

Public Accounts Committee

Oral evidence: HMRC's performance in 2014–15 HC 393

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Kevin Foster, Clive Lewis, Nigel Mills, David Mowat, Teresa Pearce, Stephen Phillips, John Pugh, Nick Smith, Karin Smyth, Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Steven Corbishley, Director, National Audit Office, Rob Prideaux, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Jennie Granger, Director General for Enforcement and Compliance, HMRC, Justin Holliday, Chief Finance Officer, HMRC and Lin Homer, Chief Executive and Permanent Secretary of HMRC, gave evidence.

Chair: Good afternoon everybody, and welcome to the Public Accounts Committee. This is our first hearing of this Parliament with HMRC. I welcome Lin Homer, the chief executive and Permanent Secretary of HMRC. I also welcome back Jennie Granger, the director general for enforcement and compliance, and Justin Holliday, the chief finance officer at HMRC. Thank you very much for coming and apologies that we have started late. It is our intention always to start on time, so you will have to forgive us for that.

Obviously, we have a lot of ground to cover today. I should say at the beginning that there are areas that we can congratulate you on—some of your change programme—but we have three Members primed to question you particularly hard on that progress and also on the areas where there hasn't been so much progress. We are trying to do this hearing in a couple of hours. I appreciate, Lin, that you are back next Monday—apologies that there are two close together—so it helps us all if we can get through it in two hours. The questioners will be crisp in their questions, so perhaps you three could respond quickly in your answers. It is fair to say that the Committee is fairly au fait with the broader issues and we should not need too much background—we have done that preparation.

I am going to kick off straight away with David Mowat, who will lead off for us.

Q1 David Mowat: Thank you, Chair. I am the first one who is primed to ask questions. I am going to be covering customer service and I thought one way into it might be through your annual report and your business plan. You published 30 indicators. You say that you are delivering or partially delivering 26 of them. We will come back to some of the partially delivered ones, but one of the phrases that struck me—it is a good phrase—is the title of a whole section: “Putting our customers at the heart of everything we do”. That is a laudable ambition.

Two of the areas where you admit you have failed to meet the benchmark are answering the telephone and answering letters. In particular, a statistic that struck me is that, in the telephone area, you answer 39% of your calls within five minutes. Five minutes is quite a long time, and that has deteriorated over the last couple of years. What are you doing to address that issue?

Lin Homer: Customer service is a really important aspect of what HMRC does. If you like, our core purpose is to both get in the money and pay out benefits, but we know that it encourages voluntary compliance if people find us easy to deal with and if they understand what is expected of them. Both me and my DG, Ruth Owen, have already apologised for what we see as a failure in our performance towards the end of last year and the first three or four months of this year. We are not hitting the levels that we want.

We have had a lively debate with the Committee previously about whether the absolute time we answer in is the thing that matters most to callers. I have to say that I don’t think we are quite the same as some other comparable organisations in the private sector.

Q2 David Mowat: I think that is true and it is clearly reasonable that you are not necessarily a Vodafone, but the indicators that you have set of yourselves are not as onerous as those that Vodafone set, and you have not met the ones you set yourselves by quite a long way, and the trend appears to be poor.

Lin Homer: I don’t think the trend overall is worsening, but there are some aspects of what we are trying to improve on where we are not getting to where we want to. Overall, we continue to get something like eight out of 10 saying that they find us fairly or reasonably easy to deal with. We are not answering enough within five minutes, but we have put in place a system—again, we have discussed this with the Committee before—that we call “once and done”. We have redesigned our system so that, once people get through, the call handler does not have to hand them off or say, “I can only deal with this bit.” They deal with everything. One consequence of that is it is making calls slightly longer rather than less long.

Another thing we have talked with you about is that people don’t like to be cut off—they don’t like the automatic system to say, “All lines are busy. Please go away,”—so we have extended the period we let people wait for. That may sound perverse, but if someone’s got through and it’s urgent, and they would rather wait 15 minutes than be cut off, we are now giving them the chance to do so.

Q3 David Mowat: Just to paraphrase that, you are saying that the indicator you publish is wrong, because you are doing it in a different way and it means you can answer more of the

questions in one go. Therefore, the indicator you have published in your business plan that you have failed to meet is not the right indicator.

Lin Homer: No, I think I am saying that, as you say, we have 30 things that we are trying to do. It is balance of those things—we do not think simply that “How many can we answer in five minutes?” is the only one that matters. We think it is consistently answering the telephone rather than answering them really well at some points of the year and really badly at other times. We think it is making sure the call handlers are well trained and can deal with the queries. We think it is having some priority lines, such as for the bereaved. It is a balance of those things. We really are struggling to get those things in balance.

Q4 David Mowat: We will leave this now, but just on a point of fact, the indicator is not “within five minutes”. I think the indicator of 80% is those calls that you answer at all. The five minutes is a different point. You are at 39% on the five minutes. Those that you answer at all is 73%. Letters is similar.

In your answers, you have given some good explanations, but you have not said that this is something, therefore, that we can expect to see addressed within x months. Is that something we can expect to see addressed within x months or by this time this year, or will it have got worse again?

Lin Homer: We are aiming to get better year on year, but I do not think it is sensible for us to give you a pat promise that it will be better. As I have said, the first four months of this year got considerably worse. We introduced a new telephony system that, long term, is a really good thing to do. We used to have a system where, when you queued, once the phone was answered, you dropped into one of our buildings—if you like, you physically dropped into one centre. We have put in place a telephony system that means that you queue in the cloud—for those who like the new language—so, while you are waiting, if one call centre gets busier than another, you still get answered in your turn. That is a really good thing for the medium term, but our performance worsened in the first half of the year. We are balancing strategic against—

Q5 David Mowat: Just to cut you off on that—we will leave this now—but your performance has worsened over the last two years in terms of the published numbers in the NAO Report.

Lin Homer: I don’t think it would be fair to say that they have in all respects, but we are still struggling—

Q6 David Mowat: Just in terms of the indicators that we are talking about, particular calls being answered.

Lin Homer: Yes, that has gone down slightly, but it is more consistent across the year.

Q7 David Mowat: When I said, “Could you tell the Committee a timeframe when it will be improved?” you said you were not willing to commit to that. I am just interested to know: have you asked that question of your people—you may not want to commit externally—within your

organisation? Are people within HMRC working to a timetable to improve this that you know about and that you are managing?

Lin Homer: We have a very clear and strongly shared view—not just within personal tax, but across the organisation—that, year on year, we should be seeking to get better at customer service.

Q8 David Mowat: Sure, but, for example, 39% of calls are being answered within five minutes. Have you had a dialogue with one of your reportees to say, “This isn’t good enough. I would like you to tell me when you or somebody in your organisation is going to get this fixed,” so, as somebody committed to customer service, your mind is put at ease?

Lin Homer: I discuss customer service pretty much every week—sometimes every day—with the director general, Ruth Owen, who has been here on previous occasions. Yes, it is completely at the top of her agenda, but I would just say again that we are focused on a balance of our performance indicators for customer service. We don’t believe that one of the many trumps all. The five minutes one was always an aspiration, and we don’t actually think it is the most compelling one.

Q9 David Mowat: Which is the most compelling one?

Lin Homer: The ones that we are particularly focusing on include having a consistent level of calls answered throughout the year. The year before last, we probably had our highest yearly answering—79% of all calls answered. None the less, in the last week of tax credit renewal we answered only 16% of calls. We said then—we still feel this is important—that if we can get close to the 80%, we would like that to happen day in, day out, not just in some quiet months of the year and in peak months. Consistency of call handling is one of the most important things. A second is that when you get through, we deal properly and well with your inquiry. That is something that we consistently score highly on already; protecting it remains important. For me, it is probably more important than a certain number being answered.

Q10 David Mowat: I understand, but I just note that the things you judge to be more important are not the indicators you have chosen to put into your business—

Lin Homer: They are. Both are there.

Q11 David Mowat: I don’t think so.

One of the things that I wanted to ask you about is an indicator that is in here, which you have down as a partially successful one: the use of web chat and SMS. How is that going?

Lin Homer: And Twitter, although you will have seen some of the coverage. Twitter is useful to us because it allows us to hear what people are thinking. We think all those things are useful additional tools. In the future, we want to offer more opportunities for people to resolve what might be quite everyday inquiries without having to queue, whether for five, 10 or 15 minutes. That kind of space is useful for the kind of questions that get repeat-asked: “What happens to my tax credits

when my child finishes full-time education?" We don't have to answer you about your little Freddie. If we see a question in a web chat space or a tweet space, we can either signpost or give an answer. The person who has asked the question gets to see it, and thousands of other people do, too.

We saw during the tax credit renewal peak that people retweeted and shared those answers with each other. If you like, people are helping each other out, as well as us. We think it is useful, but we certainly don't think it is an alternative to really good online service, telephony service or face-to-face services, when they are needed.

Q12 Nick Smith: Lin, just to go back a couple of minutes, you talked about introducing a new system, but said that it got worse. How bad did it get when you introduced the new system?

Lin Homer: Over the first half of this year, we were dipping down towards 50% of calls answered, rather than the 75% that we are normally able to achieve. Although we sustained much higher levels for tax credit people—we were heading into tax credit peak—it meant that some of the tax queries received a much less acceptable service than we think is fair.

We have talked about managing transitions, and we have to accept that although we think what we have done was a really good medium-term change, we made life very hard for our taxpayers and customers, and also for our call handlers, during the period of a fast introduction of the new system. Although it is working really well now, you know for yourself that when you change your mobile phone, for the first few days and weeks you have it, you cannot find everything you could previously find automatically. That added a minute or so to every call that each call handler handled, and our queues went up badly. From July onwards, it has been back in much better control, but it will have an impact on this year's statistics.

Q13 David Mowat: I would like to turn to your change programme, which the NAO has described as one of the most ambitious across Government. I think I am right in saying that something like 20% of your spend—£600-odd million a year—is on change programmes. Are you happy with how that is going?

Lin Homer: Yes, I really am. It is a topic that we talked with the previous Committee about a lot. I am sure we will have some specific hearings on it, and I know that many of you are very interested in it. Taxpayers are entitled to expect the same kind of modern service from HMRC as they do from others. We were probably slow in getting into this world, but we are doing some really useful and exciting things really well.

I will just give you one example: the last week of tax credits. We talked to you last year about bringing in an online renewals system for tax credit claimants. We used not to have that. We brought it in as a kind of pilot last year, and we brought in a better version of that this year. We found people quite nervous about it in the first few weeks, wanting to use the tried-and-tested system of telephony that they were used to, so holding on for quite long waits, even when we were telling them they could do it online. By the last week of tax credit renewal, 48% of the renewals were being made online, and if you look at the tweet and web chat around that, there was massive support.

Q14 David Mowat: So that is an aspect that is working. In your change programme, which is costing £600 million a year and is the most ambitious across Government, is there one person in your Ex Com with overall responsibility for that, or is it lots of initiatives spread across Departments?

Lin Homer: We have a DG who is responsible for co-ordinating the change programme, and indeed we had a discussion yesterday about whether we should strengthen further the governance around that. Our governance has been signed off by the MPA as being one of the best portfolio management governances across Whitehall, but we have the view that the whole executive team should take shared accountability for the whole change programme to avoid the problem of initiatives fighting with each other.

The executive team meets as Ex Com Transformation, if you like, once a month. We look in detail at whether it is a digital project. Some of the transformation is about improving yield, and we take shared responsibility for delivering that very challenging programme. In the SR10 period, when it was also a very big and challenging programme, we over-delivered on pretty much every aspect of the change programme. We remain confident that, although we have stretched ourselves looking forward, it is a deliverable programme despite being challenging.

The Comptroller and Auditor General has said to our board that there will be elements of it that will not land properly. The test of whether we are good at this is not, “Does everything land perfectly?” but, “How well do we respond when we see a problem?” The example I have given you of our new telephony over April-May-June this year is the kind of thing where things will not go exactly as we planned but we spot it and change it.

Q15 David Mowat: So your view is that you do not need to have an overall director of the change programme at the Ex Com level—or that is effectively you, isn’t it, in the way you have just described it?

Lin Homer: Yes, although I try to share it. Nick Lodge acts as DG Transformation. He is responsible for co-ordinating the transformation project. The executive team is open-minded and is in the middle of discussing whether we should beef up his powers. You have the advantage of one person with more power but the risk that others fall further away. There is a balance to be struck there, which we are looking at again at the moment.

Q16 David Mowat: Usually in change programmes, one of the biggest bits—I think this is true of yours, too—is IT.

Lin Homer: It is definitely a big part of it, although not all.

Q17 David Mowat: And superimposed in the middle of what you are doing with your change programme is the contract that you have with Aspire and your decision to bring that in-house. Am I right in understanding that that is what you are doing structurally over time?

Lin Homer: Our decision around the Aspire contract is that we do not believe we should re-let a major monolithic contract to an overarching IT firm. That is what we have done for the last 20 years, and it has given us stability, but at quite a high cost in terms of price. It is not the way most big organisations let IT now. We have decided that we should end this big contract in phased steps. We

made the first of those steps earlier this year by bringing one element of the contract in, and we make the next in November. We will end the contract in chunks and then re-decide what to do with it in chunks. I do not anticipate that we will maintain all of it in-house, but I strongly anticipate that we would make a more varied use of the market, making much more use of SMEs.

Q18 David Mowat: So what you are saying is there is not one big drop-dead date in 2017 by which you switch over?

Lin Homer: No. We have moved to a point where we have four or five—or possibly six or seven—steps when we take a chunk of the work, bring it in, unpack it, look at it, do something with it and then—

Q19 David Mowat: So by bringing it in-house you presumably will save money if it works well, but you tend to take the delivery risk in-house as well by doing that—

Lin Homer: And we may then outsource subsequently.

Q20 David Mowat: Yes, you can outsource bits of it. Will you increase the number of technical people that you have? One of the things that struck me the last time this was discussed was that I think you said you needed 137 more technical staff, which seemed to be a very precise number and a quite extraordinarily brilliant degree of planning. How are you getting on with that?

Lin Homer: As Mr Bacon knows, I have an engineer—a very precise chief digital and technical officer. I think he probably did add that that was his current view and that it might change, but I think with a project of this scale it is very important that it is very firmly governed, and we have a governance arrangement that both Treasury and Cabinet Office are involved in. I think we accept there is a challenge in uplifting our capability, although I would have to say that, since we last saw you, Mark Dearnley has continued to strengthen his team both at the junior and technician level and at the senior level.

Q21 David Mowat: Right. So as the overall manager, effectively, of the change programme, you are happy that that is on track, in terms of your role, because there is nobody else on the executive committee who does it?

Lin Homer: Yes. I do not lose sleep over the step by step, but it is something that we are very clear is absolutely critical to us delivering what the country needs in terms of yield, efficiencies and customer services. So the technological change is a dependency of all those aspirations.

Q22 Chair: Can I ask how many technicians you now have employed at HMRC? What capacity you have got?

Lin Homer: When Mark spoke about the additional capability, he was talking about the project management capability for that change. Gosh, if I do not get this—

Chair: We will be happy for you to send us a note if you have not got this information.

Lin Homer: We have about 1,500 people in-house already who are technological people. When we last spoke, I think Mark told you he was building extra capability in both Newcastle and Manchester. I think we have increased from about 130 to nearly 500 the people in Newcastle who are at our junior technician end, so this is talking about the people who will project-manage the change in addition to the people who do things.

Q23 Chair: So that is 370 more?

Lin Homer: Since last time. But we have also appointed a number of senior programme people to the programme: finance; HR—

Q24 David Mowat: In terms of the shape of your organisation, there is a lot in your report about headcount reductions over a period of time, yet in this area, bringing much of this stuff in, there will be headcount increases. The shape of your organisation will change, won't it, with less people dealing with tax and more people dealing with IT?

Lin Homer: No. The shape of our organisation has changed quite dramatically over the last five years. We have far fewer people involved in operational work than we used to, partly because technology is taking their place. We have more people who are tax experts and focused on tax, and I think that will change a bit, but not dramatically.

Q25 David Mowat: Okay, fair enough. The question I was getting to was that, by definition, you must be employing more people. With a number of these CAG people and everything else coming in-house, you will be employing them and you will have more IT capability in-house than you have now by many hundreds of people, presumably.

Lin Homer: Yes, but it is worth remembering that we currently pay for them in the CAG contract.

Q26 David Mowat: And if that all works well, you will save money. One of the observations I reflected on—I do not want this to sound unfair—is that you are currently an organisation that, even by your own standards of answering the phone, is not succeeding on that, with you answering 39% of calls within five minutes on a trend that has gone down. Given that, I wonder whether your priority should be to fix that and make yourselves easier to deal with, accepting some of the points you make about it being about what you do in the conversation, rather than bringing all this IT in-house.

Lin Homer: I don't think we can fix customer service, which is a priority—I think a shared priority across the business—without making greater use of technology. So if I repeat the statistic: this year, we moved nearly 2,000 of our people generally across the business to answer telephones over the last three weeks of tax credit renewal. These are tax investigators, accountants and auditors.

If we can get basic tax credit renewals done online in a way that works for the customer—in the last week we did, with 48% choosing to use the online, although the wait was less than two minutes on the telephones—that is a good use of technology, because it is cheaper. Therefore, we get efficiencies. Digital also helps us get more yield, and we think it gives greater customer service. It is the way to give better customer service.

Q27 David Mowat: Right, so what you are saying is that until you have done some of these things, in terms of this change programme, this Committee will not be in a position to get any undertaking from you that the phone answering stuff will get any better, because it is reliant on—

Lin Homer: We are doing it all the time. The change to the telephony, which—

Q28 David Mowat: Yes, but it has been getting worse over time.

Lin Homer: No, I don't accept that.

Q29 David Mowat: I think the NAO Report was quite clear on that, actually. There is one final thing I want to cover on this area. One of the things that makes the customer experience so daunting is complexity.

Lin Homer: Yes, that is absolutely true.

Q30 David Mowat: It isn't your fault that we have a very complex tax code in our country. How much advice do you give to Ministers about how to make it simpler? It seems to me that if we could make it simpler, there would be savings everywhere.

Lin Homer: Personally, I don't hold myself as a tax expert. I have been in HMRC for only four years—I am a lawyer, not a tax expert—but the Department is heavily involved, and we have one of the best analytics teams in Government. Our knowledge analytics team is about 300-strong. It is the backbone of the policy advice that goes to the Chancellor on all matters relating to tax. As you know, we have had two Budgets already this year. We were involved in and put out 39 consultations on changes to tax law and policy after the summer Budget. We will always seek both to advise the Government on how to achieve what they want to do and to seek to tell them if we see either behaviours they or we weren't expecting or things we think we can do to simplify or improve the system.

Q31 David Mowat: In your experience, is the Government receptive to that? It appears to me that if a Minister came up with a good idea, but it would make your life a lot more difficult and the implementation would be hard, in terms of IT, customer service centres and everything else, that might not be understood in the Government because it is just an idea. It is your job to close that gap and make it understood that it might be worth doing, but it is going to be expensive to implement. Do you feel as though you do that effectively?

Lin Homer: I think there is always room for improvement. It was noticeable that the Government created the Office of Tax Simplification. Recently, in the previous Budget, they committed to putting it on a statutory footing. The OTS is peopled by independent tax experts, but supported by us from within HMRC, with detailed tax experts to call on. I think something like 50% of OTS's proposals were accepted.

We have definitely talked with the Minister about how we will work more closely with OTS and the Minister to ensure that our views about what could be done to simplify are heard. Part of our transformation plan includes simplifying, both by improving policy and law, and by using better signposting systems, so if there is complexity it is further away from the user.

Chair: I know Nick wants to come in on this very issue.

Q32 Nick Smith: Thanks, Chair.

Lin, to rewind a little, just a few moments ago you talked about having a couple of thousand people in a variety of roles, all hands to the pump, dealing with a crisis at a particular time of the year. It sounds as if you had a mini-crisis going on and everybody had to help out. Is that what was going on?

Lin Homer: No, it is planned. It doesn't catch us by surprise. We have peaks of activity throughout the year. Many of you will know one—it is called the SA peak on 31 January. Hopefully, MPs had a slightly different experience this year, because we gave you the opportunity to do it online. The nature of the tax system means that it has cut-off points. Human nature means that people often don't act until very close to the cut-off point. The cut-off point for tax credits is 31 July. If we were to staff up to the level of staff we need on that day, it would be like staffing up schools for the potential population of primary school pupils, rather than making—

Q33 Nick Smith: Okay. It sounds like you might have some very expensive staff manning the phones, which wouldn't ordinarily be their role, to deal with a newish topic.

Lin Homer: We believe that there are genuine benefits to managing our peaks in different ways. What we call flexible working—we have talked to you about it before—brings in our staff for a few weeks. The system requires a few days' training, and they then handle calls. Actually, it gives deep insight to the system they have to work and whether it is Jennie's people in enforcement and compliance or the digital people, they quite often go back to their day job—or the policy people think, "Bloomin' 'eck, that's really complicated; we ought to go and change that piece of law," as Mr Mowat just said.

So actually, we think it gives some insights into what we do, and we think it is a good way of working, but of course there are consequences of doing this instead of that. We make those choices every day of the year.

Q34 Chair: Nick Smith is absolutely right that having an expensive accountant talking about a tax credit inquiry to someone like me—not that I get tax credits—is expensive. You know how the Passport Agency works: it has summer staff who work only for peak periods. You talk about three

days' training up, but do you not have a pool of people whom you can call on for these moments who are looking for that flexible, part-time working?

Lin Homer: Yes, we do.

Q35 Chair: Wouldn't they be cheaper?

Lin Homer: Well, I don't go and answer the telephones—not only because I am quite expensive, but because I would not be very good at it.

Chair: We might be quite glad to hear that, actually, at the rate you are paid.

Lin Homer: Yes, but, for instance, some of the people who do will be people who do different forms of telephony, so they have all the telephony skills. They might be people who do debt collection by telephony, so spending a few days dealing with tax credit inquiries is actually a good insight for them into a piece of work that joins up. So it is something that we have thought about very deeply.

Q36 Chair: So these people are roughly on the same pay grade, mostly?

Lin Homer: A lot of them are more junior members of staff, but we do have some slightly higher graded members of staff who volunteer, and one of the things they come back with is a greater understanding of what they ask their juniors to do. So it is not—

Q37 Chair: But there is an opportunity cost to them doing that?

Lin Homer: There is an opportunity cost, and we evaluate that. One of the things about HMRC staff is that they are very committed to delivering their targets, so what we find is that they stretch every sinew to not have an ongoing impact. Some bits of work get slightly delayed for that, but we think it is a lower opportunity cost than maintaining a level of staffing that would cost us many tens of millions and would not be usefully utilised.

We have also developed what we call an operational apprenticeship, and we have already got 200 apprentices who are trained up to tackle our peaks, whichever bit of the business they come in, and indeed they are also trained up to help other Departments at times of peak. We are trying to make this more of a skill, but we learned how to do it by getting our own staff to move in. We think we can industrialise this, which is at the heart of your question.

Q38 Mr Bacon: One very quick point. Lin Homer, you referred to the Office of Tax Simplification and I think you said that 50% of their recommendations were acted on.

Lin Homer: About that.

Q39 Mr Bacon: I happen to remember the figures, because we referred to some of the figures from the OTS in one of our reports. It examined 155 exemptions, recommended 47 of them for abolition and 43 actually were abolished. So, of those that it recommended for abolition, nearly all were abolished, actually—it was much better than 50%, although 43 out of 155 is obviously less than a third. The problem was that, in the same period, 136 new exemptions were introduced. That, I think, is the burden of Mr Mowat's question about the extent to which you find Ministers receptive.

The Chancellor's letter says very clearly to you on page 1, "Your active engagement in the policy partnership with the Treasury continues to be a major part of your role, and I welcome your continued proactive contribution to developing and delivering tax policy." As you know, we are not a policy Committee, but to the extent that you face decisions or proposals that would make it yet more difficult for you to be effective, efficient and economic when you already face a challenging scenario, your input in this area will be vital. So, once again, if I can repeat Mr Mowat's question, to what extent are Ministers receptive? Despite some efforts—I think the Office of Tax Simplification has only six staff, of whom several are part time—it does not look like nearly as much progress has been made as could have been made, and the direction of travel appears to be towards greater complexity.

Lin Homer: I think Ministers are very receptive to our advice. If I were to give you a particular example, the shape of the tax-free childcare initiative has been guided by some of our experts from their experience in delivering tax credits. We have really learned from the complex administrative problems, which we will talk about next week, no doubt, helping Ministers achieve their objectives but in a better design. I feel confident that we are well listened to.

If I were to come off the fence, do I think Ministers of any Government will ever stop liking new initiatives? Probably not.

Q40 David Mowat: No, they won't, but I think it is important—let us leave it at this—that your role is telling them that this new initiative has a cost, which they may not understand because it is not their job to understand it, and that gap is closed and you have a role in that. Let us just agree on that.

Lin Homer: We have. I am content we are listened to, and I think we do it well.

Q41 David Mowat: I want to touch briefly on globalisation and the challenges it gives you. We have talked about the Google issue, and some of those types of thing with Amazon. I think you were given £29 million to look at abusive transfer pricing in 2012.

Lin Homer: Yes, we were. We had a series of investments made in us from SR10 onwards.

Q42 David Mowat: Are you content with how that is going?

Lin Homer: Yes. Jennie might have a little bit more detail, but at its heart we have been involved in two aspects of the international debate: one is that we have strengthened our own expertise and the quantity of our people involved in this work, and the second is that we have

played a leading role in what was called the BEPS word. Jennie might be able to remind you what it stands for.

Jennie Granger: Base erosion and profit shifting. One of the things you have to learn when you join HMRC is that—

Q43 David Mowat: So that £29 million has been well spent and you are content with where you have got to?

Lin Homer: Yes.

Jennie Granger: Just to illustrate that point, over that period about £3.2 billion has been recovered from transfer pricing activities by large businesses.

Q44 David Mowat: So I would say to that somebody should give you another £29 million.

Lin Homer: They have just given us another £1.3 billion.

Q45 David Mowat: Is that the ratio that you could achieve in that area, if you had more resources?

Lin Homer: It varies. Going back to the question Mr Bacon asked me, we tend to suggest areas for investment to Ministers. We get tested—they are not a pushover; they do not just go, “Yes, Lin, have money”—but after discussion with both Treasury colleagues and OBR, it has been my experience that we are supported when we put up good plans for investment that are good for the country, whether in respect of yield or efficiency. The summer Budget gave us a very large tranche of future investment and, of course, we have not yet concluded the SR, which will finish later in the year.

Jennie Granger: Just to give you some detail on that, in the last SR period, about £31 billion of the total revenues came from our large business area, and investment in that area, again, in this recent summer Budget will bring in a touch over £600 million additional, I think, per year by the end of this period. So Jim Harra and his teams are continuing to build, tackling this area.

Chair: Last one, David.

Q46 David Mowat: Yes, I think we had better move on now. I want to make two points about customer service in closing. I get a lot of complaints from constituents, and I think other colleagues do as well, about your organisation not really being easy to deal with. I think I want to leave you with that, as something that we feel a lot.

I will share with you something that I received about a week ago from one of your people in Nottingham Trusts—the most extraordinarily good piece of customer service. I do not think they even knew I was on the PAC, so I know it is a thing in the round. I thank you very much for that.

Lin Homer: Thank you very much for that. My front-line staff who deal with telephony and post really do their best. Again, I would just accept that we know we must do better; we are not content.

Chair: Just to prove that you do get plaudits sometimes from the Public Accounts Committee.

We are going to move on now. Karin Smyth has one quick point to raise and then we will move on Stephen Phillips.

Q47 Karin Smyth: I want to pick up quickly on the point about staff reductions, but before I do I shall say something that might make my colleagues regard me as slightly odd: I think you and other senior colleagues answering the phones sometimes, and having experienced that front-line work—mixing up those teams with people with specialist expertise in other aspects—is very helpful sometimes. I think that is quite interesting.

Lin Homer: That has been our experience. It is sobering—

Q48 Karin Smyth: It is also what the customer experiences, isn't it? That is helpful.

My question is around the huge staff reductions, which are of course part of your efficiencies, and how that plays out regionally. I think that having that regional experience is also quite helpful. I should be interested in how that cost reduction is affecting the regions.

Lin Homer: We have regional tables in the Report and they will show some slight variations over time, but our broad strategic approach is that we believe it strengthens our organisation to have a number of big, effective organisational bases throughout the country. At its height, I think HMRC had in excess of 650 offices, and I do not aspire even to maintain the 150 or so that I have currently. I think it makes sense for us to continue reducing that number, but we strongly believe that we need a big employment base in most of the big cities in the country. We are trying to strengthen the career opportunities across each of those, because just as we think it helps to have senior people occasionally answering the telephone, we also think it helps with the quality of recruitment if people can see career opportunity. We have really big bases in about 14 places, and we intend to strengthen them. We have a big piece of work that involves some of the big councils in terms of how we can use some of them as centres of excellence for one aspect of business—for instance, digital in Newcastle and data in Manchester.

Q49 Karin Smyth: So in each of those bases there are opportunities for quite lower-paid and lower-skills jobs as well as more senior jobs?

Lin Homer: I think that the opportunities for more senior jobs will improve over the next five to 10 years, because some of our big bases have very few senior jobs. We would like to see that change. I would want to be clear that, in common with all big Government Departments, the numbers of the most basic of our jobs are reducing. Traditionally, we were a classic pyramid-shaped organisation, with lots of people at our most junior administrative grade, fewer at the next and so on. Now, many Departments are turning diamond shaped because of the impact of technology.

As an employer, we think it is very important to create chances for those most junior staff to learn new skills so that there is an opportunity for promotion. Whenever I blog, I have a lively debate about this with my front-line staff. I am very proud of the fact that we have managed to create a significant number of promotion opportunities for our AA role, which is our most junior, because that is the grade we will need fewer staff for; we have promoted 2,000 AAs into AO jobs.

On the other hand, we are expanding apprenticeships, and we think that the apprenticeships for 18-year-olds initiative is fantastic, and we are probably one of the Departments that has leapt most at this opportunity. We have digital apprenticeships, operational apprenticeships and fast-track apprenticeships. I think it would be a huge benefit for HMRC to have a wider age range for such apprenticeships for our people, because we need to give them opportunities to develop a career and to change one, and we know that an 18-year-old is not going to be as likely to join and want to do the same career for 47 years as people were 47 years ago.

Stephen Phillips: Hello Ms Homer. Welcome back.

Lin Homer: Thank you.

Q50 Stephen Phillips: In many ways, this NAO Report is a pretty good one. I think that you, the senior management team and everyone who works at HMRC deserve plaudits for all that is being done. I know that we always concentrate on the bad things, so I hope that message will go back.

Lin Homer: It is your role, isn't it?

Q51 Stephen Phillips: I want to focus particularly on the tax gap and compliance revenue. Do you have a copy of the annual report?

Lin Homer: Yes, I do.

Q52 Stephen Phillips: Fine. We will come to that in a moment, but before I do so, where are we on prosecutions for those on the Falciani list?

Lin Homer: I will ask Jennie to update you on what we call project Solace.

Jennie Granger: In relation to the results of Solace, we have collected some more revenue; we are now up to about £142 million. We have just about exhausted what we have from the data and there are no more prosecutions at this point.

Q53 Stephen Phillips: I do not want to interrupt you, but I was asking about prosecutions. There has been one prosecution. Is that right?

Jennie Granger: That is correct.

Stephen Phillips: That is still the case.

Jennie Granger: Yes, that is still the case.

Q54 Stephen Phillips: Let me just go back to you, Ms Homer. When you said in February to the Committee that you thought that there would be 15 prosecutions, why hasn't that happened?

Lin Homer: I do not believe I did say that. I am happy to look back at my notes, and I do try to read everything that I have said to you before I come back before you, but there is quite a lot of it.

Stephen Phillips: It maybe it was someone else, but I think that we were told at one stage that there were likely to be 15 prosecutions.

Lin Homer: I think you are thinking back to an earlier hearing that my Second Permanent Secretary, Edward Troup, attended in 2014. I think he completely accurately told you that Jennie's criminal investigators had 15 cases under inquiry. We have subsequently updated you on why not all of those ended up in prosecutions. Indeed, the last time that Jennie and I were here—

Stephen Phillips: Let us try to cut this short; if you have not updated us as to why there have not been more prosecutions, I think it needs a letter.

Jennie Granger: If I may clarify, I believe that you are referring to Edward's testimony, which was about investigations more generally on offshore; it was not specifically about this project. More generally, there have been 11 prosecutions in relation to offshore.

Q55 Mr Bacon: Sorry. Did you say that there have been prosecutions?

Jennie Granger: There have been 11 prosecutions, resulting in 15 years of jail time collectively.

Q56 Stephen Phillips: This is for people who were on the Falciani list of people using HSB in Switzerland.

Jennie Granger: No.

Stephen Phillips: Well, that is what I am asking about. So perhaps—

Jennie Granger: If I may just be clear; I think we mixing two different things. When you heard about, I believe, the 11 or 12 prosecutions, that was the response to a more general question about whether we were criminally investigating offshore issues more generally. This is one of the really toughest areas, with people deliberately disguising what they are doing, and facilitators are very careful not to put foot on UK soil. We are not going to pretend that this is easy to crack, but there has been a range of prosecutions and we expect that we will do more in the future.

Q57 Stephen Phillips: Forgive me, but, as I understand it, you are telling this Committee that 3,600 people who are paying tax in the UK are on the Falciani list, and there has only been one prosecution. Is that right?

Lin Homer: Yes.

Jennie Granger: There were—

Stephen Phillips: Sorry, but Ms Homer said yes.

Jennie Granger: No. There were 3,000 lines of data in the original data that we received, half of which we investigated and we followed up a number. That has resulted in 950 finalised cases and £142 million in. I will go on to talk more about what we have done since, but those particular data are pretty much exhausted. They are very old—10 years old—and badly broken. We discussed this a number of times at the previous Committee hearing. As you know, our French colleagues agreed to broaden our use of the data. We have been back with our specialist analyst and their specialist analyst to look again at the data they received, and we have been right through it. Using modern techniques, we have been able to come up with some new lines of inquiry. However, what we do not want to do is to raise hopes about where those inquiries will lead. We will pursue them, but as we have said before to the Committee, these are very old data, and they do not meet the high standards required for evidence in the UK, but we will pursue them.

It is important to note that using our latest techniques with our best experts, the searches did not throw up anything new that we did not know about from the original data that we received. Basically, for the cases that we have finished, they are finished, and that was my point about the original data. We have been through those data, and been through them again, and there are a number still to go—about 100—including a few that we have found since, because as I have also said to the Committee before, once we have data, we hold on to data. With our modern risk engines, if something else trips them over, we can have another look, but we have pretty much exhausted that data, but we have not exhausted our appetite for dealing with offshore.

Q58 Stephen Phillips: Ms Homer and Ms Granger, we have a limited amount of time. When I ask a question, I think we will all get on a lot better if you answer the question that I am asking. There has been one prosecution, is that correct? And that is still the case?

Jennie Granger: On the Solace project, yes.

Q59 Stephen Phillips: Everybody else whom you are aware of has been dealt with through the Liechtenstein disclosure facility. Is that correct?

Jennie Granger: No, a lot of them were civilly investigated as well. We had criminal investigations and civil investigations as well as disclosures through the Liechtenstein disclosure.

Q60 Stephen Phillips: Several thousand of them, or several hundred of them have been dealt with through the Liechtenstein disclosure facility. Yes or no?

Jennie Granger: That was our testimony last time.

Q61 Stephen Phillips: Several hundred of them have been dealt with through the Liechtenstein disclosure facility. Yes or no?

Jennie Granger: Yes.

Stephen Phillips: Right. In relation to those, as I understand it, as a result of the terms of that facility, the most that you impose in terms of a penalty for tax that has been evaded is 10%. Is that right?

Lin Homer: It has varied. It started out as 10%, but it has been increased subsequently.

Q62 Stephen Phillips: To what?

Lin Homer: In some cases, I think, to 30%.

Q63 Stephen Phillips: As opposed to the 200% penalty that you could impose if there was a criminal prosecution or a civil investigation.

Lin Homer: There are a range of penalties, both onshore and offshore. The maximum is 200%. That is not applied, onshore or offshore, to people who voluntarily disclose.

Q64 Stephen Phillips: You were being judicially reviewed about this while the House was in recess.

Lin Homer: No.

Q65 Stephen Phillips: No? Not in May this year?

Lin Homer: No. We were written to with a suggestion that we might be judicially reviewed.

Q66 Stephen Phillips: And what has become of that?

Lin Homer: Nothing.

Q67 Stephen Phillips: The Chancellor gave you £800 million in the Budget to improve or to do further work on non-compliance and tax evasion. Part of that, as I understand it, was to triple the number of criminal investigations that you can undertake.

Lin Homer: Yes, we did receive significant money in the summer Budget, quite a lot of which is to be spent in Jennie's area on not only prosecutions, but a range of things. Would you like some more detail on that?

Q68 Stephen Phillips: Yes. How will that be spent?

Jennie Granger: In relation to that particular aspect, we are expanding our criminal investigations in two ways. First, we will be expanding our more complex ones, which involve

wealthy evasion organisations. We currently do about 35 investigations a year. Over the period we will expand that, as we develop more investigators, to around 100.

Q69 Stephen Phillips: How many prosecutions of wealthy individuals and corporates have you made in the past five years?

Jennie Granger: I don't have figures on that with me.

Q70 Stephen Phillips: Can you write to us?

Jennie Granger: Yes.

Q71 Stephen Phillips: How much are you going to increase those prosecutions by?

Jennie Granger: We will increase the investigations. The decision on how many prosecutions result from that will of course be a matter for the CPS. To give you a yardstick, about 90% of our investigations are adopted for prosecution at the moment. This is a complex and difficult area.

Q72 Stephen Phillips: Yes but I presume that you made a bid for that £800 million. The Chancellor did not just wake up one morning and say, "I'm going to give you an extra £800 million to deal with tax."

Jennie Granger: He did indeed.

Q73 Stephen Phillips: So someone must have modelled how much you think you are going to collect as a result of that £800 million investment. How much are you going to collect?

Lin Homer: So the summer Budget was subject to OBR approval.

Jennie Granger: £7.2 billion over the life of the Parliament.

Q74 Stephen Phillips: Is the £800 million a one-off figure or is it an increase in your budget going forward?

Lin Homer: No. It is sort of a bit of one and a bit of the other. If you look at the £917 million that was invested in the last SR period—a proportion of that was then confirmed as ongoing but the Chancellor requires us to prove the initiative and prove that there is value in it continuing. Some of it is one-off. Some of it is, effectively, capital spend. Some of it becomes established continuation. I think we ended up with—

Q75 Stephen Phillips: In any event, we will see the total compliance revenues as a result of that investment of £800 million, however it is going in, increase by £7.2 billion—did you say annually?

Lin Homer: No, over the period. We are still working on the detail of the summer Budget but that tops out at some £2 billion to £3 billion per annum by the end of the period.

Justin Holliday: Both the £800 million and £7.2 billion are cumulative numbers over the five years.

Q76 Stephen Phillips: Right, so it is an investment of £800 million to secure £7.2 billion. How much did you ask for, Ms Homer?

Lin Homer: We ask for something each time but I think it would be fair to say that we don't always get—

Q77 Stephen Phillips: Forgive me, Ms Homer, it is a very simple question. You got £800 million. How much did you ask for?

Lin Homer: I cannot answer that question. I'm sorry. I am not being deliberately awkward. Sometimes a Minister will say to us, "That's a good idea. Please work it up further and bring it back." We have a number of outstanding items that we are working on now and if they bear scrutiny, they will appear in the autumn statement.

Q78 Stephen Phillips: On a slightly different topic, you may remember that in relation to your annual report and accounts of 2012-13, the Committee pointed out that there was no assessment, in relation to the tax gap, of the amount that is lost to the Revenue through aggressive tax avoidance. You may remember that the Government response to that was that the definition of the tax gap does not take into account aggressive tax avoidance because although—these are my words—it may be morally wrong, it is actually lawful. Do you make any assessment at all of the amount lost to the Exchequer through aggressive tax avoidance?

Lin Homer: I think, as we discussed with you before, in our tax gap we count the moneys that we are entitled to collect but do not manage to collect. Therefore, we exclude areas where there is active tax planning that may move into aggressive. What we will do is bring it into the tax gap if and when a law change or a court case brings it into tax that is absolutely due. In that respect we differ from some others.

Q79 Stephen Phillips: Because then it becomes tax evasion if it is continued. I understand that. This Committee, and indeed Parliament, has absolutely no idea of how much is lost to the Exchequer because you do not count as part of the tax gap the amount lost through aggressive tax avoidance.

Lin Homer: I do not think that is entirely true, because when we put together the tax gap, we do top-down estimates as well as bottom-up counting, so we seek to take into account areas of the law that are being challenged or abused that we recognise.

Q80 Stephen Phillips: Do you think it would be a good idea to include in the tax gap, even if under a separate heading, the amount that is lost to the Exchequer through aggressive tax avoidance so both the Treasury and, from our point of view, this Committee have some idea of how much these schemes are costing the Revenue?

Lin Homer: There are real problems of definitional quality about some of these debates. What I can be clear about is that where we are labelling something as aggressive tax avoidance and we are challenging it in the courts, such as through our accelerated payments system, we are watching and counting it, and it is in our figures. What we are not attempting to guess is somebody's opinion of an area where people ought to pay more tax, but neither the Government nor Parliament nor the courts have yet concluded that that view is accurate. I think it would be dangerous to try to guess what people think should be collected in a tax gap, as we do it.

We had our tax gap looked at by the IMF about 18 months ago, which not only gave us a clean bill of health but suggested that we have one of the best and most sophisticated anywhere in the world. They are trying to encourage us to do some more work in areas such as this, which nobody else is going close to yet. The point we made to you previously is that there are very widely differing opinions about what is tax that should be collected. Our tax gap, we believe, stands close scrutiny, and we think that some other estimates of the tax gap are wild and unhelpful. There was a piece of work published by Ipsos MORI—

Stephen Phillips: Forgive me, we are straying again.

Lin Homer: You asked me whether I thought we should include that sum.

Q81 Stephen Phillips: Well, you are about to refer me to a piece of work. You said that you do not think it would be a good idea, as I understand it, although in reality what you are really saying to me is that you think it would be too difficult to do.

Lin Homer: No. It is an area of contention. If I might share with you a fact that was published yesterday. Although in Germany and the UK, only 6% of people admit to evading tax, in both those countries—fairly compliant countries, you would guess—people think that about 32% to 35% of people avoid paying all tax. I think there is a real danger in bandying about figures that suggest to people that folk are not compliant. All of our evidence suggests that well over—

Q82 Stephen Phillips: Ms Homer, whether you count it as part of the tax gap or not, at the moment this Committee has no way of knowing how much is being lost to the Exchequer through aggressive tax avoidance. We made a recommendation in relation to 2012-13 that that should be included in the tax gap. You might say, “No, that’s not the right place for it”, but would it not be helpful if in the annual reports there was an estimate of the amount lost to the Revenue through people avoiding tax lawfully but perhaps morally wrongly in a way that Parliament has not expressly sanctioned?

Lin Homer: We do have tax avoidance in the gap. If I refer you to the Comptroller and Auditor General's report, we have, in "Customer behaviour", 9% related to avoidance. All of our schemes, such as DOTAS and AP, are there. I will say again that where we can see an avoidance activity that we know we are challenging and where we may not yet have proved it to be artificial, which is what the court expects of us, we will count it and pursue it. We do not guess where a Parliament might go in future. That is sensible.

Stephen Phillips: Again, you are counting behaviour on the part of taxpayers which you regard as not lawful—in other words, saying it is tax evasion rather than tax avoidance, albeit that a court has not yet said so.

Lin Homer: No. Tax avoidance and tax evasion are different things—

Stephen Phillips: I am aware of that.

Lin Homer: Where the courts find that a behaviour is designed to artificially lower tax, they find against it: it does not make it criminal, but it makes it something that we are able to stop, and that is what is counted in the tax gap.

Q83 Stephen Phillips: Right. Can we look at the compliance revenue figure in figure 3 on page 15 of the report?

Lin Homer: Figure 3 of the Comptroller General's or ours?

Stephen Phillips: Yours. But it is the same figure as in the Comptroller General's Report. It is on page 15.

I want to understand a little bit about some of these figures. I understand that cash collected is the amount that taxpayers should have paid if they did what was expected of them by HMRC.

Lin Homer: All these sums relate to things that should have been paid, yes.

Q84 Stephen Phillips: Right. I do not ask you turn it up, but in paragraph 3.17 of the NAO Report, it points to the fact that a 10% discount is applied to the original figures.

Lin Homer: Yes. So all the figures that we show in figure 3 are subject to some significant methodology challenges and we err on the side of undercounting rather than overcounting.

Q85 Stephen Phillips: The NAO said that 10% is not unreasonable. However, it also pointed out that you have not, in fact, carried out any work to see whether it is correct. Do you not think that piece of work should be done?

Lin Homer: I think that NAO says that it expects us to continue looking to strengthen our evidence base to support this discount.

Q86 Stephen Phillips: In other words, that is another way of the NAO saying, “We don’t have any evidence to contradict the 10% discount rate, but we have not seen any evidence to support it, either”, or, “There is insufficiently robust evidence”.

Chair: Perhaps the NAO could answer.

Steven Corbishley: I think more due diligence could be done around this, given the evolution of the methodology, that is, that HMRC applies. We want to see a bit more evidence in terms of how that 10% is actually derived, to prove that 10% figure or to propose an alternative.

Q87 Stephen Phillips: Do you get the point, Miss Homer? Nobody has seen anything to contradict 10%, but nobody has really seen sufficient evidence to support the fact that it is robust, either. That is a piece of modelling that needs to be done, isn’t it?

Lin Homer: I don’t think that was what was said. I think the first sentence of that paragraph says that “the methodology and processes used...to estimate compliance yield in 2013-14 were sound”. That does not suggest to me no evidence. However, I entirely accept that it is reasonable of NAO to keep pushing us to improve our methodologies and I am happy to assure you that we will.

Q88 Stephen Phillips: 3.17 is dealing with the entirety of the compliance yield. At the moment I am just dealing with cash collected. You have just heard from the NAO—you do not actually need to look at the Report—that although it has no evidence to contradict the 10% deduction in relation to cash collected, in its opinion there is not any evidence of sufficient robustness to support it, either. All I am asking you to do is undertake to strengthen your evidence base by conducting whatever piece of work needs to be conducted to demonstrate that that 10% is correct. Are you going to do that or not?

Lin Homer: I am entirely happy to strengthen our evidence base. I did not hear Steve say that he saw no evidence, and I think it is reasonable for me to push back on that.

Stephen Phillips: That’s fine, but you have now heard what the NAO has said, and there is a piece of work that needs to be done. Is it going to be done?

Lin Homer: Elsewhere there is recognition that we have pretty much implemented every recommendation the NAO has given us. We always try to learn. But I will say again, in terms of the IMF’s view of how we collect our evidence base, in the tax gap, and the NAO’s view of how we describe our compliance revenues, both give us a sound and supportive tick as to how we go about it. We can do it better, but I think we do it very well.

Q89 Chair: Steven Corbishley from the NAO, do you want to come in again on that?

Steven Corbishley: I think we were content with that. As this measure evolves, it is ensuring that the measures and the discount rates, and the discount rates and other factors there, remain appropriate for the purposes of the indicator, as an indicator such as this evolves. That is really what we are trying to say.

Chair: Our concern is that the taxpayer understands this.

Lin Homer: I agree. That is a fair challenge.

Q90 Stephen Phillips: The next bar up on each of these charts is “Revenue losses prevented”.

Lin Homer: Yes.

Q91 Stephen Phillips: As I understand it, there are two elements within that: repayment claims, which are where you have prevented someone from making an incorrect payment, and organised crime, which is £1.3 billion in this year. How is that assessed? What is the methodology? It has been suggested to me by both the Report and our NAO briefing that the methodology is reliant on estimates of the extent of a gang’s activities by reference to the amount of illicit goods seized or something like that.

Jennie Granger: That is a really good example. For example, where we seize illicit tobacco, which could be cigarettes, but also equipment—

Q92 Stephen Phillips: The model does not have in it anything that takes into account displacement of criminal activity to other gangs, does it?

Jennie Granger: No it doesn’t. We do look at that in terms of trying to estimate the gap, but not in terms of the impact of activities. What it does take into account is the direct value of what has been seized and, as some of this actually happens overseas, how much of it we think is destined for the UK market. If we have also seized equipment, or if another country has done so on our behalf, it takes account of how disruptive that will be. Again, it is quite conservative. If I can give you a recent example—

Q93 Stephen Phillips: No, I am afraid you can’t because time presses. I asked you a very simple question: does the model take into account criminal activity displaced to other gangs? Your answer to that is, “No, it doesn’t.”

Jennie Granger: Not directly.

Lin Homer: No. It is generally conservative.

Q94 Stephen Phillips: Let’s leave the “generally conservative”. If it doesn’t take into account criminal activity that is displaced to other gangs, it runs the potential risk of overstating the amount that is compliance revenue by reference to revenue losses prevented.

Lin Homer: In the example that I suspect Jennie was trying to give you—illicit whites are a big area. People bring in machinery to make real cigarettes that are not the brand that you think they are or are not a brand that has been properly imported. If we seize and take down the equipment, we do not immediately assume that another supplier can double their equipment overnight and we do take into account how long it might take the first criminal gang to re-emerge.

We do not think that we have stopped them forever; we make a judgment about how long we have disrupted their activities for. I think that is a reasonable judgment and I have had nothing from the NAO to suggest that it thinks that it is seriously overstated. If we didn't do that at all, money that we are protecting would not be counted at all. It is an area of judgment.

Q95 Chair: For most taxpayers, this is quite a complex area. I suspect that most taxpayers are not reading the annual report and accounts of HMRC; they just expect these things to be done well. Do you explain this area, and the others that Mr Phillips is probing, in plain English anywhere? I must admit that I have not looked on your website to find it. For instance, cigarette smuggling is a big issue for a lot of us in our constituencies because it causes a lot of criminal behaviour. It matters to people.

Lin Homer: Of course it does.

Q96 Chair: So where could someone find that information without having to delve through these figures?

Lin Homer: That is a fair challenge, which I am very happy to have suggested.

Chair: Transparency is really important.

Lin Homer: We have tried in the annual report to be clear that we are not just counting one homogenous thing. That is our first step. I think we feel our annual reports are getting better year on year. I do not think that we have very accessible stories about what lies behind this, so it is a fair challenge to suggest that we take some of those away.

Q97 Stephen Phillips: That is the ultimate place that I'm going to end up. The problem for the taxpayer, who does not have the time to sit down with the NAO and wrap a wet towel around their head like I do, is that if you look at page 15, it looks as though HMRC in the year 2014-15 has managed to secure for the Exchequer, so that taxpayers' taxes can be kept down, £26.6 billion, which has gone into the Consolidated Fund through its compliance activities. That is not right, is it? You haven't managed to get an extra £26.6 billion into the Consolidated Fund. That is not real cash into the Exchequer. The point is that this figure, to the taxpayer or to someone who picks up the Report and looks at it, is highly misleading.

Lin Homer: No. I strongly disagree with that, Mr Phillips. This is not all cash. We do not pretend that it is all cash.

Q98 Stephen Phillips: Where do you say that it is not all cash?

Lin Homer: At the bottom of the figure. It says, "Cash collected", "Revenue losses prevented", "Future revenue benefit"—

Q99 Stephen Phillips: I am sorry, it is a glossy publication; maybe even a—

Lin Homer: It is an obligation to print an annual report and we comply with it; it is not the only way that we communicate with the public. To go back to your basic point, this is money that the Exchequer would have spent if we had not stopped it. Perhaps a more obvious one: if we had not disrupted a criminal gang that was falsely claiming VAT, billions of pounds of actual money would have been paid to them. So by stopping that happening, that money is in the Exchequer to be spent on services.

Q100 Stephen Phillips: Look at the next bar up: future revenue benefits of £6.748 billion. In that—

Lin Homer: There is real cash.

Q101 Stephen Phillips: There is real cash, but you also count all the cash that will come into the Exchequer in the future but has not yet come in because you say you have disrupted the behaviour of the individual.

Lin Homer: Yes, or improved the behaviour of the individual. So Mr H finally tells us after a campaign by Jennie's people that he has been renting a property for 19 years. He owes us £109,000 in tax on that rent. He pays it—that is real cash. For the next four years, he pays tax on his profits that he otherwise did not.

Q102 Stephen Phillips: Why are you counting the next four years in the 2014-15 total compliance revenue figure?

Lin Homer: This is an area NAO have pressed us on. I think we could have counted this in a different way, but, over time, we will not be over-counting. We counted it in that year, but we do not recount it in the future years. We are considering whether it might be better to try to divvy it up and count. If we do that—I am open-minded about whether we should—we will just need NAO's help to make sure we manage the transition well, because for a number of years I will not be able to count what we have already counted. So I am slightly worried that for four or five years it could lead to this being more complex. We have a judgment about that, but it is a fair point that has been made and it is one that we are giving some thought to.

Q103 Stephen Phillips: The point the Committee is making, and that which I think Ms Hillier is concerned about as well, is that at the moment it looks great to the taxpayer—HMRC are doing a fantastic job: an extra £26.6 billion has gone into the consolidated account—and in fact that is not the case, is it?

Lin Homer: I will say again, it is not all cash in the consolidated account this year. The sums we talk about here have been signed off not only by our own analyst, but by Treasury and OBR. It is money available to the Chancellor to spend on services. Some of it might be in future years and some of it might have been money that should have been available in past years. We are not trying to pretend that it is all cash in hand in the year, but it is money to be spent.

Q104 Stephen Phillips: Wouldn't it be great to say, "This is not all cash; this is benefit to the Revenue"?

Jennie Granger: It does say that.

Stephen Phillips: Okay.

Jennie Granger: In the future, you are likely to challenge us to do more in the prevention space, because, after all, what is important is that the money comes in first time. So our reporting to you not just cash but where we have been able to stop it in the first place is much—

Q105 Stephen Phillips: I am more concerned about how it looks to the taxpayer. Final point on £768 million of accelerated payments. That is the money you get for when you demand the payment up front in relation to an avoidance scheme, as I understand it.

Lin Homer: Yes.

Q106 Stephen Phillips: Some of those cases you are going to lose, aren't you?

Lin Homer: We win over 80% of cases—

Q107 Stephen Phillips: Oh come on, Ms Homer. It is really easy. If you say, "We win over 80%," that means you lose 20%.

Lin Homer: We may, but, before we take an accelerated payment, we are considering whether there is a special reason not to. In a more limited number of cases where we can see either that there is a genuinely novel issue or where we believe there is a risk of causing hardship by doing it, we do not take it.

Q108 Stephen Phillips: Some of that £768 million is going to end up having to be repaid to taxpayers from whom it has been taken as an accelerated payment.

Lin Homer: It is possible, and—

Stephen Phillips: No, come on. It is.

Lin Homer: It is possible, but in each year we will report simply—

Q109 Stephen Phillips: So now you are going to win 100% of the cases, are you?

Lin Homer: No. In each year—

Q110 Stephen Phillips: Right. Then it is an overstatement.

Jennie Granger: Actually, if you look at page 16 of the annual report, you will see that we have already netted off for where we have lost legal challenges. We will report both as we go along.

Lin Homer: We will net off as we go along.

Q111 Stephen Phillips: So in future years we can go back and look at the £768 million that you have collected as accelerated payments and not a single penny of that will have had to have been paid back to a taxpayer—is that your evidence?

Lin Homer: I realise that you would like me to say yes and no, but not all of your questions are capable of that. In each year, we will report sums we have collected and sums we have paid out. In this first period, we have probably understated the impact of AP, because it is a first part-year anyway and not all the notices that went out were even due by the time we reported. In a full year, and year on year, we will collect some money in and pay some out, and we will report the net figure. We will not overstate year on year.

Q112 Stephen Phillips: Going forward, the figure will be what you have collected in accelerated payments and what you have taken out?

Lin Homer: Yes.

Q113 Stephen Phillips: So for present purposes, the £768 million is therefore without doubt an overstatement, because some of it is going to have to be paid back

Lin Homer: No, it will be reported next year.

Q114 Stephen Phillips: But at the moment, as we sit here today and look at this, the Treasury is not £768 million more wealthy than it would have been?

Lin Homer: Yes it is, in year. Next year, there will be some ins and some outs, and that is what happens all the time with tax. We hold payments on an account for many big businesses and then pay them back, and that will be settled within our accounts.

Q115 Stephen Phillips: Any many individuals as well?

Lin Homer: Yes.

Q116 Chair: Can I ask Steven Corbishley to clarify the NAO's position on the figures as presented in the annual report?

Steven Corbishley: We say in our Report that as one of the measures of HMRC's performance, the way HMRC have pulled this together and set this out is a good indicator of the compliance and enforcement activities that they report. What we are talking about for public

reporting is—I think the witnesses have accepted this—that there probably needs to be another layer for public reporting, to make it easier for the reader of these accounts to really understand the difference between all those measures and the cash position. I know I am being very simplistic.

Q117 Chair: Even we simple politicians around this table who are not tax experts are arguably a little bit more expert than quite a lot of people out there, and if it were simpler and more transparent—that is what we are after. The taxpayer needs to know how it is being spent.

Lin Homer: I am very happy to take that point away.

Q118 Chair: It may not come across, but we are actually fans of HMRC because you are collecting in tax from taxpayers to spend on public services, which is what we want to see.

Lin Homer: I agree. I can look at page 14 and see that if we had done slightly more accessible case studies, we could have been clearer, but I would like to give you and Mr Phillips an assurance that we are not seeking to mislead. We genuinely think the £26.6 billion is valid.

Chair: And you are making a commitment to more transparency in the future, which is a good outcome.

Q119 Deidre Brock: This question is with regard to the increase—paragraph 9 of the NAO Report—in the amount that HMRC thinks it will need to repay following the loss of court cases. There has been quite an increase. I think it is the highest level it has ever been, and a fair jump since 2013-14, if I read that correctly. Does the 33% increase in the legal claims provision suggest that the design of the law has left big loopholes that big businesses are exploiting more and more at the expense of the public purse?

Lin Homer: I am going to ask Justin to explain what this means in the accounts, because this is quite a technical bit, but I am happy if that leaves a policy issue on hold.

Justin Holliday: What this number says and what we have to set aside is where our advice is that we have a more than 50% chance of losing a case. These cases relate to a number of tax years, because it takes time for cases to go through the courts and the decisions will come through over a number of years. It is true to say that it has gone up by 33% in this period. I do not think we have anything that suggests there is a fundamental change in the complexity or difficulty of tax law, but it is clearly something we keep a close eye on, and if that was something we thought was happening, we would be advising Ministers about it.

Q120 Deidre Brock: It seems quite a big jump. Is it possible that it is something to do with the training of the staff involved in assessing those cases and the risk attached to each one?

Justin Holliday: It is a reasonably big jump, but it needs to be looked at in the context of the total revenue number—£7 billion against total revenues of £500 billion is still a relatively small proportion.

Q121 Deidre Brock: How much do you spend on legal fees and defending these cases each year?

Lin Homer: It will be in the accounts somewhere; I don't know which page. I think some of this may be coming about because we are increasing the aggression with which we pursue people who try to cheat the tax system. We do take cases. We take them all the way through to the most senior courts, quite often. Our record is good and continues to be. That would be the worrying point.

Although I may get shouted at for saying it again, we do win more than, or around, 80% of the cases. Between us, both our own lawyers and the Government lawyers, we make good judgments about which cases to take. Some of them are for very big sums. Sometimes we lose cases on which we have already changed the law, so we are fighting an historic loss, but the law has already been changed to remove the risk that was there—the risk emerged during the period when the law is being tested.

Sir Amyas Morse: It is £45.1 million.

Lin Homer: With the contingent liabilities, it doesn't all get spent.

Q122 Nigel Mills: Mr Holliday, you just said that you make the provision where you think there is a more than 50% chance that you might lose. What is the threshold at which you would take a case? What chance of success would you normally need to start spending the money?

Justin Holliday: We take judgments across the cases. Perhaps Jennie can talk a bit more about thresholds.

Jennie Granger: Obviously, for most cases, it is the taxpayer who is choosing to challenge, rather than us. From our perspective, it is about weighing our prospects of success. Many of those cases are way above 50%, because, again, it is the taxpayer who is choosing to chance their arm. I have seen them in the range of 40% to 60%, and it can be that, because there is often more than one issue, you may have one that is around 40% and one that is higher. That is quite a reasonable band to be in for litigating. HMRC has been pretty conservative on its litigation. An 80% success rate is actually quite high in the revenue world. In my former administration, for example—

Q123 Chair: In Australia?

Jennie Granger: Yes. They have a success rate of around 50%, so this is a much higher success rate. HMRC is taking a more conservative approach, if you like.

Q124 Nigel Mills: How do you test whether you are making good judgments on which cases to take and which not to take? I can see that if you take a case and lose, it is probably a bad judgment, but it may have changed some behaviours. Perhaps wielding a bigger stick there has some incidental benefit. How do you measure those cases we didn't take, and upon which we conceded, that in hindsight we ought to have taken?

Jennie Granger: Again, it is the taxpayers who challenge our decisions, rather than the other way around.

Q125 Nigel Mills: But you would reassess their claim before they do that?

Jennie Granger: Yes. We continually assess what litigation is telling us, and then our solicitors take that into account in the prospects for future cases. The law, and indeed taxpayer challenges, is continually innovating, but there is a quite disciplined review process to understand both the implications of decisions and also what we have learned about the litigation, and that experience goes into the next run of cases. We have very experienced litigating solicitors in HMRC. They are very good.

Q126 Nigel Mills: Presumably you measure, “If we settle this now, we get x. If we proceed, we have a 60% chance of winning and we might get y, but the costs of doing that will be z. Therefore, settling for x is a better decision.” Or, “Perhaps we don’t have the resource to go for y less z, so we will take x in the short term.” Is there such an assessment?

Lin Homer: We do not do that. We do not do deals. We fight cases where we think the tax is owed.

Q127 Mr Bacon: Any more.

Lin Homer: Mr Bacon said that, not me. We don’t always get challenged, but if we do get challenged, we will take a case. I emphasise that the amount in the provisions does not all get spent. It is a sensible, cautious provision. In the last four years, although that sum has increased substantially, we have only paid out some hundreds of millions. We have not even paid out £1 billion over the four years. We are making a provision; it is not a sum paid out.

Q128 Chair: We will go down that route with you.

Lin Homer: We will take cases to establish clarity of the law, as well as to protect revenue.

Q129 Chair: I remind the Committee that the National Audit Office is doing further work on risk and compliance.

Lin Homer: Yes, and we will return to that later.

Q130 Mr Bacon: I will return very quickly to prosecutions. You said, specifically on Falciani, that there has been one prosecution and £142 million of revenue. If you look at the broader offshore evasion project, how many prosecutions have there been and how much revenue?

Jennie Granger: Over the life of the last Parliament, the impact probably isn’t all of them because we don’t necessarily classify them all as offshore. There have certainly been 11 directly.

Q131 Mr Bacon: Prosecutions?

Jennie Granger: Yes. There have been more criminal investigations, but I don't have those figures. In terms of what we have brought in across that period, it is north of £2 billion.

Q132 Mr Bacon: £2 billion? Is that from those 11 prosecutions?

Jennie Granger: No.

Q133 Mr Bacon: A lot of it is from amnesties.

Jennie Granger: It's from offshore activities—sorry. So, that is £2 billion, and that is disclosure facilities, criminal—

Q134 Mr Bacon: So most of it comes from amnesties and presumably some of it comes from prosecutions. Is that right?

Jennie Granger: Certainly, a significant proportion has come from people settling up through disclosure facilities; we have been completely open about that.

Q135 Mr Bacon: Of the £2 billion, how much has come through disclosure facilities, amnesties and so on? I am just trying to get the figures. I want to know how much came through amnesties, and how much came through prosecutions and penalties.

Jennie Granger: But there are, of course, penalties within disclosure facilities, which we have just discussed.

Q136 Mr Bacon: But they are much lower.

Jennie Granger: I haven't got a breakdown of how much was penalties—

Q137 Mr Bacon: Can you write to us with that? If you write to us with these details—basically, the total revenue you got in from the offshore evasion project. Break it down by all means, but give us a total, with amnesties, penalties and prosecutions. And on the question of the 11 prosecutions, is that just 11 high net worth individuals, or is that everything that's happened in the prosecution space?

Jennie Granger: It is a range of people. So, for example, and some of this has been publicised, one is a former magistrate, who had properties offshore—hidden assets. He is in jail now and some of his family members have received suspended sentences. So, there is a range. I am happy to write to you with more details.

Q138 Mr Bacon: Is it just 11 prosecutions over the last Parliament?

Lin Homer: In offshore?

Q139 Mr Bacon: Yes.

Lin Homer: Generally speaking, there has been more. I am sure we will return to this, but offshore is a really difficult area to work in. When we started having disclosure facilities, there was really no data exchange; by 2017, we will have 94 countries exchanging data. We already use much more third-party data. Once we have those kinds of insights, it will be much, much more difficult to hide and much easier for us to pursue without needing to have disclosure facilities. But it has taught us quite a lot about this field, and we are confident that we have got a lot of the revenue in that otherwise we would have not known about. So, we have talked about prosecutions versus other forms of deterrent, and naming people, civil penalties, prosecutions—we think all those things need to be part of our toolkit.

I know that this isn't something we totally agree on, but we remain of the view that prosecutions is the part and not all. I think you and I, Mr Bacon, talked last time about the deterrence effect of marketing, and we think that telling people that we are watching them stops them doing bad things.

Q140 Chair: As you acknowledge, we may not be in complete agreement. We will return to this. It is an issue of great concern to us that prosecutions have an important effect. They also send out a signal to our constituents—your customers, the taxpayers—who want to know when they are being pursued, quite rightly, for their tax—they are paying their tax on time—that the big guys are being caught and punished.

Anyway, I will drop that there, because we will come back to it—

Lin Homer: I need to say that we similarly do not prosecute everybody onshore. So, if you take up a campaign for your constituents, the proportion we prosecute remains very small. We will fine—

Chair: Can I just stop you there? We are not going to get into this again, as we have covered it quite a lot today and this is a very broad-ranging hearing. We will come back to this and I am sure that we will cover prosecution—on and offshore—in a future hearing.

Q141 Nick Smith: I would like to take up the issue of tax reliefs. You know that in the past on this Committee we have had some cracking examples of bad practice and issues. Some of us will remember the Cup Trust, which gave about £150,000 to good causes while claiming, I think, £46 million in gift aid. That was a great example that we were all horrified by.

A recent example that was in the media troubled me; perhaps, Ms Granger, you can help with this. It related to an organisation called the Anderson Group. The BBC secretly recorded one of its managers promoting a tax avoidance scheme relating to employment allowances for recruitment agencies. He said that the money saved could be spent on “some great ski holidays, couple of Bentleys. Job's a good 'un.” That is a shocking example of people putting two fingers up to the tax relief system and taking advantage of it. That story came out in the spring; it has all gone quiet now. Where are you on dealing with that problem?

Lin Homer: If we see an emerging new tax relief being abused, we will do two things. First, we will pursue action on individual cases. You mentioned a case relating to charity relief, on which there was a particular hearing. You mentioned the sum that was claimed, but I think you will recall that we gave you evidence and we paid no charitable tax relief to the Cup Trust at all. It was at risk—if you like, it was money that we would have counted in one of the categories that Mr Phillips doesn't like very much.

The employment allowance is relatively new. We will watch, observe and take action against people if we think that they are abusing a tax relief. That might take the form of action against individuals. We might take a case and a tribunal will say, "No, that's not proper," and they won't get it, or we might follow through and make changes to the law. The other one that we spent a lot of time talking about is film tax relief. Successive Governments have been very keen to maintain it, but we have had to make two or three fairly serious changes to its structure to make it watertight to abuse. Some of the accelerated payment cases that we are now collecting on are from that era, so that loophole is well closed, but people are still arguing about whether that relief was properly theirs.

We always watch a new relief and how it develops. I would just say that not every wheeze that people talk about in the ether works. The previous Committee had the experience of asking some of the promoters of the most aggressive schemes how successful their schemes were. I think I recall one of the ones who sat here admitting that none of his schemes had worked, so we would always say to people, "Don't believe the marketing." He had probably spent the money on good holidays beforehand, because he would have taken his cut.

Q142 Nick Smith: Can I press you? What happened with this Anderson Group suggestion—where did it go?

Lin Homer: You know that we will not talk about individuals in the Committee, but I will give you a general assurance that where we get information, whether from a Committee or an individual, we always use that to check whether something is happening that we already know about or that we don't know about, and we will seek to take action.

Q143 Nick Smith: My constituents will be keen to know that someone is going to be locked up over this sort of bad behaviour. I really hope that you pursue it as vigorously as possible.

Lin Homer: Perhaps when Jennie writes we should give you a bit of a round robin about the kind of prosecutions that we have pursued and fines that we have imposed recently in relation to abuses of that sort, because I think we are successful in deterring that kind of behaviour.

Q144 Nick Smith: Going back to dealing with tax reliefs in the round, you said about half an hour ago that, by and large, HMRC tries to follow NAO and PAC recommendations—sometimes a bit late, but eventually we are all on the same page. A couple of months ago, however, we were looking at tax relief management, and you came away and said that, in a couple of instances, it was not possible to "act on most of the Committee's recommendations because it would be impossible or impractical to do so". You said that you would produce some principles to guide your management and make clear how you will discharge your responsibility to monitor, evaluate and assess tax

reliefs—by September 2015. You were going to produce a document, we were very interested in seeing it and you are supposed to have it available now—

Lin Homer: And I have only 21 days left.

Q145 Nick Smith: Where is it?

Lin Homer: I am just wishing I had brought Jim Harra with me, because that is Jim's area. I should say that we accept slightly fewer of the Committee's recommendations than the NAO's. I have the figure somewhere—it is still very high, but we do disagree with you on some things, and I think the greater number of recommendations that we did not accept from you were in the area of tax relief. I will go back and make sure that we update you on what we have done in that area by the end of September.

Q146 Nick Smith: Okay. And you will have this document that we can see then?

Lin Homer: I am afraid I am struggling to remember whether we committed to doing something for ourselves that I would tell you we had done, or something for ourselves that we would share with you.

Q147 Nick Smith: According to the Treasury minute, "July 2015: The Government agrees with the Committee's recommendation. Target Implementation date: September 2015."

Lin Homer: Yes, so I will update you on that.

Q148 Nick Smith: I want to come to one of the things where you seem to be putting up two fingers to us.

Lin Homer: Sorry?

Nick Smith: I want to come to one of those items where you seem to be putting up two fingers to us.

Lin Homer: There are a few we rejected, yes.

Q149 Nick Smith: We said that you did not maintain a complete or accurate list of tax reliefs setting out what each is intended to do. We said that your list was poorly defined, incomplete and inaccurate. The Office of Tax Simplification, which would seem to be a good guide, has identified 1,140 reliefs. You say that there are only 398. That is a bit of a gap. How are you going to have a better list, and how are you going to improve transparency on tax reliefs so that we can all make sense of this, please?

Lin Homer: On tax reliefs, I think in the hearing that we had during the year, both myself and Nick Macpherson were clear with you that we believed that the question about whether to

implement a relief was predominantly for Government and Parliament, and that our responsibility as the tax administrators was to implement that and, obviously, to advise if we saw abuse. Indeed, we have examples of where we have changed it.

We do not believe that everything that is regarded as a tax relief that is like a tax expenditure—this is a space that the Committee wanted to be in—is as similar to tax expenditure as you think. We have talked about a number of examples in which we can see very little point in spending significant amounts of time and money pursuing something that is well embedded in the UK tax system. For instance, the overall list that OTS uses includes things like significant areas of zero rating for VAT which are incredibly well established in this country and not at all controversial. We do not believe that there is any value in an over-bureaucratic evaluation of the effect of those.

In other areas where the Government of the day have put a policy proposition to Parliament and Parliament has supported it, the question whether the cost of delivering that policy is reasonable or not is, we think, one for Parliament. We said when we appeared in front of you that some of our advice was therefore in the realm of policy of the Government of the day, not value for money. That was the nature of some of the disagreements.

What we did agree on with the Comptroller and Auditor General—I am sorry; I didn't notice him leave—was that we should review whether we could make more robust our decisions about where we evaluate deeply, where we evaluate more superficially and where we do not evaluate at all. I think that we would always keep that under review, but I do not think that we accepted the simple notion that everything classified as a tax relief more like a tax expenditure was, of itself, something where there was simply a value-for-money judgment, because some are much more policy. I think Nick may have given the example of marriage. If a Government want to support marriage, that is up to the Government of the day. It is not for me to say, "We do not think that that is good value for money."

Q150 Nick Smith: I remember that session. It was tetchy and frosty.

Lin Homer: It was.

Nick Smith: It is a shame that it got to that state. You already produce a list of 400 reliefs and tax expenditures. Why can't you just produce definitions of those tax reliefs and tax expenditures, which is something that the NAO thinks would be valuable? It is not just us; the NAO thinks it.

Lin Homer: Again, we think that a small subset of reliefs are, if you like, topically controversial, and we think it is better for us to focus on that smaller area. I am content to be encouraged by you to talk further with the NAO, but I doubt that we are going to conclude that nearly half the total list of tax reliefs needs that kind of extra constant, ongoing evaluation; some of them are very non-controversial.

Q151 Nick Smith: Ms Homer, all I would say is that what we are asking for is not unusual in lots of other places. I understand that, for instance, categorising tax reliefs according to their objective is done all the time in Australia, France, Germany, Ireland, the Netherlands, New Zealand—I could go on. Why couldn't you do that?

Lin Homer: The definitions used are very different. We looked at this last time we were here: what is regarded as tax relief, and what is caught by those? There are very few places doing significantly more evaluation than we are.

Q152 Nick Smith: Last question from me. All departmental budgets are set without taking into account the cost to the Exchequer of relevant tax reliefs. The example that we have here is that in Culture, Media and Sport some budget heads are very clear and open and, at the same time, there are tax reliefs for topics such as making films and so on. Why couldn't that Department's budget include reference to tax reliefs as well as expenditure on libraries or other elements of culture, media and sport?

Lin Homer: Again, I refer back to that hearing. I think that the Government have been clear in not accepting some of those recommendations and that they believe that taxation is fundamentally an issue that is determined by the Government of the day with the Parliament. When Finance Bills are introduced, those issues are debated. To make that subject a kind of secondary string of scrutiny via the value-for-money committee would not be appropriate. I am not sure that I can do more than repeat what was said in the Treasury minute.

Q153 Nick Smith: Again, I understand that it is commonplace in Canada, France, Germany, Ireland, the Netherlands, and New Zealand. I think we are going to return to this.

Lin Homer: I don't wholly accept the references to other Committees. What you have in each of these cases is different definitions and different forms of scrutiny. What we and the Treasury said in our answer to the recommendation is that we believe that the scrutiny is happening where it should on those things—on the Floor of the House when a Budget and a Finance Bill are debated.

Q154 Nick Smith: A final question from me. I was very interested in the work that you are doing on big data and the Connect project. There seems to be lots of good stuff going on there, although I didn't think that it was covered sufficiently well in the annual report. It would be interesting to cover that better in future years and again increase transparency. Something interesting that came out of that was the use of credit references to look at the tax status of couples. It seemed that you were using the private sector and information about individuals' credit references to support your work around tax status. I didn't properly understand it so I thought I would quiz you a bit more on it.

Lin Homer: I am afraid that I am not sure, off the top of my head, whether that is something that we are doing in tax credits. If we are, I will ensure that Nick Lodge, who is coming with me next week, can talk about it. If not, we will give you a note on that. We are making much more extensive use of third-party data.

I thought you were going to talk about the areas involving small businesses, for instance, which is Jennie's area. We believe that we will be able to give much more prompting and help to small businesses to keep their affairs in order by utilising the data that are available to us, rather than relying on them sometimes, by error—not always fraudulently at all—forgetting to tell us things that we can gain from other sources. We are utilising data well. We are doing it equally to make it easier for the taxpayer, to go back to the earlier point. If we can pre-populate—if we are going to do

more online and we can say, “Let us remind you what we already know about you. Here’s the bank interest you’ve had. Here’s what we already know of your VAT repayments and your expenditure on supplies and services,” we think we can make it much easier for small businesses. I am sorry, but I do not instantly recognise the reference to using that for individuals and couples.

Q155 Nick Smith: It is in the annual report. If one of you could take a peek at it and get back to me, I would be grateful.

Lin Homer: We will, and we have another chance next week, so I am happy to try to pick it up then.

Chair: Thank you very much. I will shelve a number of issues that could have come into this hearing or Monday’s relating to tax credits and so on, because of time. Thank you for coming. As you have heard from the Committee, there are bits of what you do that we think are good, but we are very demanding of you—quite rightly, because you are getting in the cash to the Exchequer from the taxpayer, and that has to be done properly and fairly.

There are some areas that I think are worth flagging up. You will have heard this from the Committee, but it is perhaps worth reiterating. On customer service, the National Audit Office is coming up with a Report at the end of this year, which we will be looking at. This is a very big issue. We get more letters about this as a Committee than about any other single thing. We also do as constituency MPs. When I told colleagues about today’s hearing, it was the biggest thing that came up from them. We do not think your performance is good enough. In the Chancellor’s letter to you, he told you to improve your performance before the end of this year, so we will be doing his work for him as well by making sure you do that. We also suggest that in the spending review negotiations you place more onus on improving the service to taxpayers. In the end, they are your customers.

We think it would be helpful—we will come back to this in January—for you to look at the potential link between the quality of customer service and tax returns, because if people are ringing you to try to be compliant, it seems blindingly obvious to us that they need to get the right advice in reasonable time. I could be very mean, but a Twitter survey was done by the CAB of 9,000 people who complained to @HMRCgovuk—I presume you followed this. They said that: “Taxpayers are racking up an average £4.66 phone bill and waiting 47 minutes before getting to speak to anyone”. That is clearly a selective group of people who tweet for a start, but it was an analysis of 34,000 tweets sent to you, so it would be fair to say that it is not all going swimmingly. This is an issue that we as a Committee want to look at going forward, so we are just alerting you to that. It is raised with us a lot.

On performance measures, you heard from Mr Phillips the real concerns about data transparency. Trying to explain to the taxpayer what you are doing is a big part of your job. It is important that they see what they are getting. We need clarity about the uncertainty in those estimates, and the National Audit Office will keep pushing, as will we.

The NAO will be reporting on risk and compliance, so we look forward to coming to that again, as there are really big areas there. Aspire is an issue for us, too.

The big issue, which was touched on by Nick Smith, is tax reliefs. For all that you say, Ms Homer, about not writing a list of all of them because some of them are not that important—we recognise that the 0% VAT tax relief on childcare and ISAs are not big issues for revenue income—

why not just list them so that we and the taxpayer can see what they are? Judgments can then be made about them. You are not expected to investigate them, but a list would be a good start. We can then decide what we would like to look at on behalf of the taxpayer. We just want to alert you that we are going to be looking quite closely at tax reliefs. We recognise that you are in an interesting position, but Chancellors of the Exchequer, of whatever party, use tax reliefs for all sorts of reasons. We think that there is a direct link between tax reliefs and what you should be getting in as revenue and we want to pursue that, so we are alerting you to that fact.

May I thank you very much for coming along. We have managed to finish in just less than two hours, so we have beaten our target. We look forward to seeing you again on Monday with your team and—

Lin Homer: And throughout the year.

Chair: Many more times in the next year. You are one of our regular customers. Thank you.