

Public Accounts Committee

Oral evidence: HMRC's performance: progress review, HC 972

Monday 30 April 2018

Ordered by the House of Commons to be published on 30 April 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Chris Evans; Luke Graham; Gillian Keegan; Shabana Mahmood; Anne Marie Morris; Lee Rowley.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Leena Mathew, Director, NAO, and Richard Brown, Alternate Treasury Office of Accounts, HM Treasury, were in attendance.

Questions 1–197

Witnesses

I: Jon Thompson, Permanent Secretary, HMRC, and Jim Harra, Second Permanent Secretary, HMRC.

Examination of witnesses

Witnesses: Jon Thompson and Jim Harra.

Q1 Chair: Good afternoon and welcome. We are here today to have a bit of a catch-up with Her Majesty's Revenue and Customs on a number of issues that we have been looking at over time. Mr Jon Thompson, who is the Permanent Secretary at HM Revenue and Customs, and Mr Jim Harra, who is head of tax—sorry, I should give you your full title, which is now Second Permanent Secretary at HM Revenue and Customs—are here to be agile across a number of subject areas. This is a bit like “Mastermind”, so on your specialist subjects, a starter for one: BBC pay.

Mr Thompson, you might have picked up last week that Lord Hall came to give evidence to us. He talked about some of the challenges that the BBC had had with personal service companies. He said: “The third change came quite recently, when HMRC said that the test”—this is the test to check employment status for tax—“was not fit for purpose, so we need to



HOUSE OF COMMONS

work out yet another CEST, as it is called. This has caused a good deal of confusion for individuals and a great deal of anger among our frontline presenters...In some cases, it has also caused some hardship." We have also had considerable evidence from others about the CEST test.

Will you tell us, first of all, do you accept Lord Hall's description of this test as not fit for purpose? Is that something you would agree with?

Jon Thompson: No.

Chair: Okay. Do you want to expand on that?

Jon Thompson: Sure. The check your employment status for tax tool is an online tool that has been used 750,000 times by citizens across the United Kingdom. Sixty per cent. of the outcome—those people—are self-employed and 40% are employed. We think it provides a reasonable guide. Remember, IR35 came in in 2000, under the Gordon Brown Budget of that year, when HMRC was still the Inland Revenue—hence IR35.

In relation to the taxpayer concerned—the BBC—I think that is a regrettable comment given that our customer compliance manager has been working with BBC for some time to ensure compliance in the BBC, and has been providing it with help and guidance. I have a fairly extensive note here about the amount of work we have been doing with BBC. We believe that we have operated with a consistent approach to IR35, and indeed helped the BBC to clarify which people ought to be on a payroll and which people should not. I have been provided with how many additional people have gone on to the payroll—I am not sure that that is public information, but certainly a considerable number of people—so I would not agree with the Director-General, no.

Q2 **Chair:** As I said, we have had evidence from quite a lot of other people to say that they are now very confused. There is a website contract calculator, and they have found that the CEST calculator has made incorrect assessments by not applying IR35 in some cases. Does that ring true to you, or can you explain why people might come to the point of view that it is producing unreliable results?

Jim Harra: That company, I believe, has its own calculator to push. Our calculator has been designed to comply with the case law on establishing employment status. It has been extensively tested, using lawyers. The results that it gives are as good as the data that are input into it. We did a lot of work last year with public sector engagers to make sure that they used the tool effectively, so that it would give them the right answers. It is ultimately a guide, and there is further, more detailed guidance that people can turn to if it doesn't help them, but we believe that in 85% of cases it gives a response that the engager can use and that we stand by. In the further 15% of cases, they do have to either look at further guidance or get assistance from us to arrive at their decision. While we continue to work on it and improve it, we think that it is a perfectly good tool and it supports IR35 compliance.

Q3 **Chair:** As I understand it, there is no difference to tax law when CEST is



HOUSE OF COMMONS

applied, and you can go back and look at people's tax records for—is it seven years? You can go back and reopen them and do a tax investigation on anyone over seven years.

Jim Harra: Yes.

- Q4 **Chair:** Because one of the things that people have been saying to us is that there is real worry that they will have gone through the CEST process and calculated the tax that they owe, but you could then go back and investigate and say that CEST did not apply to them. Are you saying that that is not the case for people—well, for the 85% who get that first resolution—who have gone through your calculator? Are you saying that that is accurate, to a degree?

Jim Harra: What we have said to people is that if they use our tool correctly and put the correct data into it, we will abide by the result that the tool gives.

- Q5 **Chair:** How do you assess whether they have put the correct data in? That is an important caveat. How do you make sure? They could make a genuine mistake.

Jim Harra: That is something we would do through our employer compliance checks. For example, last year, public sector engagers were required to make their own determinations of whether the companies they were contracting with were caught by IR35. They use the CEST tool to do that. We can come along later and audit their compliance with their employer obligations, including the obligation to administer IR35 and deduct tax, and we will check whether they have used the tool correctly and made the correct assessments. For example, in some organisations, the contract says certain things but in practice other things happen and the contract does not reflect the real nature of the relationship between the engager and the worker. In those circumstances, we expect them to use the reality. That is the kind of thing that we would check. But as Jon says, IR35 has existed since 2000 and people have been obliged since then to apply it correctly, so there is no guarantee that we would not go back into earlier years if people had not been applying it correctly.

- Q6 **Chair:** Do you have any special payment plans for people who owe back tax where there is confusion, or is it just one hit and the normal interest rates that apply?

Jim Harra: Yes, we have standing time to pay arrangements for the collection of debt, and that applies equally to debt in these cases. Where someone had a large unexpected tax bill that they did not have the means to pay straight away, we would aim to agree a payment plan with them so that they could pay it over a period of time.

Jon Thompson: We strike an agreement with 96% of those who ask for time to pay.

- Q7 **Chair:** You want to get the money in, so I guess an agreement is better than a stand-off. Going back to what the BBC said and to what you said about the BBC, Mr Thompson, you seem to have quite a big disagreement



HOUSE OF COMMONS

with the position of the Director-General of the BBC. They are saying that a major part of the problems they have had with people on personal service contracts has been the CEST tool and, as they see it, the changes to that. You are saying categorically that that is not the case and that HMRC has provided the BBC with every bit of support it can get. I am paraphrasing you, but is that what you said?

Jon Thompson: Let me put it clearly. We believe that we have invested significant resources to provide guidance and support specifically to the BBC throughout 2017-18 through their customer compliance manager. That is our position.

Q8 **Chair:** Okay, thanks very much. I want to touch on Lycamobile. I know that this was raised by our colleague Wes Streeting at the Treasury Committee last week. In its investigation, BuzzFeed discovered this extraordinary memo that one of your staff had written, which I am sure I do not need to quote from. Do you have anything to say about that? Aren't you a bit embarrassed that an email like that to another tax authority, a central part of which highlighted Lycamobile's connections with a major political party—in fact, the party of Government—was leaked? Doesn't it embarrass you?

Jon Thompson: Just to be really clear, it is not a central part of the three-page response that has been—

Q9 **Chair:** But was it a necessary part?

Jon Thompson: It is two sentences of a three-page response, but those two sentences are indeed an error of judgment and they should not be in there. They have absolutely nothing to do with the decision that we made. The full three-page response to the French—I know that you have not read that—sets out in some detail that this is quite a complex case that they are entering into and that they need to be clear about what they mean by Lycamobile, because there is no such entity. It explains the obligation upon HMRC to comply with section 9 of the Police and Criminal Evidence Act 1984, but the evidence they presented us with does not meet the 12 tests that are required—in fact, it fails on 11 of those tests. It helpfully suggests nine areas in which they could give us further information, and finishes with, "We wish to assist as much as possible". But somehow the original media reporting of this is, frankly, a significant and disgraceful distortion of the truth of the three pages.

Q10 **Chair:** Okay, but that doesn't get away from the fact that you have acknowledged in the letter to the right hon. Nicky Morgan, the Chair of the Treasury Committee, that this inclusion of general information was "irrelevant to the decision" and that it was a "mistake" to include the background information. Would you like to say that a bit more emphatically to our face?

Jon Thompson: It is definitely a mistake that those two sentences are in there, yes.

Q11 **Chair:** Does that happen often? Is it happening frequently?



HOUSE OF COMMONS

Jon Thompson: We have asked the General Counsel, which is in charge of our legal department, to have a look at whether there are any systemic lessons that we ought to learn from this one case. We do have the interim findings of an internal review by someone who is not involved in this particular area of legal work. Clearly, it is an error of judgment. I think the Chancellor of the Exchequer said, and I am saying on the record, that it was mistake but, in general, the three-page response that we have given to the French is a very professional and respectful response that explains the law in the United Kingdom.

- Q12 **Chair:** On this Committee, we are all aware, of course, that you operate under different investigatory rules from those of some of our European colleagues—you have just reiterated that. You have also highlighted that Lycamobile is not one company. I am aware that you cannot talk about investigations into individual taxpayers, but this is not the first story about Lycamobile and its financial arrangements. Given some of the challenges, is there a way that HMRC could or would look at a company, like Lycamobile, in a theoretical case, and go in and investigate? Are there any grounds on which you could go in and look at some of the concerns about a lot of cash transactions, about how that money is transferred around? What would you need to do, or do you need more powers in order to do that?

Jon Thompson: We can. If I may systematise the answer to your question, we received 247 similar requests last year, 31 of which were really for the Home Office so we referred them on. That left 216 for us to deal with. We executed 191 of the 216 requests, 12 are still outstanding, in terms of correspondence between us and the relevant overseas tax authority, and 13 have been refused. I think that our record here is reasonably clear: we will provide assistance as much as we possibly can.

- Q13 **Chair:** I am not talking just about assistance. If something is happening with a company's or companies' footprints on British shores, do you think you have the powers to investigate a company or an organisation like Lycamobile? We would not want to encourage you to talk about an individual taxpayer, as you are not able to do that. Do you believe that you have the powers you need to do that in your own right, here in the UK, not just regarding providing assistance to other countries?

Jon Thompson: On this particular type of issue, yes, but there are areas that you might want to come on to in relation to online VAT, where there certainly are some questions about the powers for us to enter into premises where the goods concerned are not owned by the operator of the premises. There clearly are some legal issues there—do you want me to go into that now?

- Q14 **Chair:** No, we are going to come on to VAT a little later—you have pre-empted us on that.

At the moment, you don't think there are any extra powers you need to deal with a challenge of this type? As you say, you could not meet 11 of the evidentiary requirements under PACE to go in, in this case, so would you need anything else in this sort of set of circumstances?



HOUSE OF COMMONS

Jon Thompson: From talking through the specific case and then broadening it out to the system, on the basis that we can execute more than 90% of the requests, we do not believe that there is, no.

Q15 **Chair:** Finally, from me, on the Paradise papers: we understand that you have not been able to get access to the papers themselves. Is that right?

Jon Thompson: Correct.

Q16 **Chair:** Can you just tell us what you have gone through to try to, and whether the organisation concerned has flatly refused or has responded at all to your request?

Jon Thompson: There are three organisations concerned. The International Consortium of Investigative Journalists do not co-operate with any law-enforcement agencies, so the answer to that is no. The BBC refused—sorry, I need to get it right. *The Guardian* said that they did not have access to the papers. There is some rather interesting terminology here, I think. The Panama papers were distributed around a number of media outlets, but in this case I don't think they were. Access was given to the papers, but the papers were not distributed. There is a difference there. *The Guardian* told us that they do not have the papers, and therefore they cannot pass them on, and the BBC has not responded.

Q17 **Chair:** They have not responded at all?

Jon Thompson: No.

Q18 **Chair:** That's very interesting, given the publicity around that. Does anyone else want to come in?

Jon Thompson: We have nevertheless been able to scrape 300,000 pieces of data from what is available in various media outlets across the world. The conclusion of that is that we either knew about the cases concerned or they had no direct UK tax implications.

Q19 **Chair:** When these came out—when you were in front of us previously—you said that you were better equipped to deal with the Paradise papers than you had been for the Panama papers, and that you had learned lessons along the way.

Jon Thompson: Yes.

Q20 **Chair:** What have you done differently this time? You have scraped the website. Is there anything you have been able to do differently with the greater preparation you boasted to us about a couple of sessions ago?

Jon Thompson: We would have been in a better position if somebody had given us a complete download of those papers. We could have put them through some more up-to-date analytical tools to extrapolate UK taxpayers—companies and individuals. The information I have been given is that we have been able to pick out 300¹ pieces of data that are relevant to UK taxpayers. They either supported what were already ongoing

¹ Note from witness after the session: the correct figure is 3000 pieces of data



HOUSE OF COMMONS

inquiries or they had no UK tax implications.² I think it is good that we have been able to get to that point in reasonably swift order. To reiterate, that is very different from us receiving the papers and being able to analyse them as we did on Panama, for which there remain more than 100 ongoing investigations, worth £120 million.

- Q21 **Sir Geoffrey Clifton-Brown:** Can I just ask one question on Paradise? When I talk to these various jurisdictions—particularly the Caribbean jurisdictions—they say that you have all the powers you need to investigate individuals. Is there a difference in the Paradise situation between investigating individuals and asking a fishing question—saying to the jurisdiction, “Do you have any people who are likely to be covered by the types of examples that have arisen from Paradise”?

Jon Thompson: Yes, there is a significant difference. If we had an inquiry on Sir Geoffrey Clifton-Brown, we could ask the relevant tax authority whether they have any information in relation to Sir Geoffrey Clifton-Brown, and then we would get a response. What we can’t do is say, “Can you tell us anything about UK taxpayers who happen to be in your jurisdiction?” There is a difference between the individual point decision and the systemic scraping of data.

- Q22 **Sir Geoffrey Clifton-Brown:** So until, or if, you can get individuals’ names or company names, there is actually not much you can do about it.

Jim Harra: That is correct under the exchange of information agreements, but we now have the common reporting standard, under which just over 100 jurisdictions, including all the Crown dependencies and overseas territories, are exchanging bulk data with tax authorities around the world. That came in in September last year for the first just under 50 countries, and we will get a second load of data in September this year from just over 100. That is moving us to a new international standard of automatically sharing bulk data on that basis.

- Q23 **Sir Geoffrey Clifton-Brown:** Can I move on to a different subject? On 8 March, the European Anti-Fraud Office—OLAF—issued infraction proceedings against the British Government on the basis that they felt that proper Customs duties had not been paid on certain Chinese imports of foods, shoes and textiles. Can you tell us where that whole instance got to? Have there been any further developments since the issue of that proceeding?

Jon Thompson: Our position is that we will defend the infraction, because we do not believe that the sum, which has been estimated, is in any way a reasonable extrapolation from the data we have got. It will be highly likely that the Government will dispute that for a significantly lower sum. There is the additional question of whether, on an operational basis, we are doing enough checks across Government in relation to these imports.

² Note from witness after the session: From the sample reviewed to date, the majority of the information fell into these categories.



Last Autumn, we began to increase significantly the opening of various containers of Chinese textiles and shoes, and it is reasonably clear that that has made a significant difference in terms of the imports. We can see from the data that they simply don't unload in Felixstowe; they wait for the ship to get to Rotterdam. It may indeed solve the systemic problem in the United Kingdom, but it may well divert itself elsewhere in the European Union. I think that is roughly where we are. We have a little bit more data, and we would certainly dispute the sum involved.

Q24 Sir Geoffrey Clifton-Brown: Given that you were warned about this as long ago as 2007, how has it got to this state? Why did you not take action sooner?

Jon Thompson: I am not sure I can particularly answer that question, unless Jim can. There were preceding operations in 2014—there was an operation called Operation SNAKE, which looked at some of that and began to identify some challenges—but I think everyone has assumed that the OLAF estimate is a reasonable extrapolation. We think it significantly overstates the problem. That is the area where we are having a debate. I suppose I am saying that we recognise that there is a challenge. I am not disputing that the number will not be zero, but I am disputing the sum involved in the statistical extrapolation by OLAF.

Jim Harra: I should say first of all that we undertake compliance activity in that area. We do not accept that any liability should fall on the UK, because we believe we have always taken reasonable steps to manage what are undoubtedly real risks in that area. As Jon said, in any event, the methodology that has been used to come up with the figure clearly does not stand up to scrutiny.

What has happened is that OLAF had a methodology for identifying goods that are potentially at risk of undervaluation or mis-declaration to target compliance activity. They converted that into an actual measure of the amount of duty lost. That clearly does not stand up to scrutiny.

For a period, we operated the risk-based approach that OLAF suggested, but in fact that caught a large number of consignments of perfectly legitimate goods that were going to legitimate wholesalers and retailers, which was disruptive for them. The UK has sought to have a better-targeted system, and we continue to iterate that approach. At the moment, we have two centres where we carry out inland pre-clearance activity and we take financial guarantees, or seize goods, where there is clear evidence of mis-declaration. We believe that that is more effective than disruptively stopping consignments of perfectly legitimate goods—although it continues to evolve.

Q25 Shabana Mahmood: I want to discuss the Customs Declaration Service. We are still looking at a planned date of operation of January next year. Testing that the system works as it is intended to is something that we will probably know by July 2018, and then it goes live when the first traders start to migrate on to CDS a month later in August. How confident are you about your timeline, Mr Thompson?



HOUSE OF COMMONS

Jon Thompson: Since we last discussed it, it has met all the timetable targets that we set out in the hearing in the Autumn. It has also been independently reviewed by the Infrastructure and Projects Authority at amber-green. It is currently the subject of its 16th independent review by my friends from the National Audit Office, and no doubt they will give you some more detail and we will be back here sometime before the Summer, I guess.

It is a project in good order but, obviously, there still remain a number of risks to full implementation of what is a major IT systems implementation for HMRC. All in, this is a project that will have cost £270 million once it is up and running. That is a significant IT implementation for us.

One of the key issues that we discussed with you before was the performance testing of the system. We are in live testing now to see whether it can meet 300 million transactions a year. We have added on to that tests in relation to concurrent transactions, to test if it can handle 100 transactions a second. There will be some peaks in relation to that.

We know what the next steps are, but there remain four risks in relation to the project: first, the migration from CHIEF to CDS is clearly still to happen; secondly, how the system integrates with HMRC's other systems, most notably accounting and finance, which is a significant thing for us because we need to ensure that we get that right; thirdly, the performance question; and fourthly, our customer readiness for doing it. There is some awareness in the customer group, but I would speculate that awareness is fairly low. I would guess it is in a good shape and it continues to meet the requirements—it's amber-green—but we are not naive about the risks that face us in the future.

Q26 Shabana Mahmood: Thank you. I will come on to what the customer base is aware of, or not, in a moment. Obviously, you have had a review of your various projects and transformation programmes, and all of the very heavy workload that was taking place in HMRC internally; I think that is a line of questioning that others will return to later in our session.

However, in relation to this project and how important it is for Britain's global reputation not to have huge queues at the border or IT breaking down on day one of business, you famously said last time you don't sleep a lot in any case, when I asked whether this work was giving you sleepless nights. Is it still giving you the proverbial "sleepless night" and are you confident in that context that we are on course?

Jon Thompson: I'm as confident as you can be when you're implementing a system of this scale at this point. I mean, it is now only four months before we begin the migration. It continues to perform well, the team is doing great, but we are not naive about the risks. We review it every month as a team, to make sure that it's there. We have regular contact with the project director.

The maximum assurance I can give you is that it is in as good a shape as you could expect at this point, and I totally recognise the fact that it's



HOUSE OF COMMONS

absolutely fundamental, yes. It's the top project we're trying to run at the moment.

Q27 Shabana Mahmood: We await the NAO's updated Report to check further on progress. So, talking about—

Jon Thompson: No pressure.

Chair: With enthusiasm on our part.

Q28 Shabana Mahmood: Absolutely—nothing but enthusiasm.

Talking about the migration of the current users of CHIEF on to CDS, and communications, which was obviously one of our key recommendations from our last Report, I think you have done a mailshot in an email to tell people what's going on. Can you flesh that out a little bit? Have you done any more than that? Are you happy that that's all you've done to date? Do you feel that that complies with the recommendation that we made?

Jim Harra: First of all, I should say I am the SRO for the programme, so I look at it much more frequently than monthly, but I look at it with the team monthly.

To begin with, for the existing CHIEF users who will have to migrate on to CDS, this is a highly intermediated market. In other words, some very large traders do their own administration, but a lot of them use software providers and agents, and therefore a key method of supporting them through the migration is actually for us to communicate with those intermediaries—the software houses and the Customs agents—and to equip them to help their clients.

In addition, we have also been engaging frequently with about 60 trade associations to make sure that they are able to support their members. Then, in January and March of this year, we carried out two mailshots of all existing CHIEF users. There was an email in January and then a letter in March to make sure they are aware and to get them prepared for engaging with their intermediaries, starting in August—that cutover from CHIEF to CDS. That process will begin in August and complete in January next year.

Q29 Shabana Mahmood: Thank you, that's helpful. Obviously, your update letter had a lot about the work being done with the intermediaries and the various organisations, which I understand is important. However, in order to build confidence, I appreciate that CHIEF to CDS was going to happen before Brexit, but obviously it's been given a new dimension with Brexit. Do you feel that more can be done to build confidence within the trader community themselves, rather than just with the intermediaries, on which I acknowledge that you have already done quite a lot of work?

Jim Harra: Yes. We continue to do that work. We will look at what further direct communication is required with these traders but, as I say, we see the intermediaries as key players in this. In fact, in most of our communications we would be in any event directing the trader to their intermediary.



HOUSE OF COMMONS

There is a second group of traders who currently don't use CHIEF because they don't engage with Customs processes. After we leave the EU, they will potentially have Customs obligations for the first time. For them, we would look in due course at having direct contact with them, to make sure they are aware that they may have obligations in the future and to direct them to the right place to get help. But at the moment, we are focusing on the existing CHIEF users who have to start the cutover from August this year.

- Q30 Shabana Mahmood:** It is precisely because you will have to deal with people who have never done it before that we want to make sure that those who are already in the system are at least communicated with properly.

One of the things from our Report that we were keen to follow up on is progress in promoting the benefits of the trusted trader statement to everyone who might benefit from it. What sort of progress have you made on that?

Jim Harra: We have been reviewing our processes and guidance to help make that process more slick for people because we expect an uptick in the number of applications we will get for AEO status. At the same time, we are recruiting additional staff who will be available to support those applications and help us to get them through more quickly. We have already seen an uptick in that. I think we had something like 604 AEOs the last time we appeared before you last November. I think that is now up to about 650, and we have another 50 applications in the process of being reviewed at the moment. As expected, we are seeing an increased interest in that, but the main thing is to get a good online process that enables them to do everything together and to reduce the cost and burden.

- Q31 Shabana Mahmood:** Obviously the Treasury minute referred to the AEO process and the uptick expected on that. Your most recent update suggested that that will not be suitable. It seemed a little more downbeat about the prospects of AEOs. I am referring to the third page, first paragraph. It says that it will not suit all traders and that it is about volumes, sectors and so on. Has that made you recalibrate what you are expecting to happen when it comes to AEO status?

Jim Harra: I do not think we have recalibrated. I do detect sometimes that there is a view that AEO status is suitable for everyone and a big boon for everyone. In fact, it is very useful for some people and it is not that useful for others. In particular, the UK has traditionally followed a different path from, say, Germany, where in order to access Customs simplifications, you have to become an AEO. Our approach has been to offer tailored simplifications to people who need it without them having to go through the whole process of applying to be an AEO. We do not plan to change that. We would not want to push people into getting into a process that can be quite expensive to comply with, if it will not meet their needs. We would go for something more tailored. However, there are some post-EU exit scenarios in which being an AEO mutually recognised by the UK and the EU could be beneficial to a greater number of people than now,



HOUSE OF COMMONS

and that is why we are reviewing these processes to ensure we can meet that heightened demand.

- Q32 **Shabana Mahmood:** So you would say, Mr Harra, that a comparison between the many thousands in the German scheme and our 600 or so is not a helpful comparison.

Jim Harra: It is not like for like.

- Q33 **Shabana Mahmood:** Looking at testing of CDS and the technical progress made to date, how many declarations would the system as it is today be able to handle?

Jon Thompson: Do you mean CHIEF?

Shabana Mahmood: Yes.

Jon Thompson: CHIEF currently handles 55 million. Without any changes, it could handle 80 million. We think there are a series of changes that could expand that number fairly significantly, and we will test those. We have been given a paper on how you could scale it up. There are three changes that are described to us as “low effort” that would expand it to 230 million. We have asked to see the business case about exactly what “low effort” means in expanding CHIEF from the current 55 million to 230 million. We have been told that there is a “high effort” change that could expand it all the way to 600 million. To be up front about it, we have an early paper on that, and we would like a cost-benefit analysis about the degree to which we should invest in CHIEF to provide a full-contingent back-up. We have had a paper, but I have not seen any numbers.

Shabana Mahmood: To work out what “low effort” or “high effort” means?

Jon Thompson: Yes.

- Q34 **Shabana Mahmood:** All of the changes to CHIEF—the upgrading—are essentially just on volume, are they not? As a contingency, you do not need it to do any more, other than volume.

Jim Harra: That is correct. First, we are scaling CDS to cope with the larger volume of declarations that we could receive post-EU exit. As a contingency, we are also looking to scale CDS. It is purely about scaling. On CDS, we have been going through a lot of work with our vendors, such as IBM, to tune what is there at the moment. We have seen it going up towards the 300 million and 100 per second in that volume testing. As Jon said, we are also looking at what we need to do to scale CHIEF as a contingency for that as well.

- Q35 **Luke Graham:** Going back to our previous hearing, Mr Thompson, £7.3 million was quoted to upgrade CHIEF to be an actual contingency. What was the volume relating to the £7.3 million that was quoted at the last hearing?

Jon Thompson: I do not recall the specific answer to that question. I will have to write to you again, unless Jim knows.



HOUSE OF COMMONS

Jim Harra: There are broadly two things that we have to do: one is to scale it in size; the other is to extend the life of the service cover with Fujitsu, which supports the system that we have negotiated. The costs would be in those two areas.

Q36 **Luke Graham:** What was the £7.3 million covering then?

Jim Harra: I don't completely recall.

Q37 **Luke Graham:** Obviously, if it is going to be a contingency we need to have a clear idea of how much it is going to be, and when it will be ready. I am happy with a written answer, if you do not have the answer today, but if we get the amount and we need to get to 230 million, when will that be ready?

Jim Harra: We can write to you.

Jon Thompson: We can give you a timescale. I know when the live environment is supposed to stand up, but maybe we ought to give you a timescale from there that tells you what the key milestones are all the way through to it being ready. We are happy to do that.

Q38 **Chair:** You were waiting when you came to us. You made a good play to the Treasury about the money that you needed, and they coughed it up quite quickly, so obviously it worked.

Jon Thompson: Can I try that again?

Q39 **Chair:** We knew we were being used, but that is part of the deal. That money came, but how confident are you, now that the Treasury has put aside £3 billion for transition work and upgrade work across the whole of Government, that you will get the money that you need, not just for CHIEF but for all the other projects that you will have to get in place? Do you have a better sense now from the Treasury that money will just flow as you need it? Well, not "just flow"—it never quite does that, of course. If you put a good case, though, will you get the money you need quicker than you were waiting for last time?

Jon Thompson: We have been allocated £260 million for 2018-19. That includes a £25 million contingency, which will be under joint control between us and the Treasury. We work very closely with the Treasury spending team—indeed, a Director General of the Treasury sits on our Executive Committee, so we have transparency unlike probably most other Departments to the Treasury. We believe that that is sufficient for 2018-19, and the system the Treasury is running is you then have to negotiate year by year until you get to a status quo position and are running business as usual. We have a good, positive, open relationship, and we have been able to secure the funds that we need.

Q40 **Chair:** So you are not sitting here today worried that you are not going to get the money you need?

Jon Thompson: No.

Q41 **Chair:** Very relaxed—okay.

Jon Thompson: If only you knew what I worried about.

Sir Geoffrey Clifton-Brown: Tell us.

Jon Thompson: That's dangerous.

Chair: You need to fill the glass with whisky.

- Q42 **Shabana Mahmood:** You still have a full head of hair, Mr Thompson, unlike Mr Harra, so I am wondering where the worry levels are sitting. On CDS functionality, will all of it have been tested before we go live into implementation? Will every aspect of it be done on your current timescale, with your confidence on timelines being met?

Jim Harra: Yes. We have a series of releases right up to before the August cut-over, when we start cutting traders over from CHIEF, the last element being exports. That is a bit of a balancing act between us and trade, because we could have potentially done that more quickly, but trade wanted us to take longer so that we could build more of the special functionality into it that they find useful. That last release should go in during July, and then we start the cut-over in August. That is, broadly speaking, the functionality complete, and the job is just making sure that the system performs as we migrate people across, and that we migrate them successfully.

- Q43 **Shabana Mahmood:** As we migrate from CHIEF to CDS, God forbid if there was a problem with CDS and you had to go into a contingency of CHIEF, but what would happen to everybody who had moved on to CDS? How do you sort them out?

Jim Harra: We keep CHIEF available for dual running. Obviously during that cut-over period—August to January—you will have some traders on CHIEF and some on CDS. We have the ability to revert people back on to CHIEF, and one of the reasons we are scaling up CHIEF is so that it is available as a contingency in the unlikely event that CDS is still not available after we leave the EU.

- Q44 **Sir Geoffrey Clifton-Brown:** Mr Thompson, listening to those very helpful answers from Mr Harra, it seems to me that you are still doing a significant amount of work on CHIEF, which says to me that you are still lacking some confidence that the CDS system will work on time, by that August deadline.

Jon Thompson: After 29 appearances in front of the Committee, and six years as a Permanent Secretary, I think I have decided that being definitive about anything is probably a mistake. Despite the very positive atmosphere, independent reviews, and so on and so forth, we have to be realistic about the fact that this is a major, totemic, fundamental system for us, and it needs to work. That's what it is.

- Q45 **Sir Geoffrey Clifton-Brown:** Okay. Can you be absolutely confident that you will switch off CHIEF by January next year?

Jon Thompson: Having said that I won't be definitive about it, the answer to that is no.



HOUSE OF COMMONS

Jim Harra: I hope in January next year to be absolutely confident that we can switch off CHIEF.

Jon Thompson: That's why I've got a deputy!

Jim Harra: Today, it is sensible that we have got contingency arrangements. They are costly, and as Jon says we will review the costs to make sure that equation still stands, but it makes sense to have that contingency. Prior to the EU exit referendum, we did in effect have another contingency, which was just to slip the delivery of CDS, because for UCC implementation purposes it does not have to be there in January 2019. The EU exit referendum changes the timescales by which we really need things, and therefore changes the equation about what kind of contingency steps you want to take so you are doubly sure you have got a system.

- Q46 **Chair:** On the business that has moved to CDS, in answer to Ms Mahmood earlier you talked about shifting people back to CHIEF if it is not ready. What is the practical challenge for those businesses, or do they not notice it? How does that actually work?

Jim Harra: I couldn't give you the details. There would be a practical challenge. That is why we are doing this in a phased way—because we want to get early confidence, before we bring on more people, that that will not be—

- Q47 **Chair:** But if you can't get CDS delivered by January and you have got to migrate businesses back to CHIEF as a contingency, what is the impact on those businesses? That sounds like it could be quite a lot of hassle.

Jim Harra: I don't think that is the most realistic scenario. A more realistic scenario—although I don't believe it will happen—is that, as you migrate people on to CHIEF, you find that its performance is not tuned in the way you need, and therefore you have to pause people and hold them back on CHIEF while you get the tuning right. What you don't want is to push people on to CDS and then find it is not giving them the message responses in good time.

- Q48 **Chair:** So you see it as a one-way shift.

Jim Harra: I fully expect it to be that, yes.

Jon Thompson: It is worth remembering that there are four parties in this chain. There is the customer who purchases, largely, one of the 64 software packages that are available in the market, which then integrates with one of the five community service providers, which then integrates into CDS. There is a link along this, and we need to work out the migration path across those software packages and the community service providers into us. To some degree, it is mitigated by that chain. It might be possible that one of the 64 doesn't work, but it is possible to navigate your way through that.

- Q49 **Sir Geoffrey Clifton-Brown:** Avalara's recent survey says that 27,000 small e-commerce retailers would have to spend over £720 million per



HOUSE OF COMMONS

annum on the new VAT compliance charges just to keep selling into the EU. Do you recognise those facts?

Chair: Is this VAT MOSS?

Sir Geoffrey Clifton-Brown: Yes.

Jon Thompson: Is this the thing that you published earlier today?

Q50 **Sir Geoffrey Clifton-Brown:** No, this was published by *Accountancy Age* in January. It says: "Based on Avalara's recent survey of e-commerce businesses selling into the EU, over 27,000 small e-commerce retailers will have to spend over £720m per annum in new VAT compliance charges just to keep selling into the EU." I am wondering whether that has anything to do with CDS.

Jim Harra: No, it hasn't. It certainly has nothing to do with Customs. I believe it relates to the fact that the EU have published proposals for what they call the definitive VAT system, which involves exploiting VAT MOSS, which is a one-stop shop currently used for certain e-commerce, much more generically across the VAT system. That would mean that, whereas at the moment a trader is registered for VAT in their home country and accounts for all of the VAT there, in the future if they are selling to lots of customers in different EU member states, they would have to squirt the VAT to all the member states in which they are selling.

Q51 **Sir Geoffrey Clifton-Brown:** That is very helpful. Can I move us on to the next subject, which is borders and Brexit? Mr Thompson, as I understand it, the current border planning group assumption is that the risk to border activity will remain unchanged immediately post-Brexit. How long do you think it is reasonable to make that assumption?

Jon Thompson: That is exactly where we continue to be: there will be no increase in the risk, just to split that particular hair. It would be reasonable to assume that that will hold for a short period. It depends what is crossing the border. If you think about what does cross the border—people, goods, animals and plants—in relation to people, of course, there is currently a 100% check by Border Force.

Q52 **Chair:** Not quite a 100% check.

Jon Thompson: I am grateful for that. I thought there was, but—

Q53 **Chair:** They tell you that, Mr Thompson. Don't believe everything a civil servant tells you.

Jon Thompson: I will write that down. Goods, of course, are sampled on a risk basis. It is possible the risks will change in reasonably short order, so that may not hold for very long, but we think it is a reasonable initial planning estimate. All the Departments involved in this—DEFRA, the Home Office and ourselves, for example—are working through new compliance models. We are working through what kind of compliance model would apply under the various scenarios of leaving the European Union and what kind of additional resource would be required by DEFRA, Border Force and HMRC in relation to compliance checks in relation to new risks. It may not



HOUSE OF COMMONS

hold for very long—that is the short answer—but there is a lot of work going on in relation to compliance.

- Q54 **Sir Geoffrey Clifton-Brown:** I am sure about that, not least because you will have to make sure that you have systems in place to deal with a no-deal scenario. I accept that a lot of this is going to be bound up in the negotiations, but given that Parliament is going to have a meaningful vote in October, you are going to have to have some meaningful answers about how these problems are going to be dealt with.

Jon Thompson: In March 2019?

- Q55 **Sir Geoffrey Clifton-Brown:** Yes, but earlier than that, really. Presumably, by the time of the meaningful vote in October or November, Parliament will want some reasonable answers about how things like food regulations are going to be dealt with. You haven't got too much time to come up with scenarios as to how all this is to work, have you?

Jon Thompson: The Government's preferred option is clearly that we strike a deep and special relationship in the form of a long-term economic partnership with the European Union. I believe the Secretary of State for Exiting the European Union said that the chances of no deal were fairly small. While we are working on a contingency plan and we continue to plan for all scenarios, the focus really is on compliance under the various scenarios that may be negotiated and agreed. If, when we get to October, we will exit the European Union in March 2019 and go on to WTO rules, the Government will have to make some choices about what objectives take primacy at the border. A choice will need to be made between the free flow of trade, the security of the United Kingdom and the raising of revenue. I think it is fair to say that you will not get an optimal system in April 2019 across those three objectives. You will have to prioritise. Our advice to Ministers has been consistent in this regard since they decided those were the Government's three objectives in relation to the border. I think I gave you that evidence before.

- Q56 **Chair:** In the current position, what have you recommended to the border planning group is the top priority of those three?

Jon Thompson: We have not been asked to recommend which is the top priority.

Chair: That is interesting.

- Q57 **Sir Geoffrey Clifton-Brown:** Let me move on to one of my key question marks about Brexit: the infrastructure needed, including land. I suppose the real crunch in this is Dover. In terms of our ports and airports, do you have plans, if not actually all the infrastructure you need, to cope with any scenario in the Brexit transformation?

Jon Thompson: The straightforward answer to your question is no. There are potential scenarios where the Government may require new infrastructure, depending on the timescale and the option that is agreed across a range of different policy outcomes.



HOUSE OF COMMONS

- Q58 **Sir Geoffrey Clifton-Brown:** I will tell you why I asked that question and then get your reaction. A television programme produced some fairly horrendous statistics showing how a very small delay to each Customs transaction at Dover would lead to huge traffic jams building up on the M2 and the M20. Do you have contingency plans to deal with that? Do you think the Government have sufficient infrastructure to park those lorries somewhere without causing absolute mayhem on our roads system in whatever Brexit scenario might take place?

Jon Thompson: The Government's position is that it continues to plan for a contingent exit.

- Q59 **Chair:** It is all right planning, but it is going to happen soon, so what will you do when it happens?

Jon Thompson: That is the Government's position. You might not like it, but that is the Government's position: to continue to plan for a contingent exit.

- Q60 **Chair:** Is HMRC buying land around Dover?

Jon Thompson: I can continue to repeat the line if you want me to.

Chair: But are you planning to buy land?

- Q61 **Sir Geoffrey Clifton-Brown:** Let's try this a different way: do you think the Government's planning is at a sufficiently advanced stage to stop these things happening? Clearly, we will look the laughing stock of the world if we cannot process Customs and lorry and traffic movements properly at Dover or any other port.

Jon Thompson: The border planning group has been asked to produce two integrated plans: one in relation to infrastructure, and the other in relation to IT systems. We have a conversation about CDS, but there is a large number of other IT systems across the Government—85 from memory—some of which have to be new. Although we have a detailed conversation in relation to the totemic nature of CDS, there are a wide range of others that you may come across in the course of the Committee where you may not think they are quite as far on as CDS.

- Q62 **Sir Geoffrey Clifton-Brown:** You are not answering the question.

Jon Thompson: I'm getting round to it.

- Q63 **Sir Geoffrey Clifton-Brown:** No, you are not. Let me have another go at it. Are you in detailed discussions with the Department for Transport on a contingency of how you will deal with delays in Dover and other ports?

Jon Thompson: Yes, on a contingent basis.

- Q64 **Chair:** Does that include purchase of land?

Jon Thompson: That's a matter for the Department for Transport.

Sir Geoffrey Clifton-Brown: Rotterdam, for example, has been purchasing a considerable amount of land to deal with this and, as you know, they have made some very critical public comments about Dover's



preparedness to deal with this situation.

Jon Thompson: A body that is not in public hands, of course.

- Q65 **Sir Geoffrey Clifton-Brown:** Does that contingency planning take into account what is happening on the other side of the channel? Clearly, whatever happens on this side of this channel, if we make a complete fist of it and there is a delay in lorries getting into our ports, that will have a knock-on effect on ports the other side of the channel.

Jon Thompson: Yes, and to provide you with possibly some reassurance, I think you met the Director General of borders, Karen Wheeler, in a hearing that you had in October or November. Karen's remit has been extended to integrate the contingent plans of arranging the different Government Departments on a thematic basis. For example, on infrastructure, and in relation to IT systems, those are the two where we feel some further work needs to take place.

The hearing that we had in the autumn identified that the border is itself not the responsibility of one individual Department—there are 26 different Government organisations involved. Therefore, what is the oversight of those Government Departments and what is the ministerial oversight? In the response that they gave you, they said that, up to this point, we have been reporting into an Inter-Ministerial Group chaired by the Secretary of State for Exiting the European Union. There is a view that that needs to go to a slightly different level, to make sure that all Departments take the action that HMRC has taken at the speed that it has, so you could have a similar conversation to the one you had with us about CDS with a range of other Government Departments. Certainly, there is some further work to take place there, yes. I do not know if that still answers your question.

Let me further add that we have established a series of working groups—in particular one with Dover and Eurotunnel, because clearly that is a significant crossing. We have also established an airports group, a broader ports group, a group with the devolved Administrations and so on. Karen's work has continued to expand, so that we get down to a different series of risk analyses. There are risks on a point basis; in Dover, for example, there are risks on a "what is crossing the border" basis; there are different risks for plants than there are for people; there are risks on a systemic thematic basis—infrastructure and IT systems. She has been able to produce various different risk analyses of the contingent plans, but certainly there is some further work to be done in that space.

- Q66 **Sir Geoffrey Clifton-Brown:** Is your Department doing any work on this? Clearly, if the sort of disaster scenario that I am painting occurred, you would be under considerable pressure just to let lorries and vehicles go through. What work has your Department done on the possible loss of duty through that sort of scenario occurring?

Jon Thompson: On a contingent basis, we have had a discussion with Treasury Ministers about the choices Ministers would have in that scenario. That is clearly for a decision later in the autumn. We have certainly had conversations with Ministers about stepping back again. Going back to my

three objectives, if you have to trade one of those objectives, it might be revenue.

Q67 Chair: Have you modelled the revenue impacts?

Jon Thompson: We have done some work about what it might mean and the period of time, and we have given that advice to Ministers. I don't think it would be appropriate for me to—

Chair: No, we are not asking you to share it.

Q68 Sir Geoffrey Clifton-Brown: But you are saying you have done the work.

Jon Thompson: I can assure you that that has been done, and we have had discussions.

Q69 Chair: There are three priorities to assess, and we would hope that Ministers are asking for that information. So you are giving it to them. Are you updating it regularly?

Jon Thompson: I don't know whether it has been updated in the last three months. I certainly recall having that conversation with the Chancellor about it.

Jim Harra: To give reassurance, we have been working on what the long-term compliance model needs to be, on the extent to which it needs to rely on infrastructure at ports, where it is sometimes space-constrained, and on the extent to which we can manage the compliance risks away from ports. I mentioned earlier in relation to Chinese textiles that we have significantly increased the level of pre-clearance checks on goods coming into Felixstowe. We have not been doing those checks at Felixstowe port; we have been taking the goods away from Felixstowe port to an inland clearance facility where we have been able to do that. We have been developing a compliance model that enables us to do pre-imposed clearance checks away from the port if necessary.

We also expect in some scenarios to see a significant increase in demand for transit, which needs infrastructure as well. That is normally supplied by the market, and we have been doing work to try to flesh out what the volumetrics of that will be and the geographic locations at which we expect to see it so we can stimulate the market to produce the infrastructure to support that.

If we were to leave with no deal in March 2019, there is not the time to have all the infrastructure in place for an optimum compliance model. Therefore, as Jon said, you are balancing those three objectives.

Q70 Sir Geoffrey Clifton-Brown: I'm still getting from both of your answers that seem to imply that you haven't got sufficient infrastructure at the moment to deal with all the borders and airports. Given that others—notably Rotterdam—are acquiring this infrastructure, is there a lag between what others are doing and what the United Kingdom is doing in preparation for these possible Brexit scenarios?



HOUSE OF COMMONS

Jim Harra: They may well be, because they may well be taking a different approach to what they are going to do after EU exit. All I can say is that we have been working on our compliance model, on what the infrastructure requirement for it is, and on how and when we can have that infrastructure in place. We don't believe it requires infrastructure solely at ports. We can manage risks in different ways.

- Q71 **Sir Geoffrey Clifton-Brown:** Let me ask one more sensitive question. The Northern Ireland border is particularly sensitive. Clearly, you don't know exactly what is going to be negotiated. Have you modelled all the scenarios including traffic movement, people movement and loss of revenue? All the same questions.

Jim Harra: People movement is not my Department's responsibility. We have got three models that apply to the Northern Ireland border. First, we have a negotiated model, which is what we call the new Customs partnership. If it was negotiated, it would not require us to do any Customs processes on goods crossing the Irish land border.

We have a second model called the highly streamlined Customs arrangement, which contains proposals for how we could absolve a large number of very small traders from any Customs processes at the Irish border, and restrict them to larger traders. That would not require physical intervention at the border itself. It could be done electronically and could be managed well away from the border. Jon has previously given evidence that, in the event of no deal, it is not our intention to stand any physical infrastructure at the Irish border. We will need to see what the Irish needed.

- Q72 **Chair:** Last time, you said that the Irish border was not part of the border planning group's planning because it was in with the Northern Ireland Office, but Mr Harra has just given quite a detailed description of what is being planned, so you are feeding into that discussion.

Jon Thompson: I think Jim was giving you an HMRC answer to Sir Geoffrey's question. Northern Ireland was put within the remit of the border planning group in April 2018—this month. We have now been asked to look at Northern Ireland specifically.

Chair: It makes some sense to have that input.

- Q73 **Anne Marie Morris:** We have talked about the issue of how you plan depending on whether we do a deal or we do not do a deal. Effectively, we are looking at it in a binary way, but clearly there is another option, which is that we do not do a deal but, instead of going out with a hard Brexit, we have a transition agreement. We do not know yet whether that is going to be the case, but it is a third piece. What do you think the implications and impact of that would be, and what planning have you done for it?

Jon Thompson: All the planning is on the basis that there will be a transition period and a negotiated end point, with the result of a long-term economic partnership between the United Kingdom and the European



HOUSE OF COMMONS

Union. I am sure Jim can give you the details in relation to Customs if you want. I am slightly lost about what your second scenario is. For us, the scenario is the Government's preferred option of a negotiated deal that starts on 1 January 2020. For Customs, there are two options, as Jim set out. The alternative is that there is no deal and there is a contingent exit in April 2019. Those are the scenarios that we are working on. Was there one I missed?

- Q74 **Anne Marie Morris:** As I understand it, nothing is agreed until everything is agreed, so while there is a framework for what that transition deal might look like, that may not be what we get. In that circumstance, what would your position be?

Jim Harra: You are right that, although the EU and the UK have agreed the terms of an implementation period, nothing is agreed until everything is agreed. Although that has been sorted out and set to one side, you have to get other things agreed to be sure of having that implementation period. The alternative scenario is that we leave on 29 March 2019 with no deal, and we continue actively to plan for that scenario.

- Q75 **Anne Marie Morris:** A transition agreement is, by its nature, transitional. If we have to move from scenario A to scenario Z, things will have to change en route, otherwise we will not get from where we are now to where we need to be with this new partnership arrangement. How are you going to deal with that uncertainty and the need to be able to change?

Jon Thompson: Shall we stick with Customs to make this straightforward? There are two Customs options on the table, which were published last September: the highly streamlined option and the new Customs partnership. They have different implementation periods, but between now and January 2021 we will be working on implementing those for January 2021, depending on the outcome of the negotiations and the Government's policy choice about which of those options becomes the preferred option and is then negotiated with the European Union. You are right: we will be working along a route. We have produced a level 4 critical path analysis, which is a very detailed Gantt chart of all the workstreams that are required, all the milestones for that, all the timescales and all that kind of thing. We have submitted that for the highly streamlined option. Have we reached level 4 on the new Customs partnership?

Jim Harra: Almost, yes. We have that in draft.

Jon Thompson: So all that could be made available to the National Audit Office if they wanted to have a look at the planning. If the Government at some point said, "Okay, it's this option—go and implement that," we would dust off that implementation plan and implement that plan over the period of time that we had.

- Q76 **Chair:** The border planning group involves 26 Departments and agencies in total. Some of those Departments will make decisions that impact Customs or other HMRC business. What are the biggest risks for HMRC's core business of what other Departments need to do, and who will



HOUSE OF COMMONS

arbitrate? Since you chair it, do you get to do that?

Jon Thompson: I do not get to arbitrate—if only I did. Just to be really clear, it is a joint chairmanship between me and the Second Permanent Secretary of the Home Office, who I think came along to the hearing. The point of the group is to co-ordinate and integrate so that one Department does not make a policy decision that impacts implementation by another Department.

Q77 **Chair:** But given the pace you are moving at and the fact that you have interlinking policies, they will surely have knock-on effects.

Jon Thompson: Yes, they could do. I think we have been reasonably well sighted on this. If a different Department decided to significantly increase the amount of compliance checks that it wanted to undertake, for policy reasons, but that is then implemented by another body at the actual border, we need to take that into account. We flag that fairly early on to the Inter-Ministerial Group. We have an escalation to the Inter-Ministerial Group, chaired by the Secretary of State for Exiting the European Union, in which we can flag if there is potentially a policy agenda in Department A that would have an operational impact in place B.

Q78 **Chair:** So Ministers then make the decision?

Jon Thompson: Ministers can then make a trade-off decision between that policy and that implementation.

Chair: Ms Morris has a rich seam of questioning here, so I think we will come back to this.

Jon Thompson: I can give you a specific example, if you want.

Q79 **Chair:** We will move on because we have a lot of other ground to cover. I want to move on to VAT. I thank you for your update to us on the proposals that we put to you in our report of last October about tackling online VAT fraud. I just want to whip through a couple of questions before moving on to Ms Mahmood, who has some questions on this as well.

We asked you for an agreement to be put in place by March next year that sets out ways in which HMRC and all online marketplaces will work together. You came back saying that you agreed with the recommendation, and that HMRC will publish this agreement in 2018 and invite online marketplaces to become signatories to it. It is very polite to invite them. What if they don't sign up to it?

Jon Thompson: I think we are expecting that they will. If not, the—

Q80 **Chair:** You mean an invite from HMRC actually has a heavier threat behind it than the wording of that implies?

Jon Thompson: It is surprising which doors an email from the Chief Executive of HMRC opens. I have to be honest with you about that.

Chair: The power in your position, Mr Thompson.



HOUSE OF COMMONS

Jon Thompson: Yes, and you can use that as a positive or otherwise. If not, there are changes that came into place on 3 April³ 2018 that place responsibility on the marketplaces for VAT. It also places responsibility on them for previous sales, if they knew, and says that they needed to display valid VAT numbers. The memorandum of understanding between us and the online marketplaces reinforces that, because it allows the free exchange of data. If you recall when you had two witnesses and you were trying to differentiate between one and the other, one of them was actually giving us information and the other was not.

Q81 **Chair:** Are they now giving you the information that you need across the board, or are some not?

Jon Thompson: Once they sign the MOU, yes.

Q82 **Chair:** How many have signed it so far? I know we are only at the end of April.

Jon Thompson: None. I think we sent the—

Q83 **Chair:** It is 30 April today. Is there a prospect that some might?

Jon Thompson: Some were going to sign last week, with Ministers, but that didn't quite take place. I am fully expecting the ones that you would expect to sign it to sign it. We have every indication of that.⁴

Q84 **Chair:** So it will be when the cameras and the flash bulbs and the Ministers are there? Is that what the deal is?

Jon Thompson: Frankly, I think they should just sign.

Q85 **Chair:** We would say the same. Are you waiting for the photo opportunities?

Jon Thompson: I fully expect the online marketplaces that you are rightly concerned about—we are too—to sign the MOU and to provide us with the data, and then we will move from there.

Q86 **Chair:** You are going to publish it and update it at regular intervals. How often? Will it be on the website in live time? Every quarter? Do you have any idea on that?

Jon Thompson: I thought it was going to be annual, but I will have to check.

Q87 **Chair:** It would be helpful to know, in case anyone is not complying. What is the sanction if they don't sign after you have invited them? There was some talk about a sanction being that you would take them off the list, ~~but what if they are not on it?~~ I can't quite work that one out myself.

³ Note from witness after the session: these changes in fact came in on 15 March. Any subsequent references to this date refer to 15 March.

⁴ Note from witness after the session: two online marketplaces have signed the agreement as of 30 April 2018.



HOUSE OF COMMONS

Jim Harra: Yes, first of all, it was obviously a recommendation of the Committee that we create this agreement. It is in the nature of agreements that they are voluntary for people to enter into. We are not reliant on this agreement to pursue this fraud because we have a range of powers. If we felt we needed more, I am sure that Ministers would want to listen to that.

However, the main sanction is public visibility of the fact that they have either not signed the agreement, or if they are not complying with it, that we will remove them from the agreement so that they could not claim to be a signatory to it when they are not actually living up to it.

Q88 Chair: We made a further recommendation about assessing the effectiveness of tackling online VAT fraud. That was recommendation 4. You said, again, that you agreed. You said that the measures that you introduced as a result of the work that has been done so far by us, the NAO and others, includes about 27,550 applications to register for VAT from overseas online retail businesses. That was in January 2018. That compares with about 1,650 for 2015, so a big uplift, but how many of those have you processed so far? They have applied to register for VAT. What is the progress from January to now?

Jon Thompson: My understanding is that they have all registered and we are receiving additional VAT of £100 million, as laid out in the paragraph—

Q89 Chair: So it has all gone through. It is not like they are just sitting there having applied and waiting to hear back.

Jon Thompson: That is one track. There is the second track about us putting more people on to this issue and then issuing the joint and several liability notices, so there is another £120 million in that. On top of that, you have the three further steps that started on 3 April 2018, plus the fulfilment house due diligence scheme, where registration is open between April and June. Then the Government are consulting on split payments. So there is a range of different ways in which we are pushing on this issue.

Q90 Chair: We will come on to split payments in a minute, because I think there are some important questions there. You say in that same response to recommendation 4, that you have issued 1,300 joint and severally liable notices and the £110 million in compliance yield is being identified and assessed. How much more do you think you can get? Those 1,300 are being assessed. You haven't yet got it. You might not get it all. How much do you think you will get in total from the cases that you have on joint and severally liable notices? There were 2,100 cases that you were looking at overall, weren't there?

Jon Thompson: We would not expect to get it all.

Q91 Chair: So not all that £100 million, but what are the parameters? What is the range you think you are looking at?

Jon Thompson: I haven't actually sat down and added together all the measures. There is a range of different measures here. We haven't actually done that, unless Jim has seen some further work.



HOUSE OF COMMONS

Q92 Chair: The Treasury has not yet banked the money, then? I am not surprised you don't want to give a range, in case the Chancellor is listening and takes you at the top end, but can you share with us a range of what you think we can get in from this, because it gives us an idea of the scale of the problem.

Jim Harra: I do not actually have the number to hand. In terms of the measures, obviously the Office for Budget Responsibility has costed the yield that it expects the Government to get as a result of these measures. There was an update on that in the autumn Budget. I am afraid I do not have the figures to hand. We have continued to ramp up the resources and the compliance activity. As Jon mentioned, some of the measures have not yet come through.

Q93 Chair: It is just that we like targets in this Committee, but if you have an idea of what you think you will get, you can come and explain to us, and to taxpayers, how far you have got in that and what the barriers are. We are quite a champion of giving you the powers that you need. We are your friends on this. We criticise you heavily, but we are your friends, because we want the tax authorities to get this money in, and we want small businesses in the UK to be protected.

Jon Thompson: I am grateful for this opportunity. Of course, my famous, "More money, more power, more information, more people," is now a meme, I believe.

Chair: I am sure the Chancellor says something like that too.

Jim Harra: I can give you the target actually. Taken together, the Budget 2016 measures and the latest Budget measures are expected to raise just under £1 billion by 2023. That is the OBR's assessment of how much additional revenue—

Chair: That is cumulatively between then and 2023.

Jim Harra: That is cumulatively over that period, yes.

Q94 Chair: Are you going to have that broken down a bit? Because you will see waves as you get a lot in and then we know how compliance works—it doesn't always go in one straight line. So have you got any trajectory yet about how you will get this money in, how much and the pattern?

Jon Thompson: Perhaps we ought to give you a written response that says that there are four packages of measures here, here is what the expected deal is in the years going forward.

Q95 Chair: We would like to see that very much. I just wanted to touch on split payment mechanisms, which we have been quite keen to see, but the European Commission published a report in December, which said that their study found no strong evidence that the benefits of split payments would outweigh its costs. I wonder if you have any further thoughts on the work you are doing on split payments.



HOUSE OF COMMONS

Jon Thompson: The consultation paper is out. It asks two fundamental questions. First, who should collect the money? There is a presumption in the paper that it is the merchant acquirer. Secondly, therefore, what is the role of the marketplace in relation to the collection of money? Those are the two fundamental questions in there. You are pushing us along here, which is good. I think it is fair to say that the United Kingdom is pushing the envelope globally on this. There are some parties who think we are pushing it further than what might be reasonable. We think the right way of testing it is to push out a consultation paper and see whether it is operable.

Q96 **Chair:** Remind me when the consultation ends.

Jim Harra: It ends on 29 June.

Chair: So when you are in front of us next time, or the time after, we will be able to push you on this more. You know where the Committee stands on this so I will leave it there for now.

Q97 **Shabana Mahmood:** I have a couple of questions based on some written evidence that the Committee has accepted today, which I think you might have had sight of, Mr Thompson, based on one of your earlier answers. I appreciate that you probably haven't had the chance to review it; to be fair, we have had very little chance to review it as well.

The written evidence is by RAVAS on VATfraud.org. One thing it talks about is the seizing of stock, the freezing of funds and the blocking of listings. The examples that they give relate particularly to Amazon. What are your powers in relation to the seizing of stock and so on? What can you do when you issue a notice?

Jim Harra: Generally speaking, we have two seizure powers. One is under Customs legislation, which we have used, for example, in some fulfilment houses where, if we find that goods have been mis-declared, we have the right to seize them. Furthermore, we have a right of access to goods, basically under bailiff legislation, if we have an unpaid debt. That is probably more relevant here. For example, if we make those assessments and those assessments are unpaid, one thing we would look at is whether there are goods that we can take to help towards paying the debt.

Our powers are greatest where the goods are held in the debtor's own premises. Where goods are held in a fulfilment house belonging to a third party, under UK law, as it currently stands, we have to seek a warrant to gain access to the premises for that, so it becomes less and less of a practically viable way of doing things. We are engaging with the Ministry of Justice about whether those powers really meet our needs or whether, in fact, we need greater powers.

Chair: But you can get a warrant.

Jim Harra: You can, but you've got to go through that. We discussed this earlier in relation to Lycamobile. There are quite stringent sets of evidence that you need to go through, which causes delays and costs. It becomes



HOUSE OF COMMONS

less and less of a cost-effective way of recovering your debt. We are looking at whether we can get those powers.

- Q98 **Chair:** It is not just about debt, is it? It is about the impact on other businesses that have been screwed because some people have tried to avoid the VAT.

Jim Harra: Yes, I appreciate that. We are engaging with whether we can get a more streamlined set of powers that would be more useful to us.

- Q99 **Shabana Mahmood:** Are you basically saying that the warrant regime, as it currently stands, is probably too stringent for these sorts of cases, and that you should be able to make a straightforward application that, all things being equal, should go through on the nod from a judge?

Jim Harra: From our point of view, it doesn't necessarily make sense why there is a more stringent set of rules for when goods are in a third party's premises than when they are in the trader's.

Shabana Mahmood: Especially when it is an online marketplace with a warehouse.

Jim Harra: In those circumstances, the traders generally don't have their own premises in the UK.

- Q100 **Chair:** Amazon wrote to Chris Heaton-Harris—a Member of Parliament and former member of the Committee—to say that, to their knowledge, HMRC has never issued a notice to Amazon to seize the third-party goods belonging to a seller in respect of whom HMRC has issued a joint and several liability notice.

Jim Harra: That's correct. It is not part of our current compliance method for tackling this risk, because we don't think, as our powers currently stand, it is a practical way of us making a meaningful difference. Whether we can use that is definitely an area that we want to look at.

- Q101 **Shabana Mahmood:** You said you were having conversations with the Ministry of Justice. Is that correct?

Jon Thompson: Yes, about what changes to the legislation might be required to help us further. Although we have seized pallets of goods and although we have managed to close four fulfilment houses, we frankly think that some further changes to the law are required in order for us to basically operationalise the problem we have.

Jim Harra: That is under Customs legislation.

- Q102 **Shabana Mahmood:** When do you hope to conclude those discussions? When might we expect—or when would you hope for—some sort of legislative action on this front?

Jim Harra: I couldn't say. First, we need to understand that there are presumably good reasons, from a safeguarding point of view, for why this legislation is in place. We have to assess how helpful we think it would



HOUSE OF COMMONS

really be to us in managing this compliance risk versus what the safeguarding reasons for the legislation are. I don't have a definite time.

Q103 Shabana Mahmood: Do you think you would require primary or secondary legislation?

Jon Thompson: My note says that we would need to legally extend the primary legislation. We can give you a longer answer, if that would help?

Q104 Shabana Mahmood: It would be helpful only because— you are looking for a simplified regime rather than an extension of the current regime. The regime can cover these, but you are saying it is not cost-effective and the evidential burden is too high. Is that correct?

Jim Harra: Yes, that is correct. We have not used it as a tool in our toolkit for tackling this fraud.

Q105 Shabana Mahmood: It would be helpful if you wrote to the Committee with more details.

We have had 27,500 or so new registrations, with some numbers in this evidence from RAVAS and VAT Fraud about the auditing and how long it might be taking. Can you give us an update on where you stand on auditing of their compliance and how much work will have to be done to reclaim unpaid VAT?

Jim Harra: Our processes for dealing with those applications for registration are, first, that we examine them and check that the people genuinely should be registered in the UK for VAT, and if so, they are admitted to the register. They are then risk-assessed to determine whether on an ongoing basis, and prior to their registration, they have been compliant. If they have not, they can be taken up for investigation, at which point we can use the joint and several liability powers against them. That is part of a general risk assessment. They are actively monitored for their prospective compliance to make sure that they are filing returns and returning liability, and we can investigate those returns to see if the returned liability is correct. We look for evidence of whether they should have been registered earlier than they applied, in which case we can go back into earlier years.

Q106 Shabana Mahmood: Of the 27,500, is it only the 2,100 that you have already opened investigations into where they fell foul of that initial general compliance check?

Jim Harra: In terms of using the joint and several liability powers—the powers we have had to date have been prospective, so we would not have been able to use those in respect of past liabilities; yes, that could be a subset of those cases. We have a variety of sources, some of which are voluntary registrants, and some of which are people who have not voluntarily stepped forward. We can compulsorily register a business even if they do not apply to do so.

Q107 Shabana Mahmood: On the investigations you have opened, what sort of timescales are we looking at for completion?



HOUSE OF COMMONS

Jim Harra: The agreement we have published makes sure that the online marketplaces expedite these cases and act quickly, but it does vary from case to case, depending on whether we get co-operation or we have to use our formal powers. It is going to be a slog to get that £1 billion in up to that date on an ongoing basis. It is not going to be a simple, quick matter to crack through.

Jon Thompson: You are asking about the stock, aren't you? It is worth reiterating that from 3 April 2018 there is a different flow arrangement. From that point on, it is much easier to lay the liability on the marketplace.

Q108 **Chair:** How are you making sure that you tackle this issue of phoenix companies, which is not just an online issue, where a company closes and reopens?

Jim Harra: We are monitoring that because we are aware that it is a risk. Some of our intelligence earlier on was that online retailers with a good history would want to comply rather than use phoenixes, because of the impact on their trader history. We are aware that we need to monitor that risk to see whether we are having the impact that we need or we need to take further action.

Jon Thompson: It is a general issue over and above VAT.

Chair: Yes, absolutely, we are aware of that.

Q109 **Shabana Mahmood:** Finally, RAVAS and VAT Fraud suggest that you are reliant on their information for compliance activity in this area. How many notices have been issued to traders who were not listed on VATFraud.org or did not come through to you via RAVAS?

Jon Thompson: I wish you had asked me that question when we came and did it in detail, because we had that answer. They referred to us a number, then we added on our own number. I had all that information to hand then, but I do not have it now.

Q110 **Chair:** Could you write to us with it?

Jon Thompson: I happily would. We are not heavily reliant upon them. It is very helpful to have them feeding us information, but we will take intelligence from anyone, frankly.

Q111 **Chair:** Apparently, in a meeting with RAVAS and HMRC, it was claimed that much of the fraud was due to simple ignorance of the rules by Chinese fraudsters. I do not think that in law, in the UK, ignorance of the rules is enough to get me off paying my tax, so surely it cannot apply to Chinese sellers.

Jim Harra: No, it certainly does not absolve anyone of their obligation to pay the tax. An important thing is that there is a range of different behaviours here, which will then respond to different responses from HMRC. To the extent that a trader is willing to comply but is either ignorant or has found that too onerous, steps like getting the online



HOUSE OF COMMONS

marketplaces to engage and communicate with them, us setting up our Chinese language website, which we have done, will encourage those people to come forward. There are obviously hardened fraudsters in this group, which will require a different response. I think Ruth was trying to say that there is a range of behaviours here; it is not all hardened fraudsters. There are people who will respond to us engaging with them and will voluntarily comply. We have seen some of that.

Chair: On the subject of Chinese businesses, we are also now aware of this issue—it is not really your area—about the postage. The reason the postage is cheap from Chinese sellers is that there is a crazy deal about cheap postage for developing countries. Happily for you, Mr Thompson, that is not in your remit, but I will just flag it up because it is something that, while you are looking at these issues, ought to be taken into account because it certainly hits British business.

Q112 **Anne Marie Morris:** VAT is a European tax. Clearly when we come out, we will set up our own. I suspect it will start as a mirror tax, but going forward there are likely to be changes that the Government wants to make. How flexible are you? You will need to be, when there are issues around changing the rate of tax for tourism-affected businesses so as to be competitive with France. Where is the flexibility? How do you see those two taxes diverging and, therefore, how are you going to ensure that you can put in place the resources you need to deal with that?

Chair: I think it is probably a bit beyond Mr Thompson's remit to set tax policy, though he might like to try.

Jon Thompson: It is relatively straightforward. Clearly, in the repatriation of value added tax it will be for future Treasury Ministers to decide what policies they want in relation to VAT.

Q113 **Anne Marie Morris:** But it is about speed. How quickly can you switch it?

Jim Harra: First of all, there is an international OECD model for VAT, which the EU model closely reflects. Although there will be sovereignty for a UK Government to make its own decisions, you might expect that we would stick to a recognisable OECD model, which would reflect the—

Q114 **Chair:** So, as Ms Morris asked, how quickly can you change VAT?

Jim Harra: It really depends on the change. If you are talking about, for example, introducing a reduced rate, there is already functionality for reduced rates, so I think we can do that pretty quickly. If it is about changing the classification, for example, of what is zero rated or standard rated, generally speaking our systems do not do that; it is the software in the traders. It would be the timeline that they needed to change their system. We had some experience of that around 2009-10, when successive Governments changed the standard rate of VAT. I think that around rates we can move pretty quickly.

Q115 **Chair:** So if Ms Morris was the Chancellor now and she said, "I want to change the VAT rate for hotels," because she was protecting tourism in Devon, how long ahead would a politician have to make that decision for



HOUSE OF COMMONS

you to implement it?

Jon Thompson: It is days and weeks, not years. It is a relatively flexible tax in that sense, because the obligation is on the taxpayer.

Chair: Thank you very much; that is useful for us to know. We are going to move on to Mr Lee Rowley, who is going to probe some of your customer service standards.

Q116 **Lee Rowley:** I was not here last time you came. I had to step out to a Delegated Legislation Committee, so I apologise if I misinterpret anything—I am sure you can correct me. The first thing I want to talk about is your pension calculator, which I understand hit the *Financial Times* a few days ago. Why was the pension calculator giving out incorrect advice?

Jon Thompson: The pension calculator you are talking about was stood up for the new financial year. We recognised that it was incorrect for taxpayers who earned more than £150,000 a year and wished to contribute more than £40,000 to their pension. It was up for 11 days, but it is only for that category of taxpayer, which is quite a small number of taxpayers. According to the evidence we have had a look at, fewer than 150 people used it. It is a calculator; it is not definitive. Nobody has lost out. It is for the current year, 2018-19. Customers have until 5 April 2019 to decide on what transactions they want in the course of the current financial year, and then they have to do their self-assessment by 31 January 2020. We cannot see that anyone would possibly have lost out in those circumstances.

Q117 **Lee Rowley:** That can be stated in the press. What was the reason for the inaccuracy?

Jon Thompson: It didn't work for that narrow band of taxpayers. We identified that it was not working; we have asked for it to be corrected.

Q118 **Lee Rowley:** How did it get through all your processes and quality assurance checks to ensure that it was working in the first place?

Jon Thompson: For that group, you're into a quite complicated set of calculations about the tapering of the annual allowance and how that interacts with your total pension contributions. A mistake has been made and we need to correct it. If any of the 150 people who logged on and checked it had the wrong information, then I apologise to them. Somewhere in all this there has clearly been an error and we need to correct it.

Q119 **Lee Rowley:** Where was that error?

Jon Thompson: Somewhere in the team that put up the pension allowance calculator.

Q120 **Lee Rowley:** I derive from this that your organisation struggles with complex calculators, so next time one goes up, we should all potentially not take it as it stands?



HOUSE OF COMMONS

Jon Thompson: Well, one swallow doesn't make a summer, does it?

Q121 **Lee Rowley:** No, but I think it's two swallows. Wasn't it last year that you had a similar problem? How many swallows before we get a flock?

Jon Thompson: I am admitting that, for 11 days that the pension allowance calculator was up, it was wrong. We apologise to any customers who may have made a wrong calculation. We have taken it down, and we will correct it and put it back up again.

Q122 **Lee Rowley:** I would be keen to understand the detail, so perhaps you could write to us with more detail once you have concluded your assessments internally.

Jon Thompson: Sure.

Q123 **Lee Rowley:** If we could move on to transformation, I understand that when you came here previously, an extensive reprioritisation exercise was under way. Could you give me the latest position on that reprioritisation exercise?

Jon Thompson: Certainly; I don't think the reprioritisation process itself was expensive, by the way. When we came here before, I think I said that there were 267 potential change projects in the HMRC portfolio. To that we needed to add Brexit-related projects and those which arose from the two fiscal events last year. So that added on a further 81 projects, to give us a potential of 348. In the course of 2017-18, we completed 111 projects. That takes you back down to 237. We have decided to stop or slow down considerably 39 of those projects, in order to create the capacity and capability necessary for the incoming projects of Brexit. We have also taken the opportunity to consolidate a range of projects which are similar. So we have consolidated 70, with the result that we have entered into the current year with 128, and with the capacity and capability necessary to deliver the Brexit-related projects in accordance with that prioritisation model.

Q124 **Lee Rowley:** Are the consolidated projects changing in scope in any way? Have you reduced or removed scope?

Jon Thompson: They may be, yes, at the margin. But to be clear, we have definitely decided to stop or slow down 39, which was one of the issues about—"Could you really contemplate such an enormous change portfolio?"

Q125 **Lee Rowley:** Given that the numbers that you have put forward could be interpreted as a relatively minor iterative change—39 out of 237—or a very significant change to scope—128 instead of 237—where on the continuum would you put it? How significant has the change been in terms of scope reduction or change transformation?

Jon Thompson: There are a range of things that we would ideally like to do, if you had fewer projects on. For example, we have decided not to make tax credits an online service if you're a new tax credit claimant. We had a plan to make that an online service; that project is not happening.



HOUSE OF COMMONS

New services to be added on to the personal tax account—unless they directly reduce the amount of contact demand by telephone or in writing, then those would stop. Examples of things that we have slowed down is our Newcastle Office, we have decided to defer the refurbishment of our Newcastle office for two years. We have decided to take a longer run at the so-called single financial account as part of Making Tax Digital for business. So the primary drive, which is for VAT and Making Tax Digital for business, remains on the same timescale, but the ultimate goal, which is to provide a single financial account for you as a business, that has been deferred whilst Ministers consider the further roll-out of Making Tax Digital for business.

It is quite difficult to give you some assessment of whether that is significant or not. The criteria we used were: which projects were urgent because of Brexit; which delivered us additional receipts; and which delivered us cost-efficiency; plus four others in relation to people, reducing risk, the impact on customers, and alignment to the overall goals of HMRC. We very clearly prioritised Brexit, receipts and efficiency. If they did not meet those criteria, then they got a lower priority.

Q126 Lee Rowley: On the basis of those changes, what's your revised benefits estimate of the project portfolio you have remaining?

Jon Thompson: Under the spending review 2015, we agreed that the efficiency programme would save £717 million of running costs—HMRC would reduce the base budget by 717. We are now estimating that to be £670 million⁵. On the revenue raised, the estimate was £480 million. Because of other changes—they are not necessarily related to reprioritisation—actually that has increased now to £694 million. So for the original investment of £1.3 billion as a one-off, ultimately the Exchequer would be better off by almost £1.4 billion a year.

Q127 Lee Rowley: Have you modelled as part of revenue raising which element of that £694 million pertains to the changes you are making rather than things outside the scope?

Jon Thompson: Probably in the detail with the team, if you want me to split the difference between the £480 million and the £694 million.

Lee Rowley: I cannot make any further comment on £480 million or £694 million. I do not know what the £694 million comprises of, so we are at a dead end on that.

Q128 Chair: Can I just chip in on the £717 million and £670 million of running costs and efficiencies? Does that include the estates—the new offices?

Jon Thompson: Yes. Just to be clear, it is a reduction of £47 million⁶.

Q129 Chair: Yes, but that wraps up the estates, presumably?

⁵ Note from witness after the session: the correct figure is £675 million

⁶ Note from witness after the session: the correct figure is £42 million



Jon Thompson: Yes.

Q130 **Lee Rowley:** As a former project manager, I am intrigued by the reduction in benefits versus the reduction in the number of projects. Your benefit reduction is about 5%—less than about 5% in total—so 95% of the benefits will still be realised, but you are cutting your projects by a third to a half, depending on which numbers you use. Does that mean that a large number of projects were initially superfluous or were not delivering benefits? Is it an error in their definition? Or is there some other problem somewhere in here?

Jon Thompson: No, they had a very low financial rate of return because they may have been focused on improving the way in which a customer could interact with HMRC. So as I said, we gave a triple weighting to Brexit, a double weighting to receipts, and a double weighting to cost-efficiency, so that those would be prioritised over the others—those with lower rates of driving more receipts or those with lower rates of cashable efficiency would be further down the list.

Q131 **Lee Rowley:** It is very intriguing, because your triple assessment on Brexit is a must-do. It is not a 'do' to drive revenue or a 'do' to drive cost-efficiency.

Jon Thompson: Correct.

Q132 **Lee Rowley:** You have managed to square the circle. You have managed the serendipitous ability to retain almost all of your benefits, reduce your projects quite significantly, and still managed to deliver the Brexit must-haves. That is a very ambitious and enthusiastic place to be. Do you have confidence that will be achieved when we are here in a year's time?

Jon Thompson: I think it is fair to say that we spent a very long time working our way through the lists. We spent days in Canary Wharf saying: "What's the data? Is this data any good? Is that right if you change the criteria like this? What is the sensitivity analysis?" and so on and so forth. This was a significant effort by the executive of HMRC. It was done with full visibility of the Treasury, who were constantly in the room in order to make sure that there was appropriate independent challenge—"Are you sure? Are you really sure that it drives those benefits?" and so on and so forth. It was a significant effort by us as part of planning ahead.

We had a capacity and capability risk assessment before and after, and therefore an assessment of what difference it makes in terms of the impact on customers, on the number of project managers you have got on the core IT infrastructure of the organisation and so on and so forth. You can see the change in the risk pattern and the lowering of the risks, while still delivering what we think is affordable and meets the objectives we have set. I do not want to understate the amount of effort that was required from the executive—it was a significant effort from all of us—but that was what we needed to do.

Q133 **Chair:** So you are confident, as Mr Rowley has asked?

Jon Thompson: Yes.



Q134 Lee Rowley: When you were previously here I understand you were clear that a number of the benefits that were loaded into previous rounds of projects were “very aggressive”. Are you now confident that benefits you have loaded into this current prioritisation round are reasonable and will be achieved?

Jon Thompson: The area where significant questions remain is the reduction in customer contact. Where in 2015, our predecessors agreed that there would be a 70% reduction in customer contact by traditional means through the switch to alternative means of contact—mostly digital working. I still think that is overly aggressive, and it was also set on the wrong base. I think I have said that here before.

We have tried to correct that to some degree. So we are seeing customers move to more digital working, but not at the rate of the spending review 2015. That remains one of the fundamental questions in the 670 revision⁷. We now do not require a 70% reduction, but we are now looking at a 50% reduction over five years. That seems more realistic, as we have seen a 10% reduction in the second year. That may still be something where it may not happen. I think that is probably the key financial risk.

Q135 Lee Rowley: You are speaking relatively. Just so I am clear, do you have a high, medium or low level of confidence that 670 can be achieved on time?

Jon Thompson: Somewhere between medium and high.

Q136 Lee Rowley: When will we be able to see the first achievements of this re-planned prioritisation? Presumably you are monitoring it monthly?

Jon Thompson: Yes, we have an extensive portfolio report. Once a month the Executive Committee meets and talks its way through that portfolio for an hour as part of the management information set. All of that is transparent to the NAO, so if you are interested in that and want to see it, that is entirely fine by me.

Q137 Lee Rowley: So we’ll be able to see the profile now, and we’ll know when you come next whether that profile has been hit against the 670?

Jon Thompson: Yes.

Q138 Lee Rowley: Are you confident that you have all the skills you need to deliver this from a HR perspective?

Jon Thompson: No, not quite. We still need some further injection in relation to IT project managers, and digital skills at the digital front end. Those remain areas where we need to recruit further staff. That is in relation to Brexit. So whilst we currently up to 898 colleagues working on Brexit, I think I have been reasonably transparent in saying that that could reach beyond 5,000. Indeed, we have gone for the recruitment of customer services and customer compliance, but there remains a question about how much further can we go with the employment model or the

⁷ Note from witness: the correct figure is 675

contractor model, specifically in relation to our chief digital and information officer's area.

Q139 Lee Rowley: When does your lack of skills or your challenge of project managers start impinging on the 670 delivery?

Jon Thompson: This It has been a constant with this transformation programme: do you have enough digital skills and enough project managers? It has been one of those risks that we have been continuing to monitor. We have recruited more staff into that area, but what Brexit has now done is say, "Hang on a minute—now you need even more in that particular area."

We can give you some sense about how many more people that we need in both of those professions. To be upfront about it, I think this is a civil service-wide challenge in relation to the projects necessary for Brexit. We think we have a route to it, but we still need to recruit people, or use our supply chain to provide us with access to those people.

Q140 Lee Rowley: Presumably there will come a point in your pathway where if you do not recruit those people your ability to deliver the projects will not be there, and therefore your ability to deliver the savings will not be there. When is that date?

Jon Thompson: Yes, but it depends on the 128. In a sense, it is a theme that you may have enough on the Customs Declaration Service, but you might not have enough on a different border systems programme. The reporting that we get is transparent, system by system, about what are the rate-limiting steps for this project, in terms of it going forward, so that we can identify that we have a theme but we can also identify that where it is most applied is on project A or B but not on C, D or E.

Q141 Lee Rowley: What are your current customer service stats looking like?

Jon Thompson: For 17-18, the average speed of answer was four minutes and 28 seconds.

Q142 Lee Rowley: Is that an average across the year?

Jon Thompson: It is an average speed, in comparison with three minutes and 54 seconds in 16-17.

Q143 Lee Rowley: And what is the current or last known number for the last period of 17-18?

Jon Thompson: I don't have much to hand. Four minutes and 28 seconds was the average for the year. It would be within 10 seconds of that. It has been fairly consistent across the year. The target is five minutes, so we are below the ministerial target.

Q144 Lee Rowley: And that is now a formal target of yours, is it?

Jon Thompson: I want to say that it is in the Single Departmental Plan.

Q145 Lee Rowley: And you describe it as a target, so we can use the same nomenclature that you're using?

Jon Thompson: We describe it as a target, yes. It was five minutes in 17-18. We are still in discussion with Ministers about what the target might be for 18-19.

Q146 **Lee Rowley:** But this is the current target until those discussions have concluded?

Jon Thompson: Yes. Again, we get all that information monthly and we can break it down by which line and on which day.

Q147 **Lee Rowley:** And does that five minutes include or exclude the period that the customer is going through the automated system?

Jon Thompson: Excludes.

Q148 **Lee Rowley:** When will you be bringing that into your target?

Jon Thompson: We won't.

Q149 **Lee Rowley:** Why?

Jon Thompson: We didn't agree with the recommendation.

Q150 **Chair:** We know you didn't agree with us. Mr Rowley is asking why not. Can you explain it a bit more forcefully than the Treasury minutes?

Jon Thompson: We think that, for some customers, the interactive voice response—the IVR, as it is called—provides them with an answer. We could bring it in and then change the five-minute target. We decided that we don't think that it is the way forward. We think that the way forward is actually to bring forward a more rounded basket of customer indicators. While we measure the average speed of answer, the number of calls within 10 minutes and the speed of response to letters and so on, we do not measure whether that contact actually answers the question.

Q151 **Lee Rowley:** You're also not measuring the initial interaction with the customer in the only element of this process where 100% of customers interact. It seems to be an odd omission from your basket of measurements.

Jon Thompson: According to the research I've seen, there is no industry standard.

Q152 **Lee Rowley:** You're not seeking to meet the industry standard, you're seeking to be a "leading customer service organisation".

Jon Thompson: And therefore what we believe is right is to develop more of a basket. If someone has waited for four minutes and got through to a customer adviser but still did not get an answer, isn't that a relevant factor? Wouldn't it be better to try to develop a broader basket of indicators about whether the answer was or wasn't satisfactory, and whether they had to then ring again.

It is certainly clear to us and the rest of the executive that some of the reason why customers ring is what we call failure demand—for example, if we push out a letter that doesn't really answer their question or the first



HOUSE OF COMMONS

call wasn't good enough so they have to ring a different number. There are a complicated set of interacting factors.

Q153 **Lee Rowley:** Are you telling me now that you will be including within your basket something to do with the automated element of the customer interaction on the phone?

Jon Thompson: No.

Q154 **Lee Rowley:** So how can it be a full basket of customer indicators if the key thing—the only area where 100% of customers interact with you—is not in it? That is irreconcilable as a position.

Jon Thompson: Is it?

Q155 **Lee Rowley:** Yes.

Jon Thompson: In your opinion.

Q156 **Lee Rowley:** Tell me why I am wrong. I don't understand how I can be wrong. How can you have a basket of indicators but not include the only part of the call where 100% of people interact with you?

Jon Thompson: What's the case for including it?

Q157 **Lee Rowley:** So you know what your customer experience is. You don't know what your end-to-end customer experience is. You were talking to me about industry standards, but the industry standard covers the end-to-end customer experience.

Jon Thompson: Yes, and what I am trying to describe to you is that, if we do not have a basket of measures—if we send out a letter that is not very clear, that stimulates call. That call is a failure demand. Then that call itself may not be satisfactory, so they have to ring again, and we might say they are on the wrong number. We have to think about this more in the round.

I have certainly seen some statistics about how quickly people ring off. For example, if somebody disconnects in the first two seconds, do you want me to include that or not? If I put that in, is that a call answered or not? We debated some of this before. If hundreds of thousands ring up and think, "Hang on a minute" and then put it straight down, does that count?

Q158 **Lee Rowley:** I know when I used to look at my old basket of indicators for call centres I was working with, I would be very interested if people were knocking off after two seconds with the automated system. I still do not understand. I am quoting your words back at you. You just said we need to look at this in the round. How can you look at something in the round when you have a complete omission in terms of what people are doing for two to four minutes before they talk to anybody? That is not a position that looks sustainable.

Jon Thompson: We've got all the data.

Q159 **Lee Rowley:** You are not just choosing not to look at it. That is an even worse omission.



HOUSE OF COMMONS

Jon Thompson: No, I've got all the data. I am not including it in the target.

Q160 **Lee Rowley:** Because you don't think it is important.

Chair: Or is it because Ministers have set you a timescale that you cannot meet if you include the waiting time?

Jon Thompson: We need to be up front about this. I have a number of people who work in the customer services group. If we put it in and that makes it—I don't know—six minutes instead of four minutes and 28 seconds, the target would have to be changed.

Q161 **Lee Rowley:** Putting aside the target point, and starting from the philosophical point of what the customer is experiencing, in your basket you have no knowledge of what the customer is experiencing. Your end-to-end understanding of the customer experience is completely omitted.

Jon Thompson: In terms of the end-to-end experience if you are a customer of ours—what is your total experience with us?—you are correct to say that it is not linked together. You may have an unsatisfactory letter. You then ring up and the phone may be answered in three seconds, because you happen to ring on a Wednesday afternoon when there is very low demand. You get straight through and you still do not get an answer. It seems to us that we need to develop a more rounded set of measures about the customer experience, customer satisfaction with that experience, how they measure that, what people think about that, how we improve it and so on.

Q162 **Lee Rowley:** I totally agree. Are you committing to do that by including some of your automated elements in your basket?

Jon Thompson: I am committed to developing a basket of measures in the current financial year.

Q163 **Lee Rowley:** What is the percentage of calls answered in the current period?

Jon Thompson: It is 87.1%.

Q164 **Lee Rowley:** That's a reduction from 92%. Why is that?

Jon Thompson: We have answered less calls.

Q165 **Lee Rowley:** For what reason?

Jon Thompson: You have to go back to the assumptions made in 2015 about the reduction in customer demand. We have seen a reduction of around 10% in terms of inbound calls. The assumptions that were made in the SR were more aggressive than that, therefore calls handled is—you are right—down by 5%. The average speed of answer is up by just over 30 seconds but within the target. Post, we are holding where we were at 81%. Customer satisfaction is at 80%. That is the same number. The target for customers who have to wait for more than 10 minutes is 15%, and we are at 14.6%.



HOUSE OF COMMONS

Q166 **Lee Rowley:** Final question. The overall cost of providing customer services—you increased it by £86 million a year and a half ago, and you committed to reducing it by 10% in the past financial year. What is your commitment in this financial year in terms of reduction?

Jon Thompson: A further 10%.

Q167 **Lee Rowley:** Was 10% last year achieved?

Jon Thompson: Yes. In 2017-18, to be clear about the language.

Q168 **Lee Rowley:** And you are on track for achieving the 10% this year.

Jon Thompson: That is the assumption—that the first step down that we saw in customer demand in 2017-18 will be repeated.

Q169 **Lee Rowley:** And they will all be achieved while retaining your target to slash SLAs.

Jon Thompson: Yes, although to be transparent about it, we are still in discussion with Ministers about those targets.

Q170 **Lee Rowley:** On the basis that you want to reduce them.

Jon Thompson: On the basis that we want to ensure that we get the right balance of measures in accordance with the financial point.

Q171 **Lee Rowley:** Does the euphemism of “right balance” include reducing any of them?

Jon Thompson: It might, yes.

Q172 **Lee Rowley:** Which ones?

Jon Thompson: It might be that the target for average speed of answering might increase. That is on the table, because it involves the resources you have and the assumptions you make about the number of inbound calls.

Q173 **Lee Rowley:** So people phoning up in the coming months should make the assumption that they have to go through an automated system that you do not know how long it takes to get through and that you may take longer to answer their call in the first instance.

Jon Thompson: At any time on any day, it depends what the demand is. The demand varies by line, by desk—

Q174 **Lee Rowley:** Yes, but that is the point of aggregated data.

Jon Thompson: In that case, to be frank, yes, you should expect to be in the infrastructure and then you should expect to wait.

Q175 **Lee Rowley:** Final part of the question. What proportion of your workforce is currently on flexible contracts? Is it down from 55%, as was reported in the last Committee?

Jon Thompson: On flexible contracts in relation to customer services? Off the top of my head I could not honestly give you the answer to that



HOUSE OF COMMONS

question. Your expectation was that it would go down.

Lee Rowley: It certainly went up, so I want to know whether it is going down.

Chair: If you give us the numbers, Mr Thompson, the numbers will speak for themselves. Just going back to one point you made in the last section that Mr Rowley was asking about, you said that you have dropped—if I am right—39 projects completely. Could you tell us what they are?

Jon Thompson: I gave you a flavour of them.

Q176 **Chair:** Could you write to us with a list? You couldn't read it out now.

Jon Thompson: Would you like me to write?

Q177 **Chair:** I would love you to write to us with them. That would be very helpful to know.

Jon Thompson: Yes.

Q178 **Sir Geoffrey Clifton-Brown:** Mr Thompson, in a previous session with you on Brexit, you told me that you would need an extra 3,000 to 5,000 staff to deal with Brexit. This afternoon, in an answer to Mr Rowley, you said it would be above 5,000. Is that correct?

Jon Thompson: Yes.

Q179 **Sir Geoffrey Clifton-Brown:** I think you told Mr Rowley that you have only currently recruited 830.

Jon Thompson: I think I said 898.

Q180 **Sir Geoffrey Clifton-Brown:** So you are still well short of the number of staff that you need. Following up Mr Rowley's question, how soon is that going to start to impact on the deliverability of what you need to do for Brexit?

Jon Thompson: I think you need to see it in two waves. The first wave is in relation to policy formulation, project management, and new IT systems and so on. But then the bulk of the staff are in customer services and customer compliance. We placed the advert for the two bulk recruitments, which is for more than 3,000 staff, in the last week of March. We already had over 4,000 staff on a waiting list to join us. Some 720 of those could immediately take up an offer, so I think we will fairly quickly go from 898 to an additional 700. Because they are about customer services and customer compliance, they have slightly longer lead times. There is a debate about whether they would or would not be needed in April 2019, dependent on the outcome of the negotiations. We have pitched it on the basis that those people are required for April 2019 in a contingent exit and we agreed with the Chancellor of the Exchequer that if that is not the outcome, we can use those staff on other productive work anywhere in HMRC.

Q181 **Sir Geoffrey Clifton-Brown:** Moving on to Building Our Future locations, it is a massive project for you. Is it on schedule?



HOUSE OF COMMONS

Jon Thompson: Yes. We have gone now to announcing 11 of the 13 locations. We will be staying in Newcastle under the long-term PFI there, so the only site we now have left to go is in Nottingham, where we are in final negotiations. We have gone from 170 offices when we had the first conversations, down to 111. The savings are still estimated to be £90 million a year, plus we have to bear in mind that Mapeley would have otherwise increased the base cost.

Q182 **Sir Geoffrey Clifton-Brown:** So that reduction of savings you were going to make of £717 million to £670 million—which you gave in response to Mr Rowley—does not include any missing savings in the Building Our Future locations.

Jon Thompson: It does include the fact that—as I think I said in answer to an earlier question—we will be deferring the refurbishment of Newcastle. Then there is the question of what happens with the exact date regarding Nottingham, which may also move backwards.

Q183 **Sir Geoffrey Clifton-Brown:** But you need to be very clear with your staff as to where they are going to be located. There was a parliamentary written answer on 26 March, which had a table of where people would move, and the table makes an assumption that the DWP will take on approximately 2,000 HMRC staff based in Dundee and Preston in respect of delivery of Universal credit. But there is some doubt as to whether that will happen. Will that happen?

Jon Thompson: No.

Q184 **Sir Geoffrey Clifton-Brown:** If that doesn't happen, surely that shifts the whole timetable everywhere, doesn't it?

Jon Thompson: There is an interesting interplay now. The DWP has been clear that in relation to Universal Credit, the roll-out of Universal Credit staff who are currently working on the tax credits, and who would have transferred across to the DWP to work on Universal Credit, is no longer required. They are in two sites, the largest of which is Preston, which is our biggest site for tax credits. We now know that those staff will become free on a certain timescale. One of the pieces of work we are doing at some speed is assessing whether we actually need to recruit another 4,000 staff for Brexit, or whether we might be able to use those staff on Brexit-related work. Does that work? Have they got the right skills? Does it work on a timescale basis and so on? That has produced an additional complexity, and colleagues are working through that in some detail to give Jim some advice about whether that makes a difference on the 13 regional centres decision and the roll-out.

Q185 **Sir Geoffrey Clifton-Brown:** So it is quite a muddled picture. Are you saying that those 5,000-plus staff you talked about in an answer to me a few minutes ago might not be necessary? Either they are necessary or they are not necessary.

Jon Thompson: They may not be necessary, but we are currently considering whether they are or not. Remember they are all new recruits. It is possible those staff might be able to move from one piece of work to



HOUSE OF COMMONS

another, but this is reasonably late breaking news from the DWP. It is the primary decision maker here and then that impacts on us.

Q186 Sir Geoffrey Clifton-Brown: Given that this involves quite a large number of staff, when will the matter become clear?

Jon Thompson: We have told the staff who are impacted by this. I personally went to Preston, where we have 2,000 colleagues working on this work. Rather than waiting until we are through all the decision making, we have told them, "Let's be transparent and adult about this. The DWP has moved on its assumption and therefore this is what that means for you, and we will work through this as far as we possibly can to give you an answer about the procurement."

Q187 Sir Geoffrey Clifton-Brown: You didn't answer my question. When will it be finalised as to what your requirements are?

Jon Thompson: I think it requires a few more weeks.

Q188 Sir Geoffrey Clifton-Brown: Could we ask you to keep us updated on that, because it is quite significant? As soon as it is clear, you will presumably publish it in some way as to what your decisions are?

Jon Thompson: Yes, we will. I went to Preston to test the temperature of how people are feeling about this, because there were various rumours that the DWP no longer required any further HMRC staff, but that was the long-standing agreement for many years. We managed to get a decision from the DWP and then we have been transparent with, if you like, half the story, which is, "That's not going to happen anymore and now we will try to give you an answer as fast as we can." I think that is the right thing to do with colleagues.

Q189 Sir Geoffrey Clifton-Brown: So the unions believe that it would be very difficult to suggest that, in respect of future office closures, more than 90% of the staff would be able to transfer to a regional centre. You have had considerable discussion about that, I gather. What is the conclusion on that matter?

Jon Thompson: We have a very transparent and positive relationship with the trade unions. We freely exchange. We know where we agree and where we differ. The underpinning assumption that was made in 2015 is that 90% of colleagues would be able to travel to a regional centre, and we gave everyone a job guarantee as long as they went through some retraining in some particular cases. We started by closing the offices that are furthest away, so it is running above 10% at the minute, but ultimately we think it will come back within 10%. Remember, the 13 regional centres are already where we have significant presence. If you factor that in, we still think that it is reasonable, although we review it on a regular basis.

Q190 Chair: You say that, but we are picking up a real concern about the loss of experience. If you take the office in George Stephenson House in Stockton, many of the workforce have worked in the office for 20 to 30 years. They live in Thornaby and most will not relocate to Newcastle, so



HOUSE OF COMMONS

the loss of skills and expertise will be huge. That is from Paul Williams MP and his office. This is a concern. Now that it is bedding in, have you done a further analysis of the skills of the highly skilled staff that you will lose as a result of going down to 13 regional centres?

Jon Thompson: We are going to lose some colleagues and we are trying to deal with this on an individual, one-to-one basis. I understand that there is a big focus on how over the seven years this change will result in 10% of colleagues leaving HMRC, but the annual turnover rate is 9% just from natural means.

Q191 **Chair:** But it's not about the number, is it? It's the particular skills you might lose. If you wholesale lose people from an office because they do not want to commute to somewhere, that is a different thing from natural wastage.

Jon Thompson: Sure, and one of the eight criteria for where we would place the regional centres was whether we could recruit new. We had a conversation about that some time ago.

Q192 **Chair:** Yes, let's not revisit all the old ground. On the issue of the office costs—I know Sir Geoffrey wants to come back on this as well—Lisa Cameron MP raised with us concerns about Plaza Tower in East Kilbride. Staff are moving to an upgraded Queensway House, on the town's outskirts, at an alleged cost of £8 million, according to local press reports. Is that £8 million to upgrade Queensway House as a temporary measure before the main move true, and who is paying that?

Jon Thompson: No, it is not true. I'm afraid the local PCS rep misunderstood the cost of refurbishing a number of sites.

Q193 **Chair:** This is the *Sunday Herald* that I'm quoting from.

Jon Thompson: But the source of the story, the local PCS rep, was given a briefing on the need to refurbish a number of sites. I think in that case it is until 2025-26. We are not spending £8 million on that one site; we are spending £8 million on a range of sites that have some medium-term future. That is still eight years, and we want to refurbish it and provide the necessary environment over those eight years. The £8 million covers a range of sites. From recollection, that one site is under £1 million. All of that is factored into the cost-benefit analysis of building our future—

Chair: Which we haven't gone into today, but that is something we are keen to keep an eye on.

Q194 **Sir Geoffrey Clifton-Brown:** Can I bring you on to the vexed subject of leases for your offices? In your Treasury minute, you justified the lack of a break clause on the basis that you had negotiated covenants so the Government would be able to re-let if they wished to, but that covenant is subject to the landlord's permission. I put it to you that the leases are not as flexible as you maintain they are.

Jon Thompson: No, I think they are flexible. We had an evidence session at some length on this project. This is an HMRC regional offices



HOUSE OF COMMONS

programme, and there has been some confusion about whether it is the same as the Government's hubs programme. The answer to that is that it is the first wave of the Government's hubs programme. Every single one of these regional centres is shared with another Government Department.

One of the reasons we split the leases between 25 and 20 years was to provide them with some flexibility so that other Government Departments, as their leases came up over the course of that period, could consolidate into the building if there was space. That is why some of them were signed by the Cabinet Office, not necessarily by HMRC. They were all endorsed by the Cabinet Office. I think you had some evidence from the relevant Executive Director at the Cabinet Office at the time.

We continue to believe that there is enough flexibility in them over time, across the Government. If in extremis they couldn't be re-let to other Government Departments in these major regional locations, we would look to let them to the private sector. We believe they are flexible enough to do that.

Q195 Sir Geoffrey Clifton-Brown: So you have got four leases still to negotiate?

Jon Thompson: No. We have got one left.

Q196 Chair: Is that Nottingham?

Jon Thompson: Yes.

Q197 Sir Geoffrey Clifton-Brown: Is that 20 to 25-year break clause a common theme throughout all the leases?

Jon Thompson: From recollection, six are 20 years and five are 25 years. Newcastle is a PFI. I forget until when—2030-something. Then you are left with what we are doing in Nottingham—are we going to stay in Castle Meadow, or are we going to move somewhere else in Nottingham?

Chair: Thank you very much. We want to keep probing the savings you are supposedly making from the office moves in the transformation. We will park some of that until you are in front of us again, which I think won't be many weeks, because it never is. Thank you very much for your time. The transcript will be up on the website uncorrected in the next couple of days. When we look through it ourselves, we may will have some further questions. You have already committed to writing to us on a number of things. The Clerk will confirm with you what those are, just to make sure we are on the same page.