



## ICAEW TAX FACULTY REPRESENTATION

### TAXREP 45/10

## TREASURY SUB-COMMITTEE INQUIRY INTO THE ADMINISTRATION AND EFFECTIVENESS OF HMRC

*Written evidence submitted on 17 November 2010 by the ICAEW Tax Faculty to the Treasury Sub-Committee taking evidence on HMRC's efficiency*

Contents	Paragraph
Introduction	1
Who we are	2
Scope of the inquiry	3 – 4
Executive summary	5 – 11
Answers to the questions posed by the Treasury Sub-Committee	12 – 45

## INTRODUCTION

1. We are writing to provide written evidence in response to the Treasury Sub-Committee announcement on 27 October 2010.

## WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 775,000 members worldwide. The Tax Faculty is the focus for tax within ICAEW.

## SCOPE OF THE INQUIRY

3. The announcement of the inquiry sets out the following questions the Sub-Committee proposes to consider, namely:
  - HMRC's performance as an organisation and whether it is delivering its key aims;
  - what the implications are of HMRC's spending review settlement;
  - whether HMRC is able to deliver the Government's aims on tax compliance;
  - whether PAYE reform is necessary; and
  - what HMRC's priorities should be for the future?
4. We have considered these questions in turn and have also summarised below our views. We recently undertook a survey into HMRC's service standards, which was published on 16 November 2010. This survey underpins our comments and a copy can be downloaded from <http://www.icaew.com/index.cfm/route/175054>.

## EXECUTIVE SUMMARY

5. The evidence from our member surveys confirm the experiences that our members are reporting to us, namely that HMRC's performance and delivery have deteriorated since the Sub-Committee undertook a similar inquiry in 2007.
6. In 2007, the Sub-Committee recommended in its report (published on 17 July 2007 as HC 483) that HMRC should give 'high priority to the preparation, in consultation with users of its services, of measures of service quality which properly capture the experience and needs of users'. Three years later this recommendation has not been implemented. HMRC should now work with the professional bodies to implement this recommendation.
7. On the basis of our members' experiences since 2007, we are concerned that HMRC's spending review settlement will lead to a further reduction in service standards, especially if HMRC is to take on additional responsibilities for the reformed welfare benefits.
8. We are not convinced that HMRC will be able to deliver the Government's aims on tax compliance.
9. As regards PAYE reform, we believe that the department should concentrate on rectifying existing problems and ensuring that systems work properly, with minimal error rates, before

introducing further radical changes. We are not convinced that a fundamental reform of the PAYE system is either desirable or necessary and poses significant risks for HMRC.

10. As for HMRC's priorities for the future, HMRC needs to improve the ways that it communicates with tax agents. Members experience great difficulty in contacting HMRC, whether by phone or post. In the private sector, e-mail is now the de facto standard business communication tool and HMRC needs to prioritise the development and roll-out of e-mail solutions and tools.
11. HMRC also needs to concentrate on getting the basics right. Data should be processed in a timely and accurate manner. Simple processing requests, for example reporting a change of address, often have to be repeated. This processing inefficiency wastes time for taxpayers, their agents and for HMRC.

## **ANSWERS TO THE QUESTIONS POSED BY THE SUB-COMMITTEE**

### **HMRC's performance as an organisation and whether it is delivering its key aims**

12. In 2007, the Treasury Sub-Committee undertook an inquiry into the Government's efficiency programme in the Chancellor's departments. We submitted written and oral evidence. Our written submission, which was published as TAXREP 34/07, concentrated on the effect of the efficiency programme on the levels of customer service provided by HMRC.
13. In our 2007 representation we welcomed in principle the then Government's aim to create world-class tax services through sustained investment and far-reaching reform but expressed concern that this programme had led to a decline in customer service. We remain very concerned about the negative impact that the efficiency programme has had on HMRC's efficiency and effectiveness since it started in 2004.
14. We note that when we expressed these concerns in the past, the Sub-Committee asked Treasury officials during the 2007 inquiry whether the risk of efficiency savings leading to lower quality services had materialised. Their response was that

*'... precautions we have taken have been to include measures of service quality as part of the assessment ... whether an efficiency saving has been made. So in order to know whether an efficiency saving has been made rather than a service cut been delivered, that will be clear.'*
15. We did not find this a satisfactory response then and believe that our concerns have been justified by what has happened in practice.
16. In 2007, we decided to undertake a survey of our members' experiences of dealing with HMRC. We undertook a similar exercise in 2009 and a further one earlier this year. The surveys were not designed to provide statistically significant results but rather to provide a snapshot of members' experiences. However, we used similar questions so that we would be able to identify trends year on year.
17. The surveys covered HMRC's telephone services, postal services, repayment processing and HMRC's overall service standards.
18. The surveys show that service standards are not satisfactory. The overall impression is that standards have if anything fallen over the period of the reviews and there is as yet little sign that HMRC has turned the corner in its drive to improve processing efficiency and effectiveness.
19. Paragraph 110 of the Sub-Committee's 2007 report, published on 17 July 2007 (HC 483), made the following recommendation:

*'We recommend high priority to the preparation, in consultation with users of its services, of measures of service quality which properly capture the experience and needs of users. . . . We expect HMRC to ensure that there is proper consultation with users and with the NAO in formulating appropriate measures. Subsequent performance against the measures should be subject to consistent methods of measurement and regular publication [and] . . . we recommend that they be subject to external validation . . .'*

20. We are disappointed that although we entered into some discussions with HMRC about this, no substantive progress has been made. HMRC has recently published a Business Plan for 2011/15 which is available at <http://www.hmrc.gov.uk/about/bus-plan-2011-15.pdf>. Section E of this plan states that it:

*will set out the information that will enable users of public services to choose between providers, and taxpayers to assess the efficiency and productivity of public services, holding them more effectively to account. By publishing a wide range of indicators, we will enable the public to make up their own minds about how departments are performing.*

21. The only 'impact indicator' that appears relevant in measuring HMRC's service standards is on page 14 which is that:

*'Customers find us [ie HMRC] straightforward to deal with'*

22. Given that it is now over three years since the Sub-Committee's recommendation was made, this response is disappointing. We believe it is essential that HMRC grasps this issue and works with stakeholders to develop a set of reliable indicators. In the long term this would help to drive improvements in service standards and be to the benefit of HMRC.

### **What the implications are of HMRC's spending review settlement**

23. HMRC's settlement is challenging. It appears that HMRC is being asked to do the work it already does with an overall budget reduction of 25%. However, because it is also being given a net investment of £900m to help it do more to tackle tax evasion and avoidance, the net effect is that the spending settlement to 2014/15 proposes an overall budget cut of 15% in real terms.
24. Over the last control period, HMRC's budget was cut by almost 30% and staff numbers fell by about the same amount, with overall staff numbers falling from nearly 100,000 to 70,000. Our member surveys since 2007 have painted a picture of gradually deteriorating levels of customer service.
25. We understand that the latest settlement will involve further staff reductions, this time from the current baseline of 70,000 down to 60,000. It seems likely that there is a link between reductions in HMRC's headcount and its levels of service. Staff cuts of this order can only be achieved following a successful move to IT-based processing solutions. It seems to us that staff numbers may have been cut in anticipation of savings through IT rather than as a result of them.
26. We believe that new systems – whether clerical or IT based – must be adequately tested before the systems they are intended to replace are abandoned. We question whether such parallel running has been used by the department. Most of the UK tax system functions around an annual cycle. It seems likely that testing has been to a much shorter timetable causing unforeseen practical problems. These have resulted in unexpected volumes of telephone calls which have created more service issues for HMRC.

27. Given this, it is difficult to escape from the conclusion that if HMRC cuts its staff by a further 10,000, we will see a further reduction in HMRC's service standards.

### **Whether HMRC is able to deliver the Government's aims on tax compliance**

28. Given our comments above, we are not convinced that HMRC will have the resources or the capability to deliver on tax compliance. Although the CSR proposed increasing resources on tackling tax fraud and evasion of £900m over the review period, we have yet to see how it will be translated to effective action on the ground.

29. Our recent member survey suggests that inadequate staff training remains a major problem for HMRC. The complexity of the UK tax system is a contributing factor and although simplification is being discussed, we do not think that it can be achieved during the control period under review.

### **Whether PAYE reform is necessary**

30. The accuracy of PAYE notices of coding has a critical effect on the cash flow of the majority of UK taxpayers. The recent PAYE furore has served to focus attention on the PAYE system and whether it is fit for purpose. Our response was published as TAXREP 36/10.

31. In view of our comments above about HMRC's service standards, we have serious concerns about the ability of HMRC currently to deliver even on its existing commitments. We believe that the department should concentrate on rectifying existing problems and ensuring that systems work properly, with minimal error rates, before introducing further radical changes.

32. In principle we can see the attraction of Real Time Information (RTI) to government as it would provide information that would enable HMRC to monitor on an ongoing basis whether the correct PAYE/NIC has been paid on time, whether the national minimum wage has been paid and any changes in hours worked by tax credit claimants. There are also potentially positive implications for reducing fraud and error across the tax and benefit systems.

33. We can also see some potential advantages in the administration of the tax credits and benefits systems of RTI, but only if these currently-separate IT systems are linked. That of course poses the question of cost and would also require the integration of these systems, a process that would require considerable care and resource. We hope that HMRC has fully taken on board the lessons from the recent migration of data from the old PAYE and NIC databases to the new NPS system.

34. We think that the costs of implementing RTI would be high for both employers and HMRC, as would be the ongoing costs to employers of making, and to HMRC of processing, up to 53 returns per year for 60 million employees (employee in this response covers anyone paid via a payroll, eg employees, company officers, pensioners and annuitants) and, we assume, reconciling them each time new information is received.

35. It needs to be remembered that RTI is a means to an end not an end in itself: it is a means of getting information from employers to HMRC; it is then up to HMRC's NIC and PAYE Service ('NPS') to process and store that information.

36. If RTI is to proceed, it should not be introduced until:

- NPS works properly and HMRC has cleansed and reconciled all the data it holds;
- it can consistently produce accurate code numbers and timely year-end reconciliations; and

- online filing of forms can be done easily by all employers and all data on forms submitted by employers, eg forms P45, P46, P14/P35 and P11D, is processed quickly and accurately by HMRC.

and then only on the basis of RTI complying with the recommendations in Lord Carter's reports published in November 2001 'Review of payroll services' and March 2006 'Review of HMRC online services', in particular having been successfully tested at least a year before implementation.

37. In respect of the first bullet point above, HMRC is currently working through the reconciliations but we understand that this process is unlikely to be complete until 2012. On this basis, any move to RTI should not start until this work has been done and the NPS system has bedded down – in practical terms 2013 would look to be the earliest possible date to consider such a move.
38. HMRC should consult extensively and proceed at a cautious pace if RTI is to have any chance of being delivered effectively.

### **What HMRC's priorities should be for the future?**

39. Our members need to be able to communicate with HMRC quickly and efficiently. Their relationship with HMRC is a business one and should be capable of being conducted using the usual channels open to business. E-mail is a critical part of this. This is not surprising given that in the past ten years it has become the standard way that businesses communicate with each other. In addition to speed and ease of use, it provides an audit trail and the ability for automatic acknowledgement by the recipient.
40. There have been discussions between HMRC and the professional bodies to explore using e-mail but there are still significant problems to overcome. We urge HMRC to speed up this project and make a start in e-mail communication. HMRC needs to make available e-mail tools such as structured email and to accept inbound e-mail as an alternative to post. This has the potential to increase efficiency and save costs for agents, their clients and HMRC.
41. We are pleased to report that in relation to nominated staff having ownership of problems, HMRC has developed the new role of Agent Account Manager (AAM) to deal with problem cases. It is in the process of allocating all agents an AAM. Their role is largely around communication, but agents will be able to take problem cases, where they are having trouble getting something done through normal channels, to their AAM. We welcome this initiative.
42. More generally, HMRC needs to make better use of technology. Improving HMRC's services to agents through further expansion of e-services was a key recommendation of National Audit Office Report 'Engaging with tax agents' which was published on 13 October 2010. We appreciate that this comes at a cost. HMRC has invested heavily in new IT in recent years and needs to continue to do so. HMRC is a revenue collecting Government Department and needs resources to develop modern means to do this efficiently. Well targeted investment in improved IT systems could produce substantial savings in the medium to longer term to support the ambitious budget reduction targets that HMRC has been set.
43. Experience in other tax administrations suggests that there is considerable scope for further enhancement of e-services. HMRC faces a daunting task in migrating more than 200 'legacy' IT systems to a more integrated IT infrastructure. This is well illustrated by the recent move from twelve regional PAYE databases and the NIC database to the new NPS system.

44. The problems with the move to NPS were, in our view, more to do with processes than with the IT and it is essential that lessons are learned from this experience. HMRC has made considerable progress in the move to e-filing of Income Tax Self Assessment, PAYE end of year returns and VAT returns and the Carter infrastructure has delivered a significantly more reliable platform – for which credit is due - over the past two years. HMRC has established a good model in the Carter Programme, which has had as one of its main features an exceptional degree of engagement with stakeholders; we believe that such engagement is critical to the future success of HMRC's e-services programme. We believe that NPS has not worked as well as it should have because there was insufficient engagement, both externally and internally, at the planning and pre-programming stage.
45. Further electronic services should include an electronic R40 repayment claim and pre-population of tax returns.

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