

Public Accounts Committee

Oral evidence: 2016-17 HMRC Standard Report (published alongside HMRC's Annual Report and Accounts), HC 456

Monday 6 November 2017

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Watch the meeting <http://parliamentlive.tv/Event/Index/f212aec8-0e77-4beb-a368-6ba9cb7387b8>

Members present: Meg Hillier (Chair); Geoffrey Clifton-Brown; Martyn Day; Chris Evans; Caroline Flint; Luke Graham; Shabana Mahmood; Nigel Mills.

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

Questions 1-203

Witnesses

I: Jon Thompson, Chief Executive and Permanent Secretary, HM Revenue and Customs, Justin Holliday, Chief Finance Officer, HMRC, Jim Harra, Director General, Customer Strategy and Tax Design, HMRC, Nick Lodge, Director General, Transformation, HMRC, and Angela MacDonald, Director General, Customer Services, HMRC.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Report by the Comptroller and Auditor General
HM Revenue & Customs 2016-17 Accounts

Examination of witnesses

Witnesses: Jon Thompson, Justin Holliday, Jim Harra, Nick Lodge and Angela MacDonald.

Q1 Chair: Good afternoon and welcome to the Public Accounts Committee on Monday 6 November 2017. We are here today on one of our big annual outings with HMRC to look at the annual report and accounts and the various issues that raises, including customer service and estates. Before we go into the main hearing, I am sure you expect us to ask some questions about the recent revelations in the papers. I will just introduce our witnesses before I do that.

We have Justin Holliday, the chief finance officer of HMRC; Angela MacDonald, the director general for customer services at HMRC; Jim Harra, the director general for customer strategy and tax design at HMRC; Nick Lodge, the director general for transformation at HMRC; and Jon Thompson, the chief executive and permanent secretary of HMRC, who is making his 26th appearance in front of us—I now have a tally. Thank you for your information last time. It is a miracle that any tax is being collected this afternoon, with all of you here. It is a testament, no doubt, to the excellent staff working with you. Mr Thompson, have you seen the papers that were leaked to *The Guardian* and the BBC—the so-called Paradise papers?

Jon Thompson: No.

Q2 Chair: Did you know anything about this leak and whether it was coming?

Jon Thompson: We knew that there was a leak coming—we have known for some time, but we do not have access to the material that has been provided by the International Consortium of Investigative Journalists to the BBC and *The Guardian*. We have not had access to that. We have requested access to it.

Q3 Chair: When did you request access to it?

Jon Thompson: Two weeks ago.

Q4 Chair: How long have you known about the fact that there was a leak?

Jon Thompson: There have been rumours that it has been coming for a few months.

Q5 Chair: So you requested that information two weeks ago.

Jon Thompson: Yes.

Q6 **Chair:** What has been the result of that request?

Jon Thompson: We have not received a reply. It is different from the Panama papers in 2016, which were published on a website in an unstructured way and you could inquire through those papers. In this particular situation, the papers have not been made publicly available; they are only available to those within the International Consortium of Investigative Journalists.

Q7 **Chair:** Since the revelations yesterday and today, have you made any further requests for information?

Jon Thompson: We have not made any further requests because I think our request made two weeks ago is strong enough. We ought to make it transparent that in 2016 we asked for some further information from the ICIJ, and there was no response at that point either.

Q8 **Chair:** At that point?

Jon Thompson: Or subsequently.

Q9 **Chair:** So you are asking the BBC, *The Guardian* and the International Consortium of Investigative Journalists to provide you with useful information.

Jon Thompson: Yes. We will take information or intelligence from any source. One hundred thousand leads were provided by a wide range of people and organisations last year. We will very happily take the data. We would like it to be provided to us so that we can investigate whether there is any tax evasion or criminality.

Q10 **Chair:** From what you have seen, do you think there is anything in what has been released so far that HMRC did not know already?

Jon Thompson: Potentially in one case, but we now need to be very careful, because I cannot get into which particular case. I understand that there is a second episode of "Panorama" today, in which further information may be given. As I think you know—new members of the Committee may not—under the 2005 Act, we cannot discuss any individual taxpayer in public.

Q11 **Chair:** Absolutely. We understand that. I am sure we will want to follow up if anything gets to a further, more public stage. You knew that the leak was likely. You requested information. Is there any way you could have found out more from sources other than through the leak, given that you knew certain information was in the public domain and something was being investigated?

Jon Thompson: I slightly disagree with the question, because I don't think there is very much information in the public domain. There has allegedly been a significant leak—a hack, if you like—of data from a global law firm, Appleby. I don't think that that information is in the public domain. It is being held by a small number of organisations.



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Q12 **Chair:** Given that you knew the name of the law firm—it was leaked in *The Telegraph* a couple of weeks ago—did you or any of your team make any contact with Appleby to see what information you could get through that route?

Jon Thompson: I am not clear about whether we contacted Appleby, unless Jim is.

Jim Harra: No, I am not aware that we did. We have two key sources of information. First, if the ICIJ, *The Guardian* or the BBC have any information that points to wrongdoing, we encourage them to give it to us. We have written to them. We also have a network of tax treaties and exchange of information agreements with a whole range of countries—including all the countries that have been referred to so far in this story—so that we can request information through their authorities.

Q13 **Chair:** Have you made any particular requests to any of the countries and dependencies named in this leak?

Jim Harra: At this stage, we have asked the ICIJ.

Q14 **Chair:** Okay. Are you securing any documents as a result of this leak? Are you seeking a hold on any documents before anything happens to them, so that you can make investigations in future?

Jon Thompson: You mean from the information that has been leaked?

Q15 **Chair:** From the information that has been leaked, as you said, you are interested in one particular case. Have you made any contact there, or with any other individuals or organisations, to secure the data and the documents?

Jon Thompson: Not at this stage, but the two of us have already had a conversation about the one that we were interested in from last night.

Q16 **Chair:** How quickly are you going to act on that? How much more information do you need from the BBC and *The Guardian* in order to pursue it?

Jon Thompson: What we would like is full disclosure of that information—full access to whatever has been provided to the ICIJ, the BBC or *The Guardian*. If we are unable to collect it from them, we will see whether it is possible to obtain that data in any other way.

Q17 **Chair:** In terms of your legal powers, how quickly could you secure any of that data? Give us a range if you cannot give an exact timetable.

Jon Thompson: The tax treaties and exchange of information agreements that we have with all Crown dependencies—the overseas treaties—allow us to inquire about specific taxpayers. At this point, we are trying to work off what is in the public domain and then work from that in terms of making specific inquiries. That is not the same as saying that there is a bulk set of data that is apparently available. Obviously we would like that, but we have to do it by individual allegation, taxpayer by taxpayer, in order to get that information.



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Q18 Chair: And you are prepared to look at every allegation in full.

Jon Thompson: We certainly are. In the same way we did with Panama, we will look at every case of tax evasion very seriously. We have secured significant revenues from those trying to hide overseas—more than £2.8 billion over the last few years.

Chair: Yes, we have read the Government press release on that.

Jon Thompson: Sure, but it is worth my repeating it, because I do not want anyone to feel that we are complacent in any way. We will chase down those people who try to hide money offshore and evade their tax.

Q19 Chair: With the Panama papers, we were frustrated—I suspect you were, too—about how long it took to dig through that information. How quickly could we see results if you had all that information on the Paradise papers?

Jon Thompson: I think it depends on whether we conclude early on that the acts are civil or criminal. With criminal acts, it takes quite a bit longer to prepare a case. The Panama papers were published on 4 April 2016. There are currently 66 criminal or civil investigations; four people have been arrested and a further six have been interviewed under caution. Those cases continue to be live. We would expect an additional tax yield of £100 million from the Panama papers. That gives you some sense of how long quite complicated tax cases take to bring to some sort of fruition.

Q20 Chair: That is quite encouraging news, because when we have asked about the Panama papers before, we have got very little information. Are you better prepared now for dealing with these papers than HMRC was when the Panama papers were leaked?

Jon Thompson: I would say that we are, in one significant respect: over the last 18 months or so we have significantly improved the way in which we can ingest data from other sources. There is now a director-led speciality function within our customer compliance group: the director of risk and intelligence services. We have created a dedicated function that can ingest data from as many sources as we can get them and put that data together around individual taxpayers, so that our interventions are risk-based. Again, I extend the opportunity to any member of the Committee who wishes to visit that function and see its work. It is in Custom House in London; they would be delighted to show you the kind of work they do.

Q21 Chair: Thank you. How many people do you have ready to work on this? You have that unit, under one director. How many people are in the team?

Jon Thompson: How many people in risk and intelligence?

Chair: Yes.

Jon Thompson: Between 2,000 and 3,000 at the last count.

Q22 Chair: Would it mainly be that team dealing with this release of data?



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Jon Thompson: It would be somewhere in the customer compliance group, depending on the nature of the taxpayer—a large business, a small business, a wealthy individual or not. The customer compliance area has more than 26,000 staff.

Q23 **Chair:** So you feel that you have enough resources to deal with the potential scale of the leak through the Paradise papers? Because they will be doing other things too, won't they?

Jon Thompson: We don't know how big this leak is. We don't know what the quantum of data is that is available to the ICIJ. I need to slightly hedge my bets, on the basis of simply not knowing how big it is. It could be millions of documents that may require some significant time to go through.

Q24 **Chair:** Who is ultimately in charge? You have a director general of risk—are they the individual in charge of ensuring that any allegations or information that come out of this leak are properly investigated and dealt with, especially if there are criminal and civil issues to resolve?

Jon Thompson: No. It would be the director general for customer compliance group, Penny Ciniewicz, who started at the same time as Angela and who replaced Jennie, whom you may recall.

Q25 **Chair:** Ultimately, the success of this for HMRC will be down to her as an individual?

Jon Thompson: Yes. As you know, although the overall number is now growing, the balance of staff in HMRC between customer service and customer compliance has been shifting to the point where customer compliance—that area where we intervene—is now the largest element of HMRC.

Q26 **Chair:** In your view, do you have the necessary powers to secure any information that you may need as a result of what you may find out through this leaked information? I am tempting you here.

Jon Thompson: You are tempting me to be definitive. We are always looking for new powers, new data and, frankly, more resources to be able to put towards the general problem of non-compliance in the tax world.

Q27 **Chair:** Do you think you are lacking anything in particular that might be slowing you down? How quickly could you get changes if you needed different powers?

Jon Thompson: It is not the advice to me that the current tax treaties or the exchange of information with Crown dependencies and overseas territories are a limiting factor at the moment, but it rather depends on what else is revealed in the next few days or weeks.

Q28 **Chair:** We have talked about the number of staff involved, but some of the allegations are about individuals or organisations able to employ highly paid, highly sophisticated tax advisers. Is there an issue that HMRC is out-gunned by those people and that you do not have the level of resource that may be necessary across such a potentially wide range



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of information coming to you from highly sophisticated organisations?

Jon Thompson: In general, I think the answer to that question is no. We have some excellent people and some excellent advisers around us. If our litigation success rate, which currently stands at 83%, is anything to go by, we have a reasonable record of pursuing quite complicated cases and securing billions of pounds'-worth of additional revenue. Again, at the margin, could we do with additional resources, expertise, powers or information? There is always a case to be made, for us, for some considerable time to come.

Q29 **Chair:** Interestingly, you said people around us as well as people who you directly employ. Are you employing tax advisers outside HMRC to help advise you on how to tackle tax advisers who are working for the other side?

Jon Thompson: Not in the sense that you might infer—that we employ the big four, for example. We do not; that would clearly be wrong. We do have some specialist legal advisers who will work with us in relation to some of these complicated areas and who would help us with any legal processes, legal advice and so on. That is more in the law area than in the accounting area. My personal reaction is that there are too many conflicts of interests for any major accounting firm to be involved. We have no current relationships with any of them.

Q30 **Chair:** What work have you done so far to link up with other tax authorities? Mr Harra, you mentioned that you could do that. How many have you been in touch with so far about how you will handle this leak together and ensure internationally that it is being tackled?

Jim Harra: I cannot give you a number but, as Jon mentioned, we have known for some months now that there was likely to be a leak of data. We have engaged with other tax authorities to share intelligence about that, and we are part of a joint intelligence network that enables us to do that on avoidance cases. Obviously, at that stage it was about learning what everyone potentially knew about the leak. We are potentially entering a new phase now: as we get data, we can collaborate with other agencies, both in the UK and overseas, on how to interrogate the data and mine it to find out what we need to know.

There is probably strength in those numbers. Panama, for example, was a vast amount of unstructured and fragmentary data. In paper terms, it was like someone driving 10 trucks into your car park and saying, "In there somewhere might be some evidence of wrongdoing." Through Panama, we gained a lot of experience of bringing to bear every agency's expertise in mining the data and finding the nuggets, which might be tax-related, or might relate to some other wrongdoing that one of the other agencies is interested in.

Q31 **Chair:** Have you had any conversations with other agencies in the UK Government about what you are going to do about this? Do you have any sense of whether this crosses other boundaries as well?



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Jim Harra: Yes we have and, as part of that initial engagement, yes we did.

Q32 **Chair:** Can you tell me which agencies you have been talking to?

Jim Harra: It would be agencies such as the National Crime Agency, which we collaborated with on the Panama papers. As I say, that was at the “who knows about what may be coming when” stage of this. We are probably entering a different phase now.

Q33 **Caroline Flint:** Do you still have customer relationship managers for your wealthiest taxpayers?

Jon Thompson: We changed their title on the basis of the feedback that you gave us, I think a year ago. If the next question is what we changed it to, I have forgotten, and I apologise for that. However, we do still have people who are dedicated to focusing on individual taxpayers.

Q34 **Caroline Flint:** Does anybody else know what the changed title is?

Jon Thompson: It sounds like I need to write to the Committee. My apologies.

Q35 **Caroline Flint:** Okay. We had the Panama papers on 4 April 2016. Have those individuals working with the wealthiest taxpayers been given clearer guidance about the implications of things such as what was exposed through the Panama papers and, thinking ahead now, what was exposed yesterday, or even what will be exposed in tonight’s programmes?

Jon Thompson: Was the question whether the staff were given any clearer guidance?

Caroline Flint: Yes.

Jon Thompson: We clarified what exactly we are looking for. Just to make the situation clear, if somebody has settled with us, it is on the basis of full disclosure. Of course, what happened with Panama, and what may be happening now with Appleby, is that we get new information. Under the powers that we have, we are then able to reopen the cases, because we did not get full disclosure about the situation.

I think we took on board all the recommendations that the Committee made in relation to high net worth individuals. The number has actually grown a fair bit, because we decided to lower the threshold from £20 million to £10 million and to expand the high net worth unit. I think we have taken on board all the recommendations that you gave us when we talked about that.

Q36 **Chair:** May I ask, for the record, how long you can pursue someone you have concerns about? If someone has defrauded the system, whether it is a criminal or civil matter, how far back can you reach to get any money back to the Exchequer?

Jim Harra: Up to 20 years.



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Q37 **Shabana Mahmood:** What engagement is there between HMRC and the International Financial Centres Forum, if any?

Jim Harra: I'm not aware of any. I don't know.

Q38 **Shabana Mahmood:** You don't know, or there isn't any?

Jim Harra: I don't know. I'm not aware of any.

Q39 **Shabana Mahmood:** There has been a reference in some of the reporting on the Paradise papers that the International Financial Centres Forum, which represents offshore law firms including Appleby, claims, in its own papers, to have had some success in engaging with UK Government Ministers and civil servants—hence my question about whether there has been engagement between the IFC and HMRC.

Jim Harra: I'm afraid I can't help you out.

Q40 **Shabana Mahmood:** Would you be able to find out and let us know?

Jim Harra: Yes.

Jon Thompson: Certainly.

Q41 **Shabana Mahmood:** Thank you. The Prime Minister was pushed this morning on the possibility of a public register of ownership. I know that is not a matter for you, but she referred in her answer specifically to the fact that HMRC is now able to see much more information about the ownership of shell companies in particular. Could you talk the Committee through how that ability, since you have had it, has helped you in opening up investigations into the tax affairs of businesses and individuals, whether that has led to any prosecutions and how effective that new power has been?

Jim Harra: Yes. There has been a number of developments in improving access to information about beneficial ownership and interests. In July this year, we created a registry of beneficial ownership of trusts. That gives HMRC information about both UK and non-UK trusts. If they have a UK tax consequence, there is an obligation to register those with us, including detailed information on the beneficial owners of the trust and details of the trust's assets.

In addition, a register is maintained by Companies House called the register of people with significant control, which identifies the beneficial owners of controlling interests of more than 25% in UK companies. Overseas Crown dependencies and overseas territories also maintain registers of beneficial ownership of companies. Those are not public registers but they are accessible to HMRC, which gives us a level of information beyond what is in the public domain.

Q42 **Shabana Mahmood:** Would you be able to tell us how many times you have asked any of the overseas territories or Crown dependencies for access to information about the ownership of a shell company?

Jim Harra: I do not have that information but I can certainly provide it.



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Q43 **Shabana Mahmood:** Is that information that you can provide to the Committee?

Jon Thompson: Sure.

Q44 **Geoffrey Clifton-Brown:** I have one question for Mr Thompson on the principle of co-operation with HMRC by British institutions. You sent a serious inquiry regarding these Paradise papers to ICIJ a fortnight ago, and you have had no response whatsoever. There are key British institutions here—the BBC and *The Guardian*. Does this issue not need to be resolved? Do you agree that when HMRC makes an inquiry of a British institution or a British taxpayer, it should be responded to?

Jon Thompson: In my opinion, they should. Just so we are clear, the ICIJ is based in the United States, I believe. However, in relation to the BBC and *The Guardian*, we would like the information and we will continue to request it. They are making a decision to not give it to us, but we would obviously like it.

Q45 **Geoffrey Clifton-Brown:** Did you address your inquiry to the ICIJ itself, or to the BBC and *The Guardian*?

Jon Thompson: I believe we have written to all three.

Q46 **Geoffrey Clifton-Brown:** So this is non-compliance by the BBC and *The Guardian*?

Jon Thompson: They have to make a decision— I am going to row back. I am not responsible for the BBC, *The Guardian* or the ICIJ. They have whatever decision-making processes they have to go through about how they obtained their data and whether or not they will give it to us. At the minute, we have not received a reply. However, we clearly want them to reply.

Q47 **Chair:** May I just ask, with the Panama papers, did you have to make any payment to receive any information, or was it passed over to you freely?

Jon Thompson: It was not passed to us freely.

Q48 **Chair:** You had to pay a fee?

Jon Thompson: We obtained it. I need to be careful about what the law limits me to say. We obtained it, but not from the ICIJ.

Jim Harra: It was part of an international effort to obtain that data.

Q49 **Chair:** So money changed hands?

Jon Thompson: We are allowed to make payment to obtain data in certain circumstances.

Q50 **Chair:** Are you able to tell us how much you paid for that data?

Jon Thompson: I do not know that number off the top of my head.

Q51 **Chair:** Could you write to us with it?

Jon Thompson: I will consider whether I can give it to you, yes.

Q52 Chair: Are you saying that you may have legal constraints?

Jon Thompson: I will need to take a piece of legal advice about whether I can give you that information.

Chair: Okay, we understand. I will now move on to the main reason we originally set up the hearing, which is the annual report and accounts. While we are on the subject of international tax, I call Caroline Flint.

Q53 Caroline Flint: Mr Thompson, diverted profits tax charging notices were issued for the first time in 2016-17. To what extent has the diverted profits tax brought about any real change in the attitude of large corporations towards tax compliance?

Jon Thompson: Let me give you an initial response, and then I'll pass on to Jim. In 2016-17, diverted profits tax raised £280 million for the Exchequer. We believe we saw some behavioural change in taxpayers. Jim is the tax assurance commissioner who oversees all the major settlements, so if you want further information about what behavioural change we have seen, I will pass to Jim.

Jim Harra: Last year, in 2016-17, it was about £281 million, which is a bit above the forecast that we would receive in that year. That suggests the tax is on track to achieve the £1.35 billion.

Q54 Caroline Flint: Is that all through charging notices?

Jim Harra: No. The main impact of diverted profits tax is to encourage companies to take less risk with their corporation tax compliance. The diverted profits tax is deliberately set at a higher rate than corporation tax in order to create an incentive for companies to do that. I would therefore expect most of the yield that it delivers to come from higher CT receipts. We combine investigating diverted profits with investigating transfer pricing, because they basically cover the same area. Broadly speaking, if a company ensures that it does not avoid tax through incorrect transfer pricing, it will not be liable to the diverted profits tax. So that yield comes largely from CT. We issue charging notices if we think we are not getting the co-operation we need or if we think there is a real concern about non-compliance. Just last week, we won a judicial review against Glencore, who argued that we had issued a notice incorrectly, which shows we are serious about requiring companies to step up. But I would expect virtually all the yield to come through additional corporation tax.

We have found that it has caused companies to look again at their transfer pricing structures. Many of them stay away from the edges because they know that there is an extra penalty if they go near that. It also gives us a further reach into companies that have avoided setting up a branch in the UK. They will say that they operate outside the UK and do not have a taxable presence here. In the past they would have used that as an excuse not to give us information that we asked for. They would say, "We've got no UK presence. You don't need to know." But the diverted profits tax has the concept in it of what we call an "avoided permanent establishment". In other words, if they have avoided setting up a branch in the UK in order to avoid our tax, that gives us extra reach into those



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extraterritorial companies. So I think it is pretty much a game changer in transfer pricing in particular.

- Q55 Caroline Flint:** Country-by-country reporting information has now to be made available to HMRC. Has that helped in terms of more transparency about what these businesses are doing, at least internally to your organisation? Has it pushed them to pay their fair share of corporation tax?

Jim Harra: I think it's probably too early yet to be seeing much of an impact, because the returns for the 2016 accounting year to which that applies have to be in by the end of December 2017. Personally, at the outset I was sceptical about whether country-by-country reporting was going to give the UK tax authority much more information than we had previously had, although I thought it would make it much easier for us, because, instead of having to go out and ask for that information and search for it, we would get it automatically. I have probably changed my view about that. I think now it will give us useful information that we would otherwise not have been able to get at all, and I would expect it to change companies' behaviour, as they are aware that the tax authorities are getting and sharing this information. On being able to demonstrate the actual impact of it, it is too early to say.

- Q56 Caroline Flint:** Are there any companies or sectors that have found it more difficult to comply in relation to whether they should pay more corporation tax or the diverted profits tax? Reading back on some advice notes from PwC and other organisations to their clients, I see that they talked about it casting a wider net than was perhaps envisaged. Would you like to comment on that?

Jim Harra: Yes. That is certainly feedback that we get from the large business sector and from their advisers; they are feeling our presence in investigating diverted profits tax much more widely than they had expected. We obviously have been given additional resources by the Government to investigate both diverted profits tax itself and transfer pricing, so it is unsurprising that they will feel more attention from us. We are casting the net where we think there are potential liabilities, so it is all risk-based from our point of view. I think it's fair to say that the large business sector are unhappy about the level of attention they are receiving through diverted profits tax and find that it creates uncertainty for them. But I would expect that, over time, as we work through the initial notifications and everyone has become much clearer about how it works, that would settle down from their point of view.

- Q57 Caroline Flint:** Obviously, the country-by-country reporting is only to the tax authorities at present, but there is an enabling power on the statute book for the Government to make it public. A year ago, the then Minister, David Gauke, said that if we have not made progress on multinational arrangements for public country-by-country reporting, we might have to look again. In terms of those who are already providing you with the information internally, do you see the direction of travel being towards this becoming public in the future?



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Jim Harra: Yes. It is Government policy that this should be public information. At the moment, the agreement that we have reached with the OECD is that some countries have not been willing for it to be made public and therefore we have had to accept that we get this information on the basis that we will be sharing it with other tax authorities but not making it public. However, the Government pushes internationally and multilaterally for that to happen and, for example, there has been a proposal in the European Union that at EU level that data will be made public in the future.

Q58 **Caroline Flint:** I understand that, at EU level, discussions have stalled because the member states cannot come to an agreement. What is your analysis of the state of play on the EU negotiations?

Jim Harra: I think it's unsurprising that one or two EU member states would prefer it if country-by-country reports were not made public, and of course that is what we have found more widely with the OECD. The Government's policy is to continue to try to reach some kind of multilateral agreement for the publication of some of those reports, but until there is an international breakthrough in consensus terms, that is probably going to be limited, but it is not restricting the ability of tax authorities to get this information.

Q59 **Caroline Flint:** Banking and aggregate companies already have to provide most of this information in the public domain. Do you think there is intrinsically something different between those organisations putting this information in the public domain and the commercial worry about competitiveness coming from other sectors?

Jim Harra: The genesis of the extractive industries' country-by-country reporting was a concern that some of them were involved in corrupt dealings in developing countries, whose natural resources they were exploiting and not making a fair return on to those countries—or perhaps they were making payments that were not going to the right place—so there was a different rationale for that measure at the outset that was not tax driven. Sometimes, when I am in large business forums where some of the sectors are complaining about the burden of having to do country-by-country reporting, I do quite enjoy watching the banks and the extractive industries tell them to just grow up and do what they have to do.

Chair: Bit of a change from a few years ago.

Q60 **Geoffrey Clifton-Brown:** Mr Harra, I think I heard you say that the introduction of diverted profits tax was a game changer. I wonder whether it is a game changer in a slightly different way from what you envisaged when it was originally introduced. I'm referring to the latest figures available. You use the £281 million figure, but actually the diverted profits tax itself raised only £138 million, whereas the behavioural change in raising additional corporation tax raised £143 million, adding up to £281 million, so is it working in a different way from what you originally envisaged?



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Jim Harra: No. The yield that was calculated for the measure when it was introduced, which was £1.35 billion over five years, included the behavioural effect on corporation tax. That is how we expected it to work. The rate was deliberately set at a level to create an incentive for companies to get their corporation tax compliance right so that they would not fall into diverted profits tax, so if we see them not paying DPT but paying the right amount of corporation tax, that is what it was designed to incentivise them to do.

Q61 **Geoffrey Clifton-Brown:** That's why you set it at 5% higher than corporation tax?

Jon Thompson: Correct.

Q62 **Geoffrey Clifton-Brown:** So did that original figure of £1.4 billion—that is, £0.35 billion per year—actually include the behavioural change element of corporation tax?

Jim Harra: That is correct. It was both corporation tax and diverted profits tax together. It was the overall additional yield that the Exchequer would expect to receive as a result of that measure, including the behavioural impact.

Q63 **Geoffrey Clifton-Brown:** Given the size of the operations of these multinationals in the UK, I wonder whether the scope of diverted profits tax is wide enough to deal with this problem.

Jim Harra: We are always open to reviewing it. We extended it a bit further in the following year, so there is now an additional withholding of tax on royalties. That ties in with the diverted profits tax legislation. The measure itself has been copied by the Australians and we worked together with them to learn from the experience, but it is still, in international terms, a groundbreaking measure. These are early days, but it is definitely having an effect.

Q64 **Geoffrey Clifton-Brown:** This is related to the behaviour of large companies. The Finance Act 2016 introduced this tax strategy, which required companies with a turnover of over £200 million or a balance sheet of over £2 billion to publish tax strategies. What percentage of those companies have so far done so?

Jim Harra: Our customer relationship managers and large business directorate are going through that now to check. I think so far we have not identified any companies that have failed to comply, but we have certainly identified some where it is damned difficult to find where they have published it. We draw their attention to the need for better navigability on their websites; otherwise we will maybe have to take further action.

Q65 **Chair:** So you have drawn attention to that, but do you need more powers to ensure it is published in a particular format and a particular way?

Jim Harra: If they do not step up, that is something we would have to bear in mind. From our point of view there is very little revenue attached



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to this measure; I cannot quite recall, but I think it was something like £20 million on the scorecard in 2016. The key purpose of this was that by getting better public transparency of their tax strategy, you are more likely to get them to focus at board level on what that is saying. One of the key aims of our large business strategy is to get tax into the boardroom, as we call it—in other words, it is the responsibility not just of the tax manager and the CFO, but of the chairman and the chief executive. This reinforces that, but it is not really information that is unavailable to us. Having said that it has to be published, we are committed that it become accessible. We are engaging with those companies where we think it is not as accessible as we would like. If we find that we need to take further powers, we will certainly look at that.

- Q66 **Geoffrey Clifton-Brown:** Can you give us an indication of the percentage of the companies that are eligible—i.e. a £200 million turnover or a £2 billion balance sheet—that have not yet supplied the information that you think is sufficient?

Jim Harra: No, I can't. Broadly speaking, that measure applies to all the 2,100 or so businesses that are managed by our large business directorate. The CRMs are working with them to make sure that they have now complied with that and, if we are not satisfied, asking them to do better, but it is too early to say. I would expect them all to comply.

- Q67 **Caroline Flint:** Do you think you missed an opportunity here to be a bit more prescriptive in advance about the format of such tax strategies and where they should be published, and therefore to be a bit ahead of the game?

Jim Harra: We consulted on it and actually one of the potential measures that we consulted on was being more prescriptive about what these strategies contained. The outcome is what it is. I do not think we are heavily dependent on it to enable us to manage the compliance of large businesses, but it is just an added bit of public transparency which helps to focus their minds on tax compliance. We need to see how compliance with this works and if we need to do something more, we will.

Jon Thompson: It is worth noting that some leading companies are beginning to publish their risk status with us—particularly those that are “green,” obviously. They are beginning to say, “We are a responsible company; our relationship with HMRC is currently rated ‘green’ in risk terms,” because it gives further assurance to investors. There is potentially further to go with some of those large businesses down that route.

Jim Harra: That is a major change from our point of view, because when I was in the large business directorate a tax manager would not want to have a low-risk status; he would find that difficult to defend to his CFO or his board. Now we find large businesses asking us how they can get low-risk status, or if they have it, as Jon says, publishing the fact that they have it.

- Q68 **Chair:** Okay. I am sort of reeling, Mr Thompson, from the revelation that



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you pay for information sometimes. How do you determine whether it is worth paying for information and when to make a payment?

Jon Thompson: How do we determine it?

- Q69 **Chair:** Yes. How do you determine whether it is worth it? I could come to you and say, "I've got some information, give me some money", and you might make a judgment about whether I really have.

Jon Thompson: I think that, as a responsible politician, you would give it to me, wouldn't you?

- Q70 **Chair:** I am sure that I would indeed, but let us say I was a woman on the Hackney omnibus and I came along and said, "I've got some information for you. How about some money?" How would you make a judgment?

Jon Thompson: It depends. We have a process, as any other law enforcement organisation would, about judging the quality of sources, the reliability of those sources and the information they may be able to give us, and in some cases we will pay for information, but it rather depends on the value of that information to us. In a sense, it is exactly the same as if you were talking to the Metropolitan police.

- Q71 **Chair:** How do you determine how much to pay for it? Is that part of the process?

Jon Thompson: I couldn't give you the detail of that without going back and refreshing my memory.

- Q72 **Chair:** Okay. But do you have a range, or a sort of flat rate—if anyone else out there wants to provide you with information? *[Laughter.]*

Jon Thompson: It is slightly tempting to think that we may be in a negotiation there—

- Q73 **Chair:** No, really, I have nothing to share with you that I wouldn't give you freely and voluntarily. I have nothing free and voluntary to give you. How do you determine how much?

Jon Thompson: It is in a range, but I couldn't tell you what the exact methodology is in relation to quantifying the value of the intelligence you're giving me. However, I will refresh my memory and—

- Q74 **Chair:** If you are able to write to us with something on that, it would be very helpful.

Jon Thompson: Sure. So you thought that was a revelation?

- Q75 **Chair:** Well, I hadn't picked it up before that you actually pay for information—

Jon Thompson: To be really clear, because it is an interesting matter of public record, in many senses HMRC is the second largest law enforcement organisation in the country, and I'm not sure that many people understand that. Only the Metropolitan police is bigger than us, in that sense. We are



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regulated by the Independent Police Complaints Commission and it conducts investigations of our work, so it is a normal part of our business.

- Q76 **Chair:** Okay. That's fine. I want to go back to general performance issues. We have talked a lot on this Committee about the tax gap, and the good news is that there is a downward trend over the last nine years, from 8.3% in 2005-06 to 6.5% in 2014-15. How much further can we realistically expect the tax gap to fall, Mr Thompson? It is a prediction we're asking for.

Jon Thompson: A prediction? Yeah, well—

- Q77 **Chair:** To measure you against.

Jon Thompson: The next question will be, "Am I prepared to sign up to a target?" Look, we will strive to get it as low as possible. It is actually really rather difficult to work out what is the lowest possible level that you can go to. Jim and I have been having some interesting conversations about this. With more powers, more people, more intervention and more data, you can continue to reduce the tax gap, and indeed there is a whole range of measures in the pipeline now and I guess there will be further measures in the upcoming autumn Budget.

It is quite difficult. It cannot be zero, otherwise every other person would need to be a tax inspector, but quite how low it can go is difficult to estimate. We believe that we have the most comprehensive measurement of the tax gap and that it is the lowest published one in the world, but we still need to strive to get it lower and there is a whole range of measures in the pipeline that we think will reduce the tax gap further.

- Q78 **Chair:** Okay. I don't know which one of you will want to answer this; probably you, Mr Harra. We have picked at this issue before, but which parts of the tax gap are you most worried about? Which are the hardest bits to crack?

Jim Harra: It is all hard to crack in different ways. The largest part of it is really the small businesses. That poses a number of big challenges for us. First, there is a very large number of small businesses, so, case by case, it can be a relatively small amount and therefore it can be very difficult to tackle that in a cost-effective way.

Also, the way that we have traditionally tackled that issue could be quite intrusive and stressful for a small business, because it involves in-depth investigation. And we are seeing in the economy a movement away from employment towards small businesses, so the underlying pressure is people moving out of an area of taxation that is highly compliant into an area that is highly non-compliant. That is a key challenge for us. We want to find different ways of tackling that, other than the traditional method of having a lot of boots on the ground investigating a lot of small businesses, although that will always be part of it.

A key measure that Parliament has passed in the last couple of weeks is Making Tax Digital for business, which is starting to modernise the small business tax system and drive out some of the error and failure to take



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reasonable care. We can build on that in future. There are a couple of other areas where we can make a big difference. First, there is a new set of intermediaries in the self-employment arena. You have had eBay and Amazon here before you, and there are also taxi and takeaway apps, and we need to look to exploit these intermediaries more in the future to help small businesses to comply and prevent opportunities for them not to. Secondly, there is the tax agent industry, which has a very high level of penetration into small business taxation, yet its clients are often presenting as non-compliant. We need to drive up the value the tax system gets from agents in the system.

- Q79 **Geoffrey Clifton-Brown:** Mr Harra, you mentioned Making Tax Digital, which will presumably bring in a lot of those non-compliant small companies. You ought to be able to close the tax gap when that measure is introduced. Is that correct?

Jim Harra: Yes; it is certainly our intention. As I say, there is also an underlying pressure that would tend to increase it, but the yield from that measure comes from closing the small business tax gap.

- Q80 **Geoffrey Clifton-Brown:** At the moment Making Tax Digital will only apply to companies above the VAT threshold. Is that correct?

Jim Harra: That is correct, from 2019.

- Q81 **Geoffrey Clifton-Brown:** If anybody were to reduce the VAT threshold would more companies be brought into Making Tax Digital?

Jim Harra: As things stand, the legislation ties to the VAT threshold, so whatever Parliament did with the VAT threshold would apply to Making Tax Digital for business—

Jon Thompson: It is also worth adding that there are 5.4 million businesses in the tax system, 1.4 million of which are above the VAT threshold. Another 700,000 businesses, a significant number, are registered for VAT but are actually below the threshold. On that basis, 2.1 million out of 5.4 million would be a good step into that area. You are absolutely right that if we lowered the VAT threshold—ours is either the highest or one of the highest in the European Union—it would obviously drive more people into that.

- Q82 **Geoffrey Clifton-Brown:** One of the reasons for delaying Making Tax Digital was because of the difficulties those small businesses had in complying. What publicity, training or other measures are you currently undertaking to help those businesses to comply in 2019?

Jim Harra: Nick is delivering the programme.

Nick Lodge: What we have running at the moment is a small-scale trial for income tax, with 41 businesses and 53 agents currently in it. We will carry on running that, and we are about to expand it to bring more people into it. Later this year, we will start to run some technical proving with the third-party software developers, which are a big part of the Making Tax Digital agenda. Businesses keep their records digitally, which helps to



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avoid making mistakes, and that is the bit that closes the tax gap. That, added to then using third-party software to send the data straight to HMRC, which avoids transposition errors and all those kinds of mistakes, is where the additional yield comes from.

We will do that technical proving later this year. We will begin to run a trial for those VAT businesses from April 2018, giving us a full year and giving businesses, most importantly, and also software developers a full year to test, trial and build the system, and to build confidence in it, before mandation in April 2019. At that stage, before we start to run the trial, we will be going out to businesses through software developers, many of whom we are already engaged with, through representative bodies as well as direct to businesses themselves to build up the numbers.

- Q83 Geoffrey Clifton-Brown:** This is a really important point: will any eligible business be able to take part in that provisional trial from April 2018, before it goes properly on line in April 2019?

Nick Lodge: Yes. We will encourage as many people as possible to participate in that trial. Ideally, we would like as many as possible to come in—not all at once, and not all from April 2018, but gradually ramping up. We would like as many businesses as possible to be using the new system before we get into mandation from April 2019. That is exactly what we will be encouraging.

- Q84 Geoffrey Clifton-Brown:** Presumably the most difficult sectors will be those businesses that are largely cash-driven at the moment. Are you looking to those sectors to make sure they will be adequately prepared for this change?

Nick Lodge: We will be looking to have a really broad spread of different sorts of businesses in the trial. Part of making sure we are trialling this thoroughly is to have that broad spread, so they will certainly be included.

- Q85 Caroline Flint:** I want to ask a question about businesses that directly employ their staff. For example, I have written to HMRC about some haulage firms in my constituency that are worried. They directly employ their drivers, pay pensions and contribute in that way. However, they are finding it increasingly difficult because they are competing against other haulage firms that take people on a self-employed basis, which reduces the tax take for the individual driver and, importantly for the long term, means the employer does not have to apply the same sort of rules to those staff as the businesses in my constituency that are complaining. Are you satisfied that the definition of “self-employed” is as good as it should be? The type of firm I am talking about sources the jobs, tasks the drivers, provides the rig and, to all intents and purposes, is employing these drivers, but they have a self-employment status.

Jon Thompson: The general answer to your question is that that is always being tested in the courts by both individuals and organisations—employers. There are a series of ongoing court cases about this. The worst manifestation is that some self-employed drivers will only get the job not only if they are self-employed but if they sign up to a tax avoidance



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scheme. We have seen the rise of that, where that is the only way you get the job. Part of the customer compliance group has been working away at this, where somebody is being, as it were, sold a job only on the basis that they take part in tax avoidance. We have been able to take out several of those schemes. In general, the answer to your question is that it is constantly being tested by all parties, in terms of what employment is, what it is not and so on.

- Q86 **Chair:** We will come back to that another time, as we need to move on. Something in your report that the NAO has picked up on is the amount of money paid back. Mr Thompson, as at 31 March this year, you are expecting to have to repay £7.8 billion in tax. What are you doing to reduce the amount of tax you might have to repay to taxpayers? Are there lessons to be learned from the type of action you are taking, with a number that high?

Jon Thompson: Would it be possible to be more specific about where that is?

- Q87 **Chair:** It is in paragraph 1.13 of the NAO Report. In 2016-17, you made repayments of £1.8 billion with respect to legal provisions. As at 31 March 2017, you expect to have to repay £7.8 billion—in 2015-16, that figure was £5.9 billion, so it is now higher. Are there lessons to be learned about what type of action you are taking? Is it that you are being bolder and less successful, or is it just bad luck? You tell me; I don't want to put words into your mouth.

Jon Thompson: Would you mind if Justin answers that question? It is quite a complicated area.

Justin Holliday: The number you are pointing at is the provision in the accounts for legal claims. There are two introductory things to say. First, we make provisions when there is a 50% chance or more of losing a case. Secondly, legal cases take a long time to run through the courts, so this is not a one-year number; it is over a period of time.

There is a balance to call as to which cases we go to court on and which cases we do not go to court on. Our general 80% success rate in court actions indicates to me and to us a team that we are pitching that at about the right level. I do not think materially the situation is getting worse, but this is one of the calls we have to make about how firm we are in our litigation.

Chair: So you think you have got it about right now. We are always keen in this Committee that you litigate more, but that may be because we are politicians.

- Q88 **Shabana Mahmood:** An employment tribunal recently found that Uber is supplying transportation services, the result of which is that VAT should be payable on all its transactions. In normal practice, we would assume that HMRC would raise a protective assessment, in order to protect any revenue that should be payable if that decision stands; the decision will obviously be subject to appeal and further legal proceedings. It is my



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understanding that HMRC has not raised a protective assessment in relation to Uber. Can you explain whether that is the case, and if it is, why?

Jon Thompson: Sure. Let me lead off and then see if Jim wants to add. Again, I am sorry about this, but we cannot talk about that specific taxpayer under the 2005 Act. I know that is frustrating.

Q89 **Chair:** We understand, but hypothetically?

Jon Thompson: Let me generalise and go to what is a systemic question here. The systemic question is about who the agent is and who the principal is in the transaction between a customer and two other parties. We tested this back in 2014 in a case against a website called Secret Hotels. We actually lost that case, because we argued that the website was indeed the principal, and was therefore responsible for VAT. It won the case and came out as the agent.

Since 2014, we have tested that five times in the courts, to try to establish that what appears to be the organisation that the customer is dealing with is actually the principal. On all five occasions since 2014, we have lost. We have tried six times to establish that the agent is actually the principal, and is therefore responsible for VAT.

We continue to monitor at least two further developments: one is the one you mentioned, the other is that there have been some EU cases in this field. They may change the situation and the advice to us. We are in conversation with counsel about this issue. Consumers use their smartphone or iPad or whatever and interact with a website or whatever, thinking that their contract is with that organisation, but it actually turns out it is not, and that the organisation is an agent for the principal. We will continue to test this.

We will monitor the two ongoing legal cases; depending on how they land, we will take further counsel's opinion and we will test it again. You talked about one taxpayer, but there is a vast array of these intermediary agent organisations. I am being transparent with you: we have tried six times in the last three years to prove that they are the principals and we have lost.

Q90 **Chair:** Do you need a change in the law?

Jon Thompson: Possibly; I may need to defer to Jim.

Jim Harra: European VAT law determines who has to pay the VAT, so it is not something the UK could change by itself at this time. However, I think it is certainly something that we have been analysing, with our European partner tax authorities, across a whole new sector—not just Uber—as Jon mentioned. We await with interest the outcome of the cases. None of them are tax cases: one is an employment case, one is a regulatory one.

However, having seen the Advocate General's advice in the regulatory cases involving some French and Spanish cities, if the European Court chooses to adopt what the Advocate General has advised, it might have implications for the precedent of that Secret Hotels case and might create



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some new avenues of argument for us. We can only make assessments on taxpayers based on our best judgment of the law and based on advice, otherwise they just get overturned. We keep monitoring the situation and we will look for the outcome of those cases.

- Q91 **Shabana Mahmood:** Thank you. What you say about the number of times we have tested the position, in relation to principals and agents, in the courts is helpful. My question was really driving at what is stopping you from putting forward a protective assessment, which does not oblige you to collect that tax. This is a developing picture and there will be more legal cases, but there is a four-year time limit on VAT payments, so why not just raise an assessment and see how things play out?

Jim Harra: I appreciate that there are time limits. We do not have absolute discretion to raise assessments. The law says we can only raise them if our best judgment is that the tax is due. We have been taking advice on these cases and, as Jon says, we have now fought and lost a significant number. Our advice is that the law in this area is reasonably clear unless and until it is changed, for example by one of the cases that you have mentioned. We raise assessments where we think we can, but we cannot just raise them we want to.

- Q92 **Shabana Mahmood:** So your position is that the employment tribunal decision, specifically in relation to Uber, does not change the advice you have been given about the basis on which you should put forward a protective assessment?

Jim Harra: The employment tribunal decision—which is under appeal, so we will see where that goes—relates to the status of the drivers and whether they are self-employed, workers or employees. I believe that tribunal has ruled that they are workers for the purposes of workers' rights. I am not aware that the tribunal made any ruling regarding principal and agent, which is what is critical to VAT law, not the workers' rights. Given that there is a Supreme Court decision, an employment tribunal would not be able to overturn that precedent anyway. We would have to see that go through the courts.

- Q93 **Chair:** I want to move on to the transformation programmes. HMRC is on my list of worry Departments because we have 15 big programmes. Mr Lodge, you had a recent reconfiguration and reassessment of the transformation that is going on. As a result, what have you learned that you could pass on to other parts of Government? There are other Departments similarly going through major transformation.

Nick Lodge: Are you referring to an IPA review?

Chair: The review you did—I thought you had reviewed your approach. Maybe the IPA was involved as well.

Nick Lodge: We did. Jon and I reviewed the entirety of the transformation programme some months ago. We spent quite a lot of time stepping through each and every programme to evaluate exactly how we were doing. As a result of that we made some changes to streamline and speed up some of the governance by amalgamating some of our



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governance committees, for example. We reaffirmed that we had the right strategic approach—we were heading in the right direction and doing the right things—but we recognised, as Jon said in front of this Committee not many days ago, that we would need to think very hard about prioritising and capacity in relation to the extra load from Brexit. As Jon has quoted before, we have something like 250 projects in the portfolio underneath those 15 or so programmes. Brexit will probably bring with it another 40 or so—15% extra load.

At this moment, we are engaged in running through a very detailed HMRC-wide planning exercise, including the transformation work we do in its wider sense, to understand what that means in terms of capacity and whether we leave things exactly as they are or whether we have to adjust our plans as a result. We have learned that having a clear structure with clear accountabilities and governance is very important—no surprise there. Very clear prioritisation on a regular basis is very important when it is very rare to have all the capacity—in its various guises: people, money, technology and so on—that you need. Those of us who are engaged in IT development or transformation across Government have various groupings where we get together to talk about this best practice and to share our experience and the kinds of things that we are up to.

Q94 Chair: Do you think that you have bitten off more than you can chew with 15 big transformations all happening at once?

Nick Lodge: There is no question but that it is a big and complicated and ambitious programme of activity. When we set this up, after the spending review was concluded, we were and still are charged with delivering £717 million of recurring efficiency savings from 2019-20, some additional tax revenues from Making Tax Digital for business, which we have mentioned, and some additional tax revenues in response to some specific additional investment. We have structured those programmes to be part of a wider HMRC transformation to get those things delivered. It makes sense in those terms, but, with the addition of the extra workload from Brexit, it does require us to take a step back and, as I have said, run through very carefully whether we need to adjust any of those plans, given the totality of the workload when you add those two things together.

Jon Thompson: May I answer your question? With the benefit of hindsight, if we think about the sheer scale of the organisational change programme that we are going through, we have had a very open conversation with a major international bank that has been going through something fairly similar to us and has decided to do things in sequence rather than in parallel. If I had my time again—obviously, I was not here in 2015—I think there are some things that you would put in a sequence and not try to do them all at the same time. Indeed, the parallel programme is taking eight years, whereas we are taking five, so it is kind of squashed together. Frankly, it would have been a lower risk if it had been elongated. That did not suit the negotiations in 2015, as I understand it. One of the rate-limiting steps we will have to confront as a team now is the sheer volume of technological change that this programme brings.



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Q95 **Chair:** Just for the record, it is the biggest IT project in Europe, isn't it?

Jon Thompson: The claim that was made to us was that it is the biggest organisational change programme in Europe. It is pretty huge; £2.1 billion-worth of investment from the previous Chancellor of the Exchequer is pretty serious investment. If I am being transparent with you, in an ideal world I think that one of the choices we now face as a team is that we may have to move some things in sequence rather than in parallel in order to be able to accommodate Brexit.

Q96 **Chair:** How much of the review was driven by the fact that you are so short of your target for efficiency savings, Mr Lodge? Was that part of the reason why you did a review?

Nick Lodge: In 2016-17, HMRC secured £254 million of savings, some of that as a Department. Some of those savings were one-off savings.

Q97 **Chair:** I am not talking about that. Just to be clear, I refer you to the NAO Report, paragraph 2.32. You expected the "£1.8 billion investment in transformation would contribute £643 million of sustainable efficiencies by 2019-20"—so long-term efficiencies—and now you are "seeking around £240 million of annual efficiencies arising from change led by operations." There is a big difference in the total number.

Jon Thompson: The straightforward answer to your question about why Nick and I did the overall review and went through all 15 programmes as part of the, "Are we going to reach the efficiency target or not?" question, is yes—that is where we were. The indications we were given as an executive committee was that we would fall short of the £717 million per annum that we would need to deliver under the spending review. So we went through those programmes in some significant detail and reshaped some of them. The current estimate is that we will deliver £707 million by 2020 against a target of £717 million. There are still a number of assumptions made there. Undoubtedly, one of the ones that you will want to get to with Angela is that of demand management and people using digital and so on. The central estimate of this programme is now much closer than when Nick and I did the extensive piece of work together on those programmes. I think that is reflected in the NAO Report.

Q98 **Chair:** So why were those efficiency savings so out? Is it for the reasons you described earlier about having to do too much at once? Or were they just over-optimistic to begin with?

Jon Thompson: My take on 2015 is that a number of assumptions were made, the most significant of which were in relation to customer demand, which were very aggressive. That is the best way of describing them.

Q99 **Chair:** We have a lot on record about those conversations, which we could repeat here, but, with the time available, perhaps we won't. Shabana Mahmood will come on to that in a little while. It also raises questions about how you measure the likelihood of delivering those efficiencies and whether they are good measurements accurately worked out or whether the spending renewal process drives a behaviour that says, "We'll name a figure: the figure that we have to name." Were the efficiency set of



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targets really worked out, or were they over-optimistic?

Jon Thompson: At the time of the SR?

Chair: Yes.

Jon Thompson: I will have to look at Justin, I think. He was party to the SR15.

Justin Holliday: At the time of the SR discussions, they were a reasonable set of assumptions. The way that we have managed efficiencies within the organisation is to look at the—

Chair: You say “a reasonable set of assumptions”—that is a laden statement.

Q100 **Caroline Flint:** Reasonable based on what?

Justin Holliday: Based on an assessment at that time of what was doable.

Q101 **Chair:** But how did you work out the figure for what you would actually achieve in efficiencies for the input you were making in transformation?

Justin Holliday: It was a combination of looking at some of the specific programmes that were saving-generating and making a top-down assessment of the level of savings that could be delivered through those programmes.

Q102 **Chair:** And that top-down assessment was presumably on the original timetable that—I am using Mr Thompson’s hand gestures—was squeezed together, with quite an aggressive assumption.

Justin Holliday: Yes.

Q103 **Chair:** Did you question those aggressive assumptions?

Justin Holliday: I did. What I was trying to get on to say is that part of what is laid out in the NAO Report is what we have done internally. We only attribute a saving to a transformation initiative if it is definitively caused by that transformation initiative. The way we look at savings overall is to look at the totality of efficiency savings that we are generating. Some of the efficiency savings are undoubtedly helped and assisted by the transformation, but we are quite hard on ourselves in not attributing those savings to a transformation initiative unless we can very specifically show that causal link.

Q104 **Chair:** We have discussed this a lot in the Committee before, so we do not need go to through all the detail, but the whole case was that the investment in transformation was justified by the corollary of the efficiency savings. Does the reduction in efficiencies undermine the case for this complex transformation of 15 large projects? You shake your head, Mr Thompson.

Jon Thompson: No, sorry. In answer to your first question, the £1.3 billion devoted to transformation was to deliver £717 million. Our current



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central estimate for 2020 is that it will deliver £707 million. That is not far out; it is within £10 million. I appreciate that in the first year, it did not deliver what we said it would deliver, but we have done significant additional work, which is commented on positively by the NAO, and we know that we need to keep on top of it. Our central estimate is £707 million.

Q105 Chair: Can you give us some specific examples of what you have stopped doing or deferred?

Nick Lodge: I can give you some examples. When we have looked to prioritise, we have looked very hard at expenditure and have used a number of prioritisation principles, which the NAO has commented on. For example, we have looked at the redevelopment of some of our strategic locations—our regional centres. In a couple of those—one in particular, which is an existing site at 100 Parliament Street—we have managed to find some savings. We have slowed down some digital investment. We have slowed down some of the investment in child benefit, where we need to re-platform the system because it is ageing. We need to refresh that and build a new system, but we were able to defer some expenditure on that. There are a whole range of things that we were able to look at and defer.

Q106 Chair: Really, you are just doing it over a longer period of time, but you will still have to do these things and spend the money on them.

Nick Lodge: We will still want to do most of those things. It is a matter of starting to—

Q107 Chair: So you have re-programmed it.

Nick Lodge: Yes, to stretch out some of that investment.

Jon Thompson: But as we said 10 days ago, there is a much bigger piece of work that needs to now be undertaken. We have a reasonable grip, we think, on what we may have to do for Brexit in April 2019, and we know—although I know you do not—what might be coming in the autumn Budget 2017. We have to be able to blend those three things together in a re-prioritised entire HMRC programme.

Q108 Chair: Do you think you will have to review this whole thing again? As you say, you have transformation across 15 major programmes, which you have already deferred quite a lot of in order to meet financial constraints. There is Brexit, and we covered some of that as regards the Customs Declaration Service. That is just one of your many risks. There is also, as you say, whatever is coming in the Budget, which you will have to react to. You have presumably been reacting to it before now, because you would not be able to deliver it in time. Every future Budget adds another risk to that, and then there is anything else that is thrown at you. Is it really possible to carry on with this scale of transformation while Brexit is also coming down the track?

Jon Thompson: Let me repeat what I said last Wednesday week: I do not believe it is credible for us to continue with the transformation programme



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as it is—all 250 projects of it. We have to take into account the fact that we now have to leave the European Union and we have further fiscal events. Those will blend into us having to reprioritise. We need to do that between now and the end of the current financial year, and advise Ministers about what we may have to slow down or stop altogether. We simply cannot take 250 projects and then add on another 50 for Brexit, and then I don't know how many for—

Q109 Chair: That is my concern. I am not sure whether you read my Annual Report with bated breath; I recommend it as a good bedtime read. In it, I highlighted my concerns about HMRC and the sheer scale of change it's going through—as you say, the largest transformation project in Europe. You still have £250 million of operational efficiencies to come from that, on top of Brexit. What gives now, Mr Thompson? With Brexit coming, what could you just stop doing if necessary? Would it be sensible to do something like that, or have you now spent so much money on some of these programmes that going backwards is not an option?

Jon Thompson: We are in the middle of that prioritisation process. It will take a few months, and then we have to advise Ministers. If something needs to be public, we will make it public, but at this point I am not prepared to say what I am or am not stopping. I am being transparent with you.

Q110 Chair: You're preparing advice for Ministers; so, although you are not ministerially led, some of these decisions about what HMRC stops doing to continue to deliver on Brexit will be for Government Ministers to make?

Jon Thompson: Yes, we will need to put some of those questions to Ministers and see what the appetite is. As I said when Jim and I gave extended evidence to the Treasury Select Committee—I have mentioned it here, and I am mentioning it again—we simply cannot continue doing everything we are currently, then take on the autumn Budget, future fiscal events and Brexit, and just keep going. It's just not a credible option.

Q111 Chair: You have £240 million of operational efficiencies coming down the track. Where is that going to come from, Mr Lodge? Will it come from staff, because that's the quick way of losing money? Where is that £240 million coming from?

Nick Lodge: Some of it will be efficiency savings from headcount reductions because, as Justin said, we manage and monitor the whole of the HMRC transformation—the whole change and efficiency agenda—as a single thing. Regarding our £717 million target, as Jon said, our current forecast is to get to £707 million. We have managed that across the piece, and many of the investments that we have been making in transformation are leveraged by Angela and her teams—for example, driving out further efficiencies through investments in new telephony systems or in robotics.

Some of our new back-end IT systems are used to further the efficiency agenda to make up that £700 million or so. Where we can drive out true efficiencies—in other words, where we can save money because we have automated a process—that is where the savings will come from.



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Obviously, they will need to be true efficiencies, so that we are not just cutting. That is the key thing we have to monitor, and that is why we are very rigorous about assessing whether something is a recurring efficiency saving or just a one-off saving.

Q112 Chair: In the hierarchy of what you might have to drop—if I can tempt you further down this path, Mr Thompson—we have often discussed customer service, which Shabana Mahmood is going to go into in more detail, but where does the ordinary taxpayer who just wants to pay their tax come in, in terms of where you might drop the axe? What is your ranking of priorities?

Jon Thompson: We are working through that. Revenue raising is likely to be a high priority, is it not, because the investment—

Q113 Chair: Does that include the individual taxpayer contacting Ms MacDonald's section of the business?

Jon Thompson: We have discussed this before. We need to be clear with you: the assumptions that were made in 2015 about the reduction in customer contact and customer demand because of the digitisation agenda were extreme. They may or may not have been reasonable at the time; I wasn't here.

Reaching those levels for a sustained period of five years will take a significant amount of work. If we do not reach them, customer services will be at some risk, which is something we have to avoid. You have raised that with us several times, and we are very conscious of that. We are beginning to see customers move. This year, we have had an 8% reduction in telephony demand as people begin to pick up more and more digital services, but that needs to be sustained for four years.

Q114 Chair: We are going to come on to this in more detail. Before I pass over to Ms Mahmood, I want to ask a couple of quick questions picking up on what Geoffrey Clifton-Brown was asking earlier about Making Tax Digital for businesses. Has that deferment reduced the expected cost of transformation? Has it been a major factor in cost reduction?

Nick Lodge: Not really, because as I said, we are already running the trial for income tax. That has started, and we anticipate that as many businesses use the Making Tax Digital machinery and software, they will also want to use it for any income tax liabilities. We are still building all that machinery, so with regard to the change in scope and timetable, there might have been a marginal effect, but not a massive one.

Q115 Chair: On the original timetable, you were expecting £920 million in additional tax revenue from streamlining the system and Making Tax Digital. Is that at jeopardy now because of the deferment?

Jon Thompson: I think that will be updated in the autumn Budget 2017.

Q116 Chair: We will have you back. We are now waiting with bated breath for 23 November.



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Jon Thompson: I don't think I can appear any more regularly than fortnightly.

Chair: Next time you are in front of us we will have the chance to challenge you on the Budget.

Jim Harra: But it is inevitable—that figure was based on a proposition that is no longer the proposition, so the policy costing has to be reworked.

Q117 **Chair:** We understand. It is an interesting time, three weeks away from the Budget. Finally, before I pass over to Ms Mahmood, let me ask about the costs and benefits. We touched on this in customer service in particular, but generally for businesses as well, there is a cost to the taxpayer, whether they are a business or an individual, of using the system. How are you getting on with quantifying the costs and benefits for individual taxpayers from all the changes? It can make it wonderful for you in Whitehall and in tax offices around the country, but it can add a lot of administration and bureaucracy for the small business or the individual taxpayer. Are you getting closer to measuring that? We have pushed you on that before, Mr Thompson.

Jon Thompson: I think the exchange we had before was about differentiating between businesses and individuals. In relation to businesses, there are clearly Government targets on the reduction of the administrative cost of the tax system. I think that was at just a shade over £11 billion, the last time I saw any data, and the goal was to reduce it by £400 million a year by the end of the spending review. Of course, that was before we decided to leave the European Union, which will completely blow that target up if anyone has to make customs declarations. Leaving aside Brexit, that was the situation with businesses. On customers, to be frank, we have agreed to disagree, have we not?

Chair: We know that you could have every single tax official in the country dealing with the telephones, and we would probably agree that that wouldn't be too sensible. That brings me neatly on to Shabana Mahmood, who is going to stand up for the individual taxpayer through her questions to you.

Q118 **Shabana Mahmood:** Thank you, Chair. Mr Thompson has touched on some of the issues. Happily, the National Audit Office Report says that customer service performance against your targets has improved since it last reported. Obviously, there has been the injection of £71 million into improving customer service. Was the additional money the main reason for that improvement?

Jon Thompson: In a world of being blunt, yes.

Q119 **Shabana Mahmood:** What happens when it runs out?

Jon Thompson: We are in negotiation.

Q120 **Shabana Mahmood:** And what is the timescale for your negotiation? Is that ahead of the Budget?

Jon Thompson: Yes.



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Q121 Shabana Mahmood: Thank you, that is helpful. You mentioned the aggressive assumptions made about how quickly people would move away from telephoning HMRC. I think the figure in the Report is that 8 million more calls had been handled than anticipated, at the start of that particular period of 2015. The moves to make everyone go digital are not going as well as expected. Do you think that the current level is about as good as it is going to get? Do you expect to see a further reduction in the number of people making a phone call?

Jon Thompson: Yes, we would expect to see further reductions. On a like-for-like basis in 2016-17, the number of telephony contacts was down, but we saw two new factors, one of which—Concentrix—the Committee is familiar with. The other was the rise of the so-called high value repayment agency, which is sort of a new PPI. So you are tempted by somebody who says, "Can we reclaim your tax for you?" They then ring us up and reclaim tax for you. Frankly, that is a complete waste of time if you are an individual taxpayer because you can log on, see whether you are due a refund and get it transferred to your bank account through your personal tax account. The rise of high value repayment agencies did result in several million new calls to us. In 2017-18, we have seen a reduction of 8% so far in telephony contact. That is slightly behind where we need to be in terms of meeting the spending review. As I said in answer to earlier questions, we will need that to be sustained for four more years as more and more online services become available for customers and they get used to dealing with us by digital means.

Q122 Shabana Mahmood: I suppose that in the world of tax, there is always something happening. You have talked about your own transformation programmes. If some part of the system fails to work, people feel more confident, generally speaking, phoning somebody and having a conversation. As a constituency MP, I advise people coming to my surgery to ring to double-check, and I do that myself. What I am trying to establish is that given that there is always something happening and something going on in the system, do you just have to accept that this might be the level at which calls have to be made, and it cannot be reduced any further?

Jon Thompson: No, we do not have to accept that. I can understand that people feel reassured by ringing, but—maybe soon is the point to hand over to Angela—there has been some excellent analysis of why people ring us. As you rightly said, they do indeed ring us for reassurance. If we use the specific example of tax credits, people ring to check when the next payment is and how much they are going to get. We were able to work that out fairly quickly, make it a digital service and then say, "If you go into your personal tax account, you can see the next four payments of tax credits, when they are due and how much you are getting." So there is a way of getting that information transparently, rather than ringing us up, that I believe has had a fairly dramatic effect on the number of phone calls that we have received in that area, but Angela can give you more about that kind of analysis, which she has been doing, if you want.

Q123 Shabana Mahmood: That is helpful. I am glad that you raised tax



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credits, because that is what I see most from my constituents. Of course, if something goes wrong and there is an error in the system, somebody could get hit with an overpayment. I have been told at my advice surgery of overpayments in the tens of thousands—£15,000, in one case. It is kind of a big deal for people. You can understand why they would want to phone for reassurance, regardless of what the system says on their computer. How far do you think you can create that same level of reassurance digitally rather than by telephone contact?

Jon Thompson: Do you mind if Angela answers those questions?

Q124 **Shabana Mahmood:** Yes, of course.

Angela MacDonald: I think it is very much about understanding how customers feel and the points of strain and stress in the process. We have been doing some significant work with customers to understand those things. To put a bit of data on what Jon said, by putting that payment scheduler out there—we know that the question whether that money is available is a big source of concern—we saw a 29% reduction in calls. We also know that another big point of stress is when customers go through the annual renewal cycle. Even customers who renew online are anxious about whether we have got their paper and will work on it. This year, we trialled an SMS service where we sent out a text saying, “We’ve got it and we’re on it,” and our results showed that 85% of the people surveyed said that that stopped them calling. That kind of learning and understanding what is important to our customers is how we drive those efficiencies.

To return to the idea about how we can keep going with focusing on demand, it is not really all about taking existing demand on the phone and making it digital; a big chunk of it is also about understanding what customers need and want and removing the demand altogether. That has to be a big part. Picking up on what Nick said about how we are driving transformation and how we in customer service are exploiting those transformations, my team and I are taking the gadgets we are given and working out where and how we could use them to further help us provide some of that mass reassurance to customers. Lots of customers ring us for information, but lots of customers also ring to ask for our support, and we can do more to help them with that.

Q125 **Shabana Mahmood:** On your understanding of customers, what about those in rural areas with very poor connectivity who cannot get online as easily, or other people who are digitally excluded, which probably encompasses most of my constituency case load, including women who work two or three jobs in the care sector and are trying to sort out their tax credit claims but are not online. What are you doing to improve that, or have you already included that in the numbers that you are anticipating not being able to shift to digital rather from the telephone?

Angela MacDonald: We are aiming to provide services through an array of channels. For those customers who can go online, and who have the confidence and capability to do that, we want to make it easy for them and we want to make the service attractive. Actually, as you see, for customers in all sorts of walks of life, if something is a service that they

like online, customers will be drawn to it, and we are very much driven to that.

However, we continue to provide a really strong phone service. So, we were very grateful for the acknowledgment from the NAO of the improvements to our service position in 2016-17 and we continue to be in the same broad ballpark of service delivery so far this year. We are really focusing to make sure that we are delivering the phone services, which are now available seven days a week, so if you are working, and whatever your working patterns are, you have until 10 o'clock every night to ring and speak to one of my customer colleagues, who will be able to help.

We are also very aware that there are some vulnerable people, so you can still get face-to-face services from us. We are in 300 locations, out doing surgeries for customers who really need to see us, and we still wish to offer that service for customers who are in a complicated and particularly vulnerable situation. We are pretty much available through all the support areas where customers might need us.

Q126 Shabana Mahmood: Thank you. That is helpful. Why do you assume that all customers who hang up during the automated message have had their query resolved?

Angela MacDonald: We are very aware of the NAO's views about how we manage our automated telephony—

Q127 Shabana Mahmood: I think those views probably reflect how my constituents feel as well, Ms MacDonald.

Angela MacDonald: I get that. We have learned quite a lot about our automated telephony and over the last six months we have done quite a lot of work to review how it works. So, we have been thinking about shortening messages and taking away some of those messages that we know don't add value.

In reality, automated messaging can provide some real advantages. We get a significant number of contacts prior to a bank holiday from customers wondering when their money is going to turn up, because they were due to get it on a Monday. Sitting and waiting and listening, and waiting for an adviser to tell them that, is not a great use of our customers' time.

We will continue to develop our automated telephony to get the balance of great services that give the customers what they want to know, and routing a customer to an adviser as quickly as possible. We have made a number of changes on the back of the conversations that we have had with the NAO and the feedback we've had from customers, but we still think there's quite a lot more to do in order to keep moving with that.

Q128 Shabana Mahmood: I am just looking for an understanding, though, that when you get an automated message and you hang up—I think I speak on behalf of the Committee and most of our constituents—it's mostly down to irritation. Certainly that's what people express to me as their constituency MP. I just want to push you a bit on your



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understanding that that is actually happening, and perhaps that should not be included in your numbers as an automatic assumption that the query has been resolved.

Angela MacDonald: To be clear, we don't include absolutely all put-downs as part of our—

Q129 **Shabana Mahmood:** I think 25% was the figure I saw in the Report.

Angela MacDonald: I absolutely agree that there are a lot of customers who are very frustrated with automated messaging, hence we're trying to make it as short as we can. For instance, we have just introduced voice biometrics, whereby we aim to take 30 seconds per call off the ITA, whereby customers can register and use their voice as their password, as opposed to talking about security information, and as soon as they speak we will recognise them and the call will be routed.

We are continuing to improve our sophistication, to shorten those messages as much as possible. But as you can imagine, with so many customers ringing us on so many topics, there needs to be some automation to allow us to route the customer to the correct colleague as quickly as we can, because otherwise every customer basically goes to somebody in the hope that possibly that person might be able to answer their call. Our challenge is to get the balance right.

Q130 **Shabana Mahmood:** Your measure of speed to answer a call doesn't include the time that a person has had to listen to the automated message. Why is that?

Angela MacDonald: There is no industry standard about the way that call average speed to answer is handled, so we have chosen to handle it from the point at which that customer is available to be given to an adviser to pick up the call and speak to the customer.

Q131 **Shabana Mahmood:** You have quite lofty ambitions as to your customer service. You want to be very good at it—better than others. I think most people would assume that the time they have been hanging around listening to an automated message would be included in the time. Why not add that in?

Angela MacDonald: I do not think we are aiming to be a world-class contact centre; we are aiming to be a world-class digital tax authority. We therefore want to deliver a really strong telephone service, but we also want to make sure that we deliver great service through a range of channels—principally digitally, if we can—driving to improve the experience and make it so that customers do not need to contact us when we can do stuff for them without that having to happen.

Q132 **Shabana Mahmood:** With respect, you do not have to be aiming for a world-class service to give the ordinary man or woman a chance not to have to wait very long when making a phone call to you, the tax authority. I suggest to you that most people would include the amount of time they have had to listen to an automated message. If you compare that service with what you do for, say, high net worth individuals, who



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have their own dedicated relationship manager, you can see the disparity. I hope you can understand why that would be annoying to my constituents. For them, the few minutes they have to spend listening to an automated message on the phone is not included.

Angela MacDonald: I absolutely take the feedback. At the minute we want to make sure that when we show the big improvements that we have made in customer service, we are able to do that on a like-for-like basis. We have not included that weighting in the past, so if we were to present you with a set of figures that altered it from a customer perspective, we would need to be very careful that we were able to explain the change. At the moment, we are focusing on making sure that we deliver a really good quality average speed to get an answer and to speak to an adviser. We are, acknowledgably, in a very strong position there—we continue to be in that position—and are seeking to get as quick and slick as we possibly can with the automated messaging, to try to make it short and effective.

Q133 **Chair:** Under your measure what is the average call time for someone, once they have got through, after the automated message?

Angela MacDonald: For the year to date, as at the end of September, we were at four minutes and 37 seconds.

Q134 **Chair:** How long is the automated message before that?

Angela MacDonald: It depends on which route you are going through. It can be between two minutes and four minutes, depending on what you have listened to. A number of the people getting the longer messages are then putting the phone down, having got what they wanted from it. It depends. There are multiple routes through the ITA, which means that the automated call length can have some degree of variance. That also makes the measuring particularly challenging, because it is not a consistent two minutes plus the speed of listening to one of my advisers, but a very flexible figure depending on the route through.

Q135 **Shabana Mahmood:** What do you consider to be an acceptable time to wait?

Angela MacDonald: In terms of the average speed to answer?

Shabana Mahmood: Yes, including the automated message.

Angela MacDonald: Five minutes.

Q136 **Shabana Mahmood:** From the figures you just gave, I think that at the moment you are looking at about nine?

Chair: Maximum. At the outside, nine—six to nine.

Jon Thompson: It depends. It could be up to nine.

Q137 **Shabana Mahmood:** I am talking about at the outside. If you assume it is four minutes on the automated message, and then I think you said it was four minutes and 37.

Jon Thompson: We are funded for five minutes.



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Shabana Mahmood: That is helpful.

Q138 **Caroline Flint:** If you know who you want to speak to and say the number, whether it is one, two, three or four on the phone message, because you know it, does that cut short the mandatory spiel that goes all the way through, or is not sophisticated enough for that?

Angela MacDonald: I am afraid I do not know the answer to that question. I would have to write to you.

Q139 **Caroline Flint:** On some things you can reduce the time you have to wait if you know it will be number one, and then number three when you get to number one. Can the system be improved that way?

Chair: I think we need some mystery shopping.

Jon Thompson: It could be. So that we are transparent with you, there are some helpful suggestions from the NAO, but we have been looking at whether there are other measures you could use—net promoter score, customer satisfaction levels—and whether there is a bigger basket of indicators, because this isn't just about the speed of answering the phone; it might also be about the fact that you have to ring multiple times. Angela has been doing some fantastic analysis of whether we can get to the point where it may take a bit longer to get through and get to the right answer but you only have to ring once. Now, is that better than ringing, not getting through and ringing again, or getting an unsatisfactory answer and being told to ring back next month? I think we have all the data. The question for us is: what are the right set of measures? We have some further helpful suggestions and some further additional work. We also did some of the research you suggested last year. We continue to push away at what the right set of information is for us to measure customer satisfaction.

Q140 **Shabana Mahmood:** To return to our earlier discussion on the number of people still making phone calls rather than going digital, will you take the risk of taking the phone-answering headcount down ahead of reduced use of the service? Or will you wait until you can be more certain that the service is being used less and therefore you can afford to take resource out?

Jon Thompson: We will try to avoid it at all times. I cannot give you a guarantee. Some assumptions were made in 2015. We have been transparent with you about what those were like in order for the budget to add up. There is a limit to the amount of public funds I have. If we think that we will be a long way off track, we will talk to Ministers about the funding that might be required to continue to maintain the service at the current levels.

Q141 **Chair:** So, in short, everything is up for grabs when it comes to fitting Brexit into the already big transformation agenda? I am just repeating what you said before.



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Jon Thompson: Ministers made some choices about customer service levels. They thought that was important. They may have to come back to those choices.

Q142 **Shabana Mahmood:** If you do not get your additional resourcing, can we expect the next Report to say that customer service performance is down?

Jon Thompson: I don't think you will see that in the current year because, so far, it has been good.

Q143 **Shabana Mahmood:** As soon as your money—your 71 million quid—runs out?

Jon Thompson: There is some potential risk in future years, sure.

Q144 **Chair:** Which is a shame, because we have seen it getting a bit better. It has this habit of yo-yoing.

Jon Thompson: I think the description is "significantly improved", rather than "a little bit better".

Chair: That was strong praise from the Chair of the Public Accounts Committee, as it happens.

Jon Thompson: I will take anything I can.

Chair: The point is, Mr Thompson, that we have been here before. This has been slightly more sustained than previous improvements, but it has always dropped again. You are loudly and clearly telling us that there is a risk because of all the other challenges that you face. Thank you for your honesty.

Q145 **Geoffrey Clifton-Brown:** Mr Thompson, one of your big 15 transformation programmes that the Chair has been asking about is your estates programme. Currently, two thirds of your 170 offices are run by the vexed STEPS PFI contract, which does not expire until 2021. Is that long expiry date delaying the whole programme?

Jon Thompson: No. We are trying to make sure that we are out in time for 2021. It would be reasonable to assume that that public-private finance initiative would see a significant rise in cost in 2021, so we are trying to get out of all those sites by 2021 to avoid that cost increase as well as save money on the baseline cost.

Q146 **Geoffrey Clifton-Brown:** This is a big project involving 38,000 of your 58,600 staff. You will have 5,000 redundancies. It will move 170 offices into 13 regional centres. Are you satisfied that that is the correct strategy? You have had a number of representations from Members of Parliament about their regional or local tax offices closing in Cumbernauld, Bradford, Porthmadog, Livingston and Wrexham, among others. Would it not be reasonable to retain some of those local tax offices? For example, you will surely want a VAT inspector to visit a local business. Surely there is a case for trying to retain some local offices closer to people than the 13 regional centres will allow.



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Jon Thompson: I think there were several questions there, but let me try to answer two. First, do I think this is the correct strategy? Yes. I am unwavering on that. I think it is completely the right strategy. On your question about visiting, the fact that we are regionalising our offices does not in any way mean that we would not go out and visit. We will still visit businesses, but people might be travelling slightly further.

Q147 **Chair:** Quite a long way further. Aberdeen is a long way from Edinburgh.

Jon Thompson: It depends on how you see risk. Risk in the tax system is not equally spread in geographical terms. You have to take that into account. There is significantly less risk in north Wales than in central London, is there not?

Chair: You tell us.

Jon Thompson: I am asserting that.

Q148 **Geoffrey Clifton-Brown:** So may we take it that this programme of 13 regional centres is now set in stone and that all those Members of Parliament who are making representations to you about their local tax offices are too late and those 13 regional offices will happen?

Jon Thompson: It is too late for nine. We have one existing PFI, Newcastle, which will continue until the end of that in 2030-something—forgive me for not remembering exactly. We have signed eight of the regional centre leases and there are four to go. If local Members had objections about any of the first eight, reversing that decision at this point would be extremely costly to the taxpayer.

Q149 **Geoffrey Clifton-Brown:** Will you be publishing any impact assessments so that at least local Members can see the effect of a move from their area? After all, they are losing jobs and value added from the economy, so this is a big deal for some Members of Parliament. Will you be publishing impact assessments or any information on why you have made this decision?

Jon Thompson: I think it is worth winding back to the fact that there was a dedicated hearing of this Committee with three witnesses: me, Mr Holliday and a witness from the Cabinet Office, the head of the Government property unit. The impact assessments were conducted by the Cabinet Office. Although this programme is clearly an HMRC programme that is driving change, it is for waves of Government regional hubs. The distinction between us and the Cabinet Office was reflected in the fact that you had three witnesses when you had a dedicated session on that earlier in the current year or the back end of last year. So the Cabinet Office did the economic assessments.

Q150 **Geoffrey Clifton-Brown:** So how were these 13 arrived at? In a sense, you have been at the forefront of all this in terms of Government Departments. I know you had eight location principles in operation to determine this. Can you put a bit more flesh on the bone as to why you determined these 13 particular centres?



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Jon Thompson: Originally there were 176 offices. The organisation reduced that to a long list of 43 cities or towns and applied the eight criteria, which were set out in the evidence we gave to this Committee last year, to the long list of 43, and that is what resulted in the 13 that we settled on. It is worth saying that it is not quite 13, because there will be five dedicated specialist sites on top of the 13, but in general that is the way it will work.

Q151 **Chair:** Who held the whip hand? We didn't quite work this out last time. We had a lot of assurances from the Government property unit about the length of leases not being a problem, but, in the end, who made the final decision? Was it HMRC? Did you have to have a clear agreement with the Government property unit? Was it just a friendly chat you had with them or did you have to go through some assurance process with the Government property unit?

Jon Thompson: On the 13?

Chair: On the 13.

Jon Thompson: On the 13, there are controls operated by the Cabinet Office. We had to go through a Cabinet Office approvals process that was ultimately signed off by the Cabinet Office Minister.

Q152 **Chair:** Where was the Government property unit in the process? Was it part of that process?

Jon Thompson: The Government property unit is the strategic adviser to the Minister for the Cabinet Office in relation to the Government's overall property strategy. We are pushing away at the first wave. We had a joint governance with the Government property unit so that when we said, "Okay, here is the specific list for Leeds," that had to go through an assurance process with the Cabinet Office, up through to the Minister, and the Minister then signs it off in the Cabinet Office.

Q153 **Chair:** So you were driving it, but if there had been any problems they would have picked them up.

Jon Thompson: Yes. There is total transparency.

Q154 **Chair:** We raised this last time, and it is worth picking up again—we raised it with the GPU rather than with you specifically. We were concerned then that some of the leases were 25 years with no break. Edinburgh is 20 years. That was signed during the general election, during purdah. How will you make sure that there is flexibility? I remember a reassurance from the Government property unit that said it would be fine because there will always be enough Government need to fill the offices, which seemed quite blasé in the circumstances, because there is lots of change. Technological change in that period of time could be massive. We have seen the change over the last 20 years. Are you confident that not having break clauses in the lease will not restrict your ability either to transform or to relocate, or to have any other business need supported in the future?



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Jon Thompson: I am, but if you want further assurance, Justin leads on property matters.

Justin Holliday: I am confident for two reasons. One is that as a proportion of the total requirements of the civil service, the first wave of the hubs, which these are, is a relatively small proportion. HMRC is not occupying the totality of these 13 buildings—they are Government hubs—so I am confident that there will be demand from elsewhere in the civil service. The second reason I am confident is that the national property controls, which Jon referred to, do work, and they have, across the piece, required different bits of Government to do things that are in the interests of Government overall, as opposed to those of the individual Departments.

If we had shorter leases, they would cost more. Part of the reason why we have gone for this lease length is that it matches the needs of annuity investors. We have got good deals by doing this. The last time I appeared before the Committee, we were talking about a difference between the estimate of the costs at the point of the spending review and at the point when the NAO did its Report. You may recall, Chair, that at the time of the Report there was a gap of about £600 million. When you take account of the non-like-for-like comparison within that £600 million, because we have done good deals, in part because of that lease length, that gap—that difference—is now next to nothing.

Q155 **Geoffrey Clifton-Brown:** Mr Holliday, can I challenge you on this? I am a chartered surveyor, and I am well used to negotiating leases on a commercial basis. I don't think anybody in the private sector would sign a 25-year lease without a break clause. I think the person who was negotiating against you or the Government property unit must have been rubbing their hands all the way to the bank when they negotiated that lease. You are the best covenant in the market. To sign an unbreakable 25-year lease is very poor negotiating.

Justin Holliday: My advice is that we would not have got institutional investors interested in annuity returns providing the funding to back the developers of those leases if we had not gone for the lease form that we went for.

Q156 **Geoffrey Clifton-Brown:** I suggest that you get alternative advice, because I just do not believe that answer. You have signed eight, and you have got another seven leases to sign. Are these likely to have any break clauses in them?

Jon Thompson: We have four to go: Glasgow, Nottingham, Manchester and Stratford. The answer to your question, to be straightforward, is no.

Q157 **Geoffrey Clifton-Brown:** You mention Stratford. Was that originally in the 13, or is it a reversal of the project to decentralise from London?

Jon Thompson: It was in the original 13.

Q158 **Chair:** To be clear, has Stratford shrunk in size? It was going to be very big. It has reduced, hasn't it?



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Jon Thompson: The 13 has remained the same, but the exact laydown of staff has changed slightly, because we are trying to go a bit further out of London, to be frank.

Chair: I think I raised at the time that Stratford was rather pricey, and I was told that no, it wasn't; it was east London. That suggests that some of your top team at the time were not travelling very far from Whitehall, as my constituency is now very expensive.

Q159 **Geoffrey Clifton-Brown:** A question for Mr Holliday or Mr Thompson: you have been building up property staff expertise to deal with the ending of the STEPS contract. Are those staff going to remain within HMRC, or are they going to transfer to the Government property unit, the agency or whatever it is going to be?

Jon Thompson: At the minute, the proposition is to stay with us. We are obviously conscious of the development of the Government property agency; in fact, I am the permanent secretary on the steering group, working with the chief executive of the civil service. The business case for the Government property agency is maturing, but it has yet to be approved. I cannot tell you whether it will or will not be approved by the Treasury, because I am not responsible for it. There is a point in time when, if there is a Government property agency, we will put our regional centres into that agency.

Q160 **Geoffrey Clifton-Brown:** If that wasn't approved, what would happen?

Jon Thompson: We would run them ourselves.

Q161 **Geoffrey Clifton-Brown:** Finally, on the numbers, you need another £500 million from the Government to implement this entire programme, and you reckon that it will save £300 million by the year 2025, and £18 million a year after that. Are those numbers still up to date?

Jon Thompson: If you will forgive me, we need £500 million as referred to where?

Q162 **Geoffrey Clifton-Brown:** I think I can provide you with the numbers. They are here somewhere. Anyway, you're going to need another £500 million to implement the programme, and the savings are estimated to be £300 million. Do you recognise those numbers?

Jon Thompson: I am slightly struggling with where you got the figure of £500 million from. As far as I am concerned—

Q163 **Chair:** I am sorry. We're both struggling to find it; we recognise the number from somewhere, but—

Nick Lodge: I can go through the benefits, if you want. We are expecting up to 2025, on a cumulative basis, to save £300 million. We are expecting £74 million annual savings from 2025-26 and £90 million annual savings from 2028 from our existing programme, which is funded, I think—

Jon Thompson: It is worth recalling from the evidence session that we had on this in some detail that that does not include the cost avoided by



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coming out of the Mapeley PFI, which would further add to the costs. So we're showing you savings against the current baseline going down, whereas the baseline would actually rise as the PFI matured in 2020-21. We know that but we did not count that, so the counterfactual errors save significantly more than—

Q164 Geoffrey Clifton-Brown: What is that number? I now have this source: it was your own reply to our Report, Mr Thompson. It says—

Chair: Treasury minute of the 53rd Report.

Geoffrey Clifton-Brown: It says that you will need “£500 million over the next 10 years. HMRC considers that it will achieve cumulative efficiency savings of over £300 million in running its estate by 2025-26, and £80 million a year thereafter.” So those were the numbers that I was quoting.

Jon Thompson: So I'll stick with those, yes.

Q165 Geoffrey Clifton-Brown: On top of that, you are now talking about extinguishing a PFI contract, or ending it. What is the number that you will require to do that, on top of these numbers?

Jon Thompson: There will be some negotiations about dilapidations, and so on—

Justin Holliday: The number that the chief executive was referring to was that if in 2021 we are not in a position to exit the STEPS PFI contract, we estimate that the annual running cost of staying with STEPS will be an increase to our cost of £75 million. So we have not taken that as a benefit in our published numbers of savings, but there is a cost avoidance in not continuing with the STEPS PFI arrangement.

Q166 Chair: Is that the total cost per year, because you would be staying in STEPS? There is no other additional cost if you were to pause this programme now, for example. That £75 million is because you would be staying in STEPS, is that right?

Justin Holliday: It is the minimum we would have to pay to stick with our existing buildings. As the chief executive has already said, we have signed eight leases, so if we were to pause or cancel the contract now we would be double-paying.

Q167 Geoffrey Clifton-Brown: But given that the chief executive, in the first answer to my question, said that the whole purpose of this transformation programme was that you were gearing up so that you were in a position to take over the STEPS project when it expires in 2021, what is the risk that you will not be ready to do that?

Jon Thompson: The point risk is that there may be a site or two that might slip beyond 2021.

Q168 Geoffrey Clifton-Brown: Little bits, but not a major—

Jon Thompson: Little bits, but this is not an “all in, all out” situation, because we've already opened Croydon. One building has been built, we



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are occupying it and there will be 3,000 staff in there by the end of the current calendar year. So at the margin it is possible that in 2021 we may not quite have got there with every regional centre and we may need to extend one or two sites for a period beyond 2021, but it is relatively marginal.

Q169 Geoffrey Clifton-Brown: I suppose what I am driving at here is this: are you likely to have to go back to the Treasury and ask for more than £500 million in this transformation programme?

Jon Thompson: Not at the minute.

Geoffrey Clifton-Brown: Not at the minute?

Jon Thompson: No.

Q170 Chair: You have talked about the assurances that you have gone through—I think it was Mr Lodge on the costs—but the major projects review group looked at this and demanded greater assurances on the estates programme. Was there a problem with it before, Mr Thompson?

Jon Thompson: This was a programme that there were a number of questions about when it was in its earliest days, but the Infrastructure and Projects Authority did a review last week and it came out at amber. For a programme at this stage, that is pretty strong. The main recommendation of the IPA last week was that we needed to do further work with staff, to explain to them the benefits of the regionalisation programme, but the fundamentals of this programme are now on track, according to the IPA.

Q171 Chair: You have got Croydon already up and running. How well is that doing in terms of the forecast costs and the other outcomes that were predicted for that site?

Justin Holliday: The costs associated with Croydon are lower than we had forecast.

Q172 Chair: What is the reason for that?

Justin Holliday: We have run the project reasonably well and have not had cause to call on all the contingencies that we set aside.

Q173 Chair: This was simply the setting up, not the operational side of it?

Justin Holliday: This is the set-up. The way that we have set up the Building our Future Locations programme and the Building our Future Locations business case are very much property-based. The Building our Future Locations programme is part of a bigger transformation, but in the way that we have divvied up the costs and benefits—

Q174 Chair: I have to say, it does feel like we are talking to a property organisation rather than a customer-facing organisation, but maybe I am being a bit harsh. May I ask about the geographical location of the 13 hubs? Earlier you made a comment about Wrexham being less risky in terms of tax than central London. I cannot remember if those eight criteria included the tax revenue loss potential. Did you try to locate centres in riskier tax areas? Was that part of it?



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Jon Thompson: No, because on that basis you would have a massive office block in London. That is clearly not what we want.

Q175 **Chair:** Because it is too expensive?

Jon Thompson: Frankly, yes—in a digital world where you can do an awful lot with data, and where you can risk that data and intervene in the system where you need to. The point of answering that question relates to, as Mr Clifton-Brown said, the idea that because there is not an office locally, ergo nobody will visit locally. I am trying to break the link between those two things.

Chair: It is a long time since I have been able to visit a tax office. I cannot remember the days when I put a cheque in.

Jon Thompson: I think they closed down in 2014.

Chair: It was my early days as a taxpayer. I think the last time you came before us, Mr Thompson, was a couple of weeks ago or a week ago—it seems like only yesterday.

Jon Thompson: For me, it was only the day before yesterday.

Q176 **Chair:** At that evidence session on the Customs Declaration Service, you gave us very clear indications about what you wanted from the Treasury. Today you have laid out clearly that Government Ministers will have to make decisions about the priorities for your Department, such as Brexit. A lot of what you are talking about seems to be very dependent on the Treasury's co-operation. Are you using the Committee to give a message to the Treasury? If you are, perhaps you would like to elaborate on what that message is, given that we are three weeks ahead of the Budget?

Jon Thompson: Wow. Obviously I would like more money, people, power and data. If you can get that for me, all the better. Frankly, that would help me in all kinds of ways.

Q177 **Chair:** And with all of that, you can rule the world, is that it?

Jon Thompson: I would be very happy to rule the world. I think a benign dictatorship would be a good idea.

Shabana Mahmood: No tax gap.

Q178 **Chair:** No tax gap, guaranteed

Jon Thompson: No tax gap—fine.

Q179 **Chair:** That is a tempting challenge for the Chancellor. Before I move on to Ms Mahmood to finish off, I understand that the fulfilment house due diligence scheme is being published today. We have talked about that in terms of VAT. Can you give us a bit more information about that, and when we are going to see results, Mr Harra?

Jim Harra: I am not entirely sure what is being published today. Obviously, the legislation has now been passed by Parliament, so we have the power to proceed with that next year. I think tackling the evasion in



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online sales will be an important element of that work, because it is a part of the supply chain that is currently unregulated and on which we do not have the level of visibility that we need.

Q180 Chair: Have you worked out how you are going to be sure that all the fulfilment houses are declaring themselves? It could be someone's bedroom or it could be an Amazon warehouse. There is quite a range.

Jim Harra: Yes, and we may not be that interested in the ones that are in people's bedrooms, if such fulfilment houses exist. We know a certain number that definitely look to us like they are fulfilment houses. We have identified a further number that intelligence of ours suggests might be fulfilment houses, so we will be targeting them to check whether in fact they are. It is inevitable that we do not know, because it is an unregulated part of the supply chain. The number that we come out with will be somewhere in that range. I would expect that over time we will continue policing that and seeing if we can flush out any more.

Q181 Chair: So will there be a fine or penalty for any fulfilment house that does not register?

Jim Harra: Yes, there is a financial penalty on anyone who runs a fulfilment house if they are not registered and approved to do so.

Q182 Chair: What level of penalty is that?

Jim Harra: I cannot recall. It is a criminal offence, and there is a fine, I think, of a minimum of £10,000. I will have to check that, and if that is not correct, I will let you know.

Q183 Chair: Is that fine something you can raise, or do we have to pass new legislation for you?

Jim Harra: No, that is in the existing scheme.

Q184 Chair: Right. So if you wanted to raise it, could you do it yourself or would you come back to Parliament?

Jim Harra: No, we can do it ourselves.

Chair: When I say "yourself", I mean not you personally—well, maybe you have that power—but HMRC.

Jim Harra: It has been known. We have got the power to do that, following the legislation that was passed last week. I think a number of statutory instruments will need to be made to give effect to all that, but Parliament has given us the powers we need to do that.

Q185 Chair: We will obviously come back to you on progress. When would be a good time to talk to you about progress on that?

Jim Harra: We are gathering additional data on the measures that are already in place all the time, and we are refining our estimates. For the fulfilment houses, that doesn't come into force till next year, so if you brought us along before then you would get a progress report on how we are going with implementing it, but you wouldn't see any results.

Q186 **Chair:** So this time next year we would see some results.

Jim Harra: Yes, I think you would definitely have outputs by then.

Q187 **Shabana Mahmood:** Overpayments due to fraud and error have gone up from 4.8% to 5.5%. Mr Thompson, in your evidence to the Treasury Committee, you said, "I do not see any prospect of us getting below 5%. In fact, if anything, I think the level of error and fraud will rise to somewhere between 7% and 8%". What is going on?

Jon Thompson: What is going on is that former Ministers made two decisions, which I think are taking us in the wrong direction. One was the introduction of the so-called commercial and profitable test for people who are claiming tax credits and are self-employed. That decision was made by the previous Chancellor of the Exchequer. The introduction of the commercial and profitable test reduced the total amount of tax credits paid out by more than half a billion pounds a year, but the decision was made in the full knowledge that it would increase the fraud and error rate by approximately 1%.

Secondly, in the ultimate wake of Concentrix, those resources were not replaced by HMRC staff. Therefore, overall, the amount of capacity looking at fraud and error in tax credits has reduced. We think that will also increase the error and fraud rate by a further 1%. I am being transparent with you, as I was with the Treasury Committee. Because of two ministerial decisions, we are likely to see the error and fraud rate peak out somewhere between 7% and 8%.

Q188 **Shabana Mahmood:** Are they the only two reasons for what you say is going to be the 7% to 8%? Without those two reasons, what would you place the percentage at?

Jon Thompson: The target is for us to keep within 5%. The information we have about what has happened—the specific information you have got now—shows that we have seen some further error rates in the income declared by claimants and in relation to work and hours. Those are two of the six big risks. The results you have seen show that they increased marginally, and then we have got those two further decisions coming, which we think take us beyond 7%.

Q189 **Shabana Mahmood:** Leaving aside the Concentrix issue and the self-employed test for a bit, and just looking at the incomes, what can you do specifically to bring down the level of fraud and error?

Jon Thompson: We have been looking at six areas where we think there may still be some further work to keep down the rate of error and fraud. It is worth putting this in context. I think you have heard me say that this benefit is poorly designed. It is on an annual cycle and is overly complicated by a considerable margin. As a result, the most popular reason why MPs write to me is still issues to do with the complexity of the benefit.

There are six areas where we think we can do some further work to see whether we can reduce error and fraud: income, work and hours, childcare



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costs, undeclared partners, children—who exactly has care of the child—and the disability of the child. Those are the six areas where we are trying to do some further work to see whether we can reduce error and fraud. Given the amount of time since tax credits came in—it was 2003, I think—and the Government's overall strategic aim to replace them with universal credit, the amount we can do on tax credits is somewhat limited.

Q190 Shabana Mahmood: Does that mean, Mr Thompson, that you have taken your foot off the pedal, in terms of making additional progress and getting the level of fraud and error down, because it is all going to head over to universal credit and it will be a different problem in a different package?

Jon Thompson: No. It is relatively straightforward. The more resource you apply to this problem, the better the result.

Q191 Shabana Mahmood: On universal credit specifically, what is the forecast for the rate at which you will transfer tax credit debt to the DWP? I understand that that will all move over. There is a debt of about £7 billion or so, some of which is impaired and then some of which you are still trying to get in. What is the rate at which that moves over to the DWP?

Jon Thompson: It moves with the individuals as they open their universal credit claim. I think 110,000 people have gone from tax credits to universal credit. There is clearly a roll-out programme and we work in lockstep with the DWP. We have a dedicated project that looks at this to work with the DWP, so as they take people into universal credit we take them out of tax credits.

Q192 Shabana Mahmood: Does that dedicated project move a specific number every month or every two months? How does that work?

Jon Thompson: I need to look to Nick on how that works with DWP.

Nick Lodge: It works in lockstep with DWP's roll-out of universal credit. As they roll out to different geographical areas and people apply successfully for universal credit, at that point a message is sent across to HMRC. If they are on tax credits at that point, the tax credits are stopped and the transition takes place for that customer. The process is not a transfer in the usual sense of creating a new claim for DWP. The claimant applies for universal credit and, at that point, because you can't get them both at the same time, we stop the tax credits and the claimant carries on with universal credit. We identify any overpayments or debts that are in the system and they get packaged up and move across.

Q193 Shabana Mahmood: The roll-out of universal credit is not without its own problems and issues. What is the scope for an increase in fraud and error as this transition process takes place?

Jon Thompson: There is some scope. It is highlighted in the NAO Report that in some of the initial waves of universal credit you were taking claimants with more straightforward lives. The people who are still with us on tax credits have more complicated lives. Because of the nature of tax



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credits as a benefit, there is further risk for us, so we may see some further uptake. It is really difficult to simulate what that might be.

Q194 Shabana Mahmood: Has anybody tried to simulate that?

Jon Thompson: Not that I'm aware.

Jim Harra: There are two different risks involved here. One is, obviously, as you move waves of claimants across, the population that remains on tax credits changes in its profile, and therefore the percentage terms in error and fraud in tax credits can change as a result of that. The other risk is error and fraud from tax credits infecting universal credit. For much of it, that is not a real risk because, as Nick said, there is not a transfer of the claim. The tax credit claim stops and a new claim starts with a new set of data that the claimant has provided. However, the Government has promised a transitional protection to people where their payment levels for a period are guaranteed not to fall. To the extent that that payment level is set in tax credits and there is error and fraud in there, that is where there is the risk of infection of universal credit. We are working closely with DWP to understand how we need to focus our resources on tackling tax credit error and fraud to reduce that risk.

Q195 Shabana Mahmood: That is precisely why I am asking, because it is my constituents who will be at the sharp end of any mistakes made there, so people with children very much at the coalface of managing a number of different part-time poorly paid jobs, who are already going to struggle on universal credit. There will be additional problems with payments of tax credits as they move into universal credit. DWP has more powers in terms of taking money away from earnings. That could plunge people into greater poverty.

Jim Harra: DWP obviously needs to give evidence about its powers—

Q196 Shabana Mahmood: Sure. I am trying to establish what discussions there are. You highlighted that you recognise there is a problem. There will be a very real problem when people have to not feed their kids.

Jim Harra: The key discussion we are having with DWP is that, to make universal credit a success, you want to hand over tax credit claimants. To the extent that the tax credit claim affects the future payments, you want to hand that over in as clean a state as you possibly can. For the vast bulk of them, that is not relevant because they are reclaiming with fresh data. For these transitional protection cases, we have to look at the extent to which we prioritise our error and fraud effort.

Jon Thompson: It is worth being really clear about some of the statistics. Although you have rightly highlighted that the financial error and fraud rate is just a shade over 5%, the percentage of cases is over 20%. You need to recognise that it is not just 5% but potentially 20% of the population that we are talking about in this case.

Q197 Shabana Mahmood: That is significant.



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Jon Thompson: It is significant. We are very conscious of that. That is why we have a dedicated project. Was that a new fact?

Chair: We are stunned. Well, not stunned, in a way, given our casework, but 20% is—

Q198 **Shabana Mahmood:** I am sure that the Committee will take a view on what should be the priority as this moves over to DWP.

On Concentrix specifically, I was not a member of this Committee when you last spoke to the Committee about the Concentrix contract, but to what extent did you know that the fallout of that contract was going to have an impact on the figures for overpayments due to fraud and error at the point at which you gave evidence, which I think was back in January?

Jon Thompson: I made an assumption, which has turned out to be incorrect, that the capacity that we were getting from Concentrix would be replaced. It wasn't.

Q199 **Chair:** Why was that?

Jon Thompson: Treasury Ministers decided to not give us the money.

Q200 **Shabana Mahmood:** Just to clarify, you assumed that the staff who had been working on the Concentrix stuff would transfer over to you, or you would be able to bring them in-house, effectively, and do it yourself, and that didn't materialise.

Jon Thompson: Not quite, because the vast majority of them did transfer across to us, but net-net, after all the change—beforehand, there was the work that we were doing ourselves and the work that Concentrix was doing. If you add up the total number of people who were involved in that, the total number of people who are now involved in error and fraud is less than that, because the money that was being paid to Concentrix was not replaced in our budget, so we could not then go and recruit additional staff to replace that capacity. That is one of the reasons why we are going to get a further 1% increase in the error and fraud rate. That was a decision made by Treasury Ministers, knowing what the pros and the cons of it were.

Chair: That is very candid of you.

Q201 **Shabana Mahmood:** That is very candid. So we should read that as another plea to Treasury Ministers: if they want to sort out overpayments, they need to sort out your staffing budget.

Jon Thompson: I will happily take more staff to work on pretty much all aspects of what we do.

Chair: I am aware of the time. Sir Amyas Morse wants to come in.

Sir Amyas Morse: I was just wondering whether you had done a little sum about the difference between the 1% cost and the cost of staff you were not authorised to pay for.

Jon Thompson: Yes.



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Sir Amyas Morse: Can you tell us what the result of that was, please?

Jon Thompson: It would have been a net positive benefit for the taxpayer.

Sir Amyas Morse: Of?

Jon Thompson: I cannot remember off the top of my head, but it would have been a net positive benefit to the taxpayer.

Sir Amyas Morse: Of a size worth talking about?

Jon Thompson: Yes.

Q202 **Chair:** Would you like to write to us with that figure, Mr Thompson?

Jon Thompson: Sure.

Chair: Thank you.

Q203 **Geoffrey Clifton-Brown:** A quick question, Mr Thompson: 62,000 claimants were transferred to universal credit in 2016-17 and a further 220,000 are due to transfer in 2017-18. How were these selected? Are these the most difficult cases? Are they the easiest cases? Given your answer to Ms Mahmood that the risk of fraud and error is actually still likely to increase, which category have you transferred?

Jon Thompson: They transfer from tax credits to universal credit in accordance with the roll-out of universal credit, which started, as I understand it, with more straightforward cases—normally single claimants making their case. As they roll out on universal credit, they cannot, as Nick said, also make a claim for tax credits. We are following on the DWP's strategy.

Chair: Thank you very much indeed for your time. We will obviously want to follow up on the Paradise papers, and I am sure you will want to tell us about what is happening on that as well, subject to the restrictions of individual taxpayer confidentiality. Our transcript will, as ever, be up on the website in the next couple of days uncorrected. I cannot tell you exactly when our report will be out; with a fair wind it will be before Christmas, but I do not guarantee that. To use Mr Thompson's approach to caveating, it is our ambition but not necessarily guaranteed. Thank you very much indeed.