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap. It should also publish this information in a way that is accessible for everyone to understand".

1.20 HMRC notes in its Annual Report that the linkage between the tax gap and compliance yield is not a straightforward one. The Annual Report also provides links to further technical papers that provide some further detail and context of these two measures. This is a useful step in explaining the relationship, but it will take longer-term work to address the issues raised by the Committee of Public Accounts on how HMRC's reported headline performance measures relate to each other.

11 HMRC changed the basis for calculating the Future Revenue Benefit yield this year, as explained in paragraph 1.18.

Figure 3
Compliance yield reported by HMRC 2012-13 to 2016-17

HMRC reported £28.9 billion of compliance yield in 2016-17, more than in any previous year



	2012-13	2013-14	2014-15	2015-16	2016-17	2016-17 New FRB
Accelerated payments			768	2,436	1,317	1,317
Product and process yield	794	1,233	1,335	2,110	3,013	3,013
Future revenue benefit	4,441	5,508	6,748	6,238	5,419	6,259
Revenue losses prevented	6,512	8,003	7,869	6,795	7,926	7,926
Cash collected	8,975	9,182	9,838	9,028	10,340	10,340
Total compliance yield	**20,722**	**23,926**	**26,558**	**26,607**	**28,015**	**28,855**

Note

1 The '2016-17 (New FRB)' column show the impact of the change in methodology HMRC has used to determine the value of future revenue benefit as explained in paragraph 1.24. The total 2016-17 compliance yield as calculated under the old methodology would be £28 billion.

Source: HM Revenue & Customs 2016-17 Annual Report & Accounts

Our assessment of the 2016-17 measure

1.21 HMRC's reported compliance yield is an attempt to reflect the impact of all of its tax compliance activities and informs HMRC's understanding of the impact of the resources it deploys in different enforcement and compliance areas. We have previously examined HMRC's processes for assuring the robustness of the compliance yield measure and concluded that these are well developed and effective. As part of our examination of reported compliance yields in 2016-17 we reviewed HMRC's recent work to:

- improve its governance and assurance;
- address estimation and uncertainty;
- increase consistency in its measures; and
- increase transparency in its reporting.

Governance and assurance

1.22 In 2016-17 HMRC has continued to develop the governance arrangements in place to provide assurance that the amounts of compliance yield are being accurately captured and reported. Challenge panels and newly established working groups have considered the assumptions and other documentation supporting different aspects of HMRC's compliance yield measures. An internal audit mid-year review of the Future Revenue Benefit (FRB) measure noted that HMRC's own assurance processes had identified some issues with respect to incorrect calculations and inadequate audit trails, but noted that remedial action was taken during the year to address this.

Estimation and uncertainty

1.23 Compliance yield is not limited to a cash-based measure of additional yields collected in-year and it necessarily includes a degree of estimation of likely future yields to arise from compliance. We consider that HMRC's methodology and processes for estimating compliance yield are reasonable. However, as HMRC acknowledges, there is still uncertainty within these estimates and it is continuing to review its estimation methodologies to determine how they can be refined to reduce that uncertainty further.

Internal consistency

1.24 HMRC's compliance work covers a wide range of activities, which are reflected in the different yield types. NAO previously recommended that the basis for recording FRB was changed so that it is more consistent with other revenue streams. For 2016-17 HMRC has changed the way in which it records FRB so that the yield is recognised in future years when the benefit arises, rather than being fully recorded as yield in the year in which the compliance activities were completed.[12]

Transparency in reporting

1.25 HMRC continues to improve the clarity and transparency of the way it reports compliance yield in its Annual Report. This year it has published a more detailed technical paper, alongside the Annual Report, that explains the relationship between the tax gap and compliance yield, including illustrative examples of how various compliance activities map to the tax gap.

12 HM Revenue & Customs, *HMRC's Compliance Revenues – how HMRC will change how it reports 'Future Revenue Benefit'*, July 2016. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/537622/HMRCs_Compliance_Revenues-how_HMRC_will_change_how_it_reports_Future_Revenue_Benefit_web_.pdf

Part Two

HM Revenue & Customs' transformation plans

Background

2.1 HM Revenue & Customs' (HMRC's) vision is to be one of the most digitally advanced tax administrations in the world. For the last two years we have reported on the progress of HMRC's plans to transform how it administers tax. In 2015 we reported that HMRC's transformation would be more complex and far-reaching than previous change initiatives.[13] In 2016 we found that HMRC had a strong rationale for its plans to use technology to modernise services and reduce its costs. However, the plans carried a significant delivery risk, and we raised the risk of over-optimism in planning; particularly in assumptions about taxpayers' take-up of new online services.[14] The Committee of Public Accounts has also asked whether HMRC has enough staff with the right skills to deliver change of this scale.[15] We said we would report on progress as the programme developed.[16]

2.2 HMRC has continued to implement its plans over the past year. In this chapter we provide an update on:

- HMRC's transformation plans;
- how HMRC is managing its transformation;
- understanding risks in HMRC's business plans; and
- early indications of progress.

HMRC's transformation plans

2.3 HMRC is one year into a programme of transformation agreed under the Spending Review and Autumn Statement 2015 (SR15). Its main aim is to move to a fully digital tax system by 2020 so that all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this HMRC also plans to simplify and automate processes, make better use of data on taxpayers and modernise its working environment.

13 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2015.
14 Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2016.
15 HC Committee of Public Accounts, *HM Revenue & Customs performance in 2015-16*, Twenty-ninth Report of Session 2016-17, HC 712, November 2016.
16 See footnote 14.

2.4 At the same time it must also deliver policy commitments, including Tax-Free Childcare reforms, and support the introduction of Universal Credit. The UK's exit from the European Union (EU) increases the level of uncertainty and challenge that HMRC faces in managing transformation. For example, HMRC expects it will directly affect more than 20 different systems including its plans to reform its main customs processing system.

2.5 HMRC expects that a digital tax system will help it raise more tax revenue; and reduce its costs and those of its customers. HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20 to deliver:

- £1.9 billion efficiency savings (reaching annual efficiency savings of £717 million in 2019-20);
- £920 million additional tax revenue (including £310 million by 2019-20 and another £610 million in 2020-21); and
- reductions in business customers' costs (HMRC's overall aim is to save businesses £400 million over the four years to 2019-20).[17]

2.6 HMRC is managing its transformation through 15 major programmes (**Figure 4**) containing around 250 projects at different stages of maturity. The portfolio evolves as priorities change, for example, as a result of policy changes in response to administrative need and delivery and funding pressures. HMRC told us there is also wider change activity in the business which these new systems and digital tools will enable, and which it expects will contribute to improved ways of working and further efficiencies. We would expect changes to the portfolio over time, and for the delivery of programmes in the portfolio to enable further improvements as they are adopted by the business. However, HMRC will need to keep close track of the costs and benefits so it is able to demonstrate that it is getting value for money from its investment.

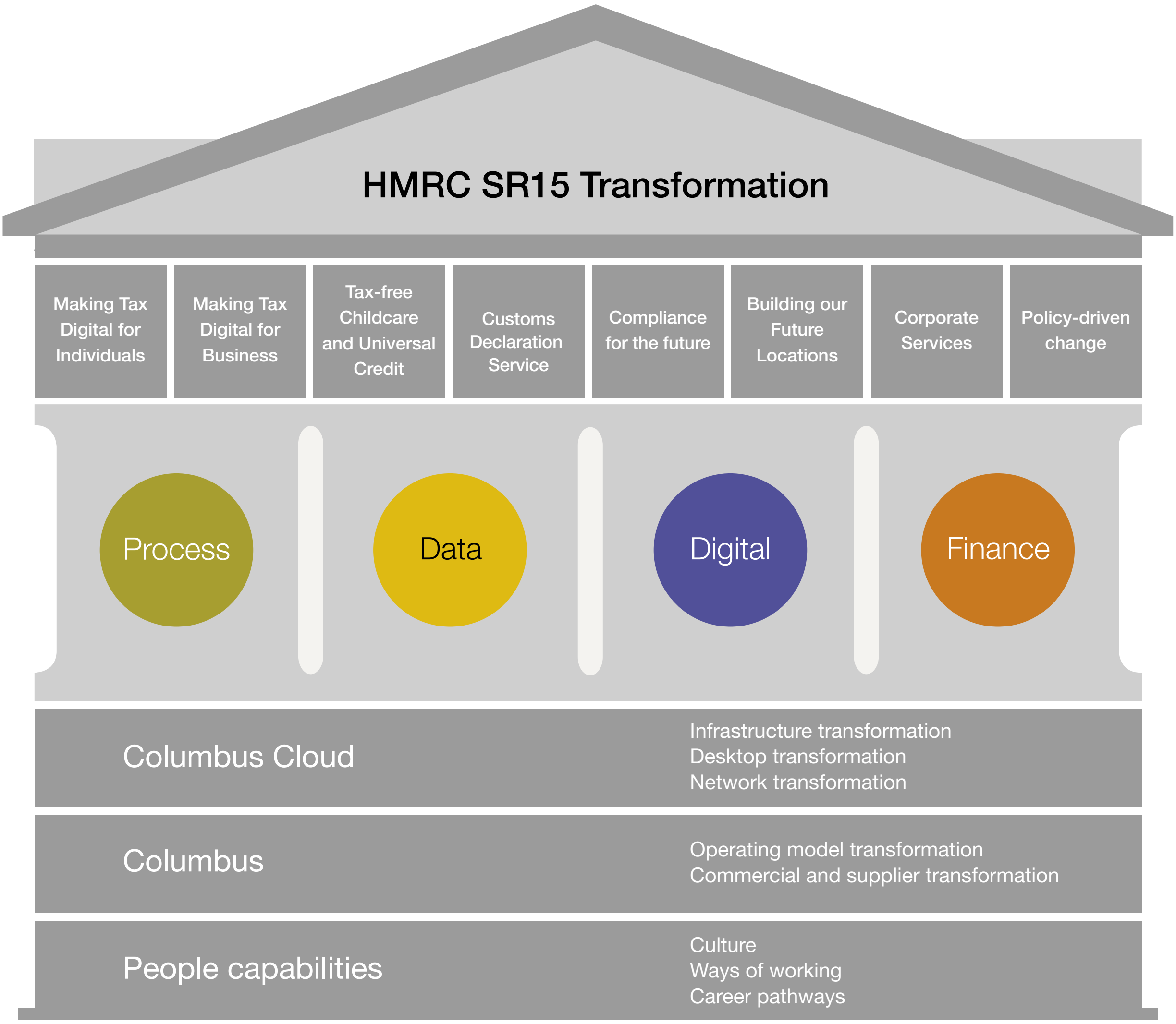
How HMRC is managing its transformation

2.7 When we looked at HMRC's change programmes in 2016 we highlighted the need for HMRC to: maintain a clear view of whether it is on track to achieve its strategic goals; develop a more detailed view of dependencies between activities; take stock of its progress early in 2017-18 to learn lessons; and refresh its plans as necessary.

17 HMRC's transformation extends beyond the SR15 period and further benefits are expected to accrue in the long-term, see Figure 6.

Figure 4

Most of HMRC's transformation is delivered through a portfolio of 15 major programmes



Notes

1 See Figure 6 for more details on the 15 programmes.

2 HMRC intends to work on Process; Data; Digital; and Finance indefinitely as its needs change. Work on these four permanent 'platforms' supports other programmes. For example, the Data platform is developing a centralised 'data hub'. This will be used by many programmes including Making Tax Digital for Individuals; Making Tax Digital for Business; Compliance for the Future, Tax-Free Childcare and Customs transformation.

Source: HM Revenue & Customs

2.8 Since last year HMRC has reviewed its approach to managing transformation in several ways:

- In April 2016, HMRC brought together its main change programmes and the existing central change teams into a single transformation portfolio, led by a Director General for Transformation as its senior responsible owner. Before that 2,000 people had worked within programmes and change clusters in various parts of HMRC.[18] The portfolio team will coordinate the changes needed to transform HMRC.
- In summer 2016, HMRC developed a master plan for transformation that integrated the milestones across the main programmes. In its March 2017 management information, HMRC used this plan to track progress towards 391 milestones with 215 dependencies between them. It has identified 52 milestones that are critical to delivering transformation overall and monitors these closely.
- In autumn 2016, HMRC invited the Infrastructure and Projects Authority (IPA) to conduct an early review of its readiness for transformation.[19] The IPA reported that it had seen good progress on synthesising existing initiatives and new initiatives. It identified areas that were working well including: a consistent view of the portfolio approach in the top team; good engagement and support from HM Treasury; HMRC confidence in 2016-17 milestones; and collaboration across the portfolio.

2.9 HMRC told us it is implementing the IPA's recommendations. These cover three main areas: improving capacity and capability in programme management and business analysis; better communication of what HMRC will look like after transformation for customers and staff; and making sure that the whole of HMRC is engaged in supporting and challenging transformation.

2.10 Since our last review, HMRC has also improved the way it is managing its transformation (**Figure 5**). It continues to seek improvements in its approach, and has identified scope to streamline governance and improve management information. This will put it in a better position to monitor progress.

18 HMRC had 63,000 full-time equivalent employees on average in 2016-17.

19 The IPA carried out an experimental-type review at an earlier stage than it has normally carried out for transformation programmes.

Figure 5

Examples of good practice in how HMRC is improving management of transformation

Theme	Improvements made	Evidence
Strategic direction	Established clear link to strategic objectives of transformation	Reporting monthly against key strategic objectives for efficiency, tax revenue and customer service.
	Customer-focused structure	Introduced a new operating model that brings customer services together.
Governance	Better accountability	Reallocation of some board roles and ownership of strategic risks.
	Better financial forecasting	HMRC introduced new financial systems; programme directors are required to forecast costs more accurately to manage the risk of overspend.
	Regular prioritisation	Board meetings regularly discuss workloads and whether to defer lower priority projects.
Portfolio management	Improved ability to manage cost and delivery pressures	Consolidating most transformation programmes into a group better enables it to manage cost and maintain progress.
	Improved visibility of interdependencies	Mapping of dependencies helped accelerate HMRC's understanding of the links and critical path across programmes.
Management Information	Comprehensive and regular reporting of key indicators for transformation established	Monthly transformation packs report on costs, benefits, risks, resources, milestones, and readiness.
Capacity	Improved resource management	Ongoing attention to capacity and capability and implications for recruitment and deployment.
Delivery	Improved planning	A detailed portfolio delivery plan exists.

Source: National Audit Office analysis of HM Revenue & Customs data and management information

Understanding risks in HMRC's plans

2.11 HMRC's plans show that most benefits will accumulate over the next five years. It measures three types of benefits: net benefits for businesses from reduced administration costs; additional tax revenue; and efficiency savings in HMRC. Most of the additional tax revenue and benefits for businesses are expected at the end of the SR15 period depending on the progress made by the Making Tax Digital for Business programme. Any slippage, whether caused by delays, policy changes or other reasons, will mean that HMRC is at risk of not achieving its targets for transformation. In 2016, we found that HMRC's approach looked credible and proportionate to the scale of the risks involved, and that HMRC had worked closely with HM Treasury and the Cabinet Office to develop and refine plans. We concluded that it was too early to evaluate how well its approach was working.

2.12 HMRC expects efficiencies to increase cumulatively over the SR15 period. These will partially fund its ongoing transformation plans. Each year it expects an increase in cumulative efficiencies of around £150 million–£200 million. HMRC will need to manage delivery risks to ensure that its target is achieved. In the past we have seen HMRC release too many staff before completing changes to services.[20] There are serious risks if major assumptions underpinning HMRC's strategy do not prove realistic, and HMRC needs to model the impact of different scenarios and monitor leading indicators of the success of its strategy. In this section we consider:

- how HMRC has developed its business cases for transformation;
- the major assumptions underlying the benefits of transformation; and
- the risks to affordability.

20 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

Business cases for transformation

2.13 The full life cost and benefits of the programmes are set out in **Figure 6** overleaf.[21] The largest components are HMRC's estates programme (Building our Future Locations), which runs for 25 years; Making Tax Digital for Business; and the Columbus programmes to replace HMRC's IT infrastructure and service provider.

2.14 The business cases for individual programmes differ in several ways:

- Five programmes appear to offer a negative return but are seen as essential by HMRC because they are either ministerial commitments, enable benefits to be achieved by other programmes, or are essential to undertake at this time. For example, HMRC expects to incur large costs if it does not replace systems reaching the end of their useful life.
- HMRC may have understated some benefits. HM Treasury guidance states that all benefits should be considered and quantified where possible. HMRC routinely quantifies additional tax revenue, efficiency savings and cost reductions for businesses. However, it does not consider that there is additional value for decision-making in estimating the benefits to individuals from the Making Tax Digital programme.
- Programmes run for shorter or longer periods depending on when costs and benefits occur (in line with HM Treasury guidelines).[22] For example, HMRC has calculated the costs and benefits for the estates programme (Building our Future Locations) to 2040-41.

21 The full-life costs and benefits in Figure 6 have been discounted to present values. The costs and benefits are not discounted elsewhere in this chapter (where we consider affordability and benefits realisation over the medium term).

22 HM Treasury, *The Green Book*: *Appraisal and Evaluation in Central Governmen*t, April 2013.

Figure 6

Forecast full-life costs and benefits for HMRC's transformation

	Programme	Description	Full-life Cost (£m)	Efficiencies (£m)	Additional Tax Revenue (£m)	Full-life Benefit (£m)
1	Making Tax Digital for Individuals	Modernising tax administration for individuals through digital solutions	196	421	7	428
2	Making Tax Digital for Business	Modernising tax administration for business through digital solutions	1,719	942	2,494	3,436
3	Compliance For the Future	Building internal capability at HMRC, improving data and better end-to-end compliance	193	505	37	542
4	Customs Declaration Service	Replacing an ageing Import / Export system plus enhancements	127	14	26	40
5	Building Our Future Locations	Creating 13 regional centres, redeploying staff and disposing of buildings	508	1,197	–	1,197
6	Corporate Services	Removing bureaucracy, and introducing leaner systems and processes, a self-service culture, lower service costs, shared services, and improved experience	44	143	6	149
7	Tax Free Childcare and Universal Credit	Develop accounts to support parents' childcare costs; and to help replace Tax Credits with Universal Credit administered by the Department for Work & Pensions	Costs and benefits ring-fenced			
8	Policy Driven Change	To implement policy initiatives not funded from SR15 that affect or depend on portfolio activities	No overall business case			
9	Data Platform	Electronic Data Hub – a digital repository for storing and sharing data	194	55	–	55
10	Digital Platform	A number of enabling platforms including Government Gateway, Security solutions, the Digital Tax platform and Large Option Paperless	242	87	–	87
11	Finance Platform	Digital payments by customers, improved internal reporting and rationalised HMRC accounting system	22	13	–	13
12	Process Platform	Developing processes to support future ways of working	No overall business case			
13	Columbus	Replacing HMRC's IT provision contract (ASPIRE)	576	968	–	968
14	Columbus Cloud	Moving to secure cloud-based computing and rationalising existing IT infrastructure	446	198	–	198
15	People capabilities	Developing people capabilities (culture, ways of working and career pathways) to support the future organisation.	No overall business case			

Notes

1 These are full-life costs and benefits (not just covering the four years in SR15 from 2016-17 to 2019-20) and based on the full set of business cases justifying the transformation programmes, which were produced at different times.

2 The full-life costs and benefits are discounted to present values, so benefits less costs equals the net present value of the programme. All business cases were approved in 2016-17 except Columbus (2015-16). Columbus business case costs include some elements subsequently included in the scope of the Columbus Cloud business case. As such there is some overlap of the costs and benefits. We do not include total figures because Columbus costs are discounted to a different time period and to avoid double-counting between these programmes.

3 We reported on HMRC's estates programme, known as 'Building our Future Locations', in January 2017 (Comptroller & Auditor General, *Managing the HMRC estate*, Session 2016-17, HC 726, January 2017). In March 2017, HMRC produced an updated business case with revised costs and benefits.

4 More business cases could be produced in future months and years. HMRC intends to develop the platforms indefinitely as its needs change. It develops separate business cases for each change it proposes.

Source: National Audit Office analysis of HM Revenue & Customs transformation business cases as at March 2017

2.15 The programmes and their business cases are at different stages of maturity and the depth of analysis in the business cases will vary accordingly. We reviewed HMRC's transformation business cases to see whether they contained the information required under HM Treasury guidelines. We found the following:

- Strategic aims were clearly defined and aligned to the aims of the transformation portfolio.
- Critical success factors were identified in most cases, but they were not sufficiently defined to measure performance or progress.
- For several programmes HMRC did not develop its analysis sufficiently to support a robust comparison of the costs of the different options. HMRC told us that in these cases it did not consider there were credible alternatives that were worth developing further.
- The financial cases for most programmes included funding from administrative budgets. Four were not fully funded but these identified actions to close the gap.

Major assumptions underlying benefits of transformation up to 2020-21

2.16 In this section we consider the overall scale and timing of additional tax revenue; efficiency savings and savings for business customers. We also consider the source of the estimates.

Efficiency savings of £1.9 billion

2.17 HMRC expects to achieve £1.9 billion in efficiencies over the 2015 Spending Review period. It aims to deliver this through its portfolio of 15 programmes, and through wider change activity in the business. In 2016-17 HMRC expected to spend £1.8 billion on transformation in total between 2016-17 and 2019-20, contributing £643 million annual efficiencies by 2019-20.[23] The contribution of transformation is not a formal target, and sits within HMRC's overall public target of achieving £1.9 billion savings. HMRC retains the flexibility to deliver efficiencies from other business activities such as from changes led by its operations, continuous improvement, improved productivity and pay restraint.

2.18 HMRC's efficiency savings estimates for transformation depend on assumptions that digital transformation will result in HMRC using fewer resources for the following activities:

- chasing underpaid tax and dealing with overpayments – because digital services will help taxpayers to comply with tax rules in the first place and enable more efficient processing of tax receipts;
- managing compliance cases – because HMRC will be able to use data better to assess risk and target its resources; and
- dealing with post and phone contacts – because individuals, partnerships and companies will use HMRC's digital services instead.

23 HMRC Annual Report and Accounts 2015-16. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/539608/HMRC_Annual_Report_and_Accounts_2015-16-web.pdf

2.19 HMRC also estimates that it will make efficiency savings in its IT services through the Columbus programmes; and in its administrative and estates costs through its Corporate Services and 'Building our Future Locations' programmes.

Additional tax revenue of £920 million

2.20 Making Tax Digital for Business is expected to deliver HMRC's £920 million target for additional tax revenue. The target is based on assumptions that requiring businesses to keep digital records using commercial software, and providing HMRC with quarterly digital data will reduce error and that this will increase tax revenues. HMRC's evidence to support its assumptions about why small businesses currently make mistakes in their tax, and the extent to which digital record keeping will prevent these errors and increase tax revenues, are based on HMRC's random enquiry programme. However, the behavioural response of taxpayers is difficult to gauge this way. The Office for Budget Responsibility considered HMRC's estimate to be 'reasonable and central' but gave it a 'high' uncertainty rating because of uncertainties in the extent to which the software will prevent errors by taxpayers and the timing of delivery.[24]

Reduced business costs of £400 million[25]

2.21 HMRC expects a reduction in business customers' costs on the assumption that businesses will need to spend less time meeting their tax obligations as a result of Making Tax Digital for Business. HMRC considers that more routine work will be done automatically and end-of-year processes will be simpler than they are currently for a business maintaining its books and records on paper.[26] HMRC's internal forecasts show savings to customers of £100 million from April 2018 but these do not take account of transitional costs to business.

Affordability

2.22 The detailed costs in HMRC's transformation plans amount to £2.2 billion to 2019-20. HMRC secured transformation funding of £1.8 billion under SR15. It set aside other administrative funding of around £320 million to cover some of the costs of its Columbus programme and estates programme redundancy costs. The SR15 settlement and the business cases indicate different spending profiles for transformation. The SR15 settlement anticipated that transformation expenditure would decline from 2016-17 onwards. Since then HMRC finalised nine of its 15 business cases for transformation in the final quarter of 2016-17, and these show spending peaking in 2017-18 (**Figure 7**).

24 Office for Budget Responsibility (OBR), *Economic and fiscal outlook*, November 2015, pp 208-209. Available at: http://budgetresponsibility.org.uk/docs/dlm_uploads/EFO_November__2015.pdf. At each Budget and Autumn Statement the OBR scrutinises departments' estimates of costs and benefits of new policies and assesses their uncertainty as 'very high', 'high', 'medium-high', 'medium', 'medium-low' or 'low'.

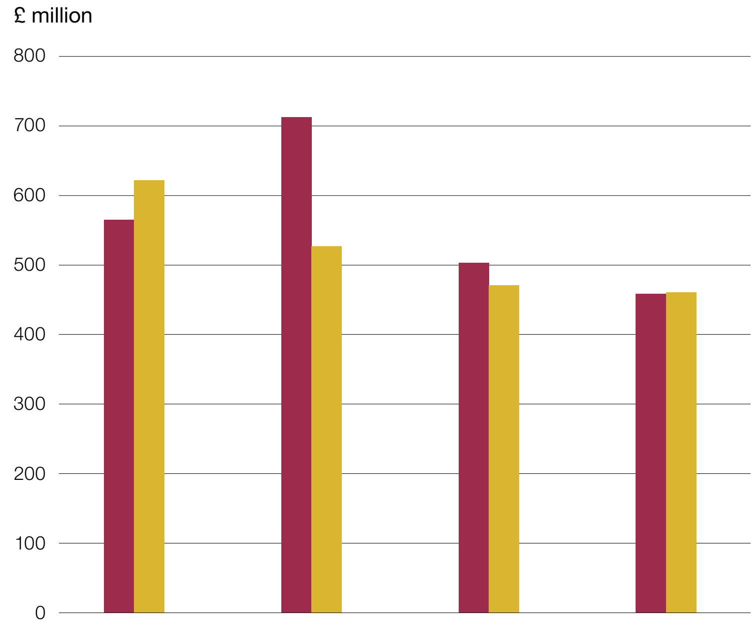
25 HMRC has a target of reducing business customer costs by £400 million over the SR15 period. Only some of this target was expected to come from transformation.

26 HMRC, *Making Tax Digital for Business*, March 2017. Available at: www.gov.uk/government/publications/making-tax-digital-for-business/making-tax-digital-for-business

Figure 7

HMRC's planned costs (from programme business cases) and its budgets for transformation 2016-17 to 2019-20

Transformation plan costs exceed the budget particularly in 2017-18



	2016-17	2017-18	2018-19	2019-20
Transformation plans' costs (£m)	565	713	504	459
Budget (£m)	622	527	471	461

Notes

1 The SR15 period runs to the end of 2019-20. HMRC's SR15 funding settlement included £1.8 billion for HMRC's transformation (£1.3 billion new investment and £0.5 billion from existing budgets).

2 Costs arising from the UK's exit from the EU are not included in either the budget or the transformation plans' costs.

3 Transformation plans costs exclude the cost of work originally proposed in the Columbus business case now covered by the Columbus Cloud programme.

4 'Budget' includes the transformation budget and additional funds set aside for transformation of £40 million a year from HMRC's IT budget and £40 million a year from its human resources budget. This is in addition to total SR15 funding of £1.8 billion.

Source: HM Revenue & Customs

2.23 Early requests for funding based on business cases totalled £710 million, exceeding the transformation budget of £457 million in 2017-18.[27] HMRC has needed to take tough decisions and recognised that it needed to stop anything that was not fully aligned with its priorities. It has de-scoped some activity and deferred some work until future years. In doing so it reduced planned activity to around £519 million. The changes included: deferring some estates work; deferring development of cloud systems and delaying the replacement of data storage technology; pausing the final phase of inheritance tax online (which has sunk costs of £4 million); and stopping some digital work to support customer services. HMRC estimates the changes reduced expected benefits by between £30 million and £60 million. HMRC told us it can manage the effect on its overall benefits delivery.

2.24 HMRC still faces cost pressures as its current plans exceed its transformation budget by around £60 million for 2017-18. It analysed the impact of reducing its spending to £500 million but concluded that doing so would likely see the deferral of some significant elements beyond the SR15 timeframe, for example it is unlikely it would deliver a full single financial account for business customers. It would increase the scale of change required at the end of the Spending Review period and remove significant contingency. It would also require a significant reduction in the size of some programme teams, adding risk to delivering to cost, time and quality within projects. HMRC is seeking to manage the cost pressure through ongoing prioritisation of its transformation and operational activity. The gap is manageable within the context of HMRC's total administrative budget but it may place pressure on its operations.

2.25 HMRC still has opportunities to reduce costs as some of its plans for transformation are still being developed. However, this is not straightforward as some programmes are necessary to replace ageing systems and many of the transformation programmes are interdependent. HMRC must ensure that any changes to scope or timing of programmes do not jeopardise the delivery of benefits.

27 Excludes £80 million of funding from HMRC's IT and Human Resources budgets which was set aside for specific programmes.

Early indications of progress

Profile of spending and achievement of milestones

2.26 HMRC spent £507 million of its transformation budget in 2016-17, around 6% less than it originally planned (£542 million).[28] HMRC had revised its budget for the year to reflect projected activity. HMRC has 52 critical milestones for transformation, of which 34 were due to have been completed by 31 March 2017. All but seven were completed in-year. Four were completed in April and three were expected to be completed in summer 2017.

2.27 Most programmes were within a 20% margin of expected spend at March 2017. Three programmes had rescheduled critical milestones. One programme (Compliance For The Future) spent less than expected, indicating marginally slower progress has been coupled with lower spending. Two programmes spent more than expected in 2016-17 without achieving all of their 2016-17 critical milestones (**Figure 8** overleaf). HMRC has attributed deviations from budget to planned changes in scope rather than delivery pressures.

2.28 HMRC has detailed reporting on risks for each programme which HMRC's board reviews monthly. At March 2017, it had given five programmes amber-red delivery ratings: Making Tax Digital for Business, Compliance For The Future, Customs Declaration Service, Building our Future Locations and the Process platform.[29] All other programmes had an amber risk rating apart from Making Tax Digital for Individuals and Corporate Services, which were rated amber-green. The board also reviews critical milestones for achieving its SR15 objectives. Each milestone has a risk rating, providing the board with clear information about potential problems.

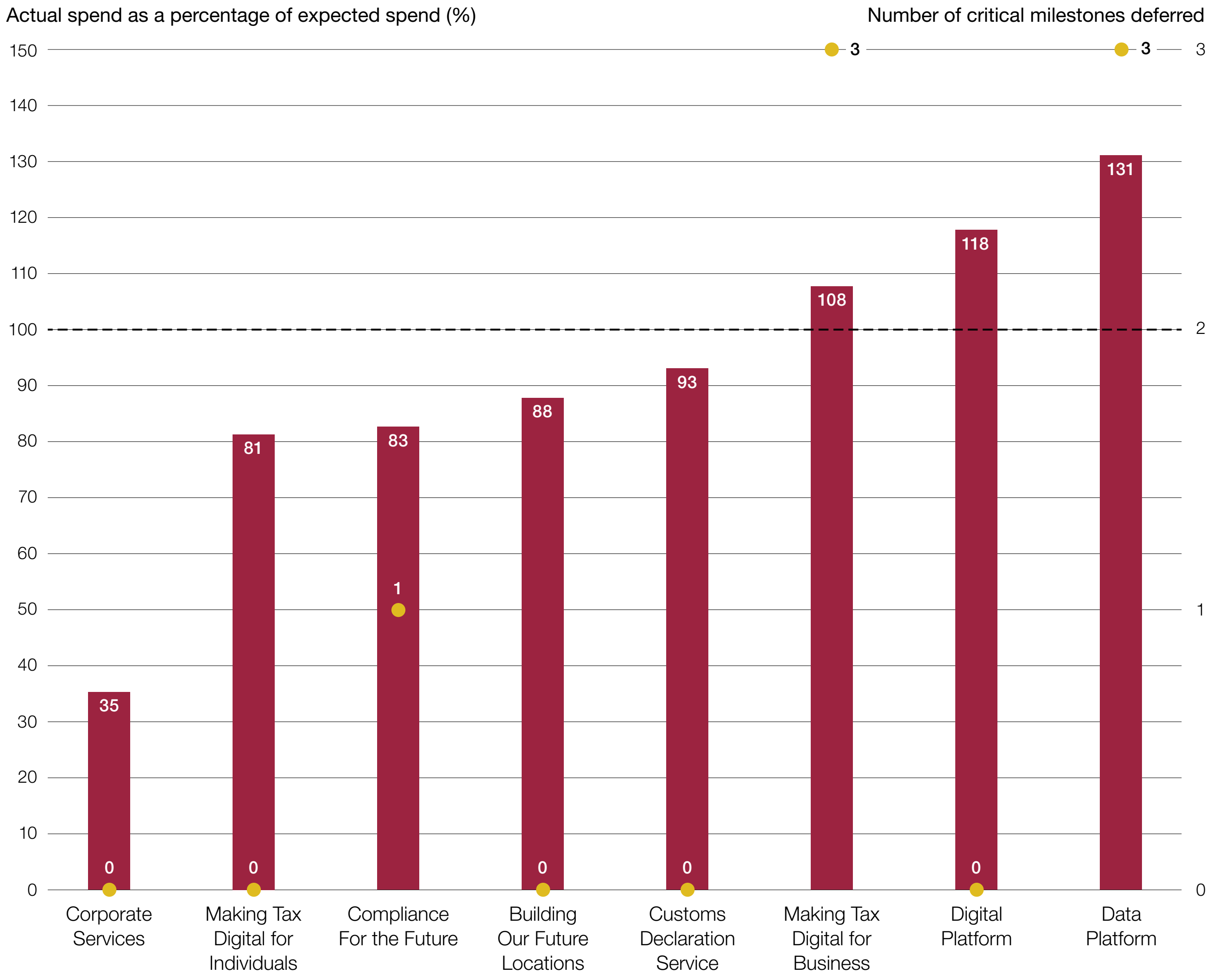
28 The 2016-17 budget in Figure 7 differs because it includes £40 million a year from HMRC's IT budget and £40 million a year from its human resources budget in addition to the £542 million 2016-17 transformation budget.

29 HMRC assesses each programme against nine key performance indicators to give an overall 'RAG' rating. It aims to move programmes away from red, through amber-red, amber, and amber-green, to green by taking action to improve performance against the indicators. It also tracks changes in 'RAG' status over time.

Figure 8

Programme spending and progress against critical milestones

In general, programmes were within 20% of spending expectations at March 2017 but some had deferred critical milestones



Notes

1 Programmes may have rescheduled other milestones which are not critical. For example, Building our Future Locations and the Customs Declaration Service did not have critical milestones in 2016-17 but both have rescheduled programme delivery.

2 Analysis based on investment appraisal budget estimates for 2016-17.

Source: National Audit Office analysis of HM Revenue & Customs data

2016-17 Efficiency Savings

2.29 HMRC's goal is to reduce its annual baseline funding by £717 million between 2015-16 and 2019-20. In its SR15 settlement, HMRC committed to making £203 million of sustainable efficiency savings in 2016-17.

2.30 In 2016-17 HMRC made £254 million of efficiency savings against a target of £203 million. Only £181 million of these were sustainable. Around £70 million of the savings were one-off cost reductions with its IT suppliers which only apply in 2016-17, so it will need to increase the sustainable savings it delivers in 2017-18 and future years to get back on track.

2.31 HMRC did not achieve efficiency savings of £189 million expected from transformation in 2016-17, instead recording a total of £78 million sustainable efficiency savings. Work to shift customers to online services has not reduced customer demand for telephone contact to the levels expected. HMRC has also identified it must take immediate action to achieve efficiencies expected from its compliance activities. This includes identifying a clear and detailed vision of how compliance will operate in the future and increasingly preventing non-compliance before it occurs.

2.32 HMRC expected its £1.8 billion investment in transformation would contribute £643 million of sustainable efficiencies by 2019-20. HMRC's recent sustainable efficiency savings forecasts, indicate the transformation programmes, are likely to contribute less than expected to HMRC's efficiency target (**Figure 9** on pages R40 and R41). HMRC told us its forecasts do not take account of the aggregate impact of its transformation programmes. It is seeking around £240 million of annual efficiencies arising from change led by operations. HMRC argues that this change is enabled by the transformation programmes and can be seen as transformation. However, the cost of the activity is additional to HMRC's transformation budget of £1.8 billion and includes continuous improvement activity.

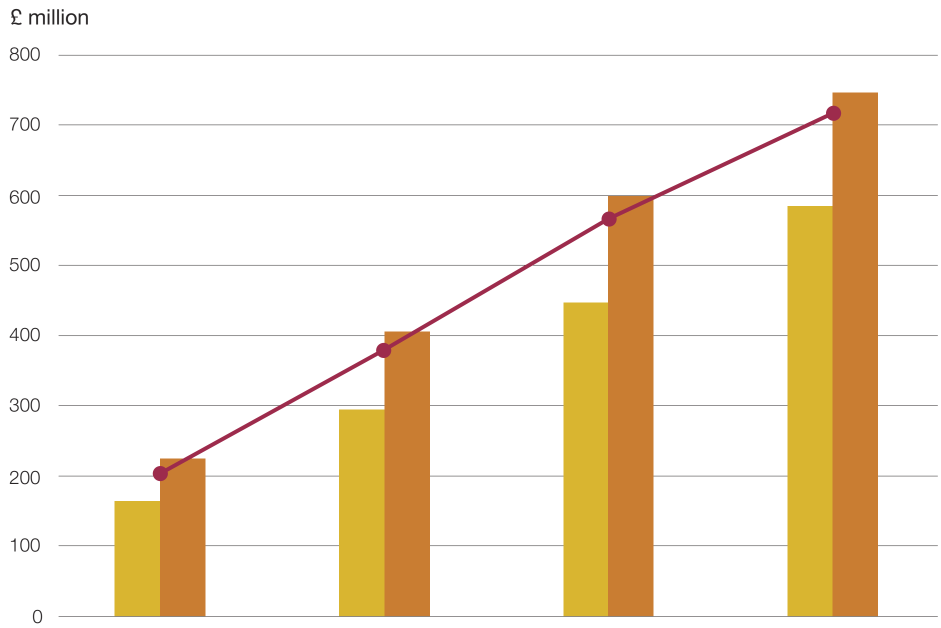
2.33 HMRC forecasts it can still achieve its efficiency target by 2019-20. The forecast assumes it can manage all risks to delivery and will be unaffected by external factors. HMRC's estimate at June 2017 suggested total efficiencies of £737 million could be achieved, £10 million less than its best case forecast (Figure 9). It has assessed that recurrent transformation savings are more likely to fall below target than to exceed it but it is actively managing risks to delivery.

Figure 9

HMRC's forecast sustainable efficiency savings 2016-17 to 2019-20

HMRC's £1.8 billion transformation is likely to contribute less than expected to HMRC's efficiency target but HMRC expects to make up the difference from change led by the operations

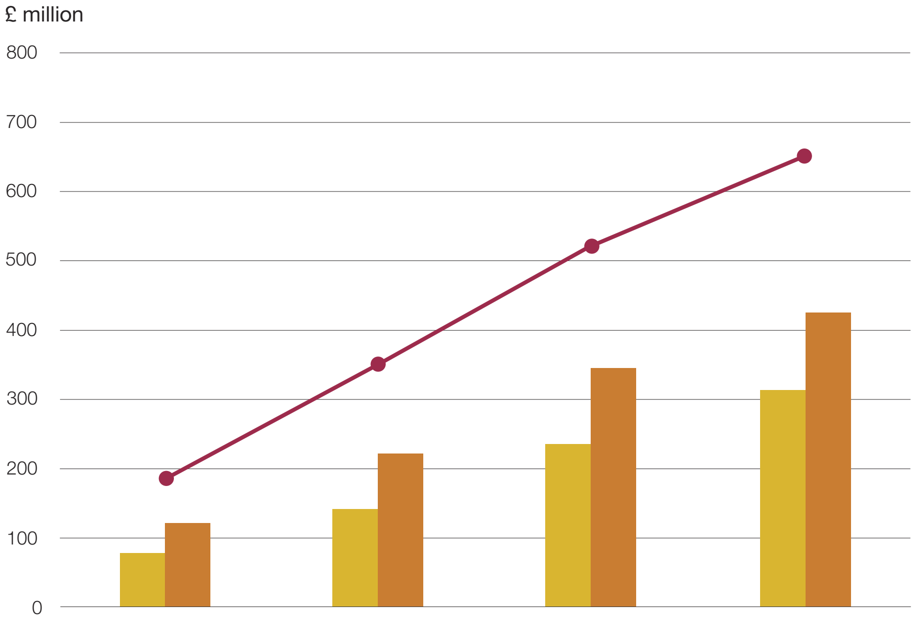
Annual efficiency savings from HMRC as a whole (£m)



	2016-17	2017-18	2018-19	2019-20
HMRC spending review target (£m)	203	380	566	717
Total HMRC worst case forecast at start of 2017-18 (£m)	164	295	447	584
Total HMRC best case forecast at start of 2017-18 (£m)	225	406	598	747

Source: National Audit Office analysis of HM Revenue & Customs data and HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General, National Audit Office, July 2016

The expected contribution of transformation (£m)



	2016-17	2017-18	2018-19	2019-20
The expected contribution of transformation to HMRC efficiencies at start of 2016-17 (£m)	189	351	517	643
Transformation worst case forecast at start of 2017-18 (£m)	78	141	235	313
Transformation best case forecast at start of 2017-18 (£m)	121	221	345	425

Source: National Audit Office analysis of HM Revenue & Customs data and HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General, National Audit Office, July 2016

Delivery schedule

2.34 Changes to the roll-out of Making Tax Digital for Business may affect the timing of additional tax revenue and customer benefits. Since the programme was launched in December 2015, the government has announced a reduction in scope and a number of deferrals:

- August 2016 – micro-businesses were exempted from digital record-keeping and quarterly reporting.[30,31]
- September 2016 – the implementation date for incorporated businesses was deferred by a year to April 2019.[32]
- March 2017 – the implementation date for businesses with turnover below the VAT threshold was deferred by a year to April 2019.[33]
- April 2017 – Making Tax Digital for Business was not included in the Finance Bill 2017 due to the election.

2.35 HMRC has revised its estimates of when it expects to achieve the benefits from Making Tax Digital for Business. Changes made following consultations have had an impact on timing of benefits. In 2016, we highlighted that HMRC had not estimated the cost or benefits to individuals and business customers of moving to online services. Its most recent published estimate now includes costs as well as benefits for businesses, although it includes neither of these for individuals (**Figure 10**). HMRC now expects net annual savings to businesses of around £100 million a year from 2020-21 against earlier forecasts of £100 million from 2018-19. It will take some time for businesses to recover transitional costs, which are forecast to be around £1 billion up to 2020-21. These are the costs of moving to new software and changing processes.

30 Micro-businesses are businesses with a turnover under £10,000 a year.
31 HMRC, *Making Tax Digital: Bringing business tax into the digital age – Consultation document*, August 2016. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/545715/Making_Tax_Digital-Bringing_business_tax_into_the_digital_age-consultation.pdf.
32 Financial Secretary to the Treasury's speech to the HM Revenue & Customs annual conference, 5 September 2016. Available at: www.gov.uk/government/speeches/financial-secretary-to-the-treasury-on-a-tax-service-for-the-21st-century
33 HM Treasury, *Spring Budget 2017*, 8 March 2017, p.26. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/597467/spring_budget_2017_web.pdf

Figure 10

Costs and benefits for business customers from making tax digital

There will be net costs for businesses in the short term

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)	2021-22 (£m)	2022-23 (£m)
Transitional costs	-100	-200	-590	-100	0	0
Ongoing costs	0	-50	-150	-170	-170	-170
Administrative savings	0	0	150	270	270	270
Net impact	-100	-250	-590	0	100	100

Source: HM Revenue & Customs

Ongoing prioritisation within spending constraints

2.36 HMRC is actively managing a large and complex transformation involving 250 projects with 215 interdependencies. Delivery challenges can affect the sequencing and priority of work. HMRC needs to review its plans as issues emerge and in the light of external developments, including costs arising from the UK leaving the EU. To do this well, HMRC needs to have a good understanding of alternative ways forward and their relative value for money.

2.37 HMRC has focused its prioritisation efforts on reducing its transformation spending in 2017-18 to £457 million, as this is where its funding pressures are most immediate. It has concluded that it must stop, slow or de-scope some activity to live within its budget, and that it must stop anything that is not fully aligned with its priorities. However, many of the programmes are interdependent and some are implementing necessary changes, such as the new customs system, making prioritisation difficult. HMRC's work to develop an overall critical path for transformation has allowed it to see how projects contribute to its SR15 commitments. It has been reviewing the costs and benefits of each programme and prioritising according to criteria including: contribution to SR15 commitments; ministerial commitments; contractual commitments; whether the project is essential to ensuring other projects or programmes meet their commitments, and whether it is essential to replace an outdated system.

2.38 HMRC has been considering alternative scenarios for managing its budget pressures in 2017-18. It has taken a sensible, staged approach combining downward pressure on all transformation programmes with an assessment of the costs and benefits for changing individual elements. It has developed options for reducing the cost of transformation further but is also monitoring progress and considering wider operational demands.

2.39 HMRC must manage its medium-term funding position carefully and ensure it secures the efficiencies transformation is intended to deliver. As HMRC's budgets reduce it could have less recourse to recover efficiencies from its operations. In 2018-19, HMRC faces the single largest reduction in its budget for years (**Figure 11**). HMRC's nominal budget has stayed relatively stable over time. It has absorbed new work in its budget and reinvested efficiencies to fund further change and increase compliance activity. It has not experienced a significant reduction in its budget since 2014-15 and must soon realise cash savings. In doing so HMRC must ensure that it maintains performance levels.

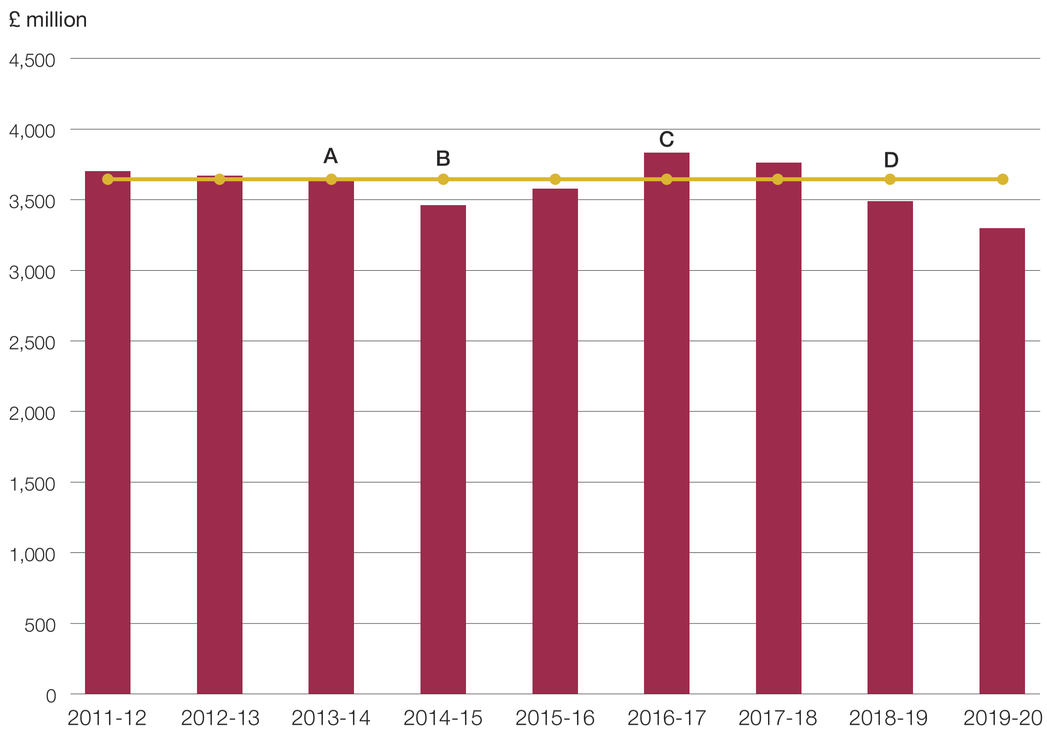
2.40 HMRC's forecasting of efficiencies is showing greater maturity. For each programme it has developed a best case and worst case forecast. This has enabled it to predict the range of uncertainty it needs to manage and should leave it better placed to develop contingency plans. HMRC's initial assessment is that it can keep costs down in 2017-18 by deferring activity without affecting its ability to achieve its £1.9 billion overall efficiency savings target.[34] However, its forecasts indicate risks that it will not achieve all the savings by the end of SR15. And it has seen fewer sustainable savings than planned in 2016-17. HMRC needs to make sure its efficiencies are genuinely sustainable. It must ensure it tests efficiency gains are genuine before reducing costs.

34 HMRC's £1.7 billion efficiency savings target for transformation is included in HMRC's £1.9 billion efficiency savings target for the department as a whole.

Figure 11

HMRC actual and forecast resource budget 2011-12 to 2019-20

In 2018-19 HMRC faces its single biggest funding reduction, taking it close to levels in 2014-15



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total RDEL (£m)	3,700	3,670	3,640	3,460	3,576	3,830	3,760	3,490	3,300
Average RDEL 2011 to 2017 (£m)	3,646	3,646	3,646	3,646	3,646	3,646	3,646	3,646	3,646

A 2013-14: HMRC reduces its nominal spend for second year running, it takes on additional work and maintains service levels

B 2014-15: Largest single budget reduction to date. HMRC takes on additional compliance activity. To live within its budget HMRC releases customer service staff but performance levels suffer

C 2016-17: Additional funding for additional work awarded in budgets, including making tax digital and funds to improve customer service and increase revenues

D 2018-19: HMRC faces the largest single reduction in its budgets for years

Source: National Audit Office analysis of HM Revenue & Customs annual report and accounts

Part Three

HM Revenue & Customs' customer service performance 2016-17

Background and scope

3.1 Almost 50 million individuals are in the tax system in the UK, and Tax Credits support around four million families. Every year millions of people contact HM Revenue & Customs (HMRC) by telephone, by post and online (**Figure 12** on pages R48 and R49). HMRC employs around 25,000 staff to provide these services to customers.

3.2 Since 2012, the National Audit Office (NAO) and the Committee of Public Accounts have both issued critical reports on HMRC's customer service. In December 2012, we reported that HMRC's performance had been unacceptable.[35] In 2011-12, HMRC met three out of its five customer service targets. We found that HMRC's targets were lower and covered fewer areas than those of other organisations.

3.3 In May 2016, we reported that HMRC's customer service to personal taxpayers had not been value for money.[36] Up to 2013-14, HMRC had maintained or improved service levels. It also reduced the cost of administering personal tax by 32% between 2010-11 and 2014-15. However, under pressure to live within its budget, HMRC released customer service staff in 2014-15 before it had made the service improvements needed to reduce demand through automation and online services. As a result, the time HMRC took to respond to post and phone calls increased significantly and it missed its performance targets. HMRC responded by recruiting 2,400 additional staff in summer 2015, helping it to improve performance.

3.4 The reduction in HMRC's service from 2014-15 increased costs to customers as they waited longer for calls about Tax Credits and personal tax to be answered. The quality of service experienced by personal taxpayers may have had an impact on tax compliance.

35 Comptroller and Auditor General, *HM Revenue & Customs: Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.
36 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

3.5 In July 2016, the Committee of Public Accounts concluded that HMRC's service had not been good enough. HMRC accepted the Committee's recommendations that it should:

- provide an acceptable and consistent service, ensuring that it answer calls promptly and effectively;
- test whether its forecasts of demand are realistic; and
- ensure that it strikes the optimal balance between customers' costs and its own costs.[37]

3.6 In 2016-17, HM Treasury provided HMRC with £28 million as part of a £71 million investment into HMRC's customer service to make it quicker and easier for individuals and small businesses to deal with HMRC by providing a "top-class, multi-channel, seven-day service".[38] The programme aims to bridge the gap between HMRC's service levels and industry standards for call-handling, and enabled HMRC to increase its customer service workforce by more than 800 in the second half of 2016-17, with new staff recruited on flexible contracts. The business case for this additional investment set out wide-ranging plans to improve existing and new services. It included an ambition to reduce the average speed to answer calls to two minutes (HMRC's public target for 2016-17 was six minutes).[39] HMRC told us this was an internal aspiration, set to drive rapid improvement, rather than a longer-term target. The programme also supports HMRC's wider transformation and the development of digital services as an alternative to individuals writing or phoning. Through transformation and continuous improvement activities, such as increased automation, HMRC is planning to cut the overall cost of providing customer services by £86 million (10%) between 2016-17 and 2017-18.

3.7 In October 2016, HMRC reorganised its operations, with the aim of putting the customer at the heart of HMRC and providing services and designing policies, products and processes with the customer in mind. The reorganisation brought customer services for Tax Credits and benefits, personal tax and debt management together into a new customer services group headed by one director-general. HMRC now aspires to be a leading customer services organisation. It recognises its aspiration will take time to achieve and has yet to define what it means. We are carrying out a more detailed review of HMRC's plans to sustain improvements to customer services, including its initiatives to change demand. We intend to report on HMRC's plans separately.

37 HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Seventh and the Thirty-Ninth reports from Session 2015-16; and the First to the Thirteenth reports from Session 2016-17*, Cm 9351, November 2016, pp 66-68.

38 HM Treasury, *Budget 2016*, paragraph 7.38. A further £43 million is being provided in 2017-18.

39 As at June 2017, HMRC had not published targets for 2017-18.

Figure 12
HMRC's customers and services for individuals

HMRC is developing more digital services for individual customers. This figure illustrates key services provided to those paying Income Tax, and to those receiving Tax Credits and Child Benefit

Customer group	Tax and benefits products	Digital services
Personal tax customers includes 48 million people in the Income Tax system, of whom: • 38 million are in Pay-As-You-Earn (PAYE) only • 7 million are in both PAYE & self-assessment • 3 million are in self-assessment only	**Personal tax** – Income Tax Employee data are collected by the PAYE system Self-employed people and people with other incomes submit a self-assessment return	**10 million self-assessments submitted online** **More than 9 million customers signed up for a personal tax account by March 2017, of which** • 1.7 million submitted their self-assessment via the personal tax account • 1.6 million submitted PAYE repayments via the personal tax account by December 2016 **0.5 million web chats, of which** • 0.2 million PAYE queries • 0.3 million self-assessment queries
Tax Credits customers 4 million families – and 7 million children – supported by Tax Credits **Child Benefit customers** 7 million families paid Child Benefit	**Tax Credits** People can claim a working tax credit and/or a child tax credit if they meet qualifying criteria **Child Benefit** People can claim Child Benefit if they are responsible for a child[4]	**Around 1 million people renewed their Tax Credits online by the July 2016 deadline** **0.7 million web chats**

Notes

1 In addition to Income Tax, individuals can be liable for National Insurance, Inheritance Tax and other taxes.

2 HMRC also provides a needs-enhanced service to vulnerable customers through specialist visits and telephone support. In 2016-17, just over 100,000 people were referred to this service by frontline staff and the voluntary community sector.

3 Volumes for digital services, telephone and post are for 2016-17 unless stated.

4 A tax charge may be payable by those with an individual income over £50,000.

Source: National Audit Office analysis of HM Revenue & Customs data including from HM Revenue & Customs *Annual Report and Accounts 2016-17; Child and Working Tax Credits Statistics – Finalised annual awards in 2015-16*

Telephone	Post
15 million calls made to the taxes helplines were handled by advisers, including: • 10 million calls on PAYE • 3 million calls on self-assessment	**Approaching 10 million items of personal tax correspondence received from customers** **1 million self-assessment paper returns**
Calls handled by advisers include: • 12 million calls to Tax Credits helplines • 2 million calls on Child Benefit	**0.8 million Tax Credits claims made using a paper form**

3.8 This Part considers:

- how HMRC performed in 2016-17;
- factors affecting HMRC's operational performance;
- cost to HMRC and customers; and
- the scope for further improvements.

We do not cover the relationship between customer service and tax revenue. HMRC is carrying out research to improve its understanding of this relationship. It plans to report to the Committee of Public Accounts in autumn 2017.

How HMRC performed in 2016-17

3.9 HMRC's performance against its targets is much improved since we last reported. In 2016-17 HMRC:

- **reported it had achieved all nine customer service targets** set in its single departmental plan (**Figure 13**);[40]
- **exceeded, or was close to, its best performance in the past five years for responding to post and phone calls, and handling Tax Credits and Child Benefit claims** (Figure 13). HMRC reported its best performance against both of its key telephony measures: the percentage of calls to its helplines that it handled; and the average speed to answer calls from the point when a caller enters a queue to speak to an adviser. Its performance against the time for processing overseas Tax Credits and Child Benefit claims was also at its highest level;[41]
- **improved its average speed to answer calls in queues to under four minutes** (**Figure 14** on page R52);[42]
- **provided a more consistent level of performance in answering calls.** The proportion of callers waiting for more than 10 minutes to speak to an adviser fell from around two-fifths in 2015-16 to around one in 10 in 2016-17;[43]
- **restored its performance in handling post** (**Figure 15** on page R53); and
- **exceeded new targets for digital services, including the number of people signed up for a personal tax account, and speed of responding to secure emails and forms that can be filed online** (Figure 13). In March 2017, HMRC changed its reporting of customer satisfaction with digital services to include existing services as well as new services. The change meant HMRC met its target as it increased satisfaction levels above 80%.[44]

40 HM Revenue & Customs, *Single departmental plan 2015 to 2020*, first published February 2016. Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020
41 The impact of HMRC's contract with Concentrix on Tax Credits is discussed at paragraphs 4.25 and 4.26.
42 This measure excludes the time that customers spend in HMRC's automated system before entering the queue for an adviser.
43 This measure includes some time in automated telephony as well as time queuing for an adviser. For 2017-18, HMRC is intending to obtain data from its telecom provider which will enable it to measure 10-minute waiting time, and average speed to answer, on a consistent basis.
44 When HMRC set the 80% target in spring 2016, it was planning to measure satisfaction across four services: the personal tax account, the business tax account, social media and webchat. In March 2017, HMRC decided that to improve completeness, it would report satisfaction with all its digital services, which include more established services such as self-assessment online. This change added six percentage points taking outturn to 80%. HMRC also changed the way it calculated satisfaction, adding a further three percentage points to outturn. HM Treasury was notified of both changes.

Figure 13

HMRC's customer service performance

HMRC reported achieving all of its nine published targets in 2016-17

Metric	Target (those new for 2016-17 in bold)	2015-16 outturn[1]	2016-17 outturn	Performance in 2016-17 compared with previous four years
Phone				
Average speed of answering calls to HMRC helplines (queue time[2])	**6 minutes**	Approximately 12 minutes	3 minutes and 54 seconds	3 seconds shorter than previous best in 2012-13
Percentage of calls to helplines that HMRC handled	85% [3]	72%	92%	13 percentage points better than previous best in 2013-14
Tax correspondence				
Post responded to within 15 days	80%	52%	81%	4 percentage points below previous best in 2012-13
Post responded to within 40 days	95%	87%	96%	1 percentage point below previous best in 2012-13 and 2013-14
Tax Credits and Child Benefit claims				
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – UK customers	22 days	17 days	16 days	1 day longer than previous best of 15 days in 2012-13 to 2014-15
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – international customers	92 days	63 days	52 days	11 days shorter than previous best. First measured in 2013-14
Digital				
Customers using their personal tax account[4]	**7 million by March 2017**	n/a	9.4 million	
Customer satisfaction for digital services[5]	**80%**	n/a	83%	
i-forms and secure emails replied to within 7 days[6]	**95%**	n/a	99%	

Notes

1 Green – target achieved; amber – outturn within 10% of target; red – outturn more than 10% off target; no rating where target not set.

2 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.

3 Target was 80% in 2015-16.

4 The number of customers using their personal tax account includes people who have accessed their account but not carried out transactions.

5 Customer satisfaction for digital services is measured using an exit survey.

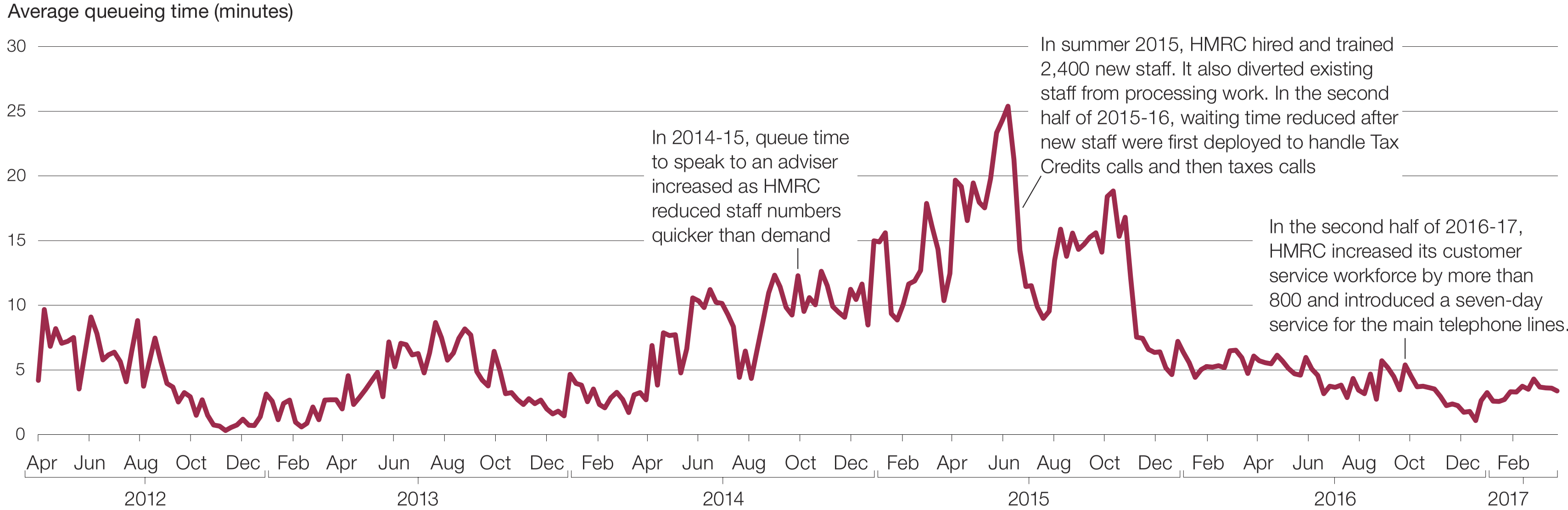
6 i-forms can be filled in and filed online.

Source: National Audit Office analysis of HM Revenue & Customs' data including from its Annual Reports and Accounts (2012-13 to 2016-17)

Figure 14

Average time customers spend queueing before speaking to an adviser

In 2016-17, HMRC recorded its best average speed to answer in the past five years



	2012-13	2013-14	2014-15	2015-16	2016-17
Average speed to answer (minutes)	3:57	4:22	9:50	11:51	3:54
Calls handled (%) (not shown above)	75	79	73	72	92

Notes

1 Data in chart are weekly times for all helplines.

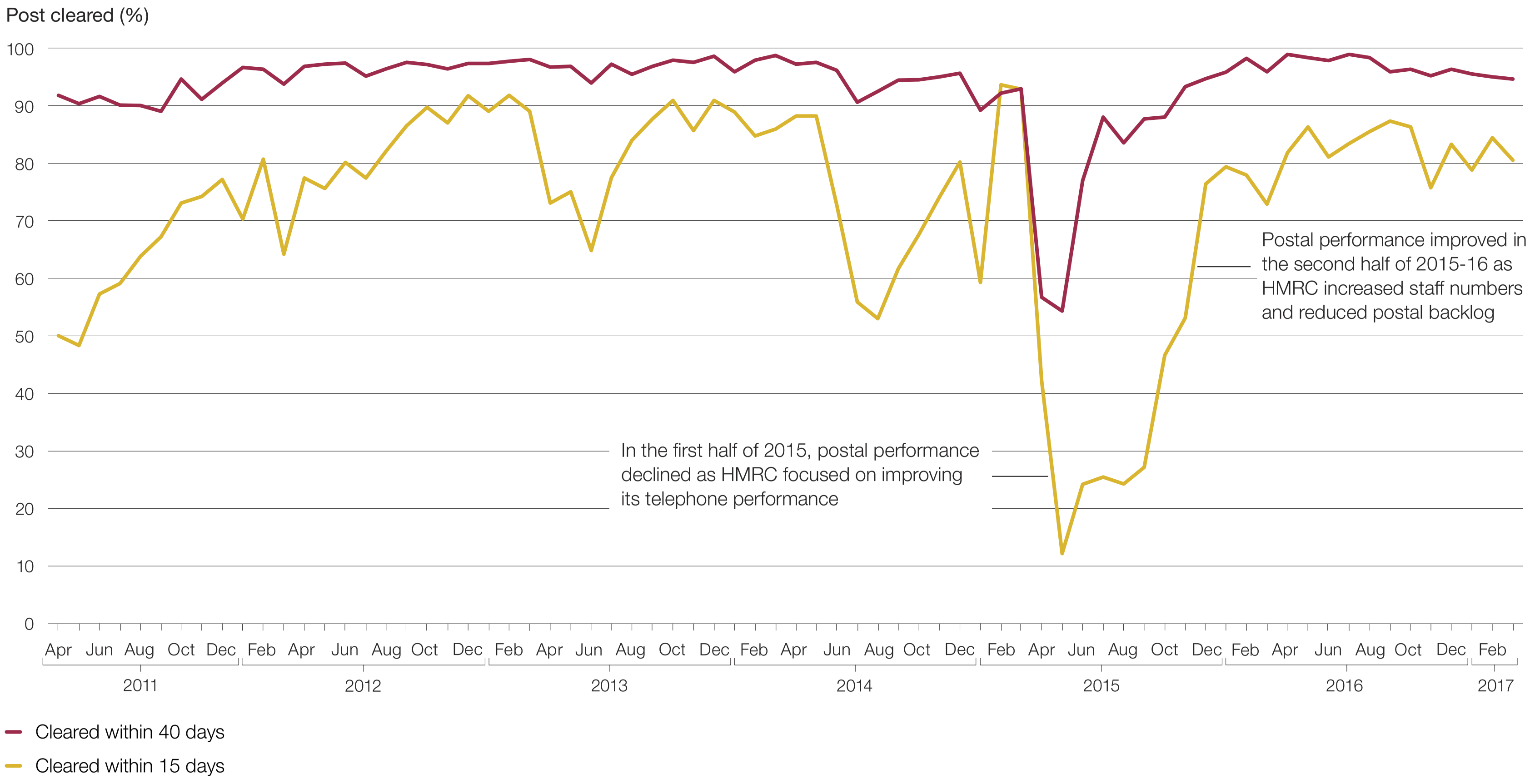
2 Staff numbers are full-time equivalents.

3 HMRC defines average speed to answer as the time that customers spend in the queue waiting to speak to an adviser. There is limited information on the time that customers spend in HMRC's automated telephony system before entering the queue. In 2012 we reported that customers generally hear an automated message, lasting around one to two minutes. HMRC told us that in 2016-17 customers typically spent between two and four minutes listening and responding to automated messages.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 15
HMRC's performance in processing tax correspondence

In 2016-17 HMRC's performance recovered from its low levels in 2015-16



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Post cleared within 15 days (%)	66	85	83	70	52	81
Post cleared within 40 days (%)	92	97	97	93	87	96

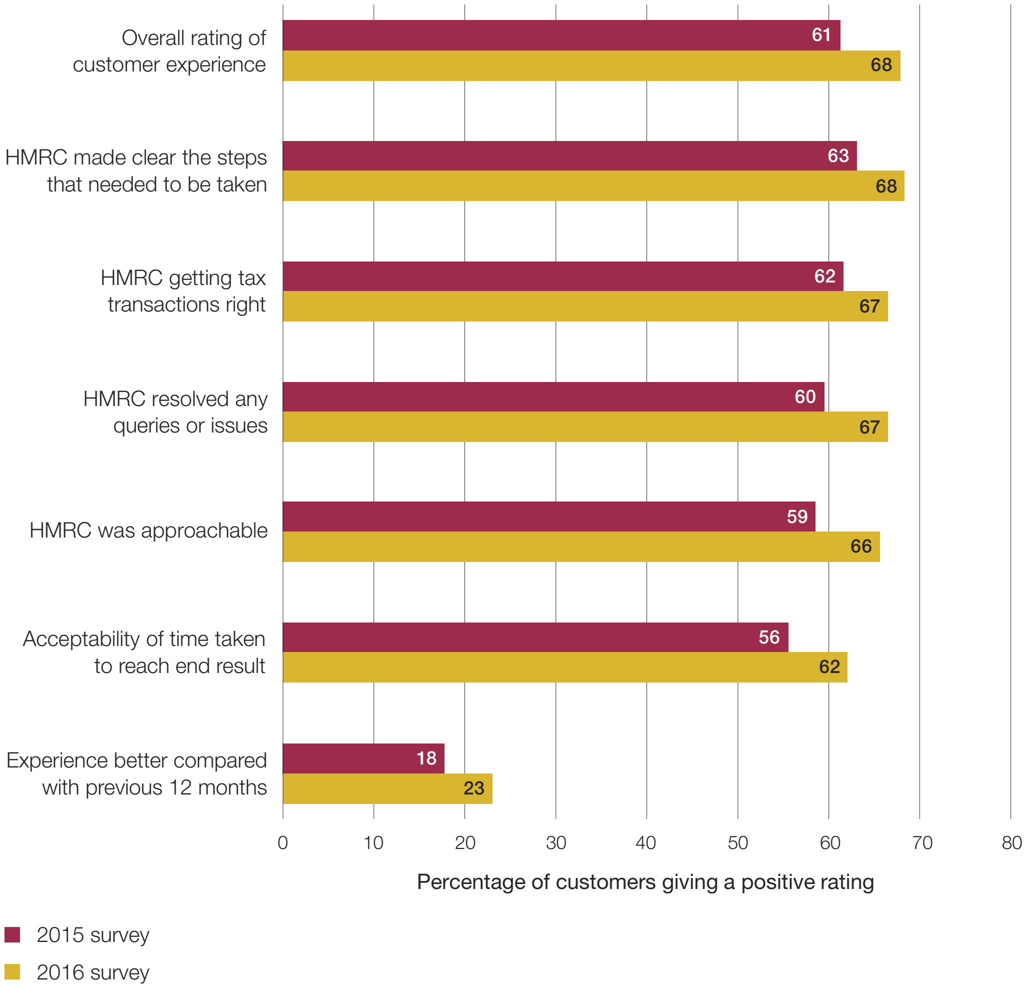
Source: National Audit Office analysis of HM Revenue & Customs data

3.10 HMRC's 2016 customer survey of individuals showed significant improvement in seven areas of customer experience, including overall experience (**Figure 16**). Ratings improved by between three and seven percentage points for all measures of customer experience, although some changes were not statistically significant.

Figure 16

Customers' experience of HMRC

Statistically significant increases were recorded for seven measures



Notes

1. Non-statistically significant increases were recorded for the other four measures of customer experience: ease of finding information (57% positive in 2016); quality of information looked for/received (67%); HMRC made clear when everything was complete (71%); HMRC's systems prevented mistakes (52%).
2. The annual survey is undertaken in the autumn. Sample sizes are provided in Appendix One.

Source: HM Revenue & Customs customer survey of individuals, 2015 and 2016

Factors affecting HMRC's operational performance

3.11 HMRC's operational performance depends on the demand for its services, and the resources it deploys to meet that demand.

Customer demand for services

3.12 HMRC has been improving performance levels while also dealing with higher-than-expected levels of demand. HMRC's strategy is to reduce cost by encouraging and helping customers to use the most cost-effective form of contact that meets their needs. Its aim is that new digital services will reduce the need for telephone calls and correspondence.

3.13 In 2016-17, total customer call attempts fell as more customers got through first time. However, calls reaching advisers increased (**Figure 17** overleaf). HMRC had forecast that advisers would handle around a quarter (eight million) fewer calls than they did. The additional telephone demand was partly offset by post volumes, which were one million items lower in 2016-17 than the 13 million forecast.

3.14 Customers may have been deterred from holding on for advisers due to long waiting times in 2014-15 and 2015-16. This has made it more difficult for HMRC to forecast demand because it does not know how many abandoned calls arose from people trying to get through more than once, or the number of people who did not get through at all. Other factors also contributed to higher-than-expected demand in 2016-17. Around 400,000 more customers sought advice on HMRC's digital services in 2016-17, and the calls HMRC received from customers, or their agents, asking for pay and tax records, or employment histories, rose by 1.6 million (150%) in 2016-17. HMRC attributes part of the increase to more agents seeking tax repayments for multiple clients.

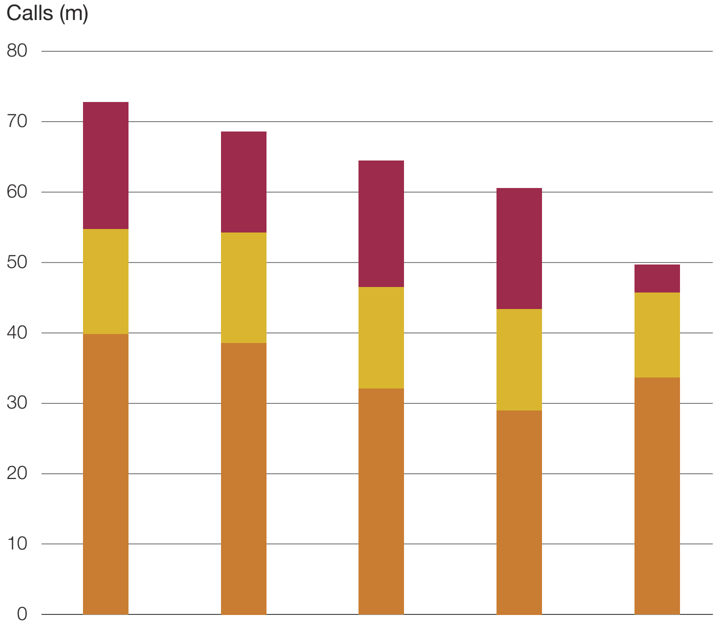
Deployment of staff

3.15 The most important factor in HMRC's improved performance has been the recruitment of additional staff. Between 2015-16 and 2016-17 HMRC deployed 12% more telephone advisers to handle calls (**Figure 18** on page R57), returning adviser numbers to 2013-14 levels.

3.16 Another important factor in HMRC's improved performance has been the increased flexibility in how it deploys staff. HMRC has increased its capacity to meet demand by employing new staff on flexible contracts and training people to deal with more query types. Between March 2015 and March 2017, the proportion of staff administering personal tax on flexible contracts increased from 37% to 55%. HMRC has also increased the number of staff that can work on more than one channel or business line. Of HMRC's advisers, 24% are capable of dealing with calls to two or more of its helplines.

Figure 17
Calls received and handled

Call attempts to HMRC's helplines fell in 2016-17, but advisers handled more calls



	2012-13	2013-14	2014-15	2015-16	2016-17
Not handled (m)	18	14	18	17	4
Handled by automation (m)	15	16	15	14	12
Handled by adviser (m)	40	39	32	29	34
Total call attempts (m)	**73**	**69**	**64**	**61**	**50**

Notes

1 Not-handled calls are: those that are abandoned in the queue; those that receive an engaged tone, a busy message or are terminated due to a system fault; and those where a caller ends a call after hearing an automated opening message asking them to call back later.

2 Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

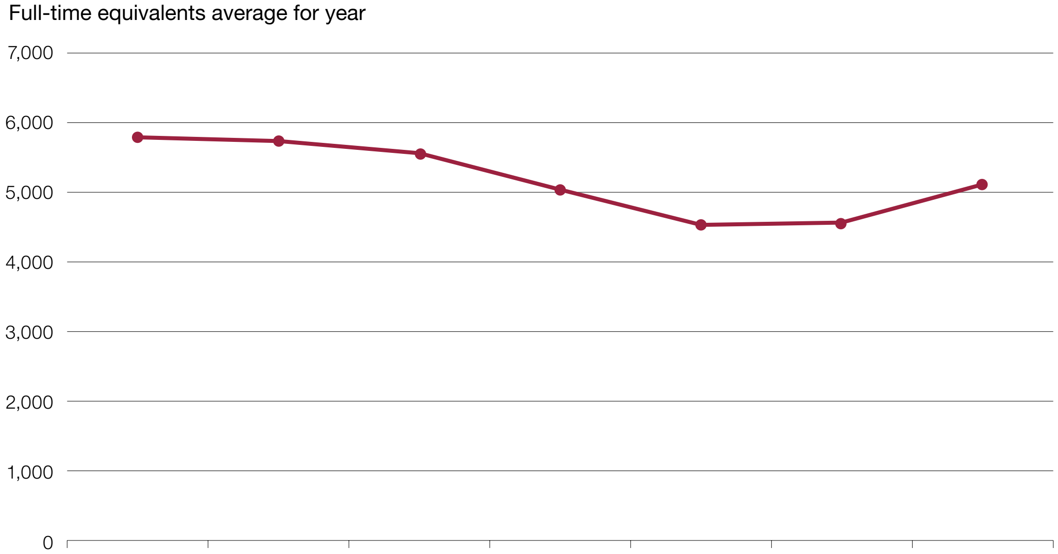
3.17 HMRC's data show a mixed picture on the productivity of telephone advisers. Call adviser utilisation rates – the proportion of advisers' time in the office available to handle customer queries – was 81.5% in 2016-17, more than three percentage points higher than in any of the four previous years. The average time taken by advisers to handle calls in 2016-17 (8.5 minutes) was similar to the average for previous years. However, the number of calls that each adviser handled had fallen by around 10% compared with the period from 2012-13 to 2014-15 (Figure 18).[45]

45 The number of calls handled takes account of staff working on other tasks.

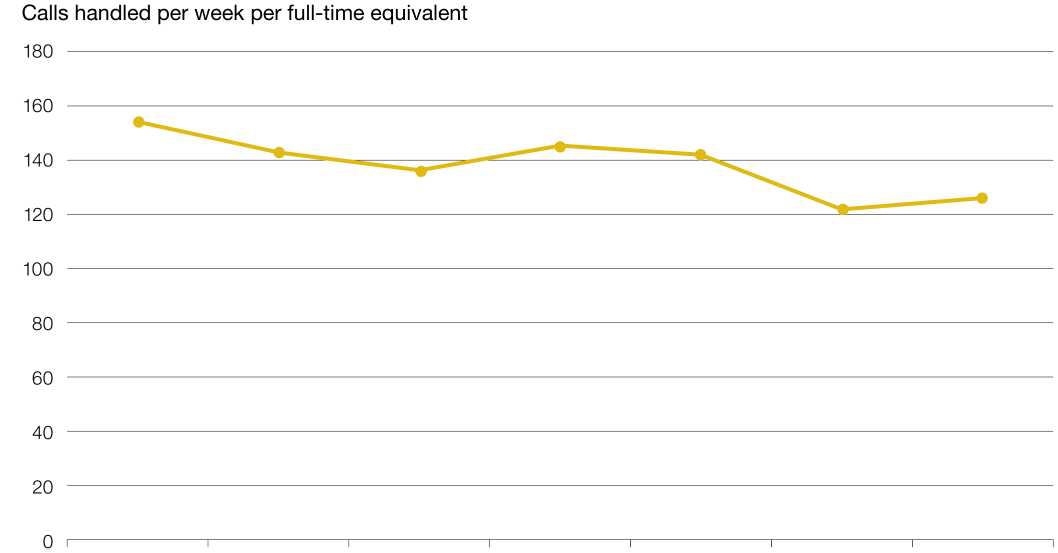
Figure 18

Number of advisers working on phone lines and calls handled per adviser

HMRC increased the number of full-time equivalent advisers working on phone lines in 2016-17, but individual advisers handled fewer calls than in the five years to 2014-15.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Full-time equivalents average for year	5,792	5,736	5,627	5,082	4,565	4,568	5,111



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Calls handled per week per full-time equivalent	154	143	136	145	142	122	126

Notes

1 Covers all telephone helplines.

2 Full-time equivalent numbers are the number of advisers assigned to telephone calls, including their indirect time and leave. The numbers exclude the time when advisers are reallocated to other work.

Source: National Audit Office analysis of HM Revenue & Customs data

3.18 HMRC told us that the number of calls handled per adviser does not take account of operational changes intended to improve customer experience. It said calls were getting more complicated, with customers using digital channels and self-service options for simpler queries. HMRC is aiming to answer all of a customer's queries in one go. In 2016-17 it transferred 13% of calls between advisers, rather than asking customers to ring back on a different number as it did until 2014-15. However, we could not verify that this was the reason that call transfers had increased. For example, it may also be due to customers being incorrectly routed by new automated telephony systems.

3.19 There may be several reasons for the reduction in the number of calls handled by each adviser, including: the scale of increase in staff that HMRC has had to manage; the number of new and flexible staff with limited experience of the queries they handle; the time it takes to move staff between different types of call; and HMRC extending call centre opening times in 2016-17 to periods that were less busy.

3.20 The reduction in calls handled per telephone adviser has been offset by an improvement of around a quarter between 2013-14 and 2016-17 in the productivity of those advisers processing post. As a consequence, the number of items handled per adviser across all HMRC's channels has been broadly stable over the past four years.

The cost of the service to HMRC and to customers

3.21 The cost of individuals complying with their tax obligations and claiming Tax Credits comprises both the cost of HMRC's customer service, and the cost incurred by individuals. We examined both costs for Income Tax and Tax Credits.

3.22 HMRC estimates that the cost of handling Income Tax transactions increased from £252 million in 2015-16 to £264 million in 2016-17.[46] HMRC estimated that it spent in 2016-17:

- £40 million on **digital transactions** – 3% less than 2015-16;
- £101 million on **handling telephone calls** – 16% more than 2015-16;
- £102 million on dealing with **post** – 4% more than 2015-16;
- £3 million on **face-to-face support** for people needing extra help – 37% less than 2015-16; and
- £18 million on the cost of **maintaining and correcting tax records** – 15% less than in 2015-16.

46 All estimates of HM Revenue & Customs costs are for staff costs, which are its main cost. All costs are in 2016-17 prices.

3.23 The cost increase in Income Tax was partially mitigated by a £8 million reduction in the costs of handling Tax Credits calls (from £51 million in 2015-16 to £43 million in 2016-17). HMRC reduced the cost of handling a Tax Credits call by 16%. Call volumes were unchanged.

3.24 We looked in more depth at the cost of the Income Tax and Tax Credits helplines, two of HMRC's most-used services. As HMRC has not calculated the cost to all customers that call these helplines, we used a model to estimate customers' costs from when they entered a queue to speak to an adviser to the point their call ended.[47] The model uses a method HMRC developed for estimating the value of customers' time. HMRC published the method in 2010 following consultation with HM Treasury.[48]

3.25 We found that HMRC spent £6 million more on the Income Tax and Tax Credits helplines in 2016-17 than in 2015-16, but this increase was outweighed by the benefits to customers of queuing less time to speak to an adviser. We estimate that shorter queue times in 2016-17 reduced customers' call costs by £8 million and the opportunity cost of the time they spent by around £73 million (using a value of £16.70 per hour).[49] The total cost of the helplines to HMRC and its customers therefore fell by around £75 million in 2016-17 (**Figure 19** overleaf).

3.26 In November 2016, HMRC said it had implemented the Committee of Public Accounts' recommendation that it should estimate the cost to those using its services, and use this information when considering the resources needed to strike an optimal balance between its costs and the costs of its customers.[50] We found that HMRC had considered customer costs in summer 2016 when it assessed the benefits of cutting telephone queue time as a result of additional funding provided by HM Treasury (paragraph 3.6). However, HMRC does not routinely calculate customer costs as it considers it would be prohibitive to do so for all customer journeys. It also considers that the large number of assumptions required for costings reduces the accuracy and value of any data.

47 There are insufficient data to include the cost of time spent in the automated telephony system.

48 HM Revenue & Customs, *HMRC Working Paper - No. 8, Costing Customer Time – Research Paper*, January 2010. HMRC's research paper used principles from HM Treasury's *Green Book: Appraisal and evaluation in central government*, and data on earnings, employment and time from the Office for National Statistics, to estimate the value (ie opportunity cost) of the time an individual spends meeting their tax obligations.

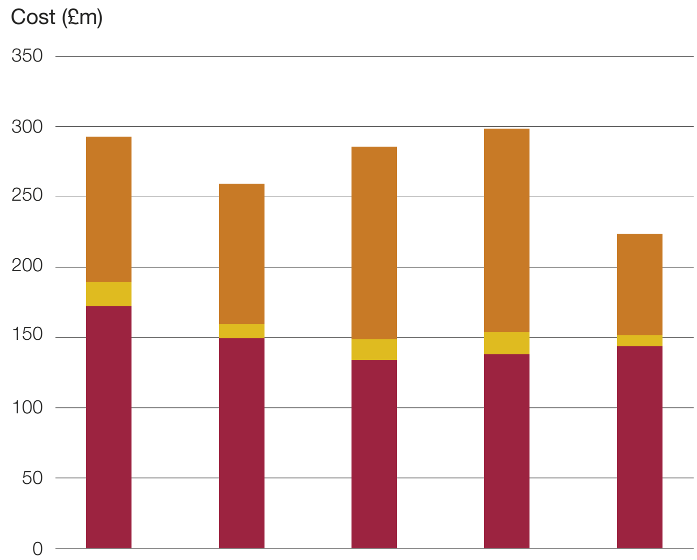
49 We used £16.70 per hour for individuals' time. The £16.70 rate was based on updating values set out by HMRC in its paper on costing customer time (see previous footnote).

50 HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Seventh and the Thirty-Ninth reports from Session 2015-16*; *and the First to the Thirteenth reports from Session 2016-17*, Cm 9351, November 2016, page 68.

Figure 19

Cost of Income Tax and Tax Credits helplines

HMRC spent more on these helplines in 2016-17, with reduced waiting time cutting customer costs



	2012-13	2013-14	2014-15	2015-16	2016-17
Customer time (£m)	103	99	137	145	72
Customer call charge (£m)	17	11	15	16	8
HMRC costs (£m)	172	149	134	138	144
Total (£m)	**293**	**259**	**285**	**299**	**224**

Notes

1 Customer costs include call costs and the opportunity cost of their time from when they enter a queue to speak to an adviser to the point their call ends. We used £16.70 per hour for customer time which is based on HMRC's methodology (see footnote 48). There are insufficient data to include the cost of time customers spend in the automated telephony system.

2 Tax Credits covers adviser handled calls to the main Tax Credits helpline and the payments helpline (12 million in 2016-17). Income Tax covers the adviser-handled calls made to the Pay-As-You-Earn and self-assessment helplines (13 million). Cost estimates do not include adviser-handled calls made to other HMRC helplines (9 million).

3 HMRC costs cover staff costs, which are its main cost.

4 Costs are in real terms, 2016-17 prices.

5 Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Scope for further improvements

3.27 HMRC has made significant progress in making its services more accessible. It has stabilised its operations and is developing good practices in some areas. HMRC has raised its ambitions and is seeking to become a leading customer services organisation. In this section we consider how much further it needs to go, focusing on telephone handling. We engaged contact centre experts to support our review.[51]

51 We engaged Customer Consulting Limited. CCL's consultants have set up, run and reviewed contact centres in the UK and 13 other countries. The consultants that advised us each had 30 years of experience in contact centres.

3.28 Our contact centre experts compared the range of performance measures used by HMRC against call centre measures typically used by large customer service organisations. HMRC's current measures focus on the speed of response and efficiency. There is less coverage of other aspects of operational performance or outcomes for customers. HMRC is closing the gap with industry standards by introducing customer exit surveys to gather real-time feedback on its handling of calls. It already uses the practice for digital services. Our contact centre experts identified other improvements that HMRC can make, including to the way it measures call-handling and resolving queries at first contact (**Figure 20** overleaf).

3.29 Customers' experience of calling HMRC can differ significantly from its reported performance. Our analysis indicates that the proportion of calls a customer would consider successfully and fully handled is less than the 92% HMRC reported as handled in 2016-17. HMRC counts around 25% of calls as 'handled' by its automated telephony system (**Figure 21** on page R63).

3.30 HMRC does not have reliable data about the extent to which customers' queries are satisfied by its automated telephony system. There is a recognition within HMRC, and the contact centre industry, that automated technology is changing the nature of interactions with customers, and the changes need to be understood. Following a commitment made to the Committee of Public Accounts in June 2016, HMRC commissioned qualitative research to better understand outcomes for customers.[52] It found:

- **Some simple queries can be resolved by HMRC's automated telephony system but satisfaction depends on the nature of the query.** Most customers believe their query requires a tailored response and only feel satisfied once their expectations are met and they have spoken with an adviser.
- **HMRC cannot assume all customers who disconnect during automated telephony have had their query resolved.** Generally, customers who disconnect themselves following an automated message call again immediately – although there is evidence of customers attempting to self-serve and resolving their query without calling. It is clear that customers often attempt to circumvent the system and get through to an adviser, by disconnecting during an automated message and calling back in order to try and route themselves more effectively.
- **Customers often go online prior to making a call to the helpline.** The automated messages have limited success in encouraging customers to self-serve by another channel; customers go online or carry out instructions as a result of the automated messages, but many call back again having been unable to resolve their query in this way.

52 HC Committee of Public Accounts, *Quality of service to personal taxpayers and replacing the Aspire contract*, Thirteenth Report of Session 2016-17, HC 78, July 2016, Q86. HMRC commissioned Ipsos MORI to undertake the research in November 2016. HMRC plans to publish the research in July 2017.

Figure 20
The consistency of HMRC's performance measures with industry measures

Standard contact centre measure[1]	HMRC's measure	Overview assessment of HMRC's measure	Assessment rating of HMRC's measure[2]
Percentage of calls answered within specified time period	No target. HMRC monitors calls answered within 10 minutes.	HMRC has yet to state publicly what it considers an acceptable waiting time.	
Average speed to answer	Six-minute target for the average time customers spend in the queue for an adviser.	Call centre practice varies with some organisations focusing on queue time and others also measuring time in automated telephony. If HMRC extended its measure and tracked time in automated telephony it would get a full view of the total waiting time experienced by customers (paragraph 3.31).	
Percentage of calls answered	85% of calls handled.	HMRC categorises as handled calls where customers hang up following information or deflection messages, or fail security (Figure 21). Some of these customers will not consider their call handled (paragraph 3.29).	
Call abandoned rate	No formal target, but an implied target of 15% of calls abandoned can be deduced from the target for calls answered (above).	HMRC has limited data on why customers abandon calls in the automated system (paragraph 3.30).	
Customer satisfaction	No target but HMRC's annual survey measures customer experience (Figure 16).	To complement its annual survey, HMRC is introducing exit surveys to obtain immediate feedback on more channels. HMRC already uses exit surveys for digital channels.	
Difference between actual and forecasted calls	Variance within 5%.	Measure is in line with industry standard.	
First contact resolution	n/a.	HMRC has so far been unable to establish measures to assess its 'once & done' initiative. It is considering whether it could measure aspects of 'once & done' through exit surveys.	
Staff utilisation	Adviser time spent dealing with telephony and non-telephony work such as webchat.	An additional telephony-only measure of utilisation would help HMRC to compare performance across teams.	
Shrinkage	Adviser time spent on non-customer work.	Definition of measure could be clearer.	

Notes

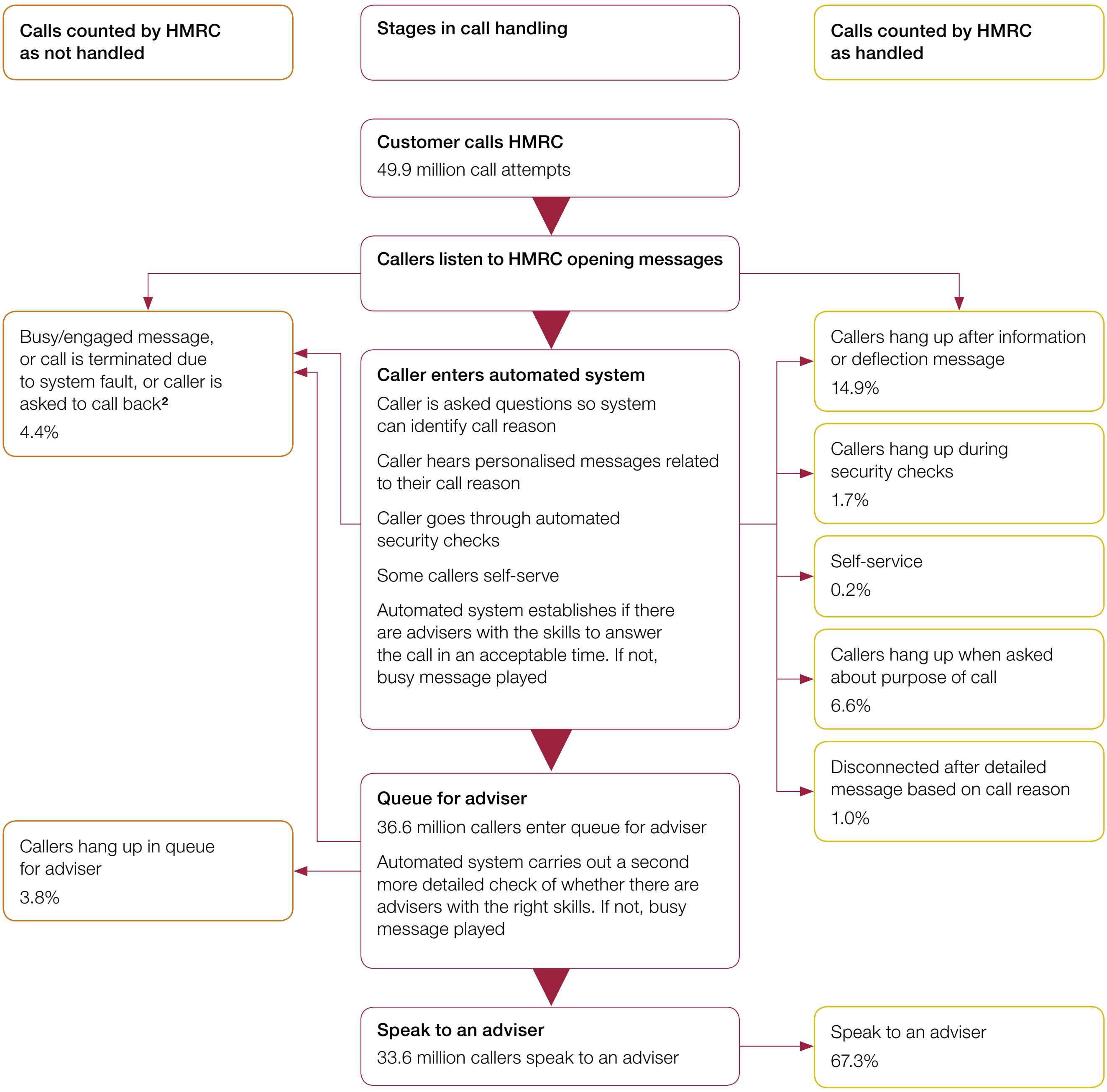
1 Standard contact centre measures based on research undertaken by our contact centre experts, Customer Consulting Limited. The research included reviewing benchmarking reports and consultation with groups representing the contact centre industry and customer services organisations.

2 Green: measure is at or broadly consistent with industry standard. Amber: HMRC tracks performance but measure is not sufficiently comprehensive. Red: no measure or measure is inadequate.

Source: National Audit Office summary of Customer Consulting Limited research

Figure 21
How calls to helplines in 2016-17 were handled and recorded by HMRC

HMRC's measure of calls handled includes some calls where customers hang up



Notes

1 A typical customer journey is shown. Not all callers will pass through each of the stages shown.

2 Most callers that hang-up after hearing an opening message are counted as handled by HMRC. However, HMRC does not count as handled those customers that end a call after hearing an opening message asking them to call back later. 0.3% of calls ended this way in 2016-17.

3 Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

3.31 A key measure for HMRC is the speed at which it answers calls. In contrast to its call-handling measure, HMRC's average speed in answering excludes both those calls that are completed in its automated system and the time customers spend in the automated system. HMRC told us that customers typically spend between two and four minutes listening and responding to automated messages. HMRC is aware from speaking to other major customer service organisations that some exclude time in the automated system from their average speed to answer measures. Our contact centre experts reviewed industry practice, and consulted with industry bodies, on measuring speed to answer. They found practice is mixed, with some organisations measuring all elements of waiting time. They subsequently concluded that good practice is to measure and report on time spent in automated telephony, and the time then spent queuing for an adviser, as both are experienced by the customer. HMRC told us it believes measuring queue time sufficiently captures customer experience of waiting time. It said it does not measure the period in automated telephony as it considers this time is valuable to a customer as the system is aiming to navigate them to an agent who can meet their need.

3.32 HMRC measures but does not report publicly on quality. HMRC tracks calls and correspondence which have errors that could have an immediate impact on the customer.[53] In 2016-17, there were errors in 8% of tax and Tax Credits telephone calls and in 7% of correspondence on tax. Errors included advisers disclosing information before a customer had passed security, and advisers making mistakes that have a financial impact on a customer.[54]

3.33 HMRC's measure of quality is incomplete. A quality team reviews a limited sample of calls and correspondence. Some important aspects of quality, including customer experience, are assessed by the quality team but excluded from HMRC's internal quality measure. For example, the team assesses whether all aspects of a query have been dealt with and whether interactions are friendly and empathetic.

3.34 Our contact centre experts also reviewed HMRC's operational performance. They found that HMRC has a customer-focused culture and its management is open to new ways of working and technologies. The contact centre experts identified areas where HMRC could improve its operational performance and reduce costs by:

- improving the way its advisers handle calls and provide guidance to customers;
- extending its quality management to cover customer experience; and
- developing its performance management culture, including by using a balanced set of targets to manage performance at all levels of its organisation.

53 HMRC examines a sample of calls and correspondence.
54 For taxes, the impact must be more than £10 for the error to be counted.

Part Four

Benefits and credits

4.1 HM Revenue & Customs (HMRC) administers Personal Tax Credits (Tax Credits) and Child Benefit to provide support to families with children and to help ensure that work pays more than welfare. In 2016-17 HMRC spent £38.8 billion on these benefits and credits. Of this, £27.1 billion was spent on Tax Credits and £11.7 billion was Child Benefit. Tax Credits supported around 4.1 million families and around 7.2 million children, 58% of total expenditure of £46.6 billion recorded in HMRC's 2016-17 Resource Account. Child Benefit supported around 12.9 million children, 25% of expenditure in HMRC's 2016-17 Resource Account.

4.2 This part of our report covers:

- the qualification of the Comptroller and Auditor General's (C&AG's) opinion on the Resource Account due to material irregular Tax Credits expenditure;
- the estimated level of error and fraud in Tax Credits, including the analysis of these losses by risk area;
- HMRC's progress in addressing error and fraud in Tax Credits;
- the migration of Tax Credits to Universal Credit; and
- error and fraud in Child Benefit.

Qualification of the C&AG's audit opinion on the regularity of Tax Credits expenditure

4.3 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence to give reasonable assurance that:

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament; and
- the financial transactions recorded in the financial statements conform to the authorities which govern them (the C&AG's regularity opinion).

4.4 The Tax Credits Act 2002 specifies the eligibility criteria for Tax Credits and the way HMRC calculates the amounts to be paid. Where error and fraud result in overpayment or underpayment of Tax Credits to an individual who is either not entitled to Tax Credits or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of HMRC's 2016-17 financial statements, the C&AG has qualified his opinion on regularity due to the material level of estimated error and fraud in Tax Credits expenditure.

4.5 The C&AG has qualified his opinion on regularity due to material over and underpayments every year since Tax Credits were introduced in 2003.

Tax Credits

4.6 Tax Credits were introduced in April 2003. They are designed to support families with children; tackle child poverty; and help to make sure that work pays more than welfare. The government is continuing to roll out Universal Credit: this will replace many of the current working-age benefits, including Tax Credits, with a single means-tested payment. HMRC will be responsible for administering the Tax Credits scheme until all existing claimants have either transitioned to Universal Credit or left the Tax Credits regime, which is currently expected to be in 2022.

4.7 Tax Credits awards are based on initial estimates, and finalised at the end of the year. Some overpayments and underpayments occur as a result of the way that Tax Credits are designed. The process for finalising awards relies on claimants providing complete and accurate data, and 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.

Estimated level of error and fraud in Tax Credits

4.8 HMRC's estimate of the level of error and fraud in Tax Credits for 2016-17 relates to error and fraud in 2015-16. This is because awards for 2016-17 have not yet been finalised, in accordance with the normal Tax Credits annual cycle. Finalisation of awards occurs between April and July following the end of the tax year or the following January for self-assessment claimants. Following finalisation, testing is undertaken to inform the estimate of error and fraud.

4.9 HMRC estimates that the overall level of error and fraud that resulted in overpayments in Tax Credits in 2015-16 increased to 5.5% of Tax Credits expenditure (from 4.8% in 2014-15).[55,56,57] HMRC estimates that the overall level of error and fraud resulting in underpayments in Tax Credits in 2015-16 remained at 0.7% of Tax Credits expenditure (0.7% in 2014-15). This equates to overpayments of £1.57 billion and underpayments of £210 million. The rate of error and fraud resulting in overpayments fell between 2010-11 and 2013-14, but has since increased in 2014-15 and 2015-16 (**Figure 22** overleaf).

4.10 HMRC has told us that it believes the level of error and fraud in Tax Credits will increase further when measured for 2016-17. Two main factors have been identified that will lead to this increase: the introduction of the 'Commercial with a view to a profit' self-employment test for those who are self-employed and the impact of the Concentrix contract (paragraphs 4.23 to 4.26 below). The impact of these factors on error and fraud levels will not be measured until June 2018, and so the estimate of error and fraud in 2015-16 remains the most up-to-date indication available of error and fraud in Tax Credits expenditure for 2016-17.

4.11 HMRC has set itself a target to keep the level of error and fraud overpayments no higher than 5% for 2016-17. It is likely that HMRC will not meet this target given the expected increases predicted by HMRC (paragraphs 4.23 to 4.26). The target for 2017-18 and subsequent years, up until the full transition of claimants to Universal Credit, has not yet been set.

4.12 HMRC has set a provisional target for 2017-18 to keep underpayments no higher than 0.7% of finalised entitlement.

4.13 As part of the government's response to recommendations made by the Committee of Public Accounts, HMRC and the Department for Work and Pensions (DWP) also announced a joint external target for net overpayments of benefit to be no higher than 1.6% of the joint benefit expenditure during 2017-18.[58] This figure represents net loss across welfare (DWP benefits plus Tax Credits) after DWP recovery of overpayments has been taken into consideration. This target will be in addition to the overpayment and underpayment targets that HMRC has set itself, and will be reported in 2019-20, after 2017-18 Tax Credits awards have been finalised and HMRC has undertaken testing to inform the estimate of error and fraud.

55 Note 4.3 to the Resource Account.

56 HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement – as 'error and fraud favouring the claimant', and error resulting in underpayments – where claimants have received less than their entitlement – as 'error and fraud favouring HMRC'. We use the terms overpayments and underpayments throughout this report. This is not the same as overpayments reported by HMRC that arise upon finalisation of Tax Credits awards, which are unrelated to the error and fraud statistics discussed here.

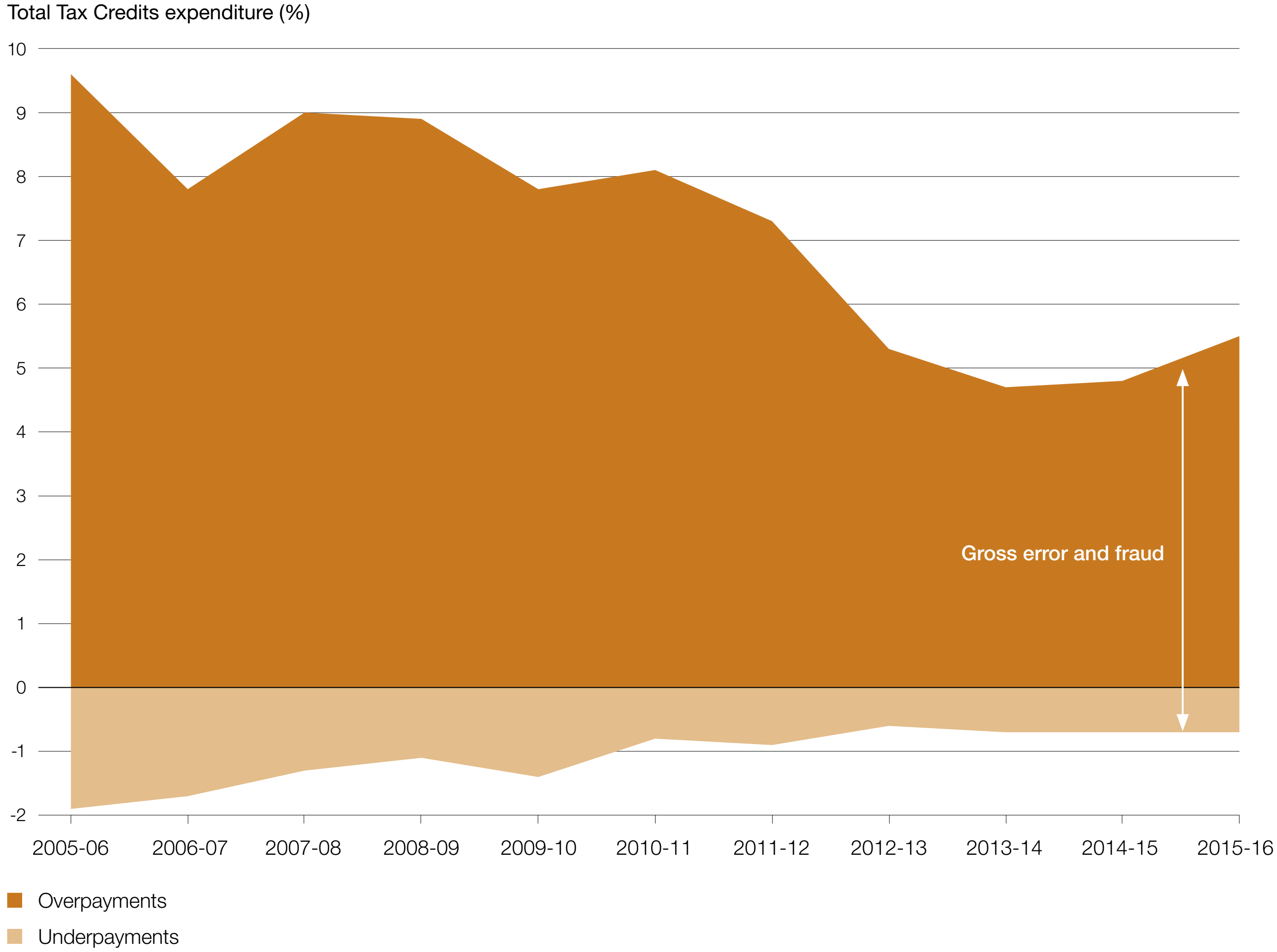
57 Error and fraud figures quoted within the main body of this Part are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges is provided within the table in Appendix Two.

58 HM Treasury, *Treasury Minutes*: *Government responses to the Committee of Public Accounts on the Twenty-Second to the Twenty-Fifth and the Twenty-Eighth reports from Session 2016-17*, Cm 9413, February 2017.

Figure 22

HMRC's Tax Credits overpayment and underpayment estimates from 2005-06 to 2015-16

Error and fraud resulting in overpayments fell between 2010-11 and 2013-14, but has since increased in 2014-15 and 2015-16



Source: National Audit Office analysis of HM Revenue & Customs data

Tackling Tax Credits error and fraud by cause of loss

4.14 In 2009, HMRC reassessed its approach to error and fraud. It changed its strategy to move from compliance interventions that were largely designed to identify error and fraud after claims had entered the system ('pay now, check later') to interventions that were increasingly designed to prevent error and fraud from entering the system ('check first, then pay').

4.15 At the same time, HMRC increased the number of error and fraud checks on claims from 123,000 in 2008-09 to nearly two million in 2010-11 (**Figure 23** overleaf) and targeted the claims at greatest risk of containing error and fraud. It also increased the number of front-line staff involved in checking claims from 1,100 to 1,500. Since 2012-13 the Tax Credits caseload has remained relatively stable, the volume of interventions has risen slightly and error and fraud has fallen (Figure 22).

4.16 HMRC's change in approach involved disaggregating, by risk type, losses from overpayments to identify the underlying causes of error. To tackle error and fraud, HMRC uses interventions targeted at the six main causes of loss:

- disability (incorrectly reporting disability status);
- children (incorrectly including children or young persons on a claim);
- income (inaccurately reporting income);
- childcare costs (claiming for incorrect childcare costs);
- undeclared partner (making a single claim instead of a joint claim); and
- work and hours (overstating hours worked).

HMRC's progress in addressing error and fraud

4.17 Figure 24 on page R71 shows HMRC's progress in addressing error and fraud losses against each of these categories since the introduction of its new approach. HMRC has used this insight to restructure and target its range of intervention activities across the major risk areas to both prevent and detect error and fraud. HMRC also analyses the point at which the error and fraud enters the system; whether at the point of a new claim, a change of circumstances or on renewal. This analysis is important in identifying options to further reduce error and fraud, to prioritise the most effective interventions and to inform a view of what level of loss reduction may be possible.

4.18 As Figure 24 shows, HMRC has seen significant success in tackling error and fraud relating to misreporting of children, but has not sustained earlier success in tackling undeclared partners, or misreporting of income, work and hours and childcare costs. HMRC will further analyse the reasons for the increases in these risk categories as part of an exercise to look at the underlying reasons for instances of error and fraud identified in the estimation process.

4.19 The rate of underpayments has remained stable since 2014-15. The vast majority of underpayments continue to be associated with the income risk.

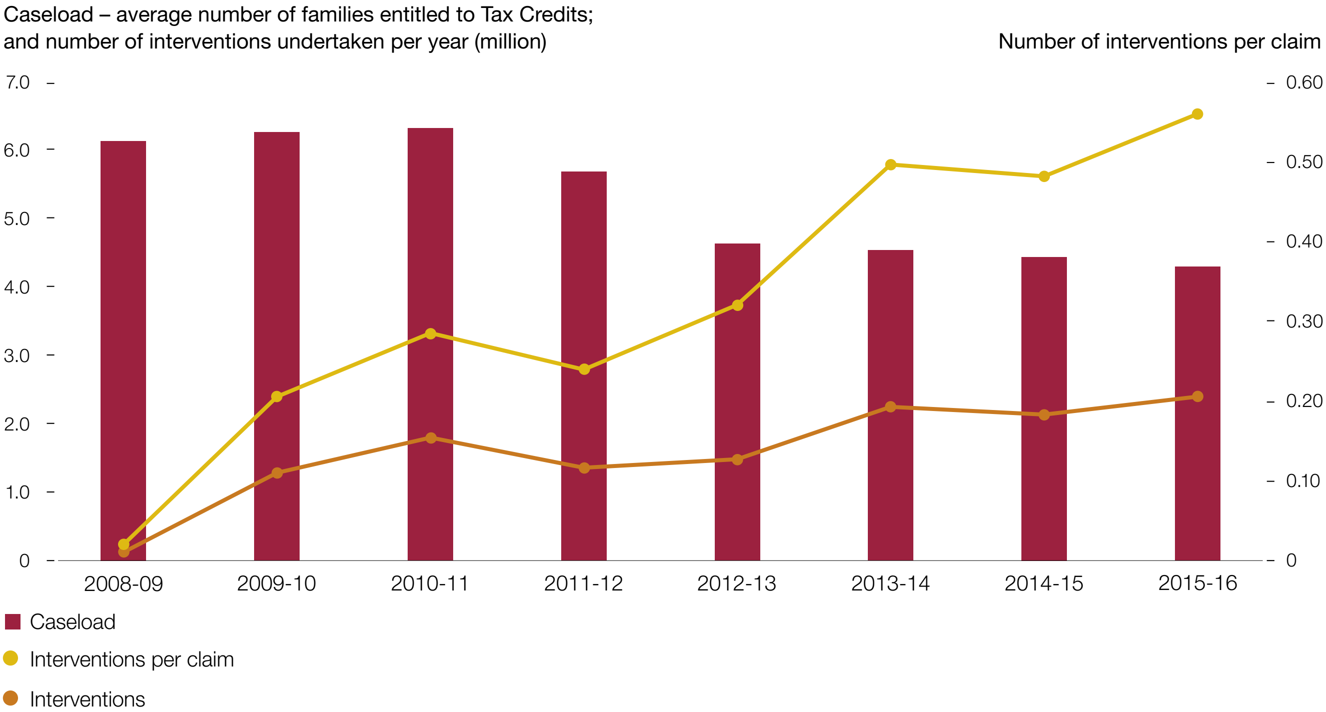
4.20 Last year our report detailed HMRC's progress in tackling error and fraud against a Fraud and Error Framework (F&E Framework) set out in the *Fraud and error stocktake*.[59] Since we reported, HMRC has produced an initial assessment against the F&E Framework with respect to the strategy, design, implementation, monitoring and evaluation of its error and fraud activities.

59 Department for Work & Pensions, HM Revenue & Customs, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015.

Figure 23

Tax Credits caseload and volume of error and fraud interventions from 2008-09 to 2015-16

HMRC has increased the number of error and fraud checks, and the number of interventions per claim, since 2008-09



Source: National Audit Office analysis of HM Revenue & Customs data

4.21 HMRC's use of the F&E Framework to implement a systematic approach to further developing error and fraud strategies and measures is a positive step towards understanding and tackling the causes of error and fraud. It will take time and iteration to see the outcome of this more systematic approach to tackling error and fraud, in the form of an attributable reduction. As HMRC continues to further focus its efforts it is important that it takes steps to understand the increases in error and fraud estimated for 2015-16 and forecast for 2016-17, and appropriately reflects the reasons in its interventions.

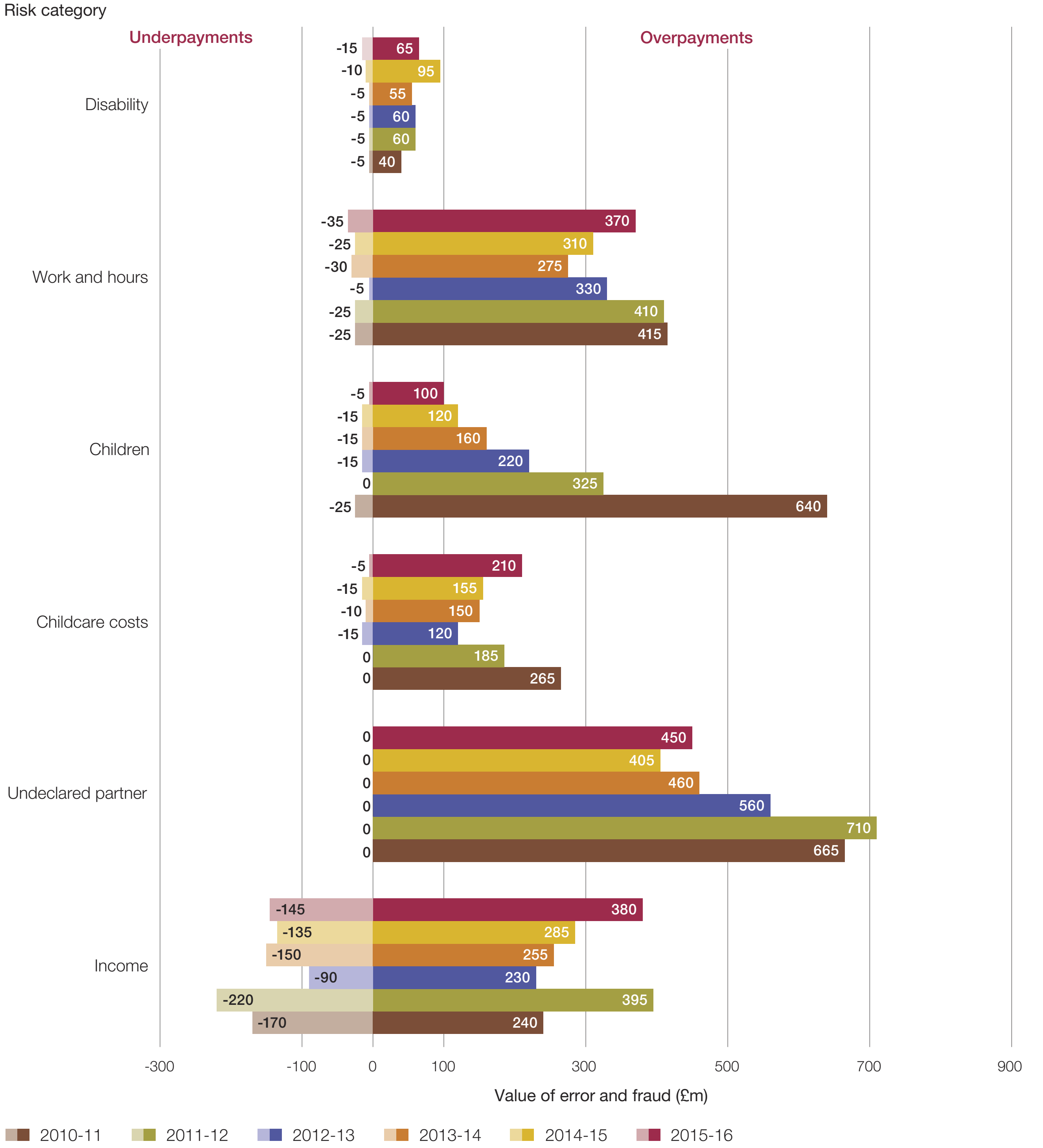
Challenges looking ahead

4.22 HMRC has identified several challenges arising from changes to Tax Credits policy and its administration that will require changes to its approach to ensure error and fraud does not rise further. Two of these changes are expected to increase error and fraud estimates, at least in the short term.

Figure 24

HMRC's Tax Credits overpayment estimates by risk type for 2010-11 to 2015-16

HMRC has tackled error and fraud from misreporting of children, but not in undeclared partners or misreporting of income, work and hours, and childcare costs



Source: National Audit Office analysis of HM Revenue & Customs data

'Commercial with a view to a profit' self-employed test

4.23 In the Autumn Statement 2014 a new eligibility criteria was announced covering the Working Tax Credits element of Tax Credits for self-employed claimants. This change, the 'Commercial with a view to a profit' self-employed test, came in to effect on 6 April 2015, and requires all self-employed claimants to meet the conditions of the test, that is to say, that they are "carrying on a trade, profession or vocation on a commercial basis and with a view to the realisation of profits… and trade, profession or vocation is organised and regular".

4.24 HMRC took a phased approach to applying the new eligibility criteria during 2015-16, testing the communications and the approach to checking eligibility through the year. HMRC forecasts that the new rules will reduce the cost of Tax Credits by more than £500 million in the period up to 2021. HMRC estimates that the new rule is likely to lead to an increase of 0.9 percentage points in the rate of error and fraud for 2016-17. Estimates of error and fraud in 2016-17 will be published in June 2018.

Impact of HMRC's contract with Concentrix

4.25 Following the widely publicised termination of HMRC's contract with Synnex-Concentrix in November 2016, our January 2017 report *Investigation into HMRC's contract with Concentrix* outlined the aims of the contract; the management of the contract; the decision to terminate the contract and the impact of the contract termination.[60] At the time of the Committee of Public Accounts hearing in January 2017,[61] HMRC estimated that the short-term redeployment of HMRC staff to complete Concentrix cases would have an opportunity cost of £30 million of savings not realised.[62] HMRC also said that the transfer of staff from Concentrix to HMRC would give it additional capacity. Since the Committee hearing, due to HMRC's resourcing constraints, it has used the former Concentrix staff to fill vacancies in its benefits and credits operational directorate. HMRC forecasts that early termination will increase the underlying rate of error and fraud by 1.2 percentage points in 2016-17 (published June 2018), due to:

- Concentrix not undertaking the agreed volume of interventions as part of the 2016-17 compliance campaigns (an estimated 0.9 percentage point increase in error and fraud (£240 million)); and
- the redeployment of HMRC staff from lower priority, business-as-usual activities to work on Concentrix compliance cases brought back in-house just prior to the early termination of the contract (an estimated 0.3 percentage point increase in error and fraud (£70 million)).[63]

60 Comptroller and Auditor General, *Investigation into HMRC's contract with Concentrix*, Session 2016-17, HC 267, National Audit Office, January 2017.

61 HC Committee of Public Accounts, *HMRC's contract with Concentrix, Fifty-first Report of Session 2016-17*, HC 998, April 2017, Q58.

62 The impact of the redeployment of staff to complete Concentrix cases can be measured in several different ways. In this report we talk about the impact on the rate of error and fraud, an increase of 0.3 percentage points or £70 million, as the rate of error and fraud is the basis of the C&AG's opinion. When HMRC reported to the Committee of Public Accounts it used its estimate of savings that would not be realised of £30 million. The difference between the two bases of measurement is primarily assumed recovery rates.

63 See footnote 62.

4.26 As part of HMRC's response to the lessons learned from the Concentrix contract, it is undertaking several actions aimed at ensuring that the failings of the contract are not repeated and that its compliance interventions achieve an appropriate balance between identification of error and fraud and providing the necessary level of customer service. The proposed changes, which reflect a significant change in approach to HMRC's delivery of error and fraud interventions, will come into effect for the High Risk Renewals 2017 initiative, and include:

- reviewing and revising all letters, to ensure claimants understand what is required and where help is available;
- prompting claimants to respond to enquiries, including the use of SMS alerts and more dedicated claimant telephone calls;
- making claimant engagement with HMRC easier, including digital channels to submit information, improving claimant telephony services, and refining the referrals service between contact centre and compliance teams;
- supporting claimants who actively engage with HMRC, including giving proactive claimants more time to provide evidence and providing greater flexibility in assessing the types of evidence provided; and
- ensuring rapid reinstatement of payments for claimants who have had their payments changed due to non-response to an enquiry, but who subsequently provide new evidence.

Transfer of Tax Credits to Universal Credit

4.27 Under current plans, Universal Credit will fully replace Tax Credits by 2022. New Tax Credits applications will be replaced by Universal Credit applications in line with DWP's Universal Credit geographic roll-out timetable and existing Tax Credits claimants will transition in line with DWP's migration timetable. Some 95,000 Tax Credits claims in total had ended following their transition to Universal Credit by March 2017; 62,000 of which transferred in 2016-17, and HMRC expects a further 220,000 claimants to transition in 2017-18.

4.28 HMRC will continue to be responsible for administering Tax Credits until all claimants have either migrated to Universal Credit or left the Tax Credits regime. This will result in further challenges for HMRC, most notably in ensuring that compliance processes operate effectively in preventing and detecting error and fraud with reduced resources, as HMRC staff will move to DWP as claimants transition to Universal Credit. HMRC's current expectation is that approximately 4,000 staff will transfer to DWP, of 5,130 staff responsible for delivering Tax Credits.

4.29 During 2016-17 HMRC transferred to DWP £145.6 million of Tax Credits debt, some 231,000 individual debts. The number of debts transferred to DWP exceeds the volume of claimants transitioned to Universal Credit as a single claimant may have multiple individual debts, from various years, associated with their Tax Credits award. As claimants transfer to Universal Credit, HMRC will need to finalise associated debt to transfer, requiring in-year finalisation of Tax Credits awards as transition is not aligned to the Tax Credits annual cycle. While the Universal Credit claim is active, this debt will normally be deducted in instalments from ongoing payments. Where the claimant no longer claims Universal Credit, the debt will be pursued using DWP's wider powers of recovery for benefits debt, for example attachment of earnings orders.

4.30 HMRC has plans in place to ensure a smooth transfer of Tax Credits claimants to Universal Credit over the timeframe for transition. Due to the long timeframe for the transition of Tax Credits claimants to Universal Credit, and relatively small numbers of cases transitioned so far, it is too early to conclude on HMRC's performance in meeting the challenges this transition presents.

Error and fraud in Child Benefit

4.31 Child Benefit was introduced in phases between 1977 and 1979. DWP administered payments until 31 March 2003, when responsibility transferred to HMRC. Child Benefit expenditure has been reported within the HMRC (and its predecessor, the Inland Revenue) Resource Accounts since 2003-04.

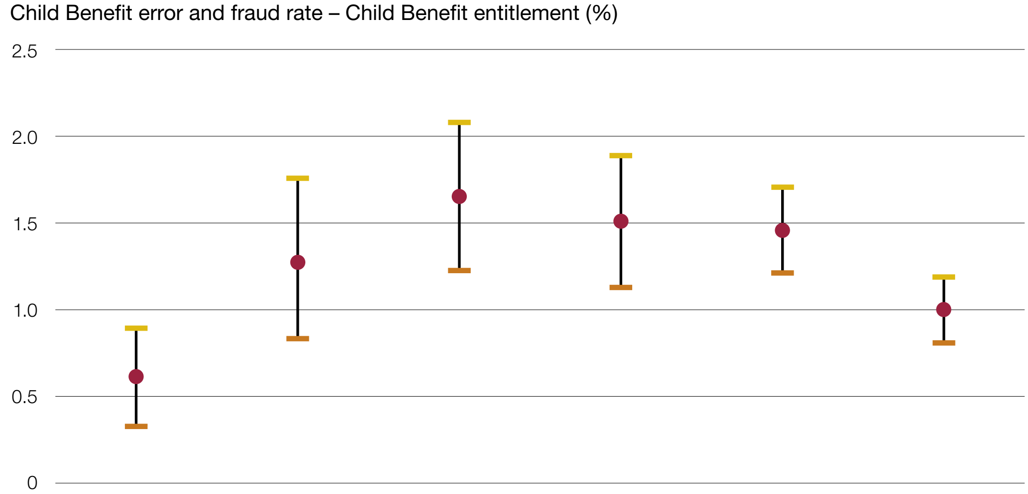
4.32 As with Tax Credits, HMRC carries out work to estimate the level of error and fraud within Child Benefit. HMRC estimated that the overall level of error and fraud resulting in overpayments in Child Benefit amounted to 1.0% of total 2016-17 Child Benefit expenditure (1.4% in 2015-16) or up to £110 million (£170 million in 2015-16). Prior to 2014-15, estimates varied considerably, and methodology was revised from one year to another. It is therefore not possible to draw robust conclusions about longer-term trends in error and fraud in Child Benefit. HMRC's best estimates of error and fraud in Child Benefit for the past six years can be seen in **Figure 25**.

4.33 To evaluate error and fraud within Child Benefit, HMRC relies on its annual estimation process. A sample of ongoing Child Benefit cases are selected each year and the claimants are contacted to ask that they verify personal details and provide supporting evidence proving that the child exists, lives at the recorded address and, where the child is aged over 16, is in full-time non-advanced education and undertaking an approved course.

Figure 25

HMRC's Child Benefit overpayment estimates from 2011-12 to 2016-17

Estimated overpayments in Child Benefit are 1% of total Child Benefit expenditure. Due to methodological changes, it is not possible to draw robust conclusions about longer-term trends



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Upper error limit (%)	0.90	1.77	2.09	1.90	1.71	0.80
Most likely error (%)	0.61	1.27	1.65	1.51	1.46	1.00
Lower error limit (%)	0.33	0.82	1.22	1.12	1.20	1.20

Notes

1 HMRC has not set a target for reducing error and fraud within Child Benefit.

2 These estimates are based on a small number of cases: as a result, there is a large amount of uncertainty in the results, which is reflected in the wide confidence intervals around the central estimate.

3 Changes in methodology mean that estimates may not be directly comparable before 2014-15.

Source: HM Revenue & Custom's Child Benefit Error and Fraud Analysis Programme statistics

4.34 The vast majority of error and fraud estimated for Child Benefit (£75 million in 2016-17) is as a result of Child Benefit claimants not responding to these requests for information ('non-response' cases). As Child Benefit statute requires claimants to comply with processes and demonstrate eligibility for Child Benefit, non-response claimants are deemed ineligible and their award is counted as error or fraud and is terminated. During 2016-17 HMRC has carried out a considerable amount of analysis and commissioned claimant research to identify whether there are any characteristics common to non-responders. While this work did provide HMRC with some intelligence that certain claimant groups have a higher propensity not to respond, it did not provide a clear reason for non-response.

4.35 HMRC has also undertaken an exercise to assess if it can identify whether non-response indicates error and fraud in 2015-16 and 2016-17 non-response cases, using data-matching from other HMRC and DWP systems for Child Benefit eligibility criteria. This exercise demonstrated that many non-responders in 2016-17 may have been eligible. This suggests that the headline error and fraud estimate of 1.0% is likely to be overstated due to including non-response cases as error and fraud. HMRC will consider the results of this exercise further in 2017-18 in order to assess whether the results can help to make further refinements to the estimate.

4.36 Looking ahead, HMRC is using the F&E Framework, described in paragraphs 4.20 and 4.21, to further understand error and fraud in Child Benefit and target causes of error and fraud within the benefit system. HMRC has identified a number of ways in which it can seek to reduce error and fraud within Child Benefit both over the next 12 months and in the longer term. This includes the introduction of automated data-matching with the General Register Office and National Records of Scotland, to verify British births, and a new digital service that will look to improve checks on the integrity of data and therefore reduce error and fraud. In the longer term, HMRC is addressing the challenge of error and fraud in Child Benefit through the re-platforming of the IT systems used in administering the benefit and has increased compliance resources. This re-platforming should enable better coordination and utilisation of claimant data across HMRC systems. Once data have been moved to the new system, there will be additional opportunities to make further changes to the system with the aim of reducing error and fraud in Child Benefit. The transfer of data onto the new system is expected to be completed during 2019.

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between September 2016 and June 2017.

2 For Part One, and as part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the course of the financial audit.

3 As part of our audit of the adequacy and integrity of HMRC's revenue collection systems, we reviewed the systems for collecting revenue across all different tax streams, as well as HMRC's debt management system and the Real-Time Information system introduced for PAYE.

4 To provide evidence for Part Two's consideration of HMRC's plans for transforming its tax administration, we reviewed the strategy, governance and risk management for HMRC's portfolio of programmes and projects, including:

- HMRC's business cases;
- benefit forecasts;
- funding allocations;
- Infrastructure and Projects Authority documents; and
- prioritisation documents.

5 For our review of customer service in Part Three we:

- compared HMRC's performance in 2016-17 against its customer service targets and its performance in previous years;
- examined the customer experience scores from HMRC's annual customer survey of individuals;[64]

64 As stated in Figure 16, the survey included 11 questions on customer experience, with seven of those showing statistically significant increases between 2015 and 2016. The sample sizes for these seven measures were: Overall rating of customer experience – 1,763 (2015) and 1,726 (2016); HMRC made clear the steps that needed to be taken – 1,605 (2015) and 1,552 (2016); HMRC getting tax transactions right – 1,694 (2015) and 1,626 (2016); HMRC resolved any queries or issues – 1,370 (2015) and 1,336 (2016); HMRC were approachable – 1,484 (2015) and 1,440 (2016); acceptability of time taken to reach end result – 1,516 (2015) and 1,461 (2016); and experience compared to previous 12 months – 1,889 (2015) and 1,892 (2016).

- analysed data on the demand for HMRC services, the number of advisers it deployed to meet that demand and the productivity of advisers;
- estimated the costs that customers incur when they have called an HMRC helpline and are queueing to speak to an adviser. Our estimates covered phone charges and the cost of customers' time when they are on hold;
- engaged contact centre experts to support our review of HMRC's customer service performance. The experts: met with HMRC senior management; visited contact centre operations in Salford, Bootle and Cardiff to see the centres in operation, to listen to calls and to interview managers; reviewed HMRC's quality assurance process; reviewed key HMRC documents and data; compared HMRC performance measures against industry standards for call centres; reviewed data on HMRC's automated telephony system; and mapped example customer journeys; and
- visited HMRC's contact centre operations in Salford and Bootle to support the contact centre experts' work and to gain an insight into issues faced at contact centres.

6 For Part Four, in addition to our financial audit work on Personal Tax Credits and Child Benefit, we reviewed HMRC's error and fraud statistical analysis and information on the performance of initiatives to reduce error and fraud in Tax Credits and Child Benefit payments. We interviewed key staff and reviewed documents on HMRC's plans and strategies around tax credit debt.

7 We also reviewed:

- HMRC's internal audit reports to understand the management of risks and challenges; and
- HMRC's corporate publications on compliance performance and on measuring the tax gap.

Appendix Two

Historical Error and Fraud Rates in Personal Tax Credits (%)

	Year of EFAP[1]	Error and fraud as a percentage of finalised entitlement		
		Lower bound	Central estimate	Upper bound
Overpayments	2003-04	8.8	**9.7**	10.6
	2004-05	7.3	**8.2**	9.1
	2005-06	8.5	**9.6**	10.6
	2006-07	7.2	**7.8**	8.4
	2007-08	8.3	**9.0**	9.7
	2008-09	8.3	**8.9**	9.6
	2009-10	7.0	**7.8**	8.6
	2010-11	7.5	**8.1**	8.8
	2011-12	6.6	**7.3**	7.9
	2012-13	4.2	**5.3**	6.0
	2013-14	4.2	**4.7**	5.2
	2014-15	4.4	**4.8**	5.2
	2015-16	5.1	**5.5**	5.9
Underpayments	2003-04	1.6	**1.9**	2.3
	2004-05	1.4	**1.9**	2.4
	2005-06	1.4	**1.9**	2.4
	2006-07	1.3	**1.7**	2.1
	2007-08	1.0	**1.3**	1.6
	2008-09	0.8	**1.1**	1.3
	2009-10	0.9	**1.4**	2.0

	Year of EFAP[1]	Error and fraud as a percentage of finalised entitlement		
		Lower bound	Central estimate	Upper bound
Underpayments *continued*	2010-11	0.6	**0.8**	1.0
	2011-12	0.6	**0.9**	1.2
	2012-13	0.2	**0.5**	0.7
	2013-14	0.6	**0.7**	0.9
	2014-15	0.6	**0.7**	0.8
	2015-16	0.6	**0.7**	0.8

Note

1 EFAP is Error and Fraud Analysis Programme.

Source: HM Revenue & Customs, Knowledge, Analysis and Intelligence, Benefits and Credits Child and Working Tax Credits Annual Error and Fraud Statistics 2015-16