

Scottish Affairs Committee

Oral evidence: Impact of HMRC's reorganisation in Scotland, HC 798

Wednesday 2 November 2016

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Members present: Pete Wishart (Chair); Deidre Brock; Margaret Ferrier; Chris Law; John Stevenson.

Questions 1-94

Witnesses

I: John Davidson, Deputy HMRC Group Secretary, Public and Commercial Services Union, and Paul Gallagher, Member, Institute of Chartered Accountants of Scotland.

II: Jim Harra, Director General, Customer Strategy and Tax Design, HMRC, and Ravi Chand, Director, Workforce Management, HMRC.

Examination of witnesses

Witnesses: John Davidson and Paul Gallagher.

Q1 Chair: Welcome to the Scottish Affairs Committee, a one-off session on HMRC reorganisation. We are very grateful to you for coming along at short notice to the Committee this afternoon to answer the questions we might have for you. By way of introduction, tell us who you are and if there is anything in the way of a short statement you would like to give the Committee before we get down to the questions. We will start with you, Mr Davidson.

John Davidson: Thank you very much. My name is John Davidson. I am the Deputy Group Secretary for the PCS Union that represents workers in HMRC. I think I will leave it at that.

Paul Gallagher: Good afternoon. My name is Paul Gallagher. I am a member of the Institute of Chartered Accountants of Scotland and have been for approximately 20 years.

Q2 Chair: Thank you. Those were very short opening statements. If all opening statements could be as concise as that we would get through a lot more work. Thank you for that. We are in the middle of this HMRC modernisation programme. First, do you agree that HMRC does indeed need this modernisation, Mr Gallagher?

Paul Gallagher: We have 21,000 members of the institute across the world. We canvassed views from 70 of those members who make up the tax committee before coming along today. There are three themes that the members have put across in their responses to our questions about whether HMRC requires modernisation. I call them the three Cs. The first one is contact, the second is clarity and the third is careers. To take the first one, which I think relates most to your question, contact is the key point our members are raising. They have seen a decline in the customer service—the contact they have received from HMRC over the past few years—and they want to see that improve. I will come on to talk about the other two Cs later.

Q3 Chair: You talked about contact. Can you try to describe a little bit more about how this is affected? I presume you are talking about customers and those who use HMRC offices. Can you tell us as simply as possible how that contact has changed?

Paul Gallagher: There has been a decline in face-to-face meetings and some of our members have expressed a need to get that back in place. We have different members asking for digital connectivity, so online discussions with HMRC. We have some looking for better telephone discussions and some looking for face-to-face. The face-to-face is the main one we hear about from the members.



Q4 Chair: I am sorry I have interrupted, but the Government are suggesting to us that the reason this modernisation is required and is ongoing is to improve the tax compliance and to improve customer service. Are you saying to this Committee that you are not detecting that those objectives are being achieved and, if they have not been achieved, in what way are they falling short?

Paul Gallagher: Perhaps I can give you an example from one of the members in the feedback we have received; just a couple of sentences, "When HMRC could travel they had to leave no earlier than 9 am and depart by 2 pm to avoid incurring overtime hours or premium fares on travel. They also had to leave our offices at lunchtime as we were not permitted to provide lunch. The meetings were, therefore, rushed". It is that that our members are looking to move away from.

Q5 Chair: I am grateful. Mr Davidson, how about you? Is this modernisation required? According to the Government—again some of the points made to Mr Gallagher—this is to improve tax compliance and customer service. What is the observation of PCS?

John Davidson: Our observation is that our members are very forward thinking. We know that there is so much that needs to change in HMRC. I echo a lot of the points Mr Gallagher has made about how we need to change our tax delivery and compliance activity. However, we think that the model being proposed by the Department is seriously flawed. The Building Our Future programme, as it is misnamed, involves the removal of local offices. We believe it will damage tax enforcement and compliance. It will lead to a loss of skills and experience over, in some cases, several decades. Our members have worked in these offices for a very long time and they know there are problems with the way things are done right now. However, the Building Our Future programme is yet another disastrous change being imposed from on high without any proper discussions or consultations with the experts who know best about tax delivery, and they are the tax workers themselves.

Q6 Chair: We are looking specifically at the Scottish reorganisation. This is to both of you and it is up to you how you respond to this question. Are there any particular Scottish requirements, things that are required to be done differently because of our tax arrangements? How does this affect this reorganisation and our ability to secure the best opportunities for HMRC offices?

John Davidson: I would highlight two aspects of that. First, you will be more than aware of the devolution of taxes to Scotland and that the Scottish Government are going to have responsibility for administering a proportion of taxation. We think that naturally cutting the number of offices down to no more than two, plus one specialist site, could potentially impact upon the ability to deliver those devolved taxes.

Secondly, we think there are significant specific issues for Scotland when it comes to the structure of our economy. Obviously, we have the heavy



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presence of oil and gas. We have a significant presence of fishermen, for example. We have 65% of the UK's total coastline, while we do not have one single customs officer currently patrolling that coastline. We feel the things being proposed will do nothing for closing the tax gap. In fact, it may well have the opposite effect.

Q7 Chair: Is there a difference in the tax gap in Scotland vis-à-vis the rest of the United Kingdom? Do we have a higher tax gap than the rest of the UK or is it roughly in line?

John Davidson: The first thing I would say is that the figures used for the tax gap are obviously disputable. The figure we use is based on the Tax Justice Network figure that is significantly higher than that proposed by the Department. We believe their methodology is significantly flawed. It is very much top down, and they would give a figure of somewhere in the region of £34 billion. We think it is closer to £120 billion. In terms of how that compares in Scotland to the rest of the UK, I do not have that information to hand but I think the percentage would be very similar. We would fundamentally dispute the figures the Department gives and the methodology it uses to devise those.

Q8 Chair: I was looking at something in *The Guardian* this week about the National Audit Office report on tax compliance. It said 6,500 super-rich individuals, each worth more than £20 million, have been examined and there is a £1.9 billion shortfall in deficit. I fail to understand why they are reorganising their tax offices and diminishing their own resource. How do we start to challenge these types of figures if this is still ongoing?

John Davidson: We fundamentally agree with that, to be honest. One thing I would point out about the whole Building Our Future programme—and it is one of our central tenets of opposition to this—is it is not grounded on the fundamental position of what is going to be best for tax. There is no in-depth analysis of how concentrating work into massive regional centres will enable us to more nimbly deal with the tax gap. We have a lot of anecdotal and statistical evidence that suggests the contrary: that when we have smaller offices with smaller teams of people, we find they have performed better over time.

One example I would give to endorse that approach is the office in Wick that was closed two years ago by the Department, where we had successfully argued a redundancy avoidance measure for all 13 members of staff to be converted to home worker status. When that was done they were allocated compliance work and the figures we have in relation to that trial show that, for the six months after the home working trial began, they brought in a compliance yield of over £7 million. At the 12-month point, it was over £14 million. Those workers have now been made redundant and the last one leaves employment in December of this year.

Q9 Chair: Do we have evidence of this Wick pilot? Is there a report published about its effectiveness and efficiency?



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John Davidson: I would like to take some time to address that specifically in relation to the trial because I think it is quite illustrative of the direction the Department has chosen to go. As I mentioned, back in 2014 the office was closed and the Department agreed to evaluate the home working trial from February to July of that year. We have received approximate figures for the tax yield I referred to and despite this and despite us asking officially from the Department on several occasions for the results of that trial, we have been refused the data. HMRC has cited the Freedom of Information Act, section 56(2)(c) because, "It has the potential to undermine the Department's wider locations and workplace strategies". In other words, the data will very well demonstrate that their location strategy is flawed and, therefore, they are refusing to release them.

Chair: I am grateful for that. We have officials from HMRC following you to give us evidence and that is one question we will most definitely want to ask to understand a little bit more about this Wick pilot.

Q10 **Chris Law:** As you may know, I represent Dundee, which is facing two offices being closed with almost 800 staff jobs in peril. It is a discussion I have been having over the last year or so. I have no figures from HMRC of the actual cost of modernisation as they see it. John, has been any assessment by PCS regarding what this is going to cost HMRC?

John Davidson: It is quite difficult to ascertain the total value of the actual cost of the Building Our Future programme at this point. We can extrapolate from previous change initiatives, because this is not the first time the Department has gone through a major change programme. In fact, I think it is the third time it has gone through that since the Department was formed in 2005. The figures we have in relation to those previous change programmes is that the first one, the departmental transformation programme, cost £2.7 billion and the second, called the change programme, cost £2.2 billion, which was approximately 20% of the Department's budget.

Q11 **Chris Law:** They are quite astonishing figures. They need to find, recruit and train new members of staff. Do you think this reorganisation represents value for money for the taxpayer?

John Davidson: One of the things that is sorely lacking from the rationale, the philosophy, if you will, behind the BOF programme is anything that makes it clear that this is in the best interests of the taxpayer. To be absolutely clear, we agree that HMRC needs to change. We feel that the motivation for this change is not about what is good for the taxpayer or what is good for local economies, but simply it is to do with the Mapeley Estates contract coming to an end, a contract that has been disastrous, I have to say, for the public purse. However, while we oppose that contract and support any attempts to get more favourable terms, we oppose the solution. We identify the problem and share that but we could not agree with the solution.



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Q12 Chris Law: Just to add to that, this has been discussed with Mapeley Estates here. Has there been any indication to either of you from HMRC about alternative buildings that could be used, rather than trying to continue contracts with Mapeley Estates, which has been, frankly, a rip-off for the taxpayer?

John Davidson: The only solution the Department has at the moment is the one it advocated on 12 November last year under Building Our Future, which is effectively to close all offices other than the one in Gartcosh and replace all the other offices with the two regional centres, one in Edinburgh and one in Glasgow, with staff savings of between 2,000 and 3,000 members of staff.

Q13 Chris Law: Thank you, John. A question for you, Paul, regarding what you were talking about with contact for your members. Given there will be two regional centres and we will lose all our other centres in Scotland, what would you say to one of your members who works in Inverness-shire in the Highlands or in Aberdeenshire around the oil industry or anywhere outside the central belt? What advice would you give them now?

Paul Gallagher: HMRC has already moved away from a local office basis, so you have sectors and specialisms dealt with around the UK and it operates in that way. Our members have told us they would like some more clarity. That is another of my Cs: clarity around exactly what those Edinburgh and Glasgow offices will do, what will be their focus and what the purpose is of the specialisms they will contain. Until we have clarity around that, it would be difficult to determine exactly what the message would be to that member in the Highlands.

Q14 Deidre Brock: I want to ask Mr Gallagher about face-to-face contact. You mentioned it in your opening remarks. How do you think the closure of all drop-in centres offering face-to-face contact improves the service? Your members feel they are missing out on a very important function if they have to rely on a call centre and queuing and so on that we have all heard a lot about.

Paul Gallagher: Different members are looking for different forms of communication, but the one they talk about more than any other is the face-to-face and that is the one that has declined over the years. That is the one they would like to see improved, particularly when you think about making tax digital, which is coming along in the not too distant future, and how that interacts with face-to-face contact. But it comes back to the clarity point about what these offices will do.

Q15 John Stevenson: Mr Davidson, I have some in many respects factual questions. The intention of HMRC is to have two regional centres so clearly there will be staff moving to those new centres from the ones that are to be closed down. Is there a relocation package in place and what is it?



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John Davidson: In relation to that, the staffing numbers is the first thing I would draw your attention to. At the moment, we have over 8,500 members of staff working for HMRC in Scotland and the total numbers of people based in Edinburgh, Glasgow and Gartcosh combined is in the region of 6,500. We have been given no assurances over things such as home mover's assistance. It is certainly an issue for both us and the other departmental union that represents senior grades.

They have made available something called daily travel assistance that is available for between three and five years for people who have excessive travel costs over and above what they currently pay. However, I would point out that is also taxable, so it does have a detrimental impact, and it is only a short-term measure to mitigate against increased travel costs. To the basic question you are asking about relocation expenses, we have been given no assurances.

Q16 **John Stevenson:** At this moment, there is no relocation package specific to somebody who says, "Yes, I do want to continue to work for HMRC and I have to move from wherever."

John Davidson: We have not been given assurances about home mover's assistance.

Q17 **John Stevenson:** That is fine. You have talked about the numbers dropping. Is there a voluntary redundancy package in place?

John Davidson: Yes, there is a voluntary redundancy scheme—the civil service compensation scheme—that applies obviously to all civil servants. The scheme has been cut in recent years, in 2010, and is subject to a further cut that my union is currently balloting members over.

Q18 **John Stevenson:** That is not what I am really looking for. I want to know if there is a voluntary scheme in place.

John Davidson: There is a voluntary scheme in place that is a lot less lucrative than it was.

John Stevenson: There is a voluntary scheme in place for those who do not want to relocate, effectively.

John Davidson: A voluntary scheme for people who cannot relocate.

John Stevenson: Or do not want to.

John Davidson: Yes.

Q19 **John Stevenson:** Is there a compulsory redundancy proposal?

John Davidson: There is a compulsory redundancy scheme that is less lucrative than the voluntary scheme.

Q20 **John Stevenson:** There is a mixture of voluntary for those who do not want to move or whatever and there is a compulsory scheme. Is the compulsory one targeted to a particular area or particular level? What is



the compulsory scheme aiming at?

John Davidson: I will give you an example based on facts. Last year, we went through a consultation exercise over redundancies. At the start of that consultation exercise, the Department identified 200 individuals who were in a variety of circumstances, the majority of whom were based in offices that were earmarked for closure. At the end of that consultation period that was aimed at avoiding redundancy, we still had somewhere in the region of 150 people made compulsorily redundant against their wishes.

Q21 **Margaret Ferrier:** John, what do you feel staff morale is like at the moment with the staff who are still employed but may be losing their jobs and the fact that there will be these two regional centres? As Mr Law said, how will someone living up north get to these regional centres? There is not going to be a proper work-life balance for these people, so how is morale at the moment?

John Davidson: I have to be honest for a variety of reasons but obviously I have to be honest in front of you guys. It is extremely low. The annual civil service people survey of the staff in every Department across Whitehall regularly placed HMRC near the bottom of all Government Departments, agencies and non-departmental bodies for staff engagement scores, morale. The 2016 survey finished recently on 31 October and it is currently being collated, but we would expect it to return a similar result to previous years. There are very low satisfaction scores for pay. I remember some cases have not had pay rises for 10 years. Control of workload is low. Job satisfaction and confidence in the ability of the Department to deliver change well is extremely low.

Let's be absolutely clear here: our members have not had a cost of living pay rise in over a decade. They are some of the lowest paid workers in the UK. We are constantly expected to do more with less and many of us do. We joined HMRC to be truly civil servants because we wanted to do public duty and we have managed to hold the Department together in the face of great hostility. But I have to say the attack on our rights, our union rights, our pensions and our pay means that morale is at an all-time low.

Q22 **Deidre Brock:** I am really concerned to hear there has been this sort of effect on staff morale. Can you tell me what senior management are doing to mitigate some of the effects of this and particularly this upcoming closure programme happening? What are they doing to help relieve some of the concerns that staff have?

John Davidson: I would make a distinction between the efforts our local managers do. They are indeed doing a great job. Many of them are members of our union and there are things completely outside their control. Certainly, there has been a drive in recent years to try to improve what the Department call engagement, asking people in focus groups what they would like to do and so on. But there is absolutely no



engagement whatsoever on the big ticket issues: the cuts, the closures, the pay freezes, the pension attacks, the civil service compensation scheme reductions. These are things that are imposed upon our members, and it is my belief that, because of those things, staff morale is at an all-time low.

Q23 Chair: Can I ask Mr Davidson—you seem to be getting most of the questions this afternoon—what is the union doing to work with its members as it goes through this process of reorganisation? You mentioned some other issues that are there, so what are you guys doing?

John Davidson: To be absolutely clear, we have taken a principled position in relation to the modernisation programme, if we want to call it that. That is not quite simply that we oppose it, but we believe any reorganisation of a major Department of this scale should be subject to public scrutiny, parliamentary scrutiny and community engagement with a variety of stakeholders. None of that has been done. If the Department had done all that and could present that this was the best possible option, that would make it significantly more difficult for us, but they have not done any of that.

Our union is continuing to ask that all those things are done, that proper assessments are done of the impact this will have on local economies in general. East Kilbride currently employs 2,700 tax workers and there is somewhere in the region of 1,000 in Cumbernauld. Can you imagine the impact that will have on those local communities? We have statistics in relation to our Bathgate office, for example, that employs somewhere in the region of 600 staff. It has demonstrated to us that will take over £1 million a year out of the local economy in a place like Bathgate with a population of 10,000 people.

Q24 Chair: You talk about consultation. I represent the city of Perth and I think it was during the last round of tax office closures we lost our local office. There was some sort of public consultation—as a Member of Parliament, a very unsatisfactory one—and since then there have been issues with small businesses, SMEs, in my constituency being unable to secure the tax advice that they require from a local face-to-face office. It is all anecdotal; as a Member of Parliament I spoke to several of these businesses and employees. Do you have any evidence about the impact on communities when these tax offices are closed and the type of service that is then put in its place?

John Davidson: I am glad that you have mentioned small and medium enterprises because our belief is that 50% of the tax revenue is paid by SME customers, if you want to use the word that seems to be used by the Department increasingly now for taxpayers. After we move into regional centres, it is our belief that we will be unable to reach many of these customers and figures show that 57% of them make mistakes in their tax returns and require assistance. They deserve assistance. Most taxpayers want to pay what they have to pay, but they deserve a good public



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service in order to do that, and we do not believe that we are currently providing that.

- Q25 **Chris Law:** As a result of that, is it possible that people or businesses end up in the position of a tax investigation for the simple fact that they have not been able to access proper information for the submission of tax returns? In other words, they end up getting accused of things they are trying to avoid.

John Davidson: Yes. We do not currently have a method of reliably checking their tax affairs. We believe that any attempt to reduce our compliance activity to solely desk-based compliance, effectively writing out to businesses and asking them, "Do you think you have paid the right amount of tax and, if not, would you like to pay a little bit more?" fundamentally misunderstands the nature of the tax system. I would reiterate, and I am sure that Paul would agree with this, that the vast majority of taxpayers want to pay their due but there is a certain number that will seek to evade and avoid. It is our concern that by withdrawing our activities from the local communities and concentrating them into regional centres reduces our ability to deal with them.

- Q26 **Chair:** Let me bring Mr Gallagher in here. I would be interested to hear your views about the impact on communities like mine in Perth and the impact it has on your members.

Paul Gallagher: The third point that has been raised by our members, as well as the lack of contact and the clarity around what these offices will do, is their careers. Our Institute would want to see a tax authority that has highly skilled, highly trained individuals and any drift south from Scotland of those types of positions would be a concern. We would not want those offices to end up effectively being call centres.

- Q27 **Chair:** Have you any views at all, when your members get back in touch with you, about the impact this has on the communities? Is face-to-face contact important for the members that you represent?

Paul Gallagher: That is the most important thing they say. The second is back to the SMEs, about the shift of the administration burden from HMRC on to them. We have seen things about self-assessment, real-time information, and there is a real nervousness that making tax digital, because it is mandatory, might be another further shift of that burden on to the taxpayer.

- Q28 **Deidre Brock:** Mr Davidson, you have stated that HMRC is currently recruiting in areas where it is also enforcing redundancies. Can you give us any specific examples of that?

John Davidson: This is something that you are really going to have to ask in more detail of the Department's representatives later, but I can do my best to try to answer that as well. Yes, we do have the somewhat strange situation where we are putting people through redundancy exercises in various parts of the UK, including in Scotland where we have



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lost people to redundancy recently in Irvine and Inverness, and we are currently going through an exercise that may result in more people being lost. At the same time, the Department will take pains to illustrate, for example, that it aims to recruit 4,000 compliance officers across the UK over the course of this year. However the general direction of travel is that we will be losing more staff than we will be gaining.

The Department's rationale under Building Our Future is that it wants to have a workforce of roughly 50,000, but in order to have that, which will still represent a substantial reduction in headcount, it does need to backfill and recruit. Our members cannot quite understand why in an era where we all can do essentially computer-based work from anywhere in the UK, that rather than using the technology in order to allow people to work closer to home, we are going in the other direction and concentrating people in large factory-style offices and forcing them either to move home or to commute for longer than they have commuted before.

Q29 Deidre Brock: Most modernisation projects seem to allow for more flexibility rather than less, so it does allow people to have the ability to work in more locations. Is the aim of this simply to cut costs, or is it genuinely an attempt to modernise the service?

John Davidson: In our view, if the Department wanted to cut costs, increase service to the taxpayer, increase compliance yield, increase tax take, all of those things, then that would have been front and centre of the Building Our Future initiative, and it has not been. The only somewhat woolly commitment that they have in there is that they believe that by bringing people into regional centres, they will work more efficiently, but that is not based on any evidence whatsoever.

Q30 Deidre Brock: Do you think those extra staff are being taken on as a result of the criticism of the Public Accounts Committee earlier in the year when they looked at this very subject? I think they were talking about concerns that, in terms of value for money, changes already implemented had gone too fast and were not properly considered beforehand, and also suggested changes were costing taxpayers extra because the systems were not working, as you mentioned. What are your thoughts on those misgivings from both of you?

John Davidson: The Department, like any large Government Department, is certainly not immune to political pressure and political criticism, and I daresay has made decisions based on criticisms it has had in the past. One example of that is based on my own experience from about three years or so ago when we made significant numbers of our staff in our contact centres redundant and paid them redundancy packages. We then found out some months down the line that we had got rid of too many people too soon and the service levels dipped hugely; waiting times increased massively. In some cases during the peak, people were waiting an average of 47 minutes on the phone to speak to us, at their expense of course. We then recruited people to backfill those



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vacancies, having let too many people go through. It is for those reasons that I believe that our members have no confidence in the Department to effectively manage change.

Paul Gallagher: I do not think we should forget that HMRC, with restricted resources, also has to deal with a huge amount of complex legislation and a huge amount of change. The making tax digital piece is a real opportunity to make the tax authority more efficient, more effective and more equitable, but it has to be done right. There is a concern among the members of the institute about the timescales involved, particularly in light of the reorganisation happening almost in parallel and also the mandatory nature of making tax digital. It might be a much better idea if that was introduced on a voluntary basis, because if you are designing a system that requires people to sign up to it, you would tend, as the designer or builder of that system, to make a better job of it. It needs to be attractive to people.

Q31 **Deidre Brock:** What opportunities is HMRC providing for retraining for folk who are potentially under threat of being made redundant?

John Davidson: As time goes by and as more offices close, naturally there is less opportunity for people being redeployed. We do what we can to work with the Department when our members are at risk of redundancy to identify vacancies in other Government Departments. That is the whole point of the consultation exercises that we undertake in relation to redundancy. However, all of those Departments are also going through the same reduction initiatives, so the opportunities for retraining and redeployment become less and less as time goes by. There is a limited opportunity for people to retrain for jobs in other parts of the business, but I would be lying if I said that I could foresee that becoming anything other than more difficult as time goes on.

I mentioned the figures in relation to the redundancy exercise last year. We are also going through a consultation at the moment in relation to redundancies. What the Department may well tell you is that it has avoided significant numbers of compulsory redundancy this year. I would say that is not unexpected. The reason for it is because in the past it had a gun held to its head, effectively, because voluntary redundancy was more lucrative to our members than compulsory redundancy. This year, it has two guns to its head, because midway through the redundancy exercise the terms of the compensation scheme are likely to change, so members are more inclined to accept that package knowing that the amount of money that they would be entitled to will reduce vastly. I can see nothing other than it being limited in future.

Q32 **Margaret Ferrier:** I am going to come in, first of all, on customer service. We hear that some small business owners were asked, with almost 100% of them saying that they had been kept waiting on the phone with the Revenue; 96% of them said they had been forced to wait on the phone in a queue when calling the agency. If we look at the cost involved in that for people, apparently the cost has gone up considerably



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since 2012-13 to 2015-16 and has jumped from £63 million to £97 million now. Taking all this into account and also the fact of somebody having a long wait on a phone call—you have been there yourself and know what it is like—I would like to know what kind of abuse levels there are to the staff when people eventually get through. Are there any statistics gathered on that, given the nature of where they are calling and what they are going to be discussing? Will this reorganisation ultimately improve customer service, or will it be worse?

John Davidson: In relation to the abuse, I would cite the statistics that we receive of the number of annual working days lost for our members, the number of days that they have off sick in a year. What that demonstrates to us is that, in every area of HMRC, the primary reason for staff sickness is stress. That has been the case for every quarter probably as long as HMRC has existed since 2005. Obviously, part of the stress levels for members in the customer contact side of the business and personal tax is directly affected by irate customers coming through as a result of having to wait a long time. We did a stress survey in our contact centres five years ago and that indicated significant levels of our members feeling harassed. I believe that the last staff survey also identified that a significant number of our members had personally experienced bullying over the preceding 12 months, somewhere in the region of over 10% of them. So, yes, it is not a particularly nice environment for our members to work in.

Paul Gallagher: From the institute side, probably not as much about the abuse levels but more about the damage to customer service. I think there is a real nervousness among members, given, as you have said, the decline in customer service over the last few years, that this reorganisation will lead to further decline. I think that comes back to the clarity point. We need to understand more about exactly what these teams and these new offices will do and we need to address this point about the level of contact and the ways in which HMRC engages with its customer base.

Q33 **Margaret Ferrier:** I would like to come in on a different point, and that is about tax avoidance and evasion. How will these reductions in staff affect that? Will it help it or make it worse?

Paul Gallagher: Again it comes back to exactly what these teams and these offices are going to be doing and also how the whole making tax digital agenda is introduced. If that manages to engage properly and get buy-in from customers then you might see reductions in the level of avoidance. There are other things that could be done in order to look at the levels of avoidance. For instance, the institute would welcome a repeat of the road map. There was a corporate tax road map issued back in 2010 and an updated version of that that shows the direction of travel for tax legislation is one way to help counter avoidance. At the moment, we are missing that road map and what we are seeing is complex legislation being introduced very regularly and then people looking for ways round that. It is not widespread but—



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Q34 Chris Law: I wanted to touch on customer service, maybe a positive note. I would like to thank the staff at HMRC for picking up the pieces that were shattered by the payment-by-results contract with Concentrix. Do either of you have a view on outsourcing? Clearly, what happened with Concentrix, which was handling work that could have been easily handled and probably better handled by staff at HMRC, was outsourced on payment by results. Do you have a view on in going forward as part of the modernisation programme, rather than more outsourcing, keeping it in-house where expert advice and support can be given?

John Davidson: You would expect me to say that it is our favoured position as a union for public services to be delivered by public sector workers that are paid for by the public purse, but we do not do that out of blind ideological conviction. We do that based on evidence that that is the best form of delivering these services to the public. You mention Concentrix. You could easily have mentioned other instances of failed privatisation experiments where HMRC has, in our view, squandered the public purse by privatising some services, by trialling privatisation of services. One I would use as an example is the failed experiment in our contact centres about four years ago when two private sector companies, Sitel and Teleperformance, were paid somewhere in the region of £4 million to effectively deliver our services from within our own offices and paid for out of the public purse. What that trial demonstrated is that they were less effective and efficient at delivering our work than our members were, and we successfully opposed that. That work was brought back in-house. Exactly the same has now happened in relation to Concentrix, where the work has not just been brought back in-house but, due to the efforts of my union, the workers who delivered that have also been brought into HMRC as well.

Q35 Margaret Ferrier: Following on from Mr Law's question, there are years of cumulative experience of HMRC employees, so are we not going to lose that experience by moving to these regional centres? Some of these people might not want to have to travel that far every day. That is a problem that is going to cause more aggravation for callers who want information if we lose the experience that they have gained over the years.

John Davidson: Undoubtedly. That is a real concern over this. We have already lost significant experience over the last 11 years since the Department came into existence with the merger of Inland Revenue and Customs and Excise. Certainly our concern is that we are going to lose more and more experience. Even after the regional centres do come into being—and I have to say significant numbers of our members fail to believe that this will ever happen, such is their lack of confidence in the Department—think about the situation in Edinburgh, where you have a Department attempting to recruit on wages that have not been increased for over 10 years against the backdrop of the financial sector in Edinburgh and having to compete with some of the private sector industries there. I think there is a real issue not just for recruitment but



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for retention of staff as well. At the same time, we are withdrawing from places such as East Kilbride, Bathgate and Wick where there is a real need for these jobs to be based, where the rates of pay may well be competitive and attractive and can bring people in for long careers.

Q36 Margaret Ferrier: You mentioned East Kilbride and I have to make it clear that my constituency is a neighbouring one to East Kilbride. Some of these 2,700 workers could come from my constituency and if they lose their jobs that will impact on my local community as well.

John Davidson: Absolutely. There is obviously a very real trickle-down effect in this case, where those 2,700 jobs is a significant proportion not just of the East Kilbride economy but South Lanarkshire in general. One in 25 or one in 50 are the figures that were given to me in relation to the number of jobs there. Those jobs would not just be gone now; they would be gone for all future generations as well. It has long since been seen as a career path. We have families of people that have worked in the tax office in East Kilbride since it was put there back in the 1960s, and it was not put there by accident. It was put there in a modern life and time when there was an acknowledgement that a function of government was to base jobs in communities where those jobs could make a real difference and a real benefit. Unfortunately, that again is something that is wholly lacking from the Building Our Future analysis.

Chair: On the M8 to Edinburgh, Deidre Brock.

Q37 Deidre Brock: What we are seeing is a huge centralisation of services in the central belt. Has HMRC ever indicated to you that it is considering the impact on local economies when it closes the regional offices?

John Davidson: There has been absolutely no indication of that whatsoever. There is no analysis being done on that whatsoever that has been shared with my union. That is one of our major contentions with this. If you talk about withdrawing a job from Cumbernauld and putting a job into Edinburgh, that seems perverse to me. You would expect there to be some kind of duty to take that into account. As I say, the plans have not been subject to negotiation or consultation with the unions, to parliamentary scrutiny in a meaningful way or to public consultation. For all of those reasons, that economic analysis is sorely lacking.

Q38 Chair: Can I finish things off and I want your views on all this? I am reading here a statement from David Gauke, who was Chief Secretary to the Treasury, and he paints such a brilliant picture about what is trying to be achieved. What is wrong with not having to complete a tax return at all, which I believe is the vision? Those with more complex tax affairs will be able to use their accounts to declare income and pay tax next year. What they are presenting here is a rosy vision of a paperless, office-free, simplified system, and surely this is where we all want to go, isn't it?

John Davidson: Can I be absolutely clear here? As far as digitisation is concerned, I think Paul hit the nail on the head. We would welcome that as part of a range of options and measures, if it is about choice. What we



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oppose is when people have that choice imposed upon them, so it is not a choice. Only 85% of Scotland companies have access to broadband internet. There are 15% of people who do not have access to do their tax affairs digitally, but even then you have significant numbers of people who through personal choice would rather deal with an individual, would rather have that contact that Paul talks about. We believe they are entitled to that. They pay their tax and they should be able to have that personal contact with HMRC.

- Q39 **Chair:** It gets even better, even on account of all that, "This will be a major help for small businesses that will be able to link their accounting software to their personalised tax account and have the option to pay as they go. It will give them more certainty about what they need to pay and when, so they can manage their cash flow better." This is what the Government want to achieve, isn't it? Is this where we are going?

Paul Gallagher: You can see that is the vision. It is the steps in the interim to get to that and the nervousness, particularly from the SME community, about the additional burden that they are facing. We are not just talking about tax returns; we are talking about digital accounts, having to upload data, quarterly reporting. This takes time and cost, and there is a nervousness among the institute's members.

- Q40 **Chair:** All you need to do is just phone into the tax office and you will have your call responded to really quickly if there is any difficulty.

Paul Gallagher: People are also asking for better responsiveness, better contact by phone, face-to-face. A whole range needs to be dealt with otherwise that decline in customer service just continues.

- Q41 **Chris Law:** Does anybody fear the taxman anymore? I have been in business a lot of years before I became an MP, and there was a time when you were intimidated going to your local HMRC office in case you got it wrong and you did not have enough receipts or anything like that. When we are coming down to two regional centres and it is all going to be online and maybe on the phone, is there a sense for people to be frightened they might get it wrong or, "If I don't want to pay tax, I don't need to worry about it because there are insufficient staffing levels."?

John Davidson: One group of people who are still scared of the taxman are some of our members. They are scared of the taxman in the sense of a boss who is coming to close their office, someone who is not giving them a pay rise and so on. In terms of the minority of people who seek to evade, avoid and simply not pay their tax, I would say when you do not have a local presence, when you do not have local compliance officers going out and making personal visits, that compulsion to pay your taxes is less than it ever has been.

Chris Law: That answers my question.

- Q42 **Deidre Brock:** When I was on Public Accounts Committee, there was talk of the ability to move some of the workforce around the country to do



face-to-face. How does that work, in your opinion? There are also supposedly mobile customer services for vulnerable individuals. There seemed to be a bit of confusion when I asked the head of HMRC how it worked, and I would be interested to get your opinions on it.

John Davidson: It goes back to a couple of years ago when the decision was made to close all of our public inquiry centres that during their height were experiencing more than 5 million people visiting them every year and even during the end of their life, when they had had their office hours reduced and their services curtailed, were still experiencing over 2 million visitors a year. In order to replace that they brought in something called the needs-enhanced support service, which is a service where a telephony adviser can identify someone with enhanced needs who needs a little bit more time to have their complex affairs or affairs that they are struggling to understand explained to them. They would then escalate that to a second tier, so passed to someone else on the phone, and that person on the phone would then, if they really insisted upon a face-to-face visit, arrange an appointment. We have somewhere in the region of 50 people in Scotland and Northern Ireland providing that service now, so you can see the huge reduction in face-to-face contact, even for those people who are fortunate enough to pass through those three hoops to get that service.

Paul Gallagher: I was going to add one example. I have one member who said that they had some face-to-face contact with HMRC previously. The centre was five miles down the road in Glasgow and then it was relocated to Belfast, so it is a significant challenge to still achieve the same face-to-face customer service.

Chair: Thank you both ever so much. This is just a one-off session and the notes, references and minutes of it will be available to you if there is anything that you want to see or add after, but thank you very much for attending this afternoon.

Examination of witnesses

Witnesses: Jim Harra and Ravi Chand.

Q43 **Chair:** We are just discussing whether there is going to be a Division or not. Our understanding is that there may be one at the back of 4 pm, but there are only SNP members here, so I don't think we will be voting anyway. We will just continue, if that is all right. We will see if anybody else appears whether we need to suspend the session or not, but in the meantime if you are all right to answer our questions. Just for the record if you could say who you are and then offer a brief statement. We will start with you, Mr Harra.

Jim Harra: I have moved chairs so hopefully the microphone still reaches. My name is Jim Harra and I am a Commissioner of Revenue and Customs and a member of our executive committee, and I have responsibility within the Department for strategy and tax policy.



Ravi Chand: My name is Ravi Chand. I am the HR Director for Workforce for HMRC.

Q44 **Chair:** Thank you. This is a massive piece of reorganisation, isn't it? We are cutting it down from 18 to just two regional centres in Glasgow and Edinburgh. I think for most of us who have been in the House for a number of years, it seems like there has been a constant revolution of upgrading and updating the HMRC since we have had the merger. I am looking at something from the Chair of the Treasury Committee, Andrew Tyrie, who talks about a constant revolution of updating, 12 major reorganisations since the merger. Why is all this necessary?

Jim Harra: I think there is constant change in HMRC, as there is in many other organisations. We are doing our work in an environment that is constantly changing as well—for example, a very rapid transfer by our customers into working digitally with us. That is something that there is demand from our customers to do, and that does mean that we constantly have to update our infrastructure and our IT to enable our customers to do that. Then it has consequences for the size of the workforce and the skills that we need from that workforce and where we have to locate them. We have a major transformation programme as part of this spending review, and I would expect that to continue.

Q45 **Chair:** Since the merger, HMRC has been reorganised to some degree nearly once a year on average. Again, this is from the Chair of the Treasury Select Committee. Surely no organisation needs to be constantly reorganised on such a scale as this. Mr Chand?

Ravi Chand: The work that we have been doing in reshaping the Department is very much directly linked to our future direction. As customer behaviour changes, as the customers expect us to engage with them in a different way to what we have historically, of course we need to demonstrate we are able to respond. Our move towards regional centres does mean that we can engage with our customers in a much more meaningful way than we have been able to date. People want to be able to engage with us not necessarily by dealing with us face-to-face. In fact, the majority of people do not want to. They want to be able to do this from their laptop in front of their television and deal with their tax affairs with minimal effort and interaction with us, and fuss, and certainly without fear. That is a great place to be and much of what we are doing is in that place.

Of course, for our people as well, there is a whole series of issues about providing career opportunities for them that do not currently exist when you spread your workforce across multiple sites; 170 sites across the UK is a big spread. It is bringing our people together, co-locating them, so you do not start your career at junior grade and stay there for the rest of your career because your office does not have a more senior banded grade. You have an opportunity to say, "I can work from a building or a location where I can work my way up to the most senior grades in that site." Historically, that has happened in London, where you would see lots



of senior careers but not so much in the regions around the country. Our move to regional centres would mean that we can do that, and why wouldn't we? We want our people to have careers from the most junior grade in the organisation up to the most senior grade. A number of our staff are saying that is really welcome, and as I go round our offices, our people are telling us that is what they want. They want the ability to be able to move up in the organisation.

- Q46 **Chair:** I could see that you were here when we heard from representatives of PCS and the Institute of Chartered Accountants and we all understand the vision, but there seems to be an issue about how we are getting there. You are halfway through this modernisation just now. What progress has been made? Also, have you done any assessment at all of the impact that this is going to have on the Scottish economy? We have been asking about local assessments, local consultations. Have you any idea how much this is going to cost the Scottish economy?

Jim Harra: First of all, I feel that we have taken considerable care in our plans to make sure that this is a transformation that we can implement alongside keeping our services going and keeping our collection of revenue going. That is why, for example, we plan to keep the East Kilbride office open until 2025, 2026—for another nine years—because we have to manage that transition in an effective way. This is an ambitious transformation programme, but it is not being done with undue haste. It is being done with a lot of planning and a lot of care to make sure that we can manage it, and we, of course, will constantly iterate those plans as we go through.

As far as impacting is concerned, we have focused in particular on the impacts on our staff and equality impacting, as you would expect, to make sure that we understand that we can make this transformation in accordance with our plans but also understand what the impact on our people will be. We have done modelling on that, but as we go through the offices that are closing and as we get to within, say, 12 months of that, we move off the modelling on to one-to-one conversations with each and every member of staff affected.

- Q47 **Chair:** We have just heard from the PCS that there are huge issues to do with staff morale because of the uncertainty and the concerns about the reorganisation. Are you saying this is staff driven and that they are happy with the opportunities?

Jim Harra: Let me just say something about staff morale, because I would like to correct something that John said. He said that it was at the lowest ever levels. On the contrary, our staff engagement has been increasing in recent years—we monitor that annually—from a very low level, I acknowledge, and still at a too low level. One of the key things that we have done in relation to our transformation programme, including our location strategy, is that we have engaged in a very extensive engagement exercise with all of our people. We are currently in the fifth round of a set of conversations where we go out and speak face-to-face



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with every single member of our staff who is invited to take part in those conversations. That is a huge exercise in a Department of over 60,000 people. That is, first of all, a bit of show and tell about what we think our strategy should be but a lot of listening and dialogue as well about how we will get there and what the implications are for people. We have changed our plans and some of our HR policies that Ravi is responsible for in response to those conversations. There is a genuine dialogue going on with our people.

Of course some people are going to be affected by this transformation in ways that they would prefer not to be, and unfortunately some of our people who are highly skilled and we highly value are not going to be able to come along on it. It is a minority and we have to manage those people really well and make sure that we give them all the opportunities that we can to work in the Department for as long as we can and then to work after that.

Q48 Chair: I think we want to come back to some more issues to do with the morale of staff and the impact that it is having on the relocation, but I am still looking for an answer to whether or not there has been an assessment done of the impact on the Scottish economy or local economies for the change that you are proposing.

Jim Harra: We have not done formal impact assessments on that. We do acknowledge there will be impacts on local economies in any organisation that is reducing in size and is moving where it does its work. In the case of Scotland, our modelling shows that more than 90% of our staff will be able to travel to a regional centre from where they currently live and, therefore, the impact on their local communities should not be as significant as some of the claims that have been made. They will continue to live where they currently live and, for example, spend in the local economy where they are, but I do acknowledge that there will be some impacts.

Chair: I do not know how you are going to get from Dundee, for example, but I will leave that one for Mr Law to ask.

Q49 Chris Law: Yes, exactly. I represent the constituency of Dundee where there are two offices. I think the reasonable daily travel is about one hour, am I right in saying?

Ravi Chand: It takes about an hour.

Q50 Chris Law: About an hour. Have you travelled? You said you have met staff, but have you travelled Dundee to Edinburgh to work? I have. I can tell you it is an hour and a half, so what happens to those people who have to travel every day, five days a week for an hour and a half? I can tell you the price of a train ticket is over £20 return. What compensation are they going to get for doing that, and how is that within your reasonable daily travel remit?



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Ravi Chand: There are two issues here, and I am happy to come on to Dundee specifically on what we are doing. Staff who are outside a reasonable daily travel are offered what we call a daily travel assistance. It is a contribution towards the increased costs of travelling to the new location beyond what they would have done previously. We would pay anyone who finds themselves to be outside a reasonable daily travel and we will compensate them for up to five years. That is added to their gross salary, so there is compensation. Those who fall just within reasonable daily travel—and some will because people are spread across the region—still get compensated for up to three years. There is a mechanism to make a contribution to the increased cost for staff.

Q51 **Chris Law:** Can I ask how much that compensation is? What is the maximum compensation you could apply for, for this reasonable daily travel?

Ravi Chand: It is the increased cost.

Chris Law: The total increased cost?

Ravi Chand: Yes, it is a contribution towards their increased cost.

Q52 **Chris Law:** I want to be clear about this. If I live in Dundee and I take a bus to work and back, which costs me £2 and it is going to cost me the best part of £20 to go to Edinburgh, you are going to pay the difference? Is that correct?

Ravi Chand: It depends on individual circumstances. If it is an increased cost then we will look to make a contribution towards that increased cost, yes.

Q53 **Chris Law:** Am I right in saying it will be £18 then? You are making up the difference?

Ravi Chand: It would be, before tax, yes.

Q54 **Chris Law:** Before tax? They will get taxed on the amount they are going to get for travel, so they have to pay tax back on the very amount that is supposed to be supporting them to continue their career at HMRC?

Jim Harra: We obviously apply the same tax rules as any employer. If an employer gives its employees assistance for their home-to-work travel, that is taxable. Just going on to people from Dundee, if anyone from Dundee is willing to travel, we will definitely look at giving them the support that they need. However, in Dundee—and I know Ravi has worked personally to make sure that we maximise this—we have been working hard to make sure that there are other opportunities for our people.

Q55 **Chris Law:** On that note, am I right in saying that there will be a relocation package, perhaps, for some of my constituents who work at HMRC in Dundee to move to Edinburgh or Glasgow?



Ravi Chand: It is too early to say because we have not concluded all the one-to-one conversations with our staff. Of course we will pay home move assistance where there is a clear value-for-money argument. For the majority of people our intention is, particularly in Dundee, that we will continue to employ them for a number of years yet. As you well know, we have two offices only four miles apart, one in Sidlaw House and one in Caledonian. Our intention is to see what we can do to move staff, as Caledonian House closes, to Sidlaw House, which will remain with us until we move work in that building over to DWP for Universal Credit.

Q56 **Chair:** What about Inverness?

Ravi Chand: Inverness is currently scheduled to close in 2017, and at the moment that is still planned to go ahead as an office closure. There it is slightly different, of course. We have a smaller number of staff in Inverness, but for all of those staff we are exploring individual solutions. Where we do not have a job for individuals with HMRC because we do not have a presence, certainly other Government Departments, other parts of the civil service, other agencies do, and we have been exploring at some length opportunities for our staff. We have had great success in finding people jobs so far this year already. I know of 100 cases where we have found people job opportunities where otherwise we would have exited them from the organisation, and we will continue to do that. I cannot say the specifics of Inverness because I have yet to have that conversation with staff when I visit in a few weeks.

Q57 **Margaret Ferrier:** Do we know what proportion of existing HMRC staff living in Scotland are close to Glasgow and Edinburgh? Have you looked at that?

Ravi Chand: As my colleague just said, the majority of our people are within reasonable daily travel of our future regional centres in Glasgow and Edinburgh. We look very closely at where our people live. As we move to close offices, we have a conversation with people at least a year ahead of any closure and in the majority of cases we are able to find solutions for individuals. The majority are close to those regional centres.

Q58 **Margaret Ferrier:** How many do you have working in Scotland at the moment?

Ravi Chand: 12% of our workforce is currently based in Scotland compared to 8% of the population, so we do have a higher proportion of workforce compared to the population numbers for Scotland. That is something that we are looking to maintain through this spending review period.

Jim Harra: Our modelling shows that more than 90% of those staff are within travelling distance of a regional centre. As we get closer to the time when we expect people to move, we will replace that modelling with real information about each individual based on the one-to-ones.

Q59 **Margaret Ferrier:** Another question before I leave that: if these staff are



not able to relocate to Glasgow and Edinburgh, is there going to be an option for home working?

Ravi Chand: Home working is not an option we are exploring unless the role itself is one that is suited to that kind of work. You have already heard about needs-enhanced support. We also have a debt management business with field force officers who go out and spend a big chunk of their day out there with customers. Of course, it would not make sense for us to ask them to go into an office if they are going to spend most of their time on the road. In those cases, we have explored home-based but mobile contracts with those staff. Going forward, we will keep it under review as to what other roles we think might be suited to that kind of work.

Q60 **Margaret Ferrier:** We heard in the previous session about this home-working pilot scheme that you had in Wick. Was a report published on that and, if not, why not?

Ravi Chand: There was a whole set of reasons why Wick was kept open and there was a lot of campaigning in the past about Wick being kept open. We trialled, as an organisation, the ability for people to be able to work from home, because the office was closing, to see what that impact might be on bringing in yield and other things. Our experience of that was that people enjoyed it, they liked being able to work from home. However, at the same time, we were developing our strategy for our future direction of travel, for Building Our Future, and we were very keen to co-locate our staff, for the very reasons I set out earlier. It is really important that we develop career pathways for our people. They can come into the organisation and move their way up, and home working is not the model that is best suited to developing careers for people.

Q61 **Margaret Ferrier:** These people from Wick took part in this pilot scheme and what you have really just said is that you ignored what they said. They have said to you that it was a good thing and they enjoyed this option of working from home. You have gone on to say about career options, but that doesn't sound to me as if you were taking into account their needs. What was the point of doing the pilot scheme if you are going to ignore what the staff said to you?

Ravi Chand: We have not ignored what they said. Certainly, we have taken into account their experience. This is a very small set of people in an organisation—

Q62 **Chair:** Was it the wrong result that you got from this pilot?

Jim Harra: Absolutely not. I think the result of that pilot was that, first of all, if you have an existing set of staff with existing skills, it is perfectly viable for them to work from home for a time, and indeed the feedback from the people who took part in the pilot was that they welcomed that. However, our view is that we have to plan for a sustainable workforce where we can recruit, train, retain and develop people, and an extensive home-working model does not fit with what is sustainable for the future.



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Q63 Chair: What it sounds like to this Committee is that you set this pilot up but you have totally discounted what they have said, because whatever was reported in this pilot was obviously not in your view and vision about how you want to deliver this service. What you have is a view and a vision about how HMRC offices should be arranged for Scotland and you are going to stick to that regardless of what other evidence might emerge.

Jim Harra: Chair, that is absolutely not what I said. What I said is that we had a pilot with about 13 existing staff and that pilot showed that it was viable for those staff for a period of time to continue working from home. It tells us nothing about whether you can sustain an organisation of 50,000 or 60,000 people, renewing those people, refreshing their skills. That pilot simply does not answer that question.

Q64 Chris Law: Just on that point, what did answer that question was that millions of pounds were collected in tax by those 13 personnel. Is that not the case and is that not the primary purpose of HMRC? It is not about necessarily centralising into two wonderful new centres. It is about collecting tax. The point I am frustrated about, and I made this point earlier, is there is no longer a fear about the taxman coming to visit you, there is no longer a sense that we should be concerned that there is somebody around the corner who might be keeping an eye on us. There is centralisation where people are not getting the sense of the relationship with the tax system and for those who work within it the lowest morale ever, and you have been hearing that sitting here yourselves just before you came in front of us.

Jim Harra: As I have explained, that was incorrect evidence. It is not the lowest morale ever.

Q65 Chris Law: Excuse me, Jim, how can you say that is incorrect evidence? That was evidence given by PCS. Whether you agree with it or not is one thing, but you can't say it is incorrect.

Jim Harra: Our survey results show that our morale has increased in recent years, not reduced, and it is not at its lowest level ever. However, picking up your key points, of course we are here to collect tax. The pilot demonstrated that a small number of skilled staff were able to do that from home. Most of our staff work in offices and they are collecting millions of pounds of tax as well. We have to have a model that is sustainable for the future. Having everyone working from home is not a sustainable model.

Q66 Chris Law: I don't think anyone is suggesting that, but clearly from what you are stating, it worked, so a more flexible pattern across Scotland, and indeed across the UK, might be a better option than trying to bring people into two regional centres.

Jim Harra: For six months, with a small set of skilled workers, it was viable. It tells us nothing about whether you can run a tax system on a sustainable basis in that way.



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Picking up the fear factor, most taxpayers get their taxes right or try to get their taxes right, and I don't want any of those people to be afraid of HMRC. What I want them to feel is that we give them a set of digital tools that enables them to access the tax system and get on with complying and that if they need support we are here to give them the support that they need. I do not believe that there is any evidence that having a local office in a town creates a climate of fear or that that would be a desirable thing for us to want to do.

Q67 Chris Law: On that point, face-to-face customer service is an opportunity to know who your local community is, the businesses that you need to interact with. How are you going to do that for the people of Wick from Edinburgh or Glasgow?

Jim Harra: Our objective is to make sure that we do provide a face-to-face service to those who need it. It is a most expensive way of doing business, so we cannot offer it to everyone who would want it. We can only offer it to those who need it, either because they need face-to-face support or because we need to intervene face-to-face to enforce compliance, to collect debt. We are committed in the future to continuing with that. You have heard that we set up the needs-enhanced support service in 2014, which is a mobile workforce that goes out and gives support, including face-to-face support, to our most vulnerable customers. That supported 65,000 customers in its first year of operation and is very successful. Part of our compliance work includes having a field force that will go out where it is necessary to where our customers are to enforce compliance, including the debt management people that Ravi mentioned.

Q68 Deidre Brock: I was interested in what you said about career paths. Are you saying that the staff in these regional offices are indicating to you that career paths are more important to them than being able to work close to their homes? What kind of discussions have you had with them about that?

Ravi Chand: Can I explain the challenge that we face in the organisation? Our average age in HMRC is 46. A large number of our people are in their 50s and so we already know that a significant proportion of our workforce will be retiring in the next five to 10 years and we need to plan for that. We need to bring in people who we want to continue working for us. What we have seen in the offices that we have spread across the UK is that some individuals have stayed at the same level for decades and they could not move to a higher graded job because it didn't exist in an office nearby and they would have to move to one of the cities where that existed. There is an opportunity here for us now to create a future for our people that says, "You can come into the organisation and, regardless of the grade you come in, there is an opportunity for you to either move at the same level in the organisation and try different types of work in HMRC or indeed make your way up the organisation if that is your choice, if that is where you want to go." Those options didn't exist in the same way that they will do going forward. We



are absolutely committed to providing our people the best possible opportunities they can have to develop their careers and sustain a career within HMRC for as long as they want.

Q69 Deidre Brock: If you would forgive me, you have not answered the question. Have the staff in the regional offices indicated to you that career paths are more important to them than this attempt to centralise everything?

Jim Harra: What I feel our staff tell us—and I go out and take part in these dialogues at the Building Our Future events—is that they are a very diverse workforce and they have very diverse views about what they want. We are recruiting an increasing number of young people who want to know what their careers are and what their opportunities will be, but you will also meet someone who says, “What I really value is working where I can get home at lunchtime,” or whatever, and that is what you would expect. We have to design for the future what we need to run the tax administration in the most effective and efficient way. We have to take account of what people can do, but we cannot design something that fits the needs of each of those individuals.

Q70 Deidre Brock: Of course. I doubt very much that many people are worried about going home for lunch anymore. That belongs to the Victorian era, but anyway, maybe moving on. The Chair has touched on you are halfway through a 10-year modernisation programme and you have faced a certain amount of criticism that staff and customers are facing change fatigue. You indicated that you thought that changes were going at a fairly careful pace, Mr Harra, but what is your reaction to the Public Accounts Committee’s report, and indeed the National Audit Office’s examination of those changes? They claim those changes had gone too fast, were not properly considered beforehand and suggested they were costing taxpayers considerable extra amounts of money. I would like to hear your views on that.

Jim Harra: I don’t recognise those findings from the National Audit Office.

Deidre Brock: I do. I sat on the Public Accounts Committee.

Jim Harra: The National Audit Office recently published its standard report, which is attached to our annual report for 2015-16, in which they looked at our transformation programme. They identified, which we acknowledge, that there are risks in that that need to be managed, but they did not find that it was not being managed properly or that it was over-ambitious.

Q71 Deidre Brock: You would acknowledge there were criticisms though?

Jim Harra: There is a concern, which we share, that we must understand all of the risks involved and we must manage those effectively. Two years ago, we were in a position where our service standards did dip to a level that was not acceptable and about which we are not proud. For the last



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12 months, they have been recovered. We are currently answering between 85% and 90% of all of our calls. Our waiting times are below five minutes, and we want to improve on that. I believe we need to, and we have, learn lessons about making sure that we get the pace of the transformation right and that we make sure we are realising the benefits really effectively.

Q72 Deidre Brock: Have there been any significant alterations to the modernisation programme since your new chief executive arrived—Mr Thompson, I think it is?

Jim Harra: As you might expect, Jon has come into the Department. He has found that we received a big investment and we have a big transformation programme on which to spend that investment and achieve the benefits from it. He has considerably kicked the tyres to satisfy himself that it is deliverable, that we understand our risks and that we are taking all the right actions to manage those risks. He has the advantage of having independent assessment of that, both from the Infrastructure and Projects Authority within Government and from the National Audit Office, and he has certainly been strengthening our governance and management.

Q73 Chair: I want to check about the National Audit Office report, and I know that Deidre did sit on the Public Accounts Committee. What the National Audit Office said about HMRC's decision to cut 11,000 staff between 2010 and 2014 was that this has led to a worsening service and long waiting times to receive advice and it calculated this cost taxpayers £97 million in call charges. That is what the National Audit Office found.

Jim Harra: You are talking there about the changes that we made in the previous spending review, and I acknowledge that our service levels dipped below an acceptable level and that we did not keep our eye on the ball in the way that we needed. I think we have demonstrated a recovery from that and a commitment to build on that recovery. For example, having got the average waiting time for calls down below five minutes, we want to get that down below three minutes and we have a plan in place where we intend to achieve that. Part of that is making sure that we have the right resources on the telephones at the right time to manage the demand, but part of it is also about reducing that demand by enabling our customers to do things that they want to do for themselves. For example, earlier this year, we launched our personal tax account, which is an online account that enables, for the first time, pay-as-you-earn taxpayers to go online and do things for themselves, and 6 million people have signed up for that account. They are claiming refunds online and doing things for themselves that previously they had to phone us to do or write to us to do and they have demonstrated that is not the way they want to do things. They want to do things digitally.

The way we will do this is by being really careful to make sure we have the right number of staff deployed at the right times but also managing down that contact demand and giving our customers alternatives.



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Q74 Deidre Brock: PCS, the previous witness, indicated that attempts to try to retrain your staff to go elsewhere, to other Departments potentially, were going to be stymied ultimately by the fact that all the other Departments are looking to reduce staffing numbers as well. What are you doing currently to help those staff who are facing redundancy?

Ravi Chand: Staff already get a minimum five years learning and development as part of their work. In the operation delivery area, we give them much more time. Those staff who we have identified as being potentially at risk because of where they are are given career transition workshops, which we do in partnership with DWP, preparing people for the job market, and from the new year we will have rolled out an outplacement programme to add to the offer that we currently provide. The feedback we are getting from staff who have been on the career transition workshops has been immensely positive. They find it really useful; it is preparing them to do the things that you need to do to prepare for the job market. But that does not stop us doing the other stuff that we are doing, which is working with individuals to find them the job opportunities that exist in other Departments and supporting them to do that. Some of that is a simpler process for applying for those jobs than it would have been had they had to compete through the external market.

Q75 Deidre Brock: In what way a simpler process?

Ravi Chand: Instead of having a full application process as you would do if you are competing for jobs in the open market, they would have just an expression of interest exercise that we run. We have done a number of those and some of them are running right now in a number of locations, including in some of our Scottish offices. They work really well and the staff seem to find those easier as an experience to go through than the application process for a full appointment.

Q76 Deidre Brock: But that is particularly for transferrals within the civil service to different Departments?

Ravi Chand: Yes. These are individuals who are potentially at risk because we may not have a job. If they are outside of reasonable daily travel from a regional centre, they are saying, "I can't travel because of whatever personal circumstances. Could you help me find a job nearer where I am?" We then put in place steps to engage with the Departments that have a presence in those towns and then support individuals to apply.

Q77 Deidre Brock: Is HMRC the biggest employer of Whitehall-based civil servants?

Ravi Chand: No. We are not the only employer. There are a number of employers but DWP is a significant employer in Scotland.

Margaret Ferrier: I would like to go back to what Mr Chand said, that many employees in their 50s may be considering retirement. I don't



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know whether you are aware that the UK Government are increasing the state pension age. Many employees are going to have to work a lot longer now, so they are relying on a job for the foreseeable future. We are looking at 66 or 67 for some people before they can retire. So just a comment on that, that many people will be thinking of retiring; I don't think many people would be. Women thought they were retiring at 60 and now they are having to work to 66. The Government have proposed to implement these plans over a 10-year period to minimise redundancies. However, it is reported that up to 2,000 jobs need to be cut over that time. How will HMRC achieve that, while minimising the redundancies?

Ravi Chand: We are absolutely committed to minimising redundancies and we want to do everything we can to find people work, if not within HMRC, certainly within other Departments that may have a presence in those towns where staff may be affected. That said, we do know that just through natural attrition, people moving on, people retiring—and people are retiring at the age of 60 because their existing pension schemes allow them to retire under those scheme arrangements at the age of 60 and significant numbers do leave us. Despite normal retirement age being lifted to 67, people will leave at that age normally, so we will lose significant numbers through that over this period.

Having these long lead times does help. I don't know of anybody else who has given a lead time for a change to the degree we have. That allows us to plan and manage individuals we think may be affected. That will be primarily how we will reduce our numbers and where we can't just through natural attrition from HMRC, then of course we will have to look at other things that we may need to do. Some of the other challenge, of course, is the type of work changing may also be a factor here.

Q78 Chair: The numbers we have are that there are 8,000 people currently employed at HMRC in Scotland and you are looking for a maximum of 6,300 staff. According to my calculations, that is 1,700, which will probably come in at about the 2,000 mark. Would that be accurate for the jobs lost?

Ravi Chand: Potentially it will be over the period, but considering we are keeping some of those offices open into the next spending review period—for example, in East Kilbride—those numbers will be much higher. The numbers that we have quoted that you will see talk about what we might put in Edinburgh and Glasgow, just bearing in mind that we are keeping East Kilbride open until potentially up to 2026. That will allow us to manage those numbers over that period and we will make a judgment call about affordability into the next SR, which we can't commit to at this point.

Q79 Chair: What concerns me a little bit—and it relates to the answer you gave to Deidre Brock—is this idea where you say that your staff average age is 46 with quite a number of them being in their 50s. It comes across from the way that you have responded to this that there is an assumption



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that these people will naturally retire or not bother to try to seek redeployment within the Revenue. Is that the view that you have about people in that age group? Are you looking for people with kids at school or university to up sticks from Aberdeen and Inverness to go and work in Edinburgh and Glasgow?

Jim Harra: You are absolutely right; some will and some won't. We can make some modelling assumptions based on our experience of how many people choose to leave the organisation over time, but nothing compensates for having the one-to-one conversation with each and every member of staff because that is when you find out about each individual's personal circumstances and their personal aspirations. At a high level, when we are doing our workforce planning, we have to make some assumptions about how many people will choose to retire, and based on our experience, some will.

Q80 **Chair:** I had an office closure in Perth in the last round of HMRC closures. I would suspect—and hopefully you will have the evidence, given you are talking about experience and you have to use that experience—that probably no one from the Perth office sought relocation and a new package. Do you have the evidence that shows what has happened before when there has been closure in communities?

Jim Harra: Yes, we do have that evidence and it plays into our modelling. In some offices—

Q81 **Chair:** Could you supply that evidence to this Committee? Would that be okay?

Jim Harra: We can certainly look at what we can provide you. Our modelling shows that in some offices where most people are far outside reasonable daily travelling to a regional centre, most of them will probably choose not to do that and will look for other opportunities. However, for the vast majority of our employees in Scotland, our modelling shows they are within reasonable daily travelling and we expect that they will make the move.

Q82 **Chris Law:** I accept you are saying that the vast majority are able to travel within reasonable time. What efforts are you making for those who cannot? What special arrangements are you making for those—Inverness is a very good example and Dundee is another good example? What challenges do you face and what opportunities are you going to create for them who are beyond that reasonable time?

Jim Harra: Ravi can talk to you about the opportunities that we are exploring in Dundee, for example, precisely for that reason.

Ravi Chand: As I said earlier, in Dundee we are looking to hold on to our people for as long as we can. The options that we have at our disposal at the moment are if we are closing one office and we have another office in Dundee, looking to move staff from one office to the other and allow them to continue their employment for longer. That gives them more



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time to think about how they may in the future, if they do wish to continue working for HMRC, be able to travel to the nearest regional centre. A significant number of those in Dundee of course will move across to Universal Credit as we start that process in about 2018 onwards.

Q83 Chris Law: Will those jobs that you are talking about people moving over to have the same terms and conditions or improved terms and conditions if they are moving from, let's say, Sidlaw House in Dundee over to DWP Universal Credit?

Ravi Chand: I can't comment on the terms and conditions. It will be whatever the terms and conditions are that are going to be agreed as part of the move of our staff from HMRC to DWP and those have not been finalised. I just can't comment at this point.

Q84 Margaret Ferrier: Are these redundancies spread evenly across the UK, or are we going to see more redundancies in Scotland?

Jim Harra: As Ravi mentioned, currently about 12% of our workforce is based in Scotland. That is disproportionate in terms of the working population and the taxpayer population in favour of Scotland. There is nothing in these plans that we expect to change that at all.

Q85 Margaret Ferrier: Were there alternative models looked at for Scotland specifically before you came up with this current two regional centres strategy?

Jim Harra: Not for Scotland specifically. For HMRC as a whole, we have looked at what all the alternatives might be and what the pros and cons of them are. We set out for ourselves a set of principles against which we wanted to assess all the various options. In the case of Scotland, Glasgow and Edinburgh came out extremely well against the principles that we looked at—access to a talented workforce both now and in the future, good estate and infrastructure, and good transport links—which is why it is the only region that has two regional centres and not one. That reflects on our experience and our expectations of the calibre of staff that we believe we can recruit and retain in Scotland. Against that set of principles, Glasgow and Edinburgh scored very highly.

Q86 Chris Law: You talk about the principles, so I am assuming there was a business plan that was created for this Building Our Future strategy. Is there a copy that could be given to the Committee, please, so we can have a look at it?

Jim Harra: I can certainly look at what we can give you. We have a transformation plan of which the location programme is one aspect. It goes alongside our digital transformation and the other plans as well. We have been given £2.1 billion to invest in modernising the tax system. That is going to produce additional yield of between £7 billion and £8 billion and year-on-year savings in the cost of administering the tax system of over £700 million a year. We have a clear plan for how we are



going to achieve that, and I will look at what we have that we can show you.

- Q87 **Chair:** I want to ask a few questions about your vision of what you are trying to achieve. I think you heard me read out David Gauke's statement about where he wants to take the Revenue. Currently, HMRC state that 80% of people file their tax returns online. Is that a number that you would recognise? Yes. Is it possible that those figures could be broken down? For example, do you know how many small businesses and how many large businesses submit online?

Jim Harra: For corporation tax, VAT and employers pay as you earn, the online filing and payment rate is almost 100%; it is 98% or 99%. For income tax self-assessment, which is where most self-employed people would be, that is where the 80% online filing figure is and that is climbing year on year. That reflects the big change there has been in recent years about people wanting to transact with us online.

I think the next place that we want to take digital services is not just an ability for people to transact but an ability for people to manage their relationship with us. We have opened this year, for example, webchat for customers who need support to fill in their self-assessment return, which has had excellent reviews. Picking up Paul's point about contact with agents, we have an initiative called Working Together where we speak to agents on webinars and in the last few months we have had a couple of webinars with agents that have almost broken the 1,000 barrier of 1,000 agents attending a single webinar, so that enables us to reach many more than we have before.

The next generation of digital solutions for HMRC is going up that value chain from simply transacting to managing the relationship and managing compliance.

- Q88 **Chair:** I am trying to understand a little bit more about the nature of this new relationship between the taxpayer and the Revenue. For example, would you know what proportion of those who do submit online do so with no further contact with HMRC?

Jim Harra: I don't have that to hand. I can look at that. We do have an online services help desk so if anyone is having problems filing online they can contact us. As I said, increasingly people use webchat, so they might go to file their SA return, think, "I have read the online guidance, but I just need a bit of personal support about what this means in my circumstances." We do get phone calls or increasingly now people contacting us by webchat.

You mentioned making tax digital for small businesses. One concern we have is that the small business tax gap indicates that small businesses find it hard to comply with their tax affairs. Even when they are trying to do so, too many are making mistakes. Our traditional solution to that has been, in effect, investigations afterwards and that is a very costly way for



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us to put those mistakes right and a very disruptive way for small businesses. Our proposition in the future is that they will keep their records on software that will upload to the digital tax account, which 4 million of them already use, and we will nudge them and prompt them and support them through that to get their tax right in the first place and reduce the need to investigate them afterwards.

Chair: That, of course, brings us to the call centre issue, which I know Mr Law would like to ask you about.

Q89 Chris Law: It is about the service of call centres. The National Audit Office recently reported on the long waiting times to receive advice from HMRC call centres. It is calculated this has cost personal taxpayers £97 million per year. How does the modernisation programme address this?

Jim Harra: As I mentioned, just over 12 months ago, our service levels were not acceptable on our contact centres and we have taken action to improve that. We have been doing that consistently from November last year, and currently we are handling between 85% and 90% of those calls and the waiting times are about five minutes. How the transformation programme intends to handle that going forward is, first of all, reducing the need for customers to contact us on the phone by helping them to get their tax right without the need for advice or assistance. One of the frustrations for taxpayers in pay as you earn was that there was no digital solution for them at all until this year. If they wanted to do a simple thing, they had to ring us or they had to write, so we got huge volumes of contact. Now, as I say, over 6 million of them are using their personal tax account, filing their repayment claims online and not needing to call us.

The key thing we want to achieve in our transformation programme is to enable more and more people to self-serve without having to wait on the phone for us to deal with them and give an excellent service for those who do have to call us.

Q90 Margaret Ferrier: My question is on tax compliance. Do you feel that the closure of HMRC offices will improve that?

Jim Harra: As I said, we have £2.1 billion to invest in modernising the tax system. A benefit that we have to show in return for that is increased revenue collection, not reduced. Our expectation is that over this spending review period, as a result of that investment, we will recover more than £8 billion additional tax revenues, and by the end of the spending review period, we will be closing the tax gap by a further £3.5 billion a year. The UK's tax gap is one of the lowest and has been on a consistent downward trend and our aim through things like making tax digital for business is to keep that downward trend going. When I joined the Department more than 30 years ago, you did rely on a local office with local knowledge to risk-assess businesses. We now have a very data rich system. We have about 22 billion lines of data that enable us to risk assess in a much more effective way than we did in my day. We don't



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need the ways that we used to do things 30 years ago in order to identify and manage risks in the future.

Q91 **Chair:** On the issue of the tax gap, again, this piece I mentioned from *The Guardian* shows tax avoidance and evasion of £2 billion, with 6,500 super-rich individuals, each worth more than £20 million, being pursued. We still have this massive gap, don't we? What we struggle to see here is how, by shrinking the resource when it comes to pursuing these things, we are going to make any further progress in trying to shrink this tax gap.

Jim Harra: Most of the reduction in resource in the next few years will come from removing routine processing and routine contact work. It won't come from reducing our focus on that area of the tax gap. You are absolutely right that our high net worth unit is currently investigating about £1.9 billion worth of tax at risk from those 6,500 people. It has been highly successful. It has recovered hundreds of millions of pounds from those people just in the last year alone—£416 million in 2015-16 from its work—and we expect that to grow.

Q92 **Chair:** There is a Division going on just now. We are not required to go down and vote, but I want to bring proceedings to a close just in case Members do wish to go and I don't want to bring the Committee back. My last question is, we have been through this constant revolution of change in HMRC. Do you have any idea how much this is all going to cost?

Jim Harra: I have mentioned to you that we have received an investment of £2.1 billion.

Q93 **Chair:** £2.1 billion is the total cost?

Jim Harra: That is the investment we have received in two slugs. £800 million of that was announced in the Budget last year and reconfirmed at the spending review, and we were given a further £1.3 billion investment at the spending review to modernise the tax system. In return for that, we have to deliver increased tax revenues, a reduction in the annual cost of running the tax system and a reduction in customer compliance costs.

Q94 **Chair:** Once this modernisation programme is concluded, is that it, or will we be into the next one and the next one? When does all this end? When do we get to the situation where the staff working in these offices could be relaxed about the fact that this is where they are going to be working for a reasonable amount of time, without having to bother about reorganisation?

Jim Harra: I would be very surprised if it ever ends, because we live in the real world. When I joined, there was no question of having online services because there was no such thing; there were no smartphones or tablets. That revolution in the outside world impacts on the tax system the way it impacts on anything else. HMRC and other tax authorities around the world will have to continue staying nimble and responding to that. I think change is just an inevitable part of our lives.



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Chair: On that I don't know whether depressing or exciting note, we will end this session. Thank you both for coming along and answering our questions. I know there have been lots of questions put this way, and I thank you for your sincere responses.