



House of Commons
Treasury Committee

Inland Revenue Matters

**Tenth Report of
Session 2002–03**



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*Report, together with formal minutes, oral and
written evidence*

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the HM Treasury and its associated public bodies.

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Contacts

All correspondence for the Treasury Committee should be addressed to the Clerk of the Treasury Committee, 7 Millbank, House of Commons, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769. The Committee's email address is: treascom@parliament.uk.

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Inland Revenue Matters

Introduction

1. The Treasury Committee established a Sub-committee in July 2001 to scrutinise the work of the various bodies for which Treasury Ministers are accountable. As part of this work we examine the activities of the Inland Revenue on a regular basis. This report covers three matters in particular: restricting the use of offshore tax structures by bidders to procurement contracts; the implementation of the new tax credits; and the suspension of National Insurance Contributions Deficiency Notices. We heard oral evidence on these matters from Sir Nicholas Montagu, Chairman, Inland Revenue on 18 June 2003, and from the Rt Hon Dawn Primarolo MP, the Paymaster General, on 2 July 2003.

Restricting the use of offshore tax structures

2. In February 2003 the Committee produced a report on the handling of the joint Inland Revenue and HM Customs and Excise STEPS PFI project. The project involved the transfer of some 600 Inland Revenue and Customs and Excise properties to part of the Mapeley Group, an offshore company registered in Bermuda, in return for an up front cash payment of £220 million, together with a further £150 million in the form of discounted service prices.¹

The Committee's previous conclusions on tax avoidance

3. The Committee accepted “that Mapeley was entitled to minimise its tax liabilities and the evidence that the avoidance of tax in this case was legal.”² However, the Committee considered that “the Inland Revenue, responsible for implementing the Government’s policy of reducing tax avoidance, should of all departments have been alert to the difficulties of being party to a deal that transferred ownership of its properties to an offshore company.”³

4. The Inland Revenue and Customs and Excise maintained that procurement law prevented them excluding bidders from using an offshore tax structure and that that had been confirmed by advice from leading Counsel. The Committee recommended that procurement guidance be reviewed to ensure that it contains comprehensive advice on this matter.⁴ The Committee also recommended that “further advice is sought and published so as to clarify whether it is possible to exclude bidders using an offshore tax haven in similar

¹ Treasury Committee, Fourth Report of Session 2002–03, *The Handling of the Joint Inland Revenue/Customs and Excise STEPS PFI Project*, HC 184, paras 3, 7, 8

² HC (2002-03) 184, para 16

³ *Ibid*

⁴ HC (2002-03) 184, para 18

circumstances, and to restrict final beneficial ownership to companies registered in countries that have signed the agreement on Government Procurement. In particular, advice should be sought as to whether specifying this exclusion in the tender advertisement makes it lawful.”⁵

The Government response

5. The Government agreed to issue further guidance to Departmental Accounting Officers that would “ensure that departments have the discretion to consider restrictions to procurement processes to reflect the Government’s stated objectives for tax transparency and openness, where they can be justified in terms of the objectives of the project and are consistent with international obligations. Because of the particular responsibility falling on the Treasury and Revenue Departments in this respect, Treasury ministers will implement this guidance for those departments by restricting successful bidders from taking advantage of offshore tax havens.”⁶

6. An accompanying note from the Office of Government Commerce (OGC) set out the general legal framework applying to Government procurement decisions and discussed the extent to which these could be directed by wider tax policy goals. The note concludes, in paragraph 10, that the award of contracts could in principle be restricted to companies incorporated in countries that are parties to the World Trade Organisation Agreement on Government Procurement (GPA member states) or otherwise classifiable as nationals of such countries. Alternatively a list of restricted countries could legally be specified in the tender document, provided those countries were not GPA member states, or party to various Europe Agreements. The note states that “it would also be possible for departments to make it a contract condition (notified in advance) that the successful bidder will be prohibited from using particular tax arrangements, including offshore tax havens provided such a restriction would not in fact be directly or indirectly discriminatory between EC/GPA bidders.”⁷

Evidence from Sir Nicholas Montagu

7. In the light of the Government response that bidders for contracts could and would be restricted from taking advantage of offshore tax havens, we asked Sir Nicholas Montagu to explain his earlier evidence to us during our inquiry into the STEPS PFI project that procurement law prevented the Inland Revenue and Customs and Excise from excluding bidders from using an offshore tax structure.⁸ Sir Nicholas Montagu told us that:

“the Treasury have said in essence that the structure and tax arrangements of bidders should be considered in the future. We have agreed with that, and paragraph 10 of the Office of Government Commerce memorandum is very tentative. It speaks in terms of a restriction, but then says that is provided such a restriction would not in

⁵ HC (2002-03) 184, para 19

⁶ Treasury Committee, Fifth Special Report of Session 2002–03, *Government Response to the Committee’s Fourth Report on the Handling of the Joint Inland Revenue/Customs and Excise STEPS PFI Project*, HC 706, page 2

⁷ HC (2002-03) 706, page 8, para 10

⁸ Treasury Committee, Fourth Report of Session 2002–03, *The Handling of the Joint Inland Revenue/Customs and Excise STEPS PFI Project*, HC 184, paras 11, 13

fact be directly or indirectly discriminatory between bidders. I think the one thing that has emerged from all this, Chairman, is that all lawyers, which include two Counsel [...] the one thing on which they are agreed is that it would have been unlawful to prevent Mapeley from using the offshore structure that they adopted.”⁹

“[...] In further correspondence with Customs, OGC have said it is not possible to have a blanket prohibition of companies taking part in tax avoidance, as this is likely to be too difficult to define. Specific tax arrangements would need to be referred to in the contract; and the advice that Customs have received from [...] Counsel makes it clear that it would be unlawful to discriminate between bidders by excluding just one form of tax avoidance—in other words, an offshore structure. I have referred this whole matter again to my own most senior lawyer. He concludes: ‘So far as I can see, no lawyer who has studied the subject, considers it as even remotely arguable that the preliminaries for a PFI deal could include a provision to exclude a would-be supplier by reason of tax avoidance activities.’ [...]”¹⁰

“[...] What the Office of Government Commerce has said to us in terms is that their advice is a general framework, and that the introduction of a specific contract provision to exclude particular tax arrangements would need to be considered on a case-by-case basis by the lawyers dealing with the case. As I have indicated, Counsel retained by Customs has indicated that in the Mapeley case it would have been unlawful. Leading Counsel in the field retained by us came to the same conclusion, as has my own senior solicitor.”¹¹

Evidence from the Paymaster General

8. We asked the Paymaster General about the evidence we had heard from Sir Nicholas Montagu. Sir Nicholas’s evidence could be read as suggesting that the Government response was wrong in stating that Treasury ministers would restrict successful bidders from taking advantage of offshore tax havens as this could not legally be achieved. The Paymaster General told us that she was “clear on the Government’s response to this Committee and I stand by it.”¹² Subsequently, the Paymaster General supplied a note on the matter. But this referred only in general terms to the information already supplied to the Committee. It did not resolve the apparent contradiction in the evidence we have received.¹³

9. In response to our critical report on the handling of the STEPS PFI project, the Government said it would implement new guidance in the Revenue Departments which would in future restrict successful bidders for Government contracts from taking advantage of offshore tax havens. The evidence from Sir Nicholas Montagu, Chairman of the Inland Revenue, in which he referred to further legal advice he had obtained, suggested to us that this could not be done. When we put this to the Paymaster General, she told us that she stood by the Government’s original response to the Committee. **The conflicting**

⁹ Q 5

¹⁰ Q 6

¹¹ Q 31

¹² Q 240

¹³ Ev 47

evidence given to the Committee by the Chairman of the Inland Revenue and the Paymaster General has not resolved the vital question of whether in future the tax haven status of bidders for Government contracts can or cannot be taken into account. Clearly this is unacceptable. We now expect the Paymaster General, as minister responsible for the Inland Revenue, to act urgently to clarify the position.

The implementation of tax credits

10. As part of the Government's reforms of the tax and benefit system to guarantee decent family incomes and tackle child poverty, the 2002 Budget introduced two new tax credits for families and those on low incomes paid from April 2003:

- Child Tax Credit which replaced the child elements of the Working Families' Tax Credit, the Disabled Person's Tax Credit, Income Support or Jobseeker's Allowance, and the Children's Tax Credit; and
- Working Tax Credit, which replaced the adult elements of the Working Families' Tax Credit, the Disabled Person's Tax Credit and New Deal 50+ Employment Credit.¹⁴

11. For families with children or a disabled worker, the new system broadly replicates the access to support provided by the previous tax credits. There are around 7 million families with children in the UK and the Inland Revenue estimate that 9 out of 10 of these families are eligible for Child Tax Credit. Around 5.75 million families with children are expected to receive the new Child Tax Credit this year. The new Working Tax Credit extends support to low income working families without children or a disability, provided at least one person in work is 25 years old or more and works at least 30 hours per week. Some 1.35 million families are expected to receive the new Working Tax Credit this year.¹⁵

12. In our report on the 2003 Budget we referred to difficulties being experienced by applicants for the new tax credits and our intention to follow this up with the Inland Revenue.¹⁶ In doing so we have tried to establish the nature, scale, and reasons for the problems that have arisen and what lessons arise for the future.

The problems

13. In a statement to the House on 28 April 2003 the Paymaster General said that the Inland Revenue had received more than 4 million applications for the new tax credits and that an additional 1.3 million families on Income Support and Jobseeker's Allowance, who were already benefiting from the increased level of support, would be transferred automatically from April 2004 to the Child Tax Credit. On 28 April the Paymaster General stated that:

¹⁴ HM Treasury, Budget 2003, HC (2002-03) 500, page 90, para 4.36, and page 105, paras 5.13 and 5.14

¹⁵ Ev 34, paras 3, 4, 8

¹⁶ Treasury Committee, Seventh Report of Session 2002-03, *The 2003 Budget*, HC 652, paras 64-75

“The Inland Revenue informed families that they should claim their tax credits by 31 January, so that their awards could be set up in good time for the payment of tax credits to start in April. I have to tell the House that nearly 1 million claims have been received in March. Those claims are being processed as fast as possible by the Inland Revenue, which is prioritising people who have asked to be paid weekly and those families who claimed working families tax credit.

Some Members have also raised with me instances of families who did not receive their money when they expected it, particularly those who had claimed credits before 31 January but had not received their award notice or payment. I apologise for the difficulties experienced by individual families, and I can assure the House that the Revenue is doing all that it can to put things right. The Revenue has now contacted almost all those families, and the vast majority of them are already receiving payment. It is our intention that anyone who has made a complete application and has yet to receive money will do so by the end of this week, and arrangements are in place to make interim payments to people where necessary.”¹⁷

14. We asked the Inland Revenue for details of the take-up of the new tax credits and of the number of applications paid on time, those that suffered delays, and how many interim payments had been made.¹⁸ The Inland Revenue told us that statistics on the number of awards of Working and Child Tax Credits would be published quarterly, and that the first set, covering awards at early July 2003, would be published in August. The Revenue referred to a statement by the Paymaster General in the House on 4 June 2003 that: more than 4.25 million new tax credit applications had been received; some 3.7 million tax credit awards were in payment; and that with 1.3 million families receiving additional support this year through Income Support and income-based Jobseeker’s Allowance (to bring them into line with the Child Tax Credit rates) who will be transferred next year, some 5 million families were benefiting from tax credits.¹⁹

15. The Paymaster General told us on 2 July 2003 that some 4.5 million applications for the new tax credits had been received and that of these, some 4.15 million were in payment. Some 130,000 of the 350,000 applications not in payment were from people that were not eligible for the new tax credits and they would be notified accordingly. The remaining balance of some 220,000 applications were those where further inquiries were being made because the forms were incomplete, or had incorrect information, or the Department were seeking further information. Of that figure, 15,000 applications were from people who had applied on or before 31 January, 49,000 were applications received between 1 February and 25 April, and 50,000 were applications received between 26 April and 31 May.²⁰ Subsequently, on 7 July the Paymaster General provided updated figures to the House. At that date 4.25 million applications were in payment, and 186,000 applications were being worked on.²¹

¹⁷ HC Deb, 28 April 2003, col 54

¹⁸ Ev 34

¹⁹ HC Deb, 4 June 2003, col 120WH, Ev 35, paras 9, 10

²⁰ Qq 259, 260

²¹ HC Deb, 7 July 2003, col 859.

16. We asked the Inland Revenue how many people who had submitted their application for tax credits by 31 January, as requested, had received their first payment later than notified on their award notice. The Revenue told us that about one third of applicants opted to receive their tax credit payment weekly rather than four-weekly. Some of these received their first payments a working day or two working days later than the date shown on their award notice. In the worst cases, people expecting money by Friday 11 April would have received it on Tuesday 15 April. The total number of payments affected was 400,572. The second round of weekly payments and the four weekly payments that started to be payable from 28 April were made on time and as planned.²²

17. While some people received their first payment later than the date specified on their award notice, others received a payment before receiving an award notice. The Revenue did not have an exact figure for the number of people affected in this way, but the Department believed that “it is in the region of hundreds of thousands [...]”.²³

18. We also asked the Revenue how many people had received emergency payments from their local tax office while their application for tax credits was being processed. The Revenue told us that “by the end of May, 198,441 same-day interim payments had been made through Inland Revenue local offices. We are still processing and checking forms detailing these payments, and precise figures for the number of households that represents will not be available until the information from that exercise has been collated.”²⁴

19. We acknowledge, as we did in our report on the Budget, the scale and importance of the benefits that the new tax credits represent. We recognise that processing some 4.5 million applications is a significant administrative undertaking. But it is clear that some applicants have not received the service from the Inland Revenue that they were entitled to expect. At 2 July some 220,000 applications (just under 5% of the total) had not been resolved. Over 100,000 of these unresolved applications had been received more than a month earlier. As a result of delays, the Revenue have made nearly 200,000 emergency payments through their local offices, but cannot at this stage say how many families these relate to.

20. Over 400,000 applicants (or 7% of the total) received their first payment on a later date than the one they had been notified of. In addition, hundreds of thousands of people received a payment before they received their award notice. For over 90% of applicants, the introduction of the new tax credits has worked smoothly. But for a significant number there have been problems which certainly added to anxieties. The Government has rightly apologised to these families, while the Revenue is working hard to remedy the problems. A ‘flagship project’ in the important reform programme that will integrate tax and benefits got off to an unfortunate start.

²² Qq 77, 78

²³ Q 266

²⁴ Ev 40, para 7

The helpline

21. We asked the Revenue about difficulties people had experienced with their telephone helpline. The Inland Revenue told us that they had expected to receive up to 10 million calls on its helpline in the period January to March 2003, and for each call to last five minutes on average. But there were several reasons why the helpline had been unable to handle the volume of calls anticipated:

- Issuing award notices later than planned compressed the period when people called, so the peak of calls was more pronounced.
- There were increased call volumes because, in the absence of an award notice, people were unsure whether the Revenue had received their application.
- Media coverage fuelled people's anxiety and added further to call volumes (people who had received payment were phoning to check everything was in order, and people who were not due payment were asking in advance for reassurance that they would be paid).
- Call durations grew unacceptably because the computer system was not running as quickly or reliably as it should have. Each call was taking far longer than it should – on average twice as long as expected.²⁵

22. The Revenue noted that these factors “led to people who could not get through constantly hitting the ‘redial’ button, which made it even more difficult for people to get through, and led to more redials. As a result we saw huge number of call attempts reaching the system – up to 2 million in a day. When that happens, it very quickly reaches a point at which no call centre, however big, could handle all the traffic (indeed no telecommunications network could deliver all that traffic to the call centre).”²⁶

²⁵ Ev 40, paras 11, 12

²⁶ Ev 40, para 13

23. Table 1 below shows the number of calls received and those handled by the helpline. We note that calls received are those where the caller selected an option from the call steering menu and was put in a queue to speak to an adviser. It does not include all the call attempts that did not make it as far as the call centre. The definition of calls handled is where the caller spoke to an adviser. This does not indicate whether the call was handled to the caller's satisfaction.

Table 1
Calls to the tax credits helpline received and handled

	(1) Received ¹	(ii) Handled ²
January 2003	851,851	771,464
February 2003	1,168,131	956,817
March 2003	2,486,846	1,701,266
April 2003	2,509,486	1,767,710
May 2003	1,999,973	1,679,627

Source: Inland Revenue Memorandum (Ev 40)

1. Where the caller selected an option from the call steering menu and was put in a queue to speak to an adviser. This does not include the unrecordable attempts that did not make it as far as the call centre.
2. Where the caller spoke to an adviser.

24. In response to the pressure on the helpline from the volume of calls, an additional 700 staff were moved to that area of work to join the 2,000 staff already there.²⁷ The Paymaster General told us that despite the fact that there had been an easing of demand on the helpline, it could still be difficult to get through at certain times of the day. In the light of the condition of the IT system, which was now dealing with some 100,000 cases a week, she had asked the Inland Revenue to look at increasing the capacity on the helpline by putting more people into the call centres.²⁸

²⁷ Ev 35, para 13

²⁸ Q 280

25. **The scale of the difficulties faced by some applicants is illustrated by the demands placed on the helpline. We note the Revenue's evidence that no call centre could have handled the number of call attempts at their peak, up to two million in a day. The inability of members of the public to get through quickly, or in some cases at all, only added to their anxieties.**

26. **We support efforts to improve the helpline service, a service which has clearly been unacceptable. We expect the Revenue to review its communications function and to analyse in detail the volume of calls received on the helpline and the problems to which those calls related. This review must be done rapidly to determine how to reduce the need for applicants having to ring the helpline in the first place.**

27. **We did not take specific evidence on the issue, but we note also there is a question as to whether it is appropriate for a helpline such as this not to be free of charge to the user. We ask the Government to consider this point.**

Compensation

28. The Paymaster General said "with regard to compensation [...] if there are circumstances in which people did not receive the service that they were entitled to expect I shall certainly look very closely at that."²⁹ The Revenue noted that their "standing arrangements for redress where a customer has incurred costs or suffered inconvenience as a result of Revenue delay or error also, of course, apply to tax credits."³⁰ The Revenue told us that so far they had received very few claims for redress from people who had suffered a loss as a result of delays in paying tax credits, but they expected to receive a lot more.³¹

29. **We welcome the Paymaster General's commitment to look very closely at the question of compensation for people who did not receive the service that they were entitled to expect. We expect people who have incurred costs as a result of delays or errors due to the Revenue in paying tax credits to be compensated swiftly and in full.**

The IT system

30. We asked the Inland Revenue how the problems being experienced by applicants for the new tax credits had arisen. Sir Nicholas Montagu told us that

"[...] we did extensive trials of systems and contingency planning and training of our people in the run-up to the new tax credit. This included extensive testing of computer systems on what is called a 'clone,' which was 50 per cent of the capacity of the actual system. When the system started running, we experienced difficulties with it, including slow running. In addition, this was compounded in some cases by people claiming late and getting their claims wrong. [...] it is absolutely my top priority to put this right, and I am personally driving the discussions with EDS, our

²⁹ HC Deb 28 April 2003, col 57

³⁰ Ev 35, para 12

³¹ Qq 128, 129

IT partner, at the very highest level. I talk every week with Michael Jordan, their Chairman and Chief Executive Officer. I got him over here two weeks ago to talk over the issues and see them for himself in person. I have made it clear to him that the performance of the IT is unsatisfactory and must be improved urgently. It is undoubtedly the most difficult case that the partnership with EDS has faced. It is standing up to the challenge in this sense; that we are working in close partnership day and night to identify and resolve the problems with the system; and [...] it does look as if this is beginning to pay off. The performance of the system has improved in the last few days [...]"³²

31. The Revenue explained that the IT system is a component based one where a number of different computer systems are joined together. The difficulty is in the flow of data which becomes constricted causing internal queues to build up in the system. This has affected:

- The stability of the system – staff trying to process claims are thrown out of the transaction requiring them to start again.
- The speed of the system – slow response times have resulted in staff waiting much longer than they should to access information they need to process claims or deal with claimants on the helpline.
- System availability – the system has to be taken down several times a day to clear the internal queues. As a result, up to four hours a working day has been lost.³³

32. Sir Nicholas Montagu confirmed that the IT system had been designed by EDS and told us that it had been extensively trialled and tested before it went into operation.³⁴ He noted that “all the previous releases had gone like clockwork. To be honest, it has come as a surprise to both us and EDS, after the success of the trial running, that we have the difficulties that we do.”³⁵

33. We asked the Inland Revenue whether, given the difficulties they had experienced this year on tax credits, they were confident they would be able to cope next year when the first end-of-year reconciliations and resulting under or overpayments of tax credits were due to be processed. The Revenue told us that they had sought to eliminate the risks involved in their plans for further releases of software.³⁶ But in the light of the problems that had occurred, they “are now looking again in minute detail at all of that.”³⁷ The Paymaster general told us that “we need to look very carefully at what happened, what went wrong and what the lessons might be in terms of making sure that the next stage of the tax credits, when we reach it—the renewal process—which is the next release that we will need to look at, does not experience these issues.”³⁸

³² Q 70

³³ Qq 97, 98, 113–116

³⁴ Qq 94, 118

³⁵ Q 97

³⁶ Q 143

³⁷ Q 144

³⁸ Q 277

34. The Revenue confirmed that their IT partner, EDS, are part of the consortium developing the Pension Credit computer system for the Department for Work and Pensions. The Paymaster General told us that she had made sure that officials from the Inland Revenue were sharing the issues that had arisen on the tax credit system with the Department for Work and Pensions.³⁹

35. We asked whether EDS would be required to compensate the Department for extra costs incurred as a result of the problems experienced with the IT system. Sir Nicholas Montagu told us that “this is something that we will need to talk to EDS about when we are clear about what the scale of extra costs have been when we look at the scope of the contract and so on. What the Committee has is my undertaking that those discussions will take place.”⁴⁰ The Paymaster General told us that under the contract with EDS “the Inland Revenue can seek redress to recover additional business costs which are attributable to the failings of the IT services and I certainly would want to see the Department doing that.”⁴¹

36. According to the Revenue the main cause of the problems being experienced by applicants for the new tax credits is the IT system, which was designed and implemented by EDS. Staff using the IT system to process applications and respond to queries from applicants have suffered slow response times and system downtime of up to four hours a day while the system is flushed to clear internal queues. This level of performance is wholly unacceptable and it has led to pressures which at times have swamped both the system and the staff.

37. These IT difficulties were not identified by the testing undertaken before the system went into operation and were a bolt out of the blue for the Revenue. We are extremely concerned that problems of this scale could arise at the last moment without any warning. We expect the Department and EDS, working together, to remedy the problems and establish why the trial tests failed to show potential problems. We expect the Revenue to give us a full account of all the downtimes experienced, their causes, and the corrective measures being taken, together with their costs.

38. The Department have little time to learn the necessary lessons to ensure that they will be able to cope next year when the first end-of-year reconciliations and resulting under or overpayments of tax credits are due to be processed.

39. EDS are part of the consortium working for the Department for Work and Pensions developing the computer system for the new Pension Credits starting this Autumn. We expect the Revenue to ensure that the Department for Work and Pensions are fully apprised of all the problems the Revenue have experienced with the tax credits IT system. EDS need to demonstrate to the Department for Work and Pensions that the problems experienced with the new tax credits will not recur this autumn.

40. We note the evidence from the Revenue and the Paymaster General that they will consider the question of extra costs attributable to the performance of the IT system and explore the question of redress with EDS. We believe that the Revenue and

³⁹ Qq 273-275, Ev 40, para 9

⁴⁰ Q 120

⁴¹ Q 278

Paymaster General have a clear duty to pursue vigorously a compensation claim from EDS. We do not expect the additional costs that have been incurred as a result of failure by EDS to be borne by the British taxpayer.

National Insurance Contributions Deficiency Notices

41. In order to qualify for a full basic state pension, a person needs to have paid sufficient National Insurance Contributions for a set minimum number of years. National Insurance deficiency notices were introduced in 1981, replacing the previous means of informing contributors about gaps in their contribution records. Between 1981 and 1997 deficiency notices were automatically sent to certain people who had paid insufficient contributions in a year. The notice told them how much they needed to pay in Class 3 contributions if they wanted to ensure that the year would count towards their pension entitlement. Deficiency notices were targeted on people who might be able to improve their contribution record by paying additional, voluntary contributions. Restrictions were applied to exclude people who could not benefit from paying additional contributions: for example deficiency notices were not issued to people over pension age.⁴²

42. Deficiency notices were last issued for the year 1995-96. Some four million notices were sent out between July and December 1997. These resulted in some 130,000 written responses and 160,000 telephone enquiries, and £16 million was paid in additional, voluntary Class 3 contributions. According to the Inland Revenue “on average it is estimated that around 8 per cent of people have responded to deficiency notice exercises, and half of those – 4 per cent of the total – have paid Class 3 contributions.”⁴³

The decision to suspend deficiency notices

43. In a statement to the House on 16 May 2003 the Paymaster General noted that:

“The decision to suspend National Insurance Contributions deficiency notices for the years 1996–97 was taken five years ago in 1998 by the Contributions Agency, when it was part of the then Department for Social Security. No Minister was consulted or informed of this decision at the time the decision was taken in 1998. In fact, Ministers were informed of this decision in March this year. [...] I have been informed that the Contributions Agency took the decision to suspend issuing deficiency notices as a result of the serious problems they were experiencing in the introduction of the NIRS2 computer system, dating back to 1996. It was intended to be a temporary measure to clear the backlog of work created by these problems, but no plan was ever put in place to resume issuing them. [...] When I was informed of the full extent of this issue, I immediately asked the Inland Revenue to carry out an inquiry into why the decision to suspend the issue of deficiency notices was taken, why ministers were not consulted or informed at the time, why the issue of

⁴² Ev 36, paras 16,17, 18

⁴³ Ev 36, para 19

deficiency notices was not resumed after the NIRS2 computer system was stable, and why ministers were not informed for six years. [...]"⁴⁴

44. The Paymaster General, in reporting the outcome of the Inland Revenue enquiry on 18 June 2003, noted that:

"[...]In the course of the enquiry, the Inland Revenue have confirmed that no Minister was consulted or informed of the decision to suspend deficiency notices at the time it was taken in 1998.

A detailed trawl of former DSS files has however found that, during 2000 and 2001, Ministers at the then DSS saw internal DSS submissions that, in the wider context of NIRS2 recovery, made reference to the fact that deficiency notices had been suspended, but that they could begin again in the last quarter of 2000–01. In the same period, a submission on NIRS2 was sent to me which referred to the use of deficiency notices, but did not inform me that they had been suspended. Thereafter, in March 2001, the Minister of State at the then DSS was informed that the issue of deficiency notices would be resumed shortly. [...]"⁴⁵

45. Lord Rooker, a Minister of State at the Department of Social Security from 1999 to 2001, told the Committee that he had not been directly responsible for deficiency notices, as accountability had been transferred from DSS ministers to Treasury ministers in April 1999. His interest arose because the NIRS2 difficulties were creating significant problems for the DSS and he became actively involved in the recovery insofar as it affected the department's customers. Lord Rooker stated that DSS ministers had been informed by notes from DSS officials in early 2000 that deficiency notices were not being issued at that time, but not the history of the earlier decision to suspend issuing them. Lord Rooker commented that this notification "[...] was in the wider context of the NIRS2 problems. In the DSS I followed up the non-issue of the deficiency notices and other aspects. Two months before I left the Department I was assured by [...the Inland Revenue that] they would recommence 'shortly' and that officials were confident the targets and timetable would be achieved. I did not reasonably expect this to be in 2003."⁴⁶

46. The Paymaster General told us that following her first statement to the House (paragraph 43 above refers) the Department for Work and Pensions (DWP) informed her that they had, following a document trawl of internal DSS papers, found that DSS ministers had been notified that deficiency notices were to be re-started. The Paymaster General explained that "the Inland Revenue papers to me, because I did not see the DSS papers, did not inform me about the deficiency notices. The paper was actually about the fact that the NIRS2 computer system introduced in 1996 [...] was not functioning and there were issues around pension payments, both individuals and re-rates to companies, and in the context of that report to me, asking me to take decisions, deficiency notices were referred to as a method of notifying people of deficiencies in their pensions. At no point did it seem to say that it had been suspended or was about to be restarted. None the less, when I corrected the statement [paragraph 44 above refers] having been asked to do so by the DWP, I thought it

⁴⁴ HC Deb, 16 May 2003, col 26WS

⁴⁵ HC Deb, 18 June 2003, col 10WS

⁴⁶ Ev 41

was absolutely right that even the mention of the phrase ‘deficiency notice’, if it had been in a report, I should acknowledge to the House, and I did.”⁴⁷

47. The Paymaster General confirmed that following the transfer of the Contributions Agency to the Inland Revenue in 1999 she rather than Social Security ministers was the Minister responsible.⁴⁸ The Paymaster General commented “I am the Minister responsible and therefore I should have been the Minister who was informed. I was not party to the report that the DSS did internally as a memo to their ministers and therefore I did not see it.”⁴⁹

48. National Insurance Contributions deficiency notices are the means of informing people about gaps in their contribution records and how much they need to pay if they want to ensure that the year counts towards their entitlement to the basic state pension. Given the significant implications for people’s pensions, we are astonished that no minister was consulted or informed of the decision to suspend deficiency notices at the time it was taken in 1998 by the Contributions Agency, then the responsibility of the Department of Social Security. This is a striking example of the failure of some Next Steps agencies to understand the nature of accountability to Ministers.

49. Following the transfer of responsibility for this function to the Inland Revenue in April 1999, the Paymaster General became the responsible minister. We are very concerned that it took her officials until March 2003 to inform her of the problem, particularly when it appears ministers in another department no longer responsible for this matter, the then Department for Social Security, were being briefed by their officials. We expect the Treasury to improve the practices of the executive members and strengthen the Board of the Revenue at an early date to make sure no similar failures occur again.

Responsibility for failing to inform ministers

50. The Revenue’s conclusions from their review of the suspension of deficiency notices were as follows:

- *On Communications:* “Ministers were not informed as they should have been, either when the original decision was taken, and later when the issue of deficiency notices was not resumed. In addition, there was a failure by the National Insurance Contributions Office (NICO) [which assumed the responsibilities of the Contributions Agency on its transfer to the Revenue] to involve colleagues in Revenue Policy (responsible for policy on National Insurance Contributions) in the consideration of whether to resume the issue of deficiency notices during 2001, and some lack of visibility for others in the department with an interest in NICs of some of what was going on within NICO. This meant that the wider policy implications of the suspension of deficiency notices were not taken into account,

⁴⁷ Q 287

⁴⁸ Qq 289, 292–294

⁴⁹ Q 301

and there was a disproportionate focus on the implications for the department's business systems at the expense of the interests of the individual contributor."⁵⁰

- *On accountability and the decision making process:* “the transition from the assumption that deficiency notices would be resumed as soon as resources were available, to an assumption that they would be replaced (in the medium term) by statements of account, happened without an explicit decision and without any clear accountability. It is not clear who should have been responsible for identifying the issue and drawing it to the attention of Ministers (who would need to consider whether, and how, to inform Parliament) and colleagues elsewhere in the department.”⁵¹
- *On awareness of wider policy and legal implications of operational decisions:* the significance of the issue, and the need to consult more widely, was not recognised by those dealing with operational decisions in NICO. When the proposal to restore deficiency notices was considered by the Departmental budgeting committees in autumn 2002, the urgency of the matter and the potential impact of not funding work on restoring deficiency notices were not sufficiently recognised by those committees.”⁵²

51. Sir Nicholas Montagu noted that the functionality to reissue deficiency notices had been available in the middle of 2000 but restarting them was not seen by NICO as an option “because they were facing substantial arrears of work caused by an earlier systems problem. I think that carrying on from the earlier Contributions Agency position, this was not seen as an issue. With hindsight it was [...]”⁵³ Sir Nicholas also told us that “it is quite clear to me [...] that what should have happened was that instead of seeing this as a purely operational decision, and of course [...NICO] takes loads of genuinely low-level operational decisions, but this was one which should have involved Revenue Policy and that is why we are not only having the landscape review [...], but I want a specific review of accountabilities within [...NICO], more exchange of personnel. This, after all, is our report that we have identified and I sign up totally to the recommendations in it. A lot of them I have already put into practice.”⁵⁴

52. The Revenue's own review of events has identified multiple failings in the organisation that suggest the National Insurance Contributions Office has been acting as a law unto itself without regard for proper accountability to senior management or ministers. We are extremely concerned that such failings could pass unnoticed for so long and we expect urgent action to be taken to implement all the recommendations put forward in the review. We recommend that the Paymaster General takes full responsibility for the implementation of the necessary changes so that these breakdowns in communication are not repeated.

⁵⁰ Ev 45, para 2

⁵¹ *Ibid*

⁵² *Ibid*

⁵³ Q 147

⁵⁴ Q 158

Paying additional National Insurance contributions

53. The Inland Revenue noted that the Paymaster General had announced steps to ensure that people who do wish to pay additional contributions would be given the same opportunities to improve their pension position as if deficiency notices had been sent out on time:

- “Later this year the Inland Revenue will start writing to people with gaps in their contributions record during the years since deficiency notices were last issued. This will give them sufficient information to make informed decisions about whether they could benefit from paying voluntary contributions. People who have retired since April 1997 with less than the full state pension will receive similar information from the Department for Work and Pensions.
- If they do want to pay contributions, they will have until 5 April 2008 to do so. The normal 6 year time limit has been extended. They need not pay all the contributions in one go, but can phase payment over the period if they choose.
- The rate of contributions payable will be the same as if they had been paid on time. A higher rate is normally charged after 2 years but this will not be applied.
- If they have already reached state pension age and are in receipt of a pension, any payments they make for earlier years to improve their pension will be treated as if they had been paid on time, and the pension arrears will be back-dated to the start of the claim.”⁵⁵

54. We asked the Paymaster General what assurances she could give to people that they would not lose out as a result of the suspension of deficiency notices. The Paymaster General noted that “I will absolutely assure them that this is dealt with. We are making sure that they have time to pay, that it is properly managed, that they receive advice and support and we will do everything possible to deliver that and ensure that nobody loses out. It is the Department’s responsibility to ensure that.”⁵⁶

55. Individuals should not suffer as a result of mistakes made by officials. We therefore welcome the steps that have been announced to ensure that people who do wish to pay additional contributions would be given the same opportunities to improve their pension position as if deficiency notices had been sent out on time. We also welcome the Paymaster General’s assurance that the Department will do everything possible to ensure nobody loses out.

Information Technology

56. The underlying problems for both the introduction of the new tax and benefit arrangements and the suspension of National Insurance Deficiency Notices have arisen

⁵⁵ Ev 37, para 26

⁵⁶ Q 314

from inadequacies of IT systems. Similar problems have arisen before in other Government Departments. We recommend that the Office of Government Commerce review both the processes for arriving at specifications of IT systems and the contractual arrangements for their provision, to determine ways in which the introduction and operation of IT systems in the Treasury and other Government Departments could be improved.

Accountability to Treasury ministers

57. Senior managers in the Revenue became aware of the problems regarding the suspension of deficiency notices in autumn 2002, but the Paymaster General was not informed until March 2003. Sir Nicholas Montagu told us that while he had not seen the Paymaster General between learning of the problem in the very late autumn and March, the reason for the delay in informing the Paymaster General was because time had been needed to “work out what options there were for dealing with this issue, for funding it and to present it to the minister and that is what we did.”⁵⁷ However, Sir Nicholas Montagu admitted that “with hindsight [...] we perhaps wrongly delayed telling her until we had an idea of what we could do, how we would fund it and, critically, how we would get it on to the system of a large and complex organisation.”⁵⁸ Sir Nicholas Montagu noted that the Revenue’s general approach to informing ministers was to wait until they had a solution to the problem to offer.⁵⁹

58. We asked the Paymaster General whether she was content with this approach. The Paymaster General told us that she wanted to be told of problems when they are discovered as “I might have a view [...] and] you never know, I might know the solution.”⁶⁰

59. We were surprised by the evidence from Sir Nicholas Montagu that he had not seen the Paymaster General between the late autumn 2002 and March 2003. We entirely concur with the Paymaster General that problems should be reported when they occur, rather than await the availability of a possible solution. The practice of the Inland Revenue in not advising Ministers of problems until they have solutions will cause further problems in future. We do not consider it to be ‘best practice’ from the standpoint of the parliamentary accountability of Ministers. We urge an immediate reconsideration by the Revenue.

60. This is not the first time we have expressed our concerns about ministers not being properly informed. In our earlier report on the handling of the joint Inland Revenue and HM Customs and Excise STEPS PFI project we concluded:

“We are concerned at the evidence from this project of officials repeatedly failing to inform or seek Board level approval at appropriate times. Similarly, the responsible Minister was not informed of key events before they took place and she has, in our

⁵⁷ Q 166

⁵⁸ Q 187

⁵⁹ Qq 168, 187

⁶⁰ Q 312

view, the right to be deeply disappointed by the service she received. This is not the first time that we have encountered such problems in the course of our work and we recommend that a review be undertaken of the relationship between Treasury Ministers and the bodies for which they are accountable to ensure appropriate standards of governance and accountability are met”.⁶¹

61. The Government response noted “[...]on the more general point raised by the Committee, the Chancellor of the Exchequer has asked the Permanent Secretary to the Treasury, in consultation with other Heads of Departments, to advise him on any clarification and improvements that may be required. The Chairman of the Inland Revenue has also undertaken to conduct a Landscape Review by September 2003, as part of the Cabinet Secretary’s wider programme, covering among other elements how well governance and accountability arrangements are managed in the Department.”⁶²

62. In the course of this inquiry we learned that the STEPS PFI contract had been signed on behalf of the Rt Hon John Prescott MP, Deputy Prime Minister and First Secretary of State, Office of the Deputy Prime Minister (ODPM). The Paymaster General told us that “the name of the Deputy Prime Minister is there on the basis of the identified minister, but his department, as is normal I understand in these contracts, has devolved responsibility to the Inland Revenue and Customs to sign it on his behalf.”⁶³ The Paymaster General confirmed that the Deputy Prime Minister had not been informed of the contract or of its implications including the offshore arrangements involved.⁶⁴ The Deputy Chairman of the Inland Revenue explained that “under a Statutory Instrument of 1997 senior civil servants are authorised to sign documents relating to land on behalf of the Secretary of State. The senior civil servants who signed on this occasion were one from the Revenue and one from Customs [...]”.⁶⁵

63. It is not clear what purpose was served by the Deputy Prime Minister’s theoretical role in the STEPS PFI contract. The Deputy Prime Minister had no knowledge of the substance of the contract or the offshore tax arrangements. In fact the deal was signed off on his behalf by Inland Revenue and Customs officials. We want the 1997 Statutory Instrument to be reconsidered. We would expect contracts of this size to be approved by Ministers. Ministerial accountability cannot exist without ministerial knowledge.

64. The Paymaster General in her evidence on 2 July 2003 told us that the Chancellor was now announcing a major review of the revenue departments to examine the “best organisational arrangements for delivering the Government’s tax objectives both now and into the future [...]”.⁶⁶ The review will cover a number of specific points including the most appropriate structure for delivering policy advice to ministers, and

⁶¹ Treasury Committee, Fourth Report of Session 2002–03, *The Handling of the Joint Inland Revenue/Customs and Excise STEPS PFI Project*, HC 184, para 48

⁶² Treasury Committee, Fifth Special Report of Session 2002–03, *Government Response to the Committee’s Fourth Report on the Handling of the Joint Inland Revenue/Customs and Excise STEPS PFI Project*, HC 706, page 6

⁶³ Q 220

⁶⁴ Qq 223, 227, 228

⁶⁵ Q 225

⁶⁶ Q 208

“a new framework for accountability for those working on tax, to set out more clearly the roles and responsibilities of all those involved. Greater clarity will provide better certainty both for officials and ministers. The review currently being carried out by Gus O’Donnell [the Permanent Secretary to the Treasury] which was announced in the Government’s response to [...the Committee’s report –referred to at paragraph 61 above] will form part of this work.”⁶⁷

65. Senior managers waited several months before informing the responsible minister of the problems regarding the suspension of deficiency notices. This is a further example in a growing list of failures of communication between ministers and officials and reinforces our previous calls for action to be taken to ensure appropriate standards of governance and accountability are met. We therefore welcome the announcement of a fundamental review of the revenue departments that will specifically look at a new framework for accountability for those working on tax, to set out more clearly the roles and responsibilities of all those involved, including ministers. We expect the review to be conducted in a timely fashion. We further expect the Treasury to publish at the earliest possible opportunity a clear timetable for implementing any changes to the accountability regime covering those working on tax policy. The series of failures in administration that this report has scrutinised strongly suggests that Treasury Ministers should attach a very high priority to reform in the revenue departments.

66. In a report on Customs and Excise in February 2000, our predecessors concluded that the merger of the Inland Revenue and Customs and Excise “would improve compliance with taxation, reduce businesses’ compliance costs and reduce the Government’s revenue collection costs”.⁶⁸ The report recommended “that such a merger should proceed”.⁶⁹ We welcome the fact that this will now be explored as part of the review announced by the Chancellor into the best organisational arrangements for delivering the Government’s tax objectives, and we intend to follow the progress of this review closely.

67. This inquiry has raised serious questions about how the Department has been led.

⁶⁷ *Ibid*

⁶⁸ Treasury Committee, Second Report of Session 1999–2000, *HM Customs and Excise*, HC 53, para 45

⁶⁹ *Ibid*

Conclusions and recommendations

Restricting the use of offshore tax structures

1. The conflicting evidence given to the Committee by the Chairman of the Inland Revenue and the Paymaster General has not resolved the vital question of whether in future the tax haven status of bidders for Government contracts can or cannot be taken into account. Clearly this is unacceptable. We now expect the Paymaster General, as minister responsible for the Inland Revenue, to act urgently to clarify the position. (Paragraph 9)

The implementation of tax credits

2. We acknowledge, as we did in our report on the Budget, the scale and importance of the benefits that the new tax credits represent. We recognise that processing some 4.5 million applications is a significant administrative undertaking. But it is clear that some applicants have not received the service from the Inland Revenue that they were entitled to expect. At 2 July some 220,000 applications (just under 5% of the total) had not been resolved. Over 100,000 of these unresolved applications had been received more than a month earlier. As a result of delays, the Revenue have made nearly 200,000 emergency payments through their local offices, but cannot at this stage say how many families these relate to. (Paragraph 19)
3. Over 400,000 applicants (or 7% of the total) received their first payment on a later date than the one they had been notified of. In addition, hundreds of thousands of people received a payment before they received their award notice. For over 90% of applicants, the introduction of the new tax credits has worked smoothly. But for a significant number there have been problems which certainly added to anxieties. The Government has rightly apologised to these families, while the Revenue is working hard to remedy the problems. A 'flagship project' in the important reform programme that will integrate tax and benefits got off to an unfortunate start. (Paragraph 20)
4. The scale of the difficulties faced by some applicants is illustrated by the demands placed on the helpline. We note the Revenue's evidence that no call centre could have handled the number of call attempts at their peak, up to two million in a day. The inability of members of the public to get through quickly, or in some cases at all, only added to their anxieties. (Paragraph 25)
5. We support efforts to improve the helpline service, a service which has clearly been unacceptable. We expect the Revenue to review its communications function and to analyse in detail the volume of calls received on the helpline and the problems to which those calls related. This review must be done rapidly to determine how to reduce the need for applicants having to ring the helpline in the first place. (Paragraph 26)

6. We did not take specific evidence on the issue, but we note also there is a question as to whether it is appropriate for a helpline such as this not to be free of charge to the user. We ask the Government to consider this point. (Paragraph 27)
7. We welcome the Paymaster General's commitment to look very closely at the question of compensation for people who did not receive the service that they were entitled to expect. We expect people who have incurred costs as a result of delays or errors due to the Revenue in paying tax credits to be compensated swiftly and in full. (Paragraph 29)
8. According to the Revenue the main cause of the problems being experienced by applicants for the new tax credits is the IT system, which was designed and implemented by EDS. Staff using the IT system to process applications and respond to queries from applicants have suffered slow response times and system downtime of up to four hours a day while the system is flushed to clear internal queues. This level of performance is wholly unacceptable and it has led to pressures which at times have swamped both the system and the staff. (Paragraph 36)
9. These IT difficulties were not identified by the testing undertaken before the system went into operation and were a bolt out of the blue for the Revenue. We are extremely concerned that problems of this scale could arise at the last moment without any warning. We expect the Department and EDS, working together, to remedy the problems and establish why the trial tests failed to show potential problems. We expect the Revenue to give us a full account of all the downtimes experienced, their causes, and the corrective measures being taken, together with their costs. (Paragraph 37)
10. The Department have little time to learn the necessary lessons to ensure that they will be able to cope next year when the first end-of-year reconciliations and resulting under or overpayments of tax credits are due to be processed. (Paragraph 38)
11. EDS are part of the consortium working for the Department for Work and Pensions developing the computer system for the new Pension Credits starting this Autumn. We expect the Revenue to ensure that the Department for Work and Pensions are fully apprised of all the problems the Revenue have experienced with the tax credits IT system. EDS need to demonstrate to the Department for Work and Pensions that the problems experienced with the new tax credits will not recur this autumn. (Paragraph 39)
12. We note the evidence from the Revenue and the Paymaster General that they will consider the question of extra costs attributable to the performance of the IT system and explore the question of redress with EDS. We believe that the Revenue and Paymaster General have a clear duty to pursue vigorously a compensation claim from EDS. We do not expect the additional costs that have been incurred as a result of failure by EDS to be borne by the British taxpayer. (Paragraph 40)

National Insurance Contributions Deficiency Notices

13. National Insurance Contributions deficiency notices are the means of informing people about gaps in their contribution records and how much they need to pay if they want to ensure that the year counts towards their entitlement to the basic state pension. Given the significant implications for people's pensions, we are astonished that no minister was consulted or informed of the decision to suspend deficiency notices at the time it was taken in 1998 by the Contributions Agency, then the responsibility of the Department of Social Security. This is a striking example of the failure of some Next Steps agencies to understand the nature of accountability to Ministers. (Paragraph 48)
14. Following the transfer of responsibility for this function to the Inland Revenue in April 1999, the Paymaster General became the responsible minister. We are very concerned that it took her officials until March 2003 to inform her of the problem, particularly when it appears ministers in another department no longer responsible for this matter, the then Department for Social Security, were being briefed by their officials. We expect the Treasury to improve the practices of the executive members and strengthen the Board of the Revenue at an early date to make sure no similar failures occur again. (Paragraph 49)
15. The Revenue's own review of events has identified multiple failings in the organisation that suggest the National Insurance Contributions Office has been acting as a law unto itself without regard for proper accountability to senior management or ministers. We are extremely concerned that such failings could pass unnoticed for so long and we expect urgent action to be taken to implement all the recommendations put forward in the review. We recommend that the Paymaster General takes full responsibility for the implementation of the necessary changes so that these breakdowns in communication are not repeated. (Paragraph 52)
16. Individuals should not suffer as a result of mistakes made by officials. We therefore welcome the steps that have been announced to ensure that people who do wish to pay additional contributions would be given the same opportunities to improve their pension position as if deficiency notices had been sent out on time. We also welcome the Paymaster General's assurance that the Department will do everything possible to ensure nobody loses out. (Paragraph 55)

Information Technology

17. The underlying problems for both the introduction of the new tax and benefit arrangements and the suspension of National Insurance Deficiency Notices have arisen from inadequacies of IT systems. Similar problems have arisen before in other Government Departments. We recommend that the Office of Government Commerce review both the processes for arriving at specifications of IT systems and the contractual arrangements for their provision, to determine ways in which the introduction and operation of IT systems in the Treasury and other Government Departments could be improved. (Paragraph 56)

Accountability to Treasury ministers

18. We were surprised by the evidence from Sir Nicholas Montagu that he had not seen the Paymaster General between the late autumn 2002 and March 2003. We entirely concur with the Paymaster General that problems should be reported when they occur, rather than await the availability of a possible solution. The practice of the Inland Revenue in not advising Ministers of problems until they have solutions will cause further problems in future. We do not consider it to be 'best practice' from the standpoint of the parliamentary accountability of Ministers. We urge an immediate reconsideration by the Revenue. (Paragraph 59)
19. It is not clear what purpose was served by the Deputy Prime Minister's theoretical role in the STEPS PFI contract. The Deputy Prime Minister had no knowledge of the substance of the contract or the offshore tax arrangements. In fact the deal was signed off on his behalf by Inland Revenue and Customs officials. We want the 1997 Statutory Instrument to be reconsidered. We would expect contracts of this size to be approved by Ministers. Ministerial accountability cannot exist without ministerial knowledge. (Paragraph 63)
20. Senior managers waited several months before informing the responsible minister of the problems regarding the suspension of deficiency notices. This is a further example in a growing list of failures of communication between ministers and officials and reinforces our previous calls for action to be taken to ensure appropriate standards of governance and accountability are met. We therefore welcome the announcement of a fundamental review of the revenue departments that will specifically look at a new framework for accountability for those working on tax, to set out more clearly the roles and responsibilities of all those involved, including ministers. We expect the review to be conducted in a timely fashion. We further expect the Treasury to publish at the earliest possible opportunity a clear timetable for implementing any changes to the accountability regime covering those working on tax policy. The series of failures in administration that this report has scrutinised strongly suggests that Treasury Ministers should attach a very high priority to reform in the revenue departments. (Paragraph 65)
21. In a report on Customs and Excise in February 2000, our predecessors concluded that the merger of the Inland Revenue and Customs and Excise "would improve compliance with taxation, reduce businesses' compliance costs and reduce the Government's revenue collection costs". The report recommended "that such a merger should proceed". We welcome the fact that this will now be explored as part of the review announced by the Chancellor into the best organisational arrangements for delivering the Government's tax objectives, and we intend to follow the progress of this review closely. (Paragraph 66)
22. This inquiry has raised serious questions about how the Department has been led. (Paragraph 67)

Formal minutes of the Committee and the Sub-committee relating to the Report

Sub-committee

Wednesday 16 July 2003

Members present:

Mr Michael Fallon, in the Chair

Mr Nigel Beard
Mr Jim Cousins
Angela Eagle
Norman Lamb
Mr John McFall

Mr George Mudie
Dr Nick Palmer
Mr James Plaskitt
Mr David Ruffley

The Sub-committee deliberated.

Draft Report (Inland Revenue Matters), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 67 read and agreed to.

Resolved, That the Report be the Third Report of the Sub-committee to the Committee.

Ordered, That the Chairman do make the Report to the Committee.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Sub-committee be reported to the Committee.—(*The Chairman.*)

[Adjourned till Wednesday 10 September at a quarter past Two o'clock.]

Main Committee

Wednesday 16 July 2003

Members present:

Mr John McFall, in the Chair

Mr Jim Cousins

Mr George Mudie

Angela Eagle

Mr James Plaskitt

Mr Michael Fallon

Mr David Ruffley

Draft Report from the Sub-committee [Inland Revenue Matters] brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 67 read and agreed to.

Resolved, That the Report be the Tenth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the Appendices to the Minutes of Evidence taken before the Sub-committee be reported to the House.

[Adjourned till Tuesday 9 September at a quarter past Nine o'clock.]

Witnesses

Wednesday 18 June 2003

INLAND REVENUE

Page

Sir Nicholas Montagu, KCB, Chairman, **Mr Dave Hartnett, CB**, Deputy Chairman, **Mr Stephen Banyard**, Director, Service Delivery Support, and **Mr Nick Lodge**, Director, Tax Credits.

Ev 1

Wednesday 2 July 2003

HM TREASURY/INLAND REVENUE

Rt Hon Dawn Primarolo, a Member of the House, Paymaster General, **Mr Dave Hartnett, CB**, Deputy Chairman, **Mr Tony Orhnial**, Director Personal Tax, and **Mr Stephen Banyard**, Director, Human Resources.

Ev 21

List of written evidence

1	Letter from the Clerk of the Sub-committee to the Parliamentary Clerk, HM Treasury	Ev 34
2	Memorandum submitted by Inland Revenue	Ev 34
3	Supplementary memorandum submitted by Inland Revenue	Ev 39
4	Letter to the Chairman of the Sub-committee from Lord Rooker	Ev 41
5	Memorandum submitted by the National Council for One Parent Families	Ev 42
6	Conclusions and recommendations of the Review undertaken by the Inland Revenue of the suspension of National Insurance Deficiency Notices	Ev 45
7	Memorandum submitted by the Paymaster General	Ev 47

List of Reports from the Treasury Committee since 2001

Session 2002–03

First Report	National Statistics: The Classification of Network Rail <i>Response: Second Special Report</i>	HC (2002–03) 154 <i>HC (2002–03) 550</i>
Second Report	The 2002 Pre-Budget Report <i>Response: Third Special Report</i>	HC (2002–03) 159 <i>HC (2002–03) 528</i>
Third Report	Split Capital Investment Trusts <i>Response: Fourth Special Report</i>	HC (2002–03) 418–I <i>HC (2002–03) 651</i>
Fourth Report	The Handling of the Joint Inland Revenue/Customs and Excise PFI Project <i>Response: Fifth Special Report</i>	HC (2002–03) 184 <i>HC (2002–03) 706</i>
Fifth Report	Annual Report for 2002	HC (2002–03) 491
Sixth Report	The UK and the Euro <i>Response: Sixth Special Report</i>	HC (2002–03) 187–I <i>HC (2002–03) 1004</i>
Seventh Report	The 2003 Budget <i>Response: Seventh Special Report</i>	HC (2002–03) 652–I <i>HC (2002–03) 1028</i>
Eighth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Richard Lambert	HC (2002–03) 811–I
Ninth Report	Appointment of Ms Rachel Lomax as a Deputy Governor of the Bank of England and member of the Monetary Policy Committee	HC (2002–03) 1011–I

Session 2001–02

First Report	The 2001 Census in England and Wales <i>Response: Ninth Special Report</i>	HC (2001–02) 310 <i>HC (2001–02) 852</i>
Second Report	Budget 2002 <i>Response: Tenth Special Report</i>	HC (2001–02) 780 <i>HC (2001–02) 1075</i>
Third Report	The Office of Government Commerce <i>Response: Eleventh Special Report</i>	HC (2001–02) 851 <i>HC (2001–02) 1217</i>
Fourth Report	Appointment to the Monetary Policy Committee of the Bank of England of Mr Paul Tucker and Ms Marian Bell	HC (2001–02) 880
Fifth Report	Banking, the Consumer and Small Businesses <i>Response: Twelfth Special Report</i>	HC (2001–02) 818 <i>HC (2001–02) 1218</i>
Sixth Report	The Financial Regulation of Public Limited Companies <i>Response: Thirteenth Special Report</i>	HC (2001–02) 758 <i>HC (2001–02) 1219</i>
Seventh Report	Parliamentary Accountability of Departments <i>Response: First Special Report [Session 2002–03]</i>	HC (2001–02) 340 <i>HC (2002–03) 149</i>
Eighth Report	Inland Revenue: Self Assessment Systems <i>Response: Fourteenth Special Report</i>	HC (2001–02) 681 <i>HC (2001–02) 1220</i>
Ninth Report	Appointment of Sir Andrew Large as a Deputy Governor of the Bank of England and Member of the Monetary Policy Committee	HC (2001–02) 1189