

## TAXREP 34/07

### GOVERNMENT'S EFFICIENCY PROGRAMME – WRITTEN EVIDENCE TO THE TREASURY SUB-COMMITTEE

Written evidence submitted on 19 April 2007 by the ICAEW Tax Faculty to the Treasury Sub-Committee taking evidence on the effect of the Government's efficiency programme in the Chancellor's departments

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# **GOVERNMENT'S EFFICIENCY PROGRAMME – WRITTEN EVIDENCE TO THE TREASURY SUB-COMMITTEE**

## **Introduction**

1. We are writing to provide written evidence in response to Press Notice No 34 issued on 6 March 2007 in which it was noted that the Treasury Sub-Committee will hold an evidence session on 25 January 2007 on the above.

## **Who we are**

2. The Institute of Chartered Accountants in England and Wales ('ICAEW') is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.
3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy, including taxation.
4. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute.

## **Executive summary**

5. Whilst we welcome confirmation that Treasury officials use Office of Government Commerce (OGC) measures of service quality in assessing whether an efficiency saving has been made, we have the following concerns:
  - It is not clear what measures of service quality have been adopted, why they were adopted and what have been the results.
  - It is not clear to what extent a reduction in service standards will be acceptable in achieving increased efficiency.
  - The efficiency savings will have a year-on-year impact and the overall effect is only likely to emerge following detailed testing over an extended time period.
6. Recent ICAEW member research designed to measure the service levels our members are experiencing in their dealings with HMRC has indicated a significant decline in HMRC Customer service levels, as follows:
  - There are particular problems with delays in receiving full answers to more complex technical queries, which are masked by the statistics for overall postal response rates published by HMRC. A rapid holding reply is helpful but is no substitute for a timely detailed reply.
  - Simple processing requests, such as changes of address, have to be repeated in a large number of cases. This wastes time for agents, their clients and, presumably, for HMRC staff.
  - Telephone answer rates should be improved.

- Repayment claims should be handled more quickly. The R40 form should be available as an online service.
- HMRC internal guidance is not always followed which is often because staff are not aware of recent instructions.

7 We remain concerned at the implementation of HMRC's e-services on the ground. Major system errors continue to occur which result in wasted time and costs and a lack of confidence in the services. This hinders efforts to improve the take-up of such services. HMRC's e-services should be subject to oversight by an independent body and services should only be introduced after thorough testing so as to ensure that the services are 'fit for purpose'.

### **General comments**

8 The purpose of the inquiry is to examine progress made to date by the Chancellor of the Exchequer's departments in implementing the Government's efficiency programme in so far as it affects those departments, and the effect of the programme on each department's levels of customer service.

9 Our written submission concentrates on a particular aspect of this inquiry, namely the effect of the efficiency programme on the levels of customer service provided by HM Revenue & Customs.

10 HMRC announced details of its Change Programme in November 2006. We welcome in principle the Government's aim to create world-class tax services through sustained investment and far-reaching reform. We support also the Government's drive to make public services more efficient and therefore freeing up resources for frontline services.

11 However, we are very concerned that these laudable aims are not being realised 'on the ground'. Whilst the overall aim is to deliver a more efficient and effective service to businesses and individuals, it involves cutting 12,500 staff and dramatically reducing the number of sites from which HMRC operates to save property costs by £30m annually. There is therefore a clear danger that front-line service standards will deteriorate.

12 We have already expressed concerns that this programme has led to a decline in customer service. We have previously given evidence on HMRC's service standards, most recently in a submission to the Treasury Sub-Committee inquiry in January 2007 on the merger of the Inland Revenue and HM Customs & Excise, and also in our submission on the 2007 Budget.

13 We are very concerned that the effect of the efficiency programme is that the level of customer services on the ground has deteriorated. We are concerned that far-reaching reforms are being made with staff headcount being cut without the investment necessary to maintain (let alone improve) services. HMRC's local office structure has been dismantled but the new structures do not appear to provide adequate support mechanisms. There is little doubt that this issue is the biggest single cause for concern among our members, who represent the largest number of qualified tax advisers in the UK, many of whom deal with HMRC on a very regular basis.

14 We note that following our earlier written submission, which suggested that the efficiency programme in HM Revenue & Customs had led to a deterioration in the

quality of service which HM Revenue & Customs provided to its customers, the Sub-Committee asked Treasury officials whether the risk of efficiency savings leading to lower quality services had materialised.

15 Their response was as follows:

*“The answer to that must be no, because the precautions we have taken have been to include measures of service quality as part of the assessment that is made when the Office of Government Commerce are assessing 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.”*

16 The ICAEW does not believe that relying on OGC efficiency saving performance measures amounts to appropriate measurements of customer service for businesses and their agents. We would like to work with HMRC to develop ways to monitor customer service.

17 Whilst we welcome confirmation that Treasury officials include measures of service quality in assessing whether an efficiency saving has been made, we do not find this response satisfactory on a number of counts. Firstly, it is not clear what measures of service quality have been adopted, why they were adopted and what have been the results. Secondly, it is not clear to what extent a reduction in service standards will be acceptable in achieving increased efficiency. Third, the efficiency savings will have a year-on-year impact and the overall effect is only likely to emerge following detailed testing over an extended time period.

18 For all of these reasons, we are unable to accept the assurances that have been provided. We are disappointed that such an important assessment has not, as far as we are aware, been discussed with the professional bodies, who are the single largest users of the tax system. We believe it is essential that any measurement of service standards requires independent oversight and scrutiny.

#### **ICAEW member research into HMRC’s service standards**

19 In view of the critical importance of this issue, and the fact that we appear to have a rather different view of HMRC’s service standards to the Treasury officials who gave evidence to you, we decided to undertake some research into the issue ourselves. In view of the tight time-frame for comments, at this stage the survey has necessarily been limited in scope and is still ongoing. Once final details of the survey have analysed, then we will provide further details.

20 Brief details of the survey methodology are set out in the Appendix. The survey covered HMRC’s telephone services, postal services, repayment processing and HMRC’s overall service standards. Overall there was very poor knowledge amongst respondents about the detail of HMRC’s reorganisation and 88% felt strongly that it had not improved their relationship with agents. 67% felt that the reorganisation has not improved the service HMRC provides to taxpayers, with only 4% feeling that it had improved.

#### *Telephone services*

21 The results of our survey indicated that most agents used the telephone infrequently when dealing with complex client queries, with 43% using it less than once a week and 27% making between one and five calls each week.

22 When using the HMRC Agent Priority Telephone line, the majority of calls were answered within two minutes, although 49% took between 30 seconds and two minutes. This seems rather longer than most businesses would keep their customers waiting. Further, 10% of our respondents reported that it took them more than one attempt to connect. As the priority lines allow agents to move to the top of the telephone queue, we wonder how long an ordinary member of the public must wait before having their call answered?

*Post services*

23 An initial response to postal correspondence is usually received reasonably quickly, with 61% receiving a reply within one month and a further 29% within three months. We understand that these statistics are, however, lower than those produced by HMRC's own internal monitoring procedures and are considerably below the targets suggested in the HMRC Annual Report 2005-06, page 49 (available at [http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageLibrary\\_ShowContent&id=HMCE\\_PROD1\\_026500&propertyType=document](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_PROD1_026500&propertyType=document)).

24 Of more concern is the time taken to achieve a full reply to queries. 18% were dealt with within one month, a further 49% took between one and three months to resolve, 15% took between three and six months and 5% more than six months. These delays create problems for business and create tensions between our members and their clients. Furthermore, each time that an agent has to refamiliarise himself with the details of the particular problem, time and costs are multiplied and these are not always recoverable.

25 65% of respondents write less than five letters a week on more complex problems, however, 12% write between five and ten. The level of technical knowledge of HMRC staff responding to these letters appears to vary enormously. Clearly the standard of response will vary depending on the individual and the nature of the query, but adequate training is critical. Better trained staff, nominated staff having ownership of problems and a technical enquiry line were all indicated by our survey respondents as key to a better service.

*Repayment processing*

26 Repayments of tax following submission of hard copy tax returns should be processed more quickly. 42% of respondents reported clients waiting for more than one month and 16% reported waiting for more than three months. Where a Form R40 is used (which will be used in cases where a tax return is not issued), the figures dropped to 26% and 4% respectively. As there is no facility for this to be filed online, which would speed up repayments considerably, these delays are too long, particularly as this form is used by many people on lower incomes.

*HMRC's overall service standards*

27 When we asked respondents their opinion as to how HMRC's service standards had changed in the past year, 44% of respondents felt that standards had fallen, 45% felt that they had remained broadly the same, and only 11% felt that they had improved.

28 When asked how often a simple request for a straightforward data change such as amending a client's name or address was actioned at the first request, 27% said that of their last 10 requests, up to five had to be repeated at least once. This is a particularly disturbing statistic which we will expand after further analysis.

## *Recommendations*

29 Our recommendations are set out below:

- If customer services are to be improved, there needs to be greater transparency about HMRC's reorganisation and restructuring and clear plans as to how existing services will be maintained in the short-term and improved in the long-term.
- This process needs input from tax professionals and its customers. Whilst returning to the former 'district' structure may no longer be possible, more needs to be done to improve local dialogue and accountability.
- We know that HMRC is aware of many of the problems and is working on a number of initiatives to improve matters, for example by nominated staff 'owning' particular issues and by the nomination of named staff as a contact point for tax agents, but this needs to be translated into sustained action on the ground and a willingness to work more closely with agents.
- We are concerned that HMRC are being stretched too far, and that it is unrealistic to impose year-on-year reductions in HMRC's budget and head-count and expect services to be maintained in the short term, let alone improved in the medium to longer term. A year-on-year budget reduction of 5% is unlikely to reflect the lead-time necessary for investment in new technology to lead to cost savings. A commitment to savings in the medium-term would focus attention on the necessary investment required to feed through to improvements rather than short-term cost-cutting.
- Adequate training is expensive. Reducing HMRC's budget should not be allowed to have an adverse impact on staff skills.

### **HMRC- information technology, the website and e-services**

30 We remain concerned about a number of aspects of HMRC's e-services. A recent survey by the Working Together E Group found that accountants in practice are broadly enthusiastic about moving to e-compliance but still lack confidence in HMRC's IT systems. A significant number said that their lack of confidence was such that they would not recommend clients to pay their taxes electronically.

31 We have welcomed HMRC's progress in resolving many of the issues raised through this group, particularly the more open and effective consultation that has taken place since Lord Carter's report was published. We are committed to working with HMRC to facilitate the delivery of IT systems that reflect the needs of agents and taxpayers and are fit for purpose when launched.

32 Whilst discussions at a senior level have achieved changes in policy, there remains the problem of implementation at ground level. We continue to receive feedback from our members regarding software related problems which result in considerable amounts of wasted time to resolve and which severely strain relationships with their clients, as set out in the following examples.

*PAYE notices of coding*

33 The accuracy of PAYE notices of coding has a critical effect on the cash flow of the majority of UK taxpayers. There are two sources of problem. The first is caused where HMRC use the PAYE system to collect tax on income other than earnings. This can be used very effectively in relation to small amounts of investment income such as a modest amount of bank interest. However, the practice has been extended in the past couple of years to collect tax on rental income and other much larger sources of dividend and interest.

34 HMRC issue guidelines to their staff, indicating where this is not appropriate, yet this year we have again had complaints from members that tax on thousands of pounds of rental income has been appearing on clients' notices of coding. This practice causes considerable amounts of wasted time to resolve.

*Internal HMRC guidance not always followed in practice*

35 In the illustration above, it is clear that whilst HMRC guidelines are being issued at a senior level, they are not always followed lower down. We have had reports of this in other areas, such as in relation to using the new Employment Status Indicator tool on the HMRC website, prioritising repayment claims under the ITSA system and in relation to tax credits. These are all quite separate areas of the tax system and we appreciate the difficulties involved in keeping staff fully informed on ever changing topics. However, accurate information, thorough training and up to date knowledge of internal guidelines and working practice are essential if the system is to function efficiently.

*Year end payroll problems for employers*

36 There were considerable delays in sending out penalty notices for apparent non receipt of 2005/06 P35 year end payroll returns. This has resulted in many employers and their agents receiving £900 penalty notices during the past few weeks. Where a penalty accrues at the rate of £100 per month, it is vital that any penalty notices are issued as soon as possible. The reason for the delay in issuing notices was attributed to a desire by HMRC to avoid a repeat of the 2004/05 debacle where incorrect penalties were levied, but this is exactly what appears to have happened in many cases. Due to software confusion, many employers believed that their forms had been filed and they are now appealing against the notices. Better service from HMRC would have identified the problem earlier so that where penalties are genuinely due, they would have been issued earlier and consequently been considerably less. Further, where penalties were not due, then no penalty notices should have been issued.

**Recommendations:**

37 Our recommendations are set out below:

- HMRC's IT strategy needs to be published and progress monitored by an independent body (we have recommended previously that it should be modelled on the ETAAC in the USA).
- We fully endorse Lord Carter's recommendation that systems should only be launched when they have been fully tested and confirmed to be fit for purpose and believe that this principle must be adhered to if the mistakes of the past are not to be repeated. Problems such as those identified in paragraph 35 above should not keep recurring.

- Barriers to take-up have often not been properly understood. Effective engagement with stakeholders provides the opportunity to avoid this occurring in future.
- Experience in other tax administrations suggests that there is considerable scope for further enhancement of e-services. Further electronic services should include an electronic R40 repayment claim and pre-population of tax returns.
- HMRC needs to make greater use of email.

AM/FJH  
19 April 2007

## **Appendix**

### **ICAEW member research into HMRC income tax self assessment processing and service standards**

#### **Background**

There is a concern from the ICAEW membership that there has been a substantial fall in the level of service provided by HMRC in its income tax self assessment processing. There is concern that the ambitious cost-cutting proposals, and consequent reductions in staff numbers at HMRC, are resulting in far-reaching reform now without the level of investment necessarily needed to improve services.

The result is that, on the ground, services have deteriorated with the closure of local offices and the increased reliance on call centres. HMRC's local support structure has been dismantled but no mechanisms have been put in place to replace it, let alone lead to improvements. These developments have led to considerable frustrations for taxpayers and their agents and advisers, and are probably the largest single cause for complaints that we receive.

Our aim is to influence policy decisions which counter the service experiences which our members and the taxpayer in general have been experiencing.

#### **Research Objectives**

Research is required to support our representations to HMRC & Treasury Select Committee in relation to Government's drive for efficiencies within the tax service and in particular to:

- Establish service levels experienced by chartered accountants who have been in contact with HMRC recently.
- Probe whether there has been any change in service received during recent contact with HMRC, and the nature of this change
- Investigate chartered accountants' attitudes to their interactions with HMRC, in particular where improvement opportunities are believed to exist and what potential remedies would be favoured.

#### **Approach**

We could have chosen large business office, corporation tax self-assessment or payroll processing PAYE centres for the focus of this research as they are all HMRC services affecting our members. However, we decided to focus on the issue that is likely to impact on a wider number of more vulnerable businesses that will feel a greater impact from delays and inefficiencies.

Income tax self assessment is also a staple job of many of our members in the SME sector.

Key areas for questioning would be:

1. Speed of processing
2. Accuracy of processing

3. Replies to correspondence
4. Including- Call Centres, speed of repayments.

A one on nth sample of 10,000 members who had indicated on their annual return that they worked in tax was emailed on Friday 13<sup>th</sup> April 2007 with a link to the online survey.

The sample included members in smaller practices and sole practitioners, including regional offices of larger firms.

## ICAEW Tax Faculty survey into HMRC customer service standards

### Introduction

Welcome to this ICAEW survey designed to measure the service levels our members are experiencing in their dealings with HMRC. It should take about 10 minutes to complete. Responses from all members will be collated and the findings used to help ICAEW and the ICAEW Tax Faculty influence the development of HMRC's service standards.

Q1 Are you completing this survey individually or on behalf of your firm?

Individually
On behalf of my firm

### About you

Q2 Which of these professional qualifications do you hold? (Please indicate all that apply)

ACA
FCA
AAT
ACAI
ACCA
CA
CIMA
CIPFA
CTA
ATT
STEP
HM Inspector of Taxes
Solicitor
Other (Write in)
None

Q3 Which of the following best describes the organisation you work in?

Big 4 Practice
Tax Consultancy

Medium-sized international practice
National/Regional practice
Legal practice
Sole practitioner
Small firm
Industry/commerce
Other (PLEASE SAY WHAT)

Q4a How many current SA return clients does your firm have?

Less than 10
11 to 50
51 to 100
101 to 250
251 to 500
501 to 1,000
1,001 to 2,000
2,001 to 5,000
Over 5,000
Don't know/ Can't say

**Q4b How many ITSA returns do you personally work on in an average year?**

Less than 10
11 to 50
51 to 100
Over 100
Don't know/ Can't say

**HMRC Service Standards**

**Q5 Taking everything into account, in your experience has the overall standard of service received by you and your firm from HMRC .....**

- .... improved in the past year?
- .... remained broadly the same?
- ..... deteriorated?

**Dealing with HMRC by Telephone**

Now some questions about your recent experiences in dealing with HMRC by telephone

**Q6 How many telephone calls on average do you make each week to HMRC in relation to more complex client technical queries?**

- Less than 1
- 1 to 5
- 5 to 10
- More than 10
- None/Never deal with HMRC personally by telephone –
- Varies/ Depends on time of year
- Don't know/ Can't say

**Q7 Thinking about the technical knowledge of HMRC staff who take these calls, would you say this is:**

- ALWAYS sufficient to resolve your enquiry efficiently
- USUALLY sufficient to resolve your enquiry efficiently
- RARELY sufficient to resolve your enquiry efficiently
- NEVER sufficient to resolve your enquiry efficiently
- Varies/ Depends on individual
- Don't know/ Can't say

**Q8 Thinking about the last 10 times you called HMRC with a telephone enquiry, how many times was your query resolved to your satisfaction within the first call?**

None

1 - 2

3 - 5

6 - 7

8 - 9

All 10

Don't know/ Can't say

**Q9 Thinking about the last 10 times you made a telephone request to HMRC for a straightforward data change such as amending a client's name or address, how many were actioned at the first request?**

None

1 - 2

3 - 5

6 - 7

8 - 9

All 10

Don't know/ Can't say

**Q10a Are you aware the HMRC has introduced a facility - Agent Priority Telephone Lines – so agents can get through to the HMRC Taxes Contact Centres more quickly?**

Yes

No

**Q10b Have you ever called the HMRC Taxes Contact Centre using an Agent Priority Telephone Line?**

Yes

No

**Q11 The last time you called an HMRC Agent Priority Telephone Line, how long did it take until you got through to an agent?**

Less than 30 seconds

30 seconds to 2 minutes

More than 2 minutes

Usually takes more than one attempt to connect

Don't know/ Can't say

**Dealing with HMRC by Post**

Now some questions about your recent experiences in dealing with HMRC by post

**Q12 How many letters on average do you personally write each week to HMRC in relation to more complex client technical queries?**

Less than 5

5 to 10

10 to 20

More than 20

None/Never deal with HMRC in writing/ by post

Varies/ Depends on time of year

Don't know/ Can't say

**Q13 Thinking about the technical knowledge of HMRC staff who deal with these letters, would you say this is:**

ALWAYS sufficient to resolve your enquiry efficiently

USUALLY sufficient to resolve your enquiry efficiently

RARELY sufficient to resolve your enquiry efficiently

NEVER sufficient to resolve your enquiry efficiently

Varies/ Depends on individual

Don't know/ Can't say

**Q14a Thinking about the last time you contacted HMRC in writing, how long did it take to receive an initial acknowledgement of receipt of your letter?**

Less than 1 week

7 to 14 days

14 days to 1 month

1 month to 3 months

3 months to 6 months

More than 6 months

Don't know/ Can't say

**Q14b.... and how long did it take IN TOTAL until your enquiry was answered in full, i.e. from sending your letter to receiving a full answer to your query?**

Less than 1 week

7 to 14 days

14 days to 1 month

1 month to 3 months

3 months to 6 months

More than 6 months

Don't know/ Can't say

**Q15 Thinking about the last 10 times you made a written request to HMRC for a straightforward data change such as amending a client's name or address, how many were actioned at the first request?**

None

1 - 2

3 - 5

6 - 7

8 - 9

All 10

Don't know/ Can't say

**Repayment processing**

Now some questions about your recent experiences with regards to receipt of repayments from HMRC.

**Q16 Typically, how quickly have repayments been received recently following submission of a hard copy tax return?**

Within 7 days

8 to 14 days

14 days to 1 month

More than 1 month

More than 3 months

Varies/ Depends on time of year

Don't know/ Can't say

**Q17 Typically, how quickly are repayments received recently following submission of a R40 repayment claim?**

Within 7 days

8 to 14 days

14 days to 1 month

More than 1 month

More than 3 months

Varies/ Depends on time of year

Don't know/ Can't say

**Q18 Typically, how quickly are repayments received recently following submission of an electronic tax return?**

Within 7 days

8 to 14 days

14 days to 1 month

More than 1 month

More than 3 months

Varies/ Depends on time of year

Don't know/ Can't say

### **HMRC's Reorganisation**

Last November HMRC announced details of a plan to reorganise service delivery on a national basis with the aim of delivering a more efficient and effective service to businesses and individuals as well as saving costs.

#### **Q19 How well informed do you feel personally about this reorganisation of HMRC**

Very well informed  
Fairly well informed  
Fairly poorly informed  
Very poorly informed  
Don't know/ Can't say

#### **Q20 How strongly do you agree or disagree with the following statements about the HMRC reorganisation?**

The reorganisation has improved the service HMRC provides to taxpayers  
The reorganisation has improved the service HMRC provides to agents  
The reorganisation has improved HMRC's overall relationship with agents  
I have had opportunity to give my opinion and view on HMRC's reorganisation  
I feel my opinion/views on the reorganisation have been taken into consideration by HMRC  
HMRC's centralisation has gone too far  
The lack of local HMRC offices and contacts makes it harder for me to do my job

#### **Q21 Here are a list of possibly actions which HMRC could implement to improve overall service standards. Which do you believe will have the greatest positive impact on your personal experience of dealing with HMRC? and which would be the next most effective action to improve service standards? and which would be the next most effective action?**

Improved electronic systems and support  
Improved telephone support  
More accurate processing  
Better response times  
More local staff  
Better trained staff  
Nominated staff having ownership of problems  
Agent/client relationship managers  
E-mail access to HMRC  
Technical enquiry line

**Your Time and Costs dealing with HMRC service problems**

**Q22 How many hours have you personally spent dealing with HMRC errors during the past month? Please give your best estimate.**

- None
- Less than 5 hours
- 6 to 10 hours
- 11 to 20 hours
- 21 to 30 hours
- More than 30 hours
- Don't know/ Can't say

**Q23 Compared with 12 months ago, has the amount of time you typically spend dealing with HMRC errors.....**

- Increased significantly
- Increased marginally
- Remained broadly the same
- Decreased marginally
- Decreased significantly
- Don't know/ Can't say

**Q24 What proportion of the time you spend dealing with HMRC errors, if any, would you expect to pass on to clients in increased fees or charges?**

Nil because I absorb all the extra costs
1-25%
26-50%
51-75%
76-100%
Don't know/ Can't say

**Final Comments**

**Q25 Please use the space below to provide any other feedback you have on HMRC Customer Service standards?**

Thank you for taking the time to participate in this survey.