HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Quality of Service to Personal Taxpayers, HC 78

Monday 13 Jun 2016

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Members present: Meg Hillier (Chair); Mr Richard Bacon; Deidre Brock; Chris Evans; Caroline Flint; Kevin Foster; Mr Stewart Jackson; Nigel Mills; David Mowat; Stephen Phillips; John Pugh; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Rob Prideaux, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-143

Witnesses

I: Jon Thompson, Chief Executive and First Permanent Secretary, HMRC, Edward Troup, Executive Chair and First Permanent Secretary, HMRC, Ruth Owen, Director General for Personal Tax, and Jennie Granger, Director General Enforcement and Compliance.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

The quality of service for personal taxpayers (HC 17)

Examination of witnesses

Witnesses: Jon Thompson, Edward Troup, Ruth Owen, and Jennie Granger.

Q1 **Chair:** Apologies: there is a leak in Committee Room 15. The alternative was a smaller Committee Room, so given the popularity—that is one way of putting it—of HMRC, we are in the Boothroyd Room. I welcome everybody to the Public Accounts Committee. We are here today to look at two Reports from the National Audit Office about tax. The first is on customer service, which is a repeat theme for us. I should just remind all the witnesses that this is the single largest issue that we get letters on from members of the public. We get more letters from members of the public about customer service at HMRC than we do on any other issue, and given that we cover quite a lot of issues, that is quite some record.

So the first session is going to be on the quality of service to personal taxpayers; as I said, that is a repeat issue for us. The second will be on managing and replacing the Aspire contract, for which we have slightly different witnesses—Jennie Granger and Ruth Owen get off the hook on the second one and we have other witnesses in for that. The hashtag for the first session is #HMRC. Our first panel is Ruth Owen, director general for customer service at HMRC; Jon Thompson, who was at the MOD but is now at HMRC—I will come on to your job title in a moment, Mr Thompson—Edward Troup, who is executive chair at HMRC; and Jennie Granger, director general for enforcement and compliance.

Before we get into the main hearing, there are a couple of issues we want to cover. The first is your job titles and roles. Originally—before last Friday, anyway—I had understood that you, Mr Thompson, were the chief executive and first permanent secretary and that you, Mr Troup, were the executive chair and first permanent secretary. But as I understand it, as of Friday—well, I don't know whether this actually happened on Friday, but that is when I picked it up—you, Mr Thompson, are the principal accounting officer and you, Mr Troup, are neither the first nor principal of anything. I am a bit confused. Can you tell us, first, what your titles are, starting with Mr Thompson?

Jon Thompson: Certainly. I am the chief executive officer of HMRC and I am also the principal accounting officer. I am the accounting officer for the Department's spend, in the same way as any other accounting officer of any other major Government Department.

Q2 **Chair:** Okay, so you are not a permanent secretary.

Jon Thompson: I am also a permanent secretary. The role—the grade is exactly the same as permanent secretary of the Ministry of Defence, so it is a sideways move in civil service terms.

Q3 **Chair:** Mr Troup, can I be clear what your title is?

Edward Troup: My job title is executive chair. I am for the moment still tax assurance commissioner until we change that responsibility, which we may do at some time in the next few months. Like Jon, I am also a permanent secretary, which is a job grade as well as capable of being a title.

Q4 **Chair:** You are considering getting a new tax assurance commissioner in in the next few months—can you be a bit clearer about what you mean by that?

Edward Troup: I am the tax assurance commissioner under the arrangements which we set up in discussion with this Committee in 2011. We appointed one of the commissioners to be the tax assurance commissioner and I joined HMRC to take on that role, but it is a role which we designate between ourselves. Although it is perfectly possible for me to continue as executive chair and tax assurance commissioner, Jon and I think it would be better at some point in the future to identify another commissioner member who should take on the role of tax assurance commissioner. We have not yet reached a decision on that and obviously we will let this Committee know when we do and what the arrangements are for that.

Q5 **Chair:** So, to be clear, that would be one of the current senior management team at HMRC and not an outside person.

Edward Troup: Yes.

Q6 **Mr Bacon:** And for the avoidance of doubt, that person would have no role—like you have had no role—in signing off in the first instance; it is an arm's length role.

Edward Troup: The main characteristic of the role of tax assurance commissioner, when we designated it in 2011, was both to convene the meetings of three commissioners to sign off larger settlements but also personally to have no direct dealings with the tax affairs of taxpayers. Therefore, I still fall into that category, but if we are going to identify another commissioner to take on that role it would need to be a commissioner who had no direct dealings with taxpayers.

Mr Bacon: Or who thereafter had no—

Edward Troup: Or thereafter—sorry.

Q7 **Mr Bacon:** The fact that you are executive chair means that, in your present role, you do not have any dealings with taxpayers.

Edward Troup: Correct.

Q8 **Chair:** Can I be clear? There might well be an overlap that somebody who had agreed the tax settlement could then become tax assurance commissioner. How are you going to manage that?

Edward Troup: In the same way as one can move from one set of responsibilities to another, but the important thing is at the time the tax assurance commissioner is in post, he or she would not have dealings with taxpayers.

Q9 **Chair:** But they would not deal with any of the things they previously agreed—I just want that to be clear.

Edward Troup: In the same way that if there was to be a settlement at the moment for any business which I had previously been involved with earlier in my career, I would excuse myself from the decision at that point. We have not actually worked this through, but—

Q10 **Chair:** But there would not be a prospect of somebody who had agreed a settlement one day moving into tax—

Edward Troup: Correct.

Q11 **Chair:** Then that moves on to what the job titles mean in terms of responsibilities. Which one of you sets strategy for customer service?

Edward Troup: The overarching strategy of the Department, which is discussed and approved by the board, which I chair, is the responsibility of the chief executive and the executive team to deliver. That is our strategy at the highest level—our approach to compliance, our approach to customers and our approach to digital—but the strategy for customer service, if you mean how we approach the details of delivering the objectives set for us, falls with Jon as part of the delivery side with Ruth.

Q12 **Chair:** What about tax evasion and tax avoidance—which one of you would be responsible overall for that?

Jon Thompson: Can I attempt to answer your question in a slightly different way on the basis that it might give us some clarity? My job is almost exactly the same as Lin's in every respect.

Chair: Other people might not know who Lin is.

Jon Thompson: My apologies. My job is exactly the same—pretty much—as the previous chief executive officer Dame Lin Homer's, so everyone works for me. My responsibility is to deliver the strategy. I am the accounting officer.

Essentially, who I work for has changed. The chief executive now works for the executive chairman rather than the cabinet secretary as previously. Apart from that, it is almost exactly the same as the previous responsibilities, so if you are used to having an accounting officer and a permanent secretary, that is me.

Q13 **Chair:** I am sure that as we go through both our inquiries today, we will be teasing out more. Forgive us if we are learning as we go—we just want to make sure that we are absolutely clear about responsibilities. Mr Phillips has a point that he will be raising on another issue just before we get into the main Report, but the other thing that I want to raise is whether there are any updates on Google. As you are no doubt aware,

there was a raid by the French on Google's offices in Paris at the end of May. We are interested in whether you have been able to share any information with the French tax authorities and whether that has any relevance to the Google tax settlement that took place in the UK. Which one of you is responsible there?

Edward Troup: The details of the settlement fall with Jim Harra, director general for business tax, but as the Committee knows, we signed off a settlement with Google in January and we took the unprecedented step, with Google's agreement, of providing the Committee with details—

Q14 **Chair:** You don't need to repeat that. Is there any news from Paris that makes a difference?

Edward Troup: I am trying to give you some information. What I am going to say now is not going to be very helpful: we all work closely with all our international partners, but always on terms that whatever we share is confidential and that we would not share it beyond taxpayer confidentiality. We work continuously with all our international partners. The point that we have made to the Committee before, and I am happy to make now, is that if anything comes out of any international exchange or, indeed, if any information comes to light that was not disclosed to us at the time of any settlement that is, or would have been, material to that settlement, we have the ability to—and would—reopen the settlement in question.

Q15 **Chair:** Have you had contact with the tax authority? I am not asking you to reveal the detail of that. Have you had contact with the French tax authority since that raid?

Edward Troup: We work with the French tax authorities in many ways. I chaired the meeting of tax commissioners in Beijing, and my counterpart in Paris was represented at that meeting. We have continual contacts on all sorts of business with the French tax authorities but we do not provide a running commentary on what contacts we have—which taxpayers—and definitely not on what information we have shared. We would not be doing our job properly if we did not follow up on information, whether received through the public domain or otherwise, that might relate to a taxpayer that we are dealing with.

Q16 **David Mowat:** The answer that you gave then was similar to what you said regarding anything that might be found by the French. Just to be clear, if there was a non-disclosure, you would have the ability to reopen and look at it again. If, however, it was a matter of the French tax authorities making a different judgment from that which you or your team had made, that would not be a basis for reopening it.

Edward Troup: You imply that we make a judgment to determine the amount of tax on a judgment. There are judgments in administering tax such as what questions to ask and when to be satisfied with answers, but the amount of tax that is paid is determined by the law.

Q17 **David Mowat:** But there were judgments made regarding the way that Google is set up. You will have made those judgments. I suppose that

what I was getting to was that you were very careful with your words. You used the word "disclosure", which is a very clear thing. If Google had not disclosed something, you would be able to reopen it, as you would with anybody, I guess, but you have settled, so unless it is a matter of disclosure, you are not in a position to reopen it.

Edward Troup: We have settled on the facts as were disclosed to us, which were reported in the piece of paper. As tax assurance commissioner with two other commissioners, we signed off that settlement, satisfied that it was collecting every penny of tax that was due under UK tax law at the time relevant to those particular activities. There is no question of someone saying, "Well, you might have taken a different view", and us saying, "Gosh, we hadn't thought of that. We're going to change our mind." We are satisfied that the extremely extensive work that was done on that, as is done on all large settlements, has considered every possible opportunity for assessing, and that the settlement that was reached was not a penny less than the full amount of tax due under the law.

Q18 **Chair:** Let's put it hypothetically, as I appreciate that you are unable to provide certain information. If the French managed to secure anything like the £1.2 billion that they are pursuing in corporation tax and VAT from Google, would that fact alone mean that HMRC would reconsider and go back and look again at the 10-year investigation that listed £130 million to the British taxpayer?

Edward Troup: I'm sorry but that is entirely hypothetical. The French operate under a civil law process that it is completely different from ours. They will raid a taxpayer's premises as a precursor to more detailed inquiries. As you know, we work on the basis that within our code, jurisdiction and rules, we engage with the taxpayer co-operatively. If we feel they are not being co-operative and we don't get the information, then we will pursue them further.

Q19 **Chair:** But Mr Troup, there might be information—we appreciate that there are different legal systems, but if in the end their legal system secured a much larger amount of tax paid by corporation because of their concerns about the tax framework that that corporation used, be it Google or anyone else, wouldn't it behove HMRC to go back and check whether the settlement reached for Google in the UK was a reasonable one? You know what taxpayers think of this.

Edward Troup: I am clearly not going to say, "No, we'd never go back and check." We would always look at information, but as you said, if French law allowed them to do that, I am afraid that would probably imply that French law was different from UK law, because we are satisfied that we collected all the tax that we could under English law.

Q20 **Chair:** So you are saying that there is no information that could come out now, other than, as Mr Mowat has highlighted, a voluntary disclosure by Google or some other party, that would—

Edward Troup: Not unless facts were disclosed which were not disclosed to us at the time.

Q21 **Chair:** So they have to be disclosed, not discovered?

Edward Troup: Sorry—I mean disclosed or discovered.

Chair: I think this one will come back again, but we will leave it there for now and pass over to Mr Stephen Phillips.

Q22 **Stephen Phillips:** Before we get there, Mr Troup, in one of your answers, you said that HMRC would not be doing its job if it did not follow up information that emerged from any source. You were reluctant to say whether or not there was contact with the French authorities in relation to this particular taxpayer, but I am afraid I am going to press you on that. Either you are doing your job or you are not. Is there contact between HMRC and the French tax authorities in relation to Google?

Edward Troup: I am sorry, I cannot answer that. I am bound by confidentiality not to disclose information about specified taxpayers, and the terms of exchange of information with other tax jurisdictions are always clearly on the basis that those exchanges are confidential. I would be in breach of the law to answer that question, I am afraid, without the taxpayer's consent.

Q23 **Stephen Phillips:** But in a sense, you have answered it. You said you would not be doing your job if you did not follow up on any information available to HMRC, from which I infer that in fact there is contact between HMRC and the French authorities.

Edward Troup: That is your inference. I am sorry, I am not quite sure what you want me to say.

Q24 **Stephen Phillips:** The problem with this is that there is a history, although not in the context of Google. You will remember from the Falciani papers that the French had information that was not followed up by HMRC. This Committee looked at that, and was somewhat critical of how HMRC had dealt with it. If it is not happening, plainly there should be some form of dialogue between yourselves and the French in relation to this or indeed any other taxpayer. Isn't that right?

Edward Troup: Is it right that we should have dialogue? Yes.

Chair: I think you will be seeing some activity in Parliament, because citizens and parliamentarians are angry about corporations that have such complex tax structures that it does not seem clear or, very often, fair how much tax they are paying. We will pause on that point for now, and I will ask Mr Phillips to pick up on a point.

Q25 **Stephen Phillips:** Mr Thompson, you say you have taken over everything that Ms Homer was responsible for. I had a somewhat abrasive relationship with Ms Homer, much to the amusement of the *Daily Mail* in particular. I hope ours will be much better. Are you still responsible for setting policy in relation to tax evasion and tax avoidance, or is that something that the board and Mr Troup do?

Jon Thompson: The straightforward answer to your question is yes, it is my responsibility.

Q26 **Stephen Phillips:** This Committee has almost unanimously, if not completely unanimously, previously been of the view that HMRC's attitude towards those who wilfully evade and aggressively avoid taxes has not been good enough in terms of what our constituents expect for those who break the law or do not pay what they should be paying, even if it is legally defensible. Can you tell me whether or not the policy is going to change or has changed, or whether it is something you are going to look at?

Jon Thompson: We should try as much as we possibly can to pursue all those who evade the tax which is due in the United Kingdom.

Q27 **Stephen Phillips:** But when we have looked at this previously, the answer that came from your predecessor was, "We have a suite of remedies available, including prosecution." The view that I think the Committee took was that prosecution had not been used sufficiently frequently in cases of evasion to act as a deterrent for those who might wilfully choose not to pay their taxes. Is that an issue at which you are going to be looking as the chief executive?

Jon Thompson: I will look at it again. My understanding is the decision was made in the last few months of Dame Lin's tenure to increase the number of prosecutions further, and they have been increasing for the last few years.

Q28 **Stephen Phillips:** We looked at that and it emerged that HMRC has effectively been selecting the low-hanging fruit and not going for the rich people who have chosen to evade their taxes. It has been entering into settlements with those people. That is the point that so enrages our constituents, and it is the point I have repeatedly put to Ms Granger when she has come before the Committee—she can speak for herself in a moment—and I want to know if it is going to change.

Jon Thompson: I am not sure whether, at this point in time, I could confirm or otherwise the "low-hanging fruit" comment that you made. We prosecute a number of professionals. I don't know whether they constitute what you would define as low-hanging fruit or not, but some of those are significantly wealthy individuals.

Q29 **Stephen Phillips:** Are you of the view, as we have been in the past, that it is important to prosecute those who evade their taxes, to act as a deterrent to others from doing the same?

Jon Thompson: Yes. The question is the balance to which that is used.

Q30 **Stephen Phillips:** Where do you think that balance lies? It seems to me that if you break the law you should be prosecuted.

Jon Thompson: After 44 days I don't think I can honestly and straightforwardly answer your question about whether we have got the balance right. It is something we can and do use. The position I have to formulate is whether we are using it enough.

Q31 **Stephen Phillips:** Can I ask this, if it hasn't been done already: you are

no doubt very busy in your new role, but can you undertake that this is an area at which you will look when you have time to do so?

Jon Thompson: Certainly. I am happy to give you that agreement, yes.

Q32 **Stephen Phillips:** Can I turn to the Panama Papers? The Prime Minister announced that there is an HMRC taskforce that is going to conduct an investigation into that. How is that going?

Edward Troup: I was actually going to hand over to Jennie. The taskforce has been in place for a few weeks now. There are about 100 staff in total, of whom around 70 are from HMRC. We already had, and are working with, about 700 leads that have a Panama connection. There is a balance to be struck on the Panama Papers between thinking that somehow this has answered everything and will solve all our problems—

Stephen Phillips: I do not think anyone is suggesting that.

Edward Troup: This is useful information, but it is information that supplements the 100 million pieces of data that we had last year and the 700 leads we are already following up.

Q33 **Chair:** The question was: how is it going?

Edward Troup: It is going quite well. Perhaps Jennie would like to come in.

Chair: Jennie Granger can perhaps answer that. We did not make any assertions about what the data would be throwing up, we just wanted to ask.

Q34 **Stephen Phillips:** Let's just have an answer to the question. How is it going, Miss Granger?

Jennie Granger: We are nine weeks into the taskforce and, as Mr Troup said, we have already put some of our key experts together with the other law enforcement agencies. For us there are three challenges here. One is what we can obtain around the Panama Papers data itself. The ICIJ has a publicly stated position that it will not provide the data to—

Chair: Can you speak up?

Jennie Granger: Sorry. It won't provide the data, so we are scraping what data is available from the ICIJ and running that against the data that is held not just by ourselves but by other agencies. We see this as something that we are not just working on with other law enforcement agencies here in the UK, but also with law enforcement agencies and other revenue authorities internationally.

The opportunity in the data is the potential to understand the worldwide footprint of this particular organisation and how it flows. However, all we have are names and addresses and organisations; we don't have anything underlying that. As you know, the key things that you need, particularly with offshore, are to be able to understand the structures, the transactions and the relationship to the UK.

Q35 **Stephen Phillips:** Would those structures be apparent from the information that is not being disclosed by the journalists?

Jennie Granger: They have published the structures. They have published company names, other entities, individuals, and on their database they have drawn the links that they can. They have been playing with this for a year and they have drawn the links that they can. So what we are doing is analysing that against the data that we hold and also the data that the other agencies hold to see if we can put more of a story together. What we do not have is the purpose behind the structures or how money flows around them, which, as you know, is essential for that.

What I do want to stress is—

Q36 **Stephen Phillips:** Sorry, but you need to finish your answer, because you said there were two other problems.

Jennie Granger: Challenges, I think I would say. Certainly the challenge of the data is one. There have also been some serious concerns raised in the media—not just here but around the world—about tax evasion, potential money laundering and potential organised crime. That means it is important for us to be working with other law enforcement agencies on the way that they look at and trace these flows as well. That is why it was important to put together a taskforce. We have stood that up. We already had civil investigations under way. We had 700 intelligence leads ourselves that are Panama-related and we are obviously sharing what we know about that and seeing what else we can build. But the data that we have seen so far is what we call dirty data. That is not meant to be pejorative. What we mean by that is that there are lots of pseudonyms and duplications in it and it is not linked. It is like someone has tipped a data soup—

Q37 **Stephen Phillips:** Which are the other agencies with which HMRC is working?

Jennie Granger: The NCA and HMRC are chairing the taskforce. The Serious Fraud Office and the Financial Conduct Authority are the key agencies. But we will call on other agencies as we need the help.

Q38 **Stephen Phillips:** Do you think sufficient resource has been put in place to deal with such data as is available and to get the best out of it in order that people who are money laundering, involved in organised crime or evading their taxes can find themselves in court?

Jennie Granger: The Chancellor has provided a £10 million sum for this year, to draw down on as needed. We think a number of things. We are putting our best analysts on it—but, of course, that is displacing them from other work—as are the other agencies, and we have already stood up teams. We think that the—

Q39 **Stephen Phillips:** So although this is extra money, you are drawing down resources from other parts of HMRC.

Jennie Granger: Because we want our key experts on it, Mr Phillips. We will pull in behind that what we need to do our other work. But to get started swiftly on this it was important to put our best people on it and that is what we are doing.

Q40 **Stephen Phillips:** And what is the third challenge?

Jennie Granger: I am trying to remember what the third challenge was now—that was three questions ago. I think that the third challenge for us will be how we get under the skin of what is going on here, given that the ICIJ will not release the underlying data to us. We and the NCA are on the ground in Panama. The Panamanian authorities have seized files and we have offered them assistance in analysing them. Obviously, we are keen for them to share with us. Depending on what we find here, one of the things we are very interested in, if we can, working both with other agencies and internationally, is what this tells us about facilitation and enabling. That is something you and I have discussed in the past and it is difficult—

Q41 **Stephen Phillips:** Which are the countries you are working with internationally?

Jennie Granger: One of the key groups for us is a group called JITSIC, which is an international taskforce. It is an OECD/G20 group of countries—there are about 30 countries involved—that formed a network, originally to look at marketed avoidance and how it could infect, if you like, across the world, moving from jurisdiction to jurisdiction—

Q42 **Stephen Phillips:** That all sounds very nice. Do I take it that you are not actually picking up the phone and emailing tax authorities in, for example, some of the Crown dependencies?

Jennie Granger: We are working closely with a number of countries, but I would prefer not to go into detail on what is a live investigation.

Q43 **Chair:** You have given us good detail of the process involved, but Mr Phillips's original question was: how is it going? Nine weeks in, are you able to tell the British taxpayer, through us, what likelihood there is of you getting enough evidence to get the tax back from someone who has been wilfully evading UK tax?

Jennie Granger: It is definitely too early for that. We have already had nine civil investigations; across the taskforce there are around 15 investigations already under way. But they were from existing work, where we are adding to the data. It is far too early to be able to assess what value we can get from—

Q44 **Chair:** Given the information you have, are you able to put in place confiscation orders or freezing orders—I think that slightly different phrases are used, depending who applies them—on the assets of any of the people that you have currently got concerns about?

Jennie Granger: If warranted, definitely we will. These are very early days in this investigation. We have been asked to report back to the Home Secretary and the Chancellor at the end of this year.

Q45 **Chair:** At the end of this calendar year?

Jennie Granger: Yes.

Q46 **Stephen Phillips:** In fact, "later this year" was the phrase used in the Government press release, so my question was going to be: when?

Jennie Granger: At the end of this calendar year.

Q47 **Stephen Phillips:** Right. So where the Government press release says "later this year", actually what they mean is at the end of this calendar year?

Q48 **Chair:** Civil service language for calendar year, Mr Phillips. So that is reporting back. Are you saying that by that point you think there will have been action taken? Will you have enough information?

Jennie Granger: That is what we need to report back on—what our evaluation is so far and what action we need to take.

Q49 **Chair:** So I think it would be fair to say that this is not quick.

Jennie Granger: Well, I think it is quick, given the challenge that is ahead of us. To have put in place all of this quite quickly, to be analysing it already, to have people on the ground in Panama, to have investigations where we are sharing information—

Q50 **Chair:** I think we all recognise that there are complexities and that it is not going to be instant. With nine weeks, we had hoped there might be a bit more information by now. But is there a possibility that some of these people who wilfully evaded tax or who set up structures to make sure that they don't pay tax in the UK have been able to squirrel away their money? Is that a concern because of the length of time it will take?

Jennie Granger: It is always a concern that that may be the case in relation to these people, but we have to have information on that before we are able to act. At the moment, as I said, what has been published is simply a list of names of entities and individuals.

Q51 **Chair:** So you are saying that you need more information. I will bring in David Mowat and then we will move on to the main session with Caroline Flint. But can I just ask: this freezing of assets, or freezing orders—sorry, there are different terms used by different agencies—

Jennie Granger: Confiscation orders.

Chair: Confiscation orders. Is it likely that you can put some of those in place before you report back to the Prime Minister and the Chancellor?

Jennie Granger: I am sorry to be difficult. It is really too early to tell at this stage, but you can be assured that if we find sufficient evidence, and certainly evidence of, as you said, squirreling away of assets, we will act.

Chair: Okay, because that is the bit that will hurt people before, from what you are telling us.

Q52 **David Mowat:** I would just like clarification on your last answer. You said that this taskforce is looking at tax and also at money laundering. Those are two quite different things, aren't they?

Jennie Grainger: That's right.

Q53 **David Mowat:** Is it the same people doing both, or is it a joint inquiry of HMRC and you said you report to the Home Office?

Ruth Owen: That's precisely the point. Because of the concerns raised—money laundering and wider economic crime—we are jointly chairing this taskforce with the NCA, and we will report jointly to the Home Secretary and the Chancellor on what we are finding, if indeed that proves to be the case. That is why it is important that we have brought analysts together who are used to analysing this from different directions. So the short answer is yes.

Q54 **David Mowat:** So you have money laundering analysts and tax loss analysts?

Jennie Grainger: Correct. The key analytical experts that we have brought together are from HMRC and the NCA, with others supplemented as needed, to do exactly that. It is not unusual for us to work together, particularly on organised crime. As you know, we look at all of those angles together, but there is a particular focus on this—that's right.

Jon Thompson: This will probably sound naive right after 44 days when there has been a risk of that, but I don't think we are being explicit enough with you that when the ICIJ said they had 11.5 million records, we have asked for that but we don't have it. I don't know if the Committee was sitting, travelling—

Q55 **Stephen Phillips:** I know that, Mr Thompson, and that is very clear, and if I hadn't been cut across, one of the questions I was going to ask Miss Grainger—perhaps she can answer it—is this: is the data that is available of value to HMRC in seeking to deter people from either evading or aggressively avoiding their tax?

Jennie Granger: That is exactly the task we have set ourselves, Mr Phillips. What the ICIJ has published is names and addresses, and entity names and addresses. We are running that data against the tax database and other databases to see what we can profile—

Q56 **Stephen Phillips:** But if, for example, you have got Mr Bloggs, who has paid no tax in the United Kingdom but has an address here, and has several offshore companies, incorporated through Panama wherever they may be, that is what I would have thought is a red flag that would cause you to look very closely at his tax affairs.

Jennie Granger: We would certainly be very interested, particularly if it was borne out that that UK address was right and valid. We have actually found invalid addresses with some of this.

Stephen Phillips: I have no doubt.

Jennie Granger: So there really is quite a lot of tracking down to do, but you have absolutely flagged the kind of thing that would be of great interest to us, to have people explain if we discovered that.

Q57 **Stephen Phillips:** Would it be fair to say that the real value of the information that is available to you is actually in providing a signpost to the people whose affairs you should be looking at very closely?

Jennie Granger: It certainly could be. We have already found some in the data who have completely disclosed these arrangements to us as well, which is exactly what you would expect in a database of this scale. So there will be some of each of it. There will also be, as I said, quite a bit of tracing. As we discussed previously, these datasets quite often involve a lot of either compliant taxpayers or ones who actually do not have an association with the UK, despite an address on the database that suggests an association.

Chair: We are finally going to move on to the main Report. Caroline Flint.

Q58 **Caroline Flint:** Thank you very much, Chair. Mr Thompson, you have been at HMRC for a few months now. We are looking closely here at the customer services to personal taxpayers. Could you tell us what service issues concern you most and what you think is going well?

Jon Thompson: Which services concern me most? Is that the question?

Q59 **Caroline Flint:** For personal taxpayers, yes.

Jon Thompson: Where we stand at the minute is in a fundamentally different place from that reported in this Report. For example, in relation to answering the telephone, calls handling, percentages and so on, there has been a significant recovery. I can give you the latest data. It is somewhat reflected in the Report, but in April and May we were up to 90% of calls handled, and the average speed of answer was under six minutes. That has been a significant recovery in the matter that is reported before you. Was that your question?

Q60 **Caroline Flint:** My question was an open one: what service issues to personal taxpayers concern you most and what do you think is going well? You just said what you feel—I don't want to put words in your mouth. You are suggesting that, since the spike we saw, things have improved and that, based on the Report, which I think only goes up to January 2016, you seem to be saying that the data suggest that it is at a pretty steady pace now. Did you say that 90% of calls are handled under six minutes? Was that what you said?

Jon Thompson: Yes, for April and May.

Q61 **Caroline Flint:** Okay. So what area concerns you the most? Because we are going to see another amount of cuts in the Department, aren't we? I will come to the previous decisions about staff cuts in a little while, but the Department is facing further reductions in expenditure and staff

support towards personal taxpayers, and the digital services have got to be developed. Again, I don't want to put words into your mouth, but are they causing you any sleepless nights?

Jon Thompson: Not in comparison with my previous role. The key risk here is whether we can develop alternative channels in which the taxpayer can efficiently, more conveniently, more digitally work with us. There are some other issues around that about how we manage relationships with the digitally excluded and so on. Will we get a shift in the pattern of behaviour from customers using more traditional methods across to those new services? There is a range of those due to come online in due course. I think that is the most significant strategic risk that the Report alights on. I think we would probably agree that that is the key challenge for us going forward.

Q62 **Caroline Flint:** Okay. Do you think you understand the customer? Because, despite the changes, it looks like the number of people who still like to use the telephone is not declining.

Jon Thompson: I think where we have a relatively mature digital offering there is a significant channel shift. If you take self-assessment, for example, where 90% of people do self-assessment online and 10% still do it by paper, in the past two years the number of telephone calls that we have had about self-assessment in the January peak period has reduced dramatically. It is down by half in only two years.

As the digital services mature, there is some evidence of a channel shift. If you took renewals of tax credits, that was a service that you could not do online in 2013 and now 40% of people do it online. We are talking about hundreds of thousands of fellow citizens doing that. The service needs to mature and people need to be able to trust it; then you do see a channel shift. There is some evidence of that.

I know the Report gives you the overall headline figures, but in areas where we have a mature digital offering you can see a shift. Our challenge is to continue to develop the digital offerings, so a personal tax account—

Q63 **Caroline Flint:** Do you think it is important to understand the customer when you are planning services and reductions and replacement services?

Jon Thompson: Yes, I do.

Q64 **Caroline Flint:** Is that a priority for you?

Jon Thompson: Yes. I can give you an example if you want.

Q65 **Caroline Flint:** No. I was actually going on to Ruth Owen, if that is okay. I am sure there will be more time to give some examples. I would say that, overall, there are some really positive things in the Report. In terms of customers who rated the service fairly good, good, excellent, it was around 58%. Clearly, there are major changes to HMRC coming along the road. When a more recent major change happened there was a collapse in terms of service. I just want to get to that now with Ruth Owen, if I may.

Since 2010, the Department has had staffing cuts of 42%—that is 10,800 job losses. That is on page 14, in paragraph 1.7 of the Report. The biggest number of those occurred in 2014-15, when 5,600 staff—that is 21%—were lost to the service. It was at that point that the services seemed to plummet enormously. We can see, in figure 10 on page 28 of the Report, this massive spike in the average waiting time to speak to an adviser for the taxes helpline.

You then had to recruit 2,400 staff to deliver the necessary improvements. Why did you not foresee, Ms Owen, the customer need to have personal contact with HMRC staff before you made these big cuts? In fact, am I not right in saying that the agreement for the spending review was a £193 million target in today's terms, but the Department went further than that and handed the Treasury £257 million of reductions in the budget of the service for the 2010 spending review? Why did you do that? Why did you not plan better for your staffing to meet the needs of customers?

Ruth Owen: Okay, let me take them in order. Over the spending review period, yes, we did make significant reductions in the size of the workforce of the Department, and over that same period service did improve. At the beginning of the spending review we answered 48% of calls; we ended the spending review answering 90% of calls.

You are quite right that it went out in the middle, and at the end of 2014-15 going into the beginning of 2015-16 service deteriorated to a level that we decided we needed to take action to recover the situation quickly. To do so we brought in additional people to steady the service while we drove through the transformation that we have been leading.

Did we plan for that? Yes, absolutely we did. We had a plan from 2010 onwards about how we were going to make the reductions within the spending review.

Q66 **Caroline Flint:** You had a plan to cut staff by 5,600 in 2014-15 and then recruit 2,400 staff to make up for the loss in customer service.

Ruth Owen: No, what I am saying is that we had a plan for how we were going to address the spending review: the efficiency profile we had, which included in 2014-15 reducing our workforce by 5,600. What we did plan for was a number of changes to be made to our operating model during that year, which meant we were confident we would be able to reduce the workforce, reduce the levels of demand on our service and improve service at the same time.

What you are seeing evidence of, and what we noted—we apologised at the time to our customers about the service impact—was the cumulative impact of, for example, bringing in a brand new telephony system and a brand new digital mail system towards the back end of 2014-15. We planned for that to have an impact on performance, but the learning curve that our people had to go through and the teething problems that we had in the introduction of those systems went further, longer and deeper than we anticipated.

Q67 **Caroline Flint:** We hear so often from different Government Departments about big ambitions for digital systems. I have no doubt that that is part of our future, but so often those services are not provided on time and they do not work in the way the customer wants. It is always an excuse for their poor customer service. Why didn't you stagger the reduction of staff before these services came online for people to use?

Ruth Owen: The reduction of staff was staggered. These particular changes that I am describing are not particularly about the customer experience; they are internal changes that we made. This is about putting in a cloud-based telephony system and scanning all their mail. The difficulties we had were internal to the system, which meant, for example, that as our workforce got used to using the new telephony system, every call from a customer—bear in mind that we get about a million a week—took about a minute longer. This wasn't about digital systems that were late or didn't work; it was about internal systems that did work.

Q68 **Caroline Flint:** So why did you apologise?

Ruth Owen: Because customers obviously suffered as a consequence. I have been out publicly to apologise to customers who were waiting too long during the early part of 2015-16. That clearly was not our plan. That is why, to answer your earlier question, we eventually made a decision to bring staff in to stabilise the service and make sure we could offer a better level of service to our customers, which they deserve.

Q69 **David Mowat:** One thing that slightly puzzles me about this is that you recruited about 2,500 people, as you said, which is about 20% of the workforce in that area. I can see that that would get the calls answered quicker, because you've got more people answering the calls, but I would have thought that the time taken to get them into a position to answer calls appropriately might be more than a few weeks or months. It was 2,500 new people—almost a quarter of the workforce. Did you find that? Was there an issue with that?

Ruth Owen: No, there wasn't an issue, because we know exactly how long it takes for people to get trained and to bring them up to productivity. We planned for that and we phased the introduction of the people in. Although the Report focuses on—

Q70 **David Mowat:** How long does it take you to train somebody to be in a position to answer a call appropriately?

Ruth Owen: If I can just explain this. We brought in people in spring 2015. They were trained on tax credits. As we go through the cycle of HMRC's work, June/July is a very busy period for tax credits. We trained them for about three weeks on tax credits, and they were effective. What this Report does not show is that by July they were answering tax credits calls within two minutes, so we addressed that problem.

Over the summer and into the autumn, we retrained those people to work on taxes, which is the subject matter of this particular Report. We trained them for up to four to five weeks, depending on the tax role that we were asking people to explain on the phones. That's what we were doing during

October, where you see that particular spike. We were training 600 people to make sure we could answer calls. You will see straightaway the immediate impact in November, when we were answering calls within five minutes.

Q71 **Caroline Flint:** How much money was spent on the unnecessary reduction of staff and then the recruitment of more staff to fill this problem that you had?

Ruth Owen: Most of the reduction of the workforce was through natural wastage. Is that what you are asking?

Caroline Flint: I am trying to understand this. You obviously reduced staff by quite a large amount, and then you had to recruit 2,400 more staff to deal with the problem that emerged and to provide a new service.

Q72 **Stephen Phillips:** Did you make anyone redundant?

Ruth Owen: No, not during that period. Sorry, let me correct myself. For the entire spending review period—let me get my figures out—the workforce in personal tax reduced. The vast majority were through redeployment, because I redeployed about a third of that reduction into Jennie's area so we could bolster enforcement and compliance. About 55% left by natural wastage, and the remainder, which was about 2,500, were—

Q73 **Chair:** Natural wastage would obviously include retirement, but it could include people who found another job.

Ruth Owen: Yes. So it's dismissals, resignations, retirements and the occasional death in service.

Q74 **Chair:** Did resignations spike at all while you were going through this process of slimming down?

Ruth Owen: No. Just to finish my numbers, about 2,500 people were made redundant during the whole spending review period. A small number would have been 14 or 15 but not a large number.

Q75 **Caroline Flint:** It is interesting, isn't it, because 2,500 were made redundant and then you had to recruit 2,400 to deal with a problem in that area?

Ruth Owen: I would comment—and I pay tribute to the skills of our people—that the number of people made redundant were in jobs that were not suitable for transferring them on to the phones. The people we hired are on completely different contracts and they are enabling us to deliver better service at the hours when our customers want to talk to us.

Q76 **Chris Evans:** I have just one question. You said they were unsuitable to be retrained. Why is that? You said that the people made redundant were unsuitable for retraining and the people coming in are so fantastic that they are going to sort all your problems out. Would it not have been more cost-effective to retrain those you had there to go on the phones?

Ruth Owen: It is worth looking at the phasing of the reductions in the workforce. The number of people who were made redundant was not in 2014-15; it was an earlier period when we were still maintaining customer service in 2013-14. That was when we were closing our face-to-face offices. Those offices, for example, are not part of our telephony network. It is not that the people did not have the skills, but the infrastructure was not right.

We did not want a distributed call centre across 300-odd offices, so we closed those offices and created a mobile face-to-face service. We then hired people who were not differently skilled; it was the contracts that were different. We want people to work at times when customers contact us. People with older contracts in HMRC do not necessarily work evenings and weekends, when we find that our customers need them.

Q77 **Chris Evans:** Sorry, I'm confused. You have got rid of the people who have face-to-face experience, real experience of dealing with people. Am I right on that? You then brought in telephony. Why could they not just go on the phones? I am still at a loss as to why you could not just give them jobs on the phones.

Ruth Owen: Well, because they were in the wrong place, basically. We want to consolidate our estate. Call centres work better when you have economies of scale in terms of people working together. We made a decision not to distribute our telephony network over the 300-odd offices where we had ones and twos of people doing our face-to-face service. We made the decision that we wanted our contact centres consolidated.

Q78 **Chris Evans:** So is it correct to say that you basically trashed all that experience and expertise, when all that people want is their problem solved when they phone the tax office, because they were in the wrong place? Is that a fair comment?

Ruth Owen: Partially, it is, in terms of the strategy for HMRC to consolidate the experience and skills of the workforce that we have got into fewer sites, because we believe we get better expertise and productivity by bringing people together. We have got a very distributed network at the moment and our overall strategy is, where we can, to encourage people who have got the right skills to come to the locations that are the future footprint for HMRC. You are right that there are some people who would have chosen to stay with HMRC but were in the offices that we had chosen not to continue.

Q79 **Caroline Flint:** That is important. In an earlier answer you seemed to imply that the people did not have the skills. They did have transferable skills. It was about the footprint that you were creating for HMRC about where you would base the call centres that properly stood in the way of them being able to go for those jobs. It is not their skills; it is the choice to have fewer centres at which this service can be provided. Yes?

Ruth Owen: Yes, and the type of contracts that we need for people to work evenings and weekends.

Q80 **Caroline Flint:** On page 22 at paragraph 1.24, it says that there is a plan to reduce costs by a further 34% by 2020. How is it going to be better managed so that we don't have the appalling service that many taxpayers were exposed to last year? Convince me there is going to be better understanding of customers and what they want, so that there is some synergy between new services and traditional services and how they work for the customer.

Ruth Owen: I would say that a number of factors are going to be different this time. The first one is that we have phased the challenges over the next five years a lot more smoothly than we did in the previous spending review. You will recognise from the NAO Report that although we had a five-year challenge, most of that occurred in two years and that made those two years very challenging. In this spending review, there is no year, for example, that needs an efficiency challenge of over 9%, whereas in the previous SR we were talking of in-year reductions of over 20%.

The second thing I would suggest is that we have built in more contingency. If you look at figure 8 on page 25, we have adjusted the budget for personal tax for the next five years, and the purple and orange lines relate to building contingency for exactly the point that you raised: namely, as the Report cites, "Contingency for unexpected demand". We can profile our very best based on our understanding of what customers will do, but customers will choose what they want to do and we need to respond to that. For that reason, we have built in much more contingency.

Thirdly, we have learned serious lessons from what went wrong last year, and we have put in place a number of monitoring systems or early-warning systems, so we should not see a repeat of the experience in October 2015 when there was a huge spike in demand. Now we will be able to predict that and act more quickly.

Q81 **Caroline Flint:** It is good to hear that there is some contingency for flexibility if you do have to make adjustments and that measures have been taken to try to pre-empt matters before a problem becomes a crisis. That is very important, and I hope that you will be able to use that contingency resource well.

As for the telephone service, I don't know whether you are aware that in 2015-16 customers were on hold for 4 million hours. According to a survey of the most streamed pieces of music during that period, at number one was "Uptown Funk" by Mark Ronson and Bruno Mars, and in second place was the HMRC holding message. The Committee had a little bit of a discussion about what should be on the HMRC playlist and here are a few suggestions: "Things Can Only Get Better", "Should I Stay Or Should I Go Now?" or perhaps "Don't Leave Me This Way" or, one of my favourites, Debbie Harry's "Hanging On The Telephone".

Ruth Owen: I will make a note of all of those.

Caroline Flint: Perhaps you have a suggestion for what would be useful for those 4 million hours, and what customers should be listening to.

Ruth Owen: Thank you for that. The serious point is that, from now on, we don't want anyone to hear much more of the music than just a couple of minutes. The key point is that they will never hear a whole track. In the past year, we have improved the customer experience significantly. Funnily enough, we listen to customer feedback very seriously and on our Twitter trend we picked up that a lot of people were talking about the "on hold" music. Not only did we know that customers were criticising us for the number of minutes that they were waiting, but that they were also criticising the music, so we did actually change the music last year.

Q82 **Chair:** Do you have to pay any royalties for the music that you play on the answerphone?

Ruth Owen: I don't know the answer to that. Sorry.

Chair: Could you let us know, because it would be interesting to know how many royalties are owed by those 4 million hours.

Mr Bacon: Are you inadvertently making someone very rich?

Stephen Phillips: I think the answer is no. I remember the Radio 1 website and all the tweets that followed, and they all said, "No, whoever did this music for HMRC has done themselves out of a fortune." There we are.

Chair: Mr Phillips is right down there with Radio 1.

Stephen Phillips: Down with the kids.

Chair: It would be very helpful to know, because if it is 4 million hours, and there are royalties to pay, that is an awful lot of money.

Q83 **Caroline Flint:** It is quite interesting when you do delve into your system of assessing calls and the outcomes, because if you turn to page 29 of the Report, paragraph 2.11 says, "HMRC counts calls as answered if the caller hangs up during an automated message,"—it might be the music that is putting them off—"unless the customer ends the call within two seconds of a message saying the lines are busy. In 2015-16, 72% of calls were answered". That obviously includes people who have hung up on the call itself. Paragraph 2.12 states, "HMRC has no information about how many unsuccessful callers try to make contact again." How are you trying to better understand what happens with those calls that are abandoned or to those people who do not make contact again. Does the telephony system help you to do that?

Ruth Owen: We will, once we unlock some of the data within it. We have quite a sophisticated way of counting those calls. To help you understand what happens when we count a call, when someone hangs up during an automated message, we track the type of message it was so that we can recognise whether the call has been "handled", meaning that the person got the information they rang up for, or whether they got so fed up with the music that they just abandoned the call. Those are differently measured.

My best example of that relates to the very large number of customers who phone us about tax credits and want to know when their next payment will be made. On bank holidays, for example, when lots of people want to know when their payment will be made, because their bank is not available, we put on a message saying, "If you are expecting a payment on the Monday, it will actually arrive the previous Friday." If somebody hangs up at that point, we count that call as having been answered, because that was the information that they phoned up for. Does that make sense?

Q84 **David Mowat:** It does make sense, but it is not actually what the Report says, which is quite different.

Ruth Owen: That is why I am trying to explain that we are slightly more sophisticated.

David Mowat: What you have just said makes me feel better about it, because it is coherent. Maybe we will get clarity on this. The Report says that the call is counted as having been answered—and this counts towards your 72% of calls that are answered—if the person calling stays on the line for more than two seconds of a message saying that the lines are busy. So if I call up and am told that the standard waiting time is 35 minutes—it was at one time—and I stay on the line for three seconds and then put the phone down because I don't have 35 minutes, you count that call as having been handled, according to the Report. Is that right?

Ruth Owen: No, it is not that straightforward. When people hang up, we measure what information they have just heard, and we can segment the calls between the two.

Q85 **David Mowat:** Right, but if I stay on the line for three seconds, which is just about long enough to be told that there will be a 35-minute wait, would you count that call as having been handled?

Ruth Owen: Not if you haven't heard a piece of information that is critical to your call.

David Mowat: Okay. That isn't what the Report says.

Rob Prideaux: Figure 12 on page 31 refers to those calls that have been diverted or deflected by "engaged" or "busy" messages. I think that a caller who heard the message for a few seconds and then hung up would be counted.

Q86 **David Mowat:** All right, but that isn't what paragraph 2.11 says. If HMRC's position is that a piece of information has been relayed, albeit by an automated message, of the type you have just given as an example, between Monday and Wednesday it might be fair enough to count that call as having been handled. But I don't think it is fair enough for you to count my call as having been handled if I hang up after three seconds of being told that there will be a long wait.

Ruth Owen: Yes, I understand that point.

Jon Thompson: Ruth and I have been having a conversation about where this is. If you look at figure 12, at the box that says, "The automated telephony system 'handles' 5.4 million… of calls", we think, in response to your question, that we need to do some more research on whether that actually was satisfactory for customers. The recorded message could say, "If you are ringing the national insurance helpline for this piece of information, you will commonly find it on your payslip", of whatever, and either that was satisfactory and therefore was "answered" or it wasn't. We think we need to do some more research on that box, in order to answer your question much more directly.

Q87 **Caroline Flint:** I think that would be really helpful and would give us a better understanding of what the customer experience is. Obviously, nowadays we have lines that allow us to press 2, 3 or 4 and get the answer we need.

Let me come on to quite an important aspect of the Report. There seems to be a little disagreement between HMRC and the NAO. I draw your attention to figure 15 on page 35 and to paragraph 2.18 on page 34. This is about the understanding, or perhaps the appreciation, of the savings that have been made by HMRC on telephony, but also how it is maybe creating an increased burden on customers. The NAO suggests that for every £1 that you have cut, there has been a £4 increase in time and money costs to customers—that is in paragraph 2.18. Do you think that is right? Do you think it is right that the balance should have been shifted in this way?

Jon Thompson: I am sure that Ruth will happily go through the detail. The basic problem with this diagram is that it gives you half an equation. There is another half to this diagram, is there not? What is the cost of administering the process? At the moment, that is not being shown on the graph. There is plenty of research out there about how far you can go with customer services and shortening the queues and so on, and what that produces in terms of the cost.

Although this period is completely unacceptable in 2015-16, if we use April and May as a proxy for 2016-17, this will dramatically reduce on the basis of those months—90% at under six minutes. You would see this reduce significantly to £36 million, it is estimated using the same methodology. I am not at this point querying the methodology—I could do, as an accountant, but I don't want to get into the methodology unless you really want me to. If you use our current performance in the first two months, you get to £36 million. If you then want to go further with customer services, you have to be transparent about what that costs. You will eventually get to the point—there is a degree of this now—of redundancy on our time of people sitting and waiting for calls.

We have been discussing this at some considerable length. There is a statistical model—the Erlang model, which you can google if you wish. Erlang was a Danish telephony engineer—you can see I have tried to learn as much as possible. The model shows what it will mean if you want me to go to 90% in two minutes or 95% in one minute and what the cost will be;

you end up with a two-part equation. We think we need to do further work to make that transparent, which would take this methodology on fairly significantly further, with a view to introducing that in 2017.

Q88 **Chair:** I think the Comptroller and Auditor General is keen to talk about Mr Erlang.

Sir Amyas Morse: We used the best estimation basis possible here, but we do think the debate needs to include thinking about the value of time spent waiting to have a phone answered. It is not worth nothing. We do not disagree with you. I do not disagree with the idea that you should have the other side of the equation, and let's work towards that. We are not trying to give a one-sided impression. We just think it is valid when evaluating things to think about the cost borne by taxpayers waiting to have the phone answered. We are simply trying to introduce that into the debate. We were very open about it, and as far as I remember we did not have an argument about this particular method. That is why we put it in there: we wanted to make the point that this is actually a significant cost.

Q89 **Chair:** I reiterate what I said at the beginning: we get more letters about customer service at HMRC than any other single issue, and we are only one Committee in the House of Commons. That demonstrates its value. Did you want to clarify your point, Mr Thompson?

Jon Thompson: I am not in denial about this. This period is unacceptable. In relation to the recommendation that you have made, we are happy to agree that we need to take that further into account. I am simply trying to say that you can go further with this in relation to queuing theory and we want to go there, because that is industry standard practice.

Q90 **David Mowat:** You are of course right that you can get into all the queuing theory stuff and spending money to have people who are not busy enough and all the rest of it. I suppose I respectfully suggest that, given that a quarter of the calls are still not answered at all, we are not quite at that point yet.

Jon Thompson: That is not true. In the year in the question, that might have been right, but I have brought the data month by month.

David Mowat: Oh well, let's look at the data.

Jon Thompson: In January, we answered 88% of calls in under five minutes; 86% in February, and so on and so forth.

Q91 **David Mowat:** Figure 6 is on page 20.

Ruth Owen: This year, it is five minutes to get through 90% of calls.

David Mowat: I understand that, but 2015-16 finished at the end of March, so that was 72%.

Ruth Owen: As an average over the year, but since November we have been answering 90% of calls—

Q92 **David Mowat:** I do understand that since hiring the extra 2,500 people, you have reached a substantially better place. Nevertheless, that 72% figures was for the full year ending at end of March, which would have included your improvement period from October to March. Presumably, therefore, there was some number miles worse before October.

Ruth Owen: Yes.

Q93 **David Mowat:** All I am saying is that Mr Thompson has made a point about queuing theory, and you can take all this customer service stuff too far—and I agree with that. It would appear to me that we are not at that yet, based on these numbers that we have got before us as a Committee.

Jon Thompson: Agreed. I am simply trying to make the point that at some point—let's give you a hypothetical scenario. If we want to try and answer 99% of the calls in two minutes, then we would have around 30% to 40% nugatory costs, so there is a point at which this equation needs to sort of balance.

Q94 **Chair:** Absolutely. I think you have got the message from the Committee that taxpayers don't really want to have a maths lesson when they ring in on the telephone about the exact equation.

Jon Thompson: Sure. It absolutely needs to be better. We will make it better. I totally agree with the point that is being made. I am simply saying what I don't want is for my good friend, Edward, on my left to get to a point where he is having to say, "Well, there's a whole bunch of nugatory costs in this." That is the point I am trying to make.

Q95 **Chair:** Mr Thompson, you have made a pledge to do something about this. You have got your mathematical formula which you and Ms Owen can go off and work out, and what you are saying, I hope, is that by the time you come in front of us next time, taxpayers will have a much better service.

Jon Thompson: Absolutely.

Q96 **Caroline Flint:** I just wanted also to draw attention to the cost to callers; because we have talked a bit about the time, here. It came to my attention, Ms Owen, that on 25 May in an interview on the "Today" programme you were asked about the cost of 0300 numbers and you said, "We are on 0300 numbers now so for most people it is free to call HMRC". However, I did a bit of digging on this and according to Ofcom 0300 numbers are typically charged at up to 10p per minute from landlines and between 3p and 40p per minute from mobiles. They are included in freecall packages but it is worth remembering that these still carry a monthly charge. These differ from 0800 and 0808 freephone numbers, which are free to all consumers irrespective of their package or whether they call from a mobile or landline. Do you acknowledge that actually it is not just a free call for people if they are using an 0300 number, and that has an impact on them if they are then waiting for a considerable amount of time?

Ruth Owen: Let me clarify what I said on the "Today" programme, because I think I might have been faded out towards the end, because it was my last sentence. I was saying that calls, predominantly, for 0300 numbers, are generally free within call packages. That was the sentence I used. I recognise they are not free like 0800 numbers, but the vast majority of both landline and mobile providers do now include 03 numbers as part of the call package. I of course recognise that people pay for that call package, but when you have free minutes within a call, what I was trying to explain was calls to HMRC are now within those minutes. As you quite rightly say our obligation is to make those minutes as small as possible, so that the cost of the call is as small as possible.

Q97 **Chair:** Do you know how many people have packaged phone contracts, Ms Owen—percentage-wise, roughly, in the UK? Have you got any figures for that?

Ruth Owen: Again, not in front of me.

Q98 **Chair:** It is just that you make that very strong assertion, but I and, I am sure, others round this table and, I know, in the House of Commons, represent constituents who can't even afford to top up the credit on their phone a lot of the time. I hear what you are saying but I think we need to bear in mind that there will be people who need to ring you for help for whom hanging on for 35 minutes is a major chunk of money.

Ruth Owen: Absolutely, and all our obsession is with making that wait as short as possible. We understand the cost.

Q99 **Caroline Flint:** I think it is worth knowing that Government services such as on jobseeker's allowance actually use the 0800 0808 freephone number, so obviously other Government Departments do it differently; but of course part of this is about customers and what they hear. I've got the transcript from that radio interview as well, and when people know their experience—and of course we have had many letters on this—has been waiting on the telephone, or what they hear is "It's free", I think that's worth remembering, when marketing or advertising or interviews are taking place.

Can I just go on to a final point before I hand on to my colleague David Mowat; and that's about how we treat taxpayers and how we might think about thanking them for what they do. I'd just like to maybe suggest something. I have got two documents here. One is an annual tax summary. It is not mine. It is Mr and Mrs A. N. Smith, 1 Any Street, Anytown—so it is just a plain version. I also have one from the Australian Government.It is great that we have more information and that in the annual tax summary, we can see where spending goes. That's great. They do that in Australia as well. But unlike the letter from HMRC, in the equivalent letter in Australia, they actually thank the taxpayer. It says: "Dear Mr John Citizen, The Australian Government thanks you for your tax contribution of 2013-14." It then goes on to say what the rest of the statement deals with. Ours goes straight into the annual tax summary statement.

I'm not saying that it is going to overwhelmingly make everyone think you are wonderful—although it seems quite a few people think you are actually providing a good service—but might it not be something to acknowledge to the taxpayer how much they contribute, and not just where their money goes, with a small thank you included in future annual tax summary letters? Mr Thompson, what do you think about that?

Jon Thompson: I will happily have a look at that.

Ruth Owen: It is worth saying that we have already looked at that. We spotted that too, not least because we have a member of the ATA on our executive team. We are testing that with customers now, to see what customers think about it.

Q100 **Caroline Flint:** I think they might quite like it. I hope you will not take two years to test that, and just get on with it.

Ruth Owen: No—a matter of weeks.

Q101 **David Mowat:** I guess what interests me particularly about this is the question: does customer service matter in the sense of its impact on revenues and on the tax gap? Mr Thompson, what do you think the answer to that is?

Jon Thompson: My instinct is that it does, but at the minute, we cannot demonstrate that. The NAO did not conclude that either. The OECD has not concluded that, and neither has the IRS. We have agreed to do some joint work to try to bottom out exactly your question, but I am with you: my absolute instinct is yes, but we cannot—

Q102 **David Mowat:** Is there a consensus on the panel about that? Does anyone not agree with that?

Edward Troup: We all must feel that it must have some impact, but we have to go with the evidence. We have to go with the research, and no one has actually been able to back up or contradict the gut feeling that it must have some impact.

Q103 **David Mowat:** I thought the research had said, which I could understand, that it is quite hard to come up with a quantitative equation that relates the two. I don't think the research has said it is hard to give examples of where customer service has not been—

Jennie Granger: I am absolutely on record as saying that it is both what you do to assist taxpayers trying to do the right thing as well as what you do to tackle those who are not. Both are important to a strong culture of voluntary compliance. When you boil it down, quite often where customer service helps is with how quickly people get it right, because quite often what they call for if they are not calling speculatively about something, and they are calling for help, is getting that return right sooner or, for example—

Q104 **David Mowat:** I suppose the other thing that might happen—this is a friend of mine's story—is that you phone up HMRC in good faith, wanting to ask a question, and it does not get answered. You then phone again

and it does not get answered, and you have to put your tax return in. You might just guess it or make an assumption—let's put it that way—that may or may not be wrong. The danger is that if you are feeling a bit annoyed because you have not had your phone call answered, when you make an assumption, it might tend, on average, to be a bit more in your favour than in HMRC's favour. You then get that sort of behaviour happening as a consequence of not having the contact that could have existed. That seems pretty likely, doesn't it?

Jennie Granger: There is quite a complicated answer to what you might decide to do if you are feeling negative about the revenue authority or the system. A lot of it will depend on your values and your risk appetite, so there is not a direct equation, which is why we are hesitating a little bit about some of the broader impacts.

Q105 **David Mowat:** Okay, risk appetite a little bit—but if you have a query, you can't get your query answered and you've got to put your tax return in, you'll just put it in and make an assumption. That isn't necessarily trying to be illegal or anything—you've just got to do what you've got to do. That seems to be where customer service, if it has broken down in that instance, could have contributed to the tax gap.

Jennie Granger: You and I are in heated agreement that getting it right sooner can have an effect. However, even bigger effects—I have actually been involved in measuring this in Australia—happen when you can prompt or help in the actual transaction for the case that you are describing. There are many instances where simply being able to do calculations or to point out relationships with something else you need to put in your return can help. I know it is a frustration for everybody, but it is often the point of acting. That is where you get the clearest benefit. There is no question that the service can be helpful.

Edward Troup: All this is saying is that we need to do research, which we will be doing. We will be working with the NAO to see what research we should do. It is worth pointing out that of the £34 billion tax gap, only £2.6 billion is down to error. Your theory may or may not be right, but it will not impact on criminals or avoidance—

Q106 **David Mowat:** "My theory" is putting it a bit strongly. First, in the example I gave you, you would not necessary know whether an error had happened, although maybe you would be doing sampling, I suppose.

As another example, at the moment you have something like 3 million unresolved PAYE queries. I think that is what the chart tells us earlier in the Report. On the balance of probabilities, the fact that you have 3 million unresolved PAYE queries—and that is down from where it has been—implies that, with some of those, there must be a tax gap impact. There just must be.

You called it "my theory", which is a slightly pejorative expression. All I was suggesting is that there must be some relationship. The majority of taxpayers are acting in good will to get to the truth of this and if they cannot get through to a representative or whatever, there will be an

impact. We then get on to saying how much it is, and I want to come to that in a minute.

Edward Troup: I think that you are reflecting our gut feeling, which you have heard from all of us. This is something that we want to follow.

Q107 **David Mowat:** So it is my theory and the group's gut feeling. We have got to that point at least. Now, there is some research in defining a correlation between customer satisfaction and the tax gap, isn't there? The Report mentions that. I realise that we are in difficult territory here, but the Report comes up with an example. I suppose it is an engineering-type equation of saying that 1% customer satisfaction equates to £43 million of the tax gap. There will be some relationship like that but it is very hard to say what it is. I agree with that. Do you have any observations on that?

Jon Thompson: We are agreeing with the Committee that we need to bottom-out this question. In relation very specifically to paragraph 3.9 on page 39, which, I think, is the one you are referring to—

David Mowat: Yes.

Jon Thompson: So here's the risk for us. We have done some exploratory analysis. That says that we should do some further analysis to see whether we can answer the question, and all our instincts say that there should be a relationship. But I asked the chief analyst about where we are with this, and he believes that this is extremely weak evidence that has been extrapolated to produce a highly speculative estimate. The first time we tried to do this model, it was exploratory analysis. It uses a whole range of proxy variables such as, "How much do citizens trust the Government", "How much do citizens trust the civil service?" and so on. We do not think those proxies are good enough.

David Mowat: The NAO Report makes that clear, in fairness. The NAO Report says that too.

Jon Thompson: We are trying to make clear that our instinct is the same as yours. We need to try to answer the question. We have agreed that we will do that piece of work and then we are happy to share that analysis with the NAO, or do it with them or whatever.

Q108 **David Mowat:** We are getting to the question—and you touched on this earlier—of what a reasonable service level is. What should drive where you end up in your service-level performance? Actually, you are not Vodafone. There is no particular reason why you should be as quick as Vodafone. You are collecting tax for the country and you have a statutory duty. We have a statutory duty to pay it, as do our constituents. It is a different relationship.

If, for example, you were taking an hour and a half to answer the phone and all the rest of it, that would clearly affect the tax gap. At some point, as you improve—perhaps you get things back and it is the low-hanging fruit and everything else—there has to be a relationship there and it seems to me that that might be an area you want to work on. You talked

about queueing theory, Mr Thompson, and that implies Vodafone-type call centres. I do not think we want to see that; we want to see you maximising revenue within a reasonable cost envelope and getting that tax gap as low as you reasonably can, and I guess you want that too, don't you?

Jon Thompson: Agreed. I think we share the strategic objectives. I am sorry to repeat my point, but on this our instinct is all the same: we should do the work and make that work transparent to the NAO. So I agree with you.

Q109 **David Mowat:** Fine. Is that an area on which you will be able to come back to us, as a Committee, at some point and say that this is something you have been looking at? You said you had an analyst who was looking at it who said that all the evidence is rubbish at the moment. Perhaps he is going to keep looking at it. At some point are you trying to get somewhere with this question?

Jon Thompson: Yes, and this Committee I am sure would be interested in that, as would the Treasury Committee, who asked us about it last week in relation to taxes.

Q110 **David Mowat:** The answer to this question, you see, defines how much money, in the end, you spend on customer service, because you are trying to maximise one versus the other. I know it is a very blunt instrument, but at some point that is how you define whether you need those 2,500 people you hired last October for ever. Perhaps you do. The answer to that question depends on the answer to your analysis in regard to the tax gap.

Jon Thompson: Yes, it would absolutely strengthen the case, if we were able to prove that there was a link, to construct a business case for further investment.

Q111 **David Mowat:** Okay. Let me ask a final question, then, about the PAYE discrepancies. I looked at the chart early in the Report, which talks about 3 million. On the face of it, when you look at figure 7 on page 23, it initially looks pretty good to see it coming down from where it was in 2011 to where it is in 2015. But then I looked at the scale on the left-hand side and it still struck me that 3 million is a lot of unresolved queries, even if it is an improved number. What number do you—any of you—think we should be targeting?

Jon Thompson: There are potentially 49 million people. What is included in this figure is a wide range of, "Why does the PAYE record change?". There is everything from someone dying, through to their changing their job and so on. So the answer to your question is that it needs to be lower and it has continued on a downward trend for—

Q112 **David Mowat:** You give two examples there: someone dying or changing their job. That does not sound like it is something that would glory in the term "unresolved PAYE discrepancy", is it?

Ruth Owen: It is.

Q113 **David Mowat:** That sounds like a routine activity, someone changing their job.

Ruth Owen: If I could explain, these PAYE discrepancies are what we call work management items. Essentially, it is an exceptional report that gets triggered by our computer system based on any data coming into it, from us, through the call centre or from employers in their monthly or weekly PAYE updates. It just flags up to us, "Mmm, you need to have a quick look at this because we are not sure that it reconciles with what we already know about the customer." The vast majority, of course, we can look at and say, "No, actually that's fine." As you will notice from the Report, over the past five years 75% of that was automated. The computer system can now look at it itself, understand why it did not match straight away and process the person's tax account.

So of the 25% that we have left, as you can see, we prioritise as far as we can our understanding of what the triggers might be, but they can range from a minor change to someone's personal circumstances through to, for example, an end-of-year return from an employer saying that they have not collected the right amount of tax for that particular customer. We have to look at them and understand whether there is any tax impact at all.

Q114 **David Mowat:** So the relevant question in respect of these unresolved PAYE questions is not actually answered by figure 7, then, because the relevant question, based on what you have just said, is what the ageing of them would be.

Ruth Owen: Yes, because, as you have recognised, in the tax system it is cyclical, so for some of them you do not really need to do them when someone retires because it is about their national insurance record. For others, we have to ensure that we have done them by the end of the tax year because that is when we re-code someone for next year. If it is a change of address, for example, though it is important to make sure they have the right address, it is not pressing.

That is why we are constantly trying to look at what the right priorities are. Unlike when somebody has written in, they are not the kind of item that we need to make sure we've answered as quickly as possible. They are items for which we can shift resources around and make sure that we do them within the tax year, or within a relevant period, according to what the task is. There are different timescales for doing them.

Q115 **David Mowat:** Okay. Take 2015-16—how many of those 3 million would relate to more than two years ago? Presumably you are saying that by far the majority—

Ruth Owen: The vast majority are clearly in-year of these ones we are looking at now. For example, as of the end of 2015-16, which ended in December, we ended the tax year at under a million—0.93—and, of the ones that were most critical to process within the tax year, which are the ones relevant to someone's tax code, we had only 80,000 left. Those are really ones we couldn't do within the time because, for example, we have asked an employer for a piece of information that hasn't come back.

David Mowat: Thank you. I will just finish with an observation. It seems to me that the judge and jury on your customer service is what it does to the tax gap, in the end. Decisions like whether you employ 1,500, 2,500 or 3,000 people to fix something are driven by that. It seems to me that the more information you can get, in terms of where you need to be in customer service terms to make sure the tax gap is not hit, is vital for you when planning how you do customer service. I encourage you to do as much as you can to understand that.

Q116 **Chair:** I am going to bring in Deidre Brock in a moment, but I just want to touch on an issue that Mr Thompson kindly wrote to us about in a letter dated 10 June from you and Sir Robert Devereux at DWP. It was a follow-up to our fraud and error stocktake, to cast your mind in the right direction. This particularly relates to changes in circumstance.

On page 5 of 10 of the letter—I am sorry if you haven't got the letter in front of you; you only wrote it to me the other day so I am sure it is in your mind—you talk about HMRC's contract with Concentrix. You describe it as, "a private company, who carry out checks against potential Tax Credit error and fraud." The letter also quotes you both as saying, "This novel approach is the first time such checks have been carried out by an external provider. These checks are in addition to HMRC's own error and fraud checking, using the same processes, and add further capacity". You also say that "In the period from November 2014 to 31 March 2016, over £125 million"—of AME—"savings had been made."

That all sounds wonderful, except that Fiona Mactaggart MP has been helpfully talking to MPs across the House, raising concerns about Concentrix's approach, particularly its concentration on focusing on single parents to find out if they are or are not in a relationship. For example, there is a case from another MP of a single mother with a mortgage who was previously investigated two years ago but satisfied HMRC that she was a single parent. HMRC/Concentrix—it was Concentrix that wrote to her—insisted that she again provide further supporting information from her unco-operative ex-partner, who was violent and abusive. She has provided that evidence. She actually works for the police, but that has not been taken into consideration.

That case and others raise the inability to speak to Concentrix, with HMRC saying it is unable to assist. That has been experienced when dealing with a number of cases. I will not go through all of them, but there is quite a raft of them here. Are you content that Concentrix is acting appropriately in securing income from taxpayers, Mr Thompson?

Jon Thompson: Given the story you just read out, the answer must be no.

Q117 **Chair:** Are you going to go and look at this?

Jon Thompson: It was drawn to my attention over the weekend that there is a public petition in relation to some of what has been happening with Concentrix. We need to satisfy ourselves about whether it is or is not satisfactory. At this point I could not give you an answer to something that specific. Is it something we should look at? Certainly.

Q118 **Chair:** Would you perhaps write to us by the beginning of the next Parliamentary term in September?

Jon Thompson: I think I am due back here in the middle of July.

Chair: You are back here very often, Mr Thompson—even more than when you were at the MOD.

Jon Thompson: I am looking forward to it.

Chair: So perhaps, if you have got this information by July, we will hold you to that. It is just worth adding that the MOJ decided not to go with a contract with Concentrix—I just throw that into the mix.

Q119 **Deidre Brock:** Given that this is about quality of service to taxpayers, the last time you were here Ms Granger—with Dame Lin I think—we were talking about the impact of office closures on the remoter areas of the UK and you mentioned mobile teams possibly being deployed out to those areas. Can you tell me under what circumstances those mobile teams would be deployed? What criteria would determine whether a team is sent out to, say, Shetland or Ullapool?

Jennie Granger: We already have mobile teams. They are called taskforces and they are evasion-based teams that work in combination with campaigns that we run across various industries in various regions. They basically follow the risk in doing that, so we will deploy them and continue to deploy them even under the new arrangements, but we already have those kinds of teams.

The problem that we face with the 170 locations that we are in is that we have very small numbers of people landlocked in particular locations. I have quite a number people who are working in offices with fewer than 10 people in. They do not actually get to be part of those mobile taskforces because they are in remote and local locations.

These days, a lot of our risking is actually done using data that we used to have to collect physically years ago, so we can do a lot of preparation in the buildings before we leave to go out, taskforce style. We do that for the hidden economy as well as for our general taskforces. We often do it in concert with other Government agencies. Some of the things we have discussed here, about the national minimum wage for example, can often be considered in combination with other organisations as well. It is an increasing part of that work, but the criteria will depend on the risk that they are treating. Obviously the criteria are different for hidden economy taskforces we are deploying to—

Q120 **Deidre Brock:** Okay, so what you are saying is that the mobile teams are only sent out if you have concerns about a particular area. Say that there is a nest of smugglers up in Shetland or something, then you will send a team. That is very "Famous Five" isn't it?

Jennie Granger: That is actually a very good example—although not Shetland. We worked with Scottish law enforcement colleagues and others on illegal working as well as hidden economy concerns in the Scottish

fishing industry a year or so ago. That is a classic example of where we not only brought people together who were already Scotland-based, but deployed some of our experts from elsewhere in the UK to be part of that.

Q121 **Deidre Brock:** But for other customers who are accessing, say, the Inverness office, which is due to be closed, this basically means that you will not be sending out teams to deal face to face with any concerns that they have. They will now have to travel those extra hours to Dundee or down to Edinburgh and Glasgow. Is that what you are saying?

Jennie Granger: Not necessarily, because the other thing that we are looking at, with the new tools that we have, is where we might be able to deal with people by Skype, for example, and where we might, if you like, come to town to deal with a range of issues. It is not necessarily the case that people are going to have to travel to the regional centre; it will depend on what is involved—

Q122 **Deidre Brock:** You might do some tours of a region, for example.

Jennie Granger: Yes, and we do a lot of this now because we are not in every location around the UK; we are in 170, so we are already having to think about—and do—how we deploy and how we deal with people at a distance. A lot also depends on whether they have a tax agent, as a lot of small businesses do in particular. We do quite a lot of dealing with agents and a lot of that is done by phone. As I said, we are also looking at Skype-style arrangements.

Q123 **Deidre Brock:** When you were making these decisions what estimates did you make of the additional costs to your customers of the additional travel time, for example, and travel costs involved in them having to go elsewhere? Or, indeed, of the time waiting—you would have to wait for that circuit to be decided, wouldn't you?

Jennie Granger: As I said, we already work in this way in the many places that we are not located in. If we did this purely based on where the most risk is in the UK, the place we would be most heavily concentrated would be here in London and the south-east corridor. We have already made a call that we can move some of that work out to regional centres as a way of operating, but if you follow where the most tax risk is, it is actually in that corridor here in the south-east.

Q124 **Deidre Brock:** Thank you. One last question, which is about your Walsall office, which was recently raised in an Adjournment debate by a Member here. Staff there were given six weeks' notice of a closure and move that they had been led to understand was many months away. There are also allegations, among others, of HMRC not carrying out Cabinet Office redundancy procedures and failing to carry out adequate equalities impact assessments. I believe that that led to a collective grievance being taken by staff. Given that that sets a poor precedent for the future programme of closures, can I ask what lessons HMRC might have learnt from that experience?

Edward Troup: Looking to Jennie and the others, I do not think we are aware of the details of that, so it sounds like we should come back to you on that one.

Q125 **Chair:** If you could write to us on that, it would be helpful. On another specific office, I have had contact from Ian Murray MP, who raises the general issue of coverage in Scotland but also points to the Dundee office, where there are 130 staff with an average of 27 years' service, 90% of whom will not be able to relocate or commute to new centres. I put this question first to you, I suppose, Jennie Granger. He says: "This is a huge loss of skills to HMRC and I cannot see how it represents good value for the public purse for these staff members to be replaced by new, inexperienced staff or not replaced at all." Do you have any comment on that? Who would be the one to answer?

Edward Troup: I have been responsible for Scotland and made a lot of visits up there, and I have met several Scottish MPs and MSPs. This is part of our wider strategy of consolidating to 13 regional centres over the next five years.

Chair: We know the wider strategy. We appreciate that.

Edward Troup: Most of the staff in Dundee are transferring to the Department for Work and Pensions as part of universal credit work, but as your correspondence says, there are about 112 who will effectively not be within reasonable travel of our regional centre. As we do with all of the staff affected by these moves, we will have one-to-one conversations with them about the options for them, but it is a consequence of the whole regional centres strategy that there will be individuals who we would like to keep who are outside reasonable daily travel for one of our new regional centres. That does not negate the overall strategic logic of moving to 13 regional centres, giving us a better concentration of skilled workers.

Q126 **Chair:** We do understand that a lot of organisations want to consolidate services, but tax is a UK-wide service, so can I be clear that there will always still be a footprint in every nation of the UK?

Edward Troup: And in terms of numbers, we have 12% of our staff in Scotland and will continue to have 12% of our staff in Scotland. Scotland, of course, is only 8% of the United Kingdom.

Q127 **Chair:** We picked Scotland particularly because travel distances can be huge. I have worked with good civil servants before who have looked at a map and said, "Oh, that's very nearby" but there is a mountain range or a river or something in between. There are 130 staff in Dundee. That is a big office. To lose 112 of those—I think that is what you said, Mr Troup. They are highly experienced people, with—to quote again—an average of 27 years' service, and if they cannot be replaced, surely there is a point about the cost to the service of losing that experience.

Edward Troup: It does flow from our regional centres strategy that we will lose some people with experience, and that is a consequence of the

choice that we have made, as I have already said. It is actually 693 people in Dundee, of whom only 112 will not either transfer—

Q128 **Chair:** Sorry, that is nationally; that is not just—

Edward Troup: No, there are 693 people in our two offices in Dundee. The overwhelming majority will transfer to DWP, but there are 112[1] who are outside reasonable day travel time for transfer to Glasgow or Edinburgh and for whom there will not be work in Dundee.

Chair: I am sure that we will come back to this in future, because it is an issue of real concern. MPs up and down the country are really worried that major employment centres—I used to be passports Minister, and we had similar discussions about passport offices. These sorts of jobs are often the best employment in some of the small towns, particularly in areas where there are not many other jobs.

Deidre Brock: I think the estimate was that something like £1.5 billion would be lost to the Walsall economy as a result of the closure of the office.

Chair: I appreciate there is a wider Government issue but we do not have time today to get into the detail. I will ask Mr Evans to finish on this point.

Q129 **Chris Evans:** I will be quite quick. You are closing your office in Ty Glas and Llanishen and moving to a spanking new office in Cardiff somewhere. There has been great play by HMRC press office that that is going to be the public sector hub for Wales.

I don't know if you know the geography of Wales but you may know that the valleys do have an issue with unemployment. Why did you specifically decide to close that office and then move into another office in Cardiff, especially when rents in Cardiff are far higher than they are in the rest of Wales, when you could have moved it, like the National Assembly have done, to other areas such as Merthyr or even Islwyn, my own constituency, which have had problems with employment?

Edward Troup: I don't know if Jon wants to say anything about our wider regional centre strategy but it is a strategy that puts our regional centres in the centres for attracting jobs with good communications and close to centres of higher education where we can recruit people. I don't know if you have been to see the building in Cardiff, Ty Glas. It is quite old and not popular with the people who work there. It was the one centre where there was genuinely a cheer from people when we told them on 11 November that we would be moving to a new office. So it is the right strategy for Wales.

Q130 **Chris Evans:** You have consulted on that, have you? At the same time as the Assembly is moving out of Cardiff and moving Government Departments elsewhere to create jobs, you are staying in Cardiff where

[1] Clarification from HMRC (24/06/16): *"The figure of 112 people being outside reasonable daily travel is based on HMRC's planning assumptions and that figure is likely to alter once staff have had their one to one meetings in which their particular circumstances will be taken into account"*

the rents are higher. How much is that going to cost? How much is closing Ty Glas going to cost and moving to new premises? You haven't named the new premises in Cardiff yet so I don't know where they are.

Edward Troup: No. We are looking at different sites in Cardiff. Overall, our regional centre strategy will save us something like £100 million a year by the end of the spending review period.

Q131 **Chris Evans:** Have you looked at anywhere other than Cardiff? You are closing the office in Swansea. That will increase travel costs for people working there if they transfer to a new regional centre. Have you looked at anywhere that could be more cost-effective than moving to Cardiff?

Edward Troup: In the process of settling on 13 regional centres we looked and we had, before Jon arrived, sessions which Ruth and Jennie were at, where we went through each of the regions turn by turn and looked at the options, heat maps of where our staff were located, information about places of higher education, transport links and all of those things. Cardiff was the choice for Wales, coming out best against the criteria that we set ourselves for the choice of location for regional centre.

Q132 **Chris Evans:** Could you tell us where in Cardiff you are going to go?

Edward Troup: No.

Q133 **Chair:** Can I go back briefly to the Report on customer service? I understand that HMRC chose to leave the real-time information stakeholder taskforce in November 2014. Is that right?

Ruth Owen: Yes.

Q134 **Chair:** So that colleagues and others are aware, those are mainly agents and employers who are of interest in managing PAYE. It is a simple summary of real-time information. But they are very concerned. They have written to us to say, "As we write we have no specification for payrolling of benefits in kind…that went live in April 2016, gender pay gap reporting that went live in May 2016 in terms of data collection and thirdly the apprenticeship levy. In respect to the levy there is no firm policy design yet let alone a specification and yet the Carter principles require an 18-month lead time for the payroll software industry from the issue of a specification."

A lot of people will use software programmes or intermediaries to help them with tax. We have talked a lot about the telephone system and going online but these agencies actually help HMRC if they get it right, by helping the people they work for be compliant. These barriers, such as late notification of changes to put into the automated systems that they are operating, seem counterproductive. Ruth Owen, could you explain why you are giving such late notification and what you are going to do about it? The point is made in the Report but if you could just answer that question it would be helpful.

Ruth Owen: I have not heard this complaint from this group previously. What I would say is that we work very closely with the payroll software

industry and we are in constant touch about developments we are making in both policy and service design. We understand through them that generally they need 12 months' notice for them to re-programme major software that businesses would be dependent upon, and that is generally the standard we stick to.

Q135 **Chair:** I have found the reference in the Report. It is in part two, page 36, paragraph 2.21, where a simple sentence states: "The RTI Stakeholder Taskforce informed us that compliance costs increased under RTI." Halfway down that paragraph it states: "The taskforce told us"—that is the NAO—"that compliance costs have increased because reporting requirements are more demanding, recurring and frequent system errors and there is a lack of accessible and capable help to resolve issues." The customer services interface that we talked about earlier should also relate to getting decent information to people such as this—the intermediaries who help people pay their tax. You are saying that you have not heard these concerns before.

Ruth Owen: No, sorry. You quoted some other examples there about the apprenticeship levy, which I have not heard before, but to take this on face value, paragraph 2.21 is about real time information, which was obviously brought in several years ago. The complaints that we had from the stakeholder taskforce at the time were that we had underestimated the transitional costs of moving from an annual cycle of pay-as-you-earn to a real-time cycle. As they ran their payroll, their software made an update into HMRC, thereby meaning that it no longer needed to give us an end-of-year return.

We did calculations with such people as the Administrative Burdens Advisory Board, which the NAO quotes at 2.20. We worked out how much saving the organisations would make as a consequence of our removing tasks from their administration of payroll, but we also worked with them to recognise the transitional costs of moving from one system to another.

What I would say is that I remain in listening mode on this, and if they are still saying that, I need to hear that. We are in the middle of a post-implementation review of real time information, and I think the NAO gave very good credit for how we had listened to employers and implemented in a very phased way, just thinking about what we talked about earlier. I would expect to listen to all stakeholders and what they are telling us about the post-implementation position, but generally what I hear on the ground is that, yes, it was a tricky transition, but that it is now running smoothly. We have 99% of businesses using it and finding it straightforward to use and that those costs that we predicted would come out of their end-of-year cycle have actually come out.

Q136 **Chair:** The automated software is beneficial to a lot of people, but it is not any good if they are having teething problems getting it out there. It puzzles me that you withdrew from the taskforce citing negative press coverage about the volume of P800s issued to taxpayers after the full year under RTI reporting. Is that right? Is that why you withdrew?

Ruth Owen: It is a bit of a long story.

Q137 **Chair:** Perhaps you can give us the short version.

Ruth Owen: We had a customer user group that we established in HMRC with all our stakeholders on board. That started from about 2009, which is before my time. Once implementation had completed, we set up a wider group called the employment and payroll group, which again included a wide range of our stakeholders. We invited the people who are on the taskforce into that group. Some came, some did not. The taskforce was their kind of breakaway group. I used that group two or three times to share confidential information, which I can occasionally do pre-Budgets and with things like that. My confidence was not well placed, because they leaked information that I had shared with them. I therefore decided not to use that group anymore and to ensure that I understood the trust I had in confidential relationships with some stakeholders.

Q138 **Chair:** You say you are in listening mode now. What does that mean for an organisation, an individual taxpayer or anyone running an organisation like this who has a concern? What should they do?

Ruth Owen: They have an outstanding invitation to our employment and payroll group.

Q139 **Chair:** Okay. Before we move on to the second panel—just to give our other witnesses warning—I want to ask you something, Mr Thompson. You have made some promises today. Where would you want to see HMRC's customer service in 12 months' time?

Jon Thompson: I think you should expect us to significantly reduce the response time. That's the key indicator for us: the time to answer the telephone. I expect that number to come down fairly dramatically by March 2017.

Q140 **Chair:** Less than a year. Fantastic.

Jon Thompson: If you want to bring us back in a year, you can see the latest data.

Q141 **Chair:** We will be bringing you back.

Q142 **David Mowat:** You started the session saying that you were doing 90% within six minutes. Do you mean reducing it further from that?

Ruth Owen: Yes.

Jon Thompson: We would plan to go lower than six minutes and we would plan to go lower than five minutes and to try to keep the 90% up. I think 90% is totemic. The question then is how low we can get the number.

Q143 **David Mowat:** Has this become a new service standard for you, because it's not your current target level, is it? So, is this what you're telling the Committee now that you're aiming at—90% in five minutes?

Jon Thompson: For the last two months, we've been meeting the long-aspired standard, but both Ruth and I think we can go further on the average answer time.

Chair: Thank you very much; I thank our panel. As ever, our transcript will be up on the website in the next couple of days. I think Mr Thompson and Mr Troup get a second round—lucky them—but thank you to Ruth Owen and Jennie Grainger, and I call our other witnesses forward, please.