



National Audit Office



REPORT

Customer service

HM Revenue & Customs

SESSION 2023-24
15 MAY 2024
HC 726

Key facts

4.7mn

hours spent by HM Revenue & Customs (HMRC) customer service advisers answering and handling calls in 2022-23, 6% less than in 2019-20

798

years (7.0mn hours) spent by customers and their agents waiting to speak to an adviser in 2022-23, up from 365 years (3.2mn hours) in 2019-20

£881mn

net cost of HMRC's customer service directorate, 2022-23

- 21%** increase in time to handle each adviser-answered call, on average, from 11:24 minutes in 2019-20 to 13:48 minutes in 2022-23
- 72%** HMRC's estimate for the proportion of telephone calls it received in 2023-24 that it identifies as failure demand (calls caused by HMRC's process failures or delays, customers chasing progress and customers' errors)
- 199 million** times that customers accessed the digital Personal and Business Tax Accounts and the HMRC app, 2022-23
- 20%** HMRC's estimate for the proportion of customers who could need assistance to use its digital services, equivalent to approximately 7 million people
- 14%** planned reduction at the start of 2024-25 in HMRC's frontline customer service workforce in that year, compared with a 9% actual reduction between 2019-20 and 2023-24

Summary

1 HM Revenue & Customs (HMRC) is responsible for administering the UK's tax system. Its customer charter commits it to getting things right, making things easy, being responsive and treating customers fairly. It supports its customers through a range of services, provided online, through written correspondence and over the telephone.

2 There are over 34 million individual and over five million business taxpayers in the UK and more than seven million families in receipt of benefits and credits administered by HMRC. When customers need to contact HMRC, most interactions are through digital services that require no direct contact with its advisers, such as through its online tax accounts, the HMRC app or online guidance. In 2022-23, customers accessed online Personal and Business Tax Accounts and the HMRC app 199 million times, up from 62 million in 2016-17. In addition, HMRC received 22 million items of correspondence (2021-22: 19 million), and 38 million telephone calls from customers (2021-22: 35 million). HMRC considers that many calls and items of correspondence are avoidable and that these queries would be better served through digital means.

3 In 2022-23, HMRC spent £881 million on customer service. HMRC had 21,282 full-time equivalent advisers and other customer service staff employed at 31 March 2023. Performance has been below expected levels for telephone and correspondence for almost all of the last five years. HMRC's strategy has been to put in place a 'digital-first' service approach, reserving its adviser-led channels for customers who need extra support or assistance with more complex queries. Moving customers to digital is a key part of HMRC's plan to achieve efficiency targets agreed under the 2021 Spending Review. In 2022-23 the government increased HMRC's efficiency targets further, as part of a wider review to help manage the pressure of inflation on public spending.

4 We and the Committee of Public Accounts report each year on HMRC's customer service performance, as part of our assessment of its annual accounts and performance. In February 2024, the Committee concluded that the overall level of customer service had reached an all-time low and that HMRC had not been given the resources from HM Treasury to meet the service standards HMRC has committed to deliver, and that customers expect.¹

¹ Committee of Public Accounts, *HMRC performance in 2022-23*, Session 2023-24, HC 76, February 2024.

Scope of this report

5 This report examines the extent to which HMRC is well-placed to provide the services that customers need within its planned resources. It covers:

- recent trends in customer service performance and changes in demand for HMRC's services, and the factors affecting this performance (Part One);
- HMRC's progress in achieving its strategic goals on improving and increasing the use of its digital services (Part Two); and
- HMRC's plans for customer service in 2024-25 and how they might affect performance levels (Part Three).

6 The report focuses on HMRC's immediate plans for customer service and does not examine plans for longer-term service changes and transformation. It examines how effectively HMRC manages demand and how it processes customer queries. This includes the overall resourcing of its customer service teams. It does not examine in detail the day-to-day operational planning of those teams, such as the setting of rotas or the performance management of teams. It looks at HMRC's customer-facing digital services, rather than its internal IT systems that support the administration of the tax system.

Key findings

Customer service performance

7 **HMRC's strategy has been to move customers to digital services with the aim to operate more efficiently and make services easier for customers.**

Many taxpayers and benefit recipients do not need to contact HMRC. For those who do, HMRC's long-standing strategy is to enable more of them to resolve their issues quickly and easily online, thus cutting costs and freeing up remaining staff to help those with more complex queries or who need extra support, including using online services. Customers' use of HMRC digital services has increased considerably, with HMRC estimating that around 60% of customer transactions are now carried out digitally. Some 83% of customers responding to HMRC's exit survey after using a digital service in the first 11 months of 2023-24 reported they were 'satisfied' or 'very satisfied' (paragraphs 1.2, 1.3, 1.15, 1.16 and 2.2).

8 HMRC has not achieved annual performance targets for telephone and correspondence services and, while its correspondence performance has improved recently, its performance in other areas has become much worse. Handling of correspondence has been below target levels since 2019-20 and declined markedly during the pandemic, with only 45.5% of HMRC's responses provided within 15 working days in 2021-22 (target: 80%). HMRC has since reduced the stock of correspondence needing a response from a peak of 2.0 million items in September 2021 to 1.0 million in February 2024. In the first 11 months of 2023-24 it cleared 76% of correspondence within 15 working days. HMRC's performance for telephone services has continued to decline, with HMRC answering just two-thirds of callers' attempts to speak to an adviser in the first 11 months of 2023-24, against a target of 85%. Those who got through to an adviser waited on average nearly 23 minutes in the first 11 months of 2023-24, up from five minutes in 2018-19. HMRC's exit survey found overall satisfaction with telephone services was just 43.5% in the first 11 months of 2023-24, though satisfaction was 63% for callers who managed to get through to an adviser. There were 91,217 new complaints in 2022-23, up 39% compared with 2019-20. Timeliness issues accounted for all of the increase in complaints in 2022-23. The level of complaints has remained similar in 2023-24 (paragraphs 1.5 to 1.11 and Figures 2, 4 and 5).

9 The total time spent by HMRC advisers on calls reduced by 6% between 2019-20 and 2022-23, and the quality of service has decreased for telephone and correspondence. In total, advisers spent 4.7 million hours handling calls in 2022-23, down from 5.0 million in 2019-20. Advisers answered 22% fewer calls in 2022-23 compared with 2019-20, but these took 21% more time to handle on average, from 11:24 minutes in 2019-20 to 13:48 minutes in 2022-23. Pro-rated data for 2023-24 suggest that total call attempts have reduced by a further 5%. HMRC has increasingly sought to restrict the supply of telephone services to manage its workload, with the aim to answer mainly complex queries and deflect more simple queries to digital channels. Total call-handling time reduced to an estimated 4.1 million hours in 2023-24 and average call-handling time increased to more than 15 minutes. Average call-handling time may be increasing because more simple queries are being handled digitally; call-handling efficiency is reducing; or customers are raising more issues when they are able to get through to an adviser. More taxpayers have complex affairs, for example, working for multiple employers simultaneously or as freelancers. HMRC's audits of its quality in 2023-24 found that, in a third (34%) of sampled telephone and correspondence cases, advisers had not fully complied with procedures. This may add to demand in the form of follow-up queries from customers. In exit surveys, customers reported that their query was satisfactorily resolved in 71% of handled calls in the first 11 months of 2023-24 (paragraphs 1.7 to 1.8, 1.17 and 1.20, and Figure 6).

10 While customers have increased their use of digital channels, HMRC has not yet been able to realise significant reductions in customer service staff numbers.

HMRC expects moving customers to digital channels will reduce the number of customer service staff it needs. While HMRC's frontline customer service workforce reduced by 9% between 2019-20 and 2023-24, most of the reductions were in HMRC's Benefits and Credits directorate, reflecting the gradual transfer of working tax credits to the Department for Work & Pensions. In the largest customer service directorate, personal tax, the number of staff reduced by just 4%. HMRC has faced some additional demand pressures, including from fiscal drag, where tax thresholds remain the same in cash terms, meaning more people are brought into the tax system. HMRC has deflected more calls for those queries it considers can be resolved through its digital services, to encourage digital take-up and reduce pressure on its phone lines. Nearly a third of calls were deflected in the first 11 months of 2023-24. HMRC initially used deflection messages to advise customers of digital services, but it is now also ending some calls after playing a deflection message where it believes a customer can resolve their query online instead. Customer satisfaction for those who heard a deflection message has been low, and HMRC does not currently know how many of these customers succeeded in resolving their query online. It is planning to develop its analytical capability in 2024 to better understand customer journeys and outcomes across channels (paragraphs 1.8, 1.18, 1.21 and 2.15).

Improving and increasing the use of digital services

11 HMRC has introduced several digital services since 2015 to improve customers' ability to self-serve and achieve efficiencies. These cover the main types of tax and benefits affecting customers. It launched some services, such as the Personal Tax Account (PTA), several years ago in a relatively basic form and increased functionality over time to provide more coverage and information, reducing the need for customers to call or write. Enhancements introduced in 2023 include the ability to pay Self Assessment tax via open banking; view employment history in the HMRC app; and claim and manage Child Benefit online. HMRC has developed new services with mixed success. Its digital replacement of the previously largely paper-based Child Benefit service should achieve significant service improvements and efficiencies, and provides a good practice example for HMRC's wider digitisation. HMRC was less successful in achieving efficiencies with changes to the VAT system. Misalignment of the dates for automated repayments and the payment deadlines imposed by penalty reforms introduced in 2023 means that HMRC now pays additional interest on most VAT repayments that are submitted and approved on time (paragraphs 2.4 to 2.6, 2.26 and 2.27, and Figure 7).

12 HMRC's digital services are better suited for straightforward queries and reporting changes in customer circumstances. Many common tasks can be resolved using HMRC's digital services, and HMRC provides some information about what issues can be resolved using common services such as the PTA and HMRC app. However, these services are better suited to straightforward issues, such as reviewing or reporting a change in circumstances, or common processes such as filing a Self Assessment return. It is not clear how much digital services are offering a like-for-like replacement to traditional channels for many issues. Gaps remain in what individuals can do online. For example, customers still need to call or write to split a personal allowance between two or more different employments or pensions; or add or amend medical benefits received from an employer. Our testing of HMRC's digital assistant found approximately half the queries we sampled would need contact with an adviser to resolve, including queries about tax on multiple jobs. HMRC's latest annual customer survey covering individuals (from 2022) found that, of those who interacted with HMRC by telephone and online channels, seven in ten (69%) had contacted HMRC by telephone because they could not resolve their issue online (paragraphs 2.7 to 2.10, 2.12, 2.16 and 2.24, and Figures 8, 9 and 10).

13 Many of HMRC's customers do not know about its digital services, so it may be able to increase uptake by improving awareness. Customer awareness for some of HMRC's digital services is low. In November 2022, HMRC's most recent data, just 29% of customers were aware of the PTA or the Business Tax Account, although HMRC's data indicate 15.9 million people (equivalent to 46% of income taxpayers) used the PTA in 2022-23. Only 21% of taxpayers were aware of the HMRC app in November 2022, with 2.3 million people (equivalent to 7% of income taxpayers) using it in 2022-23. HMRC is investing in activity to raise awareness, but does not have data to show whether this has been effective so far. Its budget for external communications to support customers to use digital channels is increasing from £1 million in 2023-24 to £3 million in 2024-25. Stakeholders feel HMRC's digital services provide insufficient reassurance for customers, including on the progress of their applications or queries. HMRC estimates that as many as 20% of customers (7 million) need assistance using its digital services. It is not clear that HMRC has developed sufficiently customer-orientated plans to help people become confident using new services, or set aside sufficient capacity to provide customer support (paragraphs 2.13 to 2.20 and Figure 8).

14 HMRC estimates that the majority of customers' calls are avoidable, but many of these are caused by HMRC itself. HMRC estimates that 66% of telephone calls in 2023-24 could have been dealt with online instead, such as calls checking National Insurance numbers and tax codes, but this does not take into account those customers who need help using digital services. Separately, HMRC estimates that 72% of customers' calls were caused by failure demand, which covers calls caused by HMRC's process failures and delays, customers chasing progress, including when HMRC has not yet breached target timescales for responding, and customers' errors. This proportion has increased from 65% in 2018-19. HMRC has not set a target for reducing the proportion or number of calls identified as failure demand. HMRC estimates that at least 13% of calls are about seeking progress updates, and that 9% of calls in 2023-24 were misdirected and had to be transferred by HMRC. HMRC's reliance on postal correspondence and limited use of electronic correspondence makes progress tracking more difficult for correspondence (paragraphs 1.23, 1.24 and 2.28).

15 Despite recent improvements, HMRC does not know enough about how effectively digital services meet customers' needs. HMRC has made progress in developing insights into the performance of its digital services, including 'digital containment' indicators for its digital services for individuals, identifying whether customers subsequently call HMRC. It is working to improve its measures of cost and customer take-up to complement the measures it has already for customer completion rates. Six of the 10 most common transaction types in HMRC's digital services had a completion rate above 70% in 2023-24, but some services have low completion rates. For example less than a third of customers in 2023-24 completed transactions covering fixed-rate expenses, or tax relief for expenses of employment using the interactive P87 form. HMRC is not yet tracking customers across channels for all services, and its systems mean it cannot know whether the digital service has fully resolved a customer's query. However, it is taking steps to put this system in place. The high level of avoidable contact that HMRC reports shows that it has not yet optimised its digital channels to meet customers' needs (paragraphs 2.21 and 2.22).

Improving customer service

16 HMRC is planning significant customer service staff reductions in 2024-25, and to do this it must deliver multiple changes successfully. A combination of challenging savings targets and assumed improvements in staff sickness levels and utilisation, as well as increased call-handling times, IT outages and inflation, has put pressure on HMRC's customer service budget. It mitigated some of the impact on services and performance in 2023-24 by using additional funding (£16 million) and diverting funds (£20 million) from its transformation programme to employ more temporary staff. At the start of 2024-25, HMRC needed to reduce its overall customer service workforce by 14% in-year to live within its budget. It only achieved a 9% reduction between 2019-20 and 2023-24, over which time its call-handling performance significantly worsened. Its plans for 2024-25 now depend on newly conceived change activity ramping up quickly, with a package of actions including to raise awareness of digital services. Many of the plans to support these actions were in relatively early stages of development in January 2024 and HMRC had not assessed how the organisation would cope with such a high degree of change. Even if all these actions delivered in line with its estimates, HMRC was still forecasting as at January 2024 that its budget would mean it would have on average 950 staff (6%) fewer than it needs to meet performance targets in 2024-25 (paragraphs 3.2 to 3.5 and 3.11 to 3.15, and Figures 13 and 15).

17 Reducing telephone services at short notice in 2023 helped HMRC to tackle processing backlogs but some customers could not resolve their queries through digital services and vulnerable customers needed more support. HMRC closed or reduced the queries it handles on four helplines in 2023-24, including closing the Self Assessment helpline for three months and thereby releasing 350 staff. HMRC considered the changes were successful and had not negatively affected the submission of tax returns or the payment of taxes due. However its proposals for reducing telephone services did not quantify the impact on customers. HMRC has since identified lessons, in particular the need to ensure sufficient support was available to vulnerable customers. HMRC gave stakeholders little notice of service reductions, and some organisations providing tax advice faced increased demand from taxpayers. Stakeholders identified gaps in HMRC's digital services, which meant some customers could not effectively self-serve when phone lines were closed. HMRC expected its reported telephony performance would improve despite it stopping telephone services for some taxpayers. It expected doing so would reduce the number of call attempts, enabling it to increase the proportion of calls handled on its other helplines and divert staff to tackle correspondence and other processing backlogs, which HMRC expected would reduce calls chasing progress (paragraphs 3.6 to 3.10 and 3.17, and Figure 14).

18 In March 2024 HMRC announced plans to reduce helpline availability further from April 2024, but it reversed this decision following criticism from stakeholders. HMRC halted its plans for further helpline reductions, just one day after announcing the changes to the public. It said it recognised it needed to do more to ensure it met all taxpayers' needs. Its evaluation of the trial closure and restrictions to the Self Assessment helpline in 2023-24 did not consider stakeholder views or adequately assess the impacts of the changes on customers. HMRC had expected closing the helplines would release approximately 520 staff to work on other helplines and tackle processing backlogs (paragraphs 3.8, 3.9 and 3.13).

19 HMRC is not expecting to meet its telephone performance target in 2024-25 and it has not made clear what level of service customers should expect. Meaningful performance targets are an important part of accountability arrangements and should operate as a performance management tool at organisational and team level. Performance has been below expected levels for telephone and correspondence for almost all of the last five years, and HMRC has not set out when customers can expect performance to return to target levels. With the prospect of this under-performance continuing, there is a risk the targets become meaningless. Prior to reversing its decision on helpline closures in 2024-25 HMRC was forecasting that, if it delivered all its planned changes successfully, it would come close to its target to clear 80% of correspondence in 15 working days, but it expected that only 65% to 70% of callers who wanted to speak to an adviser would get through, far below its target of 85%. At the end of April 2024, HMRC had yet to agree any changes to funding for 2024-25, or expected levels of performance, following the reversal of its decision to close some phone lines (paragraphs 1.5, 3.8 and 3.14).

20 Poor service levels have a detrimental impact on customers, and HMRC does not know the impact it has on economic activity and tax revenue. Poor customer service performance can have considerable impact. For example, customers spent the equivalent of 798 years (7.0 million hours) in 2022-23 waiting to speak to an adviser, up from 365 years (3.2 million hours) in 2019-20. Lengthy delays to VAT and Self Assessment repayments can have significant consequences on the cashflow situation of businesses and individuals. HMRC does not know the relationship between delays like these or customer service performance in general and the level of tax it collects. It has previously sought to understand the strength of the causal relationship between customer service and tax compliance but reported in 2018 that its research was inconclusive. It did not find any evidence of a causal link between customer service on HMRC phone lines, or negative emotions resulting from poor quality customer service, with compliance behaviour. Earlier exploratory research in 2013 on the broader relationship between service delivery and attitudes to tax obligations found that most participants did not believe customer experience was a factor in driving deliberate non-compliance, which they felt was a question of morality or appetite for risk. However some participants did link their non-compliance to past experience. Most participants felt that improved experience could lead to changes in other aspects of their behaviour regarding their tax affairs, specifically reducing mistakes and improving timeliness. HMRC's recent estimates indicate that tax revenue lost from taxpayers failing to take reasonable care increased from £8.1 billion in 2019-20 to £10.7 billion in 2021-22. However, HMRC estimates that tax revenue lost from genuine taxpayer errors (£5.4 billion in 2021-22) has remained relatively stable (paragraphs 3.16 and 3.17).

Conclusion on value for money

21 HMRC's telephone and correspondence services have been falling below the expected service levels for too long, and HMRC has not achieved planned efficiencies. To achieve value for money HMRC must provide a timely and effective service for customers needing help with their tax or benefits, even as it attempts to reduce costs. Taxpayers are required by law to engage with the system and many need support with more complex queries to feel confident that they have met their obligations. HMRC's strategy to replace traditional forms of contact with digital services makes sense in many ways. Digital transactions can be easier and faster for many customers to access and submit information. However, they do not currently allow customers to resolve more complex queries. Forecasting how far and fast digital services will reduce demand for telephone and correspondence is highly uncertain and, so far, digital services have not had the effect HMRC hoped for. While the total number of telephone calls has reduced, the total amount of time advisers are spending on each call has increased, meaning HMRC's workload has reduced more slowly than reductions in call volumes.

22 While many of HMRC's digital services work well, they have not made enough of a difference to customer contact levels. In the face of funding pressures, HMRC has pressed on with attempts to reduce costs despite its poor performance. HMRC and customers have been caught in a declining spiral of service pressures and cuts. HMRC has been unable to cope with telephone demand and consequently fallen short in processing correspondence and dealing with telephone calls according to procedures, creating further service pressures. HMRC felt it had no choice but to close phone lines to catch up and compel people to use digital services. It has had to reverse this approach in the face of stakeholder opposition.

23 HMRC now faces a significant challenge without increasing capacity. Its approach to cutting services as it introduces new digital solutions has been too aggressive. HMRC needs to allow more time for new services to bed in, understand the difference they make, and then make staff reductions when the benefits are demonstrated. Otherwise, services will continue to suffer, and unnecessary service pressures and contact will remain. HMRC cannot be certain that tax revenue is not suffering as a result. There are opportunities to reduce unnecessary levels of contact and improve efficiency. HMRC must demonstrate it understands how to make these gains, and form more realistic plans for how to deliver these, while ensuring it maintains service levels.

Recommendations

On developing realistic plans:

- a** **HMRC should reassess what levels of customer service performance are needed to achieve value for money by balancing costs to HMRC and customers with the value of contact.** For example, contact that helps customers get their tax or benefits right, make repayments, or other types where customers are likely to chase progress. HMRC should agree sufficient funding with HM Treasury to achieve those target levels or be clear on the level of performance it can achieve if funding is not sufficient. It might be appropriate to target faster processing of customer queries, while reducing targets for some low value calls or those with digital alternatives. HMRC needs to clearly communicate the level of performance customers can expect, as well as significant deviations in performance levels, to those attempting to use the service.
- b** **For future spending reviews, HMRC should only plan to realise staff reductions from changes to its digital services once improvements have taken effect and the benefits can be estimated with confidence.**

On developing a more customer-orientated approach:

- c HMRC should ensure it understands how new digital services will support the shift from telephone and correspondence, and manage increasingly complex queries.** When developing and introducing new digital services, HMRC should be clear on what demand or services it is seeking to replace. HMRC needs to develop not only new digital services but also its existing digital services, particularly where performance or customer satisfaction is low.
- d HMRC should invest in raising awareness of its digital services.** It should be clear with customers about what services are available and what tasks and queries customers can and cannot do digitally.
- e HMRC should develop a plan for how it will support customers to use and keep using digital services.** Deflection methods may be justified where queries can be fully handled digitally, but HMRC must also be more proactive in helping callers to find the right routes and offering support as customers familiarise themselves with digital services. Some customers will not be comfortable using digital services and others will have queries whose nature or complexity means they cannot be dealt with through a self-serve channel. HMRC must provide adequate alternative services for these customers, and it must be clear how they can access them.

On achieving savings:

- f HMRC should reduce avoidable, unnecessary and expensive forms of contact.** In particular, HMRC should:
 - set a target to reduce the volume of failure demand affecting telephone and correspondence each year. It should measure separately failure demand which is due to HMRC and which is due to customers, and develop a plan to reduce each element;
 - accelerate its work to reassure customers through all its channels and improve the functionality to track progress digitally;
 - identify and tackle the causes of misdirected telephone calls and correspondence; and
 - increase opportunities for customers to send correspondence and documentation through secure electronic networks, including HMRC portals, which are cheaper, or faster than postal correspondence for customers to use and easier for HMRC to track and administer.

- g HMRC should develop a better understanding of the costs and benefits of its services.** This will enable HMRC to better prioritise and plan the services it replaces with digital services. As part of this HMRC should:
- develop accurate data to compare the costs of resolving queries in different channels and use this to prioritise digital improvements;
 - improve its understanding of the types of calls and correspondence, and the process failures, that are most costly to HMRC and its customers, and use this to reduce the cost of failure demand;
 - improve its understanding of why average call-handling times have increased so much and seek to improve call-handling efficiency;
 - consider whether it is proportionate for the government to pay interest on VAT repayments that are submitted and processed on time; and
 - accelerate its work to develop the systems and functionality to track customers across different channels and better understand the impact of digital services on the use and costs of telephone and correspondence services.

On introducing digital services:

- h HMRC should identify and apply learning from the implementation of its digital projects, including using experienced practitioners to lead projects and designing services to handle complex customer journeys and needs from the outset.** This approach should help HMRC support most customers initially and reduce design iterations.
- i HMRC should ensure a more consistent approach to introducing major service changes, particularly those to stop or reduce existing services.** This approach should include:
- early engagement with stakeholders on potential service changes to anticipate the potential impact on customers and stakeholders;
 - communication of service changes to customers in good time so they can prepare;
 - robust impact assessments on the plans, including considering how changes will affect a diverse range of customers; and
 - testing and evaluation that is proportionate to the scale of the service change, including understanding customer experiences and obtaining views from customers and key stakeholders.

On protecting tax revenue:

- j** HMRC should look at cases of taxpayers failing to take reasonable care, to understand the main reasons and identify whether there are changes it can make to its services and systems to reduce occurrences.
- k** HMRC should develop a better measure of the financial consequence of procedural errors in the handling of calls and processing of claims, and use this to bear down on customer service errors affecting tax revenue. HMRC does not have the data to report the financial accuracy rate for only those types of queries that could be financially inaccurate and should develop this to avoid underestimating the scale of errors.