

Treasury Sub-Committee

Oral evidence: HMRC Transformation Programme, HC 614

Monday 4 December 2017

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[Watch the meeting](#)

Members present: John Mann (Chair); Rushanara Ali; Kit Malthouse; Wes Streeting.

Questions 1 - 77

Witnesses

I: Jon Thompson, Chief Executive and Permanent Secretary, HM Revenue and Customs; Nick Lodge, Director General, Transformation, HM Revenue and Customs; Joanna Rowland, Transformation Director, HM Revenue and Customs.

Written evidence from witnesses:

- [Nick Lodge, Director General, Transformation, HMRC](#)

Examination of witnesses

Witnesses: Jon Thompson, Nick Lodge, and Joanna Rowland.

Q1 **Chair:** Ladies and gentlemen, can I welcome you to this meeting of the Treasury Sub-Committee, Mr Nick Lodge, Mr Jon Thompson and Ms Joanna Rowland? We have a series of questions about the transformation programme. Perhaps, Mr Thompson, it would be helpful if you kicked off by giving us an overview of how it is going to impact on individuals and businesses. What does the individual taxpayer get out of this? What are they going to see? Also, for corporates, small businesses and large businesses, what are they going to see that they are going to welcome from your plans?

Jon Thompson: As a bit of background, this programme arises from the Spending Review in 2015. It was fundamentally about the way we work as an organisation and the way we work with our customers. There were three big drivers: first, that we needed to turn from being an organisation that primarily thought about tax products to customers; secondly, that



HOUSE OF COMMONS

we would move much more into digital by default services; and, thirdly, that we needed to drive our cost efficiency and our effectiveness. That turns into a portfolio that we will happily set out, but to cut to the chase of your question about what customers will see, they will see a range of new services that are available to them, primarily by digital means, which we very much hope are services that they want to take up.

If the take up of tax accounts—personal and business tax accounts—is anything to go by, there is a significant appetite out there for those sorts of digital products, which are much more convenient for the customer to transact whenever they want to. There are some deeper reforms, such as making tax digital for businesses and individuals, where the Government's initial position was that all businesses should adopt making tax digital for business, which involves the electronic transfer of records between businesses and HMRC. That programme has been deferred and put on a slightly different track, which we will happily set out.

The part that is in some senses invisible to customers, but we think is a significant benefit, is that by regionalising our staff and ensuring that they collaborate more fully together, with new digital tools, better data and so on, we should be able to provide customers with a better service. Being quite specific about it, those might be some of the customers who do not want who do not want to be our customers. Therefore, we might need to intervene more. Those are broadly the sorts of impacts. We have a significant number of things that we could show and demonstrate that show the customer appetite from those types of services.

Q2 Chair: In terms of progress, you are anticipating £920 million of additional tax revenue through the transformation programme.

Jon Thompson: No, that was updated in the autumn Budget. That £920 million arose from making tax digital for business. In the autumn Budget, that was updated by the Chancellor at £480 million over the spending review period, or an annual run-rate of £285 million from 2020 onwards. It was updated because the Government moved from making tax digital for business being mandated to it being approached in a different way. It is only for businesses now above the VAT threshold for VAT only from 2019.

Q3 Chair: We can expect to see less than we would have done before.

Jon Thompson: Yes. We are being transparent about that because the original assumption is now no longer the Government's plan.

Q4 Chair: What in the Budget is the extra £155 million that the Chancellor announced?

Jon Thompson: That is completely separate from this programme. It is for us to hire an additional just over 1,500 members of staff, to go into customer compliance to tackle avoidance and evasion. That is not really impacting on this programme at all.



HOUSE OF COMMONS

Q5 **Chair:** £155 million extra in expenditure for a halving in the amount of tax revenue that is going to be additionally secured.

Jon Thompson: No, you have put the wrong two things together. Sorry. Perhaps I should try to explain.

Q6 **Chair:** They are both from the same Budget.

Jon Thompson: To be up front about it, there are about 20 different moving parts of the budget of HMRC. It is not one budget that is settled in one spending review and then does not move. The HMRC budget is updated by fiscal events where Chancellors of the Exchequer, for many years, adjust the budget because they want some additional tax revenue. The change that was announced in this Budget, with the additional £155 million, allows us to hire an additional 1,500 staff on avoidance and evasion. The scorecard benefit of that is more than £2 billion. All of that is separate from this and repeats a series of events like that of previous budgets and autumn statements. Does that clarify?

Q7 **Chair:** It does but it does not clarify completely. For the record, you are saying that it is a change of government policy that is reducing this £920 million, rather than your success in taking for the transformation programme.

Jon Thompson: Correct. If you wind back, Making Tax Digital for Business was originally targeted at that part of the tax gap that arises from small and medium-sized enterprises. If you look at the tax gap of £34 billion in the last year, half of that arises from small and medium-sized enterprises. As far as we can quantify it, around £9 billion arises from simple error made in keeping the proper records and so on. Making Tax Digital for Business was originally for all businesses, with a particular eye towards smaller businesses, to help them improve record-keeping and therefore try to address that part of the tax gap that is about poor record-keeping leading to simple errors. The Government have decided that they would not approach it in that way, after extensive consultation, and have decided to start with the larger businesses—those over the VAT threshold—and then move down, potentially in future fiscal events. That is why the tax take is adjusted.

Q8 **Chair:** In terms of how the customer will see it, if it is an individual taxpayer, would I be right in thinking that if things go smoothly, it will all go very quickly and very easily?

Jon Thompson: Yes.

Q9 **Chair:** What if there is a problem? What if I want to have an argument with you over my tax? Will it be easier for me to have an argument with you, or will it be more difficult?

Jon Thompson: It is reasonably easy for you to have an argument with us, informally to start with. It depends upon your situation. There is an independent tribunal system, which is independent from us and part of the Courts and Tribunals Service. Ultimately, customers can resort to the



HOUSE OF COMMONS

law but, to start with, we would encourage all customers who think that there is a problem to try to talk to us, because it is easier to be transparent and try to resolve things than it is to resort to a tribunal and appeal system or to resort to the law.

Q10 **Chair:** Will it be more difficult to talk to you?

Jon Thompson: We do not think so. There are new methods by which you can engage with us now. You can do it through web chat, for example. We are completely open to the fact that we try to judge your tax on the basis of the information that we have but that may not be correct. You are the best person to know your tax affairs, not us. For example, if you are doing self-assessment, we have started to present you with the information we have about your tax affairs, and you have the ability to adjust that or to lodge an appropriate request to talk, appeal or whatever. It is a reasonably mature system.

Q11 **Chair:** When you are making a huge transformation plan, there could be a tendency to be more lenient on things that are arguable, because you are bringing in a new system, but once the system is bedded down, you would be more questioning of those things. Has there been a due leniency to the customer while you bed down the new system because you are concentrating on making sure the system is moving smoothly. Can the customer therefore expect you to be more on their case year by year?

Jon Thompson: I do not think we have been any more lenient. If the compliance yield is anything to go by, we continue to go higher on the compliance yield. There was a new compliance yield record in 2016-17. I fully predict that there will be another new record in 2017-18. That is partly, going back to one of your original questions, because of the fact that there is more resource now in the customer compliance area looking at evasion and avoidance. We have passed the point where there is more in that area than there is in customer services. We have deliberately kept the transformation programme separate, with Nick as the Director General of transformation, trying to work across this enormous portfolio of change, rather than distract the directors-general who are running the customer services and customer compliance engines. It is important we continue to do everything the Chancellor wants us to do.

Q12 **Chair:** I have a final question. If we take one of those very large American multinational, making many billions of profits—names everyone would be familiar with—tell us a bit more about how you are going to be dealing with them in terms of the personnel? How many specific people would be allocated to corporates? Would it be one person? Would it be several bits of people? Will they be based in London? Will they be based all over the country? How will that look and feel for the people who are dealing with these very large multinational companies? Has that changed with the new system?



HOUSE OF COMMONS

Jon Thompson: We segment customers into six groups. The one you are specifically focusing on is large business. There are 2,100 large businesses in that population. They all have a customer compliance manager. Depending upon the nature of the business and its group, then we scale the team that works with the customer compliance manager on what sorts of interventions we are going to make in relation to those large businesses. We also RAG-rate those very large businesses. I looked at the data recently. Approximately half of those large businesses are currently rated "green" by us. In other words, we think they are very largely compliant with tax obligations. Just under half are "red/amber". In other words, we have open inquiries. The last time I checked, we had 14 that are "red", where we very specifically think that they are deliberately going out of their way to avoid tax. We adjust the team in accordance with the risk assessment and the scale of the business. I do not have to hand how many people work in large business to cover off that 2,100 but it is several thousand. I can give you a specific answer later if you would like me to.

Q13 **Chair:** That would be useful. In terms of those compliance managers, is that one per big corporate or might one compliance manager be handling several at any one time? Are those individuals all based in London or are they all distributed around the country?

Jon Thompson: It is possible that a customer compliance manager might handle more than one large business, depending on the scale and risk of the business. They are not necessarily all based in London. In fact, the vast majority of our staff are not based in London at all. We have the statistics about the regional and country lay down and all of that. We are increasingly of the opinion that in a data-driven digital world, the connection of the historic local tax manager to local businesses can be decoupled, and therefore you do not necessarily need to be in the same place as the business that you are investigating.

Q14 **Chair:** What is the profile of those customer compliance managers? What kind of people are they? Are they time-served people who have done 15 or 20 years? Are they new people brought in from outside? Is that changing?

Jon Thompson: They would be both but they would be deep tax professionals. We have a long-standing tax professionals programme where we train our own tax professionals. We equally hire them in. Let us take a multinational bank, for instance. A high street bank that we would all be familiar with would probably have a customer compliance manager at deputy director level in the Senior Civil Service and a team of, say, 30 to 40 people. That gives you some sense about the top end. If it was RAG-rated, it would certainly be at that end of the scale.

Q15 **Chair:** Mr Lodge and Ms Rowland, is there anything at this stage you want to contribute about how the customer is going to see the new world you are taking us towards?



Nick Lodge: I might add that one of the things that we are gradually bringing about is a much more real-time perspective, so that taxpayers can see what is going on in real time. That really helps with the point you made about people either perhaps not understanding or not agreeing with the tax position that they are in, so they can increasingly see it in real time and make changes in real time. We are only at the beginnings of that but it is a really helpful step forward and it is what people have said they want from us. That is a helpful step forward.

The availability of digital tax accounts, where we have over 13 million taxpayers, from a standing start a couple of years ago, who are active users of those accounts, means we are presenting that information in an increasingly clear way. There are more services to be added and much more work to be done on that, but that gives people access through a variety of different devices 24 hours a day, seven days a week. All of that helps shift the way that people view their tax and can get access to information.

Joanna Rowland: The ultimate ambition is to go to a single financial account for our customers. At the moment, the way our legacy IT system works is that you might have one part of your tax account in one system and another part in another. It takes either one of our customer services advisers, a member of staff or a tax adviser to help piece that together for a customer. Ultimately, we want to bring into that one tax arena a single financial account, so a customer can easily understand their full tax affairs through the digital accounts that Nick refers to.

Q16 **Kit Malthouse:** Did you say that you are going to have more people in compliance than in service?

Jon Thompson: Yes.

Q17 **Kit Malthouse:** Does that have implications for the culture of HMRC? We obviously saw a massive cultural change under Gordon Brown, when the excise men came in and, some people would say, a more assertive culture was inserted into the quiet lanes of the Inland Revenue. Does this change of the balance of the type of activity mean a change in culture? Will you start to see taxpayers less as customers and more as—I do not know—the enemy? Do you become less of a force and more of a service?

Jon Thompson: That is a really very interesting question. As well as that, we also have the rise of the “C” in HMRC as a result of Brexit. It is an issue we discuss as an executive committee quite often, because there is an inherent tension between saying that we want to be a customer-centric service to help the vast majority of taxpayers do the right thing, which the vast majority of taxpayers try to do—and we are trying to help and facilitate that—and, at the same time, saying we are going to clamp down. We are going to prosecute X”. The number of prosecutions has gone up significantly in the last three years, for



example. We obviously publicise that too. You are right that there is an inherent tension of that.

We try to get the balance right between those two parts of it. We test whether we do or do not quite often, through what our customers are telling us. We quite often do a survey. We also test it with other groups such as parliamentarians, to see whether the sense is that we are getting the balance right. You are absolutely right to lodge with us that we need to continue to think about that, because I would not want the vast majority of people, who try to do the right thing—and do—to feel that there is some sort of Big Brother out there that will clamp down on you if you make some relatively innocent mistake. We will try to help you get that right through customer services, digital tools or whatever. It is definitely something we need to keep an eye on, yes.

Q18 Kit Malthouse: During the process of transformation, you have obviously been monitoring customer attitudes towards the Revenue. What has that shown you? I have raised with Jim Harra in the past, and I think with you, about the atmosphere amongst professionals. I draw your attention to the fact that I am a member of the Institute of Chartered Accountants. There is a rising level of what I suppose you could call dissatisfaction and possibly fear amongst your customers because of what you indicated about the perception that a small mistake might result in a ton of bricks. Do you see that coming through in your survey of the customer base?

Jon Thompson: No, to be honest. We have done a public perception survey since the summer. I have not brought that with me but we have that. There seems to be a rising confidence in HMRC trying to do the right thing. Of course, if you are a compliant customer and you think you are doing the right thing and you never hear anything from HMRC, but what you see in the media is HMRC prosecuting well-known sporting clubs, for example, you think, “Hang on a minute. That looks about right to me”, because it fits with your public perception. I will happily provide that to you.

Nick Lodge: I will add a bit on that. We do an annual customer survey that covers individuals and small businesses. The result in 2015 was that 61% of individual customers gave us a positive rating. That increased in 2016 to 68%. Clearly, there is still a long way to go and we will carry on working on that, but that is quite a reasonable increase. In particular, we saw increases in ratings for how clear we were about the next steps that a customer had to take, about HMRC getting tax transactions right to begin with in the eyes of our customers, our ability to resolve queries better than we had done before, that we were approachable—which goes to the point about whether we are a force or a customer service organisation, so people are finding us increasingly approachable—and achieving the end result, as far as the customer is concerned, rather more quickly. There is much more to be done but that is quite a positive step forward.



HOUSE OF COMMONS

Q19 Kit Malthouse: The vast bulk of your customers never have any contact with you at all. It is an electronic submission, a receipt back and that is the end of the deal. A lot of your customers—the bulk of the people who are responding—will have one contact. They might have one small minor contact. Do you break out a survey of people who have persistent contact with you, such as tax professionals, accountants and lawyers, who are dealing with you on a daily basis, and look at what their attitude is like, as opposed to the casual user?

Jon Thompson: Subject to Nick, the answer to that is yes. That is part of that public perception survey.

Q20 Kit Malthouse: We can break that out, okay. It is interesting, Mr Lodge, because you said that the approval ratings were rising on the basis of you dealing with transactions correctly and getting them right first time and all that sort of stuff. You said, Mr Thompson, that one of the objectives of this was cost efficiency and effectiveness. In other large organisations, cost efficiency and effectiveness has often been bought by effectively de-skilling the front end and making it an automated, computerised process, so your call centre is run by the computer. You are saying that your ratings would indicate that has not happened. Is the person answering the phone now less skilled than they would have been 15 years ago?

Jon Thompson: No, more. We have tried to and have moved down the customer contact centre route. Rather than you just answering the phone, you might do a web chat, you might do document processing or you might do a post-returns role. We can upskill, to some degree, those that are working in customer contact and they can work across a range of public demand. If anything, it upskills those people. The biggest risk in this programme is that an assumption was made in 2015 that, as a result of building digital services, overall customer demand by traditional means—sending forms, letters and on the telephone—would dramatically reduce and that was what would drive along the cost efficiency.

Q21 Kit Malthouse: When you were looking at the transformation then, obviously there was some cost saving in there. Part of it was saving cost, balanced with improving customer service and presumably also improving your enforcement capability. The more digital you get, the more analysis you can do and all that kind of stuff. What were the big drivers in terms of cost saving? Where were the big chunks of cost coming out?

Jon Thompson: There were two, really. One is the assumption that by building digital services, there would overall be significantly less customer demand that required customer services to talk to or interact with members of the public. There was a significant assumption made on that. In 2015, it was assumed that by 2020 the amount of customer contact would be reduced by 70%, which is obviously quite an aggressive assumption.

Q22 Kit Malthouse: Because it would be largely electronic.



Jon Thompson: Yes.

Q23 **Kit Malthouse:** When you say “customer contact”, you mean physical human contact?

Jon Thompson: I mean a customer either ringing or writing in some way to contact us. Those are the two primary means of a traditional way of doing it. If you open a personal tax account now—and there are more than 13 million citizens who have opened a personal tax account—you can now do some of those transactions online. There is no real need to ring up unless you want to ring up. By all means, ring up. We would prefer it if you went down that route.

It was a very aggressive assumption that 70% of customer contact would switch to digital working. That is one of the two big drivers. The other is that we decided to end the longstanding £750 million a year IT deal with Capgemini and insource it, break it up and then spin it back out into the market in smaller packages. Those are the two big areas of saved money.

Q24 **Kit Malthouse:** Presumably also that you failed to extract any reduction in cost from realising your Oracle licences. All of your database is on an Oracle platform, is it?

Jon Thompson: Mostly, but you are slightly stretching my technical knowledge. I can be upfront about what that deal was. Essentially, HMRC pushed Capgemini. Roughly £750 million a year worth of all its IT had been in existence for some considerable time. There was a view that there was significant value to be driven out of that programme. We set up a programme called Columbus. We have taken all of those contracts back in. We have broken it up. We spun most of it back out to the market. We are on track to deliver savings of more than £200 million a year from that project alone. It has been very closely monitored by the Public Accounts Committee, and we are at the point where we are just about to mature that and say that programme is over and has delivered what it needed to.

Q25 **Kit Malthouse:** That and the 70% reduction in contact will presumably reduce your headcount by quite a lot.

Jon Thompson: Yes. Before the Budget, we were heading towards a headcount in 2020 of around 50,000. We are currently at 61,000. Every time there is a fiscal event, that baseline changes, because we get more people for customer compliance, and then we have the additional question of Brexit. Broadly, we were heading towards 50,000.

Q26 **Kit Malthouse:** On the customer compliance, it has become a frequent thing, as you say, at fiscal events—budgets and autumn statements—for Chancellors to buy a good headline by saying we are going to throw another 1,500 people. The audience applauds. Fantastic. These people that you are recruiting, who are coming in and being put in straightaway as police officers, effectively, take quite a lot of training, I would guess.



They are not effective for some time, I would imagine.

Jon Thompson: They are not necessarily hitting the ground running, no. Some of that is built into the profile of what the Office for Budget Responsibility will allow the Chancellor to score on the scorecard. We have to put forward a proposition broadly. The arrangement that we reached with the Chancellor of the Exchequer was that he would increase DEL by £1 if he could get a £10 uplift in tax on the scorecard as verified by the Office for Budget Responsibility. That is the broad relationship we have. As we understand the tax gap more, and as we have better data about what really is going on, we still think that there is plenty of further opportunity there. To be up front with you, we have to prove it to the OBR in order for it to be scored on the scorecard for the Chancellor to claim the tax.

Q27 **Kit Malthouse:** This is also a further opportunity that does not necessarily take human beings.

Jon Thompson: Agreed. There are five elements to the compliance yield that we published in the annual report. One of those is called product and process, where you can either change the law or you can put in different kinds of schemes upstream, so that you do not have to intervene downstream. A good example of that would be the fulfilment house due diligence scheme or the alcohol wholesaler registration scheme. You register, you get trusted trader status, we audit you and you can move to self-assessment. If you are not registered, you cannot be a fulfilment house and you cannot handle alcohol, then you begin to regulate the market, which is much more cost-effective than necessarily putting, say, 1,000 people on to check warehouses that have alcohol. That is a much more effective way of doing it.

That is a growing element of the compliance yield. More than £2 billion of the compliance yield last year was because of those sorts of interventions. The question is about how you get the right kind of balance and change in the system, with it not all being people investigating customers for anomalies. Does that make sense?

Q28 **Kit Malthouse:** Yes. As the system becomes more and more electronic and you are able to produce more and more analysis, presumably you will have better and better information about customer behaviour. You would then be able to reverse-engineer the Budget. You could say, "Look, we find these persistent errors or these persistent avoidance areas. Chancellor, if you did X, Y and Z, not only would it simplify the system but it would also result in a higher tax take".

Jon Thompson: Correct.

Q29 **Kit Malthouse:** How far are you down that track now?

Jon Thompson: We do use quite a lot of behavioural economics in that sense. You can do a straight-line extrapolation about what happens if you change the taxes, but then you have to adjust that for how you think customers might behave. That is currently part of the system, but we



HOUSE OF COMMONS

still think there is further work in that area. Part of the point of appointing a second Permanent Secretary with a specific focus on tax in Jim Harra is to take more of an overview of the tax system end to end, including things like changing the law, products and processes, all the way through to customer compliance and thinking about it as a whole system and improving our analytics on that system and what is going on in it, in order to have a sharper intervention about what is really going on. We still think there is quite a bit more to go there.

Q30 Kit Malthouse: You were quite assertive at our last meeting, or certainly the last time I met you, about the tax credit system being unworkable. It was impossible for you to get the numbers right because of the nature of the system; there was an in-built error. There are areas of taxation policy where it is difficult even for the Revenue to calculate what tax is due. These are areas where you can presumably be assertive about simplifying and ironing out.

Jon Thompson: Yes. We work very closely with the Treasury. We have a formal policy partnership so that everything that goes to Treasury ministers is seen by teams, most of whom are joint between the Treasury and HMRC, so what you do not get is a disconnect between policy changes and whether or not you can deliver them. There is still further to go in that particular area.

Q31 Kit Malthouse: There was a sense that there was going to be a natural progression, in Making Tax Digital and indeed the whole digital thing, that meant that the Revenue would in time have real-time access to people's bank accounts. You are collecting data on tax withheld on interest payments, so you know how much is due on my bank account. Is that the direction that you were heading: to ideally have real-time access to bank accounts so that you can analyse movements in people's cash against what they are declaring, which would give you a clearer picture?

Jon Thompson: Not that I am aware. There may have been much read. We ought to be transparent: we have access to merchant acquirer data, but not in real time.

Q32 Kit Malthouse: You have access to what?

Jon Thompson: We have access to debit and credit card transactions for businesses, but not in real time.

Q33 Kit Malthouse: You have access to individual businesses' debit card transactions.

Jon Thompson: Yes. It is a perfectly intervention for us to say, "Hang on a minute. You appear to be declaring a turnover of X but we know you took debit and credit card transactions of Y. What is going on here?" That is a perfectly normal intervention for us right now.

Q34 Kit Malthouse: Who provides you with that? The banks?



HOUSE OF COMMONS

Jon Thompson: The merchant acquirers. From memory, there are eight merchant acquirers.

Q35 **Kit Malthouse:** I did not know that. How long have you had that data?

Jon Thompson: As far as am I aware, since I have been Chief Executive.

Nick Lodge: Two or three years at least.

Jon Thompson: It is perfectly normal for us to go into a business and say, "We have this additional data that does not square with your return".

Q36 **Kit Malthouse:** I understand that, but the natural progression from that is that all the other debits and credits in the account should fall to your gaze. Why is it just that?

Jon Thompson: We are not planning to do that in the slightest. The Russians have a live daily feed of all transactions for the purposes of their equivalent of VAT. When they introduced it, there was a significant uplift of more than 10% in VAT, or the Russian-equivalent sales tax. They had it live. We are not planning to go down that route.

Q37 **Kit Malthouse:** I am not sure I would pray in aid that particular country.

Jon Thompson: I am giving you some sense about it. This is a global system in which other people do things. We are not planning to do that. We do not have live access to your bank account and that is not currently part of our plans.

Q38 **Chair:** We are not going to see any staff exchange with Russia, then. On that question about what Mr Malthouse described as assertiveness, coming from what you described, Mr Thompson, as behavioural economics, it is not the Treasury who decides on tax changes; it is Parliament. Can Parliament, through this Committee, whether it is the Sub-Committee or the full Treasury Committee, expect to be cognisant of your assertiveness and the areas where you think, through behavioural economics, politicians ought to be contemplating changes?

Jon Thompson: I do not know. It had not crossed my mind that that is something you would want to enquire about. We could go and have a look at it. We have an extensive function called "knowledge, analysis and information", which includes all of these kinds of experts, so not just economists and statisticians but also behavioural economics and so on and so forth. There is a whole world of things that we do in order to be able to advise Ministers, "If you increase the marginal rate of tax from 45% to 50%", picking one at random, "you could expect to get almost nothing in terms of your tax return and here is why". If that was something you were particularly interested in, I am sure Jim and the Director could talk to you about it.

Chair: It is. The world we live in is one where Ministers are increasingly interested in what Parliament has to say, not least because Parliament



might vote for something different. That would be very fertile territory.

- Q39 **Wes Streeting:** Picking up on that last point, Ministers will often point the finger at you when we want certain things done, and say, "HMRC systems are far too complicated". Take something simple, like vehicle excise duty: the VED supplement for luxury vehicles currently, through unintended policy consequences, applies to the new zero emission capable taxis. I have a particular interest in as Chair of the All-Party Parliamentary Group on Taxis. The Budget book says that an exemption will be provided from 2019. Ministers are looking at whether this can be brought forward but HMRC's systems are fingered as the fly in the ointment. Is that a fair characterisation? I am sure you have thought about VED supplement at length before coming in front of the Committee.

Jon Thompson: I have to admit I did not. I am in severe danger of this becoming a headline. I am not even sure we collect Vehicle Excise Duty. I am not sure we are responsible for that.

Wes Streeting: If you are not sure, I feel slightly better about not being sure.

Jon Thompson: I thought that was DVLA.

Wes Streeting: HMRC was mentioned to me but maybe the Minister is wrong, which would be even more entertaining.

Jon Thompson: There are several taxes that we do not collect. That is clearly one. National non-domestic rates is—

Wes Streeting: I think you are right, actually. I think it is DVLA.

Jon Thompson: I will happily look at what might be the HMRC limit, if that has been—

- Q40 **Wes Streeting:** Anyway, John distracted me from what I actually wanted to ask you about, which is more directly related to the topic here this afternoon. Is the transformation programme all on time and all on budget? Are you all very happy with how it is proceeding so far? If you were, you would probably be the first overseers of a transformation programme to say that it is on time, on budget and you are all very happy.

Jon Thompson: No. It is not all on time. The biggest challenge we have is what Mr Malthouse was asking about. The assumption of a 70% reduction in customer contact by traditional means is not on track. In 2016-17, the total volume of customer contact was the same as it was in 2015-16. This year, we are down by approximately 10%. That means we are behind where we need to be. Therefore, in order for us to maintain the customer service standards on speed of answering the telephone or responding to letters, we are having to put more money into that, because it is not saving the amount of money we anticipated it



HOUSE OF COMMONS

would. That is the area where we are off-track. It is quite significant because it is one of the two big savings drivers for this programme.

- Q41 **Wes Streeting:** That is what I wanted to pick up on. In July this year, the NAO reported that your current plans exceed the transformation budget by around £60 million for 2017-18. Is that still the working assumption, or has it become better or worse since the NAO reported?

Jon Thompson: It might be better for Nick to say. We as an executive committee decided to put more into this particular area. You are working to some degree above the original number, are you not?

Nick Lodge: Yes, that is right. We are still at or around that £60 million. That is a forecast overspend, which clearly we have some time to be able to reign back in. The current figure is £66 million. We look at this as an executive committee, as a departmental budget issue around how we allocate the entirety of our budget. We look ahead to understand the levers that we could pull if we need to pull that back, and also at what would be implications of that. We look at whether we need to delay or defer some activity in terms of the transformation programme. With such a big programme and, indeed, such a big department, we are making those judgments all the time. The figure you quoted is roughly where we still are currently.

- Q42 **Wes Streeting:** Where are you then, in terms of that decision-making process? Do you have a sense yet of what the ongoing impact would therefore be of pushing back certain aspects of the transformation programme? Are we storing up problems later down the line as a result?

Nick Lodge: Yes. As Jon mentioned there, we have taken a decision to allocate a bit more this year. Although we are forecasting an overspend of £66 million, we have allocated a bit more. We have a bit more money to spend, which takes away some of that £66 million pressure.

The biggest thing, by a long way, that has happened since we formulated the transformation programme back in 2015 is the result of the EU referendum. Therefore, we have new work and new projects that we need to add into the entirety of the portfolio. As we have said before, we now need to take stock. We need to look at the entirety of everything that we have to deliver. We are in the middle of that prioritisation exercise now, which we will conclude through the rest of this calendar year and into the early part of next year, before we then have a discussion with Ministers about the implications for that. We will wrap up the entirety of what we have to deliver, the current cost pressures and the really major issue for us of the additional projects and the capacity that that takes up from the referendum result.

- Q43 **Wes Streeting:** I will come back to that in just a moment. One of the things that you were set as part of the transformation programme's targets were the targets around additional tax revenue. How is that dimension of the transformation programme working? Has that been a



good opportunity for revenue?

Jon Thompson: In addition to the questions that Mr Mann was asking?

Wes Streeting: Yes.

Jon Thompson: The original additional tax take from this programme was £920 million over the spending review period. That was adjusted in the autumn Budget to £480 million. The original assumption was that there would be additional tax revenues of £600 million a year from 2021. That has now been adjusted back to £285 million as a result of a change in the policy on the delivery of making tax digital.

Q44 **Wes Streeting:** What are the practical consequences for some of these targets being adrift? Is it the case that you will try to find further savings elsewhere in HMRC, or is this simply a hit on the public purse that the Chancellor needs to try to absorb elsewhere? What are the consequences?

Jon Thompson: You have to split two things here. One of them is about revenue and the other is about cost savings. There are different answers for the two. In relation to tax revenues, because it was a policy decision by the Treasury to roll making tax digital out on a different timescale, that reduced tax revenue is taken into account by the Treasury. We have not been asked to fill in that additional tax revenue from any other source, everything else being equal. On the cost side, the original aim of this programme was to deliver annual savings of £717 million a year by 2019-20. Because of the broader reprioritisation programme, we are now saying we may potentially have to renegotiate some elements of the spending review 2015 in order to be able to accommodate Brexit. We have been transparent with Treasury Ministers about that.

Q45 **Wes Streeting:** That is helpful. I was tempted to ask, in response to Mr Lodge, how designing a customs system from scratch was going. What impact has that had on your priorities?

Jon Thompson: It is going rather well, subject to negotiations. The Government published options in relation to customs for the future in August 2017. We await the outcomes of ongoing negotiations at the EU level. Meanwhile, the elements we can deliver we have begun to deliver. There is new legislation in the House, which is progressing to a second reading after Christmas. The Customs Declaration Service is making really good progress. It is meeting all of its targets. It has an excellent team. We think that will deliver in the summer of 2018 through to the early part of 2019. We can get on with those things.

There are some parts that are clearly down to the negotiation that we cannot progress, but, as far as customs is going, we are making all the progress we think we can make while the negotiations are ongoing with the EU.

Q46 **Wes Streeting:** Of those elements that are subject to negotiation and



about which you cannot really act until you have further clarity from the outcome of the negotiations, which elements are most time-sensitive for you? What are the components of those negotiations that you think you need the most lead-in time for to adequately plan for the moment of departure?

Jon Thompson: The Government's customs paper, which was produced in August 2017, sets out different policy options for different timescales. If there is an interim period from 2019 for around two years, until 2021, the task for us is different than if we leave the European Union and fall back to trading on the World Trade Organisation terms in 2019. The advice that we have given to Ministers is that there are a series of changes that are common to both those options—for example, putting in the Customs Declaration Service—but there are elements that need to be bespoke for 2019 or 2021, some of which might take longer than 2021 to be ready. Some will take longer than 2019 to be ready, depending on what scenario you are in. Do you want me to say what they might be?

Wes Streeting: Yes.

Jon Thompson: One of the core requirements here would be, outside the European Union, the assumption is that customs declarations are required for imports and exports to and from the UK. The number of customs declarations therefore rises from about 55 million to around 250 million a year. That has some consequences for us in terms of customer services and customer contact and so on, but it has a significant impact on vehicles coming into the United Kingdom primarily on ro-ro ferries. That is where the change manifests itself most.

The question is to what degree we will require ferry operators and ports to implement what is called a port inventory system. It is perfectly normal business for deep sea container ports. Our view is that that is required or would be required at some future point for ro-ro ferry transport; in other words, to make it transparent, when you drive the lorry and enter Dover, we know what is coming, what is on the lorry and we can match the vehicle with the driver and container. That is perfectly normal business in deep sea containers. We think that takes around three years to implement and requires ro-ro ferry operators to work with us on that. There is a very open arrangement at the moment with a number of our major ports; the British Ports Association is fully in this loop and the Port of Dover is fully in this loop, but we have to be realistic; that takes around three years to implement, under either scenario—2019 or 2021. That is probably the one that takes the longest to implement.

Q47 **Wes Streeting:** In terms of the image that people conjure up of queues of lorries and Brexit lorry chaos—you can already imagine what the headlines and photos would look like—is that unnecessary doom-mongering, or do you think, unless things are gotten right, that there is a realistic prospect of those kinds of images?



HOUSE OF COMMONS

Jon Thompson: I was not trying to doom-monger. I was trying to answer your question.

Wes Streeting: No, I certainly was not accusing you of doom-mongering.

Jon Thompson: Thank you. We believe that we can operate a border and a customs system in either 2019 or 2021, under either circumstance. The biggest risk we face—and I gave some extensive evidence on this to the Exiting the EU Committee last Wednesday—is the reaction of member states. Once the UK is out of the EU, if the French decide what they are going to do is check all lorries leaving Calais travelling to Dover, and we say, “You are all welcome to trade with us”, it is possible under that scenario that you do get a manifestation of a queue both sides of the border, under which the UK’s customs system and border arrangements are working perfectly well but it is the member states that are putting that risk in the system.

Q48 **Wes Streeting:** As you have already given evidence to the Brexit Committee, I do not want to dwell too much further on that. The final thing I wanted to ask is in the context of some of the numbers here clearly being adrift, for perfectly understandable and plausible reasons. There is a pressure to think, therefore, generally about how we can increase or improve our tax take. One of the key challenges, I think you would agree, is around the digital and gig economy. In 2006, Edward Troup, the Executive Chairman, said, “If we find that companies have misclassified individuals as self-employed, we will take all necessary steps to ensure they pay the appropriate tax, national insurance contributions, interest and penalties. Individuals cannot be opted out of employment rights and protections simply by calling them self-employed. We are committed to tackling false self-employment”.

That was over a decade ago and before the advent of Uber, Deliveroo and all of these other companies. I notice that Jolyon Maugham is currently pursuing private action against Uber. I was interested in what he said in the context of this. He said, “I am suing Uber to understand whether HMRC treats these big US multinationals, including Uber, with kid gloves. Uber undoubtedly has arranged its business model to minimise its tax liability, to dodge taxes if you like, and to minimise the workers’ rights that it has to offer to its drivers”.

I understand that the issue about the employment of Uber drivers is currently before an employment tribunal. I imagine it is going to be in the court for quite some time. HMRC has the ability to investigate, does it not, whether there is bogus self-employment going on here and whether if Uber has set itself up quite nicely to avoid the national insurance contributions it might otherwise make, the VAT it might otherwise pay and the corporation tax it might otherwise pay? If Uber drivers were treated as employed, I think it is estimated that the national insurance contribution take would be £150 million a year. That is quite a bit more than the £66 million you are adrift. To ask Mr Jolyon



Maugham's question, are you treating these big multinationals with kid gloves, and if not, what are you doing to bring them to book?

Jon Thompson: I cannot talk about individual taxpayers ever in public, but to respond to your question in a systemic way, the issue at play here is a question of agent versus principal. When you look on your smartphone, you have a range of different apps that allow you to access flights, hotels or transport in some way. The fundamental question is whether that is an intermediary that is acting as an agent or is it the principal. HMRC argued this out in court in 2014, in a case against Secret Hotels 2 Limited, and lost that case. Since then, we have argued that principle five further times, to try to argue that the app that you see is the principal and therefore liable for everything that you said. We have lost all five subsequent cases.

We are in a situation where we would recognise that is an issue. We have tested it in the law six times. We have lost all those case. If you are a member of the public and have that app, you click on it and think your money is going to that party and therefore they are employers and they pay certain amounts of taxes and so on and so forth. In all of those cases, we have lost, because they successfully argued that they are not providing those services. Having tested the law six times, that seems to me to be enough but we are watching two cases: the one that you set out and, secondly, there is a case in the EU court system, taken by the French, that argues that they are actually an employer from a regulatory perspective. If either of the current cases changes the landscape, we will test it again, because the public perception is that they are whereas the reality is they are not.

Q49 **Wes Streeting:** Further to the point the Chair was making earlier about the interface between HMRC and Parliament. If you feel that the legislative framework is not delivering in the way that HMRC would expect, on the basis of having tested these cases in court, and we would clearly expect as Parliamentarians, that is a good example where HMRC might want to provide advice to this Committee, and through the Committee to Parliament, about areas where you think the law is not empowering you, as the Revenue, in the way that it ought to.

Jon Thompson: We would happily do that. Jim is the expert on this. We plan, in 2018, to publish a consultation document on joint and several liability, which potentially could do this. There is also a question about whether, when you pay your money to one of these intermediaries, we might require that intermediary to take the tax take at that particular point you pay your money, rather than it go downstream to the ultimate provider of the service and for us to then argue with them. We think there are at least two further ideas in there. The plan in 2018 is to bring out our consultation document to see whether it is possible to do that. It is worth me flagging in advance that it is not possible to do that under current EU legislation. Once we are out of the EU, it may be for Parliament to be able to implement those kinds of changes.



HOUSE OF COMMONS

Wes Streeting: Congratulations on finding one of the few arguments for Brexit I have heard in the last two years.

Kit Malthouse: There are lots of arguments for Brexit.

Chair: Even in the last few minutes.

Wes Streeting: Don't you start as well.

Q50 **Rushanara Ali:** Can I just take you to the subject of regional hubs? One of the points that has been made is that some 5,000 people are predicted to leave their jobs. This came from a Public Accounts Committee report. They warned that the programme would contribute to a significant risk of the agency not being able to continue business as usual. I also had a wider point, which is that from some of the information we have, it seems to be the case that the implications on specific localities had not been taken into account in the decisions about where the hubs should be and what the implication would be for local communities. Can you comment on those two points, Mr Thompson?

Jon Thompson: Certainly. The underpinning assumption that was made on the regionalisation agenda was that 10% of staff would not make the journey with us to regional centres. We are still holding to that assumption. That gives you that 5,000 figure, which was then built into the cost of the programme overall. That remains our assumption. We have begun to close some offices. We are down from 176 when I started to just under 140. If anything, it is likely that it might be a shade more than 10% that cannot make that journey, but we are guaranteeing a job to anybody who can make it to a regional centre. It may require some retraining but we are guaranteeing a job.

In relation to how we made the decision on locations, we took into account eight different criteria. We long-listed 43 cities. We went through the criteria to end up with the 13 regional centres that we did. The question about whether or not we did an economic analysis of that was put to the Cabinet Office representative for this, because although everyone sees this as an HMRC programme—and we are the main driver of it—in all 13 cases we will not be the only occupants. It is the first wave of a much longer programme run by the Cabinet Office. The Cabinet Office did a regional impact analysis and that was the Government's decision about how we would do the economic analysis.

Q51 **Rushanara Ali:** Do you have any information or analysis on which areas were particularly hard hit, or anything like that, by the decrease in the number of people employed, or people who decided not to continue with the jobs?

Jon Thompson: Because the Cabinet Office decision was to do it on a regional basis—

Q52 **Rushanara Ali:** Were you required to do it?



HOUSE OF COMMONS

Jon Thompson: We civil servants were required to do it; it was carried out by the Cabinet Office. Whatever we wish to do needs to fit into the Government's long-term programme for government property, which is run by the Government Property Unit. The Executive Director of that gave evidence with HMRC representatives at that PAC. The decision to do it on a regional basis means that, on a regional basis, there is no difference, essentially.

Q53 **Rushanara Ali:** I am just struck by the fact, if X thousand people were not going to continue their jobs, that no analysis had been done by the Cabinet Office of the impact on communities, especially in the light of concerns around unemployment in particular areas and communities.

Jon Thompson: I believe that question was put to the Executive Director.

Q54 **Rushanara Ali:** I will move on to measures of success, in terms of some of the points you made earlier about the cost savings being lower than anticipated but also the context of Brexit obviously giving you additional pressures. The Comptroller and Auditor General of the NAO in July, as well as subsequently in our Committee, stated that there will be a lot of pressure, given Brexit, on existing programmes; in particular, the UK's exit from the EU increases the level of uncertainty and challenge that HMRC faces in managing transformation. For example, it expects it will directly affect more than 20 different systems, including its plans to reform its main customs processing, as has been discussed already. Given those points, have you had to make major adjustments to what you consider to be a success for the transformation programme, beyond the points that you have made about sustainable savings, for instance?

Jon Thompson: Not at the minute. It was Mr Mann who put this question to us the last time we were at the main Committee, of whether we were going to review the capacity and capability of the organisation to simply consume Brexit, as it were. What that has stimulated is a very extensive piece of work. We have put on the table all 267 current projects that we think we ought to do, which includes the Brexit changes.

I can give you an update on the number of systems. There are 35 IT systems at the border and eight non-border systems that we are probably required to change. We are going through, therefore, a prioritisation of all 267: those that are projects that are continuous improvements; those that are required for the transformation programme; those that are required for Brexit; and anything that arises from a fiscal event since the spending review in 2015. We need to prioritise all of those 267 and decide where to draw the line and advise ministers.

I saw the Chief Secretary and the Financial Secretary for the Treasury this morning. We committed to completing that work to give Ministers some options by the end of January 2018, so that we can make some decisions about what we are going to do. In there somewhere, it may be



HOUSE OF COMMONS

that we need to renegotiate the spending review of 2015 and therefore the transformation programme.

Q55 **Rushanara Ali:** Can you say much more about what proportion of that 267 would be affected, or do we have to wait until January?

Jon Thompson: I think the full Select Committee has asked me this question. I can tell you the criteria, if you like. We decided there are seven: urgencies, which is code for 2019 and Brexit, which has been given a triple weighting; increases in tax revenue, a double rating; part of reducing risk; return on investments; making it a great place to work; that it is core to the transformation of HMRC, by which we mean a behind-the-scenes change that nobody will ever see, but if you do not do it, you will never get to do it, and that gets a double weighting; and impacts on customers, which gets a double weighting too. Those are the seven criteria we are currently using.

Jo is doing a fantastic job with the team of getting all of the data on the 267 and putting them against those criteria. The executive committee spent all day last Thursday week going through the first cut of that data. We are going through it again on Wednesday of this week, and then it ultimately goes to our executive committee the week before Christmas, and then onto Ministers.

Q56 **Rushanara Ali:** The targets for the transformation programme, among other things, could change by January.

Jon Thompson: Yes.

Q57 **Rushanara Ali:** In terms of the savings, presumably that will change.

Jon Thompson: It could do, yes.

Q58 **Rushanara Ali:** Moving on to the issue of staff satisfaction, you have talked a bit about surveys. Have there been any changes in terms of retention since the transformation process has begun?

Jon Thompson: I do not have retention data with me. I have the staff survey, which is from October of this year. It is an annual staff survey of all civil servants. HMRC is making some good progress in relation to staff engagement. Leadership and managing change was up 5% this year. It was up 4% the year before. More visible leadership is up 11% this year. There is a long way to go, because, if you understand anything about the history of HMRC, for all of the preceding years there had ever been a civil service staff survey, HMRC had been last of the 96 civil service organisations, until last year when we managed to pass half a dozen; this year we have passed a few more.

Overall, staff engagement is up by 5% over the two years. We are seeing some positive signs, but, equally, we tried to engage as many staff as possible in what the issues are and the angst is, so they could tell us what we can change to make it better, and so on and so forth. We encourage mass participation. Take the fact that staff are very, very



HOUSE OF COMMONS

unhappy about the performance management system in HMRC, which is not part of this programme but I will use as a “for instance”. We got permission from the Cabinet Office to change it, and 27,000 staff have been involved in redesigning the system. That is the kind of staff involvement you want in making changes to your organisation.

Q59 Rushanara Ali: It has been said that the transformation programme is seeking to develop HMRC into the most digitally advanced tax administration in the world. How are you doing with that?

Kit Malthouse: Not as well as the Russians.

Jon Thompson: We are making some progress. Whether we will ever be the most digitally advanced in the world is an interesting question, because there are some countries that are significantly ahead of us.

Q60 Rushanara Ali: Such as? Not Russia, of course.

Jon Thompson: If you take the World Bank’s ranking of OECD countries on the effectiveness of customs, we are currently ranked fourth in the world. Singapore is ranked top of that. Singapore has invested \$500 million in a single window technology, where if you are an importer or an exporter, you provide one set of data to meet all government body requirements, so you do not have to interact with multiple different government bodies. We are exploring that but even if we went down that route, to go from fourth to joint first is a project worth £600 million to £900 million and takes five to seven years to implement, to be realistic about it. That is not currently part of the programme but we are trying to work on a business case about how you go from fourth to first or thereabouts. That would be a good example of where we may not be able to go that far.

Every single customs declaration in Singapore is done electronically and you get the answer in 10 minutes 100% of the time. That is a pretty high bar to us moving from fourth to first. Fourth is a great place out of 200 but there is still some room to manoeuvre. We have also done an extensive piece of work with McKinsey looking at the 20 other largest tax management organisations in the world. We come out of that roughly third or thereabouts, but we have learnt a lot about what that means about customer services, collections, submissions and so on. In the round, HMRC generally comes out in the first five to 10 in the world, but there can be quite a gap between us and the top.

Q61 Rushanara Ali: You mentioned Singapore, but are there particular countries that you look to, and work with, for good practice and have done, for this transformation programme or more generally?

Jon Thompson: There is an OECD group called the Forum on Tax Administration that the UK has just passed on the chairmanship of. That does a lot of work on best practice and exchanging of information. They produce a lot of information but they do not go as far as benchmarking. They produce an extensive array of information, and it is down to



HOUSE OF COMMONS

countries to decide whether they want to benchmark. I can happily give you some details of the extensive work we did with McKinsey on 163 different measures of effectiveness, if you want me to.

Rushanara Ali: You do not have to now but I would be very interested.

Jon Thompson: We have all of that. It compares us against 13 other OECD countries, so that makes the top 14, and seven US states, because to some degree the seven largest US states are also roughly equivalent to those countries. We came out of that roughly third out of the 20, but we learnt some things about different approaches and what other people are doing. That is part of the normal business.

Nick Lodge: We talk to individual countries all the time about how they run their tax administrations. We talk to the Australians and New Zealanders. We have talked to the Netherlands, about insolvency analytics, for example. We are in fairly regular contact with quite a lot of other tax administrations in terms of what their experience and best practice is, and whether we can learn anything from that.

Q62 **Rushanara Ali:** In the past, my understanding is that to developing countries you have provided assistance and support. Do you have the bandwidth to do that anymore, in the light of all the pressures with Brexit and everything else? Have you had to cut that back?

Jon Thompson: To be transparent with you, DFID pays.

Q63 **Rushanara Ali:** So you can carry on doing that.

Jon Thompson: Yes.

Q64 **Rushanara Ali:** I have one final question on this section. In the light of what you said about January being a key date for looking at all of this, including the transformation programme, targets are almost bound to change. It is a bit of an academic question for us to ask whether you are going to meet your targets. We should come back and meet again in the new year and work out whether they can be met.

Jon Thompson: Yes. Given how significant Brexit is for us, we are just being realistic, and I am just being realistic and consistent with a range of Select Committees. We have to decide what we are going to do to meet Brexit and, therefore, what else we are doing in terms of changing the organisation. Reset all of that and then you can hold me to account for it. We will definitely be there by the end of March, if you wanted to go round again.

Q65 **Rushanara Ali:** Mr Thompson, there are a lot of questions targeted at you but please, Mr Lodge and Ms Rowland, do come in as you wish. On risk, you have previously described the transformation programme as being very substantial and risky. Do you still hold this view? Has the risk level gone up, in fact, in the light of everything we have discussed thus far?



HOUSE OF COMMONS

Jon Thompson: It is broadly regarded as one of the largest organisational change programmes in Europe.

Q66 **Rushanara Ali:** With huge potentially positive impact, as well.

Jon Thompson: Yes. To compare and contrast, I was talking to the Chief Executive of a high street bank a couple of weeks ago; the bank was going through broadly the same programme as us and has three years longer than we do to deliver it.

Q67 **Rushanara Ali:** Should the period of time for you to deliver it be extended?

Jon Thompson: I have also said on the public record that if it was down to me, some of what we are trying to do in parallel you might want to do in sequence. That would de-risk the programme.

Q68 **Rushanara Ali:** Mr Lodge and Ms Rowland, did you want to come on this? Do you share that view?

Nick Lodge: Yes, it is a very complicated and large transformation programme overall, involving all parts of the department, as we have discussed, ranging from new digital services to moving people to new offices. There are a lot of moving parts. Some of the risk comes from that very complexity and the interdependencies between those moving parts, various IT changes and so on and so forth. Sequencing, capacity and matching the number of changes we can make to a back-end IT system in a short period of time and working that through does mean that there is a degree of risk we have to manage.

We obviously look at all the standard things like business readiness and customer readiness and so on and so forth. Managing what is a very integrated set of changes, with a lot of changes going on at once, is risky. We recognise that in the risk status that we accord to the programme overall, as well as looking at individual programmes and the 267 projects that Jon mentioned, which are all managed individually through project and programme boards. The executive committee takes a good long look at the transformation programme once a month as well.

Q69 **Rushanara Ali:** I do not want to pre-empt what is going to come out in January, but would you say that, if Ministers were sensible—I am not banking on it—they would give you the kind of time length you need? I do not know whether you can do sequencing now but is that what you are looking for?

Jon Thompson: What I can say is I have received every encouragement from both the Financial Secretary and the Chief Secretary to do this.

Q70 **Rushanara Ali:** To do this within the current timeframe?

Jon Thompson: To do this prioritisation programme. Part of that may be for us to say, "Remember, one of the criteria is about reducing risk". Therefore, it is logical to assume that at the end of this there would be broadly three groups of projects: those which proceed on the basis of the



HOUSE OF COMMONS

current scope and the timetable; those that are deferred or stretched out; and those that are stopped. That would be reasonable.

Q71 **Rushanara Ali:** If the Government stick to the current timeframe, are you being set up to fail?

Jon Thompson: I do not believe it is credible for us to believe that we can deliver all 267 to the timescale.

Q72 **Rushanara Ali:** Are you therefore being set up to fail on the transformation programme if the timeline is not extended?

Jon Thompson: We will have a strong argument for why we will not proceed with all 267 on the current timescale. I do not think we will be asked to do all 267 to the timetable. It is not credible for Ministers to ask us to do that.

Q73 **Rushanara Ali:** Do you think it is credible for them to ask you to do this within the five years?

Jon Thompson: Given that it is one of the four things that we have put in the profile for change, no.

Q74 **Rushanara Ali:** If we come back in January and it has not changed, who should be responsible? My point is: are you not being set up to fail, if you cannot get the changes that you believe are required? Transformational programmes often run into difficulty and heads of departments get a lot of stick, but actually the goalposts quite often get shifted by Ministers. I am giving you the opportunity to set that out.

Jon Thompson: We are in an interesting constitutional position at that point, because HMRC is a non-ministerial department. The Treasury officer of accounts informed the Public Accounts Committee last week that nobody can give me a direction, in their opinion. I believe that a combination of the commissioners and I—and I am a commissioner too—would have to sit down and decide what they proposed to do if we were asked to do all 267. We ought to also make it transparent that we cannot afford the 267 either. We have a programme of 267 that I do think is credible, and we do not have enough money to do it either. The commissioners at that point may have to decide themselves what to do to progress. That would be the option. That is about as far as I am prepared to speculate.

Q75 **Chair:** Mr Thompson, considering the relationship between yourselves and the Treasury Committee, should we get into that kind of territory or indeed any system risk, for us not to be made aware of it would mean that I am sure we would have a lot to say, regardless of it being ministerial or non-ministerial. It would be highly appropriate that we are aware, so that we can report back to Parliament, for better or for worse.

Jon Thompson: One of the tasks or gifts that we have given Jo is to keep track of the 267, so that we can be clear that we are proceeding



HOUSE OF COMMONS

with 220, delaying 30 and have cancelled 17, for example. I have made those numbers up, just in case somebody quotes them back to me later.

- Q76 **Chair:** That is very helpful. I have two final questions, if I may. Ms Rowland, it might be helpful if you could answer this. In terms of where the programme is going, it ought to be, if things are going well, easier to recruit the highest quality graduates into the organisation. Is the calibre of people you are enticing in on the up, or is it the same as before?

Joanna Rowland: To answer on the calibre would probably be a subjective answer, but what I can say is that the evidence of what we have delivered to date is very successful. I am fairly new to HMRC. I have been in a year or so, attracted in by the transformation agenda and the modernisation of the organisation. I know several of my colleagues feel exactly the same. We do see evidence that we are getting the right calibre. We do see successful delivery across the transformation agenda. We are also seeing increased retention statistics for our fast streamers, for example. I would suggest that is improving.

- Q77 **Chair:** Mr Thompson, over this Parliament it is one of the things we would be keen to keep abreast of. There is a subjectivity, of course, but we would like to get your assessment and also to see whether we think you give us the full picture. That would be a good indicator, because if things are going well you ought to be able to recruit the brightest and best, and in preference to competitors as well. It would be interesting to see, as things develop, whether that remains the case, or, indeed, improves or worsens.

I have a final question in terms of MPs and your good selves. Is there a danger that we MPs are beginning to impair your negotiating hand with corporates, in terms of maximising the tax take? The more people are looking at who is paying tax, whether people are paying tax, who is avoiding, who is evading and public protests—and all of us have a lot to say; I do not exclude myself or anyone else on the Committee from that—is there a danger we are tying your negotiating hand and that could inadvertently reduce the tax take?

Jon Thompson: No, I do not think so. If anything, the fact that there is a debate means that that tax avoidance and evasion is becoming more morally unacceptable. That is beginning to move the dial. If we go back to one of your original questions about large businesses, the best large businesses are now beginning to publish in their annual report their red/amber/green status with HMRC, because it is seen to be part of being a responsible business. The more pressure we have on those who are being irresponsible, who are the tiny minority, the better.

It makes it potentially burdensome on some senior HMRC folk. I think this is my ninth Select Committee in seven weeks, but that is part of public accountability. I have absolutely no problem with it. If anything, it is helpful.

Chair: You have offered us various pieces of information. You cannot



HOUSE OF COMMONS

give us too much information. The danger would be too little, rather than too much. We are capable of reading things. Whether we are capable of reaching a rational assessment, the general public can determine as these hearings are all public, but we would like information. You mentioned the staff survey. The full results of the staff survey would be of interest to us. We would be keen to get that.

In conclusion, to make two points, first, in my own experience your staff have always been most courteous and professional in their approach, without exception. It is worth, at this first hearing of the Sub-Committee of this Parliament, stating that, because it is a fact. From my own experience, perhaps it is a problem that I was surprised by how smooth digital returns have been and by how seamless they have been. Perhaps I am the exception. I suspect not though, because I am not getting things in my email box—what used to be post bag—complaining. Some things are going very well. We shall continue to probe.

I will end on this. In terms of behavioural economics, we are keen that Parliament is agreeing to tax the right things in the right way. As well as demanding and making sure that we think that you are doing your jobs well, capably, competently and to taxpayer advantage overall, those debates, be they your firm view as an institution or be they views that are simply discussed with no conclusion reached, are important to us. If I had a criticism, in my many years on this Committee, it is that we do not hear enough of the options that are available to us. The more that we get that, the more we would be pleased to think you are doing your job well in giving us a democratic choice to make either good or bad decisions, but more informed decisions.

We will have further interactions but that would be the spirit of it. Thank you for coming. Considering the amount of discussion on productivity, as this Sub-Committee has not met for three years, can I thank the staff for the sudden increase in their productivity, which we can quantify from the Sub-Committee being back functioning again? Thank you very much for coming along and we look forward to seeing you again.