



House of Commons  
Treasury Committee

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# Administration and effectiveness of HMRC: Government Response to the Sixteenth Report from the Committee

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**Eighth Special Report of Session  
2010–12**

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## Treasury Committee

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

### Current membership

Mr Andrew Tyrie, Conservative, Chichester (Chairman)  
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Mr Chuka Umunna MP (Labour, Streatham) was also a member of the Committee during the inquiry.

### Powers

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### Publications

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### Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Lydia Menzies (Second Clerk), Jay Sheth, Peter Stam, Antonia Brown and Renée Friedman (Committee Specialists), Phil Jones (Senior Committee Assistant), Steven Price and Baris Tufekci (Committee Assistants) and Nick Davies (Media Officer).

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## Eighth Special Report

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The Treasury Committee published its Sixteenth Report of Session 2010–12, *Administration and effectiveness of HM Revenue and Customs*, on 30 July 2011, as House of Commons Paper No. 731. The Government Response was received on 30 September 2011 and is published as an Appendix below.

The response from the Government is in plain text and the Committee's conclusions and recommendations are in bold text.

## Appendix: Government Response

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### Management of Resource Reductions

**The Sub-Committee is taking further oral evidence on HMRC's compliance record and we will report on this separately. However, assessing HMRC's operational performance at ensuring compliance is complex. Tax receipts are affected by numerous factors—including changes to the law, economic performance, cultural attitudes to compliance and HMRC enforcement activity. We recommend that the Government commission a study to attempt to separate out the impact of these factors over time. (Paragraph 13)**

The Government accepts that it would be useful to be able to separately identify the impact of HMRC enforcement activity on tax receipts. HMRC leads in the field of tax gap and compliance analysis.

The tax gap estimates for 2009-10 published on 21 September 2011 demonstrate HMRC's continuing progress in improving compliance. The tax gap has reduced from 8.5% of total liabilities in 2004-05 to 7.9% in 2009-10. The Department has almost doubled compliance revenues from 2005 to just under £14 billion in 2010-11. This process will be accelerated over the SR period on the back of the reinvestment of £917 million and HMRC remains committed to deliver an additional £7 billion a year by 2014-15.

The analysis of tax gap and compliance is far from straightforward because of the numerous other factors that affect tax receipts and no fiscal authority has developed a robust solution.

Nevertheless HMRC remains committed to improve its understanding of the impact of compliance activity upon receipts and the tax gap. HMRC employs a team of specialist analysts in this area who are engaged on an extensive programme of research. This will involve, for example, research on the value of the deterrent effect of a range of activities

and the development of a model to link additional revenue generated through compliance activity, customer survey results, receipts and the tax gap.

**In the 2011 Budget the Government announced that HMRC's existing administrative burden reduction targets would be expanded to include wider taxpayer compliance costs. We welcomed this in our report on the Budget, but would like greater clarity from the Department about how this work will be done, what the new targets are and how they will be measured. (Paragraph 16)**

**We welcome the fact that HMRC is updating the 2006 KPMG study on the burdens imposed by the tax system to take account of changes over time and urge it to broaden the study to examine the wider "hassle" costs imposed by complying with tax law. This work may be costly. We seek assurances from Government that the findings of the updated study will be acted upon. (Paragraph 19)**

The Government accepts the Committee's conclusions. During the period 2006-2011 HMRC pursued a target to reduce the administrative burden on business, and, over that period, delivered savings equivalent to £584m per annum (against a target of £510m). The methodology supporting this measure was a Standard Cost Model (SCM) which provided a baseline against which administrative cost reductions were measured.

For the current Spending Review period, HMRC is adopting a new and enhanced customer cost reduction measure. This measure is extended in scope in two regards: it includes individual customers (as well as business customers), and it includes wider customer compliance costs such as where processes do not run as smoothly as they should or where there is error.

The new headline measure is **to reduce the overall ongoing costs to HMRC's compliant customers of dealing with the Department**, with two primary indicators for measuring progress toward that goal for (individual and business) customers over the SR period to March 2015:

- a reduction in the overall ongoing costs to compliant customers of essential interactions with HMRC; and
- no increase in admin burdens on businesses from 2011 levels.

The measurement of net changes in administrative burdens on business using the Standard Cost Model (SCM) will continue: the SCM is being updated to reflect current (2010) values and the latest business populations. For the measurement of wider costs to (individuals and business) customers there are no plans to broaden the SCM (which would be expensive, complex, and demand considerable resource and time). However, HMRC has developed a new tool – the Total Cost to Serve calculator – to quantify the impacts of changes (eg to processes) by comparing pre and post-change typical 'customer journeys' (eg the process of filing a tax return).

The terms of any targets to support this new measure of customer cost reduction will be announced by Treasury Ministers later this year. HMRC's work to reduce customer costs, as part of its wider strategic goal to improve customer experience, will be managed as a programme with strong central leadership, and supported by external challenge of the kind provided by the Administrative Burdens Advisory Board during the last Spending Review period.

**The possible displacing of costs from HMRC onto taxpayers has been a long-running concern for tax agents, businesses and individuals. Not enough is known about the impact of resource reductions at HMRC on the administrative burdens faced by businesses and individuals. It would be counterproductive if 'efficiencies' achieved at HMRC resulted in greater costs being placed on the wider economy. Such a result would impede growth. Government will be reluctant to take effective measures to address this issue in the absence of robust evidence about its extent. We urge the representative bodies who made these claims to us to come forward with quantitative evidence about the extent of this problem. (Paragraph 18)**

Noted and we await the response of the representative bodies.

**It is important that HMRC staff who are planning or implementing process changes have some personal understanding of the possible impact on the wider public. We recommend that HMRC staff, particularly senior staff, spend time visiting businesses, tax charities and tax practices to see the impact of process changes on the ground. (Paragraph 20)**

The Government accepts the Committee's conclusion. When planning and/or implementing process (and other) changes, HMRC takes a range of systematic steps to engage with the customer groups concerned better to understand the impacts of such changes. This is an essential element of its strategy: understanding its customers and their needs, and designing services based on that insight.

The steps HMRC takes lie across a spectrum which extends from making full use of consultative groups, and the many other (formal and informal) avenues for dialogue with its customers that exist, through to the suite of disciplines associated with the policy-making process – for example, formal consultation, and the production of impact assessment (which expressly address, and, as appropriate, quantify, impacts on customers). It is also standard practice, particularly for new/enhanced online services, to undertake structured user testing of services as they are being developed and delivered.

Supplementing these steps, HMRC staff do engage directly with its customers to get first-hand experience of the impact of changes it is making. Such engagement might typically take the form of visits to relevant customers either as part of normal engagement or through specifically organised visits (or even secondments in some cases). This type of direct engagement extends to senior staff, including members of its

Executive Committee. Such direct experience of HMRC processes from its customers' perspective sits alongside, and complements, experience of those processes within the HMRC system (ie visits to, and time spent working in, relevant processing offices).

**We recommend that the Government look again at the profiling of the savings HMRC is expected to make alongside the efficiencies that are expected to deliver them to ensure the two are commensurate and allow a degree of contingency in the case of unexpected problems with implementation. Technological improvements and process changes within HMRC have and will continue to deliver genuine efficiency savings. However, there have been credible suggestions that HMRC has in the past made savings by reducing staff numbers before the enabling efficiencies have been fully realised – with resulting impacts on performance and costs. (Paragraph 22)**

The Government partially accepts the Committee's recommendation. HMRC keeps profiling of cash and benefits under systematic review and adjusts as necessary to ensure efficiencies and savings remain in step.

The profile of the savings HMRC is expected to make was agreed as part of the Government's overall 2010 Spending Review settlement. HMRC accepts that the successful delivery of its Spending Review commitments is not without some risk, even though it has a good record of delivering savings (some £1.4 billion since 2005<sup>1</sup>). But to provide confidence, HMRC's Spending Review proposals and assumptions were tested rigorously by an independent "Star Chamber", chaired by the Department's Director of Internal Audit and including Treasury representatives. In addition, an Independent Challenge Panel comprising senior figures from other public and private sector bodies, carried out separate scrutiny. The Panel emphasised the importance of HMRC's role as a revenue collector and was persuaded by its plans to retain some of its savings benefits for re-investment to narrow the tax gap. Subsequently, the Government allowed HMRC to reinvest over £900 million of its savings to bring in additional revenues of £7 billion a year by 2014-15, on top of £13 billion additional revenues to which the Department is already committed, while reducing its net costs by some 15% by 2014-15.

HMRC is committed to achieving gross resource savings of 25% by improvements in productivity and performance, allowing it to reduce staff numbers; to reduce the number of offices in use; and to re-organise corporate services, such as its human resource function in line with a cross-Government initiative. HMRC is implementing these changes through 24 investment projects, which will realise some 60% of its savings over the Spending Review period. It will achieve the balance of savings through renegotiated IT contracts; PaceSetter productivity improvements; improved absence management; and other local initiatives.

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<sup>1</sup> NAO report: *Reducing Costs in HMRC*, HC 1278, published 20 July 2011

HMRC has established comprehensive governance arrangements and a wide range of management information to monitor progress and identify early signs of slippage or under-delivery of projects within the Spending Review period, so that action can be taken to manage risk to delivery of benefits and savings. HMRC considers that this mitigates the need to allow for specific contingency on its cost reduction plans, but, in line with an NAO recommendation<sup>2</sup>, it is currently considering fallback options to cover any emerging gaps in delivery.

HMRC's Workforce Management Plan is designed to manage the overall reduction in staff numbers and ensure the Department has the right people in the right place with the right skills to deliver core HMRC business, to maximise redeployment opportunities for those staff whose roles may be coming to an end at their current locations and to take advantage of estate reduction opportunities. Wherever possible the Department tries to ensure that staff numbers are reduced in line with enabled changes to work processes and systems, in order to maintain performance.

**The Department's effectiveness depends not only on the quality and effectiveness of its public-facing and processing staff, but also on having a cadre of staff at all levels who have long experience in tax matters. There is some evidence that the workforce change programme may have led to a disproportionate loss of experienced people at HMRC. We recommend that HMRC examine how it implements job cuts, with the aim of preserving the professional expertise in tax it needs to deliver an effective service, and report back on the changes that have been made as a result of this process. (Paragraph 27)**

The Government accepts the Committee's recommendation. HMRC's Workforce Management Programme is working to take advantage of estate reduction opportunities as they arise and to maximise redeployment opportunities for those people whose roles may be coming to an end at their current locations. The work to get the right number of people with the right skills in the right place supports HMRC's role in tackling the UK deficit by both contributing to the reduction in Government spending and by maximising the collection of revenue.

HMRC does not anticipate using large-scale severance schemes during the Spending Review period. Any schemes that are offered will be small-scale and closely targeted at people for whom there is really no other option. HMRC's main tool for meeting staff reductions is the redeployment of those in need of new roles into other essential departmental operations.

As part of its commitment to developing the capability of its Tax Professionals, HMRC has recently established a Tax Academy. This aims to bring together the work taking place across HMRC on developing Tax Professionalism, including maintaining tax

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<sup>2</sup> NAO report: *Reducing Costs in HMRC*, HC 1278, published 20 July 2011

expertise, improving HMRC-wide succession planning for tax professionals and providing high quality development programmes.

**HMRC's task is made harder by the increasing complexity of the tax system and deficiencies in the underlying legislation. The Government has already announced a package of reforms to the way tax policy is made. Following the O'Donnell Review of 2004 HM Treasury has had lead responsibility for making tax policy, whilst HMRC is responsible for "policy maintenance". The time has come to review how those arrangements are operating with a view to ensuring the practical impact of new tax legislation is adequately considered even before the consultation stage begins. (Paragraph 29)**

The Government does not accept this recommendation. HM Treasury and HMRC work closely and productively together through the policy partnership whether a proposed policy change is in the nature of policy development or policy maintenance. Each Department brings its own expertise to the policy making process and supports the other in carrying out its responsibilities.

- The Government is committed to a tax system that is more predictable, stable and simple. It has made substantive changes to the way tax policy is developed, communicated and legislated. In December 2010 the Government committed to embed greater predictability and stability in the way we make tax policy<sup>3</sup>. This includes a longer policy cycle, impact analysis as an integral part of the policy making process and a greater opportunity for consultation and scrutiny.
- How the partnership is working is kept under regular review and considered annually in the light of the experience of the Budget and Finance Bill process. A new governance group of senior Directors has been set up, chaired jointly by HM Treasury and HMRC. The group will oversee resource allocation; ensuring resources are prioritised effectively across the partnership.
- The new approach to tax policy making is designed to ensure that businesses, tax agents and individuals can give their views on proposed tax changes and their impacts much earlier in the process, putting HM Treasury and HMRC in a better position to understand the practical impacts of policy options than ever before.
- HMRC and HMT work closely with the Office of Tax Simplification, which has a specific remit to address the complexity of the tax system.

**While for most departments the Spending Review settlement reversed the increases which they received in the years leading up to 2009–10, the HMRC settlement continued and increased the magnitude of the spending cuts which they had already experienced in the previous five years. (Paragraph 37)**

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<sup>3</sup> The new approach to tax policy making: a response to the consultation, HM Treasury, December 2010

**HMRC is in a unique position as the Government’s primary collector of revenue. Its expenditure is dwarfed by the amount of revenue it collects. Whilst this does not exempt it from the need to make efficiencies, it means that Government needs to be cautious about making reductions in resources that might have a negative impact on the Department’s performance and lead to reductions in revenue. (Paragraph 38)**

**We welcome the fact that the Government has accepted the case for ‘reinvestment’ where this will increase the tax yield, but note that in practice the Spending Review package amounts to an overall reduction of 15% over the Spending Review period, being net of an additional 10% of expenditure which, although allowed, is ringfenced for specific purposes. (Paragraph 39)**

The Government notes the Committee’s conclusions.

## **Staffing and Management**

**Staff engagement at HMRC was a major concern of our predecessors throughout the last Parliament. The management team have achieved some small improvements in relation to organisational purpose whilst staff remain dedicated to their work despite the considerable pressures on them and the organisation, some of which originates from outside the Department. However, this cannot conceal the overall picture. Relatively positive staff attitudes towards immediate colleagues and superiors stand in stark contrast with overwhelmingly negative attitudes towards organisational change and the management of the Department. It appears likely that the poor handling of the recent PAYE reconciliations and relentless negative publicity has further harmed engagement and morale. This widespread disengagement is a serious problem for a Department about to undergo further restructuring, and which was described by one witness as “stretched almost to breaking point”. (Paragraph 50)**

The Government notes the conclusion. HMRC’s Executive Committee (ExCom) accepts that action is required to improve leadership across the Department and acknowledges the need to strengthen trust in and across the Departments’ leadership. Working with the whole leadership community, ExCom will lead, direct and drive work to address this need. This provides opportunity to deliver improvement across every aspect of leadership and across the entire leadership cadre from ExCom downwards. The way in which this work will be carried out will be intended to build trust through a high degree of involvement and collaboration with people at all levels in HMRC.

The People Function at HMRC will have a clear role in proactively ensuring compliance with standards of delivery and behaviour on HMRC-wide issues and ExCom will hold all leaders to account in respect of these standards.

The Executive Committee will also ensure all leaders, from top to bottom in HMRC, visibly adopt and promote the Leadership Behaviours. ExCom members have also

personally signed up to specific leadership behaviours that they will improve. ExCom recognised that it must be seen to be leading from the front in order to rebuild trust across the organisation and address engagement concerns. ExCom members are regularly visiting offices across the UK and proactively seeking views, listening to and acting upon feedback. They will be communicating frequently through intranet messages, video, blogs, staff dial-ins and hot seat forums so everyone knows how they are progressing in addressing concerns to improve engagement and morale.

**Any organisation facing the constant job losses that HMRC has faced over the last five years would experience problems with staff engagement. The Spending Review settlement means that some areas are likely to experience greater stability, even expansion, whilst other parts of the Department continue to be reduced in size. Ensuring that engagement does not fall still further in these latter areas will be an enormous challenge for HMRC managers. (Paragraph 55)**

The Government notes the Committee's point.

**The evidence we have received about the management culture within HMRC, supported by the staff survey results, is very disturbing. There is a perception that the Department is run on the principles of close control and management scrutiny, with little opportunity for individuals to develop autonomy and exercise their skills. Whilst there is a need for consistency in dealing with people's tax affairs and appropriate performance management, a culture such as the one described to us is likely to harm staff morale and lead to disengagement and poor performance. (Paragraph 64)**

The Government notes the Committee's conclusion and HMRC is taking steps to build more productive relationships with its people as well as improve the leadership skills, in order to address the perception described.

HMRC is also committed to supporting its leaders in this challenging environment. HMRC is confident that, at the most senior levels, the recent selection processes have enabled the appointment of the right people into the right roles. New leadership behaviours have been introduced and used within the selection processes and as part of the overall development of the organisation. As such, managers at all levels will continue to be assessed against these behaviours as part of the regular appraisal process and used as a foundation to individual leadership development plans.

**It is particularly concerning that staff feel unable to escalate possible problems up the management chain or challenge established practice. In principle one of the benefits of close scrutiny should be that issues are anticipated and responded to. This does not appear to be the case, as the handling of the 2009–10 PAYE reconciliations shows. HMRC intends to reduce its layers of management to improve communication; however this will achieve little unless the underlying culture of the organisation is changed. We recommend that HMRC engage constructively with**

**staff and unions to see how this can be achieved and report back to this Committee within the financial year. (Paragraph 65)**

The Government agrees the recommendation that constructive engagement with staff and unions is important.

HMRC is currently undergoing a process of organisational redesign and will be able to report progress at key stages. One of the principles to changing the organisation management structures is that there will be no more than 8 layers in the organisation, down from 13 in places. This reflects the organisation norm for organisations of the size and complexity of HMRC. Implementation of this reduced hierarchical structure has already started and will continue during 2011-12. Alongside this, HMRC is undertaking work to agree the accountabilities of managers at all levels in the organisation and align authority and decision making with those accountabilities. By reducing the number of levels between the most senior managers and front line operations and empowering managers to act it will increase the speed and effectiveness of decision making.

HMRC is aware that the culture of the organisation needs to change to enable it to benefit from the reduced management hierarchy and increased accountabilities. Work has started to improve the way HMRC actually works and operates; how decisions are taken, how resources are agreed and allocated, and how front line work is supported by corporate functions. Designing this is an important task and HMRC continues to engage with both staff and unions to achieve this.

**HMRC has been through a period of instability at the top of the organisation that has led to a lack of strategic vision. The current management team has now been in place for two years. It has set out a vision of where they would like the organisation to be, but have yet to demonstrate substantial progress towards achieving those goals and do not yet have the confidence of staff. We intend to monitor progress in these areas closely during the Parliament. (Paragraph 70)**

We note the Committee's intention to monitor progress in these areas.

**HMRC has gone through significant changes at the top of the organisation since 2008. The new structure needs time before a proper evaluation of its effectiveness can be made, including whether the model of a non-ministerial department remains the appropriate one. The respective roles of the Minister, non-executive Chairman and Permanent Secretaries are something that we intend to return to later in the Parliament. (Paragraph 73)**

We note the Committee's intention to return to this issue.

## The Future of PAYE

**The National Insurance and PAYE Service should ultimately make PAYE work more effectively and ensure efficiencies across the Department. However, the problems resulting from its flawed implementation have done significant damage to the public perception of HMRC and the tax system more generally. It is crucially important for the credibility of the management team that the 2012 target for clearing open cases is met and that improvements in overall performance follow soon afterwards. (Paragraph 83)**

The Government accepts this recommendation and HMRC is on track to hit its 2012 target to clear all old open cases.

- At the end of July HMRC had cleared just over 1.5m open cases, which was slightly ahead of plan. Work is proceeding well with the major IT release scheduled for October, 2011. This will enable the Department to start automatically clearing large numbers of cases and it remains confident of meeting the 2012 deadline
- The NAO has recently acknowledged, in its report on HMRC's performance for 2010-11, that the Department has made significant progress in stabilising NPS and is continuing to build upon this. The Department recognises, and apologises for, the fact that data mismatches meant that some incorrect coding notices were issued to customers when their records transferred to the National Insurance and PAYE Service (NPS) in June 2009.

**Data quality has been a key weakness in the PAYE system to date. The success of both the National Insurance and PAYE Service and Real-time Information will depend, to a large extent, on how effectively HMRC can 'cleanse' the data it receives and holds. (Paragraph 88)**

The Government acknowledges the Committee's point and HMRC has been taking comprehensive action to address data quality issues, and data quality has improved:

- there were 9 million records cleansed following annual coding for 2011-12. As a result, very accurate codes were issued in 2011;
- in preparation for End of Year Reconciliation 2008-09 and 2009-10 HMRC cleansed a further 2.2 million records; and
- it intends to continue to review cases using the same rigorous testing processes prior to all PAYE key business events.

**We welcome the move to introduce Real-time Information (RTI). We agree with the professional bodies that the system must be tested thoroughly before full implementation, with full consultation with users and close co-operation with the Department for Work and Pensions at all stages. We note that large employers will**

**be required to use the new system in January 2013, which is before the system has been tested through one complete tax year. (Paragraph 91)**

The Government agrees the Committee's conclusion that the system should be thoroughly tested for a year.

HMRC has responded to feedback from the consultation and revised its pilot plans and approach to moving employers onto the RTI system. Large employers will now start using RTI between April and October 2013 and all employers will be on the system by October 2013. In advance of that, the system will be extensively tested in a pilot with a representative range of volunteer employers for 12 months from April 2012. HMRC is working closely with customers who will use the system, with software manufacturers and with other stakeholders, to prepare for the pilot and will continue to work with them through the pilot.

**The transfer of information to HMRC via BACS is only part of the Real-time Information (RTI) project. HMRC must also be able to process the information in a timely way, deal with the increase in customer contact that will occur with the introduction of a new system and have in place satisfactory arrangements for those who do not pay their employees through BACS. (Paragraph 92)**

The Government accepts this point.

- RTI will accept data from employers who pay by Bacs and those who do not.
- The reporting channels, which will be available from 2012, are:
  - internet through the Government Gateway; and
  - the EDI channel: an electronic channel already used by employers and bureaux to send information to HMRC.
- In the longer term HMRC plans to provide a Bacs channel for reporting RTI. The timetable for this will be announced later. HMRC will continue to provide an Internet channel for employers who pay their employees by non-Bacs methods.
- Work on defining and transforming the PAYE operating model is currently underway to ensure that the best use is made of RTI.
- RTI should save staff resources that are currently devoted to manual working of PAYE exceptions, dealing with PAYE under and overpayments, and debt management. RTI will also help to reduce tax credit error and fraud and the staff resources currently devoted to tax credits compliance.

**HMRC has committed to an ambitious timescale to deliver Real-time Information, driven in part by the importance of the project in delivering the Universal Credit. The history of large IT projects subject to policy-driven timescales has been littered with failure. The timetable is made more ambitious by the fact HMRC will still be resolving the legacy of open cases and stabilising the National Insurance and PAYE Service during the project's early stages. Introducing Real-time Information before HMRC and the Government can be sure it will work correctly would run**

**unacceptable risks for the reputation of the Department and the tax system. We recommend that HMRC and DWP have contingency plans in place in case a delay becomes necessary. Given the importance of the project we further recommend that the preparations for Real-time Information in both HMRC and DWP are subject to external audit as implementation proceeds, for example through the National Audit Office, to ensure that they are as robust as possible. We expect arrangements to be put in place for the National Audit Office to report quarterly to Ministers, this Committee, the Public Accounts Committee and other relevant Committees to ensure Ministers in both Departments can be held properly accountable for the progress of the project. (Paragraph 93)**

The Government partially agrees this recommendation.

- HMRC is on track to deliver Real Time Information (RTI) from April 2013, with the pilot starting in April 2012.
- HMRC is working up detailed plans for the pilot to enable thorough testing and resolution of any issues prior to roll out of RTI reporting. This will highlight what (if any) contingency is needed.
- The RTI programme has from the outset invited independent scrutiny and assurance including Project Assessment Reviews carried out by the Major Projects Authority, within the Cabinet Office, at six monthly intervals.
- To supplement external assurance, HMRC's Internal Audit function is carrying out a series of reviews on Programme processes.
- The NAO is also already planning to review RTI as part of its annual audit of the HMRC's revenue systems.

## **Service Standards**

**We welcome HMRC senior management's acknowledgement that the Department's customer service performance has been unacceptable. We are not convinced, however, that the problems can solely be accounted for by the problems with PAYE in 2009–10. The evidence received by us and our predecessors suggest that poor service standards have been an issue for many years and have not been fully reflected in HMRC's customer service measures. (Paragraph 99)**

**We reiterate our predecessor's 2007 recommendation that HMRC work closely with the professional bodies, tax charities and businesses to develop a series of performance indicators that credibly reflect customers' end-to-end experience of dealing with HMRC and that these indicators are regularly published as part of the transparency section of its five-year business plan. We are disappointed that our predecessor's recommendation was not acted upon and expect to see meaningful progress within the next twelve months. (Paragraph 100)**

The Government accepts the Committee's recommendation and HMRC has started work with key stakeholders, including tax agent governing bodies and representatives of charities, to develop key measures of performance which will then be published.

- The Department has already developed two key performance indicators which it feels reflect customers' end-to-end experience of dealing with it, and which it has committed to regularly publish:
  - the first is 'customers find us straightforward to deal with' which measures the proportion of customers that rate their experience of dealing with the Department, and is based on a large scale quarterly survey of individual customers, businesses and tax agents; and
  - the second is 'cost to customers of dealing with us' which measures the impact on the burden of individual customers and business of changes to HMRC policies, products and processes.
- Both of these measures were included in HMRC's transparency consultation on which professional bodies, tax charities and businesses were invited to comment.

**HMRC's performance at responding to telephone calls has been patchy at best, and unacceptable at worst. Based on past performance we do not have confidence that the Department will be able to achieve its target of 90% of calls answered in a day by March 2012. We recognise that there had been improvement in performance prior to the recent rise in contact due to the PAYE-related issues in 2010. However, even with that improvement, the Department was falling well short of the target, whilst the fall in performance in 2010-11 suggests there is insufficient capacity to deal with unexpected surges in demand. Given that it has been HMRC's strategy to push so many taxpayers and tax credit claimants into communication by phone it is important that performance in this area improves rapidly. We will return to this issue regularly, and will assess the Department's performance against its target in 2012. (Paragraph 108)**

The Government notes the Committee's conclusion and welcomes the acknowledgement that there has been an improvement in contact centre service levels.

- Service levels in HMRC contact centres are significantly better this year than in 2010-11. In the first five months of this year (April - August) HMRC contact centres answered 71% of all call attempts compared to just 38% in the same period last year. We have plans in place to go further.
- However, as Lesley Strathie confirmed in her oral evidence to the Committee on 16 March (Q231), HMRC now knows that it will not reach its previous aspiration of handling 90% of all call attempts by March 2012.
- The Department is currently working on plans with the aim of reaching 90% by the end of the SR period.

**There was significant concern among our witnesses that it has become increasingly difficult to resolve a complex tax issue in a single phone call to HMRC. We recommend that HMRC examine its processes for escalating complex queries to ensure this is done quickly and appropriately. We also understand that the Department is running a pilot aimed at ensuring contact centre staff dealing with tax credits and benefits are better able to answer more complex queries first time around. The pilot is to be reviewed over summer 2011. If this pilot is successful HMRC should look at expanding it to all areas of tax. (Paragraph 111)**

The Government accepts the recommendation and HMRC continues to examine its escalation processes and to trial new approaches.

However, it is not just on HMRC's tax credit helpline where new approaches are being trialled. The Department is working hard at reducing hand offs and referrals wherever possible, whatever the reason for calling, because it makes sense both for HMRC and for those who need to contact it.

**We welcome the fact that HMRC is reducing the number of telephone numbers it operates. However, at a time when calls are not being answered quickly, it cannot be acceptable that those without landline telephones—often less well off members of society—may be being charged more as a result of the use of 0845 numbers. We recommend that HMRC investigate alternatives to 0845 numbers, including 0345 and freephone numbers, as part of the process of agreeing its next telephony contract and ask the Department to brief us on its key aims in negotiating that contract. As an interim measure we recommend the Department examine whether a non-0845 number could be provided for tax credit claimants and publicised through tax charities. (Paragraph 113)**

The Government accepts the Committee's recommendation and HMRC will continue to investigate alternatives to 0845 numbers as part of the process of agreeing its next telephony contract.

The Department currently expects, by the end of the year, to be able to offer an 0345 number for those needing to call its Tax Credits Helpline.

**The evidence we have received, correspondence from the public and the coverage in the professional press suggest that long delays in responding to post at HMRC are endemic. This is unacceptable. Such delays increase demand elsewhere in the system, as taxpayers and tax credit claimants chase progress, increasing costs for the public and HMRC alike. (Paragraph 118)**

**We recommend that HMRC draw up minimum service standards for dealing with post in a timely and accurate fashion in consultation with the professional bodies, tax charities and businesses representatives. Such standards should recognise the distinction between simple and complex queries, and look at the progress of**

**correspondence end-to-end rather than in relation to individual items of post. We recommend that the Department publishes an indicative timetable for achieving those standards and keeps us regularly updated on progress towards meeting them. (Paragraph 119)**

(See responses to recommendations 23 and 24)

The Government partially accepts this recommendation although it prefers to wait and see the results of the joint work with key external stakeholders mentioned below before determining the final form of any changes to service measures:

- HMRC has existing service standards for the timeliness and quality of its services when dealing with post, with different standards to take account of the fact that some sorts of post are more complex than others.
- The Department has recently made significant improvements to its service delivery in this area. The level of post on hand in local PAYE and Self Assessment offices is the lowest level for many years. However, the Department recognises that there is more to do to ensure that customers consistently receive a good service.
- The Department has agreed a significant programme of work with tax agents' professional bodies and tax charities on service standards and process improvements. Standards and processes for dealing with post will be considered as part of this work.

**We urge HMRC to examine how far declining use of Enquiry Centres is due to factors such as inconvenient opening hours or lack of advertising. More broadly, we recommend that the Government examine whether withdrawing its physical presence from an area has a medium, or long-term impact on local compliance. (Paragraph 125)**

The Government does not accept the Committee's recommendation.

- HMRC conducts full reviews before any changes are made to the opening hours of its face to face enquiry centres. The recently introduced changes in opening hours were made only after extensive public consultation, including a full equality impact review.
- The physical presence of HMRC's Local Compliance teams is based on a geographical picture of the areas of higher tax risk across the country. The Government has considered whether departmental coverage of the general taxpayer population has reached a level where non-compliance might lead to tax non-compliance becoming a 'societal norm'. Part of the £917m reinvestment in HMRC over the SR period aims to address that via greater coverage, focussing on evasion to gain a greater deterrent impact, with additional compliance staff in those areas of higher tax risk.

**We welcome the fact that HMRC’s Change Plan commits to “providing targeted help for vulnerable customers who most need face-to-face support”, but we do not believe face-to-face support should solely be available to the vulnerable. The Department has a strategic approach focused on delivering contact through contact centres and online. Face-to-face contact must be an integral part of that strategy, not an exception. We recognise that savings must be made; the tax charities and other bodies who submitted evidence to us had a number of imaginative suggestions for how face-to-face services could be delivered more cost effectively. We recommend that HMRC look closely at alternative ways of providing wide coverage of face-to-face advice such as co-location with other public offices, convenient part-time opening hours and mobile advice centres. (Paragraph 126)**

The Government partially accepts the Committee’s recommendation and HMRC continues to look closely at how it delivers face to face services.

- HMRC’s experience has been that the vast majority of its customers find the transition to online easy and beneficial, for example over 400,000 of the smallest VAT businesses have gone online voluntarily. But, TSC has recognised, Digital by Default must be underpinned always by ‘assistance into digital’ for those who need it. Some customers may need assistance to build their IT capability and confidence in using HMRC online systems at the start. Others may need assistance longer term, for example to deal with specific disabilities, or the lack of reliable internet access. Assistance into digital must and will address all of those needs.
- On 8 August 2011, HMRC published two consultation documents considering the next steps for moving VAT and Direct Taxes online, using an appropriate blend of legislation and incentivisation for different taxes and sectors. These consultation documents contain strong commitments to digital assistance, seeking customer views on where assistance will be required and what form that assistance should take. The consultation runs until 31 October 2011 and the findings will inform design and delivery of HMRC’s digital assistance packages for the currently proposed changes and those in future.
- HMRC believes that there are a small number of customers who need face to face support but do not, for whatever reason, currently access it. It is therefore redesigning its face to face service to try and provide a more targeted service for those who need it.
- HMRC remains absolutely determined to deliver a good service to customers who need face to face help. HMRC expects to move over to a face to face business model that better targets those customers who need face to face support, while offering more flexible and efficient delivery across a range of locations, including by co-locating services with other government departments and offering mobile advice.
- HMRC currently operates some 282 local face to face enquiry centres and of these around 25% are already co-located with a local authority and 10% with Jobcentre Plus.

- HMRC's high level aim is to transform its online channel into one which is the customers' channel of choice, because they trust it, it is simple and easy to use and access is not dependent on opening hours.
- Overall demand for face to face services continues to shrink rapidly as customers choose alternative contact channels.
- HMRC's approach fits with the wider Government approach. Digital by Default Consultation started on 8 August 2011 (Closing date for comments: 31 October 2011).
- On 23 November 2010, in responding to a report by the Government's digital champion Martha Lane Fox, the Minister for the Cabinet Office announced a decisive shift from a neutral 'multi-channel' approach, toward one where people are actively encouraged to use digital online channels for public services, Digital by Default.

**Ending the production of advice and guidance leaflets may save money in the short term. However, it will force those who do not have access to the internet to turn to the telephone or enquiry centres for advice, and may lead to an increase in mistakes which are costly for HMRC to rectify. HMRC should examine reintroducing selected, well targeted, leaflets aimed at groups such as the elderly who are most likely to lack internet access. (Paragraph 132)**

The Government partially accepts the Committee's recommendation and continues to look closely at its range of guidance leaflets.

- HMRC's objective is to provide a good quality of service to our customers, and to provide the right level of help, information and assistance to those customers who need it.
- For the majority, the best way of obtaining guidance is online. This ensures that information is up-to-date, allows customers to go straight to guidance which is relevant to them, and provides instant access to the information required.
- The Department recognises that this is not practical for all its customers. It remains committed to maintaining a range of modern and helpful paper leaflets which are designed to address customer needs.

**HMRC has been relatively successful at enabling taxpayers to pay many of their taxes online. However, requiring online filing prematurely runs the risks of excluding those without reliable high-speed internet access, dissuading those who are not computer literate from being tax compliant and overloading systems that have not had time to bed in. HMRC should always ensure it has robust, well-advertised alternatives in place for those who cannot submit online and publish a statement of its commitment to continue to provide a robust free filing service for basic tax return filing. (Paragraph 135)**

(See response to recommendation 31)

The Government partially accepts the recommendation. Digital has many benefits for HMRC's customers in terms of speed, security, convenience as well as benefitting HMRC efficiency. Moving tax transactions online fits within wider Government policy as outlined in November by the Minister for the Cabinet Office. That announced a decisive shift to actively encourage people to use digital online channels for public services; known as Digital by Default.

HMRC's experience has been that the vast majority of its customers find the transition to online easy and beneficial, for example over 400,000 of the smallest VAT businesses have gone online voluntarily. But, TSC has recognised, Digital by Default must be underpinned always by 'assistance into digital' for those who need it. Some customers may need assistance to build their IT capability and confidence in using HMRC online systems at the start. Others may need assistance longer term, for example to deal with specific disabilities, or the lack of reliable internet access. Assistance into digital must and will address all of those needs.

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HMRC's provision of free-to-use entry level software products for at least the smallest business customers has been a key component of developing online services to date. In the long term, that approach may evolve depending on market developments, including the extent of free provision in the commercial arena. Security is always a fundamental development requirement, for example the new online VAT Registration system will make use of two new cutting edge security components which will both protect individual customer data, and safeguard HMRC against fraud. The Department rigorously tests both security and capacity before the 'go live' of any new system.

**Whilst we would welcome any moves towards greater use of email or secure messaging by HMRC, we accept there are genuine concerns on the grounds of security. Without proper planning, greater use of email may also achieve little more than transferring the bulk of the correspondence backlog from one medium to another. We recommend that the Department make a clear statement of their intent in relation to email and secure messaging. (Paragraph 136)**

The Government partially accepts the Committee's recommendation. HMRC has a vision to develop a broad range of digital services for a wide number of its customer segments. It is committed to ensuring that those customers who are able to 'self serve' are able to digitally, with call centre advisers focusing on those who require mediated help and support.

HMRC is improving its interactive online help, guidance and assistance to ensure that customers can quickly and easily get the help they need online. In addition, improved educational products, along with online alerts and preferences for specific customer groups will support customers to quickly and clearly understand their obligations and entitlements.

While 'self service' will be the preferred default option for customers where it is available, HMRC will expand the use of inbound and outbound email and secure messaging to interact with and proactively inform its customers. There is considerable work still to be undertaken to mitigate the security risks especially regarding individuals using email for contact purposes. The work required is currently being looked at as part of the HMRC Change Programme and will look to overcome the inevitable impact on the HMRC IT infrastructure both in terms of capacity and security capability to ensure sensitive data is not put at risk or that customers are not exposed to fraud.

HMRC is strongly aware of its position as a target for cyber attack and these changes aim to provide HMRC with the infrastructure to support the delivery of its strategic objectives through the increased use of email and secure messaging with its customers. It will consist of capacity reviews and enhancements where required, and the implementation of technological capabilities to ensure appropriate levels of protection are provided for customer data.

**There was near unanimity among our witnesses that the efficiency savings at HMRC have been partly responsible for the decline in service standards and, therefore, that HMRC's claim to have delivered £1.1 billion of savings "without overall negative impact on performance" lacked credibility. (Paragraph 139)**

The Government notes the Committee's view (paragraph 38) that HMRC, the Government's primary collector of revenue, is not exempt from the need to make efficiencies, but that this should not have a negative impact on the Department's performance and lead to a reduction in revenue. HMRC recognises the key importance of ensuring that efficiency savings do not have an adverse impact on service delivery.

**The features of the Large Business Service that appear to have led to high customer satisfaction ratings are personal contact with an individual responsible for a case and the ability of a single contact point to co-ordinate HMRC activity across departments. Whilst it is not feasible for every individual or small business to have access to that level of service, these are features that HMRC should be trying to replicate as closely as possible in its contact centres through effective channels of escalation and responsibility. (Paragraph 140)**

(See also recommendation 26 which is closely linked)

The Government acknowledges the Committee's conclusion.

- HMRC contact centres are designed to provide a cost effective and efficient single entry point to the Department for those needing to make contact by telephone.
- HMRC knows that customers prefer to resolve their queries in a single call at the initial point of contact. For this reason, it is trialling new approaches and working hard at reducing hand offs and referrals wherever possible because it makes sense both for the Department and for those who need to contact it.
- While HMRC tries hard to get things right first time, it nevertheless acknowledges that things do go wrong. When that happens, providing the customer with the name and contact details of the person handling their complaint and co-ordinating cross-business responses is standard practice at both internal tiers of HMRC's complaints process.

**HMRC's focus on customer research is to be welcomed insofar as it leads to a greater responsiveness to customer needs. To be effective this quantitative work needs to be supported by on the ground experience of how taxpayers operate. We reiterate our recommendation that HMRC staff at all levels should spend time in tax practices, charities and businesses better to understand the people they deal with and how changes at HMRC affect them. Examples of how this could be achieved include day visits, short secondments and work shadowing. (Paragraph 142)**

The Government accepts the recommendation that HMRC needs to better understand experience of how customers operate. HMRC engages in a variety of formalised and informal activities that allows its staff to understand and respond to customers' needs.

- Customer research plays a large role in the organisation developing greater understanding of customers and commissioned research is formally communicated throughout the organisation. Staff are able to access HMRC commissioned customer research and other pieces of customer research that may be relevant to their area. This is leading to greater responsiveness to customer needs and utilises both quantitative and qualitative research approaches.
- Staff in HMRC are also able to informally learn about the needs of customers through a variety of activities to explore how issues affect them. These range from listening into call centres to visiting customers in their workplaces through contacts built up along the way. This includes business, tax agents, charities and personal tax customers and enables staff to view things from a customer's point of view.
- Other activities include:
  - spending time with customers in their environment;
  - spending time with HMRC staff with customer facing roles; and
  - simulating experiences that a customer goes through, e.g. filling in tax forms.

**HMRC are right to base their customer-service strategy on research into what taxpayers want. However, we question whether a strategy focused around shifting customers' behaviour can truly be described as customer-centric. Where behaviour shifts are achieved voluntarily through the increased attractiveness of (for example) an online alternative the claim is credible. It is not credible; however, where contact options are narrowed down to the one HMRC would prefer customers to use. The evidence we have received suggests that both elements are present in HMRC's current approach. (Paragraph 143)**

The Government notes the conclusion.

It is right for HMRC to base its strategy on customer understanding and to put it at the heart of its plans to achieve its objectives: maximising revenues and improving the customer experience at the lowest sustainable cost. However, that strategy must reflect not only customer wants but also different customer abilities and needs as well as attitudes such as an unwillingness to pay tax. This fuller understanding allows the Department to design appropriate interventions and services for customers.

That strategy must also help HMRC operate effectively with a reducing budget. It must target resources where they will have the biggest impact. HMRC's strategy envisages that those customers who are willing to comply with their obligations, and that have the ability to self-serve through a lower cost channel such as online will have this option signposted as a preferred route. However, the strategy also identifies that some customers who will always need more help with meeting their obligations, and HMRC will resource and signpost the best channels to meet their needs. Through customer understanding the Department also recognises that it needs to streamline and improve processes to design out error up-front so that it reduces demand for contact in the first place. This in turn allows it to free up resource to focus efforts on tackling avoidance, evasion and criminal attack.

HMRC believes this approach will provide a better overall level of service – those customers who are able to do so will be encouraged to transact through the most efficient contact option, enabling quicker resolution and savings in both customer and HMRC time. In turn, that frees up HMRC's capability to provide help to those who most need it, and to tackle those that do not comply with their obligations.

**Effective management of demand will require HMRC to have a good understanding of how changes made in one part of the organisation will impact upon others and, most importantly, the impact such changes will have on the public. The Department accepts that many of its current communications generate more contact and inefficiency. Improvements in external communication therefore have the potential to make savings vastly in excess of their cost. We recommend that the Department look at how it draws up its public communications and establishes links with tax charities and professional bodies to ensure all major communications and guidance**

**are tested at a very early stage on focus groups before being made public. (Paragraph 148)**

The Government accepts the Committee's recommendation. HMRC has built an evidence base of customer understanding to help it to develop its customer communications better. This includes work on customer literacy, numeracy, language and tone, and forms a package of best practice which informs its core customer standards.

Over and above this, the Department has tested a number a key products with large numbers of customers to assess effectiveness and to inform changes, and has consulted with and co-created products with key voluntary and community sector (VCS) stakeholders. For example, it has consulted key VCS stakeholders on the redesign of the help notes included with the tax calculation form P800. It is working with the voluntary sector to refine these notes further and will test them directly with customers before starting to issue the P800s for underpayments in the autumn.

HMRC uses a wide variety of tools and techniques to test products with customers – from large-scale quantitative research to smaller focus groups where appropriate.

In addition:

- the Department has now developed an integrated external communications strategy that is aligned to its customer-centric strategy to improve the targeting, consistency and coordination of all communication activities to various customer groups;
- it has introduced a new operating model and strengthened governance processes in relation to management of reputational risks, identification of opportunities and the migration of communication impact on operational capacity; and
- it has developed communication performance indicators and benchmark measures that are integrated with wider HMRC performance measures to gauge customer perception of its reputation and effectiveness of communication efforts.

**The service standards provided by HMRC cannot be treated as a separate issue from the collection of tax revenues and the level of tax compliance. Current levels of voluntary compliance should not lead to complacency: any negative change in attitudes regarding paying taxes may take many years to filter through into reduced tax compliance and tax yields, at which stage it may be very hard to reverse. If a view of dealing with HMRC as being a frustrating, costly and time-consuming business were to become entrenched then there is a significant risk of public respect for the institution, and the tax system more generally, being lost. (Paragraph 154)**

We note the Committee's comments.

## Compliance

**We intend to examine HMRC's administrative and operational record at ensuring tax compliance in future hearings. In this report we highlight two issues that came to light during our early hearings. (Paragraph 158)**

**The public needs to be assured that cases involving large sums of money are being settled correctly. Equally it is unfair on HMRC staff and damaging to public confidence that the Department can be the subject of repeated allegations it cannot refute, even if they are groundless. We agree with the Committee of Public Accounts that HMRC should consider how the accountability and transparency of the settlement of large and complex tax cases might be improved. We are taking further evidence on how this might be achieved. (Paragraph 163)**

In reviewing how HMRC resolves tax disputes, the NAO has recently endorsed the strong governance it has put in place on large business tax settlements, the achievement in recent years of bringing in substantial revenues while tackling tax avoidance, and HMRC's Litigation and Settlement Strategy. HMRC agrees that it can build on these successes and strengthen its governance still further; particularly in providing greater transparency about how the Department assures the decision making process where, in exceptionally complex cases, a Commissioner has been involved in leading a negotiation. HMRC's Litigation & Settlement Strategy was published in 2007 and was refreshed in July 2011 alongside revised guidance for its people.

**We seek confirmation from HMRC that effective real-time lines of communication exist between Debt Management and other areas of the Department. Effective communication is especially important where private debt collectors are involved. (Paragraph 165)**

HMRC Debt Management does have real-time lines of communication with other areas of the Department. The exception is HMRC Field Force Agents where, for security reasons when visiting debtors, staff do not have live access to systems. However, they are able to contact their dedicated support office at any point should they need facts or information.

HMRC uses the services of ten Debt Collection Agencies (DCAs). Those DCAs contact customers in writing, telephone and by text messages. The DCAs can contact named HMRC staff by telephone for information, but for reasons of confidentiality, they do not have real time access to HMRC systems.

**It is inevitable that HMRC will have to pursue some taxpayers for outstanding debts and it may have to be forceful in doing so. However, the tone of some of the letters being sent out suggest the "potential consequences" are inevitable unless payment is immediately forthcoming. These letters appear to have been widely used without sufficient thought to whom they were sent to, even being sent to people who did not**

**actually owe money. Such language is appropriate only where there is strong evidence of persistent and deliberate non-payment; it is completely inappropriate where the amount owed is in dispute, where the amount may be zero, or where the recipient is vulnerable. We recommend HMRC take steps to ensure such hardhitting correspondence is used in a more proportionate way, is better tailored to individual case histories and contains information on the specific debt in question. (Paragraph 168)**

The Government accepts the Committee's recommendation.

HMRC agrees with the Treasury Select Committee's view that while hard-hitting debt campaigns are sometimes necessary, it is vital that they are proportionate and tailored to the circumstances and payment histories of individual taxpayers themselves. The Department believes that it has achieved this in the vast majority of cases and that this approach has already produced a significant improvement in its performance – improvements which through the reduction of tax debt have benefitted the tax paying public as a whole. However, HMRC also accepts that in some cases earlier in 2011, letters were sent which were inappropriate to the circumstances of a number of individual customers. The Department has in each instance apologised for its mistake and has gone on to improve its quality assurance processes and the wording of the letters.

Since 2009-10 HMRC has adopted a new approach when contacting taxpayers about their tax debts. This builds on best practice from the private sector and from the fields of behavioural economics and psychology. The new approach involves using more accessible, everyday language to explain to its customers what they need to do to bring their affairs up to date. When the National Audit Office looked at one of its new letter-based debt campaigns in 2009-10 they found that the new approach had cleared 85% of the debt owed, compared to 57% over the same period the previous year.

Since it started to apply this approach HMRC has issued around 17 million of the new-style debt letters and is currently issuing around 7 million per year. These letters are central to its new strategy and are helping it clear a large part of the total amount of debt it recovers each year. In 2010-11 the Department estimates that that more than £12 billion of its debt clearances were produced as a result of such letters.

Letters are tailored to take account of factors such as size and age of debt, the debtor's payment history and, where information is available, the debtor's financial circumstances. There is an escalation from simple reminders to more strongly worded letters which are only sent when earlier letters do not generate either payment or contact. These more firmly worded letters are sent only when at least two previous attempts to make contact have failed.

The Department has received around 2,000 complaints from the 17 million debt letters it has sent so far. It thoroughly investigates the circumstances of each complaint to

understand what has happened and, where necessary, change the processes that have led to the problem. Where it has made a mistake, it apologises for it. It acknowledges in particular that it made mistakes in one of its campaigns earlier in the year when some of its letters were either poorly targeted or worded. Since then it has taken a series of specific further actions:

- The Department accepts that where it escalates the message in its letters (because of it has received no response to earlier letters) it also needs to increase the degree of quality control. It has therefore put in place new management, operational and IT processes to improve the targeting of letters and to minimise the opportunity for mistakes.
- The Department is checking the language on all standard letters currently in use, to ensure that the tone used in each one is proportionate and appropriate to the situation of the debtor. It has already made a wide range of changes and improvements.
- It is reviewing its letters to ensure that customers have the information they need to make contact if they have any concerns and are encouraged to make contact with HMRC to resolve the issue.
- All of its letters will now make clearer what previous correspondence there has been about particular debts.
- In referring to seizure of goods its letters will make clear that if such action becomes necessary it will be based upon HMRC following an established legal process.

HMRC's debt management operations are currently dealing with over £40 billion of new debt each year and therefore perform a critical role in helping manage public finances. The Department believes that its new debt strategy is yielding positive results. For example, HMRC's debt balance reduced by £7 billion from £25.6 billion at 31 March 2009 to £18.6 billion at 31 March 2011. And it has since fallen to £17.1 billion at the end of July 2011.

**We note the Minister's assurance that HMRC has no existing plans to sell debt and his refusal to rule out the possibility of such plans in future. Any moves in this direction would be a major change and should not be contemplated without widespread consultation at an early stage. (Paragraph 169)**

HMRC continues to develop and improve its understanding of the debt market and is currently not selling its debts. At all stages of the process the debts involved remain HMRC's. Any legislative changes would be a matter for Ministers and Parliament and any consultation would be a matter for them.