



National Audit Office

Report

by the Comptroller
and Auditor General

HM Revenue & Customs

The quality of service for personal taxpayers

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.15 billion in 2014.



National Audit Office

HM Revenue & Customs

The quality of service for personal taxpayers

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 24 May 2016

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

20 May 2016

This report examines HMRC's performance in meeting its customer service standards and explores the impact of its customer service on tax revenue.

© National Audit Office 2016

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact copyright@nao.gsi.gov.uk. Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

Contents

Key facts 4

Summary 5

Part One

How HMRC has reduced costs while seeking to sustain effective customer service 12

Part Two

The impact of service quality on personal taxpayers 26

Part Three

The impact of service quality on tax revenue 38

Appendix One

Our audit approach 45

Appendix Two

Our evidence base 47

Appendix Three

HMRC customer service performance 51

Appendix Four

Previous National Audit Office and Committee of Public Accounts work 52

The National Audit Office study team consisted of:

Mark Edward, Araz Enayati Rad, Floria Hau, Andy Morrison, Dimitris Pipinis, and Andrea Scott, under the direction of Rob Prideaux

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

32%

real cost reduction in income tax services since 2010-11 to 2014-15

72%

of income tax calls handled from 1 April 2015 to 31 March 2016

15 minutes

average time spent waiting to speak to an adviser on the taxes helpline in 2015-16

47 minutes average time callers to the self-assessment line spent waiting during the October 2015 deadline week for paper tax returns

5 minutes average time callers to the self-assessment line spent waiting during the January 2016 deadline week for online tax returns

£66 million estimated value of income tax customers' own time, waiting for calls to be answered in 2015-16

58% proportion of customers rating HMRC's service as good or excellent

21% proportion of customers rating HMRC's service as poor or terrible

£544 million the gross cost of income tax services in 2014-15

£271 billion tax revenue raised from income tax and national insurance in 2014-15

Summary

Introduction

1 HM Revenue & Customs' (HMRC) mission is to collect the money that pays for the UK's public services and help families and individuals with targeted financial support. It aims to administer the tax system in the most simple, customer focused and efficient way, helping the honest majority to get their tax right.

2 HMRC's customer charter pledges to provide customers with a helpful, efficient and effective service. HMRC recognises that taxpayers do not have a choice about whether to interact with HMRC, and that this places an obligation on it to provide an acceptable standard of service.

3 Taxpayers pay around £270 billion a year in income tax and national insurance, around half of all tax revenue. Many people who pay income tax do not need to engage with HMRC on a regular basis. Most income tax (86%) is collected from employees under Pay-As-You-Earn (PAYE) and administered by employers. The remaining 14% of taxpayers who are self-employed or have other income sources are required to assess their own tax liabilities.

4 Taxpayers have three main ways to contact HMRC – online, by telephone or by post. HMRC also offers face-to-face contact through a mobile team to those taxpayers who need extra support. HMRC measures its performance primarily through targets it sets for answering the phone and replying to mail (Appendix Three). In 2011, HMRC set a target to answer at least 90% of calls to its taxes helpline by March 2013 and to respond to 80% of post within 15 working days. In 2012-13, it implemented a target to answer 80% of call attempts within 5 minutes.

5 A central feature of HMRC's funding settlement in 2010 was its aim to reduce the costs of processing people's tax affairs while investing more of its resources in tackling tax evasion and avoidance. HMRC planned to reduce costs over a five-year period, with the majority of savings coming in the last two years. Most of these savings were to come from HMRC's personal tax operations, where it aimed to reduce its annual running costs by £193 million (24%) by 2014-15. HMRC's plan was to increase automation and improve productivity while moving more customers to online services, thereby reducing demand for its telephone, postal and face-to-face services. This report looks at how HMRC sought to maintain the quality of customer service as it implemented these changes.

6 Over the next five years, HMRC aims to continue to transform tax administration through digitising its services. It identified three objectives in its single departmental plan published in February 2016. These were to: maximise tax revenues; design and deliver an efficient organisation; and transform tax and payments for its customers. HMRC is introducing digital tax accounts, so that by 2020 most taxpayers will provide information through a live tax account rather than by completing an annual tax return. HMRC expects these changes to increase its efficiency, reduce the administrative burden for customers, and improve overall levels of tax compliance. It expects to reduce the number of personal tax staff by a further 34% over this time.

7 In July 2015, we reported that HMRC's transformation will be complex, and more radical than previous change programmes, and that HMRC will need to balance ambition with realism about its critical assumptions and contingency planning. We consider implementation problems are inevitable and HMRC will need commitment and resilience to deliver its vision.

Scope of this report

8 During the last five years, the National Audit Office and the Committee of Public Accounts have reported several times on HMRC's customer service (Appendix Four). In 2013, the Committee of Public Accounts expressed concern that the prospects of fewer staff and more calls were a real risk to HMRC achieving an acceptable standard of service. In its response, HMRC said it would safeguard front-line activities so it could sustain improved service levels as it continued to reduce its running costs.

9 For HMRC's customer service to be value for money it must help customers to pay the right tax at the right time, without undue cost to customers or the public purse. HMRC has set its customer service targets as proxy measures of its performance, but meeting these targets alone would not necessarily equate to good customer service. In this report, we have used other relevant data collected by HMRC, such as survey data, to assess taxpayers' experience of the accessibility of the service. We have also generated our own evidence, including an omnibus survey of taxpayers, consulting organisations who represent different taxpayer groups, and estimating the costs borne by customers. Appendices One and Two set out our evidence sources and methodology.

10 This report considers:

- how HMRC has reduced costs since 2010-11 while seeking to sustain an effective service to its customers (Part One);
- the impact of changes in the quality of HMRC's service on personal tax customers (Part Two); and
- whether there is evidence that the quality of HMRC's customer service affects the amount of tax it is able to collect (Part Three).

11 In this report, we cover HMRC's services to personal taxpayers. These are income taxpayers who are required to submit self-assessment tax returns, or use the PAYE system. It considers all aspects of HMRC's service to help income taxpayers get their tax right, including online guidance and services, telephone contact centres, postal services and face-to-face contact. We do not consider the service provided to corporations or tax credit customers explicitly. However, HMRC manages some of its telephone enquiry teams interchangeably across two main helplines: the taxes helpline provides support and advice to personal taxpayers; and the tax credit helpline provides a similar service for tax credit claimants. Where it is not practical or meaningful to report call handling performance separately, we have included aggregated data across all call centres. We intend to look at the quality of HMRC's service to corporations and tax credit customers in future reports.

Key findings

How HMRC has reduced costs while seeking to sustain effective customer service

12 Between 2010-11 and 2014-15, HMRC reduced the cost of its personal tax operations by £257 million (32%). This exceeded the savings of £193 million it had agreed to make in its 2010 spending review settlement. It reduced the number of staff in personal tax from 26,000 to 15,000. To achieve the reductions it planned to increase automation of the PAYE system, operate on a more flexible basis so staff could move between different services, and move customers from traditional channels to less expensive contact such as automated telephony and digital services (paragraph 1.7).

13 Against this background, HMRC maintained or improved customer service up to 2013-14. Until 2013-14, HMRC maintained or improved performance against its key service measures while also reducing costs by £111 million in real terms (a 14% reduction compared with 2010-11). It trained personal tax staff to work more flexibly, and moved people from elsewhere in the business to the tax helpline at times of high demand. It answered 79% of calls to helplines in 2013-14 compared with 48% in 2010-11 (paragraph 1.13).

14 HMRC then misjudged the cumulative impact of its complex transition and released too many customer service staff before completing changes to its service. HMRC expected to have reduced demand for contact with customers towards the end of the spending review period. It introduced two new services, automated telephony and paperless self-assessment, in 2013-14. But demand for telephone advice did not fall. To live within its budget, it released 5,600 staff from personal tax in 2014-15, reducing customer service capacity. HMRC believes it was over-optimistic about the scale of change its staff could take and had not built sufficient contingency into its plans (paragraphs 1.11 and 1.14).

15 The quality of service deteriorated in 2015 when the full extent of the staff reductions took effect. Despite losing a quarter of the personal tax workforce in 2014-15, HMRC still managed to handle 88% of the call volume compared to 2013-14. But calls handled fell to 71% overall, and it met its target to handle 80% of calls in only 10 weeks of the year. HMRC's performance deteriorated further over the first seven months of 2015-16. Average waiting times tripled compared with 2014-15 levels, peaking at 34 minutes for the taxes helpline in October 2015 before improving substantially in the latter part of 2015-16 (paragraphs 1.15 and 2.6).

16 HMRC had to move staff from essential work to maintain PAYE records to help improve service levels in 2014-15. HMRC recorded in its board minutes in December 2013 that it had challenging budgets for 2014-15 and 2015-16 and customer service performance would be adversely affected. HMRC concluded it could maintain services by deploying staff more flexibly. To protect the service experienced by callers to the tax helpline in 2014-15, HMRC transferred to its call centres back-office staff who had been maintaining PAYE tax records. As a result, maintenance work was deferred and the stock of outstanding discrepancies in tax records requiring investigation rose from 2.4 million at March 2014 to 4.6 million at March 2015. Of these items, 3.2 million were high priority cases, carrying a risk that employees will have paid the wrong amount of tax (paragraph 1.22).

17 Performance improved in the second half of 2015-16 after HMRC recruited 2,400 additional staff. HMRC's call handling performance improved significantly with the recruitment of 2,400 staff to the taxes helpline in the autumn of 2015. The recruitment also allowed HMRC to re-prioritise processing of its PAYE records. It reduced the total number of unresolved items to below 3 million by December 2015, of which less than half were priority items (paragraphs 1.16 and 1.23).

18 The sustainability of cost reductions will depend on the success of new digital services in reducing demand for telephone and postal contact. HMRC's plans rest again on introducing new digital services and persuading customers to use them. HMRC is learning from its past experience that it needs to allow sufficient capacity for implementing operational and service change. It recognises the benefits will not be immediate and that, in moving to a primarily online service, telephone and post will remain important channels of contact for personal taxpayers. Its current plans specify how many staff it considers necessary to manage the transition: it will reduce staff in personal tax by 3.5% in 2016-17 and by 9.5% each year from 2017-18. In the March 2016 budget, it secured additional funding of £71 million between 2016-17 and 2017-18 to provide this capacity. Nevertheless, we consider that its plans to reduce the cost of its personal tax service in 2017-18 and beyond remain very challenging in the light of HMRC's experience to date (paragraph 1.29).

The impact on personal tax customers

19 Most taxpayers appear satisfied with HMRC services but one in five rate them poorly. We asked a sample of customers using HMRC services to rate the service they received, 58% rated the service as good or excellent, 21% rated it as average and 21% rated it as poor or terrible. Satisfaction was highest among those whose most recent contact with HMRC had been online, and lowest among those whose most recent contact had been by phone. We found little difference in satisfaction between self-assessment and PAYE customers. Most of HMRC's customer survey measures have remained stable since 2008. These include: satisfaction with the final outcome (76%); whether customers see HMRC as straightforward to deal with (78%); HMRC staff's ability to deal with the issue (71%); and ease of completing processes (72%) (paragraphs 2.2 and 2.4).

20 HMRC's service has become harder to access, and demand for help with tax from the voluntary sector has risen. HMRC started measuring the proportion of 'customers who find it easy to get in touch' in 2008-09. Since then, the proportion has dropped from 75% in 2008-09 to 58% in 2014-15. Most customers continue to interact with HMRC by post or telephone. HMRC has estimated that up to 1.37 million taxpayers might need extra help each year from HMRC, the third sector, or friends and family. The voluntary sector is positive about the quality of HMRC's service to provide outreach and telephone support to those customers needing the most help, but is concerned that HMRC does not have the capacity to meet demand. During 2014-15, the service helped 72,000 people. Citizens Advice, TaxAid and Tax Help for Older people have faced rising demand since 2014. HMRC has provided £14 million between 2010-11 and 2015-16 to support voluntary organisations working with its customers (paragraphs 1.20 and 2.5).

21 Call waiting times increased between 2012-13 and 2015-16, but have improved since. Average waiting times for the taxes helpline were below 10 minutes for most of 2012-13 and 2013-14 but grew progressively longer throughout 2014-15 and the first seven months of 2015-16. Customers waiting for an adviser at busy times have faced a long wait, sometimes over an hour. Average waiting times peaked at 34 minutes for the taxes line and 47 minutes for self-assessment calls in late October 2015 before improving. They were around five minutes in January 2016, which included the peak in demand created by the online deadline for self-assessment taxpayers (paragraphs 1.16 and 2.6).

22 As a consequence of longer waiting times, the cost burden on customers needing telephone advice rose by more than half. Using the value recognised by HMRC of £17 an hour to estimate the economic cost of customers' time, we estimate that the cost incurred by customers who have called the taxes helpline increased by 54%, from £63 million in 2012-13 to £97 million in 2015-16. Within this estimate, the cash cost to customers of making calls fell by £2 million because HMRC reduced call charges by moving to local-rate '03' telephone numbers in September 2013. But an increase in the economic cost of time spent waiting for an answer or speaking to an advisor more than offset this saving. When compared to HMRC's data on the annual cost of answering calls, we estimate that the increased cost to customers was £4 for every £1 saved by HMRC over the period (paragraphs 2.15 to 2.18).

23 HMRC does not have reliable data on the cost burden incurred by personal taxpayers or employers who administer PAYE. In 2014-15, HMRC reported that it had cost personal taxpayers £63 million less than in 2011-12 to comply with their tax obligations, based on HMRC's projections of the impact of changes it made to its services. But this figure was not based on any evidence collected after introducing services and did not include the cost of customer time on the telephone. HMRC also estimated annual savings of £300 million for employers from the introduction of real-time PAYE information (RTI). HMRC's Administrative Burdens Advisory Board has expressed scepticism about this figure. Payroll providers and tax professionals told us RTI has increased, not reduced, their costs (paragraphs 2.19 to 2.21).

Whether the quality of customer service affects the amount of tax HMRC collects

24 The quality of service experienced by personal taxpayers may have an impact on tax compliance. In a recent response to a Committee of Public Accounts recommendation, HMRC said that while it believed customer service and compliance were inextricably linked, there was no evidence that recent spells of poor service had impacted on tax revenues. To date, HMRC has not found a causal relationship between quality of service and compliance. It commissioned focus groups to improve its understanding and found most people did not recognise a link (paragraphs 3.3 to 3.6).

25 There is evidence of a relationship between the service taxpayers receive and their attitudes to evasion and compliance. HMRC has found that customers who have a more positive experience are more likely to think evasion is unacceptable. Our own survey found taxpayers who had a positive experience were more likely to think HMRC would detect tax evaders. Though these findings indicate that taxpayers' attitudes to compliance might be influenced by service levels, they do not demonstrate to what extent, if at all, their behaviour is affected. We have agreed to work with HMRC over the next year to explore in more detail the links between taxpayers' experience of HMRC's services and tax compliance (paragraphs 3.12 and 3.13).

Conclusion on value for money

26 HMRC's goal of reducing costs while maintaining customer services was not, and is not, in question. HMRC's strategy is based on delivering technological improvements, such as increased automation and better online services. These have potential to reduce the need for manual processing and the number of taxpayers contacting HMRC by telephone and post, thereby reducing the need for staff in these areas. We do think that HMRC should consider time and other costs to customers as it evaluates its planned savings.

27 HMRC's plans in the last Parliament were to deliver significant cost reductions in the last two years by reducing the headcount in its personal tax teams. It maintained or improved customer service until the end of 2013-14, but then released staff before it had made all the changes it needed to reduce demand. As a consequence, though HMRC continued to live within its agreed budget, the quality of its service to taxpayers collapsed in 2014-15 and the first half of 2015-16. In hindsight, this was a mistake, and not value for money.

28 HMRC has since recovered the service levels it provides to taxpayers in responding to phone calls and letters by recruiting 2,400 staff and moving people to call centres from elsewhere in its business. But this level of resourcing is transitional and numbers are intended to go down again, as HMRC's digitisation strategy due to be implemented by 2020-21, is designed to improve both the efficiency and quality of customer service significantly. The strategy continues to carry delivery risk which HMRC must manage to deliver adequate service levels, minimise the compliance burden for taxpayers and protect tax revenue.

Recommendations

29 HMRC will need to learn and apply the lessons of the last five years and build realism into its assumptions if it is to provide a consistently effective service to taxpayers. It should:

- a Base future decisions on spending on an assessment of the full impact they will have on the delivery of its objectives.** HMRC needs a better understanding of the direct and indirect impact of different spending decisions. When it reduces costs, it must take a realistic view of the consequences for customer service and the potential risk to tax revenue.
- b Set targets that strike a balance between its running costs and costs borne by customers.** HMRC has not met its pledge to answer 90% of calls by 2015 or to answer 80% of calls within 5 minutes. It should build greater resilience in its call centre services so it meets or exceeds the service standards it sets. In setting targets for future years it should take into account its own running costs and the cost to taxpayers.
- c Be clear and open about how the configuration of its service to taxpayers will change.** HMRC should be transparent about how it intends to reduce costs and what it expects of taxpayers. It should provide taxpayers with a good service for all channels.
- d Estimate the administrative burden on personal taxpayers and the voluntary sector and use this to inform its decisions.** HMRC estimates the burden on businesses of complying with their tax obligations, but not on individuals or the voluntary sector. Alongside savings to customers from new services, HMRC should take into account the additional costs its savings measures could impose on taxpayers, such as the cost of increased time spent waiting on the telephone.
- e Explore how the behaviour of taxpayers might be affected in response to changes in the way HMRC intends to deliver its services.** As part of this work, it should model the impact on tax compliance of planned changes to the way services are provided.

Part One

How HMRC has reduced costs while seeking to sustain effective customer service

HMRC's plans to reduce costs between 2010-11 and 2014-15

1.1 HM Revenue & Customs (HMRC) aims to administer the tax system in the most simple, customer-focused and efficient way, helping the honest majority to get their tax right. Taxpayers pay around £270 billion a year to the Exchequer in income tax and national insurance. This is around 50% of all tax revenue. Many people who pay income tax do not need to actively engage with HMRC on a regular basis. Most income tax (86%) is collected from around 44 million employees under Pay-As-You-Earn (PAYE) administered by their employer. Around 30% of whom contact HMRC each year. Around 10 million people are registered as self-employed or have other income sources that require them to assess their own tax liabilities (14% of income tax). Many employ an agent to do this.

1.2 HMRC's customer charter pledges to provide customers with a helpful, efficient and effective service. It also sets targets to measure its performance in answering the phone and responding to mail. It announced in 2010 that by March 2015, HMRC customers could expect it would answer 90% of telephone calls and deal with 80% of letters within 15 working days. In 2011, it secured additional funding to bring forward the target date to 2013-14. Over the last five years, HMRC has changed these targets to take into account its past performance and reductions in the resources available.

1.3 HMRC identifies five channels through which it provides a service to its customers:

- online services;
- telephone helplines;
- postal correspondence;
- face-to-face contact; and
- work to maintain and correct personal tax records.

HMRC's plans for cost reduction between 2010-11 and 2014-15

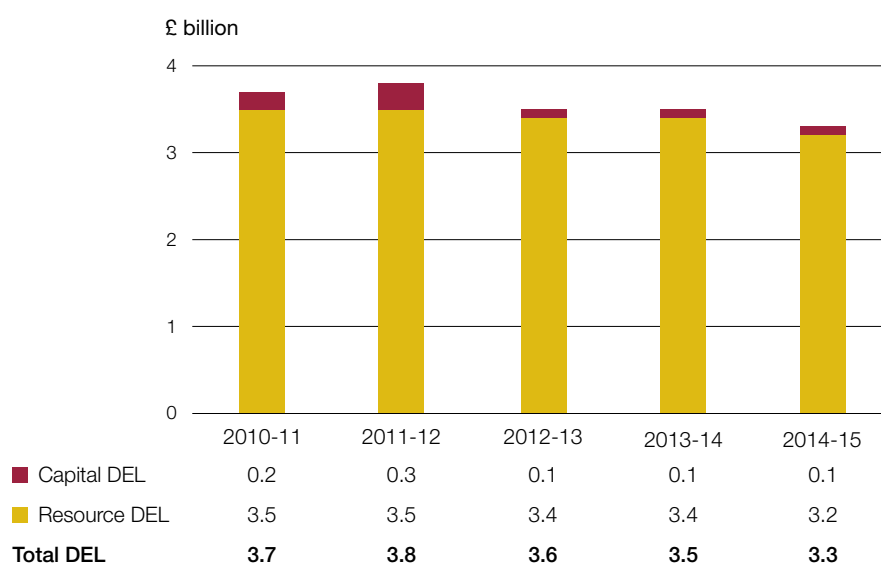
1.4 A central feature of HMRC's funding settlement in 2010 (**Figure 1**) was its aim to reduce the costs of processing people's tax affairs while investing more of its resources in tackling tax evasion and avoidance. HMRC's plan was to move more customers to online services and to reduce demand for its telephone, postal and face-to-face services.

1.5 HMRC planned to reduce costs over a five-year period, with the majority of savings being made in the last two years. Most of these savings were planned to come from its personal tax operations. It planned to reduce the number of personal tax staff by 8,500 full-time equivalents. Of these, it aimed to release:

- 3,930 staff by reducing the need for customers to contact HMRC through eliminating unnecessary contact and moving contact online.
- 2,660 staff through its future service delivery project. This project sought to increase flexibility by redeploying back-office staff to answer calls at peak times, and introduce targeted support for those customers who need the most help, allowing HMRC to close its face-to-face enquiry centres.
- In 2013, HMRC made revisions in how savings would be realised, with a greater reliance on introducing new digital services and reducing demand by 2015.

Figure 1
HMRC Spending Review 2010 settlement

The Spending Review 2010 settlement required HMRC to reduce their spending by £0.3 billion (nominal terms)



Note

1 Figures may not sum due to rounding.

Source: Spending Review 2010

1.6 HMRC's plans were based on its assessment that it could make these savings without damaging customer service. HMRC expected to save £300 million from reduced demand and increased efficiency in its contact centres. It assumed that demand for telephone advice would fall by more than 20 million calls a year by using automated messaging and moving more customer contact online.¹ HMRC had planned several initiatives to achieve its objectives. These included extending the scope of online services, better processes, more efficient processing of work management items, reducing low-value or repeat customer contact, a future service delivery project and a behavioural change project.

How HMRC has reduced costs

1.7 HMRC exceeded its planned reductions in personal tax. It reduced the real cost of administering income tax by 32% over five years, from £801 million in 2010-11 to £544 million in 2014-15 (**Figure 2**). It also reduced the number of staff working in personal tax by 10,800 (42%). As it had planned, personal tax was the only part of HMRC to bear cost and headcount reductions of this scale (**Figure 3** on page 16). Most of the reductions came in the last two years, during which HMRC reduced its personal tax headcount by 9,500 (39%).

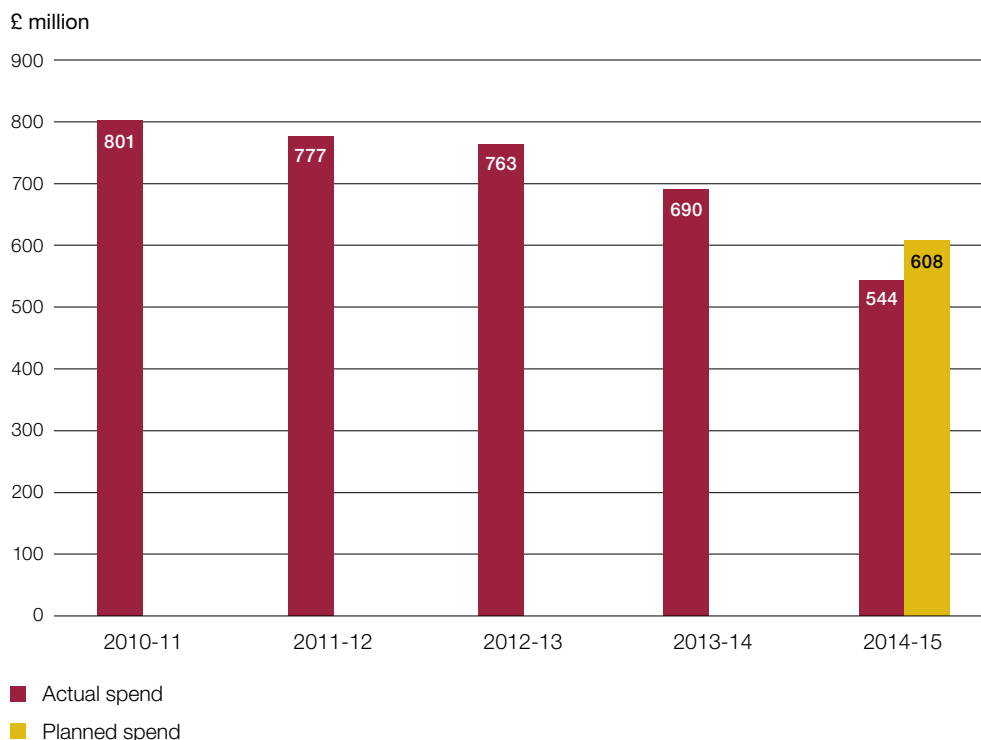
1.8 HMRC began to measure the cost of providing each of its five main channels of service to personal taxpayers in 2011-12. Across these channels, HMRC:

- a** **increased what it spent on its online service from less than £9 million in 2012-13 to £42 million in 2014-15.** This increase was central to HMRC's plans to enhance digital services, increase automation, and move more personal taxpayers online, thereby reducing the demand for other channels;
- b** **reduced its spend on handling telephone calls marginally, from £87 million to £83 million (5%).** The costs of handling calls reached a peak of £92 million in 2012-13, however, after HMRC had recruited an additional 1,000 contact centre staff in late 2011 to cope with rising demand;
- c** **reduced the cost of handling postal correspondence from £173 million to £111 million (36%);**
- d** **reduced the cost of its face-to-face service from £30 million to £9 million (70%),** by replacing local tax enquiry centres with a mobile service for those needing additional help; and
- e** **reduced the cost of maintaining and correcting personal tax records from £144 million to £31 million (78%).** To enable this reduction, HMRC developed automated processes which reduced the number of discrepancies or 'work items' generated by the PAYE system that required manual intervention, and improved the efficiency of manual processing.

¹ HM Treasury, *Budget 2010*, HC 451, March 2010.

Figure 2
Planned and actual spend for personal tax

HMRC reduced personal tax costs beyond planned SR10 cost reductions



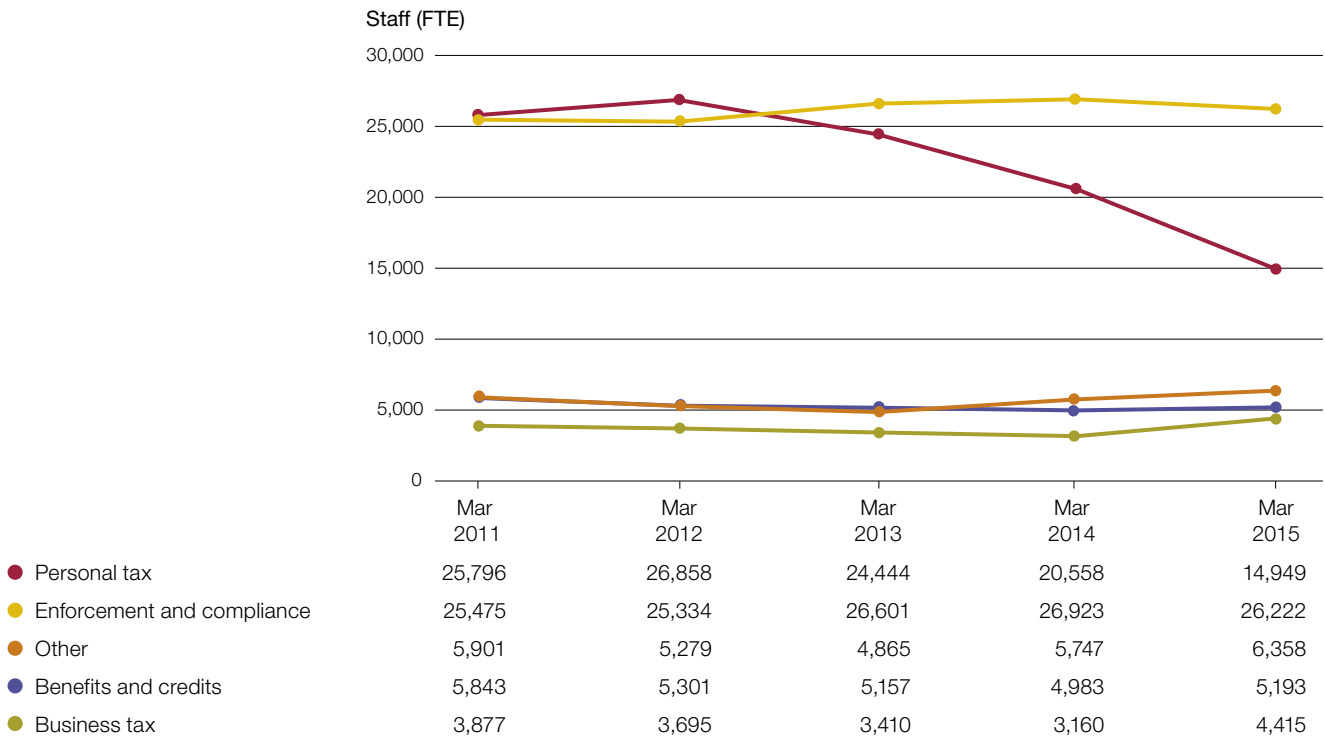
Source: National Audit Office analysis of HM Revenue & Customs' data; National Audit Office report *HM Revenue & Customs – Progress on reducing costs*

The impact on services

1.9 By 2013, it was clear to HMRC's senior management that the assumptions on which its savings projections were based would not hold, and that they would not achieve the anticipated reduction in demand for telephone services. In 2014-15, HMRC's performance against its customer service targets started to decline. The following paragraphs describe the impact of service changes, including the measures taken to reduce costs, on each of HMRC's main service channels.

Figure 3
Staff numbers

HMRC has focused cost and staff reductions (full-time equivalent) on personal tax



Note
1 Staff numbers are full-time equivalent.

Source: HM Revenue & Customs Annual Report and Accounts 2014-15

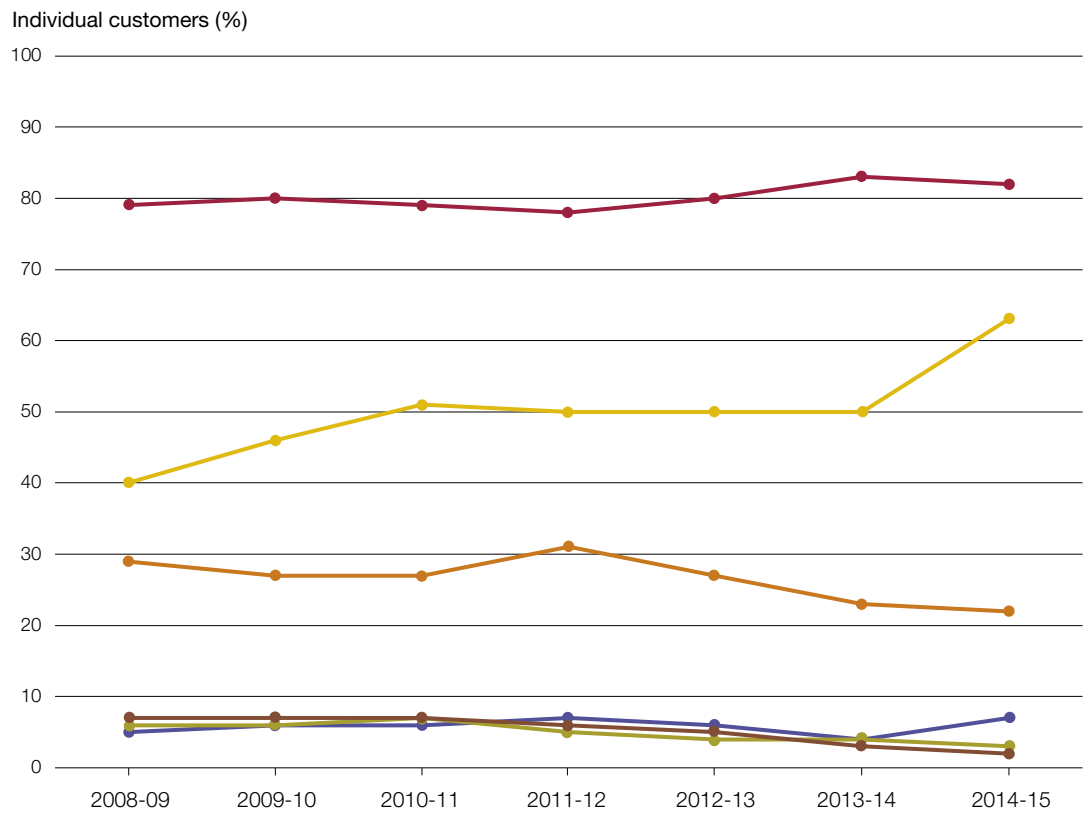
Online services

1.10 HMRC aims for taxpayers to use the most cost-effective form of contact that meets their needs. HMRC's plans depended on expanding its digital services, increasing automation, and moving more personal taxpayers online. These would reduce demand for telephone and postal contact. **Figure 4** shows that 63% of individual customers now use HMRC's digital services, a 13-point increase since 2011-12.

1.11 HMRC expects take-up of digital services to increase further in the future. It expected to introduce new online services by 2015. It introduced automated telephony and paperless self-assessment in 2013-14. However it did not meet its timetable for introducing a self-serve facility for tax agents.

Figure 4
Channels of contact used by individuals

HMRC customers mainly contact HMRC by telephone and internet contact has been increasing



● Telephone	79	80	79	78	80	83	82
● Internet	40	46	51	50	50	50	63
● Post	29	27	27	31	27	23	22
● Email	5	6	6	7	6	4	7
● Through third party	6	6	7	5	4	4	3
● Visiting tax office	7	7	7	6	5	3	2

Source: HM Revenue & Customs' Customer Survey, 2008-2015

Telephone helplines

1.12 HMRC call centres handle queries about taxes and tax credits. While some staff specialise, others move between different types of calls. In this section we report on call handling performance data for taxes and tax credits, unless otherwise stated.

1.13 **Figure 5** shows how call handling has fluctuated as HMRC has reduced staff and brought in new services. Performance improved year-on-year from its low point in 2010-11 until 2013-14. HMRC answered 79% of calls in 2013-14 compared to 48% in 2010-11. However, throughout this time HMRC was unable to meet the service standard it had set to handle 90% of all calls to its helplines (**Figure 6** on page 20). In 2013-14, HMRC recognised that, with the prospect of significantly less resources, it would not be able to meet this target and revised its target to handling 80% of calls. HMRC judges a call to have been handled when it is either answered by a call handler or when the customer hangs up after listening to a pre-recorded message on its IVR system. HMRC met its revised target for the taxes helpline in 2013-14, handling 81% of calls.

1.14 In 2014-15, HMRC was faced with a further sharp reduction in the resources it had available in its personal tax operations. This included a reduction of 1,300 (20%) in the number of full-time equivalent staff in its call centres. It had planned to achieve this through a significant reduction in demand for its taxes helpline with the introduction of new digital services from 2011-12. However, it received 12 million (22%) more calls to its taxes and tax credit lines in 2014-15 than it had projected. While the number of tax calls fell by 9% between 2012-13 and 2014-15, the average call length rose. This meant that demand for the time of call centre staff was virtually unchanged. This was partly because some online services were introduced later than planned and partly because most customers used internet services as well as the phone. Only 5% used the website in isolation. Demand was also potentially affected by the closure of face-to-face centres which served more than 1 million people a year.

1.15 Faced with shrinking resources and stable demand, HMRC's call centres continued to improve productivity. In 2014-15, call centres handled 88% of the taxes call volume they had achieved in 2013-14. HMRC prioritised tax credit calls in this period and was not able to prevent customer service performance in handling taxes calls from deteriorating. HMRC handled only 71% of calls to its taxes helpline in 2014-15, and met its target to handle 80% of call attempts in 10 weeks of the year. Call waiting times also increased: in the first six months of 2014-15, the proportion of call attempts answered within five minutes fell to 39%.

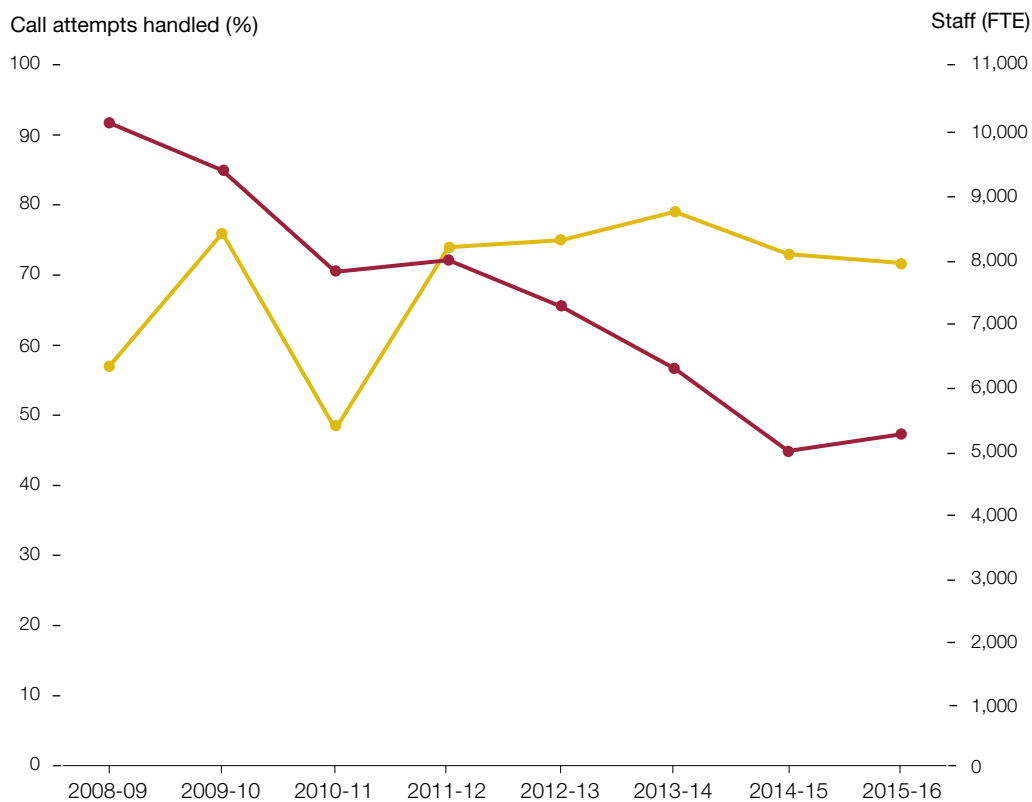
1.16 Poor telephone performance continued into the first half of 2015-16, with 80% of calls handled in only two weeks between April and October 2015. HMRC recognised this level of service was unacceptable and put forward a business case to improve it, recruiting 2,400 contact centre staff in summer 2015. After initial deployment to tax credit lines they joined the taxes helpline in November 2015. HMRC's performance improved almost immediately and it handled at least 80% of calls in nearly every week from December 2015 until the end of March 2016.² During the deadline week for filing online self-assessment returns HMRC handled calls within an average of five minutes. In 2016-17 HMRC has set itself a target to answer calls within six minutes on average, and to answer 85% of all calls in total.

² Performance data for the final quarter of 2015-16 is provisional and may be subject to change.

Figure 5

Call handling performance and contact centre staff, 2008-09 to 2015-16

Call handling performance fluctuated as HMRC reduced staff



● Contact centre staff (FTE)	10,085	9,341	7,755	7,933	7,205	6,232	4,942	5,200
● Call attempts handled (%)	57	76	48	74	75	79	73	72

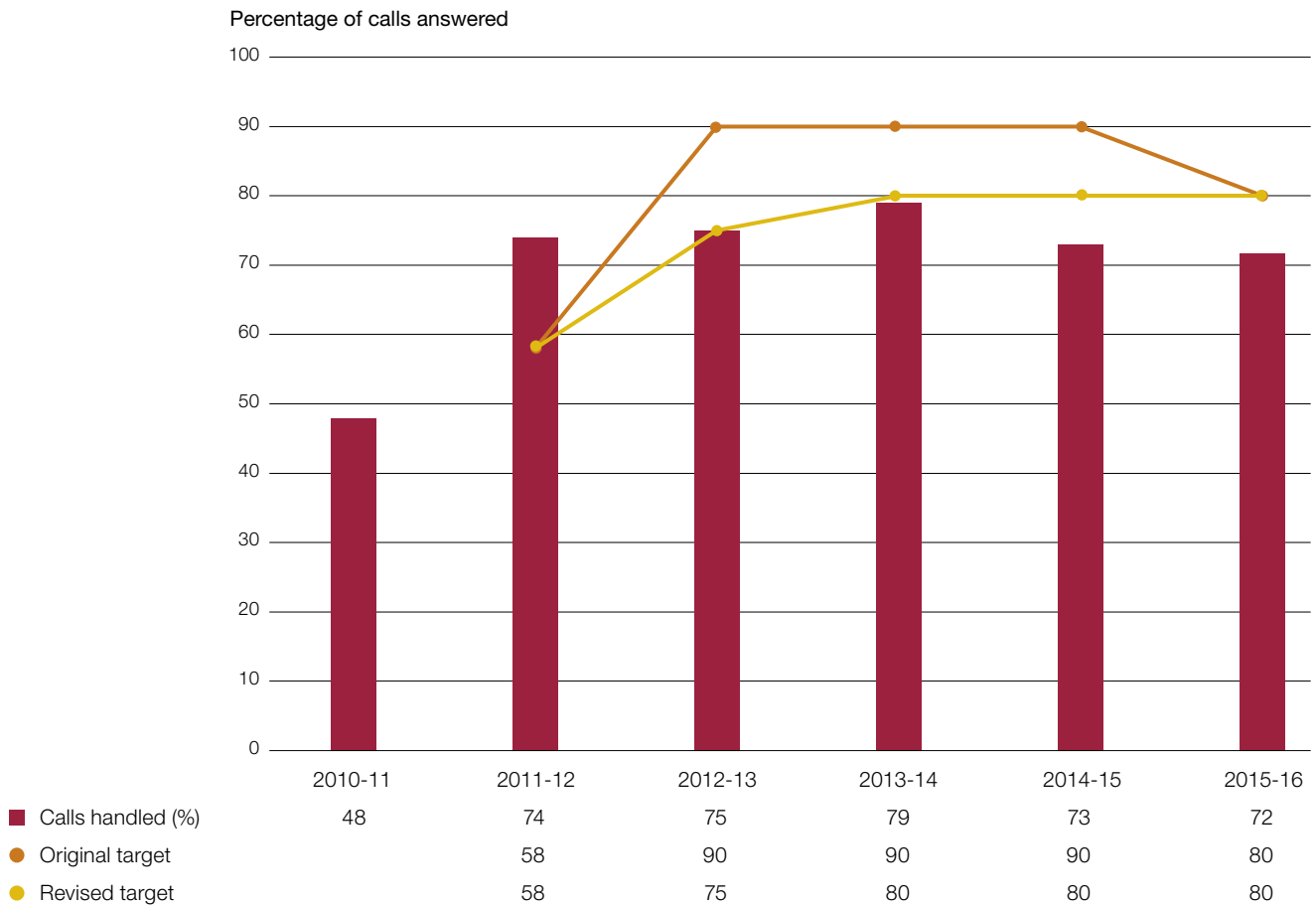
Notes

- 1 Decline in performance in 2010-11 followed a surge in calls relating to the new PAYE system.
- 2 Call handling performance is for all telephone lines including tax credits.
- 3 Staff numbers are for full-time equivalents and yearly averages of month end figures.
- 4 Staff numbers do not include flexible staff redeployed from other business areas in HMRC.
- 5 Performance data in 2015-16 is provisional and may be subject to change.

Source: HM Revenue & Customs Annual Report and Accounts; National Audit Office analysis of HM Revenue & Customs' data

Figure 6
HMRC's telephone handling performance for all calls

In the last three years HMRC has not been able to meet original and revised call handling targets



Notes

- 1 Internal targets for percentage of calls answered for 2010-11 have not been published externally.
- 2 Call handling performance is for all telephone lines including tax credits.

Source: National Audit Office analysis of HM Revenue & Customs' data

Postal correspondence

1.17 HMRC's main target for its postal service was to clear 80% of post within 15 working days. Until 2013-14, HMRC met or came close to this target while also reducing its costs by £39 million (22%) from the 2011-12 level. However, it could not sustain a further reduction of £24 million (18%) in 2014-15, and met its target in only five months of the year.

1.18 The changes HMRC has made to the configuration of its personal tax service have reduced the volume of post it receives. As planned, the volume of post has declined year on year. By 2014-15, HMRC received 10 million (42%) fewer items than in 2011-12. HMRC has reduced outbound post, improved the clarity of correspondence and written guidance, and changed processes to reduce the number of contacts. It also encourages call handlers to resolve queries over the telephone rather than sending or asking for a letter. In 2014-15, the introduction of electronic scanning of correspondence made the routing of post within HMRC faster. HMRC has not offered email contact on the grounds it is insecure.

Face-to-face contact

1.19 In spring 2014, HMRC closed its face-to-face enquiry centres. Instead it offers an outreach service to vulnerable people. Face-to-face appointments are now only available for vulnerable customers. Other customers must use online services, phone or post.

1.20 HMRC research estimated that up to 1.37 million customers might need some form of extra help each year from HMRC, the voluntary and community sector, or friends and family. In 2014-15, HMRC's service for vulnerable customers helped 71,727 people. Voluntary and community organisations told us that the demand they have experienced for tax advice from vulnerable taxpayers has increased. HMRC has provided around £14 million between 2010-11 and 2015-16 to support third sector organisations working with its customers.

Maintaining and correcting personal tax records

1.21 HMRC's largest cost reduction came from its work to maintain and correct tax records. By 2014-15, it had developed automated processes that suppressed unnecessary and low-value items, reducing by three-quarters the number of discrepancies or 'work items' generated by the PAYE system which require manual intervention. It also made manual processing more efficient, reducing the average cost of resolving an item by 25%. These were sustainable efficiency savings which were important in reducing the stock of work items and improving the accuracy of PAYE records.

1.22 In 2014-15, however, HMRC decided to defer work to maintain PAYE records which resulted in a temporary reversal of this trend. It responded to falling service standards in its call centres by transferring staff who had been processing and maintaining tax records to the tax helplines. This reduced the cost of such work by £53 million (63%) in 2014-15 alone. During 2014-15, the stock of unresolved discrepancies rose from 2.4 million to 4.6 million. High priority items rose from 1.5 million to 3.2 million (**Figure 7**). These included items that ministers had identified as priorities, which had to be resolved by the end of the tax year. These rose from 20,000 to 1.2 million. Unresolved items do not necessarily mean that the tax was wrong in each case, but as a consequence, more PAYE taxpayers were left with a risk of the wrong tax code at the end of 2014-15.

1.23 The recruitment of additional personal tax staff in Autumn 2015 and HMRC's change projects to increase automation and generate fewer exceptions allowed HMRC to resolve this issue. By December 2015, HMRC had reduced the stock of unresolved PAYE items to 2013-14 levels. HMRC has secured additional funding for 200 staff in 2016-17 and 2017-18 to help reduce stocks further. It has set a target to reduce unresolved discrepancies to 20,000 by the end of 2016-17.

Plans to achieve and maintain effective service levels

1.24 Over the next spending review period HMRC plans to reduce the costs of personal tax services by a further 34%.³ Once again, the plans rely on making major service changes and changing taxpayers' behaviour by moving them from telephone and postal contact to new and better digital services.

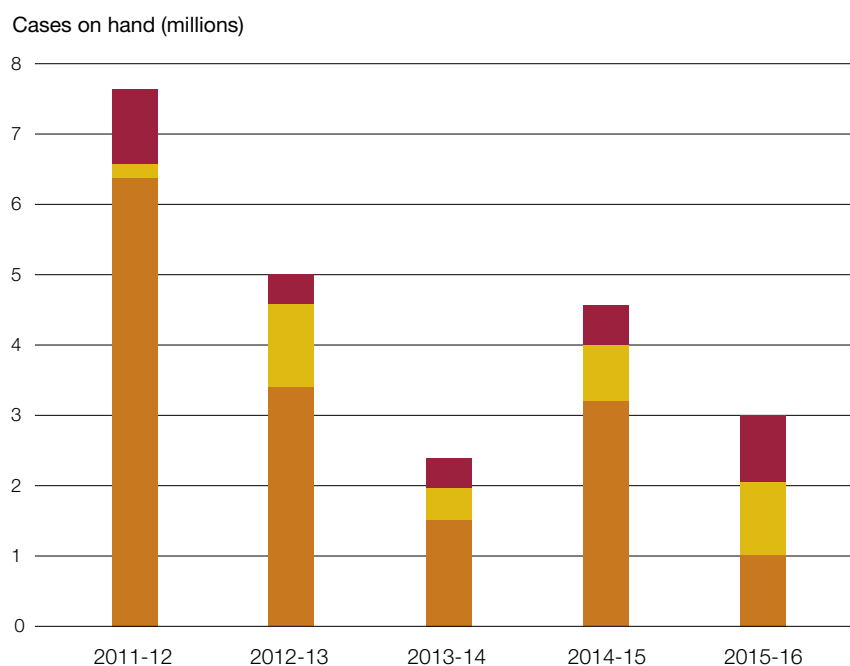
1.25 In November 2015, HMRC announced it would close 137 local offices and replace them with 13 regional centres. The plans aim to realise economies of scale by streamlining the estate and support HMRC's vision for a more flexible and multi-skilled workforce. HMRC expects to save £100 million a year in estates costs by 2025. Staff will work across several types of activity, such as dealing with webchat, calls and post, and handling both personal tax and tax credit enquiries. HMRC plans to extend training so that most customer-facing staff are able to work flexibly in this way. It began three pilots in November 2015 to test different ways of working for regional contact centres.

3 Cumulative cost reductions of 2% in 2015-16 and 9% each year in 2016-17 to 2019-20.

Figure 7

The stock of unresolved PAYE discrepancies, 2011-12 to 2015-16

PAYE clerical items stock declined significantly before increasing during 2014-15



Other	1.06	0.42	0.41	0.56	0.95
Should be worked	0.19	1.17	0.47	0.78	1.03
Must be worked	6.39	3.41	1.51	3.22	1.02

Notes

- 1 'Must be worked' items are the most critical in maintaining PAYE records to ensure customers have paid the correct amount of tax. For example investigating why information is missing to make sure customers pay the right tax. It includes 'ministerial priority items' introduced in 2012-13 which must be resolved by the end of the tax year (23,000 in 2012-13; 20,000 in 2013-14; 1.2 million in 2014-15, 820,000 in December 2015-16).
- 2 Should be worked items relate to tax code discrepancies which carry a low risk of affecting someone's tax.
- 3 Other items typically refer to discrepancies with non-financial data. These tend to carry a very low risk of significant error because such data is unlikely to affect customers' tax codes.

Source: National Audit Office analysis of HM Revenue & Customs' data

1.26 HMRC has developed and is developing ways to monitor demand and performance so it can redeploy its enquiry handlers more quickly to the areas where they are most needed. Its operations managers receive daily updates on queue lengths and productivity, and hourly performance data on each contact channel and how many staff are available.

1.27 HMRC wants to offer a high-quality digital service that will attract customers and keep them using the service. It has launched the digital tax account, which allows customers to see and manage their tax details online and see a forecast of their state pension entitlement. Taxpayers accessing their account will be offered a secure messaging service, giving them the option of online help in resolving queries. Over time customers will be able to update self assessment information and monitor progress with a repayment. HMRC expects this to reduce the volume of telephone and postal queries about coding notices. HMRC told us more than 1 million people have used their personal tax account and the accounts are open to more than 50 million people and businesses.

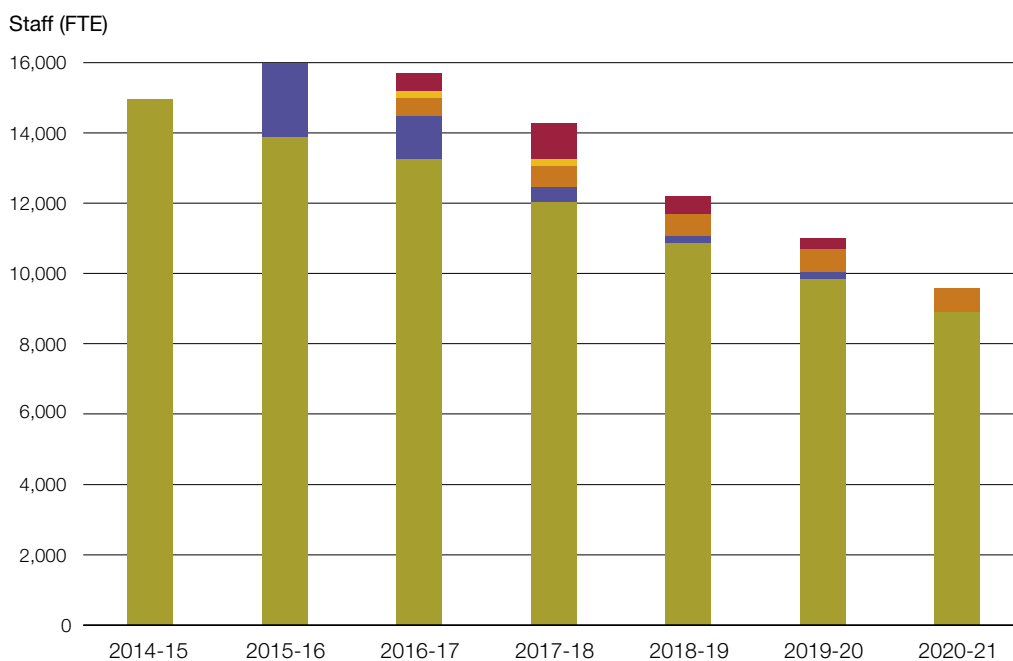
1.28 Other new services include webchats (instant messaging with advisers), online seminars and online assistants, which can provide many customers with advice for less cost. Pilots indicate that webchat advisers can support three times as many queries as telephone advisers. This may indicate that it is more efficient than the phone, or that customers use webchat for queries that are more straightforward.

1.29 HMRC believes that when it agreed its spending settlement and targets in 2010 it was over-optimistic about how much change it could accommodate. Its current plans include a provision for the additional staff it considers necessary to manage the transition (**Figure 8**). These include staff it plans to recruit as a result of £71 million of funds announced in Budget 2016 to accelerate service improvements. HMRC expects to deliver changes to services across the next five years. It plans to reduce staff levels by 3.5% in 2016-17 and then to reduce staff numbers by around 9.5% a year based on its expectation that demand for traditional contact will fall as its digital services become established. HMRC reviews changes in patterns of demand on a weekly basis and will review its resource needs each year as part of its annual planning cycle. Its targets beyond 2016-17 are very challenging in the light of HMRC's experience to date.

1.30 HMRC wants customers to use the most cost-effective form of contact that meets their needs. If HMRC succeeds it will be left with more difficult and expensive queries going to its post and telephone channels. HMRC does not currently track unit costs against forecasts but plans to do so in 2016-17. It will need to monitor unit costs closely in future to understand whether changes are due to rising complexity or other factors, and monitor the effect on its budget and capacity.

Figure 8
Personal tax future staffing

HMRC planned headcount reduction for personal tax 2014-15 to 2020-21



■ Additional staff to delivery budget 2016 service improvements			500	1,000	500	300	
■ Reduce backlog of customer discrepancies			200	200			
■ New work and change management			542	592	617	642	667
■ Contingency for unexpected demand		2,400	1,200	450	200	200	
■ Personal Tax core staff	14,949	13,891	13,267	12,021	10,877	9,848	8,923

Note

1 Staff numbers are based on full-time equivalents at year-end.

Source: National Audit Office analysis of HM Revenue & Customs' data

Part Two

The impact of service quality on personal taxpayers

2.1 This part examines the experience of personal taxpayers and the costs they incur in complying with their tax obligations.

How taxpayers rate the service

2.2 We estimate that 17.5 million taxpayers used HMRC's information and advice services in 2015. HMRC does not ask taxpayers directly if they are satisfied with its service because wider research indicates that customers' ratings may also be influenced by their financial outcomes. In November 2015 we commissioned a national omnibus survey to ask taxpayers who had contacted HMRC to rate the service they received on a 7-point scale (**Figure 9**). We found over half of customers rated HMRC's service positively: 58% rated it as good or excellent; 21% rated it as average; and 21% rated it as poor or terrible.

2.3 We compared the ratings with the contact channel each taxpayer had most recently experienced. Ratings of good or excellent were highest for taxpayers recently using digital channels such as webchat (69% rated as excellent or good), and lowest for phone (51% excellent or good). We found little difference in satisfaction between self-assessment (60% excellent or good) and PAYE taxpayers (59% excellent or good).

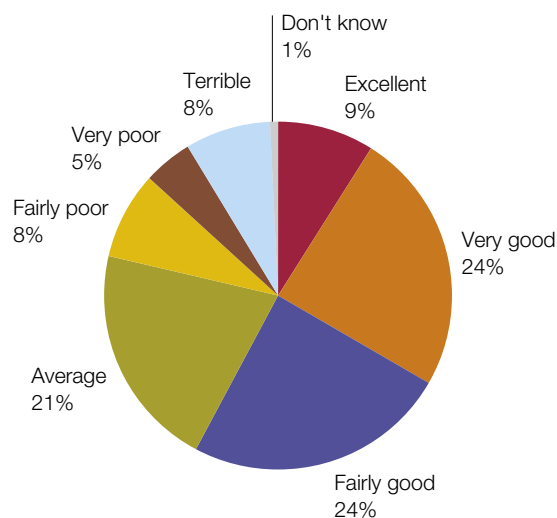
2.4 HMRC ran a survey to collect data on different aspects of the customer experience between 2008-09 and 2014-15. Eight out of twelve of these measures have remained about the same over this time. These include: satisfaction with the final outcome (76%); whether customers see HMRC as straightforward to deal with (78%); HMRC staff's ability to deal with the issue (71%); and ease of completing processes (72%).⁴

2.5 Four measures show statistically significant declines. The most marked is the proportion of 'customers who find it easy to get in touch', which fell from 75% in 2008-09 to 59% in 2014-15. The proportion of customers who think HMRC is good at 'keeping you informed' of progress declined from 73% in 2008-09 to 62% during the past three years.

⁴ HMRC Customer Survey, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/460422/HMRC_Customer_Survey_2008-15_Report.pdf

Figure 9**Customer rating of the service they received from HMRC
(most recent contact)**

The majority of customers that had contact with HMRC in the past 12 months rated the service they received as excellent or good

**Notes**

- 1 Question: Thinking about the most recent time you contacted or interacted with HMRC, how would you rate the service you received from HMRC?
- 2 Number of respondents: 1267 (taxpayers aged 18+ in Great Britain who have contacted or interacted with HMRC in the past 12 months). The survey was carried out in November 2015.

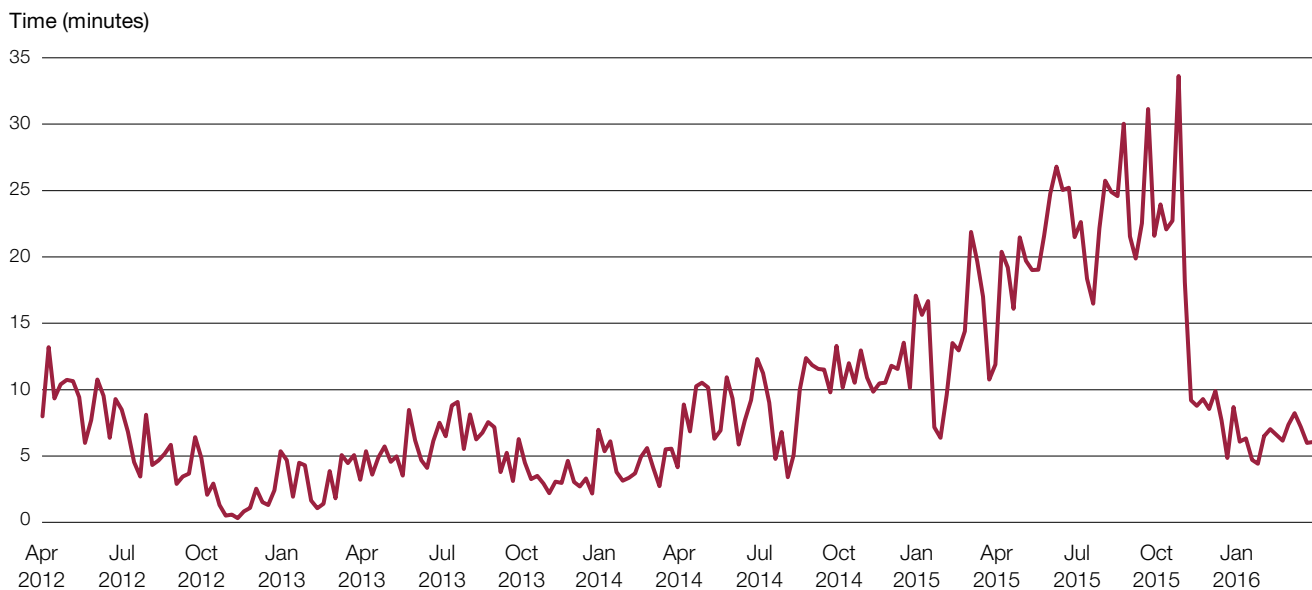
Source: Ipsos MORI

Ease of access to telephone support for tax queries

2.6 Figure 10 overleaf shows that average waiting times for the taxes helpline were below 10 minutes for most of 2012-13 and 2013-14, but grew progressively longer throughout 2014-15 and the first seven months of 2015-16. Some types of calls had longer waiting times, notably self assessment queries where the average waiting time peaked at 47 minutes in October 2015 (the deadline for filing paper self-assessment returns). HMRC has reduced waiting times significantly since November 2015. Paragraph 1.26 outlines some of the ways HMRC is managing queues.

Figure 10

Average waiting time to speak to an adviser for the taxes helpline

Customer waiting times tripled in 2015**Notes**

- 1 Data is weekly average waiting time for the taxes helpline.
- 2 Waiting time does not include time spent listening to automated messages or waiting time of those that abandoned their call when on hold.
- 3 Performance data in the final quarter of 2016 is provisional and may be subject to change.

Source: National Audit Office analysis of HM Revenue & Customs data

2.7 The legal deadlines for submitting tax returns mean that the pattern of contact from personal taxpayers is cyclical. HMRC usually handles more calls during January by moving staff from other parts of the Department to deal with the key deadline for submitting self-assessment returns online. HMRC also recruited 2,400 staff to help in call centres in the second half of 2015. This allowed it to handle a higher proportion of calls in January 2016 (89%) compared with previous years (74% in January 2015, 85% in January 2014, and 83% in January 2013).⁵ The improvement was due both to fewer call attempts, and advisers handling more calls in total.

⁵ This is based on a four-week comparison: w/c 6 January 2013 to 27 January 2013; w/c 5 January 2014 to w/c 26 January 2014; w/c 4 January 2015 to w/c 25 January 2015; and w/c 3 January 2016 to w/c 24 January 2016.

2.8 At deadlines, callers may have a more urgent need to speak to an adviser. HMRC's call handling performance during October, the deadline for paper self assessment returns, declined between 2013 and 2015. In October 2015, HMRC handled 70% of call attempts, in comparison to 69% in 2014, 85% in October 2013 and 93% in October 2012.⁶

2.9 Average waiting times and call attempts handled do not reflect the full experience of taxpayers seeking to contact HMRC, who may be limited as to the days and times at which they can call. To understand the experience of taxpayers who try to contact HMRC around deadlines, we called once an hour in the weeks before and after the October 2015 paper deadline (**Figure 11** overleaf).

2.10 Irrespective of the waiting time, each call started with a warning that it may take 35 minutes to speak to an adviser. The average waiting time was 55 minutes. In the deadline week we waited less than 40 minutes to get through on only six occasions from 69 attempts. Most of the time we were connected through to an adviser after waiting between 40 minutes and an hour. On four days during deadline week, calls made at 7pm were held in the queue for an hour and cut-off at 8pm when contact centres closed. HMRC normally blocks calls from 7.15pm during busy periods to reduce the risk that callers waste time on the phone. It considered extending use of the busy tone in the evening but noted that feedback from taxpayers suggests most would rather try to get through if there is a chance their call could be answered.

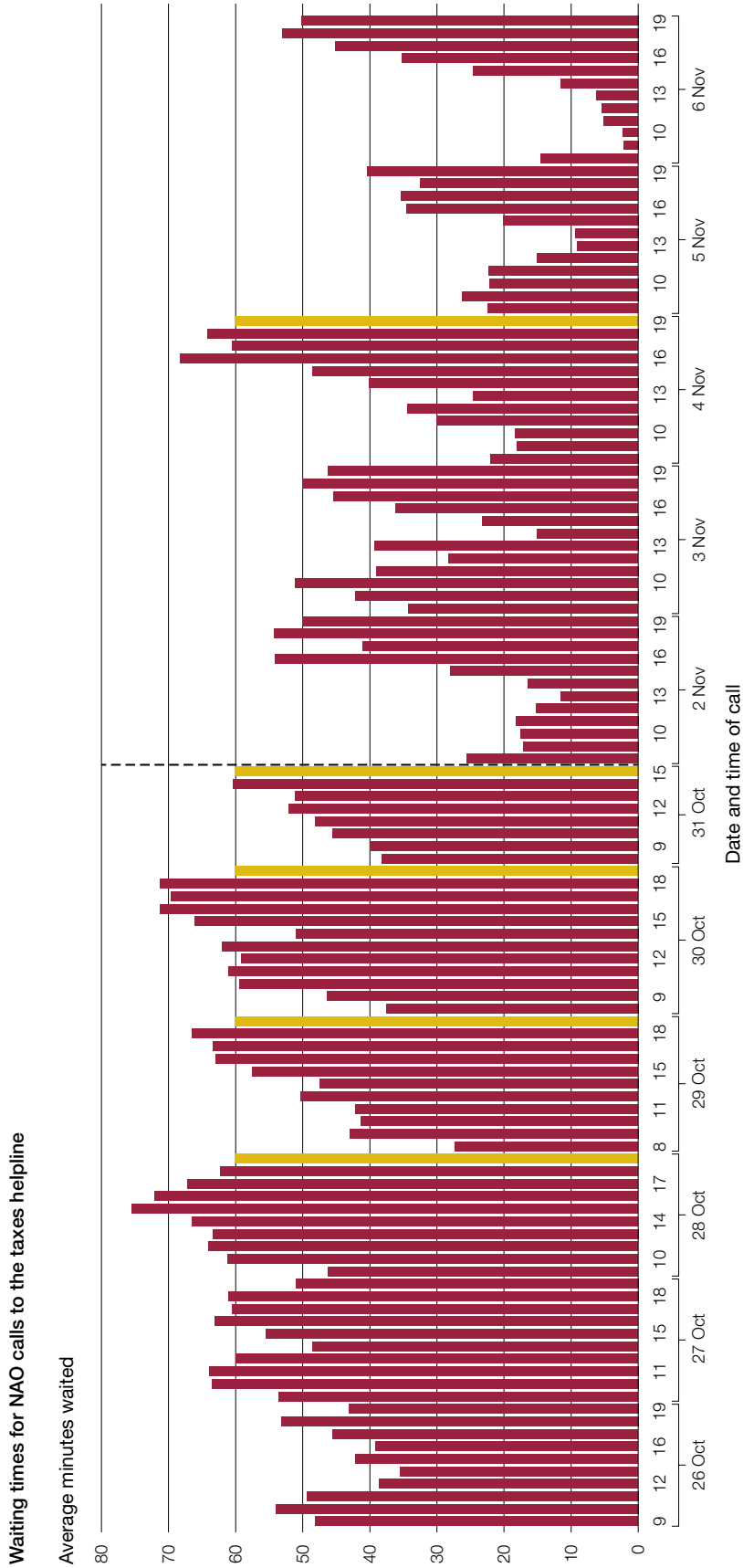
Understanding the customer journey

2.11 HMRC counts calls as answered if the caller hangs up during an automated message, unless the customer ends the call within two seconds of a message saying the lines are busy. In 2015-16, 72% of calls were answered, of which 49% were dealt with by an adviser and 23% were ended by the caller during an automated message (**Figure 12** on page 31). Around 6.2 million calls (27%) were abandoned in the queue or deflected by busy messages telling callers the length of waiting times. HMRC believes busy messages result in more people going online but does not routinely monitor this.

2.12 HMRC has no information about how many unsuccessful callers try to make contact again. It assumes that callers will persist in trying to contact HMRC to resolve their query, but collects no data about whether callers resolve their queries, move to other channels or give up.

⁶ This is based on a four week comparison: w/c 7 October 2012 to w/c 28 October 2012; w/c 6 October 2013 to w/c 27 October 2013; w/c 5 October 2014 to w/c 26 October 2014; and w/c 4 October 2015 to w/c 24 October 2015.

Figure 11 Distribution of waiting times for NAO calls to the taxes helpline during October and November (2015)



--- Self-assessment paper deadline

■ Calls were cut off

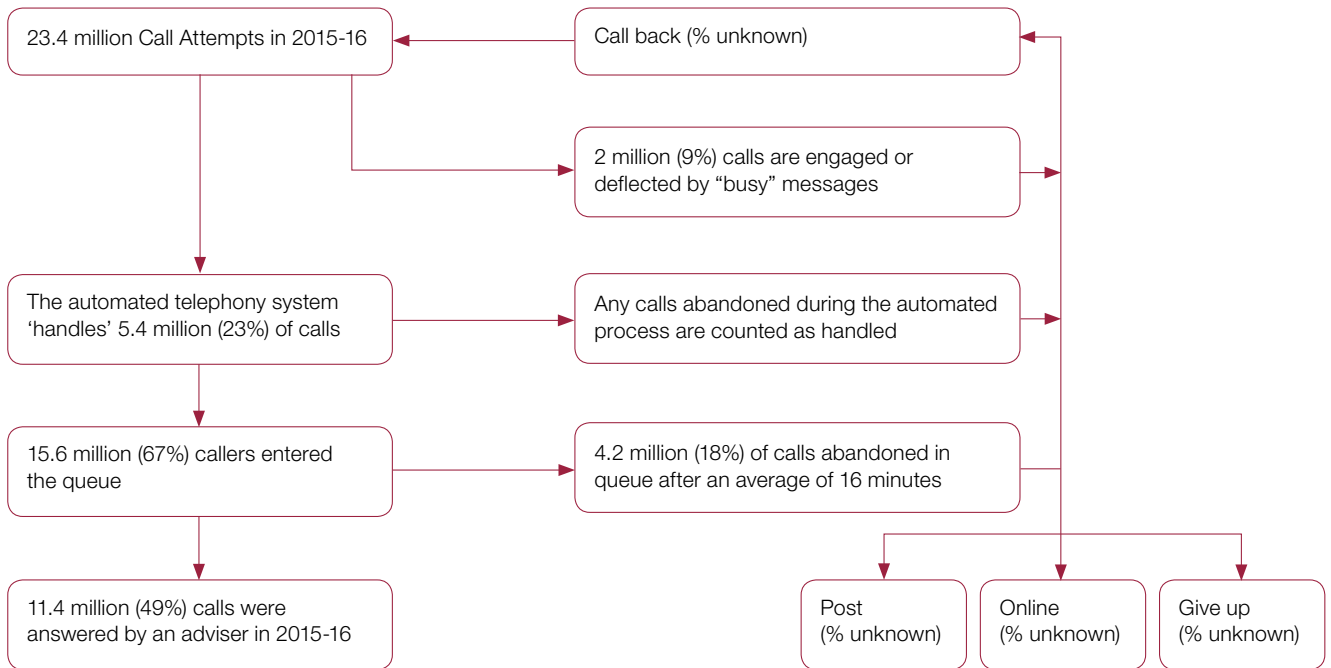
Notes

- 1 Calls starting at 19:00 were cut off as soon as it was 20:00, for this graph these calls have been recorded as having lasted 60 minutes. The calls when we were cut off are denoted in yellow in the graph.
- 2 The deadline for self-assessment paper returns is 31 October 2015.

Source: National Audit Office

Figure 12
Customer journey for contact with HMRC in 2015-16

Nearly 50% of calls to the taxes helpline were handled by an adviser in 2015-16



Notes

- 1 The main features of HMRC’s automated telephony system include: routing calls; obtaining personal details for security and identifications (eg national insurance number); providing informational messages to the caller; and call reason identification.
- 2 Performance data in 2015-16 is provisional and may be subject to change.

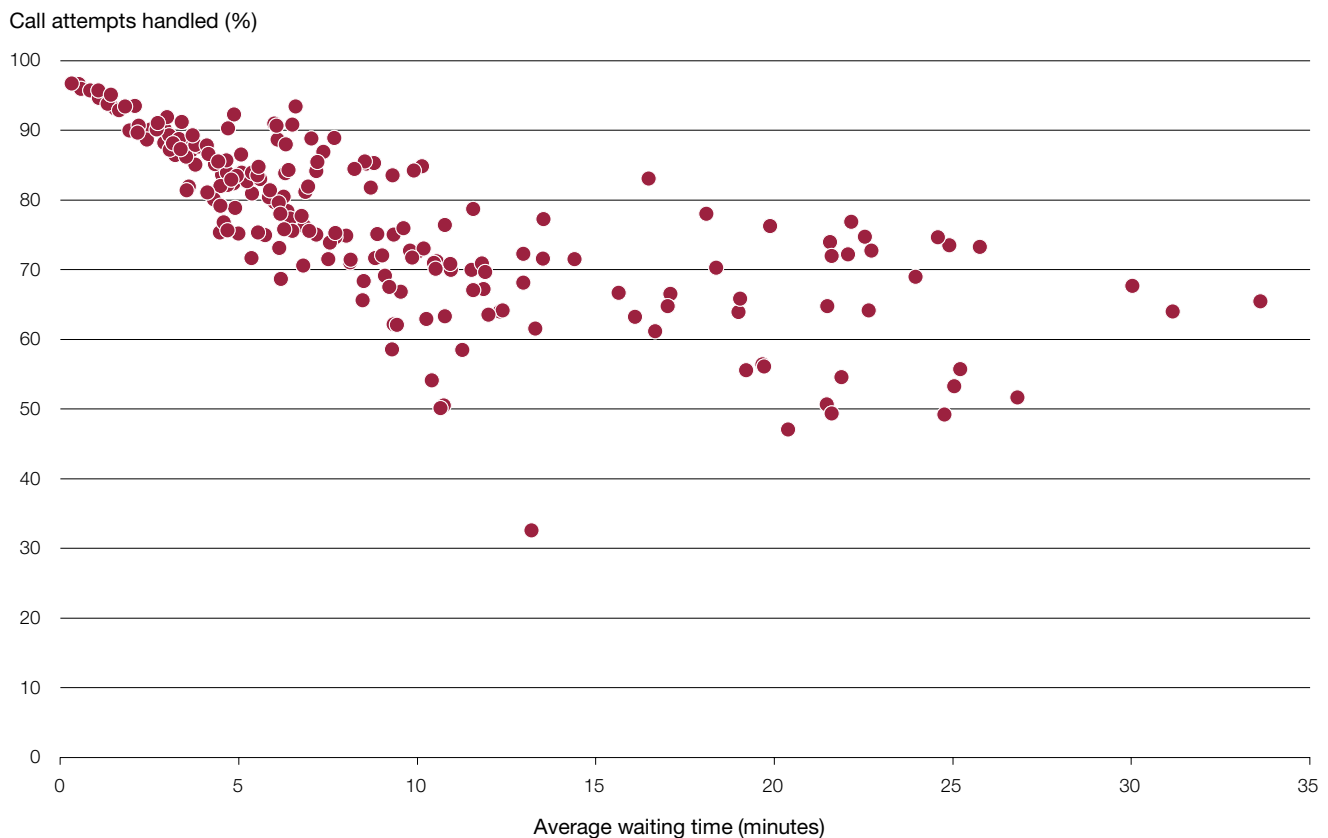
Source: National Audit Office analysis of HM Revenue & Customs’ data

2.13 HMRC cannot assume that customers will keep trying to get through. Recognising the importance of waiting times, in 2016-17 HMRC set itself a target to answer calls within six minutes on average, and to answer 85% of all calls in total. Analysis of calls indicates that the proportion of taxpayers who abandon calls in the queue varies more after five minutes. **Figure 13** shows that 90% of callers were normally prepared to wait for three minutes and 80% of callers for six minutes. Abandonment rates become increasingly variable with increasing waiting time. HMRC could expect to lose between 20% and 50% of callers if it takes more than an average of 10 minutes to answer the phone.

Figure 13

Percentage of calls handled and average waiting time, weekly performance, 2012-13 to 2015-16

The proportion of customers prepared to wait becomes more variable after five minutes



● Proportion of calls handled in each week

Notes

- 1 Each data point represents one week for the taxes lines from 2012-13 to 2015-16.
- 2 Average waiting times for the taxes lines and call handling performance percentage demonstrate a linear relationship between 0 and five minutes. After five minutes the relationship is non-linear and average waiting time no longer becomes a good indicator for expected percentage of call attempts handled.

Source: National Audit Office analysis of HM Revenue & Customs' data

2.14 Other tax authorities typically aim to answer most calls within two to five minutes (**Figure 14**). Ireland – which like HMRC has a PAYE system – aims to answer all calls within five minutes. Other countries like Australia set targets for answering calls during peak periods. Comparisons are limited because funding levels and tax regimes vary from country to country. Actual performance may vary in practice.

Figure 14

Tax Authority Customer Standards

Other tax administration authorities have targets for answering calls within a set time

Tax Authority	Performance Standard
Australia	80% of general calls answered within five minutes during our peak period of July to October
Canada	85% of individual callers succeed in reaching the CRA telephone service (tax filing season) Respond to 80% of individuals call in the queue within two minutes
Ireland	50% of calls within 30 seconds 85% of calls within three minutes All calls will be answered within five minutes
New Zealand	Minimum of 75% of calls answered within two minutes

Note

1 Actual performance may vary.

Source: Tax administration annual reports

The cost to taxpayers of complying with their tax obligations

2.15 Customers' ability to contact HMRC depends on having the time and money to do so. In September 2013, HMRC reduced call charges for personal tax customers by moving from 0845 higher rate numbers to local-rate 03 telephone numbers. We estimate customers incurred call charges of £10 million in 2015-16 compared to £12 million in 2012-13. The estimate assumes all customers use 03 numbers and there has been no change in the proportion of customers calling from mobile telephones. The overall saving of £2 million is relatively low because customers spent more time waiting for calls to be answered and more calls were abandoned in 2015-16.

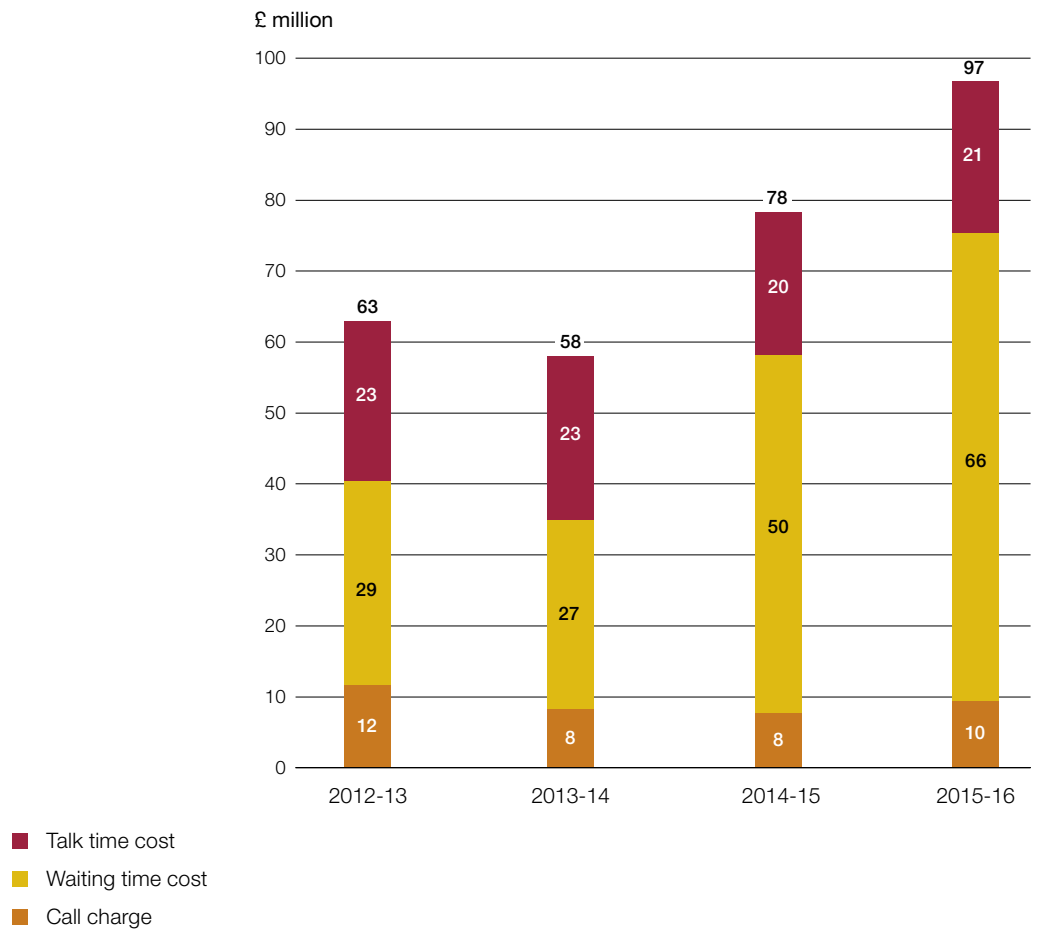
2.16 HMRC does not monitor the total administrative burden for personal tax customers. We estimate that the total time and money cost borne by customers contacting HMRC by telephone has increased from £63 million in 2012-13 to £97 million in 2015-16 (**Figure 15**). The estimate includes call charges (£10 million), the value of customers' time spent waiting to speak to an adviser (£66 million) and value of time spent talking to advisers (£21 million).

2.17 The value of customer time spent on the taxes lines increased from £52 million in 2012-13 to £87 million in 2015-16. We estimated the value of customer time at £17 an hour using HMRC's methodology. The increase is due to longer waiting times and more abandoned calls in the queue. On average callers have been prepared to wait longer and incur higher costs to get through. The average time-cost to callers in the queue was £6.71 for a successful call and £5.26 for an unsuccessful call (compared to £5.27 and £3.87 in 2014-15).

2.18 The figures indicate that HMRC's savings on telephony have been outweighed by the increased burden on customers. Between 2012-13 and 2015-16 customer costs increased by £33.6 million. We estimate that for every £1 reduction in HMRC's annual telephone transaction costs there has been approximately a £4 increase in the time and money cost to customers. The ratio reflects long waiting times for customers in the first half of 2015-16 which later improved as HMRC's own costs increased to improve performance. HMRC needs to strike a balance between its costs and customer costs to achieve a lower cost overall.

Figure 15
Customer cost estimate, 2012-13 to 2015-16

Increasing costs (in real terms) for personal tax customers calling HMRC



Notes

- 1 Costs is for the taxes helplines.
- 2 Costs do not include time spent listening to automated messages.
- 3 2015-16 data is provisional and may be subject to change.
- 4 Totals might not equal the sum of components due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs' data

How HMRC measures the burden on taxpayers

2.19 HMRC has not taken the increased cost of customers waiting on the telephone into account when assessing the administrative burden on customers. It reported that it reduced the overall administrative burden for all customers by £335 million between April 2011 and March 2015.⁷ Approximately £261 million of administrative savings relate to income taxes of which £63 million related to individuals.⁸ The remainder related to people's employers and other representatives. The figures are based on estimates from investment appraisals only, meaning that HMRC includes additional costs and savings to customers from change projects but does not take account of changes in operational performance.

2.20 HMRC attributed 87% (£292.5 million in 2014-15) of the net reduction in the administrative burden to Real Time Information (RTI). This requires employers to transmit data on tax and other deductions under the PAYE system to HMRC every time an employee is paid. The Administrative Burdens Advisory Board (ABAB) has said it is sceptical about HMRC's estimate of the benefits achieved through the introduction of the RTI system. ABAB views HMRC's Standard Cost Model, used to calculate the figure, as reasonably sound. However it believes that "there is a marked difference between the savings that the model identifies and the reality of savings experienced on the ground".⁹ For example, ABAB believes that there are fewer benefits for employers who before the introduction of RTI reported annually or used payroll software. HMRC has acknowledged that its standard cost model is too crude an approach for large changes such as RTI. HMRC consequently stated that it is essential to take a more rounded view of costs and benefits and does more to check and test what its model says against experience on the ground.

2.21 The RTI Stakeholder Taskforce informed us that compliance costs increased under RTI. The taskforce acted as HMRC's Joint Task Force for the introduction of RTI. It is made up of payroll agents, payroll software developers, employers and taxation experts. It represents a significant proportion of their respective sectors and covers a large proportion of UK employees. The taskforce told us that compliance costs have increased because reporting requirements are more demanding, recurring and frequent system errors and there is a lack of accessible and capable help to resolve issues. The taskforce reported that HMRC's RTI employer interface does not display submitted data, as well as errors in processing tax payments that have led HMRC to make unwarranted compliance interventions.

⁷ This is a net figure calculated as the difference between gross savings and additional burdens.

⁸ Nominal values.

⁹ Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/388136/141215_LETTER_FROM_TG_TO_FST_RE_RTI___Response_by_Jim_Harra_FINAL.pdf

2.22 Third sector organisations providing advice for people seeking help in their dealings with HMRC saw a reduction in their tax cases between 2012 and 2014 but the trend has reversed since then. TaxAid, Tax Help for Older People, and Citizens Advice all provided data to us showing demand for their services increased in 2014-15 to levels similar to 2011. HMRC told us it had made an additional financial contribution in 2013-14 and 2014-15 to help third sector organisations cope with additional demand. It expects to commit around £5 million between 2016-17 and 2018-19 to support third sector organisations working with its customers.

2.23 HMRC has been working collaboratively with agents to reduce the burden on customers and taking innovative approaches to building working relationships. It has started an 'HMRC working with tax agents' blog. It has also produced a range of live interactive and pre-recorded webinars, published agent toolkits detailing common errors and tips, and it is developing a digital service 'Agent Online Self Serve'. HMRC has established a collaborative partnership 'Working Together' with the main professional bodies representing tax agents and advisers to improve its operations.

2.24 HMRC has simplified its self-assessment guidance to make things easier for customers. For example the 'how to fill in your tax return' guidance is half the length it was in 2012.¹⁰ In our survey, half of customers who have paid self-assessment income tax or submitted a tax return thought the time to complete a self-assessment return was reasonable, 55% thought it was very or fairly reasonable, 30% thought it was neither reasonable nor unreasonable and 13% thought it was unreasonable.¹¹

10 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/454496/sa150-notes_2015.pdf

11 3% of people answered 'don't know'.

Part Three

The impact of service quality on tax revenue

3.1 Ninety-nine per cent of income tax revenue relies on compliant behaviour by taxpayers and their employers and their ability to engage effectively with HM Revenue & Customs' (HMRC) service in order to get their tax right. Income tax receipts fell in relation to Gross Domestic Product (GDP) from 15.9% in 2010-11 to 14.9% in 2014-15. The Office for Budget Responsibility (OBR), taking into account changes in tax rates, consistently forecast income receipts to rise as a share of GDP over this period. The OBR has attributed the decline to weak productivity and low wage growth across the economy, and policy changes such as increases to personal allowances, but has not ruled out that other factors may have an impact.

3.2 In this part we consider:

- HMRC's analysis of the relationship between customer service and tax revenue;
- customers' perceptions of whether HMRC helps them pay the right tax; and
- how this relationship influences HMRC's decision-making.

HMRC's analysis of the relationship between customer service and tax revenue

3.3 In January 2016, the Committee of Public Accounts recommended that HMRC should identify what impact its poor level of service was having on tax revenues. HMRC's response was that, while it believed customer service and compliance were inextricably linked, there was no evidence that recent spells of poor service had impacted on tax revenues.

3.4 HMRC believes people are more likely to pay the right tax when they find HMRC easy to deal with and if they understand what is expected of them, and that customer service and tax compliance should therefore be taken together in considering how it delivers services.¹² The reasons that people comply are likely to be affected by many factors. These include: their beliefs and values, which are influenced by social norms; their capability to comply, such as their level of numeracy; the opportunity for them not to comply if they were determined not to; and their perceptions and attitudes towards HMRC, which in turn may be shaped by their experience of HMRC's services.

¹² HC Committee of Public Accounts, *HM Revenue & Customs performance in 2014-15*, Sixth Report of Session 2015-16, HC 393, November 2015.

3.5 These diverse influences make it inherently difficult to demonstrate or quantify a causal relationship between the quality of customer service and tax revenue. We are not aware that any tax authority has been able to do so. But HMRC has recognised the need to understand more about these complex relationships. It has already undertaken research in this area, which we set out below, and has agreed to work with the NAO over the next year to explore in more detail the links between taxpayers' experience of HMRC's services and tax compliance.

3.6 In 2013, HMRC commissioned an independent research organisation to run eight focus groups to test the link between the quality of customer service and tax compliance.¹³ Most participants did not believe that customer experience was a factor in driving deliberate non-compliance. They considered this a question of personal morality or appetite for risk. Some participants felt that an improved customer experience could lead to reduced mistakes and improve the timeliness of payments.

3.7 HMRC has also reviewed academic research from the UK and abroad to map out hypotheses of how customer experience might affect customer behaviour (**Figure 16** overleaf). These included the hypotheses that compliance might be affected by the competence and professional manner of call centre staff and the perceived fairness and content of guidance. Other factors, such as the accessibility of services, might influence tax compliance less directly.

3.8 While this research is theoretical, it points to some possible areas of tension for HMRC to manage: for example, a more responsive and accessible service could potentially encourage more customer contact and raise costs. At a time of austerity when HMRC has been required to make significant cost savings, it has had to strike a balance in delivering its linked objectives of maximising revenue, reducing costs, and maintaining customer service.

3.9 Building on international academic research, HMRC has also carried out exploratory analysis which suggests that customer satisfaction in other countries may have a relationship with the size of the tax gap. HMRC built an econometric model that used multi-country surveys to estimate the impact on the shadow economy (a proxy for the tax gap) of a change in tax morale, power and trust (proxies for customer experience). The model suggested that a one percentage point increase in customer satisfaction was associated with a 0.3% decrease in the tax gap.¹⁴ If this relationship could be proven and were to hold in the UK, a one percentage point improvement in customer satisfaction would result in a £43 million reduction in the tax gap, and therefore increased income tax revenue of £43 million each year. But because the model relied on weak evidence, HMRC has not used this analysis as a basis for decision-making.

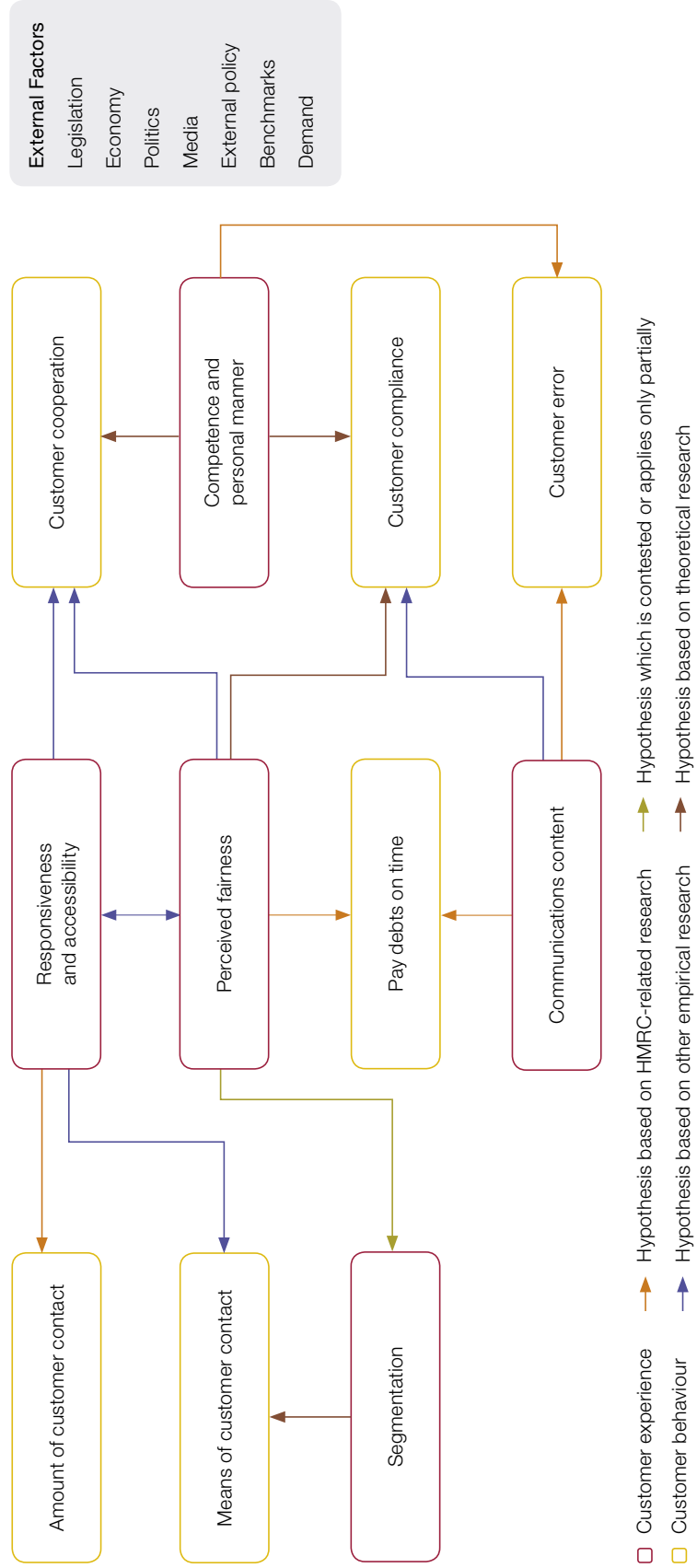
3.10 We identified five specific areas where HMRC's research or analysis, and other sources have suggested how the quality of customer service might affect tax revenue (**Figure 17** on page 41). The research is indicative and the findings are not statistically representative of the UK population.

¹³ Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/344754/report280.pdf

¹⁴ Different measures of trust in public services, for example, confidence in government and confidence in civil service, were used as proxies for customer experience.

Figure 16 HMRC's hypotheses of how customer experience may influence customer behaviour

HMRC have reviewed academic literature to understand how customer experience could impact customer behaviour



Source: HM Revenue & Customs' review of academic literature

Figure 17

Five ways customer service may affect tax revenue

Ways service could affect revenue	Supporting evidence
1 Complex or incorrect guidance or advice could result in incorrect calculation of liabilities.	HMRC research suggests the availability of information might contribute to customer error. We found errors in online guidance. We looked at the self-employed and rental income sections of the online self-assessment form. We checked 51 questions and found the supporting guidance was incorrect for three. One created potential for a taxpayer to overpay £126,000 in tax. Another created potential to underpay £11,000 in tax. We do not know if any customers have gained or lost from the errors. In November 2015, HMRC initiated an internal review of how it keeps its guidance consistent and up-to-date. After each new release, HMRC now checks that the correct version is online.
2 Pre-population of taxpayer accounts by HMRC could improve compliance. Risk of increased error if customers do not correct incomplete or inaccurate data.	HMRC research experiments found the use of accurate third party information nominally improves compliance, and that the use of inaccurate third party information reduces compliance. HMRC expects pre-population to improve taxpayer compliance. Live pilots will test the viability and accuracy of pre-population.
3 Accessibility of information and advice services could lead to error, under-declaration of liabilities, or failure to submit a tax return.	In November 2013, HMRC board minutes stated that handling of income tax calls had an impact on the protection of tax revenue which should be measured. US research found that successfully provided information leads to less tax under-reporting. It also found failure to deliver on information requests leads to lower compliance, perhaps even more so than if no information service had been offered in the first place.
4 If customers understand HMRC's calculations they should be more inclined to accept the amount and pay on time.	HMRC research suggests where interactions with HMRC staff, letters and literature have allowed customers to understand how their overpayment came about, they are more likely to quickly repay their debt.
5 Taxpayers who feel fairly treated may be more willing to comply or engage with the tax system.	In eight HMRC focus groups, most participants rejected a link between customer experience and deliberate non-compliance. Some customers suggested that a lack of transparency and flexibility by HMRC could lead to them not taking care or to deliberate evasion. Academic research, focused on the Swiss tax authority, considered whether taxpayers' willingness to pay their taxes is supported, or even raised, when the tax officials treat them with respect. It concluded its analysis clearly indicated that the way tax authorities interact with taxpayers has an impact on the intrinsic motivation to pay taxes.

Notes

- 1 HMRC research referred to in 1 and 5 involved eight focus groups across four locations and five depth interviews. Non-compliant and dissatisfied customers were over sampled. The findings represent the views of participants and are not representative of the general population. It was not possible to test whether the relationship described was a real causal relationship or being used to rationalise a behaviour.
- 2 Under controlled experiments (2 and 3) evidence is generated in a controlled version of reality. HMRC research in 2 used controlled experiments with students, the typical sample used in experimental economics. Some researchers criticise the use of students as not representative of the general population.
- 3 The relationships identified in US research (3) need to be tested further in a field setting relevant to the UK and HMRC context.
- 4 Tax credits research was conducted in 2009-10. It involved 170 face-to-face interviews with people experiencing overpayments. The findings are based on the perceptions of respondents and are not statistically representative of the general population.
- 5 Swiss research was based on a survey of 26 Swiss cantons in 1970, 1978, 1985, 1990 and 1995. Switzerland operates a different democratic and tax system. The relationships identified need to be tested further in a field setting relevant to the UK and HMRC context before we could be confident that the findings have wider relevance.

Source: National Audit Office analysis of HM Revenue & Customs and academic research

Customers' perceptions of whether HMRC helps them pay the right tax

3.11 Most taxpayers we surveyed who have contacted or interacted with HMRC said the information or support HMRC provided helped them to get their tax right. We asked each person surveyed to express agreement or disagreement with two statements:

- a** HMRC provides the information I need to calculate the tax I owe; and
- b** HMRC's customer service helps me pay the right tax at the right time.

63% of respondents agreed with at least one of these statements and 40% agreed with both (**Figure 18**).

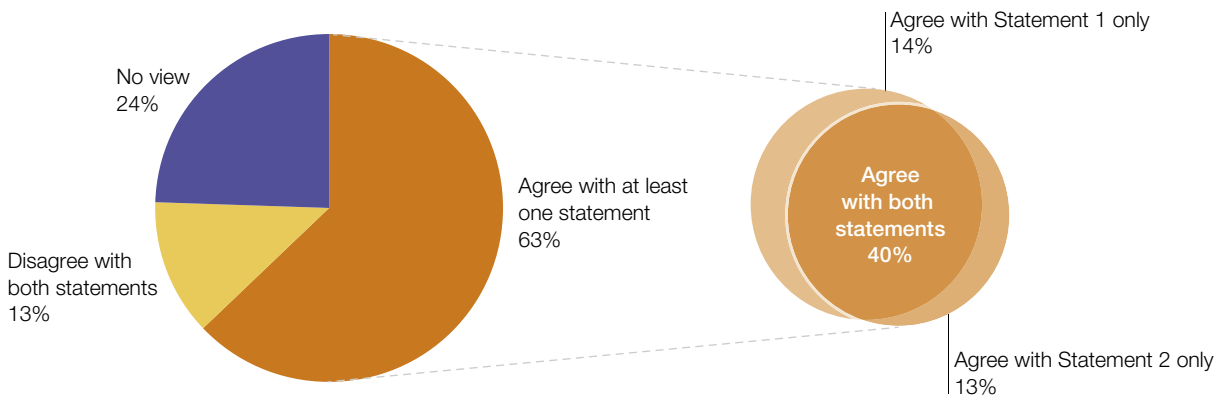
Figure 18
Customers' views of whether HMRC's services helped them to get their tax right

Most customers say HMRC's services have helped them get their tax right

63% of all income taxpayers who contacted or interacted with HMRC agreed with at least one of the statements below:

Statement 1: HMRC provides the information I need to calculate the tax I owe.

Statement 2: HMRC's customer service helps me pay the right tax at the right time.



Notes

- 1 'No view' refers to respondents who neither agree nor disagree with both statements. This includes those who disagreed with one of the statements and responded with 'Don't know' and 'Not applicable' to another statement, as well as those who responded with 'Don't know' and 'Not applicable' to both statements.
- 2 Based on responses from 1,267 people using HMRC services between November 2014 and November 2015.

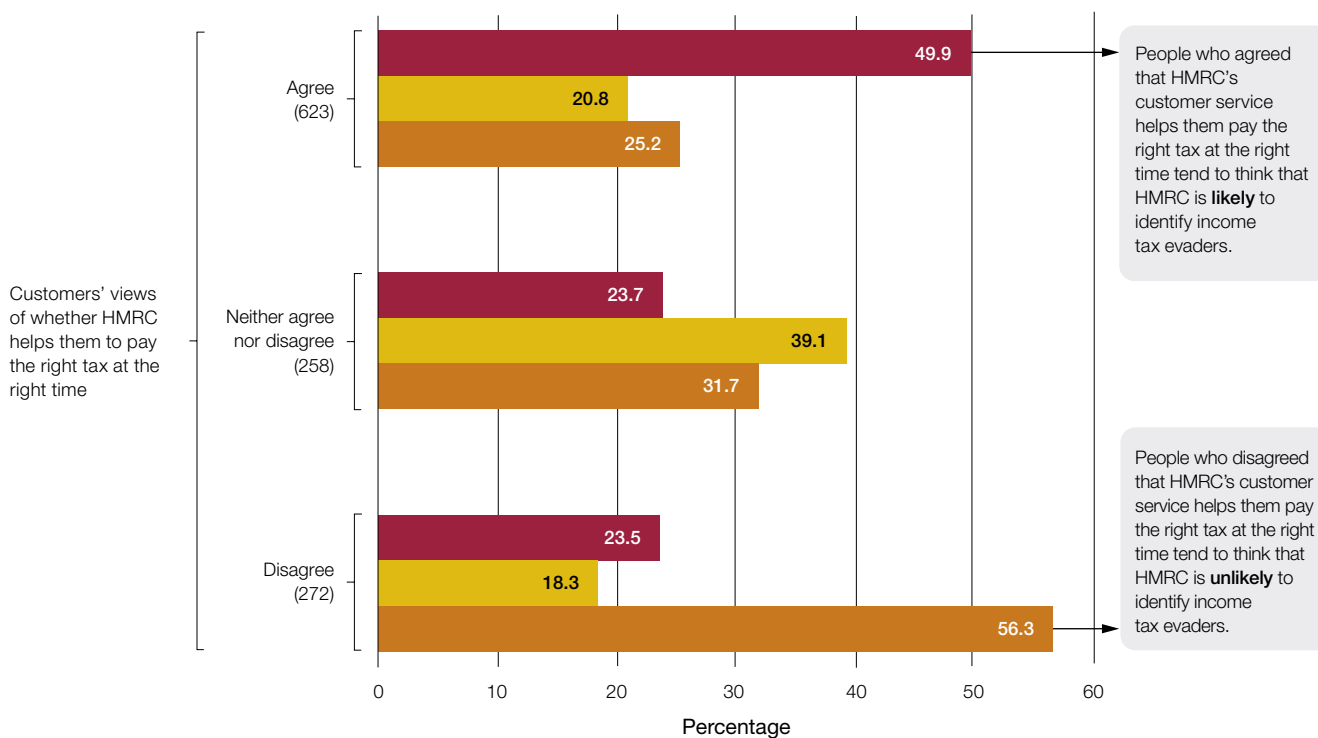
Source: Ipsos MORI survey commissioned by the National Audit Office

3.12 Our survey found that personal tax customers who thought HMRC’s customer service had helped them pay the right tax at the right time were more likely to think that HMRC would identify evaders compared to those who disagreed with that statement (Figure 19). The results were similar for customers who thought that HMRC provides the information that they need to calculate the tax they owe. Customers who did not think HMRC helped them were also more likely to think it would not detect evasion. Though these findings indicate that taxpayers’ attitudes to compliance are influenced by service levels, they do not demonstrate to what extent, if at all, their behaviour is affected.

Figure 19
Customer experience and perceptions of identifying evaders

Customers’ perception of HMRC’s likelihood of identifying evaders varied with their view of whether HMRC’s customer service helped them to pay the right tax at right time

Customers’ views of whether HMRC is likely to identify income tax evaders



- Likely HMRC will identify income tax evaders
- Neither likely nor unlikely
- Unlikely HMRC will identify income tax evaders

Notes

- 1 The horizontal axis shows responses to the statement ‘HMRC’s customer service help me pay the right tax at the right time’.
- 2 Based on 1,267 taxpayers who have contacted or interacted with HMRC in the last 12 months.

Source: National Audit Office analysis of omnibus survey conducted by Ipsos MORI

3.13 HMRC's survey data indicate that customer service can significantly affect whether customers think tax evasion is acceptable. It has run two surveys that allow comparison of customer experience with views about the moral acceptability of evasion. Customers who found HMRC's service to be 'very straightforward' were six percentage points more likely to view income tax evasion as 'always unacceptable'.¹⁵ HMRC found statistically significant differences in attitudes to the acceptability of evasion for customers giving top ratings for factors related to customers' experience of HMRC, including fairness, trust in HMRC and satisfaction with the end result. Eighty-three per cent of customers who found dealing with HMRC 'very straightforward' thought evasion is 'always unacceptable' compared to 72% of all customers. It did not prove causality but the findings are consistent with research suggesting that customers who feel well treated are more likely to comply.

3.14 In 2015, HMRC merged its surveys about customer experience and attitudes to tax compliance. It will allow greater understanding of the possible relationship between customer service and tax revenue. HMRC intends to publish its findings in summer 2016.

HMRC's assessment of the impact of service changes on tax revenue

3.15 HMRC recognises that a clearer understanding of the relationship between customer service and tax compliance would help it to decide where to prioritise resources. In 2011, HMRC accepted a recommendation from the Committee of Public Accounts to model the risks and potential consequences of cost reductions on customer service and taxpayer compliance, and to use the results to inform its future approach to reducing costs.¹⁶ In November 2013, HMRC board minutes stated that the handling of income tax calls had an impact on the protection of tax revenue which should be measured.

3.16 Two recent business cases submitted in 2015 to increase the number of staff serving personal tax customers identified increased tax revenue as one of the expected benefits. Business cases for digital services have also argued that changes will improve tax compliance by making it harder for customers to make mistakes. HMRC has investigated its assumption that pre-populating taxpayer returns will improve compliance. Its initial research identified the risk that taxpayers may not correct mistakes in pre-populated data and it is proceeding with pilots to investigate further.

¹⁵ Eighty-three per cent of customers who found HMRC's services 'very straightforward' thought evasion is 'always unacceptable', compared to 77% of customers who did not find HMRC's services 'very straightforward'.

¹⁶ HC Committee of Public Accounts, *HM Revenue & Customs: PAYE, tax credit debt and cost reduction*, Fifty-eighth Report of Session 2010–2012, HC 1565, November 2011.

Appendix One

Our audit approach

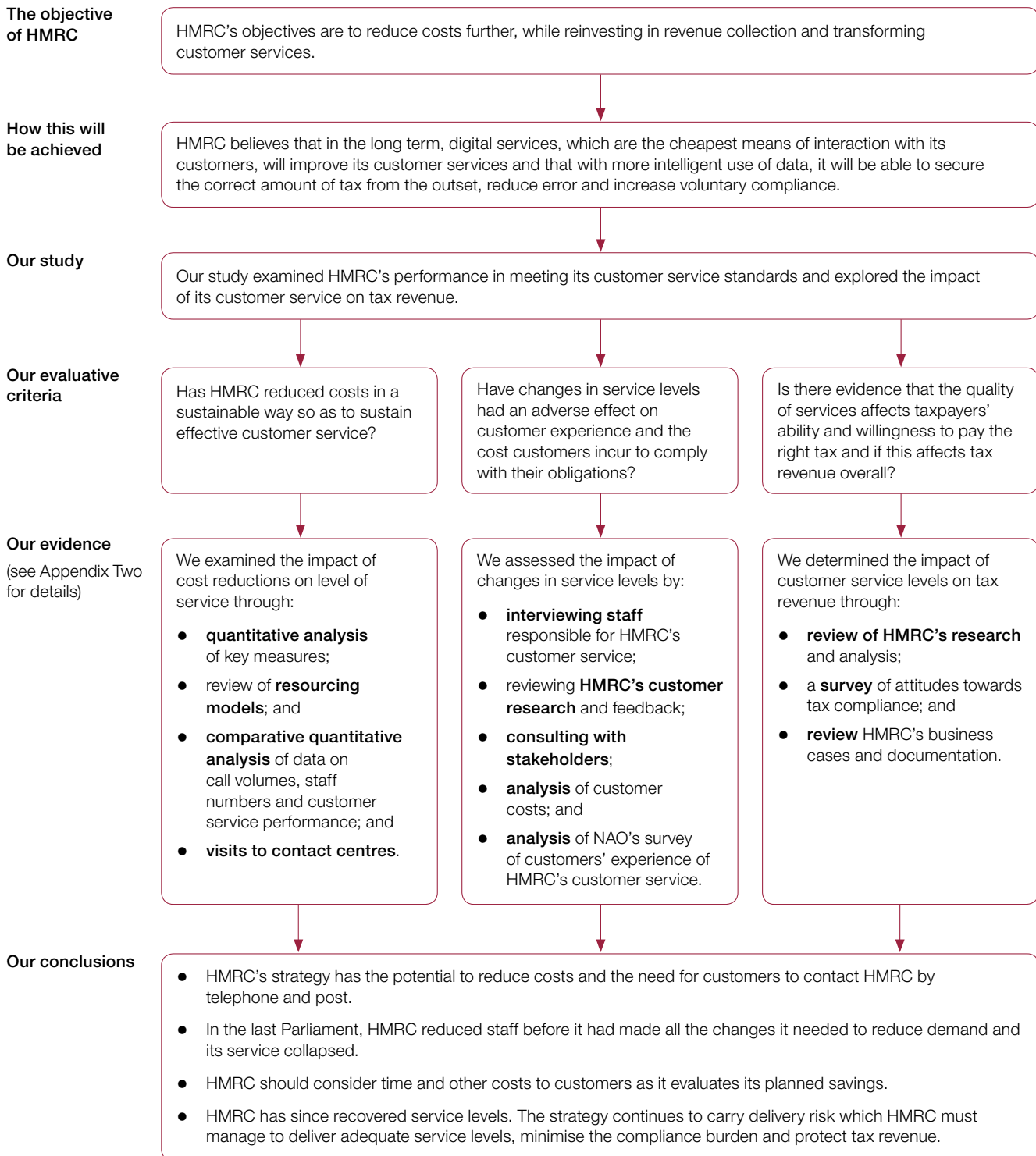
1 For HM Revenue & Customs' (HMRC) customer service to be value for money it must help customers to pay the right tax at the right time, without undue cost to customers or the public purse. HMRC has set its customer service targets as proxy measures of its performance, but meeting these targets alone would not necessarily equate to good customer service. We reviewed:

- how HMRC has reduced costs since 2010-11 while seeking to sustain an effective service to its customers (Part One);
- the impact of changes in the quality of HMRC's service on personal tax customers (Part Two); and
- whether there is evidence that the quality of customer service provided by HMRC affects the amount of tax it is able to collect (Part Three).

2 We have tracked HMRC's performance against its performance metrics and used other relevant data it gathers, such as survey data on the accessibility of its services and whether taxpayers find HMRC straightforward to deal with. We have also generated our own evidence to supplement the Department's data: an omnibus survey to assess how personal taxpayers rate HMRC's service; consultation with organisations representing different groups of taxpayers; and estimates of the costs borne by customers. We do not consider the service provided to tax credit customers or corporations: we intend to look at the quality of HMRC's service to these groups in future reports. Our audit approach is summarised in **Figure 20** overleaf. Our evidence base is described in Appendix Two.

Figure 20

Our audit approach



Appendix Two

Our evidence base

1 Our independent conclusions on the quality of HMRC's customer service for personal taxpayers and whether it is delivering value for money were reached following our analysis of evidence collected between October 2015 and January 2016.

2 We applied an analytical framework with evaluative criteria, which considers what level of customer service would deliver value for money. Our audit approach is outlined in Appendix One.

3 We assessed whether HMRC had reduced costs in a sustainable way so as to provide an acceptable level of service to taxpayers.¹⁷ In order to do this we:

- performed a quantitative analysis of HMRC's customer service performance measures, including telephone call-handling volumes, post turnaround times and customer experience scores, undertook time trend analysis against key actions taken by HMRC and analysed contact volumes to third-party helplines;
- benchmarked HMRC's performance against other similar organisations and international tax administrations;
- reviewed HMRC's resourcing models, including information and assumptions used to make resourcing decisions for phone and post;
- reviewed HMRC's 2010 spending review (SR10) commitments and assessed the outcomes against HMRC's initial plans;
- undertook a comparative quantitative analysis of data on call volumes, HMRC staff numbers, and customer service performance to explore the relationship between these factors and service performance; and
- visited HMRC's contact centre operations in Manchester and Newcastle to gain an understanding of the processes involved in call handling and to obtain insight into some of the issues faced at contact centres. During the visits we sampled a number of randomly selected phone calls, undertook semi-structured interviews with managers and call handlers and reviewed the quality assurance and performance management data and procedures.

¹⁷ We used 2014-15 as the base year for inflation adjustment.

4 We assessed the impact of HMRC's performance on customer experience and the cost customers incur to comply with their obligations:

- We analysed the costs that customers incur when they deal with HMRC (customer burden). In particular, we calculated the costs customers incur when they phone HMRC. The analysis took into account the time customers spend waiting for their calls to be answered, the call lengths and the direct call charges.
- We undertook **interviews** with HMRC staff and reviewed business cases, Departmental improvement plans and minutes of the Executive Committee meetings to identify how HMRC has prioritised changes to customer services.
- We reviewed how HMRC uses **customer research** and feedback and other data to detect and tackle systemic service issues, and the constraints affecting solutions.
- We undertook interviews with the adjudicator's office and reviewed publications to find systemic issues and common sources of customer complaints.
- We sought views and perspectives of customers through **consultation with stakeholders** to identify systemic issues that their members frequently face.
- We undertook **web-scraping** of online forum posts to identify service issues raised and the gov.uk website to assess the readability of HMRC guidance for personal tax customers.
- We reviewed HMRC's log of issues agreed with charity and third-party advisers to understand the main issues and actions taken. Groups we consulted included the Administrative Burdens Advisory Board (ABAB), the RTI Stakeholder Taskforce, TaxAid, Tax Help for Older People, Citizens Advice, and the Federation of Small Businesses.
- We undertook a review and secondary analysis of HMRC's customer survey results.
- Called the self-assessment helpline during and after the October 2015 paper deadline once an hour and measured the time waiting in the queue before being connected to an adviser. During the deadline week our average waiting time was 56mins 1secs, 95% confidence interval (53mins 29secs, 58mins 34secs).

5 We examined whether there was any evidence that changes in customer service levels affect taxpayers' ability and willingness to pay the right tax and if this affects tax revenue overall. To do this we:

- **reviewed HMRC's research**, analyses and experiments on the value and cost of customer service and factors affecting attitudes to compliance, particularly upstream compliance;
- undertook a literature review on links between customer service and yield; and upstream compliance approaches in international tax administrations;
- undertook document review of business cases for service provision decisions with a tax revenue and/or compliance consequence;

- **visited contact centres** to review their scripts and procedures on telephone and post handling to see whether opportunities for upstream compliance are taken, for example, whether questions are asked to determine the completeness of income;
- commissioned a **national omnibus survey** on attitudes towards tax compliance. The survey is a sample quota approach, which generally provides similar results to a probability sample of the same size. To ensure robustness we have reported findings where the unweighted sample size is at least 100 as smaller sample sizes are not reliable;
- research was carried out using Capibus, Ipsos MORI's face-to-face Omnibus service, among a sample of 5,887 adults aged 18+ in Great Britain. Of these, 3,651 were identified as being taxpayers. Interviews were carried out in homes by trained interviewers and took place across three waves of fieldwork between 30 October and 3 December 2015. To achieve a sample that is representative of the UK population, a two stage random location design was used. At the first stage, sample points – made up of adjacent Office for National Statistics output areas and stratified by ACORN classifications – were randomly selected. Within each of these sample points, a quota sample of participants was interviewed. Individual quotas were set for each sample point based on data from the 2011 census.
- data have been weighted to the known population profile by age, region, working status and social grade (all within gender), tenure and ethnicity. The following (unweighted) number of adults were interviewed in each of the following groups:
- which of these, if any, have you paid in the past 12 months? (3,418 out of 5,887 reported they had paid any of the taxes listed in the past 12 months);
- allow multiple options: Self-Assessment Income Tax; Income Tax through my employer; National Insurance; Capital Gains Tax;
- Inheritance Tax PAYE/NI only – 2710; Self-Assessment only – 274; Self-Assessment and PAYE/NI – 393; Not in PAYE/NI or Self-Assessment, but pays Personal Tax – 41;
- there were 114 respondents in the survey who said they did not pay self-assessment income tax, but did pay any of the other taxes (any of PAYE, NI, Capital Gains Tax or inheritance) and then said they submitted a tax return by hard copy or online.

- in which of the following ways, if any, have you personally contacted or interacted with HMRC in the past 12 months? (1,267 out of 3,418 reported they had contacted or interacted with HMRC in the past 12 months in one or more of the following ways);
- by completing and submitting a hard copy – paper – tax return; by completing and submitting a tax return online; by viewing or reading guidance information on the HMRC website on the phone; by email; by post; via webchat; on social media; other (please specify);
- by type of tax:
 - Self-Assessment only – 151; PAYE/NI and Self-Assessment – 291; PAYE/NI only – 813; Other – 12;
- by channel of contact;
 - online only - 262; Phone only – 438; Post only – 195; Online and phone – 116; Online and post – 55; Online, post, and phone – 87; All other respondents – 45.
- Figure 18...To what extent do you agree or disagree with each of the following statements? (1,267);
- S1. HMRC provides the information I need to calculate the tax I owe;
- S2. HMRC's customer service helps me pay the right tax at the right time;
- agreed with at least one statement – 794; Disagreed with both statements – 163; No view – 310.

Appendix Three

HMRC customer service performance

1 HMRC reports regularly on key performance indicators for their customer service. **Figure 21** summarises the main key performance indicators in place in 2014-15 and provides historic data for comparative purposes.

Figure 21

HMRC's customer service performance

HMRC's performance against key measures of customer service declined in 2014-15

Key performance indicator	2010-11 (%)	2011-12 (%)	2012-13 (%)	2013-14 (%)	2014-15 (%)
Accessibility					
Percentage of phone calls answered (all helplines)	48	74	75	79	73
Percentage of phone calls answered (taxes helplines)	53	70	76	81	71
Timeliness					
Call attempts handled within five minutes	N/A	N/A	N/A	59	39
Percentage of post answered within 15 days	51	66	81	78	70
Percentage of post answered within 40 days	–	92	97	96	95
Quality					
Percentage of post answered within 15 days passing quality checks	92	92	92	91	93
Efficiency					
Unit Cost: Total cost of collecting income tax (Self Assessment and Pay As You Earn) (Pence per £ collected)	1.00	1.02	1.00	0.93	0.83

Note

1 Call attempts handled within five minutes is based on the first six months of 2014-15, after which HMRC stopped reporting.

Source: HM Revenue & Customs Annual Report and Accounts and Business Plan indicators

Appendix Four

Previous National Audit Office and Committee of Public Accounts work

1 The National Audit Office and the Committee of Public Accounts have reported regularly since 2010 on HMRC's approach to customer services. **Figure 22** summarises the findings from a selection of the most relevant reports.

Figure 22

Previous National Audit Office and the Committee of Public Accounts work relevant to HMRC's customer services

NAO report title (PAC report title)	Date	Findings and conclusions	HMRC commitments
Handling telephone enquiries (HM Revenue & Customs: Handling telephone enquiries)	January 2010 (March 2010)	HMRC was not achieving value for money in its handling of telephone enquiries. Its performance in answering calls in 2008-09 was well below its own targets and industry best practice benchmarks. We recommended that HMRC should consider different ways to manage demand peak periods, including outsourcing and part-year permanent contracts. The Committee of Public Accounts (The Committee) recommended that HMRC should commit to achieving by March 2012 the industry best practice of answering at least 95% of calls.	HMRC set up a change programme to improve percentage of call attempts answered from 57% to 90% and reduce costs by around 30% by March 2012. HMRC recognised that long waiting times led to higher costs to the customers. It therefore decided to cap queue lengths in order to avoid unreasonable costs to customers. HMRC had a series of plans that included more flexible use of staff, to better match supply to customer demand.
HM Revenue & Customs' 2009-10 Accounts, Report by the Comptroller and Auditor General (HM Revenue & Customs' 2009-10 Accounts)	July 2010 (January 2011)	Problems in the quality of HMRC's employment data and operation of the new national insurance and PAYE service led to difficulties in processing. Work items were created at a much faster rate than HMRC's operation team were ready to handle. It was imperative that HMRC promptly cleared work items. The Committee recommended that HMRC should assess the return on investment of having additional staff collecting PAYE and structure its staffing to maximise the net revenue collected.	In the short term HMRC planned to allocate additional resources to tackle backlogs. HMRC agreed that it needed to improve its understanding of unit costs and return on investment from all of its activities and work was under way to develop a new unit cost methodology.

Figure 22 *continued*

Previous National Audit Office and the Committee of Public Accounts work relevant to HMRC's customer services

NAO report title (PAC report title)	Date	Findings and conclusions	HMRC commitments
HM Revenue & Customs' 2010-11 Accounts, Report by the Comptroller and Auditor General (HMRC: PAYE, tax credit debt and cost reduction)	July 2011 (November 2011)	HMRC should develop a fuller understanding of the impact of work items to develop a comprehensive plan which embraces in-year work management. And it should define its operating model for PAYE and how it plans to transform that model as it moves to the RTI environment. The Committee found that HMRC did not fully understand the potential impact of cost reductions on customer service and taxpayer compliance. Some of the Department's initial modelling indicated that reducing resources may lead to a fall in tax untary compliance with tax rules. The Committee recommended HMRC extend its modelling to cover the risks and potential consequences of cost reductions on customer service and taxpayer compliance, and use the results of this modelling to inform its future approach to making cost reductions.	HMRC prioritises those work items that have a tax consequence for taxpayers. HMRC recognised the importance of understanding the relationship between its activities, the costs of those activities, and the performance results they deliver. It would continue to improve its modelling to better understand the connections between costs, activity, and performance.
HM Revenue & Customs' 2011-12 Accounts, Report by the Comptroller and Auditor General	June 2012	HMRC should continue its work to understand the risks and tax effects of each work item. A sustainable position is dependent on both the future volumes of work items created and the resources available to deal with these items. Backlog of work items will impact the accuracy of customers' records, leading to increased customer contact and have an adverse impact in HMRC's performance targets.	HMRC, to deal with the volume of work items, prioritised those that affected a taxpayer's end-of-year tax position, identified items that were duplicated elsewhere and managed the production of others. The Department had begun an exercise to look at ways of automatically reducing or eliminating some of these work items.

Figure 22 *continued*

Previous National Audit Office and the Committee of Public Accounts work relevant to HMRC's customer services

NAO report title (PAC report title)	Date	Findings and conclusions	HMRC commitments
Customer service performance (HMRC: Customer service)	December 2012 (March 2013)	HMRC had acknowledged that its performance in providing services to the public had been unacceptable. In addition, the majority of its phone numbers were 0845 numbers, which resulted in high call charges for some customers. We recommended that HMRC should further refine its modelling of its customer contact to ensure that it has sufficient resources to meet its performance targets. We also recommended that HMRC should provide alternatives to 0845 numbers to reduce costs to customers. The Committee deemed HMRC's target of answering 80% of calls within five minutes as woefully inadequate and unambitious. If there are significant increases in customer contact, HMRC may need to put in additional resources to avoid its performance plummeting.	HMRC decided to move away from 0845 numbers which were much more costly for their customers. HMRC aimed to resolve more customer calls first time via its programme of 'Once and Done' trials. HMRC agreed that it should be ambitious in improving the call-waiting times but it must balance this with the costs of doing so and with other priorities, such as improving the quality of advice given to customers. HMRC's digital by default agenda aimed to reduce contact by telephone by enabling customers to self serve. HMRC was also developing contingency plans to safeguard front-line customer service activities, so that it could sustain improved customer service levels, even if plans to reduce avoidable contact and deploy staff more flexibly did not achieve the forecast benefits.
Progress on reducing costs	February 2013	HMRC's understanding of costs and the value of activities across the organisation was not yet sophisticated. This potentially undermined HMRC's ability to identify and implement sustainable cost savings. We recommended that HMRC should link more closely cost reductions and performance at an operational level. Risks to reducing costs remained, mainly due to the complex interdependencies between projects.	HMRC planned to spend £376 million in total on change projects across the four years of the spending review to make sustainable savings of £411 million a year by 2014-15. HMRC, in response to the NAO and the Committee's recommendation to model the impact of cost reduction on tax revenues and customer service over the spending review period had started modelling the impact on tax revenues and had just started work to assess the impact on customer service.
HM Revenue & Customs' 2012-13 Accounts, Report by the Comptroller and Auditor General	July 2013	During 2011-12, there were more work items generated than HMRC had the capacity to handle. HMRC had much further to travel to raise customer service standards to an acceptable level. Improving its service to customers is an important element of HMRC's strategy to collect a higher proportion of the tax due by helping people to comply voluntarily with their tax obligations. We recommended that HMRC should identify and seek to apply best practice in customer service from elsewhere in government and the private sector.	HMRC had plans to prioritise its available resources to ensure that the highest priority work items were processed. HMRC planned to reduce the volume of work items generated to around 10 million in 2014-15. It expected the introduction of RTI to reduce the volume of work items with more taxpayer records automatically reconciled at the end of the tax year.

Figure 22 *continued*

Previous National Audit Office and the Committee of Public Accounts work relevant to HMRC's customer services

NAO report title (PAC report title)	Date	Findings and conclusions	HMRC commitments
Charges for customer telephone lines	July 2013 (October 2013)	Since April 2013, HMRC had introduced 03 numbers for its busiest higher rate telephone lines. The Committee found customer service levels to be unacceptable and calls taking too long to answer. HMRC's performance with average waiting time for calls to be answered in the first quarter of 2013-14 of about seven minutes, fell considerably short of industry benchmark of answering 80% of calls in 20 seconds.	HMRC intended to have added 03 numbers for all personal tax, debt management and banking telephone lines by September 2013. The Cabinet Office stated that it does not have the expertise to set out how departments should best manage the performance of their customer service lines and that this was for departments to set out, given the specific circumstances of the service in question.
(HM Revenue & Customs' performance in 2014-15)	October 2015	HMRC was still failing to provide an acceptable service to customers and could not tell the Committee when it would be able to do so. The Committee expressed its concerns that customer service levels are so bad that they are having an adverse impact on the collection of tax revenues. HMRC should identify what impact its poor level of service is having on tax revenues and produce a detailed plan setting out how and when it will provide an acceptable standard of customer service. HMRC maintained that its main focus was on providing a consistent level of customer service throughout the year, rather than meeting annual targets. The Committee recommended that HMRC should report its performance against measures which reflect all of its aims, including providing a consistent level of service.	HMRC acknowledged that service and compliance are inextricably linked but maintained that there was no evidence to suggest that poor service had had an impact on tax revenues. The Department, over the next five years, will transform the way customers interact with them. By 2016, HMRC will have introduced personalised digital accounts and made them available to all individual taxpayers. HMRC believes that these accounts will enable customers to more easily understand their obligations. HMRC will launch a new suite of Key Performance Indicators from April 2016 to measure service standards across all existing and new channels including the channel shift to online accounts and customers' satisfaction with them.

Source: National Audit Office, the Committee of Public Accounts' reports and Treasury Minutes

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO External Relations
DP Ref: 11012-001

£10.00

ISBN 978-1-78604-051-0

