HM Revenue & Customs

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Dame Meg Hillier
Public Accounts Committee

By email

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Dear Dame Meg,

Following the Public Accounts Committee session on Thursday 20 October 2022, attended by Angela MacDonald, Justin Holliday, Jane Whittaker and myself, I am writing to provide further information that we committed to send to the Committee.

Codifying experience

At the hearing on October 20, 2022, I agreed to write to the committee outlining HMRC's plan for codifying its experiences of giving out money when safeguards are needed and what documentation we had to detail such experiences. The committee were interested in how HMRC might crystallise the lessons learned into a handbook that could be shared across government. We have not developed a handbook but are willing to share our lessons learned and best practices across government.

As a key part of building and delivering the Covid 19 support schemes, we adopted a thorough risk and control approach to their design. A risk analysis was undertaken and for each scheme a control register developed and agreed. The control register covered risks in the areas of organised crime, opportunistic fraud, error, and internal fraud, and covered the full lifecycle of the claim.

This approach has been shared with Cabinet Office and the government Head of Risk Management (within the Government Finance Function). HMRC is also engaging with colleagues from the Department for Business, Energy & Industrial Strategy and the Government Internal Audit Agency who are developing the Energy Support Scheme, to share content and lessons learned.

Throughout the lifetime of the Covid 19 support schemes, HMRC and HMT closely monitored their delivery, making use of the best available evidence to evaluate the schemes. HMRC and HMT published interim evaluations of the CJRS and SEISS support schemes on 13th October 2022 that describe how HMRC applied its "Prevent, Promote and Respond" compliance approach to control the risks of error and fraud in the schemes. The evaluations aimed to assess the delivery of the schemes and their impact on employers and individuals, as well as to learn lessons for future policy development and to support transparency and accountability of public funds. HMRC and HMT plan to publish CJRS and SEISS final evaluations in 2023.

HMRC will continue to work closely with the new Public Sector Fraud Authority to ensure that lessons learned from our experiences when managing Covid scheme fraud risks inform the development of standards and guidance which can be deployed across the public sector.

Impact of Research and Development (R&D) Reliefs

During the session I committed to provide a link to the available research on the extent to which R&D reliefs stimulate additional R&D. Please see the relevant links below:

https://www.gov.uk/government/publications/evaluation-of-the-research-and-development-tax-relief-for-small-and-medium-sized-enterprises.

https://www.gov.uk/government/publications/evaluation-of-the-research-and-development-expenditure-credit.

Claim checking approach

Standard operating procedures (SOPs) are an established control within HMRC and, in the context of R&D compliance, were in place for both risk and intelligence colleagues and caseworkers prior to 2021, ensuring a consistent approach to both risking and casework. SOPs are reviewed regularly and updated as systems change and as processes evolve to ensure that they remain relevant. Our risking SOPs were reviewed and enhanced in 2021 to reflect new approaches to identifying emerging areas of risk.

Compliance targets

HMRC's internal target for compliance yield in 2022-23 has been set at £36.0 billion. It is set at a level that delivers:

i. the compliance yield we calculate needs to be generated from HMRC's core compliance activity, which will maintain the tax gap at its current level; plus
ii. the compliance yield expected from additional fiscal event funding.

This target is stretching and sits near the upper bound of HMRC's planning range.

Due to economic and operational uncertainties during the pandemic, we did not set external targets in 2020-21 or 2021-22. Our published compliance yield target in 2019-20 was £34.5 billion.

Handling busy calls and call-back systems

We can and do make outbound calls, for example when an adviser is unable to fully answer a customer's question or action their request, they may offer to call the customer back with the answer, within an agreed time period. We do not offer call-backs for customers waiting in phone queues.

A 'busy' is a call attempt where a busy message is played telling the customer that the phone line does not have capacity to take the call, after which the call is ended. We also include in our 'busy' category calls where the caller abandons the call during the busy message and those terminated at the end of the busy message.

Busies are typically played when an unexpectedly high number of people want to speak to us at a certain time, or when HMRC systems are affected by IT outages.

Year	2019-2020	2020-2021	2021-2022	Current year to 30 Sept 2022
Number of busy messages played	4,306,098	3,385,037	1,920,769	1,002,508
% of calls where busy messages were played	10.6%	10.4%	5.5%	5.3%

In the years up to 2020/21 we used average waiting time as our main telephony performance indicator. A shortcoming of this metric is that only customers who are able to join a telephony queue are reflected in the measure, and the experience of those who are played a busy message is not captured.

We received feedback from customers that, rather than receive a busy message, they would prefer to stay on the line, even if that meant they might have to wait some time to get through to an adviser. In response, in 2021/22 we reduced the use of busies and introduced the improved performance measure of advisor attempts handled, which measures the proportion of people who want to speak to an adviser who get through. This provides a better measure of service performance as it reflects service delivery for all customers who call us, and this is the measure by which we now set our service standard. This does not mean wait times are not important – if these are too long, customers will hang up and these hang-ups count as a missed call in the adviser attempts handled measure. We therefore continue to measure and publish average waiting times.

We also introduced exit surveys for our telephony customers, gathering information on their satisfaction with the interaction and how easy they found it. Combined with advisor attempts handled, this gives a more rounded view of our customers' experience

When queues are very long we do still play busy messages when we judge that customers are best served by ringing back at a different time. However, we do so less than we did in 2019/20 and 2020/21, as can be seen in the figures. This change in our approach to playing busies has led to a rise in waiting times on some phone lines, but customer feedback is that they prefer this approach.

Interest rates

The rates of interest operated by HMRC are set out by statutory instrument (SI). These are linked to Bank of England base rate. As stated, for most taxes the rate for late payment is set at Bank of England base rate plus 2.5%. Recent changes to base rate by the Bank of England have therefore resulted in changes in the rates operated by HMRC. This has not required a new SI as the formula for calculation has not changed.

The formula used for income tax was laid down in SI 2011/2446. This SI mirrored the formula that has applied to other taxes for some time. SI 1998/1461 outlines the same formula and still applies for various indirect taxes. There have been no recent changes to interest rate formulas operated by HMRC.

Yours sincerely

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CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY