

MPs criticise HM Revenue and Customs

The Treasury Select Committee delivered a damning report into the operation of HMRC.

Because of this Report's importance to tax practitioners and taxpayers, its main contents are summarised below in verbatim extracts.

The Summary is given in full. Other paragraphs are selectively quoted to illustrate concerns.

The three main concerns are:

- access to advice by telephone
- delays in answering letters
- problems relating to Internet filing.

The full Report can be accessed from the Parliament website.

Summary (full text)

“There is considerable dissatisfaction among the public and tax professionals with the service that Her Majesty's Revenue and Customs (HMRC) provides to taxpayers and benefit claimants. Three areas in particular stood out in the evidence we received: access to advice over the telephone; responses to post; and offline alternatives to internet-based filing and guidance. This dissatisfaction has been building for some years now, and was reported on by our predecessors in the last Parliament. As such, we do not accept the Department's explanation that these problems are primarily the result of reconciling of multiple PAYE tax years at once. There is a serious risk that if communicating with HMRC becomes too time-consuming, difficult and expensive, respect for the tax system, and with it voluntary compliance, may be undermined.

“The PAYE system itself has been the subject of negative publicity throughout the last year. The National Insurance and PAYE Service should ultimately make PAYE work more effectively and ensure efficiencies across the Department. However, the problems resulting from its flawed implementation have done significant damage to the public perception of HMRC and the tax system more generally. It is crucially important that the 2012 target for clearing open cases is met and that improvements in overall performance follow soon afterwards.

“Looking further ahead, HMRC has committed to an ambitious timescale to deliver Real-time Information (RTI), driven in part by the importance of the project in delivering the Universal Credit. Implementing RTI before the system and its interface into HMRC have been properly tested could lead to greater delays later on and further damage public confidence in the Department and the tax system. We recommend that the Government only go ahead with full implementation once the system has been fully tested, and that its preparations should be subject to a real-time external audit.

“HMRC operates under significant pressures. It has to implement increasingly complex tax legislation, sometimes developed without full account of the practical consequences, whilst

undergoing restructuring, delivering substantial resource reductions and job cuts. The Government has agreed a Spending Review settlement with HMRC that involves further reductions, offset by “reinvestment” in compliance and PAYE. Whilst genuine efficiencies have and will continue to be made, we are concerned that performance may deteriorate further if resource reductions are badly managed: we received disturbing evidence of job cuts being made before the efficiencies that were intended to enable them had been delivered, and of a culture of command and control that disengages staff and prevents potential problems from being dealt with effectively.

“HMRC continues to face major difficulties with staff engagement. Whilst staff remain dedicated to their work despite the pressures HMRC is under, they have little confidence in the leadership of the Department or that change will be for the better. This has been a long-running problem for the Department. Whilst senior management are very aware of the problem and have made efforts to improve engagement, there has been little evidence of any positive impact to date.

“This report does not examine HMRC’s performance in ensuring it raises the correct amount of revenue in detail. We intend to report on this later in the year. However, we do agree with the Committee of Public Accounts that HMRC should examine how it can improve accountability regarding the settlement of large tax cases.”

Resources

“One of the themes in the evidence we have received has been the resourcing of HMRC. Many of our witnesses — including the HMRC unions, accountancy bodies, former employees and business organisations — expressed the view that HMRC’s performance has been damaged by the sustained reductions in its resources made since the merger of the former Inland Revenue with HM Customs and Excise in 2005.” (Para 8, part)

Burden on taxpayers

“One of the most concerning themes in the evidence we received was that some of these [efficiency] savings were effectively being made by displacing the costs of tax administration onto individuals, businesses and tax professionals.” (Para 14, part)

“The possible displacing of costs from HMRC onto taxpayers has been a long-running concern for tax agents, businesses and individuals. Not enough is known about the impact of resource reductions at HMRC on the administrative burdens faced by businesses and individuals. It would be counterproductive if ‘efficiencies’ achieved at HMRC resulted in greater costs being placed on the wider economy. Such a result would impede growth.” (Para 18)

“A common complaint against HMRC has long been that it does not understand how its work impacts on the taxpayers that it deals with. Small businesses in particular have long taken the view that HMRC simply does not understand how they operate. Individual taxpayers, particularly those making payments through PAYE, often believe that HMRC will automatically calculate their tax correctly, whilst in reality HMRC is reliant on the information provided by

them and their employers.” (Para 142)

“The prospects of HMRC’s customer service improving in the near future appear bleak. The Department is still wrestling with the fall-out from the implementation of NPS [National Insurance and PAYE computer system] and does not expect to clear the backlog of open cases until 2012.” (Para 149)

Planned “efficiency savings”

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

“ARC [the HMRC trade union] said that insufficient effort had been put into recruiting and training tax professionals who would be able to take over from departing HMRC staff” (Para 26, part)

“The Department’s effectiveness depends not only on the quality and effectiveness of its public-facing and processing staff, but also on having a cadre of staff at all levels who have long experience in tax matters. There is some evidence that the workforce change programme may have led to a disproportionate loss of experienced people at HMRC.” (Para 27, part)

“HMRC’s claim to have delivered £1.1 billion of savings ‘without overall negative impact on performance’ lacked credibility.” (Para 139, part)

Legal complexity

“HMRC’s task is made harder by the increasing complexity of the tax system and deficiencies in the underlying legislation.” (Para 29, part)

Staff morale

“Staff engagement figures continue to be poor. The Cabinet Office’s autumn 2010 people survey ranked HMRC bottom of the entire Civil Service with an overall positive score of 34% (a composite score made up of responses to key questions)—a 2 percentage point fall on the previous year.” (Para 42)

“The Chairman of HMRC, Mike Clasper CBE, accepted that staff engagement was a major concern, but argued that there was a significant difference between the attitude of staff towards their work and towards the organisation more generally.” (Para 44, part).

“The overall average of positive responses relating to “My Work” was 49%, 22 percentage points lower than the CSb (Civil Service benchmark), driven down by very low scores relating to amount of control staff felt they had over their work.” (Para 45, part)

“Only 15% [of staff] felt proud when they tell others that they worked for HMRC, a full 40 percentage points lower than the Civil Service benchmark, whilst only 12% would recommend it as a great place to work. Under leadership and managing change, HMRC on average scored 17% positive responses, 20 percentage points below the Civil Service benchmark.” (Para 47)

“ The poor scores in these areas are a cause for concern as HMRC goes into another period of restructuring.” (Para 48, part)

“[ARC] pointed out that the staff survey revealed that “61 per cent of staff have no confidence in the decisions made by HMRC’s senior managers” (Para 48, part)

“Mike Clasper [chairman of HMRC] accepted that HMRC had managed change poorly and ‘we need better leadership’.” (Para 49, part)

“Relatively positive staff attitudes towards immediate colleagues and superiors stand in stark contrast with overwhelmingly negative attitudes towards organisational change and the management of the Department.” (Para 50, part)

“ The evidence we heard identified two broad causes behind the poor staff survey results: the impact of constant restructuring and staff reductions, and a perceived “command and control” culture.” (Para 51)

Command and control culture

“A second contributory factor identified by our witnesses was a ‘command and control’ approach to management within HMRC.” (Para 56, part)

“Middle managers are discouraged from reporting back to the top “bad news” or news that projects and initiatives are becoming unmanageable or are going awry. Such reports are regarded as “negativity” and will damn career progress.

“Thus at the top senior managers are largely unaware of the difficulties, problems, and obstacles that the bulk of the organisation faces. They know little of the scale of unanswered phone calls, and the unopened letters, the data quality of tax payers’ records and perhaps most importantly the nature and quality of the service provided on a daily basis to the taxpaying public. The role of middle managers is to struggle vainly and to provide the appearance that their targets have been met. They are not expected to provide reasons why targets are not met, they are just expected to get on and meet them.” (Para 56, part)

“The unions ... pointed to figures in the staff survey, suggesting that only 21% of staff within HMRC felt it was safe to challenge the way things are done—18 percentage points (pp) lower than the Civil Service benchmark (CSb).” (Para 58, part)

“The evidence we have received about the management culture within HMRC, supported by the staff survey results, is very disturbing. There is a perception that the Department is run on the principles of close control and management scrutiny, with little opportunity for individuals to develop autonomy and exercise their skills.” (Para 64, part)

“ It is particularly concerning that staff feel unable to escalate possible problems up the management chain or challenge established practice” (Para 65, part)

“HMRC has been through a period of instability at the top of the organisation that has led to a lack of strategic vision.” (Para 70, part)

Reputation

[Referring to the six million incorrect PAYE codes in 2010:] “the episode’s impact on the reputation of HMRC cannot be overstated.” (Para 80)

“Ten years ago the Inland Revenue had the reputation of being one of the best run Departments in Whitehall. Today HMRC’s reputation is in tatters as one disaster has followed another” (Para 81, part)

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

“HMRC’s poor performance in relation to customer service is concerning, not just because of the unacceptable delays and costs being placed on members of the public and businesses, but also its possible impact on the tax take. Several witnesses suggested links between the ease of complying with a tax regime and the compliance rate.” (Para 151, part)

“Reputational damage done to HMRC by the errors to PAYE codes in January 2010 and the subsequent reconciliation issues in late 2009-10 tied into a wider concern that a distant, underfunded and poorly performing HMRC could diminish respect for the institution and the tax system generally.” (Para 152, part)

“HMRC is now too often seen as an organisation that is unable to collect the right amount of tax, increasingly difficult to contact by phone, letter or in person, yet unforgiving of customer error and relentless in its pursuit of small debts. This image may have been exaggerated by parts of the press, but failings occur too frequently to be dismissed as ‘isolated instances’.” (Para 152, part)

“The service standards provided by HMRC cannot be treated as a separate issue from the collection of tax revenues and the level of tax compliance. Current levels of voluntary compliance should not lead to complacency: any negative change in attitudes regarding paying

taxes may take many years to filter through into reduced tax compliance and tax yields, at which stage it may be very hard to reverse. If a view of dealing with HMRC as being a frustrating, costly and time-consuming business were to become entrenched then there is a significant risk of public respect for the institution, and the tax system more generally, being lost.” (Para 154)

Real Time Information

[This scheme for radical reform of PAYE from 2013 was broadly welcomed, though with concerns.]

“ Our witnesses were generally supportive of Real-time Information in principle. However, few believed that the case for reform was as urgent as the Government initially portrayed.” (Para 89, part)

“The history of large IT projects subject to policy-driven timescales has been littered with failure.” (Para 93, part).

Service standards

“Much of the evidence received by the Sub-Committee focused on the service standards being delivered by HMRC. This evidence suggests there is widespread concern, particularly among tax professionals, about current standards and the knock-on impact on individuals and businesses.” (Para 94, part)

“ Witnesses from the professional bodies were primarily concerned about the amount of time it can take to get an accurate response from HMRC, either by post or over the telephone.” (Para 97, part)

“HMRC have acknowledged that their performance in providing services to the public has been unacceptable.” (Para 98, part)

“The evidence received by us and our predecessors suggest that poor service standards have been an issue for many years and have not been fully reflected in HMRC’s customer service measures.” (Para 99, part)

Contact centres

“The Department’s performance in responding to calls has been poor. In 2008-09, the Department answered only 57% of the 103 million calls to its main helplines, compared to an industry standard of 95%; callers waited on average two minutes, and nearly four minutes in peak periods to speak to an advisor; and yet contact centre staff spent only 38% of their time handling calls against an industry benchmark of 60%.” (Para 104)

“HMRC’s performance at responding to telephone calls has been patchy at best and unacceptable at worst. Based on past performance we do not have confidence that the Department will be able to achieve its target of 90% of calls answered in a day by March 2012.” (Para 108)

Getting the right answer

“A common theme in our the evidence we received was that it had become harder to deal with a tax issue—particularly a complex issue—in a single call to HMRC.” (Para 109, part)

“There was significant concern among our witnesses that it has become increasingly difficult to resolve a complex tax issue in a single phone call to HMRC.” (Para 111, part)

Post

“We have received a substantial number of letters from the public expressing concern and even disbelief about the time taken by HMRC to respond to post. Cases of replies being received only after two or three months, in each case from a different geographic location, are not uncommon.” (Para 114, part)

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

Face-to-face contact

“We welcome the fact that HMRC’s Change Plan commits to “providing targeted help for vulnerable customers who most need face-to-face support”, but we do not believe face-to-face support should solely be available to the vulnerable.” (Para 126, part)

Online communication

[There was general support for moving the computer literate to on-line filing.]

“However, HMRC’s movement online has not been without its problems and its critics. The online tax credits portal has been shut down since a large-scale fraud in 2005.” (Para 130, part)

“The Forum for Private Business argued that many online processes are too complex for their members to use and gave an example of a relatively simple change to information on HMRC’s website that they were told could take up to six months. A survey of business people by the Institute of Directors found that only 16% considered it easy or very easy to find the information they needed on the HMRC website, although the IoD acknowledged that improvements had been made.” (Para 130, part)

“HMRC requires all Company Tax Returns for periods ending from 31 March 2011 to be filed online, yet figures in a report commissioned by HMRC in 2008 suggest 9% of businesses do not have access to a computer, let alone broadband internet.” (Para 133, part)

“HMRC has been relatively successful at enabling taxpayers to pay many of their taxes online. However, requiring online filing prematurely runs the risks of excluding those without reliable

high-speed internet access, dissuading those who are not computer literate from being tax compliant and overloading systems that have not had time to bed in.” (Para 135)

Debt management

“HMRC’s approach to handling debts owed to it was a matter of concern to some of our witnesses. The Committee regularly receives correspondence from individuals and other Members on behalf of their constituents who feel that they have been treated in a heavy handed way by HMRC.” (Para 164, part)

“The tone of some of the [tax chasing] letters being sent out suggest the “potential consequences” are inevitable unless payment is immediately forthcoming. These letters appear to have been widely used without sufficient thought to whom they were sent to, even being sent to people who did not actually owe money. Such language is appropriate only where there is strong evidence of persistent and deliberate non-payment; it is completely inappropriate where the amount owed is in dispute, where the amount may be zero, or where the recipient is vulnerable.” (Para 168)

Conclusion

“The evidence we have received in this inquiry has been disturbing. HMRC’s delivery of services to the general public has fallen to unacceptable levels in several areas. Many factors have contributed to this process: overly ambitious expectations for IT projects, sustained cuts to resources, a management culture of “command and control”, increasingly complex tax legislation and the legacy of the merger.” (Para 170)