House of Commons

Committee of Public Accounts

HM Revenue and Customs: Compliance and Enforcement Programme

Eighty–seventh Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons to be printed 25 April 2012

HC 1892
Published on 24 May 2012
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

Committee of Public Accounts

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The current staff of the Committee is Philip Aylett (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

HM Revenue and Customs (the Department) employs some 26,000 people on compliance and enforcement work, the purpose of which is to improve taxpayer compliance and tackle tax evasion and avoidance. Its long term aim is to reduce the tax gap—the difference between taxes due and the amount actually collected. According to the Department's own estimate, the tax gap stood at £35 billion (7.9% of all the tax due) in 2009-10, although other estimates suggest the figure is much greater.

Over the last five years, the Department has sought to transform this area of its business through the Compliance and Enforcement Programme (the Programme). The Programme was intended to target the areas of greatest risk and raise productivity, delivering an extra £4.56 billion in tax revenue by 2010-11. In practice, the Programme has brought in £4.32 billion of tax revenue over the five years to 2010-11, a rate of return of 11:1 on the money invested. The Department expects that the changes introduced will generate a further £8.87 billion by 2014-15. This success has been achieved in large part by innovation, allowing HMRC to make better use of data to assess the risks and patterns of evasion, and to deliver substantial productivity improvements by processing cases more quickly and efficiently.

Within the context of this welcome improvement, we believe that the Department's targets for the Programme could have been more ambitious. We are not convinced that the decision to reduce staff numbers working in this area in the past represented value for money for the taxpayer. The Department has estimated that, in shedding more than 3,300 staff, it lost £1.1 billion in potential tax revenue: about £10 in tax lost for every £1 in running costs saved. We are not confident, from what we heard, that there is a regular discussion with policy makers in which the Department is sufficiently clear about the marginal rate of return it could achieve from different levels of spending. We therefore welcome the increase in spending by £ 917 million in the 2010 Spending Review.

We also found that some of the intended benefits of the Programme were postponed or lost due to slippage in introducing key technology. In order to live within funding limits, the Department had to defer the introduction of new systems or reduce their scope. In particular, by delaying implementation of its new Caseflow and Spectrum systems, the Department deferred the additional tax revenue of £743 million it had estimated these systems would provide by 2010-11. It now expects that these projects will instead deliver £547 million of new tax revenue by 2014-15.

In this Spending Review period the Department has agreed with Treasury to re-invest £917 million in further activities to tackle tax evasion and avoidance, and to collect more debt. This investment is more than double the money spent on the Programme over the last five years, and is expected to generate an additional £7 billion a year by 2014-15. It is therefore essential that the Department learns and applies lessons from the Compliance and Enforcement Programme.

In particular, the Department must improve the way it integrates new systems with its existing working practices, ensuring the training necessary to support the introduction of

new technology is both targeted and timely, and strengthening its procedures for managing ICT contractors. The Department acknowledged that the way it had measured the Programme's benefits lacked rigour, hindering its ability to understand the return on individual projects. The Department needs to take a more rigorous approach to tracking and evaluating benefits to inform future investment decisions. We are also concerned that the Department places insufficient focus on the importance of customer service and were disappointed to note that the Department had not done enough to evaluate the Programme's impact on customers.

Finally, we consider that the Department needs to be more transparent and consistent in its commitment to tackling tax avoidance. We were alarmed at reports that the Department had advised that the use of managed service companies to avoid tax could ever be appropriate for full-time employees of public bodies. The Department must have a clear and consistent approach to providing advice on such matters. The Chief Secretary to the Treasury has announced a review of how managed service companies are used in the public sector and we expect to return to this issue once the review is concluded.

On the basis of a report by the Comptroller and Auditor General,[1] we took evidence from the Department on its management of the Programme and the potential to increase tax revenues further through compliance and enforcement work

1 C&AG's Report, *The Compliance and Enforcement Programme*, Session 2010-12, HC 1588

Conclusions and recommendations

1. **The Compliance and Enforcement Programme (the Programme) has generated a substantial increase in tax yield and an impressive level of return on the investment.** We welcome these achievements. The Programme generated an additional £4.32 billion of tax yield between 2006 and 2011, which represents a rate of return of 11:1 on the £387 million it invested in the Programme. The Programme achieved this by innovating and by introducing new technology, to increase productivity and make better use of data to identify and target evasion. On the back of the Programme's success, the Department negotiated, as part of the 2010 Spending Review, that it would re-invest £917 million of its efficiency savings until 2014-15 in further compliance and enforcement work. The aim of this investment is to generate an additional £7 billion a year in tax revenue by 2014-15. The recommendations which follow are designed to help the Department achieve the higher levels of performance now required.

2. **The Department has largely met its forecasts but we believe that the Department's targets for the Programme could have been more ambitious.** We are not convinced that the decision to reduce staff numbers working in this area in the past represented value for money for the taxpayer. The Department estimated that its commitment to reduce staff numbers by more than 3,300 (about 11%) over the Programme's lifecycle reduced the additional yield that could have been generated by £1.1 billion. While we recognise the broader considerations that impact on Spending Review decisions, such as the aim of increasing efficiency across the whole public sector and the need to cut costs, we question whether this decision to reduce staff represents value for money for the taxpayer. However we are not confident, from what we heard, that there is a regular discussion with policy makers in which the Department is sufficiently clear about the marginal rate of return it could achieve from different levels of spending. It is therefore welcome to see that the Department agreed in the 2010 Spending Review that it would reinvest £917 million of its savings to employ staff to generate additional revenue.

3. **The Department must learn and apply the lessons from the Programme to make further performance improvements and thus optimise the return on its £917 million of new investment**. The Programme consisted of more than 40 projects to introduce new systems and improve working practices. While the innovative nature of many of these projects made it inevitable that not all would deliver the full range of benefits sought, there are a number of key lessons to be learned from the Programme's implementation. For example, the introduction of two important new systems—Caseflow and Spectrum—was delayed, with the result that the extra revenue generated by these systems will be lower and later than anticipated. Staff did not have sufficient capability to make best use of the technology so future training will need to be more targeted and timely than it has been. The Department also needs to plan more effectively to integrate new projects into existing business practices, and strengthen its procedures for managing ICT contractors. In its response to our report the Department should set out how it will apply the lessons it

has learned from the Programme as it decides how to use resources between now and 2014-15.

4. **The Department lacked rigour in the way it measured benefits, which hindered its ability to understand the rate of return on individual projects or the main drivers of value in the Programme.** In some cases, the Department attributed yield increases on the basis of untested assumptions rather than rigorous monitoring and evaluation. In future the Department should be able to demonstrate that its resourcing decisions are underpinned by robust data showing that it understands the likely returns from particular projects. We would expect the Department's data to enable it to distinguish clearly between the benefits that are being delivered from the £917 million new investment in compliance and enforcement work and the returns accruing from business as usual.

5. **The Department lacks a clear and coherent policy on its approach to the use of managed service companies for public sector employees.** We were concerned by reports that the Department had given advice that using managed service companies to avoid tax could ever be appropriate for full-time employees of public bodies, especially, as in one case, when this was contrary to the advice provided to the individual concerned by one of the leading accountancy firms. The Department should have a clear and coherent approach to all forms of tax avoidance. The Committee will consider the issue further in the light of the Government's report on the extent of this practice in the public sector.

1 The Programme's performance

1. HMRC employs some 26,000 people on compliance and enforcement work, the purpose of which is to improve taxpayer compliance and tackle tax evasion and avoidance. Its long term aim is to reduce the tax gap—the difference between taxes due and the amount actually collected. According to the Department's own estimate, the tax gap stood at £35 billion (7.9% of all the tax due) in 2009-10.[2]

2. Between 2006 and 2011 the Department implemented the Compliance and Enforcement Programme (the Programme), which aimed to increase the amount of tax revenue arising from its compliance work by £4.56 billion over the five year period. The Programme set out to improve operational efficiency, reduce staff numbers and improve customer experience.[3] It included more than 40 projects, including new ICT systems to improve the Department's identification of businesses and individuals who do not comply with their tax obligations, and improve how compliance cases are managed and documented.[4]

3. The Programme generated £4.32 billion of additional revenue directly from its investment of £387 million in the Programme, a rate of return of around £11 for every £1 spent.[5] The Programme also helped the Department to increase the revenue collected from its broader "business as usual" compliance work, from £8.8 billion in 2006-07 to £13.9 billion in 2010-11.[6] The Department forecasts that the Programme will generate a further £8.87 billion of revenue by 2014-15. If it achieves this, the Programme will have raised a total of £13.19 billion directly from its investment in the Programme.[7]

4. The Department told us that in the past it was working under a Ministerial remit to reduce in size, consistent with the deal agreed in the Spending Review.[8] The Department therefore reduced the number of staff working on compliance and enforcement activity by 3,387 to meet headcount reduction targets. It has estimated that around £1.1 billion of additional revenue could have been generated had these staff reductions not been made, a loss in revenue of around £10 for every £1 of running costs saved.[9] Although it had provided general advice to Ministers, it had not set out what could have been achieved from different levels of investment.[10] Furthermore, the Department reduced the scope of some projects in order to keep costs within available funding limits, despite the fact that this would reduce or defer the amount of tax collected.[11] It was not clear to us that the Department had been having clear and meaningful discussions often enough with policy

2 Q 7; C&AG's Report, *The Compliance and Enforcement Programme*, Session 2010-12, HC 1588, paras 1 and 4.7

3 C&AG's Report, para 2

4 Q 51; C&AG's Report, para 3

5 Qq 3, 89; C&AG's Report, paras 3, 8, 2.3, 3.2

6 Q 4; C&AG's Report, paras 6 and 2.6

7 Qq 8, 10, 89; C&AG's Report, para 2.5, Figure 3

8 Qq 13, 14, 27

9 Qq 13, 33, 34; C&AG's Report, para 11, Figure 1

10 Qq 34-39

11 Qq 38, 164; C&AG's report paras 14, 3.9

makers about these sorts of spending decisions and that a transparent cost and benefit approach had been adopted.[12]

5. The Department's success with the Compliance and Enforcement Programme is partly down to its willingness to innovate. For example, the Department implemented a new ICT system called 'Connect', to strengthen its risk profiling and identify high-risk cases for investigation. The Department estimates that Connect produced around £1.4 billion of additional tax yield between 2006 and 2011. The project was particularly successful at identifying fraudulent VAT repayment claims, which is one of the reasons why the Programme exceeded its yield targets in 2008-09 and 2009-10.[13]

6. The Programme's overall success was achieved despite the fact that the five largest ICT projects, costing £239 million (62% of the total spend on the Programme), were delivered late. In the case of two projects in particular, this resulted in increased costs and reduced revenue. The Department told us that the increases in the costs of the projects were in the region of £10 million, but that these costs had been absorbed by the suppliers. As a result of the delays, however, the two projects had achieved none of the forecast £743 million of tax yield by 2010-11. The Department's latest forecast is that the projects would realise £547 million by 2014-15, and that the remaining nearly £200 million of lost yield would be recovered in later years. The Department said it had put an improved governance structure in place to help it identify when projects were not delivering as expected.[14]

7. The Department told us that the main lesson it had learned from the Programme was making sure that the business was ready to take on change programmes. A key element was getting the training aligned by ensuring that the business and managers were well equipped to receive the Programme's projects, and that their staff were using it effectively. These were the sorts of things that, as the C&AG's Report indicated, the Department had not always done well.[15] Departmental staff were not always trained to use the new systems effectively, with the result that the Department did not make best use of its innovative systems, such as Connect. The Department told us that it is taking steps to improve training.[16]

8. Another area in which the Department needs to learn lessons is in its management of ICT contractors. There were delays in agreeing project scope with contractors and it was not clear that the Department had the right level of client-side management skills to ensure that projects remained on schedule and on budget. The Department told us that it is tackling this by recruiting the right people, including looking externally for specialist skills, and by training and developing existing staff.[17]

12 Qq 17, 39, 165

13 Qq 52, 73; C&AG's Report, para 4, Figure 4

14 Qq 53-68, 71; C&AG's Report, para 3.13

15 Qq 72-73, C&AG's Report, para 4.6

16 Qq 64, 72; C&AG's Report, paras 4.11-4.13

17 Q 69; C&AG's Report, para 3.13

2 The next phase of the Department's compliance and enforcement work

9. We questioned the Department about whether it had been ambitious enough in its aims for the Programme. The Department's own estimate of the tax gap—£35 billion in 2009-10—had hardly changed during the course of the Programme, so it is clear that there is significant potential for additional tax revenue, which could help with the Government's deficit reduction programme. The Department accepted that it should be as ambitious as it can when setting targets for tax yield, and told us that the Programme's success had developed confidence in its ability to deliver.[18]

10. The Department intends to build on the success of the Programme by reinvesting £917 million of planned efficiency savings in activities to tackle tax evasion and avoidance. It is committed to bringing in an additional £7 billion of tax revenues a year by 2015.[19] The Department told us that it was analysing the causes of the tax gap (error, avoidance and evasion) to strengthen its understanding and target the re-investment more effectively. It would also be doing more to collect tax debts. The Department acknowledged that people knew roughly the level below which it did not currently pursue tax debt, so its debt management work would in future include smaller debts.[20]

11. While the Department has been constrained by resources over the last five years, it told us that the main constraint to achieving its new revenue targets is the speed with which it builds its staff capability to make best use of the new systems, including recruiting people with the right skills quickly enough.[21] The Department considered that the Connect risk assessment system had significant potential, and told us it was providing additional training so that staff could use the system effectively and the system could be extended across compliance work.[22] With regard to 'Caseflow', the new case management system, the Department had focused too much on online training, which had not been absorbed effectively by staff, meaning that the Department didn't build up the capability needed to embed the system as quickly as it hoped. The Department said it was now focusing more on providing the right kind of training at the right time, including more classroom style training.[23]

12. In future the Department needs to focus more attention on its measurement of the benefits accruing from specific projects. The Department acknowledged that it had lacked rigour in its evaluation of benefits. For example, the benefits for a project called "Helping Businesses Get it Right" were included without going through rigorous scrutiny, with the

18 Qq 3, 13, 28; C&AG's Report, para 2.14, Figure 6

19 Qq 6, 37, 64, 165; C&AG's Report, para 1.7

20 Qq 91, 134, 135

21 Qq 11, 30

22 Qq 73, 78, 79

23 Q 136; C&AG's Report, para 4.12

result that the Department scored benefits for this project that were also being scored by other projects. Consequently, the Department had to revise its yield forecasts down. [24]

13. We asked the Department why it had not systematically evaluated the impacts of the Programme on customers. The Department told us that it carried out surveys of its customers to get their views on what works and what does not, but acknowledged that it had much more to do in this area. Consequently, it was not clear that the Department fully understood how best to influence taxpayer behaviour in order to help businesses and individuals be more compliant.[25]

24 Qq 71, 72; C&AG's Report, paras 2.5-2.8, 2.15-2.16

25 Qq 92, 93

3 Tackling tax avoidance

14. The Department has a remit to clamp down on all forms of tax avoidance, including the use of managed service companies as a device for employees to avoid their tax liabilities. It told us that it was increasing the amount of resources it deployed on this type of avoidance. The Department also told us that deciding whether a managed service company was an appropriate vehicle, such as for an interim employee, or whether it was a tax avoidance vehicle was a grey area.[26] While we recognise that there could sometimes be a fine line, we are concerned that the Department has not been applying a consistent approach, and that there have been cases where most people would consider that the Department got it wrong. For example, the Department ruled in one public sector case that the use of a managed service company was an allowable exception, even though a leading accountancy firm had advised the individual concerned that it was not.[27]

15. The Chief Secretary to the Treasury has taken a position on this, which is that it is about more than just the pure legal interpretation. The Department told us that it would be perfectly proper for the Government to take a tougher line on itself, as an employer, as to when it was appropriate to employ someone through a managed service company, than it would with other (non-government) employers. We are aware that the Chief Secretary to the Treasury has commissioned a review of this issue and we await its findings with interest.[28]

16. More generally, the Department is seeking to tackle tax avoidance schemes that have been used by employers. For example, while employee benefits trusts may be legitimate in particular circumstances, they have been widely abused by employers. In other cases, employers have used travel and subsistence claims as a salary-substitute scheme. The Department has a number of cases where they are challenging the interpretation that companies have put on the law and is using its litigation powers in those cases identified as avoidance schemes. The Department has also introduced new rules on disguised remuneration and is putting more resource into this work, including the creation of new employer teams to look at these issues.[29]

17. The Department's lack of a consistent approach could result in uneven treatment of taxpayers. In particular, we were concerned that individuals who can afford private tax advice can declare themselves self-employed and avoid certain tax liabilities, while those on low incomes cannot.[30]

26 Qq 104, 111-120

27 Qq 113, 120

28 Qq 117, 118, 120, 121

29 Qq 130-132

30 Qq 118, 126

Formal Minutes

Wednesday 25 April 2012

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Jackie Doyle-Price
Matthew Hancock
Fiona Mactaggart
Mr Austin Mitchell
Nick Smith
Ian Swales
James Wharton
Stewart Jackson

Draft Report (*HM Revenue and Customs: Compliance and Enforcement Programme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations 1 to 5 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighty-seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report

[Adjourned till Thursday 26 April at 9.30 am

Witnesses

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Oral evidence

Taken before the Public Accounts Committee

on Wednesday 14 March 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Matthew Hancock
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales

Amyas Morse, Comptroller and Auditor General, **Ashley McDougall**, Director of Parliamentary Relations, National Audit Office, **John Thorpe**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HM Revenue & Customs: The Compliance and Enforcement Programme (HC 1588)

Examination of Witnesses

Witnesses: **Mike Eland**, Director General, Enforcement and Compliance, **Lin Homer**, Chief Executive and Permanent Secretary, and **Mike Shipp**, Director, Change Programme Assurance and Investment, Her Majesty's Revenue and Customs, gave evidence.

Q1 Chair: Welcome, Lin Homer, to your first appearance before us in charge of HMRC.
Lin Homer: Thank you, Chairman. It is nice to see you.

Q2 Chair: And welcome to both our other witnesses. Just to explain the context, I think Mike has had responsibility for the report, and all in all, you have met your objectives, so we welcome the work done by HMRC. We recognise that and congratulate you on the success there. If you can see the questions in that context, that would be very helpful.
Mike Eland: Thank you, Chair.

Q3 Chair: Thank you for that. You will say, "Oh God, why is she asking us this?", but as I looked at it all, I wondered whether your targets were ambitious enough. Did you have enough ambition in this area? I don't really want to talk about tax gap, because I have read endless things about how big it is and how big it isn't, but it is huge, so we can just take it as a huge figure. There is a lot of tax potential out there that could help us with the deficit reduction programme.
I looked at figure 6 as an example. Even your estimate of the tax gap has hardly changed as a percentage of the total take. The programme achieved £4.32 billion, but that is out of nearly £500 billion that you collect on behalf of the Government. It is 1%. It is not that much. Why aren't you more ambitious? Why not get more?
Lin Homer: Could I say a word or two before I hand over to Mike? You are absolutely right: he and the team have done all the hard work on this and he will give you the detailed answers, but I have a couple of points to put it in context.
Over the past few years, the amount that compliance and enforcement have achieved as yield has almost doubled. Although you are right that a great deal of our money comes in automatically through PAYE, the amount that comes in through enforcement and compliance is important, not only in terms of the absolute but in terms of the deterrent. This has been an ambitious programme, but certainly since my arrival two months ago—I moved four days after I was last here, in my previous job—I have already seen evidence that the work that is in hand for, in effect, the next stage of this programme, which will lift the tax yield from the some £13 billion that this programme was aiming to achieve to closer to £20 billion, is already in place. We want to be as ambitious as possible, but I certainly feel that I have seen evidence that the team have really begun to push those boundaries. There is a huge amount of enthusiasm in Mike's enforcement and compliance people to deliver not just the target that we ask of them, but as much as they can on the behalf of the public.

Q4 Chair: I want to push you harder, because I don't entirely buy that. In 2005–06, before people were really thinking about it, you were getting in just over £7 billion, and in 2010–11 you got in about £13 billion.
Mike Eland: That's right. About £13.9 billion.

Q5 Chair: I am not underplaying the success, and I hope to put that in context, but it just strikes me, looking at the total challenge facing the Government and the total potential revenue that is outstanding, that

it is a lot of money. We will come back to how you are going to achieve the CSR 2011–15, but even that does not take you massively towards whatever the tax gap is.
Mike Eland: This programme has been laying the foundations for what we can build on during the spending review. Getting up to additional tax brought in of £20 billion a year is actually quite a stretching target.

Q6 Chair: That is additional tax from a base of £13 billion. If you get it to £20 billion, it is an additional £7 billion at the end of the period—£7 billion as a percentage of just under £500 billion.
Mike Eland: If that translates through into the reduction in the tax gap that we hope for, that will bring us down to one of the lowest tax gaps in the world.

Q7 Chair: I don't want to get into a tax-gap argument, because I am sure that other members of the Committee have read the evidence and there is an argument about the size of the tax gap. Goodness knows who is right, and we are not going to solve that here this afternoon. That's why I started this by saying that there's a lot of money out there that people are not paying, either because they have made a mistake or because they are avoiding or evading. Those are the three categories. While we warmly congratulate you on what you have achieved so far and recognise what the CSR has put into place, I still think there is a lack of ambition.
Mike Eland: It is very difficult to say what the right level of ambition is if not comparing it to what happens in other fiscs. If we take the figure of tax losses indicated in the tax gap of £35 billion, and if we are actually looking to bring in £20 billion in a single year through our efforts—additional tax that would not have otherwise have come in to the Exchequer—then I think that is actually quite an ambitious and challenging target. In what we have delivered, under the build-up to the £7 billion additional a year, we looked to bring in £2 billion extra in this year. Obviously, we have not quite finished it yet and we cannot give you the final figures, but we are confident not only that we have made that, but that we are over our target. If we feel that we can do more, we are very much up for doing more.

Q8 Chair: Reading the Report, it seemed to me that that ambition was constrained to some extent, because you looked at how much money you had to spend or you looked at the staff that you would employ. You were driven not by how much money you could get in, and I do not know what the ratio is—1:10 or whatever—
Mike Eland: It is over 1:10. By the end of the period, just from the results of this programme, it will actually be 1:30.

Q9 Chair: In your section?
Mike Eland: From this programme.

Q10 Chair: It will be 1:30.
Mike Eland: Just from this programme. It will be lower in terms of the overall.

Q11 Chair: But on this particular programme, which was the previous CSR, you made a whole load of changes, not because they could not have brought in extra money if you had pursued them, but because you did not have the money in the budget that you had for your programme.
Mike Eland: It is fair to say that, in terms of looking at how much we can do, we have looked at how we have to build up the capability to deliver that. There is a constraint on how fast and how quickly we can build up. By and large with this programme—

Q12 Chair: The constraint is the budget or the staff numbers, not your capability or capacity to grow.
Mike Eland: The constraint is predominantly getting people in, trained and equipped to deal with complex areas, so there is a constraint in developing additional capacity. It is not a money constraint as such; it is that it takes time to train a criminal investigator and give them the experience to become an effective criminal investigator. There will always be time when you are building up a capacity.

Q13 Ian Swales: Can we just explore this resource question a bit further? The report talks about headcount reductions of 3,300 and concludes that your estimate is that that will reduce the programme's yield by £1.1 billion. I have done a back-of-envelope calculation, and those 3,300 people perhaps cost some £100 million to £150 million. Where is the sense for the taxpayer in taking out £100 million to £150 million of resource to lose £1.1 billion? How does that work?
Mike Eland: Immediately after the merger, Ministers wanted to create a new revenue department that was much smaller and more efficient than its two predecessors. Part of the remit that we were given in the then spending review, which I think was spending review '07, was to create a smaller department. That was one of our objectives. We had to deliver against that. That has now given us a platform on which we can build going forward. There is, however, always a revenue consequence with any staffing change—

Q14 Ian Swales: But you also talked about a more efficient department. This is unique among Government Departments. Efficiency is also measured by what you get in, not just what you spend. It seems to me—I have raised this issue with HMRC in previous hearings—that there is this whole question of how we establish the business cases for the resource that you want to put in. I want you to say a bit more about that, particularly in light of what you were saying before about the multiples of 10 or 30 in yield compared with resource. How are you speaking with your leaders and your Ministers and so on about these invest business cases, to get more money in?
Mike Eland: That is very fair. We feel that we have demonstrated through the results of this programme that we can deliver the sorts of returns that are shown here and that it is not just us saying that. It is that that led us in the last spending review to be allowed to

recycle all our efficiency savings into increased activity. These are now ratios between input and output, in which we have built up some confidence in both the Treasury and among Ministers and demonstrated that we are an organisation that they can sensibly invest in.
Lin Homer: If I might offer a comment, this has not just been a netting-off exercise. What Mike and the directorate have done is change how we work. I believe two NAO officials had an opportunity on Friday last week to look at the Connect programme, which is producing effectively more outcomes for the same number of people. We have not just moved the numbers around; we have moved the skills, the capabilities and the systems around that they work from.

Q15 Ian Swales: You have also been moving people around.
Lin Homer: And retraining them.

Q16 Ian Swales: As the report says, out of this as well into other departmental priorities. If a taxpayer was watching this hearing and you said, "If I could spend £1 to get £2 back", that would sound like quite a good deal, whereas it seems as though in your departmental thinking, you would say "Well, that's not worth doing." There seems to be some block in terms of investing resource.
Lin Homer: I do understand but if I said, "If you give me £1, I'll give you £2 back", you, as the Public Accounts Committee, would say, "We want you to do more than just achieve the productivity you have achieved before. We want you to do better". So, it is right that we test that we can not only get a return, but get as good a return as possible. I think that is what the governance system within the Department does. It tests each proposition, rather than just taking them at face value.

Q17 Ian Swales: I do understand that. You would want a margin, and more than £2 to ensure you were getting a return. It just strikes me that I don't think the Committee has the confidence that that kind of discussion, in terms of investment, is happening. We know about the big £700 million project, but it does not feel like it is happening regularly in terms of small projects or the need to invest extra resource in certain areas. That does not come across, either from this report or from what is said in hearings.
Lin Homer: I am relatively new, but I have to disagree. I think there is much evidence of that, not just at the Board table, but within teams. I have been out doing some visits. Teams will stand me around their performance information and tell me, "If we invested there instead of there, we would get a better return".
Chair: I can't find it, but somewhere in the report it says that you changed the programme because you ran out of money. That is the point. I don't know whether John can find it, but perhaps we can come back to it later.

Q18 Ian Swales: I will let someone else come in, in a moment. The final point comes from what Mr Eland was saying. Again, there seemed to be an implication from what you said about the whole programme being constrained by people, training and availability of good people. I have a little inside knowledge and I do not think it feels like that in HMRC, frankly. I would like you to say what more can be done to get the people in as fast as possible, train them by some other means, and recruit different types of people. Just how hard is HMRC trying? If that is one of the main constraints, what are you actually doing about it?
Mike Eland: We are looking to build up quickly. We have expanded by about 1,000 this year. Because we are reducing in some parts of the Department, we have to try and move people over from those parts. That is the most cost-effective way to do it.

Q19 Chair: So you're not going out for external applicants.
Mike Eland: We don't want to make people redundant in one part of the Department and recruit from outside in another, essentially. We are looking to move people over—
Chair: You are shifting them.
Mike Eland—re-skill them, and employ them in the new area, so that is essentially what we are trying to do.

Q20 Matthew Hancock: Have you assessed whether going outside for recruitment would help? I can see that sometimes the skills are transferrable, but not necessarily.
Mike Eland: No that is right. We have gone out for skills in the analyst area, to help support our information area, and in some of the criminal investigation areas, because obviously there are criminal investigation skills outside the Department. Clearly, if you have people in one part of the Department with knowledge of tax, it is sensible to move them over if you can.

Q21 Matthew Hancock: I wanted to push a bit harder on the ratios that Mr Swales was talking about, because it seems to me, from the report and what you were saying, that the reduction in the head count of 3,300 or so seemed to have an impact on revenue of about 10:1. Mr Eland, you have just said that the new money going in is having an impact of about 30:1.
Lin Homer: By the end of the project.
Matthew Hancock: It will by the end of the project.
Mike Eland: Yes, this project, on its business case from 2005–06 right the way through to the end, brings in £13 billion, I think. That represents a return on the original investment of about 30:1. That is a programme benefit.

Q22 Matthew Hancock: Okay, but what really matters is the marginal return on an extra pound. So the first instance of trying to measure that is: what is the impact you have seen from the extra almost 1,000 people you just spoke about, whom you have just brought in? What is the return on them?
Lin Homer: About 1:11 so far.
Mike Eland: There are obviously different returns depending on which areas you deploy people in, so

we are working on averages here. It will take people time to become fully effective.

Q23 Matthew Hancock: Okay, but if it is 1:11 on average and there are, therefore, areas where it is higher than 1:11, are you looking to deploy more people into the areas where the ratio is highest? I am not an expert in tax collection, but I do understand marginal benefit.
Lin Homer: I just wanted to pick up the point the Chair made earlier, because she is right that there is reference in the Report, in paragraph 14 of the summary, to our sometimes slowing down or deferring things. Yes, there is a natural, proper inclination to stay within budget, but the other thing that we have done all the way through this first stage of the project is to assess schemes and be prepared to put more money in ones that were delivering well, and to slow down, change or even stop in areas that we are not delivering as well. I think that is a good sign rather than a sign that we are obsessed—

Q24 Matthew Hancock: Even if the ratio is greater than 1:1, if you could be getting more from elsewhere it is worth putting people into it.
Lin Homer: Yes. If you can get a better one, exactly.

Q25 Matthew Hancock: But then there comes the question: how far do you push this? You would never want to be doing something where the ratio is less than 1:1.
Mike Eland: No, exactly.

Q26 Matthew Hancock: What evidence are you using to assess that question?
Mike Eland: Can I just try to explain the steps, because I do not want to cause confusion. In the first five years of the programme—

Q27 Matthew Hancock: Which years are those?
Mike Eland: They are 2005 to 2010. We were working under a ministerial remit that required us to reduce in size while maintaining revenue broadly in line. That was the objective that we were given immediately after the merger. In the economic context of the time, and with wanting to create an efficient public service, that was the political objective.

Q28 Matthew Hancock: Did that have consequences, for instance, for increasing the tax gap?
Mike Eland: As I say, we had to maintain additional revenues. We were not looking at that. Our remit was not to go further and close it. In the current period since 2010 our objective, particularly given the size of the deficit and so on, is very much revenue-focused. In order to achieve that, we are now getting investment in additional headcount. We are able to fill all our vacancies as they arise and expand as well, so we are moving into a different period. This programme is very much in relation to the past five years. This Report really is in relation to that period, but we are obviously now moving into a new spending round and a new challenge. I accept the Chair's challenge that we should be as ambitious as we can and look to bring in as much revenue as we can.

Q29 Chair: The other thing I would say to you, on your response to Matt—this is really a question to Lin, although I accept you have only been there for two months; however, it is the accounting officer's responsibility—is that the department was given a remit to reduce staff, but the last thing you do is to reduce your more productive staff in that context. Most of us fill in our PAYE honestly and completely. You can play around with ratios there, but you do not play around with staffing in an area of the business in which every additional member of staff on compliance gets you bang for your buck.
Lin Homer: That is of course an important consideration, but you can't necessarily take all the cuts out of one bit of the business and leave it entirely floundering. So over this period, when, as Mike has explained, the initial investment in E&C (Enforcement and Compliance) was £387 million, there was relatively more investment in this side of the business than, for instance, the PAYE staff side. But, as a result of the success of the programme, the investment programme that we have just started is nearly three times as big as that one, so it was also to some extent a pathfinder for a bigger programme that this Government have invested in. We still have to invest in PAYE because millions and millions of people need that system to work as well. For our employers, it is incredibly important that we do not just leave that system without any improvement in its efficiency.
Matthew Hancock: We had probably best not go into PAYE, universal credit and all the other things. I am sure that we shall look at it—
Lin Homer: We will have time in the future.

Q30 Matthew Hancock: Exactly. Can I just get this straight? You were saying that, in the period covered by this programme, which is the first five years, you were resource-constrained but now the constraint is how quickly you can recruit the right skills.
Mike Eland: Exactly.

Q31 Matthew Hancock: Okay; so what was the impact of being resource-constrained?
Mike Eland: Despite that resource constraint, we managed to build up our revenue from the £6 billion to the £13.9 billion.

Q32 Matthew Hancock: But what could you have done without that resource constraint?
Mike Eland: If we had had additional resource, we would have been able to bring in additional money. That is always the case.

Q33 Matthew Hancock: At what sort of ratio?
Mike Eland: A 10:1 ratio is a reasonable proxy.

Q34 Ian Swales: But that is £1.1 billion—
Lin Homer: Yes.
Mike Eland: Sorry, I am cutting you off.
Ian Swales: Sorry, I interrupted you. There is a figure in the report—£1.1 billion, if you had retained the 3,300 staff, is your figure. So that is part of the answer to Mr Hancock's question.

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Q35 Nick Smith: I want to acknowledge the overall good record of the department. You are suggesting that this was a ministerial diktat to reduce the headcount and to have a smaller department, but the nub, as Ian said, is that there seems to have been a missed opportunity to invest to gain. I am just interested in the advice you should have given about the unearned income that the staff you had in the department doing this work could have made on the department's behalf. What happened in those conversations about this money, which could have been collected?
Lin Homer: I—
Chair: I think that's really a question for Mike, because you weren't there, Lin.
Lin Homer: I simply wanted to put it in the context of the overall picture.
Chair: Yes, but let's have an answer to the question.
Lin Homer: The staffing numbers reduced by about 10,000 from 2007 through to 2010, so it is in that context that some of that reduction came from E&C. That's all I was going to say.

Q36 Chair: It just seemed a daft decision.
Mike Eland: I obviously cannot go into the details of advice given to Ministers, and you would not expect me to. As I said, I tried to explain that there is always a trade-off between revenue and staffing, and it has been part of every spending review that I have taken part in over the years. Every Government have to decide at the time whether the marginal gain they can get out of the Revenue department is consistent with other objectives they might have about the efficiency of the civil service. The Revenue is always seen as a Treasury Minister's department. All these things Ministers have to balance. Of course, we give them advice on the various consequences and so on, and it is for them to make those choices.

Q37 Nick Smith: But did you tell Ministers that they could spend £1 to gain £10, if they didn't lay off those people?
Lin Homer: Then they give you £917 million to invest, which is what happened last year.

Q38 Matthew Hancock: I suppose that it may be historical, but it is a question about how the department operates. Are you actually saying that there were professionally presented business cases for investment which Ministers looked at and decided specifically, "No, we are not doing this", or was it vaguer than that?
Mike Eland: I wasn't personally involved in any discussions, but no, there wasn't a series of projects presented. It was a more general discussion.

Q39 Ian Swales: To some extent, without putting too fine a point on it, this is really the HMRC management being insufficiently clear with policy makers about what could happen. I guess the important thing for us now is to be sure that the professionalism at the top is such that that will not happen again, and that there will be a constant menu of potential options for policy makers to say, "Yes, we want that, that and that. No, we are not doing that this time." Surely, that is what policy makers need.
Mike Eland: This goes right back to the pre-merger days, the O'Donnell report that was written at the time and what people thought was going to be got out of a merger of the two departments. The remits were published at the time. All I am doing is assuring you that advice was given. I can also assure you that what we have done in demonstrating that we can both make efficiency savings and build up revenue, as we did in that period, has built up confidence in us. If we say that we can deliver a return of 10:1, people believe us; they might not have believed us five or 10 years ago.

Q40 Stephen Barclay: You said in response to Mr Swales that the risk stopping you from delivering more benefits is the time it takes to train up the staff.
Mike Eland: That is one of them, yes.

Q41 Stephen Barclay: Indeed. When did you first become aware of that risk?
Mike Eland: It has been there all along—it is a normal thing. In terms of looking during the spending review at what we could achieve in this period and how close we could get to producing a large amount of additional revenue, the build-up that we would have to plan and go through was obviously part of it. It helped determine whether £7 billion was the right number.

Q42 Stephen Barclay: So if it has been there all along, did you not have the money to start training people earlier? Why didn't you act earlier?
Mike Eland: No, we hadn't the money—the money kicks in at the beginning of the spending review. What we did do was take a look and say, "What are the areas with the longest training times—criminal investigation" We made some money available. We identified some additional money to start before the spending review. We started recruiting criminal investigators before the money[1]—

Q43 Stephen Barclay: When was that?
Mike Eland: That would have been at the end of 2010.
Mike Shipp: 2010.
Mike Eland: That's right—2010.

Q44 Chair: 2010?
Mike Eland: Yes. I guess it would have been March.

Q45 Stephen Barclay: How many did you recruit at that stage?
Mike Eland: Three hundred.

Q46 Chair: On figure 4 on page 15 of the Report, what is interesting is that in 2008–09, which was the first year of the economic downturn, your success goes up. Then you look at 2010–11—

[1] Note by witness Q42–45 correction. The Spending Review money became available from April 2011. The HMRC's Executive Committee approved the appointment of 200 investigations in February 2011 to enable training to start as soon as possible. In the second half of 2011 a further 124 investigators were recruited.

Mike Eland: Yes, it comes down.

Q47 Chair: And you have done all this training, I just heard.
Mike Eland: The training really comes into the brown set of columns—that is where it would start to have an impact. The reason for the downturn in that year is the slippage of the two programmes that are referred to in the Report.

Q48 Chair: Can I ask just another question so we are clear? Those programmes were supposed to deliver to the first CSR. Will you allow them to contribute to the figures that you have to do in this CSR?
Mike Eland: Yes.

Q49 Chair: So that is a bit of a cheat.
Mike Eland: No.
Lin Homer: It's ongoing return, Chairman.
Mike Eland: This does not give you all the figures of SR '10. It is not the full picture in the Report; the Report is only about the programme that we did for the first five years.

Q50 Chair: I understand that, but it is interesting. We'll come to the details of the programme, because in a number of programmes, you haven't made a lot of progress. If they are then going to be counted against your success in the next programme, whereas they ought to have been counted against the success in the last, there is a little bit of—
Mike Eland: The £7 billion has to be on top of the delivery of those benefits. So these benefits will contribute to the baseline, if you like, but not to the additional—*[Interruption.]*
Chair: The CAG wants to come in, but I want an explanation.
Amyas Morse: We had a slightly more detailed discussion. I agree that we could be clearer in this diagram. We have actually produced for private briefing a fuller diagram which shows that you have another set of objectives on the top. The yield of these projects would go into the baseline. We understand that.

Q51 Chair: It still does not explain to me why in the 2008–09 recession you managed to keep your revenue coming in and you increased it; then, in 2010–11, it goes down. Forget about the new programmes, in 2009–10 you were running at £1.4 billion. Suddenly you go down in 2010–11 to just over £1 billion. I thought that was connected to the recession. Then I thought, no, it can't be because I looked at the previous recession and you were doing okay there.
Mike Eland: These are the way benefits come from particular sub-programmes. There are 40 sub-programmes in this. They will each produce a benefit for a particular period.

Q52 Chair: I accept that, but you expect a continuing, rising trajectory.
Lin Homer: I think it is the same point, in a way, that the CAG just made. The baseline is changing. So the baseline of nought for each year is the year before plus the benefits. The total sum achieved in 2010 is £13.9 billion, whereas the year before it is £12.6 billion. So each year Mike is, in a sense, adding something on top of what the baseline was from the year before. What we are showing is that this programme has been lumpy, rather than that it has gone backwards. That's not a very technical explanation, but my colleagues to the left can probably confirm that.
John Thorpe: We looked at this in the context of this review to understand what had gone on here. We identified that there are two specific projects at play. A substantial yield from the Caseflow project—the case management project—which was in the estimates in terms of the forecast, was not delivered. I think that was around £300 million. In terms of the dip in performance in 2009–10, the Connect project had been extremely successful in dealing with and addressing that repayment fraud.
Lin Homer: Yes.
John Thorpe: Our understanding is that that impact was not carried through into 2010–11, perhaps partly to reflect the success of that programme. So the actual yield went down in that particular year by some £300 million on VAT repayment issues.
Mike Eland: We got a particular boost in the year 2009–10, and having tackled that particular problem, it is a good thing that it does not repeat itself the following year.

Q53 Ian Swales: As we are on this subject, it is worth referring to figure 8 where we have another IT horror story. It is much smaller scale than a lot that we deal with in this Committee, but we have various phases and projects and so on, every single one of which was late. To what extent does the lateness of the IT systems affect the discussion that we have just had?
Mike Eland: There are two programmes where it had an effect, and they are the Spectrum programme and the Caseflow programme we have just talked about. That is one of the reasons why you have that dip in the last year of the five years.

Q54 Ian Swales: Have you done an assessment of the cost of these IT delays? The report also mentions the extra costs of the system. Connect was budgeted at £30 million and cost £45 million. What assessment have you made of the cost of the delay in IT?
Mike Eland: The cost of the delay in terms of the public expenditure side was, following discussions, absorbed by the suppliers. So it did not give rise to any additional public expenditure costs.

Q55 Ian Swales: Sorry, what was absorbed by the supplies? The extra cost of the systems or—
Mike Eland: The cost of the slippage—the extra expenditure that had to occur because the programme had slipped.

Q56 Ian Swales: But not the failure to enforce—
Mike Eland: The revenue slippage we will recover within the five-year cycle. We are still confident we can deliver on the whole 10-year revenue forecast. There are slippages between years, and delays have caused some of that. However, the revenue

consequences we can make up over the five-year period.

Q57 Chair: You will get the money, but that will be later.
Mike Eland: It will be later; I accept that.

Q58 Ian Swales: What you are saying is that with the enforcement compliance work, there will not be any loss. The money will come in later, but you will still be doing the same work. Is that what you are saying?
Mike Eland: The revenue consequences of the slippage we can recover in later years. The extra expenditure cost is being absorbed by our suppliers.

Q59 Ian Swales: We are talking about the figure for the areas where we are showing some slippage. What is the ballpark that we are talking about, in terms of what you think is slipping into later periods because of the IT? Is it single millions, or tens of millions? What are we talking about?
Mike Eland: It is a couple of hundred million, I think.

Q60 Mr Bacon: Which supplier or suppliers?
Mike Eland: It was part of the Aspire contract.

Q61 Mr Bacon: Capgemini?
Mike Eland: And Detica was another supplier.

Q62 Mr Bacon: Between them they have absorbed £200 million of extra costs?
Mike Eland: No, no. That is the revenue consequence. I gather that I am allowed to say that the actual public expenditure cost is in the range of nought to £10 million.

Q63 Mr Bacon: I am talking about the cost incurred by the supplier absorbing the cost. You were not paying anything extra?
Mike Eland: They have absorbed. I am told I cannot give the exact cost, but I am allowed to give a nought-to-£10 million order of magnitude.

Q64 Chair: Can we pursue this? In the context of you doing well here, it is a bit depressing to see figure eight, where every single programme is late—every single one. I accept the money comes in; it comes in late. You are spending a bit more—nought to £10 million more—on this one supplier. No doubt there will be more costs. It is deeply depressing. It is almost like there is a culture that it does not matter. It does not require projects to be delivered on time and on budget.
Lin Homer: I think one of the comments in the report is that we have to ensure that we learn the lessons from the stage 1 project—the £387 million—to take forward into the £917 million. Again, as a newcomer, as part of my induction, I looked closely at the governance of the whole change programme. I am continuing the role that Lesley Strathie took of being the senior responsible officer for that programme overall. There is evidence that we have learned some quite sharp lessons about programme management. I think this report illustrates that.

Q65 Chair: What are you going to do? Tell me three things that will be different, so that when we come back to this in two years' time we will not see just a list of delayed projects.
Lin Homer: There is now a governance structure for the whole programme, which requires agreement about slippage from a central change programme.

Q66 Chair: Was that not there before?
Lin Homer: Not in its entirety. That was built up by Lesley while she was senior responsible officer. There is now a change programme lead in each of the lines of business who answers to the director general and to the change programme, so that you cannot have arguments about who has accountability. The Major Projects Authority, which was introduced by this Government, has relatively recently had a look at that governance and given it a strong positive sign of approval. I am sure you will keep us to task on that, and I doubt it will be three years before you ask me how that has gone. From what I have been able to see so far, I think there is clear evidence of learning from this first programme that has already been established for the second, bigger programme.

Q67 Stephen Barclay: If that is the case, why are there eight initiatives reporting significantly reduced additional revenues compared with their year start position?
Lin Homer: Sorry, I missed the start of that.
Stephen Barclay: You were saying how strong the position is on the change programme at the moment. Why, if that is the case, are there currently eight initiatives reporting significantly reduced additional revenues, compared with their year start position?
Lin Homer: One of the things that governance does is tell you whether programmes are delivering. It does not necessarily guarantee that everything works perfectly. What it does is give you the signals about change. One of the powerful things that was done, even in this first programme, was that, on occasion, a project was looked at and, despite the original business case, challenged and critiqued internally through the governance. Changes were subsequently made. In some cases, we increased the scope of programmes because of that, and in others, we decreased it. We have shared with you our risk register to show you the nature of that.

Q68 Stephen Barclay: I absolutely agree, but I would have thought that the purpose of the risk register is to drive action. This has been marked as high risk—as red—since last July.
Lin Homer: What you do with governance is challenge. Some of those things get worked through into actions, some of them lead to re-timetabling and some of them lead to changes in the programme. I have not come along aiming to talk about every project in our new programme, but I think the governance leads to decisions—not on everything every time they meet, but decisions that prioritise action in the spaces where it is needed.
As I say, when the MPA looked at that new governance, it gave it a very strong bill of health, although I am not at all saying that it is perfect. I am

sure we will have moments with you when you say, “Couldn’t you have done better than that?” The question the Chair asked me is, in a sense, whether we are being serious about this, and I think there is evidence that we are building on what we are doing and getting better with each stage. That is not to say that I think we are perfect, or that there are not more things we could do.

Q69 Mr Jackson: You have addressed the issue that was raised by the Office of Government Commerce on ICT contract management and governance, but I am not entirely certain that you have reassured the Committee on the key issue particularly identified in paragraphs 3.13 and 3.14, on the capacity, skills and knowledge of the client side. What comes through is perhaps a lack of focus on what the end product should be, rather than governance issues. Are you satisfied that, at the moment, the organisation has the ICT client-side management skills to ensure that such overruns and budget issues do not reoccur?

Lin Homer: I think that is a challenge for Government overall. I have been really impressed by the work that has been done in HMRC in the past couple of years, and we are trying to tackle that both by recruiting the right people—as we discussed earlier, this is one of the areas where, on occasion, we go to the outside market, rather than thinking that we can do it all—and by internally training and developing our people so that we improve programme management skills. Again, we are an important part of the cross-Government approach to improving commercial and programme-management skills. Some of our leaders are involved in shaping that approach, and we are making sure that some of our people undertake that training and work.

We are doing more work, not just on our own, but with John Collington, who leads the commercial work for Government overall, to try to ensure that we recruit and retain the right people and skill them up. Personally, I think there is also something about giving the right message to young civil servants that project management is as important a skill as policy development, or any of the other skills that are available. There is something about making this an attractive place for our good and talented people to go.

Q70 Chair: In figure 8, what was the extra cost, if any, of the delay just from the ICT?

Mike Eland: As I explained, the public expenditure cost was absorbed by the supplier, on the two main systems delays, and I do not think there was any additional cost from some of the others.

Q71 Chair: Take us on a little bit, because clearly there is a lot of innovation that goes into such a programme, and we welcome that. Some things work and some things don’t work, which is how you learn. I really want to get a feel from you on what you feel you have learned from some of the programmes. The “helping businesses get it right” project seems to have bombed, but I do not know how much it cost you. Why did it go wrong? What have you learned from that? Again, I am not being critical; I hope that it was a learning process.

Mike Eland: That was added to a business case without going through rigorous scrutiny. Lin and Mr Barclay were just talking about how we whittle down the numbers attached to an idea and get it into business-case shape. Basically, they were scoring benefits that were also being scored by other projects and that was why, when we sorted that out, the numbers dropped.

Q72 Chair: So what was wrong? What did you learn?

Mike Eland: I think we have learned about benefits rigour. The main learning thing that I have from this programme is that the most difficult thing to achieve is moving some of these things from a managed programme into delivery to the business. Making sure that the business is ready to receive programmes and getting the training aligned are the sorts of things that, as the Report indicates, we did not always do well. Improving in that area is something that I have learnt from and that I want to deliver better in the next phase.

Q73 Chair: Anything else?

Mike Eland: Training, and ensuring that the business and managers are well equipped to receive the programme, and that their staff are using it effectively. In terms of innovation, the Connect tool that we have developed has huge potential for the future. Data matching tools enable us to do all sorts of profiling. We know that it is cutting-edge internationally among tax administrations. We have also talked to some large financial and credit management institutions, who are also impressed by it.

Q74 Chair: Is it to do with avoidance? Mistakes? Evasion?

Mike Eland: Basically what it does is enable us for the first time to use the huge amount of data that we have within HMRC, plus third-party data, to really get under the skin of avoidance and evasion, and it has huge potential going forwards. We have given a presentation on it to the NAO, and we would be delighted if any members of the Committee wanted to come and see it, because I think it is an important part of our whole armoury going forwards.

Q75 Mr Bacon: The Report says that 3,000 licences were issued, but 41% of those were unused in June last year, which is over 1,200. That was June. What is the situation now? How many are used today?

Mike Eland: We are up to the 3,000.

Q76 Mr Bacon: You are using them all now?

Mike Eland: Yes. There was a slow build-up. I am little concerned about using the term “licences” because that gives the impression that we are paying the supplier for the use of their intellectual property. We are not. They are our own internal licences, which we use to control access to the system. As part of the next five years, we are developing the capacity of Connect.

Q77 Mr Bacon: And developing the capacity of your staff as well.

Mike Eland: The only constraint on increasing the number of those licences is putting in new servers, building IT capacity and so on. Obviously, there would be training for staff.

Q78 Mr Bacon: And, from what the Report says, having the staff who know how to do it. I have this phone here, and I could land a manned mission on Mars while simultaneously pulling a pint of beer and massaging my dog, but I need a six-month sabbatical to learn how to use it, otherwise it will never fulfil its full potential. You have the same issue.
Mike Eland: Yes we have. We are dividing the training into two parts. We are building up a core of analysts—about 100—who are the real specialists, and there is a thing called the Connect academy, which we are using to get skills transfer and so on. There is then the wider set of users, who will have less intensive training.

Q79 Mr Bacon: Does the 3,000 number refer to the total population of people at HMRC who will be using it, of which you have 100 who are trainers and specialists, or what?
Mike Eland: Within a compliance unit in, say, Sheffield, we will have some trained Connect users who can support the other people. Not everybody needs to use this system. Of the 16,000 or so staff whom I have in compliance, the 3,000 are trained in Connect.

Q80 Ian Swales: Can I just build on this and ask how well you are connecting your own data? Let us start with HMRC data. I understood that a lot of the changes in HMRC were to do with bringing data together by taxpayer, rather than by employer and so on. We have had hearings about this before; let's not go over that ground again, but I understood that that work was proceeding very well. However, I know of a taxpayer who has, in the past two years, dealt with 18 different offices—a Cook's tour of England, Scotland and even Northern Ireland, but not Sheffield interestingly—and some 12 different reference numbers. That is someone dealing with your organisation. Apart from the fact that it is incredibly difficult for him to deal with it, I wonder how clever you are at bringing all that together, so that if somebody had a compliance problem, you would be able to see the whole picture. How can you give us confidence that, as you said, bringing data together is not a one-off idea, but is inherent in how you operate? I thought that was what you were trying to do.
Mike Eland: At the moment, we are largely using it for driving the compliance activity, but looking forward to its future use, you can see it being extended and used more widely, particularly on the customer service side that you are talking about.

Q81 Ian Swales: But was not that the fundamental idea behind all your re-engineering? You are suggesting that it is some new thing that you are having to do, but was that not the idea originally anyway?
Lin Homer: There has been a very large programme. I am probably not as well briefed on it yet as I need to be, but over the past five or six years, we have gone through a programme of replacing some of our older systems with newer systems, which are more secure and more effective, and which begin to give us the ability to connect together. At the moment, enforcement and compliance probably have more connectivity than the business as a whole, but as each of the new systems comes into place, they are being made to talk to each other. *[Interruption.]*
Chair: A quick vote and then back, because there are more questions to be asked. We will try to be snappy when we come back.
Sitting suspended for a Division in the House.
On resuming—
Chair: I was going to go to Austin, but we may have to vote again.

Q82 Austin Mitchell: I want to ask about compliance. You report saving £4.3 billion up to March 2011. That would have been higher presumably if Dave Hartnett had not shaken hands on letting Vodafone and Goldman Sachs off their interest dues.
Mike Eland: These are the benefits from this particular programme. It would not have had any impact on this.

Q83 Austin Mitchell: But had they paid that interest that would have been included in that. *[Interruption.]* No, it wouldn't.
Lin Homer: This shows the benefits from the particular additional programmes. This is additional yield, not the total yield.

Q84 Austin Mitchell: So if you get tough on interest rates, you will do better in the future. It is projected to increase to £9 billion in the next five years. How will you achieve that at a time when you are reducing staff?
Mike Eland: Again, from this programme, the systems that we brought in during that first five years up to 2010–11 mature and start to bring in additional benefits going forward. That is why we are able to show that. We are also on top of that, and under the spending review we are able to recycle. We are going to increase our staff numbers.

Q85 Austin Mitchell: Figure 4 on page 15 says that receipts went down in 2010–11. If the systems will yield more in future, why did that happen?
Mike Eland: That was due to two systems that slipped in their delivery timetable. Those benefits will move into a later year.

Q86 Austin Mitchell: All we have got therefore is an estimate of a substantial increase up to 2015, which may or may not materialise—a pocketful of mumbles, such are promises.
Mike Eland: It is a forward forecast. We are confident that we can deliver it, but you are right: it is a forecast.

Q87 Austin Mitchell: How are you going to deliver it? What is the system? You are introducing risk assessment, presumably. Is that risk assessment of the individuals, the companies, the schemes they are using or what?

Mike Eland: Yes. The data-matching tool, which I was talking about just before you had to break for a Division, enables us to compare things such as third-party data with information that is given to us on returns. We can test the credibility of that and target our inquiry programme accordingly. It does things like that, which will help us be more effective in how we target avoidance and evasion going forward.

Q88 Austin Mitchell: But if you had, presumably, extra legislation to deal with tax evasion and avoidance, like the single-purpose rule that they have in Australia, that would presumably allow you to increase that.
Mike Eland: There can be policy changes. There has been consultation on a general anti-avoidance rule and any benefits from legislation would be on top of any benefits in this report.

Q89 Austin Mitchell: But you are confident that these schemes have not peaked and that their value and return on them will increase.
Lin Homer: We are. The first four years of the programme gave us 1:11. By 10 years' out, the return will be the 1:30. This does build. The slightly interesting thing about figure 4 is that it shows additionality, not absolute performance within year, as well as being absolutely accurate. If we showed you a graph built that way, you would see a year-on-year improvement. The increase year-on-year is not always the same, but it is going up year-on-year. It is not slipping backwards; it is increasing more slowly last year compared with the year before.

Q90 Austin Mitchell: Can you be accused of going for the softer cases and diverting staff from the unwinnable cases, saying, "It is not use fighting that, let's move the staff on to a softer target, like Mitchell Inc. or something"?
Lin Homer: Is there something we should know?

Q91 Austin Mitchell: No. But have you given up on the really tough cases and diverted staff to more profitable fields?
Lin Homer: I don't think we have. It is an interesting debate about how we try to signal to everyone that we have not given up on any particular area. If you look at the very small issues, our debt management people—there has been debt management work in this first programme and there is more debt management in the next one—are getting more skilled at pursuing debts of all sizes. For a long time, people roughly knew the level below which we did not pursue. So people were a bit flippant about that.
We have now started dipping into those smaller debts. That does two things. It increases our yield as we go into those, but it also changes behaviour and deters people. One of the things that this report does not really focus particularly on, understandably, is the general compliance of the law-abiding, which is also going up. So this year we saw more people file on time and more people file online than we have had in the last seven years. You have to have a mix of approaches in order to ensure that people don't think you have given up on one particular area.

Q92 Fiona Mactaggart: On exactly that point, the thing that disappointed me most about the report was paragraph 12 which pointed out that HMRC did not routinely measure the impact of the programme on customers. Mr Swales has just described a typically horrible customer experience. It seems to me that the weakness here is your understanding of what the good customer can do and how you can influence taxpayer behaviour if they want to pay their taxes.
Lin Homer: Do you want me to try to answer that briefly?
Chair: Yes, but very briefly. We are going to come back to customers, as it is a whole area.
Lin Homer: I think we would accept that there is a great deal more for us to do around customer behaviour. But we have put a significant number of programmes in place which are about trying to ensure that the customer who wants to comply can do so simply, easily and well. Those programmes segment people into those who can do it as long as it is simple enough and those who need help. We have a good range of products, particularly in personal tax, which are focused on the compliant customer.
Chair: Let's come back to customers, but just now we have to go and vote.
Sitting suspended for a Division in the House.
On resuming—

Q93 Fiona Mactaggart: I am concerned about how you know what works in influencing taxpayer behaviour if you are not testing the impact on taxpayers of these programmes, and what you do to help businesses and individuals be more compliant. I have not heard much of that.
Lin Homer: The report was right to say that we were not always and routinely checking, but I do not think that means we were not doing anything. HMRC has had some customer survey arrangements for some time, which segment customers by type and ask them a series of questions, so we do have quite good information about what our customers are telling us about what works and what does not, and what they would like us to do differently, through the survey. We also have a number of forums where we meet with and talk with them, either directly or to agents on their behalf. There is a lot of work into customer response and customer insight. That would be my first point.
On the individual programmes, what we have tried to do as we have implemented is to test them against impacts, and the assessments as we have gone forward have sometimes shifted because we are not getting the behavioural changes that we would. We have not today talked loads about what we are doing for customers, because we are talking about compliance. If you had us in to talk about the personal tax area, we would be telling you about the changes we have made to PAYE. We went through a difficult phase, but we now think we have stabilised and by the end of this year, we think the backlogs will be away. We have added a whole host of additional telephony to be brought in over the next period, and we have trained more of our people to be able to switch from one area of expertise to the other, so that we can deal with peaks. We have things like "one click" and we have

done some training with business, so I think there is quite a wide range.

What we would say is that we do not think we are giving the levels of customer service that we want to, so we are now looking at—going back to your word "ambition"—what additional ambition we could set ourselves to move from what has been a very sound improvement over the last two years to something that is nearer to customers' expectations of us. As I say, the report tends to look at the non-compliant end more than the compliant end.

Q94 Fiona Mactaggart: So if you have a customer service ethos, it seems that one thing that is in your interest is to ensure that your customers stay in business.

Lin Homer: Yes.

Q95 Fiona Mactaggart: I have encountered cases where—to talk about an individual case, a company in my constituency had been victims of a very significant fraud. Two days before the case came to court, HMRC was planning to force them to pay the money that they had never received in VAT because of the fraud—so, the money did not exist. We got all the way through the police thing, and I actually had to get the chairman to intervene in that case. If he had not done so, the company would have been forced straight into bankruptcy, and the fraudsters would not have been convicted, which they were. I am concerned that that case is probably not unique. In the present difficult business circumstances, there are plenty of companies that could survive, that are terrorised, sometimes, by enforcement action.

Mike Eland: That case clearly should not have happened, and I am glad we were able to intervene in time to stop it. May I say more generally that we have a time to pay arrangement that has now helped over 500,000 small businesses with debt management problems through the recession and the economic times after that? It is about £1 billion of tax that we have managed through those arrangements, so we do take it seriously. It is in our interests to help small businesses through short-term difficulties, because they are a long-term income stream, if you like, for us. What we cannot do is provide an alternative banking service. If the problems are longer term, that is when we have to stop and actually enforce the debt. It is a difficult balance to strike, between protecting public revenues and being sympathetic to people in short-term difficulties, but we do try to strike that balance properly.

Q96 Fiona Mactaggart: You don't always succeed. I want to ask one other question about customers—about you, as an intelligent customer, if you see. To what degree does the Treasury discuss with you what areas of tax are the most revenue-generating and any possible changes it ought to make? The Budget is coming up next week; how much do you get to say in terms of "This will work and that won't"?

Lin Homer: We are involved to a large degree. When the O'Donnell review moved policy to Treasury, it was always intended that relationships continue. We have an obligation to advise on the operational implementation of the proposals, but Nick Macpherson and I have already had a very positive discussion about how we build that into the strongest possible relationship, so that, as you say, we can shape the ideas from the earliest point, both positively and sometimes in a more advisory fashion, which might take something in a different direction.

We have to accept that we are the implementation department. I do not think we can forget that, but it is one of the reasons—I have discussed this with the chairman—why I think it is important that we keep the tax expertise of our department up to the highest possible level. Indeed, I would like to see more people move between us and Treasury so that we get that expertise moving both ways.

Q97 Meg Hillier: I am interested in how behaviour of individuals is influenced. Have you had some input from the nudge unit?

Lin Homer: Yes.

Mike Eland: Yes.

Q98 Meg Hillier: There was talk in the Report about not assessing the impact. Have you done any assessment of the impact of nudge? We heard good things—our witness the other week was talking about it.

Lin Homer: I am going to brag for them—you can only do that in your first visit. David Halpern, who leads the Cabinet Office work in this area, has told me in very clear terms that he thinks some of the best behavioural insight work in Government is happening in HMRC.

Q99 Meg Hillier: Can you give us some examples?

Lin Homer: Yes: the campaign letters, which started under this project but really moved into another gear with the £917 million investment. They have had us work with the understanding of customers, so that instead of them allowing debt to build up and then having problems, we nudge them into payment at earlier points. That is in the design of letters, the design of interactions on the telephone—it is sometimes very simple things. This year, not only have we seen more people file online, but we have seen 30% less people exposed to the risk of a self-assessment penalty. Some of that is about how we have worked with them to encourage them to be compliant.

There are lots of very good examples. It is another area in which, if the Committee wanted, we could do some presentations for Members to show some of the practical work. Also, staff at an operational level are beginning to get behavioural insight and understand how it impacts on their work.

Q100 Meg Hillier: We are a value-for-money Committee. Do you pay the behavioural insights team in the Cabinet Office for that help, or does it come free and gratis as part of Government policy?

Lin Homer: There is a very small team that helps us. Their view is that we have some of the best experts in behavioural insight in HMRC.

Q101 Meg Hillier: And that's people who are there already?
Lin Homer: That's people who have been trained and have developed the skills. It is making a core skill aided by specialists, but not something that we bring experts in to tell us how to do.

Q102 Meg Hillier: So it has not cost you a penny.
Mike Eland: We haven't been charged by the nudge unit. We have recruited some behavioural economists as permanent members of our staff, who have helped us design some of these—

Q103 Mr Bacon: On this nudge point, are your behavioural people, who have been in the Cabinet Office in the behavioural insights team with whom you are working, helping you with the behaviour of public officials, to make sure that they pay their tax PAYE?
Lin Homer: Now that's a thought.

Q104 Mr Bacon: The Chief Secretary has made it clear that they should, and it is what most ordinary taxpayers would expect.
Lin Homer: Absolutely, and I think the department has a good record on that. We have no senior staff—

Q105 Mr Bacon: When you say the department, do you mean HMRC?
Lin Homer: Yes. We have two responsibilities: Mike has an avoidance responsibility, and I have a responsibility to make sure that we are being an exemplar employer.

Q106 Mr Bacon: Can I pursue this? You said that the department has no—you didn't finish your sentence.
Lin Homer: No senior staff on these types of—

Q107 Mr Bacon: You did have, though, didn't you?
Lin Homer: I think that if you go back long enough—

Q108 Mr Bacon: Well, you don't have to go back that far. Deepak Singh was not that long ago. You were paying him the equivalent of £600,000 a year, and it was relatively recently. How recently did it all stop?
Lin Homer: I think that we have, for a number of years, been clear that you use those kinds of arrangements when you are using expert people rather than when you have permanent senior members of staff. I know that we have none at the moment.

Q109 Mr Bacon: Hang on a minute. That is interesting, because you make it sound like you have two categories of people: those who know what they are doing and permanent senior staff. I am sure that is not what you meant.
Lin Homer: No, it isn't what I meant.

Q110 Mr Bacon: It is difficult to put a different construction on what you just said. One hopes that your senior people are expert. You yourself said three minutes ago that you wanted to have as high a level of tax expertise internally, inside the department—presumably with people paid PAYE—as you can.
Lin Homer: Sorry, it was not very clear. What we will still sometimes do is hire experts to work alongside us for limited periods of time—for instance, an expert witness in a particular case. Those people might well run themselves as a personal service company[2] and we might hire them for a particular case or for a particular period of time. I was trying to distinguish those types of people, where it is appropriate for us.

Q111 Chair: Can I ask you two questions? On the creation of self-employment in limited companies, which are artificial really, do you define that as avoidance?
Mike Eland: Personal service companies have been around for a long time. The main anti-avoidance device is called IR35.
Chair: We all know about these things now.
Mike Eland: That has been our main weapon in tackling this.

Q112 Chair: But do you count it when you calculate the tax? According to Richard Murphy, you don't.
Mike Eland: Well, where personal service companies[3] are clearly an artificial device acting as an intermediary between a real employer and the individual, we would regard that as avoidance. There are circumstances in which it is perfectly legitimate.
Mr Bacon: Of course.

Q113 Chair: Lin, on the case that emerged, and one guesses it was not unique, why on earth did HMRC advise BIS that a particular employee—the guy running the Student Loans Company—could have a discretion and be allowed to run it on a personal services company contract? Why did HMRC advise that, particularly after the big four accountant, KPMG, had said that it would not be lawful?
Mike Eland: My understanding is that advice was given by our advice people, not in any special way to the individual, not to the Department.
Chair: I am afraid I saw the e-mails.

Q114 Mr Bacon: So did I. The e-mail had "HMRC tax inspector" at the bottom of it. "He can be paid gross." It was not in some sort of nether world. It was "BIS can go ahead".
Mike Eland: I cannot go into the details of an individual case.

Q115 Mr Bacon: It is the general point we are after.
Mike Eland: The general point is that some personal service companies are entirely right and proper.

Q116 Mr Bacon: I fully accept that. You can imagine a company doctor who works for seven different companies in two years. His place of work would be changing seven times in 24 months. In that case, it would be wholly appropriate. I am talking about someone working five days a week doing the same

[2] Please refer to HMRC's supplementary note which explains the difference between managed and personal services companies.
[3] Please refer to HMRC's supplementary note which explains the difference between managed and personal services companies.

thing. I am not talking about a particular case; I am talking about the principles involved. I am talking about a chief executive or an accounting officer who, admittedly, has a fixed-term contract, but nevertheless not some sort of temporary consultancy arrangement for six weeks or four months. He is effectively on a reasonably long fixed-term contract and HMRC knows all of the above, which they did, and which they might do in a hypothetical case. What we struggle to understand is how one could come to the conclusion that the person was not an employee who ought to be paid PAYE. It is not about the sorts of cases you are talking about, where it is perfectly legitimate. We understand that there are legitimate cases. Those are not the ones that we are talking about. We are talking about the ones where it is very obvious that the person should be treated as an employee, but HMRC says, "No, go ahead, pay them gross."

Mike Eland: I do not know the answer.

Q117 Chair: I want to ask Lin. As accounting officer, it happened in this case.

Mr Bacon: It is not just once. Of course, we now know the Chief Secretary is launching an enquiry and the information from that is not yet out. But we already know that someone has gone from British Nuclear Fuels. It is entirely likely that it will expose a lot across the public sector. There are reports that it is rife in the health service and in local government, and who knows elsewhere among the para-state and the non-departmental public bodies and Lord know what else. So it does go on in circumstances where it is plainly inappropriate. As the Chair says, you are the accounting officer. I think we are entitled to an explanation of why.

Chair: What I am particularly interested in is that HMRC gave the advice. That is particularly disturbing. It is not that people might try it on and you should stop them, which is one thing. In these instances, it appears that you gave the OK. You signed it off.

Lin Homer: You are right. We have a piece of work going on that is likely to lead to a policy shift in the way that the Government as an employer interacts with these arrangements. The position that the Chief Secretary took was not about the pure legal position; it was more than that. It was to say, "We, as the Government in making these rules, want to be significantly beyond 'It's okay' to 'Not doing this kind of thing'"—

Q118 Chair: Sorry to interrupt you, but I agree with the Chief Secretary. There is a moral position. I agree with him on that. What is really disturbing about this instance, which I would really appreciate your focusing on, was that there was advice from HMRC in a case where, given all the circumstances, it was tax avoidance. HMRC signed it off, and said, "We'll use our discretion to enable a tax avoidance scheme to be enacted".

Lin Homer: We do not come here to discuss individual cases. I know that you have had that debate many times over. I wanted to distinguish between an individual request for advice taken from within the organisation, as far as I know. In other words, this wasn't policy to policy, "Is this kind of thing okay?" This was a specific, "Is this allowable?". That is a different judgment from the judgment about where the Government want to stand.

What we will see from this review is a choice for the Government as an employer. What we then task Mike and his team to do—of which they do many; they don't do it once, they do it multiple times—is to look at quite complex cases to try to work out which fall one side of the line and which fall another. As Mr Bacon's example illustrates, this isn't an absolutely black and white situation. If you take this job over, you go through the whole of your past worrying about things you have done before.

I can think of a case when I was a local authority chief executive where I had a director of social services on an interim contract for a period of time. I think it was through not a managed service contract, but actually through an employment agency so I suspect it was completely pukka. But, at the time, we were deliberately choosing an interim because we were seeking to recruit, and we couldn't find who we wanted. This is shades of grey.

Q119 Mr Bacon: Hang on. It is one thing to say there are shades of grey, and it is another thing to say that the recent controversy and the issues that it highlights are shades of grey, because they are not the same thing.

Lin Homer: I am not saying that.

Q120 Mr Bacon: If you have a genuine interim, plainly you are—other things equal—likely to be one side of the line. There is a presumption, even if it turns out not on closer examination to be in fact, that you are going to be on the personal services contract side of the line. If you have an appointed person who has a fixed-term contract, who is not an interim—I keep on stressing this—who is clearly an appointed accounting officer and a chief executive, the presumption would be that it falls the other side of the line.

Then we are talking about when you have civil servants paid for by our hard-working constituents through their taxes, who are rushing around seeking advice from private sector accounting firms as to whether such an arrangement that they are thinking of is allowable or not, and the advice comes back from a leading accountancy firm, "No, I don't think that is allowable. No, no, that's got to be PAYE", and the reaction of the civil service is to say, "Well, you know, I think we should challenge that. I don't think this is very helpful." Then HMRC comes along, gives it its imprimatur and says, "This is fine. Go ahead, pay it gross". That is what we are talking about.

We are not talking about shades of grey. We are talking about the situation where it is relatively clear to the average person that it is black and white. I know that it was, in fact, Ignatius Loyola who said, "If it is necessary to say black is white, then that is what you do", but we are not talking about the Jesuits. We are talking about the civil service. If your case, you have a fairly straightforward responsibility, and that is to get it the right side of the line. We seem to have had

situations—and we don't know how many—where the civil service is striving more than a little officiously to try to help the process of avoidance more than it should have done, and that is the issue.
Lin Homer: I do not think you can draw that conclusion from this case. What I am trying to distinguish is that we are now trying to give very clear advice to ourselves as an employer, which may well be tougher than the lines we take with individual employers as the tax authority. That is perfectly proper for us to do.
Mr Bacon: I have read the e-mails, and I think that you can draw that conclusion. What is more, I have a friend who is a hedge fund manager who says, "A London base pays all the tax; all the employees pay the tax that they are due to pay". He said to me the other day, "We have people coming to us who want to work for us who are frequently asking us to do this, and we always say no". Here you have the civil service going round trying to help it to happen. That is what people find extraordinary.

Q121 Ian Swales: A comment made just now was a little bit worrying: you suggested that you were going to be tougher on the civil service than you would continue to be with people outside the civil service.
Lin Homer: I think the Chief Secretary is taking a position as an employer that even where the situation might be legal—where Mike has no compliance powers to act—we do not want, as an employer, to be in that space.

Q122 Mr Bacon: How about just obeying the law?
Lin Homer: I am confident that we are, as an employer.

Q123 Stephen Barclay: It is not about what you do as an employer; it is about what the law states, whether the law was correctly interpreted, whether there was a gap in the law, whether the law was varied in this case, and whether there is scope to do that correctly. You are talking about what you will do, moving forward, but what I am unclear on is not the response as an employer, but whether the tax law was correctly enforced by your official in this instance, or whether they interpreted it in a way that was at variance with how it should have been enforced.
Lin Homer: When we sit in front of you, we do not feel it appropriate to take an individual's case, put it on the table and decipher it.
Mr Bacon: No, and therefore Mr Barclay might have said in parentheses, "or similar cases", because we are talking about the principle.

Q124 Stephen Barclay: It is the policy that we are trying to understand—the policy of interpretation of the legal position.
Lin Homer: Our history has been to push back on these cases generally and regularly, and we have a history within—

Q125 Chair: To push back?
Lin Homer: Yes, to prosecute people—to stop these cases.
Mike Eland: Tackling this very difficult area—and there has been abuse—is one of our projects under the wider coverage project that is part of the spending review. We are actually increasing the resource we are putting in to tackle avoidance in this area. I cannot reply on the individual case, sorry.

Q126 Meg Hillier: Let me draw on a personal example that threw up excellent service from both the UK Border Agency and HMRC. I was seeking to employ a Hungarian, and there are rules about Hungarians—I think it was a Romanian; I cannot remember—regarding whether they work freelance. I got the information from the UK Border Agency, and I put it to HMRC, which made it very clear that if someone is doing a regular job, cannot be substituted and does not work for more than one employer, there is no way that they can be self-employed. For someone in a low-level job, I could not employ them as self-employed. I could not employ that person. Someone in a senior job, however, doing a two-year job and getting holiday pay, sick pay and pension, and people in similar situations, were given the imprint from HMRC that that was okay.
I do not understand how it seems that one rule applies when people can employ good accountants and get support from HMRC, and another rule applies otherwise. It was quite right and good that you could ring up a helpline and get this free advice, but it seems to be different from what you get if you have a bit of weight behind you. It does not seem fair or right that the tax-raising part of Government was involved in that. It looks a bit murky to people out in the real world.
Mr Bacon: You do understand that point? We are not going into what the Committee referred to earlier.
Lin Homer: Totally. I am just trying to reassure you that we were not involved in a kind of murky, policy-to-policy way. We often talk to you about ensuring that we are consistently delivering a high-quality service, and I am trying to reassure you that that is our intention. We are not able, really, to sit here and say, "Did we achieve 100% consistent advice in every case?" but I think I have seen plenty of evidence that our people are regularly giving advice using—

Q127 Chair: May I ask you another question? You say they are giving advice, but if people give the wrong advice in circumstances such as the ones described, are there disciplinary actions taken within the Department?
Lin Homer: Well, it will depend, won't it?

Q128 Chair: Well, have there been, over the past few months?
Lin Homer: There is definitely retraining on occasion, and there are occasions when we change guidance to make it clearer that people have to do one thing rather than another. I have started doing quite a lot of site visits to our big sites, and I have to say it is a matter of some frustration to our local staff that we allow them less discretion than we might have in the past. Part of that is in order to get consistency, so we certainly would not jump up and down on someone the second they gave less than a perfect answer in a

telephone call centre, but we would always strive to learn from that and to make sure they got the right support to give good advice the next time.

Austin Mitchell: Now you have set the precedent, just tell us where we send our applications for the same status.

Q129 Chair: May I ask you about employee benefit trusts, which have also been in the news recently? Do you classify them as tax avoidance schemes?

Mike Eland: We agree that they have been abused. It is a similar sort of thing: they have legitimate purposes, but they can be abused.

Q130 Chair: How are you tackling that?

Mike Eland: We are tackling it through a process of inquiries and litigation. There is one case in the public knowledge, Rangers football club, on which we are in litigation, and we have a number of other cases where we are challenging the interpretation that companies or individuals have put on the law. So we are tackling them as avoidance cases.

Q131 Chair: That is quite an interesting example. I cannot think of an example of where it would be legitimate, because it is always a tax avoidance scheme. There is never a case where money changes hands and you pay the company for the shares.

Mike Eland: My understanding is that there are areas where employers genuinely set up a trust for the benefit of employees that has no particular tax advantages. That might be to pay particular benefit schemes to those employees. So there can be such cases, but I do not disagree that this is an area that has been widely abused. That is why we have now brought in new rules on disguised remuneration. It is quite clear that we have closed that area for the future. We are now tackling the past, if you like. As I say, we are litigating those cases that we think are avoidance schemes.

Q132 Chair: A similar issue has been raised about using travel and subsistence claims as a sort of salary substitute-type scheme.

Mike Eland: There have been a number of abuses in the employer area, which is, as I said, one of the areas where we want to put in more resource so that we can tackle it. We are creating new employer teams to look precisely at some of those areas.

Q133 Chair: I have been meaning to ask this question for a while. There are three areas where you get your money: from people who have made mistakes; from people who avoid tax, about which we have talked a little bit; and from evasion. They are very different, and I find it rather confusing that, in the Report and the discussion, they seem to be lumped together. I do not know whether they are lumped together in the way in which you administer it.

Mike Eland: Clearly, they are different. We put different amounts of resource into them. If you look at the breakdown of where we are looking to get the £7 billion, we are looking to get about a third from avoidance, about a third from evasion and about a third from a collection of other items.

Q134 Chair: What was the logic behind that?

Mike Eland: The logic is that we have looked at the tax gap, if I may raise that again, and analysed the different causes of it. We have looked at where our current effort is deployed, where it is short and, therefore, where we can fill in gaps or strengthen areas that we think need strengthening.

Q135 Chair: One of the criticisms in the Report is that it is slightly like a finger in the air. I have said that innovation is a good thing, but basing it on analysis might be better.

Mike Eland: We have moved on from a finger in the air. As I said, some of the data analytics in which we are now investing help us with a good evidence base for where we should be putting our resources.

Q136 Meg Hillier: I want to go back a bit to what it is like for our constituents and businesses. Paragraphs 4.12 and 4.13, on pages 31 and 32, address training. It would be helpful if you could lay out the timeline for when there were problems with staff training, how they emerged and what the position is now regarding the percentage of staff having the training and support they need.

Lin Homer: Some of the feedback from staff is that we have got to provide not only training but the right kind of training at the right time. Given the numbers involved, in relation to Caseflow, people felt we expected them to do too much of that on their own, in a sense, down the line, and not enough in a classroom-type setting or with an expert to help them along. I have observed that analysis from the previous programme, and I have observed it as we have produced the next programme, trying to build on that and do it differently for the future. That is an example, though it is not the only thing. People recognise the need to train, but they challenge us to provide that training in such a way that they can absorb it.

Q137 Meg Hillier: Do you think that because of the training challenges as you have shifted people around and had to re-skill them, there have been some less than perfect dealings with some of the customers?

Lin Homer: I am not sure that it flows all the way through to customers so much as probably slowing down the benefits. We tend to ensure that they feel up to speed before we put them in the customer-facing position. I think it has made it harder for our staff to get really productive as quickly as they would like. You will know that the Report refers to the fact that Caseflow is a very necessary change that has not been welcomed as much as Connect, which staff have found very helpful. More goes to the speed with which we get the productivity than to customer training.

Our experience from customer surveys is that when customers get through to our people they believe they get a very good level of service. Their complaint is more often, as you know, that it can be difficult to get through to us—that you wait longer—but the response about quality of advice in the main is very good.

Q138 Meg Hillier: In terms of enforcement action, do staff get a bonus, or have a target for what they

should be getting in whatever area of work it is—perhaps collecting VAT, late PAYE, or personal tax return money owed? Is there a target each member of staff has to meet?
Lin Homer: They all have targets. I don't believe we have developed the approach that some local authorities took to parking, where they pay them.

Q139 Meg Hillier: That is what I am driving at, yes.
Lin Homer: We have small performance bonuses within the civil service, but they are not linked simply or singly to one kind of target. Indeed, all our staff have customer service targets, as well as outcome targets. The thing the PaceSetter programme has done for front-line staff is give them a range of indicators that they have to watch, and it means that they increasingly recognise that if something goes up at the cost of something else going down, that is not good productivity.

Q140 Meg Hillier: I want to highlight a couple of examples. I know you cannot comment on individual examples, but they struck me as interesting ones from my case load. A business experienced three days' delay on the arrival of a VAT cheque; it was sent but did not arrive in time. That was a £4,000 bill on a fairly small business. I am sorry that I do not have all the turnover figures; I did not bring them with me. Another company that employs 40 people paid its PAYE one or two days late every month over a 10-month period. It was charged a £20,000 bill. Those seem quite big bills for quite small defaults. I am all for people paying their tax on time. That is why I asked whether people have an incentive to go after some small transgressions very hard when we hear of much bigger companies getting away with a lot more.
Lin Homer: Without knowing the detail of that, I do not know whether that was simply the tax they owed.

Q141 Meg Hillier: No, it was the penalties.
Lin Homer: I was going to ask if it was penalties. There has been some very sharp learning about how we help people avoid penalties. If you talk to our personal tax colleagues, they are very clear that we are after the tax, not the penalty. One area, for instance, where small businesses have struggled is in filing their returns about their employees late. As a result of the way our system worked, it was some time later when we told them that they had missed it, and by then they had racked up a penalty. My colleagues in that area this year have introduced an improved system, whereby we give more warnings—four or five warnings now—that penalties will accrue if action is not taken.
We have also changed the system to make it much clearer to people whether they have filed. This is probably more people my age than yours, but we discovered that some small businesses were filling it all, thinking that they had pressed the button to send, when they had actually pressed the button to file. They thought that they had, when they had not. We have tried to react to that, and we are much more confident this year that we will reduce the number of people who end up with penalties through error, rather than through avoidance.

Q142 Meg Hillier: I think good businesses that want to pay are not the main targets when we look at this.
Lin Homer: Exactly, so we want to help them get better.

Q143 Mr Jackson: I think that we would all agree that you should give Moira Stuart a bonus for her great work on getting people's tax returns in.
One of the positive aspects of our tax system generally, apropos of the general point, is that it has never been used as a political tool, as systems have been in other jurisdictions. Picking up on what Meg Hillier said, when you are talking about very significant tax bills for companies such as Vodafone, which has been in the media, and Goldman Sachs—I know that you cannot comment on individual cases—appearance is very important. We have all articulated the point that SMEs that are late with their VAT and are the subject of pretty robust and sometimes aggressive action look at some of those big players and say, "It's one rule for them and another for me." If you are looking at the potential write-off of a tax liability of a very significant multinational company—perhaps hundreds of millions of pounds of tax liability—do you have a protocol in place for dealing with something of that size? Do you have to seek ministerial guidance, or are you completely independent in the value judgments you make on that?
Lin Homer: We are independent of Ministers. It is a very firmly entrenched rule that we get a general remit letter. I do not have the equivalent of a Secretary of State to whom I am accountable, in the way I did in my last two jobs. I have just written to the Chair about our general governance of business tax. I think that it is very important.

Q144 Mr Bacon: About the assurance commissioner.
Lin Homer: Yes. I would have been very disappointed if you had forgotten. It is very important that we have clear governance; you, as a Committee, have used words such as "clear role separation" and "systemic assurance". I think that we have to persuade people that we are being even-handed, regardless of the size of the business.

Q145 Mr Bacon: If it is regardless of the size of the business, why does the assurance commissioner have a limit, whereby they do not look at settlements below £100 million?
Lin Homer: He or she will not, and—

Q146 Mr Bacon: Will not? The assurance commissioner can look at anything?
Lin Homer: Yes.

Q147 Mr Bacon: And will he or she?
Lin Homer: I have offered to have a more detailed conversation with you, if you like. We have to be realistic: they will not be able to look at everything. We are proposing that they be obliged to look at cases of £100 million, and that they be able to look at cases on a more snapshot basis. We will seek to share information with you and the Treasury Committee annually on the work that we have done generally. We are asking our audit and risk committee, which is

chaired by a non-executive director with tax experience, to oversee that process and give us recommendations and advice if it feels that we are leaving corners or areas untouched. I am really seeking to produce as robust a set of procedures as we can. I have no doubt that, as we implement that, you will want to have us back to talk about it, and I have no doubt that the assurance commissioner and I might come, when we report annually, to talk about that.

Q148 Stephen Barclay: You flagged up the potential risk, in that Ministers do not see and cannot perform that assurance; nor can Parliament, because it does not see those individual cases. What lessons do you draw from the statement that the Home Secretary made last month to Parliament, suggesting that in your previous role, you went over and above what had been approved by Ministers? Is there not a greater risk from a governance point of view in your current role?
Lin Homer: Well, I don't believe the Home Secretary said that I went over and above the authority of Ministers. During the period I was in the UK Border Agency, as the chief executive of an agency, I had a level of operational autonomy for which it was important that I took responsibility. Actually, I think that one of the other scrutiny committees of Parliament—the Home Affairs Committee—took me to task on whether I accepted responsibility, at the time when Charles Clarke lost his job, for activity on the operational side of the job leading to political difficulties. You have to remember that the responsibility was for an agency. I think that what the Home Secretary has gone on to do is take the view that she would prefer a different model.

Q149 Stephen Barclay: I have the Home Secretary's statement here. You were the accounting officer, so you were responsible for the Department concerned. It says: "the Vine report found that the Border Force had waived checks for other passenger groups over and above what had been approved by Ministers." It talks about an initiative at Heathrow for which there was no ministerial authorisation, and it concludes by saying—this is not exactly a job reference—"With a new chief executive and a plan for comprehensive change, I believe that UKBA is in better hands for the future." It actually links this explicitly back to the chief executive. I come back to the point: we are moving to a Department where there is less oversight, and more of a requirement on its leadership to stick to the governance that is in place, yet we have a statement only last month from the Home Secretary in essence accusing you of not doing that in your previous post.
Lin Homer: I will say again that I don't believe the Home Secretary was accusing me personally of not keeping her informed. I think that I kept Ministers informed while I did that job. I think some of the examples you have referred to were about the continued roll-out of secure ID in the latter stages of it. I gave evidence to John Vine, and I said to him that I had a view that secure ID should have been a mandatory system. I had occasion, when I was the chief executive, to take action if and when we discovered that the things we expected to be done were not done. I think that is how you hold me accountable.

Q150 Stephen Barclay: Without wanting to pre-empt the Chair's speech to Policy Exchange tomorrow on the accountability of civil servants, although I will give it a plug, Lord O'Donnell said that only accounting officers can be held accountable by Parliament, and that other civil servants cannot. We have a Home Secretary here saying that key to the changes was a change of chief executive from yourself, and that decisions were taken by officials in breach of ministerial authorisation; but you are saying, "Actually, I cannot be held accountable for that." Surely inherent in that is a gap. We cannot hold the civil servant who breached ministerial authority accountable to Parliament; you have just ruled that out. Lord O'Donnell has ruled out us holding to account before Parliament the civil servants responsible, yet you have ruled out our holding you accountable as the accounting officer.
Lin Homer: No. I did not do that at all. I expected to be, and was, held to account in that job.

Q151 Stephen Barclay: In what way?
Lin Homer: I did 13 Select Committees, and I think I appeared in front of the PAC—before your chairmanship, Chair—on at least three occasions. I answered questions on the detail and the general strategy of the business. I don't think I ever shirked those duties or failed to answer those questions. I was perfectly happy to be held to account. The point I am making is a different one. When I was there, the politicians who were in charge of the Home Office at the time chose to have the agency run as an agency. It was a decision made after I took the first job. I had a framework under which I ran the agency, and I believe I kept people well informed of what we were doing. I don't believe I went outside ministerial authority during that time. I am clear that if we moved away from ministerial accountability, we should be held to account for that. The Home Secretary has chosen to make some changes—I think I understand why—and that is entirely within her gift.

Q152 Mr Jackson: Going back to the question put by Mr Barclay, I think that you, inadvertently I am sure, did not actually answer my question about protocols. As the lines of accountability are more opaque in your new role, who will be responsible for the oversight of those protocols dealing with large tax write-offs, which are seen by most of our hard-working, taxpaying constituents as perhaps dubious? Our constituents might be wrong, but that is up to them. How will that accountability be provided?
Chair: I have had a separate conversation with Lin Homer and I think that we will fix a separate session when we talk only about the new accountability structure. Is that alright with you, Stewart? I do not want to stop you.
Mr Jackson: Yes. I am not saying that you are avoiding the issue, because I know that it is quite a complex piece of work, but as long as we know that. Obviously, politics and government are not about what is, but what appears to be.

Lin Homer: Absolutely. Hence the offer to have a specific session. We will publish our protocols, and I think that you will hold us to account on them. I hope you will allow that we might not necessarily get everything absolutely right at the beginning, but if we get the kind of scrutiny and feedback that I am expecting, my hope is that we will reassure you that we expect to be held to account.

Q153 Ian Swales: May I explore one final area? I remember recruiting someone about 10 years ago who wanted to be paid in the Channel Islands. It now appears that having a bank account in Monaco is okay. The serious point is that, clearly, a lot of tax avoidance and evasion occur because people receive or have income or wealth abroad that should not be abroad. Can you give the Committee some confidence not only that you have your act together in the UK but that your links and your work will pick up what will often be the biggest issues because they are international?

Lin Homer: Yes, I think that the tax assurance commissioner needs to have a position in the global discussions about tax because, inevitably, we are in a world in which we have to make our tax system work with other people's tax systems, and we have to share information across tax systems. My expectation is that we would continue to try to develop approaches in this very fast-moving global environment.

Again, in trying to hold ourselves to account, part of our proposition around a fuller annual report is that you are more able to pick up general themes that are beginning to give you cause for concern. We might be able to explain more fully what we are doing in those areas, rather than you watching us and then asking us to explain it, in a sense. Part of my hope is that the annual report will give us some ability to share with you the work that we are doing on that international stage as well.

Q154 Ian Swales: There is an overall view, but take the example of someone who is routinely paid part of their remuneration outside the country; do you have processes with employers and people here, as well as ways of picking up on funds arriving for UK nationals in other countries? How sophisticated is that?

Lin Homer: It is pretty sophisticated. You all know that this is an environment where people are always looking for the next clever idea. Part of our challenge is to stay abreast of emerging issues. We see big avoidance schemes arise quite quickly, but I think we have shown recently that we are prepared to take action quickly. Again, it goes back to the need to build up and maintain our expertise so that we can respond to emerging issues very well.

Q155 Ian Swales: Is there now, or are there any plans to have, Interpol-type activity between the HMRC-type organisations?

Mike Eland: There are a couple of relevant things there. There is a sort of Interpol arrangement with other countries, under which we exchange information to make sure that someone is not telling us all something slightly different, and that we get the whole picture.

Q156 Ian Swales: Does that cover obvious places such as the Channel Islands and the Isle of Man?

Mike Eland: No, it does not, but it enables us to see, from the whole picture of movements around legitimate countries, where money might be going to other areas. We have also set up a new offshore unit, which will specialise in tracking offshore.

Chair: Two final quick questions from Richard, then Steve.

Q157 Mr Bacon: This is to Mr Shipp, because you have had a very quiet outing, because Mr Barclay is very keen that we state on the record that you are wearing the same tie, and because you have a background in PAYE. I understand that HMRC intends to spend money on sending teams of staff to visit employers with a view to reducing the dirty data problem. Is that correct?

Mike Shipp: We have a programme within our portfolio on improving data quality. That is still at quite an immature stage, but it looks across the whole of the Department's systems.

Q158 Mr Bacon: Does that include visiting employers?

Mike Shipp: It has done in the past. There have been initiatives in that area, where we have worked with employers to try to clean their employee data, and to match it to ours, but that predates our new pay-as-you-earn system.

Q159 Mr Bacon: It has been put to me that as virtually every employer must submit PAYE data electronically, HMRC applies reasonably strict validation to the electronic data before it accepts them from employers, and that when the data fail the validation process, they are deemed not to have been received, so the employer is required to submit them again. The point that has been put to me—I received an e-mail on this recently—is: what is your definition of dirty data, and how can there be a dirty data problem if you have not accepted the data? How can you have dirty data mucking up your systems when you would not have accepted them unless they had passed your validation test?

Mike Shipp: I am not familiar with the processes as they work currently. What I am familiar with is how they used to be when, as you rightly say, Mr Bacon, I was the director for pay-as-you-earn. I am also familiar with where we are going with real-time information for pay-as-you-earn. We are working actively with employers at the moment to make sure that that data flow on a monthly basis comes in problem-clean.

Q160 Mr Bacon: Mr Eland, do you want to comment on that?

Lin Homer: RTI is part of the answer.

Mike Eland: Real-time information.

Q161 Mr Bacon: Two more quick ones. I think this one is for you, Ms Homer. When you have compromise agreements with ex-employees as a way of settling an employment tribunal, you presumably write down the terms of the agreement that you reach, and whatever is agreed, including the amount that has been paid. Is that right, generally?
Lin Homer: That would be the normal approach.

Q162 Mr Bacon: Would you think it acceptable to put into such an agreement that the ex-employee should agree to a proviso whereby they refrain from making any freedom of information requests about HMRC?
Lin Homer: I have not been involved directly in any compromise agreements, and I hesitate to answer that without knowing the full circumstances. I would find it surprising.

Q163 Mr Bacon: So would I. The Freedom of Information Act is the law, and is available to everyone. It seems to me that contractually to restrict a particular class of persons, namely particular ex-employees, from applying its terms would be odd, and possibly unlawful.
Lin Homer: If there is a particular case you would like me to look at, I would be very happy, as chief executive, to do so.

Q164 Mr Bacon: Thank you.
Finally, Mr Eland, on the recommendation in the Report about the assessment that HMRC ought to make in circumstances when you choose for budgetary reasons to defer or de-scope a project, page 10 says, quite fairly, that "HMRC faces a unique challenge of maximising tax revenues while maintaining tight budgetary control." It goes on to say: "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." I would be grateful if you could comment on that. I am quite surprised that you do not "fully assess any associated loss of tax revenue" already, because surely that is a negotiating point that you would quite reasonably put to the Treasury when it was arguing with you about your budget.
Mike Eland: I think we do assess the loss of tax. For example, in this programme, we stopped a number of programmes. We know that they cost, in terms of lost tax, £35 million, but we introduced new projects in their place—this comes back to your innovation point—which brought in a greater return. We would always assess loss of tax if we were de-scoping. The main point is the second thing, which is that we would continue the dialogue with the Treasury.

Q165 Mr Bacon: But "further opportunities to increase tax revenues and reduce the tax gap" means, I take it, that the Treasury takes a more sensible and rounded approach to your budget because of what you can do with it, doesn't it?
Mike Eland: It means making sure that we are having the sort of dialogue that you were pressing me on earlier.
Lin Homer: Just to finish that off with what I said at the beginning, the very fact that this £387 million of investment delivered so well is clearly what led to £917 million now being invested. To some extent, you can see this as a pipeline, rather than a one-off opportunity. Programmes that we begin to identify, over and above the programme that we have now, will be early work for the next discussion.
Mr Bacon: You will be getting rid of the deficit in no time.

Q166 Stephen Barclay: I would like a quick clarification of one of your earlier answers: Mr Eland, you were talking about things that would be artificial, in terms of personal service contracts. Could you give us examples of what would be artificial?
Mike Eland: It is, essentially, where you are creating an intermediary between a real employer and an employee and disguising that relationship. I think it is that sort of thing.

Q167 Stephen Barclay: And the way of judging that would be length of service, would it?
Mike Eland: It is quite a complex area and there are quite a lot of different things. They are all published. I cannot recall them all.

Q168 Mr Bacon: Can you send us a list?
Mike Eland: I am sure we could, yes. I would be perfectly happy to provide that.

Q169 Stephen Barclay: We were just hoping to be able to explain to constituents what the criteria are, and to say, when we are looking at other organisations, whether they meet those criteria.
Mike Eland: I am very happy to send a list.
Ian Swales: There is a checklist, isn't there? "Am I an employee"?
Stephen Barclay: Yes, but that is why it is puzzling trying to work out why some have been approved.
Mr Bacon: It is quite obvious that your tax inspectors should spend a bit more time looking at your website.
Chair: Thanks very much indeed. We will come back to you with a date for a session on accountability.

Written evidence from the Chief Executive and Permanent Secretary, HM Revenue and Customs

Please find attached the response we promised to provide you at the hearing on 14 March 2012.

If you require any further information please do not hesitate to contact me.

Supplementary Note

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There are two distinct types of service companies: Personal Service Companies and Managed Service Companies. In her response to Q110 Lin Homer referred to Managed Service Companies, when in fact she meant to refer to Personal Service Companies.

Personal Service Companies (PSC) are not artificial devices per se, although HMRC accepts that they are used by some for the purpose of avoiding employed levels of tax. However, there is anti-avoidance legislation in place, commonly known as IR35, to prevent people from using PSCs in this way.

IR35 ensures that where there would be an employment relationship between the engager and the worker if the worker was not engaged through a PSC, then the PSC has to operate PAYE, employer and employee National Insurance Contributions on payments from that engagement. Employment is not statutorily defined, instead it is based on case law, which means there is no definitive list of factors which will determine if the relationship is one of employment. Each engagement will be determined by the facts. HMRC would consider a number of factors. These include (though not exclusively) the right to send a substitute, the length of the contract, the terms of the contract and whether there is a requirement for personal service.

Managed Service Companies are artificial devices designed for the express purpose of interposing an intermediary between employer and worker for the purpose of avoidance. Such companies are defined in legislation (Chapter 9, Part 2 Income Tax (Earnings and Pensions) Act 2003 and are identified by reference to four structural criteria:

— The company provides the services of individuals to third parties.
— The payments the individual receives are commensurate with the payments the company receives from the client for the services of the worker.
— The worker receives a higher amount of money than they would have done if all of their income was treated as employment income.
— The company is controlled by a third party company provider.

Full guidance on Managed Services Companies can be found on HMRC's website at:

http://www.hmrc.gov.uk/employment-status/msc.htm

23 March 2012

ISBN 978-0-215-04519-5

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PEFC/16-33-622

Printed in the United Kingdom by The Stationery Office Limited
05/2012 019971 19585