National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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HM Revenue & Customs

The Compliance and Enforcement Programme

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National Audit Office

HM Revenue & Customs

The Compliance and Enforcement Programme

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

24 February 2012

HMRC introduced the Compliance and Enforcement Programme in 2006 to improve how it identifies tax evaders; make greater use of campaigns to raise awareness and target evasion; align its compliance interventions to taxpayer behaviours; and develop an appropriately skilled workforce.

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Contents

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Key facts

£4.32bn	£387m	3,374
HMRC's assessment of the Programme's additional yield over 2006–2011	Programme spending, 2006–2012	headcount reduced through the Programme

On the Programme's achievements

36 per cent	estimated improvement in staff productivity over 2006–2011
£8.87 billion	HMRC's forecast of additional yield that the Programme will deliver between 2011 and 2015 – bringing the forecast of total Programme yield to £13.19 billion
£239 million	spending on five new ICT systems, representing 62 per cent of overall spending

Broader context

7.9 per cent	estimate of tax gap in 2009-10 as a proportion of total tax due, which is a similar level to 2006-07. In cash terms, the tax gap was £35 billion

HMRC's future commitments

£7 billion a year	HMRC's commitment to raise additional tax revenues by 2014-15 – from a baseline of £13 billion in 2010-11 – by re-investing £917 million of savings in tackling non-compliance

Summary

1 Protecting tax revenues against fraud and evasion is essential for the tax system to operate fairly and support the Government's economic and social objectives. Most taxpayers seek to comply but a minority deliberately evade their obligations. HM Revenue & Customs (HMRC) estimated that the tax gap – the difference between taxes being paid in full and the amount actually collected – was some £35 billion in 2009-10, equivalent to 7.9 per cent of the total tax liability. HMRC's objective is to improve the extent to which individuals and businesses pay taxes due. It employs various methods to do this, from supporting those who want to comply through to identifying tax evaders and imposing civil and criminal sanctions.

2 Between 2006 and 2011 HMRC sought to transform its compliance work by implementing the Compliance and Enforcement Programme (the Programme). The Programme aimed to increase compliance yield – the measure of additional tax arising from compliance work – by £4.56 billion over the five-year period 2006–2011. HMRC also sought to improve operational efficiency, reduce staff numbers and improve the customer experience of dealing with HMRC. The ultimate aim was to help reduce the tax gap.

3 HMRC invested £387 million to 2011-12 in more than 40 projects, including:

- Information and Communications Technology (ICT) systems and processes to improve risk targeting and identify non-compliance more effectively;
- ICT systems and processes to improve how compliance cases are managed and documented;
- introducing new processes and training to streamline compliance work and develop workforce skills; and
- implementing legislative change to bring more consistency in investigating non-compliance and applying penalties where fraud and evasion is identified.

4 HMRC's aims are to be more efficient, more flexible in dealing with its customers and more effective in bringing in revenue. It plans to invest in work to tackle tax avoidance and evasion to bring in additional tax revenues of £7 billion a year by 2014-15, from a baseline of £13 billion in 2010-11. HMRC will build on the capabilities introduced by the Programme and implement a range of new initiatives to achieve this commitment.

5 This report examines whether HMRC managed the Programme effectively to deliver its intended objectives. Part One gives an overview of the Programme. Part Two covers its achievements and assesses how HMRC measured the reported benefits. Part Three evaluates how HMRC managed the Programme. Part Four assesses how HMRC implemented projects and whether these have improved its compliance work. Appendix One contains our methodology.

Key findings

The Programme's achievements

6 **HMRC aligned the Programme with its strategic objectives and vision for compliance work.** The Programme's objectives were consistent with broader departmental objectives to increase tax revenues, reduce costs and improve customer experience. HMRC devised the Programme to implement a new operating model for compliance work, which directs resources at risks based on a better understanding of taxpayer behaviours. The Programme has improved capabilities and will help deliver HMRC's long-term vision. It has already contributed to HMRC's performance in increasing compliance yield, from £8.8 billion in 2006-07 to £13.9 billion in 2010-11. HMRC had not fully delivered the planned transformation in compliance work by the end of the Programme and will continue to embed new approaches over coming years.

7 **Figure 1** summarises the Programme's achievements against its forecasts for 2006–2011. We reviewed HMRC's performance in each area.

Figure 1
Performance against forecasts, 2006–2011

	Forecast in 2008	Out-turn at 2011
Compliance yield increase	£4.56 billion	£4.32 billion
Productivity gains	42 per cent improvement	36 per cent improvement realised[1]
Headcount reductions	3,387 staff	Achieved
Customer experience	(not quantified)	Not routinely measured

NOTE
1 In the Programme's final business case, produced in November 2011, HMRC assessed that the Programme had improved productivity by 15 per cent. It has since revised the figure to approximately 36 per cent.

Source: Forecasts from Treasury approved business case, 2008

8 **The Programme has successfully delivered substantial increases in yield and wider improvements in HMRC's compliance work.** HMRC assessed that the Programme delivered additional net yield of £4.32 billion over the five years to March 2011, approximately 7 per cent of HMRC's total compliance yield over this period. The Programme achieved these increases by enhancing HMRC's ability to assess risks; re-designing systems; improving the productivity of the workforce; and implementing a range of projects to improve its ability to engage with taxpayers and tackle non-compliance. The Programme will continue to deliver benefits as projects are embedded into working practices. HMRC forecasts that it will generate a further £8.87 billion of yield between 2011-12 and 2014-15.

9 **HMRC has delivered a significant return from projects to improve risk targeting and tackle offshore evasion.** The Programme delivered £1.4 billion of additional yield by 2011 through using new data-matching technology to target non-compliance more effectively and identify fraudulent VAT claims. It also collected £0.5 billion from campaigns to target offshore tax evasion. The yield increases can be linked directly to the new interventions introduced by these projects.

10 **HMRC has not systematically identified how other projects contributed to yield increases.** The Programme included projects to improve HMRC's approach to compliance work by making better use of data and improving staff productivity. HMRC assessed that these projects generated additional yield of £3 billion between 2006 and 2011. It also assessed that the Programme's wider deterrent effect had delivered £0.5 billion by improving voluntary compliance with tax obligations. It is harder to isolate the impact of these projects given other changes in compliance work. HMRC developed a range of approaches but the level of rigour in attributing benefits varied. In some cases, HMRC based assessments on planning assumptions of improved productivity. In other cases, the Programme team apportioned yield based on negotiations with business areas. This approach restricted HMRC's understanding of the impact of projects on business performance.

11 **HMRC delivered the Programme's planned headcount reductions early but productivity improvements to 2011 were lower than expected.** The Programme met its headcount reduction forecast by 2008-09, ahead of schedule. HMRC estimated the financial impact of having fewer staff – and thus conducting fewer compliance interventions – by reducing the gross yield attributable to the Programme by £1.1 billion. HMRC assessed that productivity – defined as the level of yield generated by each full time equivalent – had improved by around 36 per cent at the end of 2010-11, below its forecast of a 42 per cent improvement.

12 **HMRC did not routinely measure the impact of the Programme on customer experience.** The Programme implemented projects to improve customer experience. The central Programme team established a series of measures to evaluate the impact on customer experience but did not routinely measure performance against these.

How HMRC managed the Programme

13 **HMRC exercised appropriate budgetary control over annual Programme spending.** It planned to spend £364 million over 2006–2011. The Programme Board developed comprehensive governance arrangements and good management information to monitor spending on projects and progress towards annual funding limits. Programme expenditure to the end of 2010-11 was £350 million, with a further £10 million of implementation costs deferred into 2011-12 as projects were completed.

14 **HMRC deferred or changed the scope of projects in order to keep within annual funding limits.** HMRC prioritised funding to deliver the Programme's key projects, including new ICT systems to improve risk targeting. Its emphasis on tight budgetary control led it to reduce the scope of some projects or defer delivery. The five largest projects delivering ICT systems, accounting for 62 per cent of Programme spending, all missed planned delivery milestones.

15 **As a result of delays or reduced functionality, some projects did not deliver expected yield increases by the end of the Programme.** For example, two projects costing £104 million and forecast to deliver additional yield of £743 million by March 2011 had not delivered any yield at that point. HMRC now forecasts that these projects will generate £547 million of yield by 2014-15. HMRC told us that it did not seek additional funding as it delivered the Programme within the broader context of its commitment to reduce running costs while ensuring that investment in the Programme was maintained. Following the success of the Programme in generating additional yield, HMRC has since agreed with HM Treasury that it will reinvest £917 million of its cost savings in tackling tax evasion and avoidance by 2014-15.

Improving HMRC's compliance work

16 **The Programme has improved HMRC's ability to undertake compliance work but it has yet to exploit the full potential of the new systems.** In particular, the new ICT systems can substantially improve how HMRC assesses evasion risks to identify cases for investigation. HMRC is embedding new systems and approaches into working practices. We assessed the implementation of a sample of projects:

- **Project design.** Overall, HMRC managed design phases well but, particularly on projects to implement new ICT systems, it did not sufficiently consider redesigning business processes or developing the staff capability needed to exploit the full potential of the new technologies.
- **Implementation.** HMRC did not always communicate clearly the rationale for projects and, although it provided training and guidance, these were not always timely or requirements were underestimated.
- **Assessing the performance of new systems.** HMRC has established management information on the use and performance of new systems and, over time, will seek to use this to better understand the impact on business performance.

Conclusion on value for money

17 The Compliance and Enforcement Programme has helped HMRC to substantially increase tax yield and reduce staff numbers, and will continue to make an important contribution to its commitment to bring in additional tax revenues by 2014-15. The Programme has delivered a range of new technologies and approaches that will strengthen HMRC's compliance work in future, although it is yet to exploit the full potential of these new systems. While overall yield increases provide evidence of the Programme's impact, in some areas attributions to projects were based on untested assumptions or negotiations between business areas. This restricted HMRC's understanding of the impact of projects on business performance. HMRC also deferred and reduced the scope of projects to keep within annual budgetary limits, leading to reductions in forecast benefits. HMRC could achieve better value for money from its investment in compliance work by developing a fuller understanding of the impact of projects and embedding new systems fully into working practices.

Recommendations

18 Delivering a multifaceted programme is a challenging task and, over the next four years, HMRC will reinvest £917 million of its cost savings in compliance work. Our recommendations are intended to help HMRC apply lessons from this Programme to strengthen its programme management and exploit the potential of new systems.

Improving programme management

a **HMRC did not have sufficiently detailed information on the Programme's benefits.** HMRC used different approaches to assess the impact of projects, which demonstrated elements of good practice but, in some cases, could have gone further to validate yield increases. Over the spending review period, HMRC will need more timely and accurate management information on the impact of projects to inform investment and resource allocation decisions. HMRC should build on current practices by:

- substantiating yield increases by routinely testing assumptions against metrics on actual business performance;
- more systematically assessing the success factors common to high performing projects;
- establishing a clear baseline and distinguishing between different types of yield when reporting achievements;
- improving communications with business areas so they understand the changes needed to embed new approaches into working practices; and
- evolving its governance arrangements for embedding projects by setting stretching targets for delivering benefits and ensuring staff are held accountable for delivery.

Strengthening the approach to compliance work

b **HMRC is seeking to exploit the full potential of new capabilities.** Integrating new systems and approaches into working practices takes time. HMRC has not yet sufficiently developed staff capabilities or fully integrated new systems into working practices. It should focus on the business changes needed by:

- refining operating models to ensure new ICT systems and approaches are integrated into business processes. This should specify the staff capabilities and training needed to effectively use the new technologies and processes;
- improving the performance of new systems by monitoring regularly against a range of indicators to assess how systems are being used and their impact on working practices;
- making sure full project costs, including the whole-life costs of ICT systems, are included in business cases, including decommissioning costs; and
- ensuring ICT systems that are no longer needed are decommissioned promptly.

Going forward

c **HMRC faces a unique challenge of maximising tax revenues while maintaining tight budgetary control.** Should HMRC propose to defer or de-scope a project as a result of budgetary pressures, it should fully assess any associated loss of tax revenue in doing so. HMRC should maintain a regular dialogue with HM Treasury about further opportunities to increase tax revenues and reduce the tax gap.

Part One

Programme overview

Programme objectives

1.1 HMRC is the UK's tax administrator and, in 2010-11, collected £469 billion in taxes and national insurance contributions. It seeks to increase the extent to which individuals and businesses pay the tax due. HMRC undertakes a wide range of work to contribute to this objective, from helping those who want to comply and making it easier to pay the right amount of tax, to identifying tax evaders and imposing civil and criminal sanctions. In 2010-11 the Enforcement and Compliance business area spent £974 million on these activities and delivered £8.6 billion of compliance yield.

1.2 HMRC introduced the Compliance and Enforcement Programme (the Programme) in 2006 to improve how it identifies tax evaders; make greater use of campaigns to raise awareness and target evasion; align its compliance interventions to taxpayer behaviours; and develop an appropriately skilled workforce. HMRC planned to spend £364 million between 2006 and 2011 to implement the Programme. Its objectives were to:

- increase compliance with tax obligations;
- improve operational efficiency and staff productivity;
- reduce headcount; and
- improve customer experience.

1.3 The Programme's critical success factors were to improve staff productivity and reduce the tax gap, which is the difference between the tax payable if all individuals and companies met their obligations in full and the amount of tax actually collected. The Programme's business case stated its intention to reduce the tax gap by at least £4.56 billion by 2010-11, and at least £2 billion in each subsequent year.

1.4 The Programme contained more than 40 projects, incorporating some that were already under way, to introduce new ICT systems and approaches to improve business performance. HMRC established sub-programmes to manage delivery (**Figure 2** overleaf) and invested in:

- ICT systems and processes to improve how data is used to identify and target risks;
- ICT systems and processes to improve how compliance cases are managed and documented, and improve storage of intelligence information;

- new processes to streamline compliance work and initiatives to develop leadership skills; and
- legislative change to modernise its powers to investigate non-compliance and introduce a unified penalty regime.

Figure 2
Programme overview

Sub-programme	Aim of sub-programme	Programme cost (£m)	Examples of projects in sub-programme
Risk	Deliver the skills, processes and tools to improve HMRC's understanding of risk through the use of data on customers and their behaviours.	140	**Connect:** An ICT risk platform which is used to identify high-risk cases for investigation.
Response	Deliver new interventions and tools to manage resources more efficiently. Responsible for developing technology to improve efficiency in case management.	80	**Caseflow:** A single case management system – for most types of compliance cases – replacing a number of systems (ICT and paper-based). Its aim is to improve management information and facilitate the electronic movement of cases across HMRC.
Spectrum	Deliver a new system of working to manage all aspects of enforcement cases (from inception to prosecution, including storage and tracking of seizures).	108	**Spectrum:** An end-to-end case management system for criminal investigation. **FTS:** An automated freight targeting system that utilises different data sources to sort high- and low-risk traffic.
New ways of working	Deliver process changes to enable the organisation to adopt new ways of working and continuously improve performance. Also includes legislative change.	34	**New Penalties:** Introduced an ICT system; provided guidance and training for staff; and engaged with external stakeholders to ensure consistent application of new penalty legislation. **Compliance Re-engineering:** Sought to streamline processes and implement standard procedures to improve efficiency. **Helping Businesses Get it Right:** Aimed to provide clear educational tools and guidance for businesses in their relationship with HMRC.
Pacesetter: developing capability	Deliver the tools, capabilities and cultural changes to help the business adopt and embed the Pacesetter principles of customer focus and process management.	25	Introduced a number of projects to train managers in leadership skills, Pacesetter principles and how to implement Pacesetter. Projects are designed to improve productivity.

NOTE
1 Central Programme costs were apportioned across the sub-programmes.

Source: National Audit Office analysis

1.5 HMRC ensured that the Programme was consistent with its strategic objectives to increase tax revenues, reduce costs and improve customer experience. The Programme contributed directly to its Departmental Strategic Objectives to improve the extent to which individuals and businesses pay their taxes, and improve customer experience of dealing with HMRC. The Programme was also aligned with wider initiatives to improve staff productivity and deliver workforce change.

1.6 HMRC views the Programme as part of a longer-term investment in compliance work as it seeks to transform its approach to tackling non-compliance. HMRC wanted to move away from relying on staff to manually assess risks and carry out assurance and enquiry activities. Its new operating model is based on a more automated approach, drawing on a wider range of data, whereby resources are directed at risks based on a better understanding of taxpayer behaviours. Alongside this, HMRC has introduced a common legal framework for conducting compliance checks and penalising non-compliance. It also wanted to conduct more compliance work through campaigns and introduce a new penalty regime to tailor its response to customer behaviour. HMRC's customer-centric strategy, introduced in 2010, extended this approach and seeks to tailor interventions to specific customer groups.

1.7 HMRC intends to build on the capabilities introduced by the Programme to achieve its commitments under the 2010 Spending Review. It will reinvest £917 million of planned cost savings in tackling tax evasion and avoidance and has committed to bring in additional tax revenues of £7 billion a year by 2014-15, from a baseline of £13 billion in 2011-12. HMRC plans to move some 9,000 staff into higher-value enforcement work by 2015. It will allocate resources to tackle different areas of the tax gap, with nearly two-thirds of the reinvestment to be spent on tackling evasion by individuals, including the hidden economy, and small- and medium-sized companies. HMRC will also seek to increase its focus on tackling organised crime and collect more debt.

Our examination

1.8 This report is part of our wider programme of audit on HMRC, including our annual audit of HMRC's accounts and examination of its systems. In devising our programme we considered the NAO's strategic themes of cost-effective service delivery, financial management and informed government. We seek to provide objective insight on how HMRC is:

- transforming its performance and improving compliance among taxpayers; and
- achieving value for money by reducing costs while increasing tax revenues.

1.9 In July 2008, we reported on HMRC's early implementation of the Departmental Transformation Programme.[1] As part of this, HMRC implemented the Compliance and Enforcement Programme and this report evaluates whether HMRC has delivered its intended objectives. It also continues our audit of HMRC's compliance and enforcement work.[2]

1 Comptroller and Auditor General, *HM Revenue and Customs' transformation programme*, Session 2007-08, HC 930, National Audit Office, July 2008.

2 Comptroller and Auditor General, *HM Revenue and Customs: Managing Civil Tax Investigations*, Session 2010-11, HC 677, National Audit Office, December 2010.

Part Two

The Programme's achievements

2.1 HMRC forecast that the Programme would deliver benefits in terms of increased yield, improved productivity, reduced headcount and improved customer experience. This Part assesses its achievements and examines:

- the additional tax yield delivered by the Programme;
- the Programme's other benefits; and
- HMRC's arrangements for measuring benefits.

Increases in tax yield

2.2 In the 2008 HM Treasury approved business case, HMRC forecast that the Programme would generate £4.56 billion of additional compliance yield by 2010-11 (**Figure 3**). Yield is the measure of additional tax raised from compliance work. HMRC revised its yield forecasts over the life of the Programme as projects were delivered and better information became available on likely returns.

2.3 In November 2011, HMRC assessed that the Programme had delivered a net £4.32 billion increase in compliance yield over 2006–2011, 95 per cent of its forecast in the HM Treasury approved business case. HMRC assessed the gross yield as £5.4 billion, which it reduced by £1.1 billion to reflect the effect of fewer compliance interventions due to the reduction in staff numbers also delivered by the Programme. The yield generated by the Programme has increased in the last two years as the changes were embedded into working practices. In the first three years, much of the yield increase came from projects incorporated into the Programme. Overall, these projects, which received £112 million of Programme funding, had delivered £2.61 billion of yield by 2010-11.

2.4 **Figure 4** shows that the yield generated by the Programme was £677 million lower than forecast in 2010-11 owing to slippage in project delivery and some projects not delivering all of their expected benefits (paragraph 3.13). HMRC expects the yield generated by the Programme to rise in each of the next four years as projects mature.

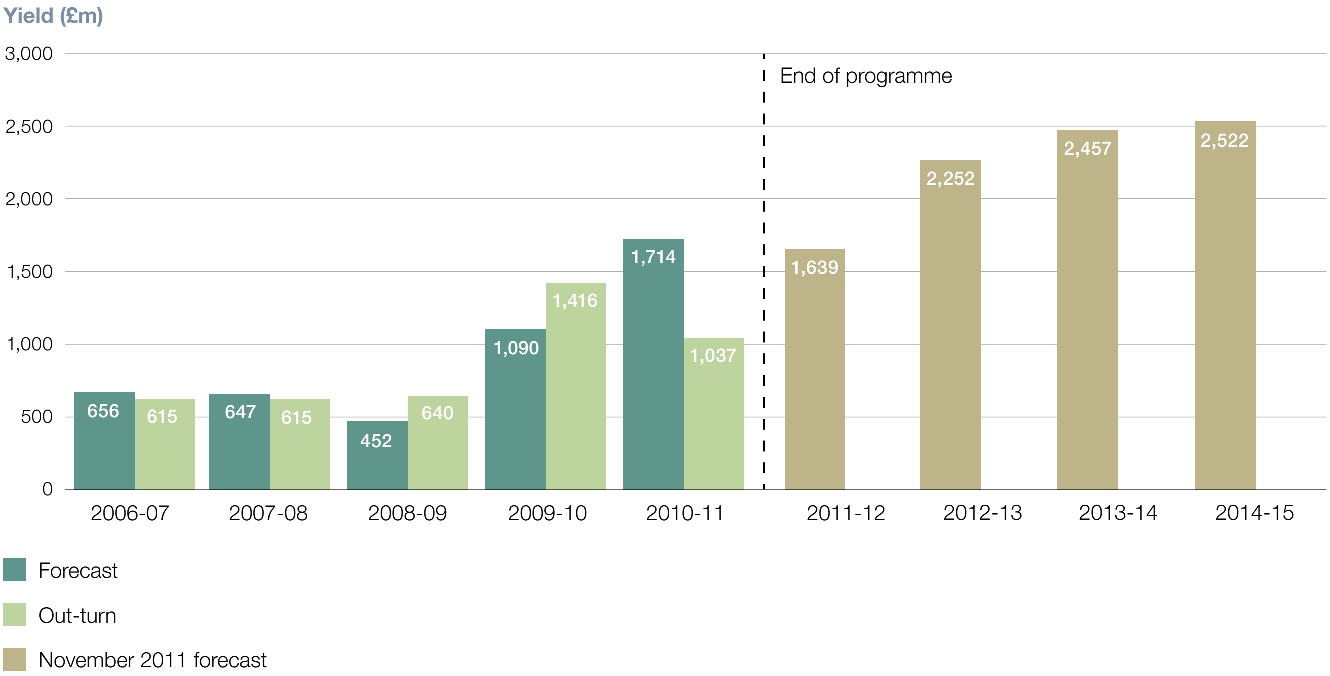
Figure 3
Forecasts of the Programme's additional yield

Business case	2006–2011 forecast (£bn)	2011–2015 forecast (£bn)	Total (£bn)
November 2008 – approved by HM Treasury	4.56	See note[1]	See note[1]
January 2010	5.18	12.52	17.7
November 2011	**4.32 out-turn**	8.87	13.19

NOTE
1 In June 2008, HM Revenue & Customs forecast that the Programme would deliver £8.9 billion of yield between 2011 and 2015, giving a Programme total of £13.46 billion.

Source: National Audit Office analysis of Programme business cases

Figure 4
Additional yield: forecast versus out-turn, 2006–2015



NOTE
1 2006–2011 forecasts are from the 2008 HM Treasury approved business case. 2011–2015 forecasts are from the November 2011 business case.

Source: HM Revenue & Customs

2.5 In November 2011 HMRC forecast that the Programme would deliver an additional £8.9 billion of yield between 2011 and 2015. HMRC's forecast of the Programme's total additional yield was, therefore, £13.2 billion. HMRC's assessment of potential benefits peaked in January 2010 when, following the introduction of new projects, it forecast total Programme yield of £17.7 billion (Figure 3). HMRC revised down this forecast by July 2010 as more information on the new projects showed that benefits were not as high as previously thought. In particular, HMRC reduced the forecast yield attributed to one project – Helping Business Get It Right – from £2.4 billion to £0.2 billion as it would not achieve the impacts expected. HMRC's forecast of future yield is still subject to uncertainty as six projects, accounting for 27 per cent of Programme expenditure, have not yet delivered additional yield at the end of 2010-11 but are expected to do so.

2.6 The Programme has contributed to wider improvements in HMRC's performance in increasing yield over the last five years, from £8.8 billion in 2006-07 to £13.9 billion in 2010-11. The Programme's reported yield benefits represented between 5 and 11 per cent of HMRC's yield in any year.

2.7 We examined a sample of projects to establish how HMRC had assessed yield increases and to test the supporting evidence base. We found that HMRC had established different approaches depending on the nature of the project. HMRC drew on its information specialists, Internal Audit and HM Treasury to assess Programme benefits. Our analysis is set out in **Figure 5** on pages 17 and 18 and showed:

- £1.954 billion of reported yield was delivered from compliance cases generated by HMRC's improved risk targeting and by campaigns. The yield increases are directly attributable to specific cases.
- £311 million came from restructuring HMRC's tax credit compliance work. The project shifted staff resources from 100 offices across the country to a reduced number of larger teams, which conducted higher numbers of interventions. The benefit was assessed using an estimated number of interventions and an estimated amount of yield per intervention. This was not updated with actual business results as other projects also affected business performance.
- £149 million came from a project to re-engineer compliance processes and was based on an assessment of efficiency improvements. The Programme used a benefits model to assess improvements in work rate and, where information was available, updated assumptions during the Programme.
- HMRC attributed £395 million to the Better Data for Corporation Tax project in the Large Business Service area over 2007-08 to 2010-11 and £834 million to Pacesetter over the full five-year period. In these cases, it is more difficult to establish direct attribution of benefits to specific activities due to other changes affecting compliance activities. These attributions were based on negotiations and assessments rather than precise figures, although they are supported by HMRC's overall performance in increasing yield.

- HMRC attributed £459 million to the Programme's wider effect in changing customer behaviours and increasing voluntary compliance. Such attribution to the Programme is more difficult. The assessment is based on assumptions which, inevitably, are subject to uncertainty. HMRC is developing its modelling to better understand the impact of compliance work on customer behaviours.

2.8 We found one instance where there was more limited evidence to support the attribution of yield to the Programme. The Better Data for Corporation Tax project was introduced in 2004 to improve HMRC's risk targeting. From 2006, the Programme provided additional funding of £54 million to develop and run the ICT system. In 2006-07, HMRC attributed £636 million of yield to the Programme on the basis of an agreement with the business area. HMRC's Internal Audit found that the business area's improved performance was due to new management actions rather than exploiting the Programme's investment in the ICT system, which was taken out of operation in 2006 and relaunched in April 2007.

Figure 5
Programme yield – by project

Project	Benefits 2006–2011 (£m)	Reason for benefit claim	Basis of claim
Connect			
Reducing repayment fraud	768	Fraudulent VAT repayments identified and not paid out.	HMRC identified new cases of fraudulent VAT repayments.
Intervention yield	649	Yield resulting from Connect identifying higher-risk or higher-value cases.	Yield generated from new cases. The benefit is calculated as the yield that Connect cases produce less the average amount the same investigator could have expected to get on a non-Connect case.
Campaigns			
Offshore Accounts Industrialised Compliance Scheme	455	Yield disclosed from HMRC's Offshore and New Disclosure Opportunity campaigns.	Yield is from 44,528 disclosures (12,914 declared no additional monies).
New Disclosure Opportunity	82		Yield is from 5,500 disclosures.
Compliance Re-engineering	149	Improving staff work rate and productivity after process re-engineering.	HMRC developed a model to estimate staff efficiency improvements. Using a 2005-06 baseline, it assumes improvements in work rate and targeting from individual projects, and calculates the extra yield this should generate. HMRC updated the model with management information on business performance when available.
Claimant Compliance	311	Centralising compliance staff to enable an increase in interventions.	Based on an increased number of interventions. The benefit was assessed using an estimated number of interventions and the estimated yield per intervention. This was not updated with actual business results as there were other change projects which affected business performance.

Figure 5 continued
Programme yield – by project

Project	Benefits 2006–2011 (£m)	Reason for benefit claim	Basis of claim
Better Data for Corporation Tax	1,193	This project helped HMRC to bring together internal and external data to improve its targeting of compliance work.	Includes £636 million for 2006-07 based on management improvements. HMRC's Internal Audit and our validation work questioned this attribution to the Programme. During 2007–2011 the Large Business area increased yield by £1.5 billion. There were 20 initiatives to improve business performance and the business area agreed that roughly £100 million a year should be attributed to the project. The remaining £162 million is from Local Compliance.
Pacesetter Developing Capability	834	Productivity improvements, enabling HMRC to maintain yield with fewer staff.	The benefit in Local Compliance is calculated by taking the business area's total yield, stripping out factors that could have affected yield, for example, inflation or benefits generated elsewhere, and comparing this against the 2005-06 baseline. The baseline was re-calculated to reflect staff reductions since 2005-06 and the remaining yield increase was attributed to Pacesetter.
Voluntary compliance income	531	This benefit is assumed to accrue from changing taxpayer behaviours following compliance interventions.	The corrective benefit is estimated on the basis that taxpayers will be voluntarily compliant in the year following an intervention. Based on panel studies by HMRC's data analysts, this is estimated at 25 per cent of their penalty. The deterrent benefit is estimated on the basis that, after an intervention, the perpetrator's network will become more compliant.
Other projects and synergies	463	We did not review these benefits.	Some of these projects used the benefits model. All benefits would have been signed off by the relevant business area.
Total – gross yield	**5,435**		
Full-Time Equivalent savings	(1,113)	The Programme delivered staff reductions of 3,374. HMRC converted the reduction in staff numbers to a decrease in yield to reflect that fewer compliance interventions will have taken place and show the full effect of the Programme.	
Total	**4,322**		

Source: National Audit Office analysis

2.9 HMRC's overall performance in increasing compliance yield provides clear evidence of the Programme's positive impact. We recognise that it can be more difficult to isolate the impact of projects designed to improve operational efficiency and increase voluntary compliance. In these cases, we believe that HMRC could have gone further to gain greater confidence in its attribution of yield increases. Our analysis shows that, in some cases, yield increases were based on estimates of the project's impact and results were not always validated against actual improvements in business performance. HMRC took the view that granularity at the project level can lead to spurious accuracy and further attribution would create unnecessary cost.

Other Programme benefits

Reducing headcount

2.10 HMRC forecast that the Programme would reduce headcount by 3,374 full-time equivalents. It achieved these reductions by the end of 2008-09, two years ahead of forecast, and contributed to larger headcount reductions in the Enforcement and Compliance business area. HMRC reduced the Programme's gross yield by £1.1 billion to reflect that fewer staff would lead to fewer compliance interventions.

Productivity improvements

2.11 HMRC initially forecast that the Programme would improve productivity – measured as the tax yield per full time equivalent – by 42 per cent by 2011. In the Programme's final business case, produced in November 2011, HMRC assessed that the Programme had improved productivity by 15 per cent. It has since revised the figure to approximately 36 per cent to the end of 2010-11.

Customer experience

2.12 HMRC's compliance work covers a wide range of customer behaviours, from helping taxpayers to comply with their obligations through to tackling non-compliance and punishing evasion. For compliance work to improve customer experience, HMRC recognised that it needed to target cases that warranted compliance input and work these quickly and effectively. In 2008-09, the Programme team undertook an exercise to assess the impact on customer experience as HMRC's standard models only applied to compliant customers. It established proxy measures on:

- elapsed times to reach a settlement;
- increased strike rate (reducing the number of investigations which find no extra tax liability); and
- percentage change in average yield.

HMRC did not systematically assess the Programme's impact on customer experience. It measured the Programme's impact in 2007-08 and 2008-09 but did not assess performance after this. HMRC stated that the assessment was resource-intensive and the Programme's primary focus was on generating additional yield.

The tax gap

2.13 One of the Programme's critical success factors was to reduce the tax gap by £4.6 billion by 2011 and by £2 billion in each subsequent year. The tax gap gives a broad indication of the compliance challenge that HMRC faces and provides a way of judging its long-term performance. HMRC's view is that it is less suitable for monitoring operational performance because of the time lag in collecting data and error margins in the estimates. HMRC did not seek to isolate the impact of the Programme on the tax gap due to the complexities of measurement; for example, it would have required HMRC to strip out all other factors affecting the tax gap in the period, such as VAT debt levels and the recession. Its targets for the current Spending Review period are also based on the additional revenue generated from compliance activity (paragraph 1.7).

2.14 HMRC estimated that the tax gap was approximately 7.9 per cent of total tax liabilities in 2009-10 which, in cash terms, was some £35 billion (**Figure 6**). HMRC analyses the tax gap further by tax regimes and customer behaviour, and uses this knowledge to help target compliance work.

Figure 6
Tax gap estimates – 2005-06 to 2009-10

	2005-06 (£bn)	2006-07 (£bn)	2007-08 (£bn)	2008-09 (£bn)	2009-10 (£bn)
Total indirect taxes	17.2	16.7	15.9	18.9	15.1
Total direct taxes	18.9	20.2	20.2	19.8	19.8
Total tax gap	**36**	**37**	**36**	**39**	**35**
Percentage of total tax obligations	**8.3%**	**8.0%**	**7.4%**	**8.1%**	**7.9%**

NOTE
1 HM Revenue & Customs attributed the downward trend in the tax gap between 2005-06 and 2007-08 to increasing returns from compliance interventions, the reduced impact of criminal activity, particularly from Missing Trader Intra-Community Fraud, and reduced levels of Corporation Tax avoidance. The significant spike in 2008-09 was primarily due to increased VAT debt at the time of the recession. The fall in the indirect tax gap in 2009-10 is attributed to a decrease in the VAT rate to 15 per cent as, in general, a lower tax rate leads to a reduction in the cash impact of non-compliance.

Source: HM Revenue & Customs, Measuring Tax Gaps 2011, September 2011

Measuring Programme benefits

2.15 HMRC developed a benefits realisation strategy and established plans to measure and monitor benefits. It also:

- established a Benefits Technical Group drawing on expertise across HMRC, Internal Audit and HM Treasury to agree methodologies and review forecasts;
- developed methodologies for all projects, including a benefits model for some projects;
- developed a reporting system to track delivery of the Programme's forecast benefits, including an assessment of the risk of non-delivery;
- made senior officers in business areas accountable for implementing change and business change managers responsible for measuring benefits; and
- introduced benefits relationship managers to monitor whether projects were delivering their benefits, and provide support to business areas if benefits were below forecasts.

2.16 We found that the Programme team established extensive arrangements to encourage identification, realisation and reporting of benefits. There is, however, scope to improve how the arrangements operated:

- benefit tracking focused primarily on yield and did not provide a full view of the Programme's wider benefits;
- benefits data was not always timely – some data was not available until six months after the year end as HMRC sometimes needed to gather information through one-off exercises;
- staff encountered difficulties embedding new capabilities into business areas, which restricted their ability to maximise benefits; and
- HMRC did not set stretching targets for project teams and business areas.[3]

3 HC Committee of Public Accounts, *Managing Civil Tax Investigations, Twenty-seventh* Report of Session 2010-11, HC 677, December 2010.

Part Three

HMRC's management of the Programme

3.1 This Part evaluates how HMRC managed the Programme, including its control of costs and implementation of projects.

Programme-level management

Managing Programme expenditure

3.2 In 2008, HM Treasury approved the Programme's business case, including HMRC's planned expenditure of £364 million over 2006–2011. In November 2011, HMRC reported that the Programme had cost £387 million (**Figure 7**). Out-turn to the end of 2010-11 was £350 million. As HMRC deferred delivery of some projects into 2011-12, the Programme spent a further £10 million on implementation and incurred £27 million of post-implementation costs. The post-implementation costs for 2011-12 were not included in the Treasury-approved business case and would have been met by business areas if projects had been completed in 2010-11. These costs are the ongoing costs of running and servicing new systems including, for example, licensing fees to run ICT systems.

3.3 HMRC exercised appropriate budgetary control after underspending by £31 million in the first two years. The Programme finance team developed good management information to monitor spending on a monthly basis. HMRC delivered the Programme within its broader commitment to reduce running costs and in 2010 responded to the Cabinet Office moratorium on capital spending to justify its project expenditure. HMRC told us that in 2010-11 the Programme released £2.6 million of Programme funding to other departmental priorities as part of this commitment.

3.4 HMRC did not reflect the full ongoing costs to the business in the 2008 Treasury approved business case. For example, it included post-implementation costs up to 2010-11 but did not include costs for 2011–2015. HMRC forecast that it will spend an additional £78 million between 2010-11 and 2014-15 on the operation of the new ICT systems introduced under the Programme. Future post-implementation costs were included in the final Programme business case in November 2011.

Figure 7

Programme spending 2006 to 2012 – out-turn versus forecast

	Planned expenditure 2006–2011 (£m)	Out-turn 2006–2012[1, 2] (£m)
Capital costs	119	140
Staff costs	44	49
Other operating costs[3]	131	113
Implementation costs (sub-total)	**294**	**302**
Post-implementation costs	70	85
Total	**364**	**387**

NOTES

1 The Programme planned to close in 2011.

2 The 2006–2012 out-turn includes £27 million of post-implementation costs not included in the planned expenditure 2006–2011.

3 Other operating costs include consultancy, travel and subsistence and some training-related costs.

Source: HM Revenue & Customs

3.5 The Programme business cases also excluded some other costs:

- The cost of staff time for training and familiarisation with new systems. This cost is considerable given that there were more than 40 new projects and some, such as the new case management system, were rolled out to 16,500 staff. We estimated that the cost of one day of staff training was approximately £2 million. HMRC did not make specific provision on the basis that training costs for the Programme's projects would be absorbed by business areas.

- The cost of running and decommissioning ICT systems replaced by the new case management system. HMRC estimates that it could save up to £2.5 million a year from decommissioning these systems. HMRC excluded these costs as it intended to complete most cases on existing systems before considering decommissioning. It expects to decommission in 2013-14. In addition, the ICT Directorate has since introduced a new initiative to create stronger incentives for business areas not to add to overall ICT running costs.

Managing Programme delivery

3.6 Overall, HMRC's governance arrangements were appropriate for a Programme of this scale. The Director General for the Enforcement and Compliance business area was the Senior Responsible Owner, with overall responsibility for managing the Programme within time and budget, and delivering intended benefits. HMRC established a hierarchy whereby the Programme Board was supported by project boards and steering groups. The Programme Board assigned responsibilities for delivering projects and received detailed monthly management information to monitor progress.

3.7 The Programme has been subject to regular external reviews and HMRC responded to the recommendations to strengthen its governance arrangements. In 2008, the Office of Government Commerce (OGC) concluded that appropriate governance arrangements were in place and the Programme's risk register was comprehensive. In 2009, it identified many areas of good practice but highlighted that risk management needed to be strengthened to reduce the level of fire-fighting. It concluded that HMRC lacked clarity about escalating risks, reducing the ability of senior management to focus on strategic issues. The Programme Board acted quickly on the recommendations to strengthen its risk management and in 2010 the Efficiency and Reform Group concluded that the Programme was well run, mature and had a successful record of delivering considerable benefits.

3.8 The Programme Board prioritised funding to deliver the key projects within the annual funding limits. It ensured that the main components of the Programme were delivered by de-scoping a small number of projects where it had insufficient funds, decided the timing was wrong or the change was no longer needed. The projects taken out of scope were mainly intended to improve working practices and staff capability. HMRC had spent £320,000 on these projects when they were stopped. HMRC estimated that one of the de-scoped projects would have delivered additional yield of £35 million and another was forecast to improve staff productivity by 3 per cent.

3.9 The Programme Board reviewed investment decisions each year to assess the progress of projects and their strategic fit. Decisions were influenced by the need to live within annual funding limits rather than maximising benefits. This led to reductions in the scope of projects and, consequently, the benefits delivered. The Programme Board's investment decisions were based on forecasts of additional yield, although it did not always have timely information on the benefits delivered by individual projects, and estimates of future benefits were subject to uncertainty (paragraphs 2.5-2.16).

3.10 Through the Programme, HMRC sought to transform its compliance work so resources would be targeted to risk (paragraph 1.6). The Programme's new capabilities have strengthened HMRC's approach and, over time, should help to deliver its longer-term vision. HMRC has made progress towards the transformation originally planned, although it has not yet delivered this in full. For example, at the end of the Programme, HMRC had not fully achieved its intention – as set out in the Programme Blueprint – to increase the use of campaigns, and intends to run four new campaigns and set up twelve task forces to target non-compliance during 2011-12. In addition, HMRC did not introduce projects on flexible resource deployment and organisational learning, which aimed to improve its ability to target resources to risks.

Project delivery

3.11 The Programme consisted of more than 40 projects, ranging in size, type and objective. HMRC spent £239 million, 62 per cent of Programme expenditure, on the five largest projects to introduce new ICT systems. We evaluated HMRC's performance in delivering these projects.

3.12 HMRC prepared business cases to justify the proposed investment in projects. It earmarked funding for the lifecycle of the Programme and allocated funds to projects to keep within annual budgetary limits. Project allocations were renewed annually. Project teams scoped and implemented projects within their allocations and, for the new ICT systems, negotiated with HMRC's suppliers to design the technology. On one of the projects we reviewed, HMRC's funding allocation significantly underestimated the work required – the cost of delivering and implementing the new Connect system will be £45 million, compared with a budget of £30 million.

3.13 Our analysis showed that virtually all phases of the projects to deliver ICT systems slipped against planned delivery dates (**Figure 8** overleaf). In 2009, the OGC also reported that all of the Programme's ICT systems were subject to delays and missed milestones. The slippages in some cases led to increased costs as some contracts were based on time spent and materials used. The slippage was due to:

- delays in approving project design or changes to specifications;
- projects being phased over financial years to keep within annual funding limits;
- greater complexity in delivering projects than originally envisaged;
- delays as teams negotiated the scope and design of new systems with suppliers, including assessing what was feasible within funding allocations. The OGC also identified systemic weaknesses in how HMRC managed contractual supplier relationships and highlighted the length of time needed to agree project scope; and
- HMRC deferred completion of three projects in 2010 while justifying the need for funding in response to the Cabinet Office moratorium on capital spending.

The delays in delivering projects meant that HMRC has not delivered the forecast yield increases as quickly as intended. For example, two projects – Caseflow and Spectrum – received £98 million of Programme funding and were originally forecast to achieve net yield increases of £743 million by 2010-11. At the end of 2010-11, the two projects had not delivered any additional benefits. HMRC also spent a further £5 million on a new system that was originally included in the Caseflow project. It currently forecasts that the three projects will generate additional yield of £547 million by 2014-15.

Delivering against specifications

3.14 There were tensions between the business requirements and available funding on all of the projects to deliver ICT systems. We found that project teams delivered the core ICT infrastructure, although the functionality and scope of some systems was lower than the original specification (see Part Four). HMRC de-scoped some projects to live within annual funding allocations and did not always have a clear understanding of business requirements when designing systems. For example, on occasions, project teams had to make further changes to project specifications after liaising with business areas or after systems testing.

Figure 8

Delivery against project timetable – the Programme's ICT systems

Project	Planned delivery date	Actual delivery
Caseflow	May 2009	August 2009
Caseflow Relationship Management Module	March 2011	October 2011
Connect	Phase one: January 2009	March 2009
	Phase two: August 2009	January 2010
	Phase three: March 2010	July 2010
New Penalties (ICT component)	Phase one: April 2009	October 2009
	Phase two: April 2010	October 2010
Spectrum	March 2009	March 2010 main deliverable
XBRL (risk tool for Corporation Tax returns)	March 2011	October 2011

Source: National Audit Office analysis

Part Four

Improving future capability

4.1 This Part assesses HMRC's approach to designing projects, implementing new systems and assessing their impact on business performance. We assessed a sample of projects, including a more detailed review of the Connect and Caseflow systems.

Designing projects

4.2 To evaluate HMRC's approach to project design, we assessed whether it had appropriately specified system requirements and, where needed, negotiated with suppliers; engaged with users to develop products that met their requirements; and established a clear view of how to optimise the use of new systems.

4.3 HMRC appointed experienced project managers to deliver projects. On the Connect and Caseflow projects, HMRC established project teams, drawing on expertise from the ICT Directorate, to work with contractors to determine the scope of the ICT systems. All projects had business cases stating the rationale for change, including fit with the Programme's objectives and investment case, which were approved by the Programme or sub-Programme Board. However, we found one example – the Helping Businesses Get it Right project – that was not approved until three weeks before project closure and changes in scope created confusion over the project's direction.

4.4 Our review of two projects to deliver ICT systems showed elements of good practice in project design. For example, the design of the Caseflow system included a pilot phase and gap analysis to identify requirements. There was, though, scope to strengthen the design phases:

- The technical detail of the Connect pilot system was not well documented, which made building a version for wider use more difficult. There were also gaps in the technical expertise of the project team, restricting HMRC's ability to work closely with contractors and to assess whether the proposed solution would fully meet business needs (**Figure 9** overleaf).

- The Caseflow system was rolled out in phases and each was subject to testing by its contractor, drawing on user feedback. However, HMRC introduced the system with known problems that led to negative user perceptions. In the first year after implementation, the system also encountered operational problems that affected its performance (**Figure 10** on page 29).

Figure 9
Case example – Connect

Connect is an ICT platform that enables more effective risk profiling to identify high-risk cases for investigation. Connect brings together information from across HMRC and third party sources to uncover hidden relationships – between people, organisations and data – that would not previously have been identified.

Project design

Following a successful pilot, which demonstrated the value of data-matching and profiling technology, HMRC decided to build a stable system for wider use to maximise the tax yield as quickly as possible.

HMRC and its ICT suppliers underestimated the system's complexity and the challenge of extending its use. The technical detail of the pilot system had not been well documented, which increased the difficulty of replicating the technology. HMRC also changed some requirements to limit costs. For example, there is no testing area to assess potential changes to the system, restricting how HMRC can adapt the system to changing circumstances. HMRC will therefore need to manage carefully any future enhancements alongside live operations.

Roll-out

The Connect pilot was run by data analysts working for HMRC's contractor. HMRC's strategy was to become self-sufficient by improving its in-house skills. The system was implemented in July 2010. HMRC set up a Connect academy to provide intensive training and sought to develop around 100 specialist users. HMRC has run five training academies since implementation and, in August 2011, 58 analysts had been trained. Timetable slippages in building the system also meant the contractor's specialist staff were not available to provide the skills transfer as originally planned. In addition, HMRC redeployed ten staff who were already competent in using the system and, since Autumn 2011, has recruited five specialist staff from the finance and credit industries to enhance its capability.

HMRC decided to establish five risk profiling centres across the country to facilitate recruitment and staff redeployment and enable data analysts to work closely with local teams. It also set up a central team to undertake research and development. The dispersed model meant, however, that there was less opportunity for peer learning and there have been variations in the standard of risk profiles across sites.

In addition to compiling specific risk profiles, which requires specialist analytical skills, investigators can also use Connect to more effectively investigate cases and identify new areas of risk. HMRC has not yet provided sufficient training to fully exploit this capability and build user confidence. In June 2011, the large majority of licences had been allocated but 41 per cent were not used, including 74 per cent of licences not used for VAT work.

Assessing performance

HMRC has established much of the management information needed to analyse Connect's performance and intends to make further improvements. For example, the Connect analysts have not received feedback on how much tax yield was generated from their profiles but a recently installed automated feedback loop should help improve management information.

Source: National Audit Office analysis

Figure 10
Caseflow

HMRC had a variety of paper-based and ICT case management systems for compliance work. Caseflow introduced a generic case management system which enabled the electronic transfer of cases around HMRC.

Project design

The design phase showed elements of good practice as HMRC conducted a pilot and carried out a gap analysis to identify further requirements. HMRC adopted a strong top-down approach and directed design firmly to prevent excessive bespoking of the system. HMRC's contractors carried out user-testing on its behalf and, in accordance with the contract, there was limited direct user involvement. Before implementation, HMRC identified some system defects and functional gaps. It decided that the system was fit for implementation and that the known problems could be addressed after going live. Other system problems were identified in the year after implementation. In August 2011, 127 issues were outstanding, of which 34 were prioritised for resolution.

Roll-out

The project provided all sites with a 12-week communication and training plan, which was rolled out in phases over a six-month period. It used online learning modules to train staff. There were, however, time lags between staff receiving training and having to use the system. Staff members also experienced difficulty in gaining access to the training system and the training material did not fully meet staff needs.

HMRC established user support to facilitate system roll-out. It created 'super-users' across the business and set up help desks to deal with common problems. Staff were positive about the role of 'super-users'.

HMRC did not sufficiently consider business integration when rolling out Caseflow. In particular, they needed to provide clearer messages across business areas to inform staff when business change was taking place and the impact on operations. HMRC did, however, mandate that all new compliance cases had to be managed on Caseflow to ensure the system was being used. HMRC phased roll-out from August 2009 to March 2011. By December 2011 there were 13,573 trained users and up to 5,000 staff on the system each day.

At the time of implementation, HMRC had not established a plan for decommissioning the systems replaced by Caseflow. HMRC decided to wait until cases had been completed on legacy systems before considering decommissioning. It now plans to decommission some systems during 2013-14.

Assessing performance

HMRC is developing its management information; for example, Caseflow could be used to improve targeting by establishing how cases generating high amounts of tax yield were identified.

HMRC intends to move some 9,000 staff into higher-value compliance and enforcement activity by 2014-15. This may create capacity issues by 2013-14 if the number of users exceeds the availability of licences or the infrastructure is unable to cope. HMRC intends to review this in 2012.

Source: National Audit Office analysis

4.5 We found that design of the Connect system was also influenced by HMRC's broader objectives. HMRC extended this technology as quickly as possible to maximise the yield that the pilot system was generating. HMRC had begun to develop another risk assessment tool but decided that this system would be more costly and would not deliver the required capabilities quickly enough. As the Connect pilot had already generated £88 million of yield by the end of 2008, HMRC focused on quickly extending this system. HMRC underestimated the complexity of the system which meant that, given the condensed timeline, the project team was under considerable pressure during the design phase, leading to misinterpreted requirements, subsequent change requests and the need for business approvals at short notice.

4.6 HMRC has successfully developed the core technology on the ICT projects that we reviewed. The design phases did not, however, sufficiently consider how to integrate the systems into business processes or develop the skills needed to realise the full potential of the new technology. To exploit the Connect risk system, HMRC established five risk profiling centres and sought to develop its own staff capability to reduce its reliance on contractors. There were, though, initial delays in establishing the profiling centres and the skills transfer was hampered by slippage in project delivery. In July 2011, one year after implementation, HMRC identified that it was not using the Connect technology consistently or efficiently, and proposed improvements to the operational model to work more closely with business areas and optimise the use of the technology. Despite this, the Connect project has been successful, strengthening HMRC's ability to identify non-compliance and delivering £1.4 billion of additional yield by 2011. HMRC intends to develop a larger pool of skilled analysts across business areas to improve its analytical capability and extend use of the system across compliance work.

Implementing new systems

4.7 Rolling out new projects to up to 26,000 staff is challenging, particularly when these involve changes to working practices or staff behaviours. Implementing new systems effectively requires investment in communications and training to secure buy-in to new approaches.

Communication

4.8 We found good-practice examples of project teams liaising closely with business areas. In these cases, project teams were more effective in understanding business requirements and communicating the benefits of change. This approach helped to improve understanding and uptake of new systems and processes. For example, the Compliance Re-engineering project worked closely with business areas to identify opportunities for improvement and introduce standard operating procedures. The project team appointed local 'champions' and visited trial sites to give support and encourage staff engagement. This approach helped to improve performance at the trial sites; for example, it reduced the elapsed time of enquiries from 44 to 31 weeks and increased the take-up rate of new cases (from 96 to 145 per month) between 2009 and 2011. Another example was the Connect project team, which established a liaison team to promote the benefits of the system.

4.9 We also found examples where stakeholder engagement was less effective; communications were not clear, timely or with the right people; or insufficient information was provided. In these cases, projects gave insufficient attention to communications when implementing change. For example:

- although the 'New Penalties' project established arrangements to communicate across the business, these did not work effectively. Communication was not timely or sufficient to change staff behaviours in applying the new penalty regime; and
- there was a need to strengthen communication of the benefits and capabilities of the Caseflow system. Some staff were unclear of how the system would affect them or why it was being introduced.

Training

4.10 Each project business case contained a budget for implementation costs. Industry practice in implementing new ICT systems is that up to 25 to 30 per cent of the project's budget should be committed to implementation, including staff training. HMRC spent less than 2 per cent of the Caseflow and Connect budgets on implementation and training, although the cost of staff time in undertaking training is not included in project budgets.

4.11 Staff capability is a key limiting factor for the Connect system. HMRC decided to reduce its reliance on consultants by developing its own expertise to use the system (Figure 9). HMRC wanted to develop 100 specialist users and established a training academy to develop the specialist skills needed to use the technology. In August 2011, over one year after implementation, 58 staff had been trained to use the technology. HMRC told us that it also redeployed ten analysts who were already competent in using the system and recruited five specialists to increase its capacity to exploit the system's potential. In addition, other parts of the Connect system can be used by investigators. HMRC is developing its capability in this area but a lack of staff training, and the time needed for business areas to become familiar with the system, meant that 41 per cent of the 3,000 licences were not used in June 2011.

4.12 HMRC made extensive use of online training to roll-out projects as its staff are spread across the country. Our review highlighted:

- The Caseflow and New Penalties projects made extensive use of e-learning modules. The Caseflow project also included online guidance, access to a clone system to practise, and user support. However, HMRC had to provide further face-to-face training and new guidance material to improve staff confidence in using the new capabilities.

- HMRC's post-project reviews found that online training restricted its ability to embed new processes and cultural change. Having limited face-to-face training meant that it was difficult to deliver the changes needed to embed projects, such as the new penalty regime, the new case management system and process re-engineering.
- The OGC also identified issues with the provision of training for new projects. For example, a gap in engaging and training middle managers on New Penalties meant that changes were not driven through.

4.13 Our recent study on HMRC's core skills[4] found two examples where HMRC's training had not delivered the desired business results or was delivered at the wrong time. HMRC's training on the New Penalties regime did not achieve the expected change in staff behaviours, and training on the Caseflow software was not timely. We estimated that the original courses cost approximately £11.4 million but, in both cases, additional training was needed.

Assessing performance

4.14 HMRC has undertaken post-implementation reviews and conducted lessons learned exercises to evaluate the effectiveness of projects. It has established detailed management information on the use and performance of the Caseflow and Connect systems. As more information becomes available, HMRC intends to assess the impact on working practices and the changes needed to improve the effectiveness of the systems.

4.15 The new ICT systems have been designed so that they can be integrated with HMRC's broader ICT infrastructure. HMRC plans to improve their effectiveness and there are funding bids, totalling £21 million, to enhance the Connect system and develop data analytical skills and training. From 2011, the new ICT systems will be developed as part of a more strategic cross-department approach.

4 Comptroller and Auditor General, *HM Revenue & Customs: Core Skills at HM Revenue & Customs,* Session 2010–12, HC 1595, National Audit Offiice, December 2011.

Appendix One

Methodology

The main elements of our fieldwork were:

Method	Purpose
Document review We reviewed Programme documents, including business cases, blueprint, project business cases, project plans, management information, benefits realisation plans and post-implementation reviews. We also reviewed Internal Audit and Office of Government Commerce reports.	To understand the rationale and objectives of the Programme. To evaluate HMRC's Programme management and project delivery.
Semi-structured interviews with HMRC officials We carried out semi-structured interviews with key officials.	To complement the evidence collected through document review.
Project review We analysed a sample of six projects to assess design, implementation and approach to embedding projects. We chose the projects to provide coverage of different types of project, those incurring higher costs or delivering substantial benefits. We employed ICT specialists from KPMG to undertake an in-depth review of two ICT systems.	To assess how HMRC designed and implemented projects.
Site visits We visited compliance offices to see the Programme's tools being used in practice.	To understand how the Programme's tools are being used.
Financial and qualitative data analysis We analysed cost and benefits data. We tested the evidence base to support reported benefits.	To evaluate HMRC's Programme management, assess costs and examine the reliability of reported benefits.

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