



HM Revenue
& Customs

Benefits and Credits

Tax Credits Error and Fraud Additional Capacity Trial

Final Evaluation

May 2014

Executive Summary

Part 1: Overview

- 1.1 Background and Context
- 1.2 Proposition
- 1.3 Strategic Concept
- 1.4 Aims and Objectives
- 1.5 Supplier and Costs
- 1.6 Scope
- 1.7 Delegation of Commissioners' Powers
- 1.8 Data Security
- 1.9 Supplier Assurance
- 1.10 Recruitment
- 1.11 Training
- 1.12 High Level Process Design
- 1.13 HMRC Delivery
- 1.14 Supplier Delivery
- 1.15 Communications
- 1.16 Evaluation Methodology

Part 2: Analysis

- 2.1 Capability to undertake HMRC Tax Credits Error & Fraud Interventions
- 2.2 Capability to securely transfer and receive data
- 2.3 Dis-benefits

Part 3: Conclusions

- 3.1 General
- 3.2 Delivery Process
- 3.3 Supplier Delivery
- 3.4 Proof of Concept

Executive Summary

In 2011/12 tax credits error and fraud is estimated to have resulted in £2.09 billion of incorrect payments (7.3% of finalised entitlement), a reduction from the 2010/11 estimates of £2.27 billion (8.1% of finalised entitlement). Although this is the lowest level of error and fraud since tax credits were introduced in 2003, it is still unacceptably high.

From April to July last year, HMRC carried out a trial to test whether it would be feasible to increase the number of compliance checks on tax credits claims through the use of private sector resource. This approach also responded to recommendations made by the National Audit Office in their report “Tackling tax credits error and fraud” published in February 2013 and by the House of Commons Committee of Public Accounts (HM Revenue and Customs: tax credits error and fraud (Fourth Report of Session 2013-14)).

The overall aim of the Error and Fraud Adding Capacity Trial (EFACT) was to test whether a private sector supplier could provide additional capacity to deliver HMRC tax credits error and fraud interventions, in keeping with an HMRC approach and at an acceptable level of risk to HMRC delivery standards. A further objective was to explore the potential opportunities for sharing best practice and using enriched data.

The trial did not set out to test a ‘like for like’ comparison with HMRC performance, as the supplier was not equipped to carry out the end-to-end process; this meant that it was not possible to compare productivity and production or costs at a granular level. However within the parameters set for the trial, the supplier was able to make decisions on tax credits awards leading to the identification and prevention of around £20 million of potential losses over a nine-week period, and overall the trial showed that it is feasible for a private sector partner to deliver error and fraud processes.

Supplier technology added value to aspects of their performance. For example, the use of supplier-designed customer management systems (not available to HMRC) helped to generate supplier productivity in some areas of work that were around twice HMRC's expected productivity levels. Equally, there is some evidence, although not conclusive given the short timeframe the trial was conducted in, that supplier analytics resulted in higher strike rates and average losses identified and prevented per case.

The trial did not set out to test performance and was not used to assess or compare the costs of such an approach. The trial was to test the concept that the private sector could undertake such activity and to look at the fundamental principles of doing so. It was important to HMRC that the trial examined these fundamental principles and that we learned from it. The key lessons we learnt from this trial was that if HMRC is to maximise the impact of a private sector partner in full, the supplier must be given the appropriate tools to be able to view up-to-date customer data and be able to amend that data without the need for HMRC intervention. Also, any scaled model must recognise the requirements of the end-to-end process, with HMRC providing assurance of the delivery plans well before the start of the activity. In terms of data security, sufficient time should also be allowed ahead of implementation to rigorously user-test multiple scenarios, to ensure maximum data security.

Part 1: Overview

1.1 Background and Context

In 2011/12 tax credits error and fraud is estimated to have resulted in £2.09 billion of incorrect payments (7.3% of finalised entitlement), a reduction from the 2010/11 estimates of £2.27 billion (8.1% of finalised entitlement). Although this is the lowest level of error and fraud since tax credits were introduced in 2003, it is still unacceptably high.

1.2 Proposition

The proposition, which the trial sought to support, was to increase HMRC's existing capacity to carry out compliance interventions, by working in partnership with a private sector supplier.

We sought to determine whether it would be feasible for the supplier, with appropriate levels of support and training, to engage with tax credits customers, collect and assess evidence and make decisions on the circumstances affecting tax credits entitlement.

1.3 Strategic Concept

Having selected a supplier from an existing government framework, it deployed resource on its own estate, using HMRC processes to identify potentially incorrect awards and make decisions on a caseload identified by HMRC. The supplier was responsible for customer engagement using a number of techniques including letter, telephone and short message service (SMS), mirroring the HMRC information request and discrepancy processes. Customers were required to send evidence to the supplier, which was returned.

The supplier corresponded directly with customers, with HMRC approval on language and content. Customers were to be treated consistently with the HMRC Customer Charter, and for the period of the trial, any customers who contacted HMRC directly were asked to contact the supplier instead. The supplier signed up to an approved operating practice, as part of the initial tendering and letting of the contract with HMRC.

1.4 Aims and objectives

The trial sought to demonstrate that the private sector could feasibly be used to deliver additional HMRC tax credits error and fraud interventions with five key objectives, specifically to:

1. Provide evidence that a supplier could provide the additional capability to deliver HMRC tax credits error and fraud interventions, consistent with an HMRC approach and at an acceptable level of risk and customer service to HMRC delivery standards.
2. Prove that HMRC had sufficient capability to transfer cases, receive them and then enter data from a private sector partner on to the tax credits system.
3. Provide evidence through benefits evaluation that the approach provided a viable and effective means of addressing error and fraud.
4. Provide robust data on costs and benefits and develop a proposal for a Payment by Results model for private sector delivery.
5. Establish any disbenefits of private sector delivery.

The trial did not set out to test performance and was not used to assess or compare the costs of such an approach. The trial was to test the concept that the private sector could undertake such activity and to look at the fundamental principles of doing so.

1.5 The supplier

Following a mini-tender exercise, HMRC signed a contract with CDMS Ltd (trading as Transactis) on 20 March 2013. Transactis, as a service provider, was already known to HMRC. The company is a member of the Data Access, Processing and Analytics (DAPA) Framework, which allows Government Procurement and its customer departments to procure a complete range of data access, processing and analytics services. To deliver error and fraud interventions Transactis entered into a partnership with Bosch Security Systems Ltd, who delivered the customer engagement elements of the trial.

Both Transactis and Bosch Security Systems Ltd were subject to security assessment in line with HMRC/government best practice in accordance with relevant ISO standards.

1.6 Scope

Two risk categories were in scope for the trial - "Child" and "Childcare". All other risk types were out of scope, as were cases connected to organised attacks and pre-award interventions. HMRC selected 50,000 cases in total from the tax credits population, which it considered had an indication of error or fraud. Cases for a control group were selected on an identical basis to ensure that the supplier selection fairly represented the population from which it was drawn.

1.7 Data Security

The trial was conducted in accordance with HMRC best practice for data security.

1.8 Recruitment

Supplier staff were subject to fixed suitability checks that were carried out during the recruitment process. These checks, including CRB, were consistent with HMRC HR processes.

Over the period of the trial (29 April to 12 July - 11 weeks) the supplier deployed an average of 17 staff per day to undertake the interventions (6,650 hours, 7 hours per day, 55 days). In addition, HMRC direct support in those interventions amounted, on average, to an equivalent of 1.5 staff per day. The sum of staff deployed in delivering tax credits interventions during the trial is estimated at an average of 18.77 full-time equivalent (FTE) per day.

1.9 Training

Supplier staff were trained over a three-week period to deliver HMRC interventions by experienced HMRC caseworkers. HMRC Standard Operating Procedures (SOPS), guidance and help-cards were used and significant floor-walking support was provided on supplier estate.

1.10 High Level Process Design

The rationale of the process design was to ensure that there was sufficient scope for the supplier to demonstrate the ability to carry out HMRC checks. As the intervention was conducted within the tax credits renewals period, the process that was used as a standard was High Risk Renewals.

HMRC deployed an in-house control group, to gauge the validity of the high-level supplier process and to ensure that the case selection was a true randomised sample of error and fraud cases. Although never intended as a true like-for-like

comparison, wherever possible, the requirement of the trial was that the supplier would mirror the control group and vice versa, within the constraints set by their not having access to the tax credits core IT system.

Limitations

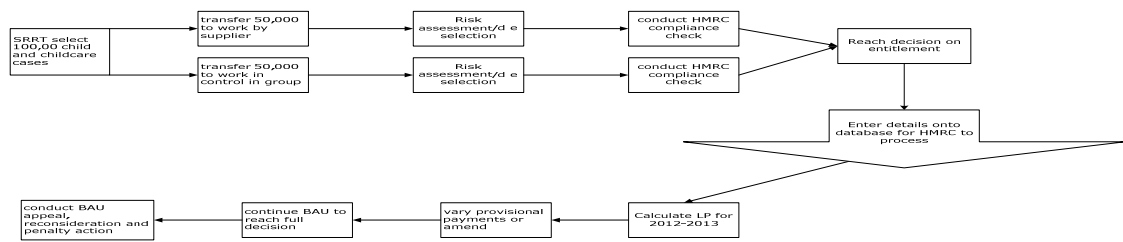
There were limitations that meant the original design diverted from the normal HMRC intervention process as the supplier, due to the timing of the trial, could not complete the end-to-end High Risk Renewals process. Consequently, the process was segmented to provide sufficient scope for the supplier to demonstrate their ability to carry out HMRC checks but not to make changes to the tax credits core IT system.

Impact of limitations

The limitations meant that the end-to-end process had to be segmented and an artificial step created to represent a fixed point where a losses prevented calculation could be made (rather than retrospective interrogation once the supplier cases had been processed through the complete HRR process) (see figure 1). It was always envisaged that HMRC would deploy significant resource to support the supplier as a consequence of these limitations. However, as HMRC wished to test the concept of private sector capacity this was an acceptable use of resource.

Figure 1 – Process Segmentation

1. ANNEX – HIGH LEVEL PROCESS FLOW



HMRC/Supplier MOU

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Process Segmentation

1. Supplier/Control Group – Open case, contact customer, make decision on evidence received and instruct processing team.
2. Supplier/HMRC processing group - process the decision/instruction from Supplier/Control Group – implement any change on the tax credits system, calculate losses prevented, update and close case on EFACT database.
3. HMRC Closing Group – close cases based on correspondence returned by customer and working the renewal after receipt of s17 or terminating where s17 not returned.

1.11 HMRC Delivery

HMRC delivery relied on trusted, standard processes using established workflow principles. Cases were delivered to frontline staff by upload to the Healthcheck, Enabling, Aftercare, Leverage (HEAL) system, complemented by customer datasets transferred to individual team Controlled Access Folders (CAFs).

In respect of childcare interventions, HMRC staff confirmed actual childcare costs with the relevant childcare provider and compared reported costs against information

received. Where those amounts exceeded established tolerances, caseworkers followed the HMRC discrepancy approach. Where caseworkers were unable to confirm costs, the HMRC information request process was followed.

In respect of child and full-time non-advanced education (FTNAE) the HMRC discrepancy approach was followed.

1.12 Supplier Delivery

Supplier aims & objectives

A key part of the trial was to understand how a private partner could feasibly, within the overall framework of standard HMRC processes, legislation policy, consider those processes and organise themselves to deliver efficiencies and best practice.

The supplier set themselves key deliverables as part of the proof of concept, specifically:

- To deliver a capability that provided HMRC with an opportunity to establish the viability of adding capacity with commercial third parties and test some innovation;
- To provide a range of innovative technologies, communication strategies and approaches – in line with HMRC's Charter.
- To use additional data and enhanced matching to provide a stronger risk assessment for HMRC's pre-risked cases, as well as using data to further de-select cases to work.
- To provide a platform that enabled [Bosch] to manage contact with HMRC customers.

Supplier cases

As HMRC could not provide direct access to the tax credits system, the supplier was provided with a snapshot of award data sourced from HMRC analysts. The transfer of data between HMRC and the primary supplier was via Secure Electronic Transfer (SET). The data layout consisted of fields to form a record of data that existed for each case, as it appeared on the core [IT] system.

Supplier Analytics

The supplier model applied additional data matching to HMRC's pre-risked cases, segmented to RED, AMBER and GREEN status, to select workload and to determine what approach would be taken (HMRC discrepancy / information request / not worked).

The supplier used data-matching and analytics to each case, examining the impact of projected losses identified and prevented, likely access to the customer and general indicators, such as the number of children in the award, in order to identify which to prioritise in terms of value (as opposed to likelihood of risk).

Different criteria and predictive analytics were applied in relation to individual risk to further segment and to drive prioritisation. Criteria applied to child responsibility cases included reference to the child's age, the number of children, residence and student loan information. Similarly, childcare cases examined the impact of projected adjustment value, number of childcare providers and the validity of childcare providers (OFSTED only) on the relative prioritisation.

Supplier delivery model and process overview

Selected cases were loaded on to a bespoke customer relationship management platform containing relevant data items, including a unique reference number, required for customer contact. Customer contact and engagement was linked but

segregated and organised by reference to an inbound / outbound contact centre operation. An auto-dial functionality, linked to the unique reference number, was utilised to direct resource in terms of case prioritisation (see figures 2 and 3 below).

In terms of overall approach, RED cases were worked using the discrepancy process, i.e. where there was sufficient evidence to notify the customer of the intention to change the award. AMBER cases, where there was evidence to indicate that a change of circumstance was likely to have occurred, followed the HMRC information request approach. Within this approach the supplier adopted a number of different engagement techniques; specifically:

- Call the customer before sending a letter - an attempt was made to contact the customer over the phone and avoid the requirement to issue an information request letter.
- Send a letter only – standard HMRC process.
- Send letter, remind with SMS, then call.
- Send letter, then call.

Call scripts, including a specific identity confirmation process, mirroring exactly that performed in HMRC, were provided to all supplier resource.

Figure 2 - Supplier Delivery Model

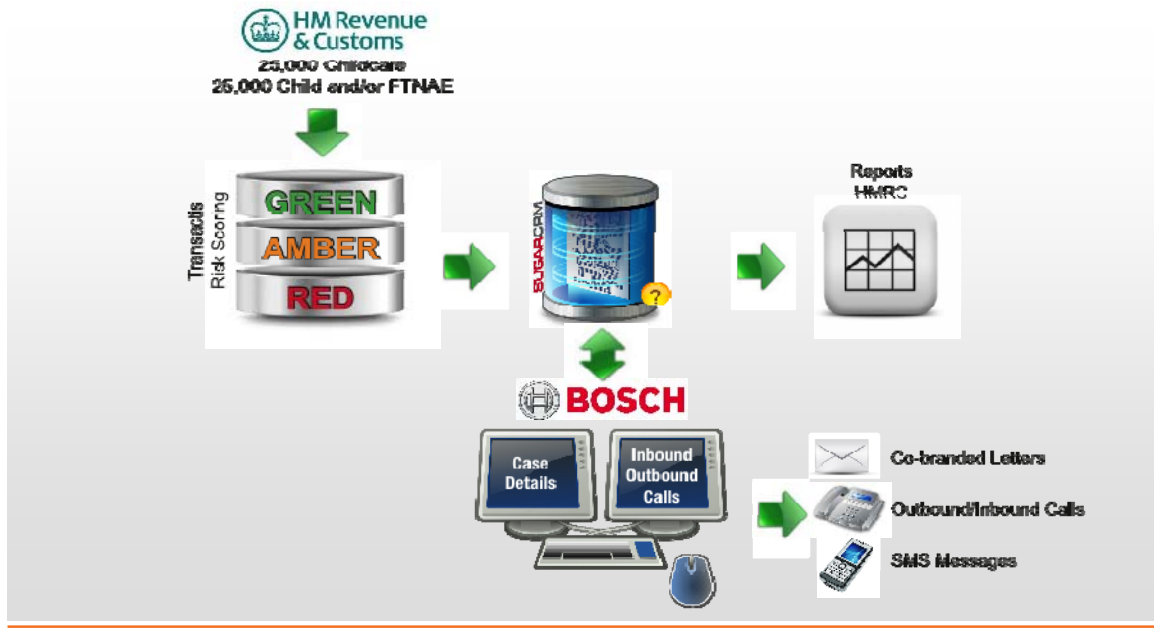
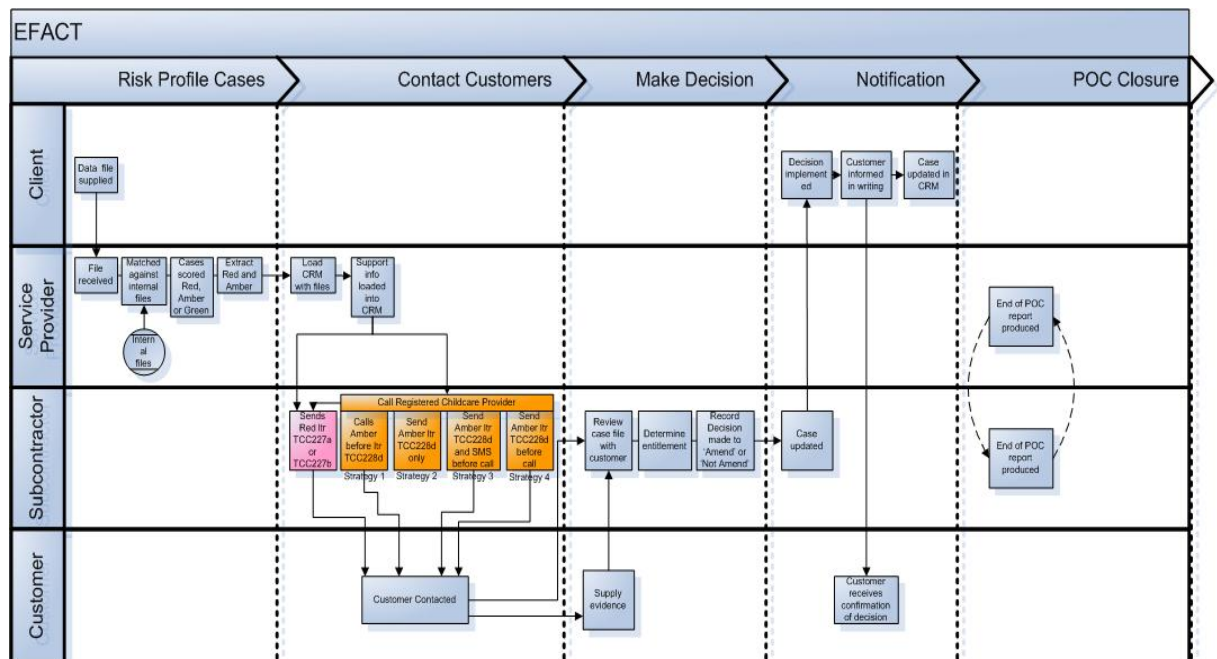


Figure 3 – Supplier Process Overview



Supplier Closings

With no direct access to HMRC systems, supplier decisions needed to be returned to HMRC for processing (comprising the recording of a decision and the outputs of the

intervention (losses prevented), via Secure Electronic Transfer (SET). The supplier processing group processed the decision/instruction from the supplier, implemented any change on the tax credits system, calculated losses prevented, updated and closed the case on the EFACT database before processing of the tax credits renewal.

Communications

HMRC agreed a set of conditions with Bosch/Transactis, for managing communications during and after the trial, including agreeing shared messages and lines to take for staff and stakeholders concerning the progress and purpose of the trial.

Evaluation Methodology

Evaluation of the Tax Credits Error and Fraud Additional Capacity Trial was assessed against the key objectives set out in paragraph 1.4 in relation to supplier performance against key criteria set out below.

Table 2: Key Evaluation Criteria			
No	Weighting for success	Criteria	Measured by
1	= 1	No adverse Reputational Impact	<ul style="list-style-type: none"> Instances of Data Security abuse & misuse
2	= 1	Outputs/Outcomes of Interventions	<ul style="list-style-type: none"> Losses Prevented delivered
3	3	Cost to the Customer	<ul style="list-style-type: none"> Customer Cost to Serve model
4	4	Costs to HMRC	<ul style="list-style-type: none"> IT build costs IT transfer costs HMRC processing costs HMRC Resource costs

Part 2: Analysis

The Tax Credits Error and Fraud Additional Capacity Trial was assessed against the key objectives set out in paragraph 1.4 and against supplier performance in respect of adverse reputational impact and the outputs/outcomes of interventions. Detailed findings are discussed below. .

2.1 Capability to undertake HMRC tax credits error and fraud interventions

Objective

To provide evidence that it would be feasible for a supplier to provide the additional capacity to deliver HMRC tax credits error and fraud interventions, consistent with an HMRC approach and at an acceptable level of risk and customer service to HMRC delivery standards.

Hypothesis 1: that the Service Provider can reach average and total losses identified and prevented per risk category, intervention and settled case in line with HMRC delivery.

Analysis: supplier intervention activity started on 15 May 2013, after a three-week period during which the supplier applied in-house analytics to refine case selection. The supplier identified 16,569 cases to work, examining these cases between 15 May and 12 July. Figure 6, below, shows that the supplier closed (to the point of assessing evidence and recommending the decision) 5,430 cases, amending 3,422 awards, resulting in notional losses identified and prevented of £18,258,573 (figure 4).

Over the period of the trial, the supplier deployed a daily average of 18.77 FTE (see paragraph 1.8). Although there is a 'blurred' edge between the continued opening of cases and the point at which customer contact results in a decision (or closing), the supplier was able to open 16,569 cases (9,200 child risk cases and 7,369 childcare risk cases) between w/c 13 May and w/c 1 July, representing a basic openings total of 22.06 per FTE per day (figure 5).

Again, subject to a period of overlap, closings (the decision) were made, in the main, between 24 June and 12 July, equating to 19.22 per FTE per day. In transactional terms (combination of openings and closings) a 'productivity' of around 26 per FTE per day was achieved. Average losses identified and prevented over the period of the trial were £972,753 per FTE.

Conclusion: In the context of the narrowly-defined trial, supplier performance met with HMRC expectations. The trial did not set out to test performance and was not used to assess or compare the costs of such an approach. The trial was to test the concept that the private sector could undertake such activity and to look at the fundamental principles of doing so.

The supplier deployed analytics to identify the proportion of cases to be opened and the technology deployed to manage casework led to significant gains above that seen in the manually-driven HMRC standard (in the supplier's case the 9,200 child risk case openings were automated and had no manual intervention). Whilst it was not possible to work all 16,569 cases to a conclusion in the timeframe (on the basis that cases not closed would be passed back to HMRC), the losses identified and prevented from those cases where a decision was made were in line with HMRC High Risk Renewal or High Risk Change of Circumstance interventions.

Figure 4 – Supplier Losses Identified and Prevented

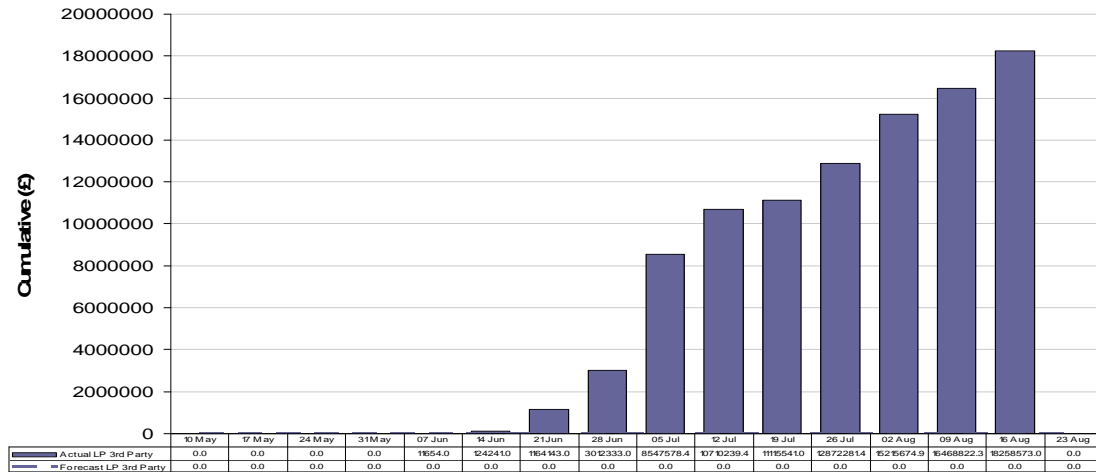


Figure 5 Supplier Openings

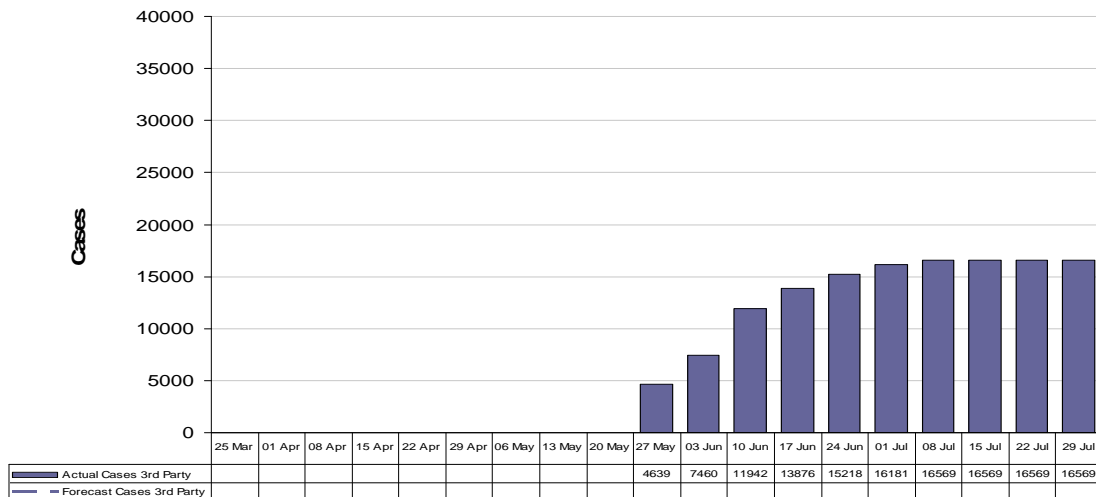
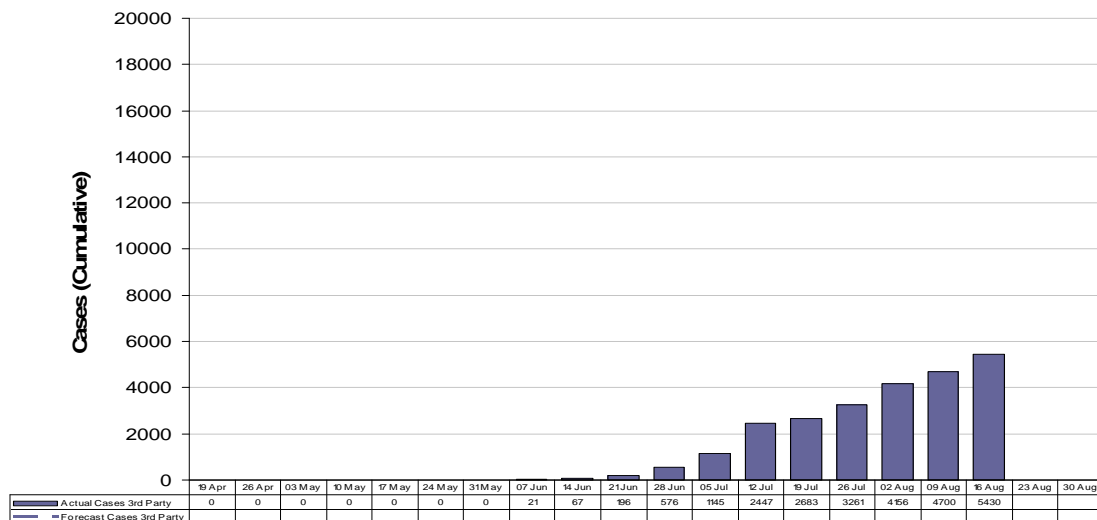


Figure 6 - Supplier closing

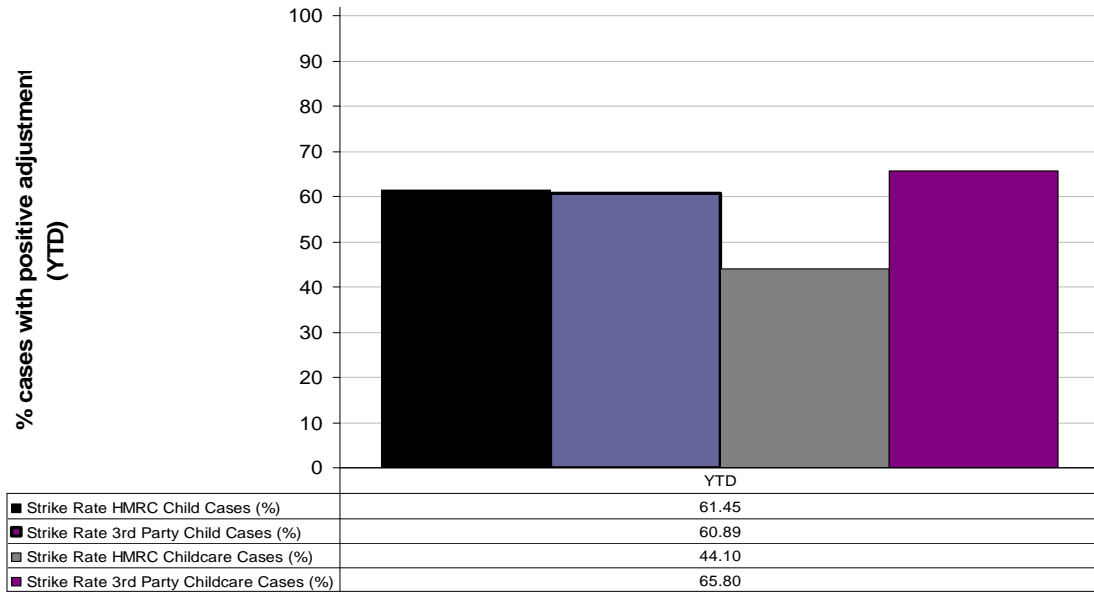


Hypothesis 2: that a Service Provider could feasibly achieve average and overall instances of error and fraud in the specified risk groups in line with HMRC delivery (strike rates).

Analysis: Figure 7, below, shows that the supplier achieved an overall strike rate of 63% - 61% in respect of the child risk cases and 66% in respect of childcare interventions.

Conclusion: Supplier achievement was at least consistent with HMRC performance and validated the original case selection as a reasonable sample.

Figure 7 – HMRC & Supplier Strike Rates



Hypothesis 3: that the Service Provider could feasibly work cases to the correct conclusion in line with HMRC timeliness targets.

Analysis: the data indicates two primary causes for concern. Firstly, the supplier increased case openings between weeks one and five, as driven by the standard process. However, the data suggests that the supplier did not plan a sufficient FTE requirement to cater for this, as the peak in post in week five led to call demand in weeks six to eight that far exceeded planned service. Consequently, customer service suffered. Supplier management information indicated that, throughout the period of the trial, 21,114 calls were received with the team answering 14,344 calls resulting in a service level of 68%.

Secondly, case openings continued beyond the prescribed period for handling HMRC discrepancy cases. Fundamentally, it was clear that their due date would fall after the end of the trial, meaning that in the main, the cases would be passed back to HMRC to complete. This, coupled with post-handling techniques that did not meet the requirements of the process, meant that at the end of the trial there was a significant backlog of unopened post. This severely impacted not only on HMRC, as that

backlog was handed back to complete the intervention, but on the supplier's own performance, as an amount of correspondence may have related to decisions that could have been made with more appropriate planning.

Conclusion: While the supplier was able to deliver a level of performance commensurate with the narrowly-defined trial, it did not adequately plan the caseload available to the resource that was available to it and equally did not take into account the impact that the end date would have on its ability to close cases and handle peaks in inbound correspondence.

Figure 8 – Supplier Post

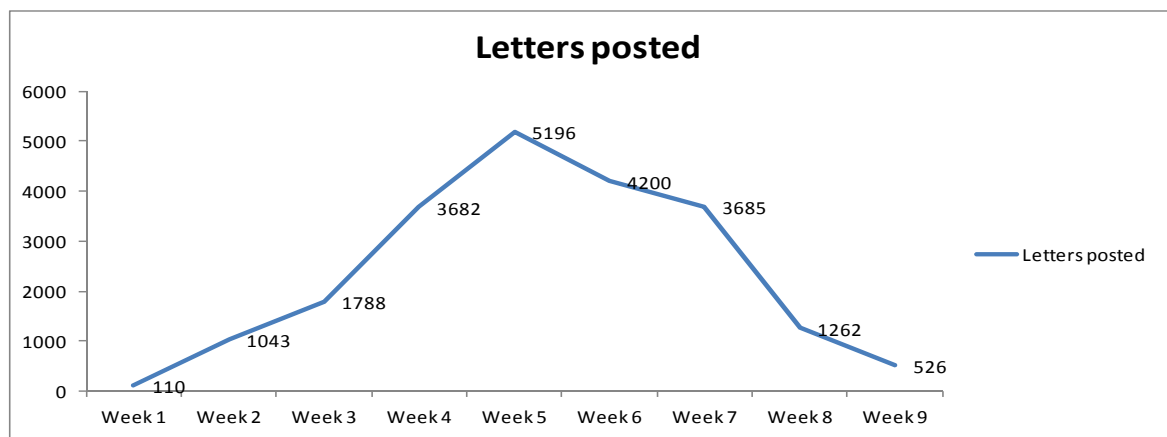


Figure 9 – Supplier Call Handling

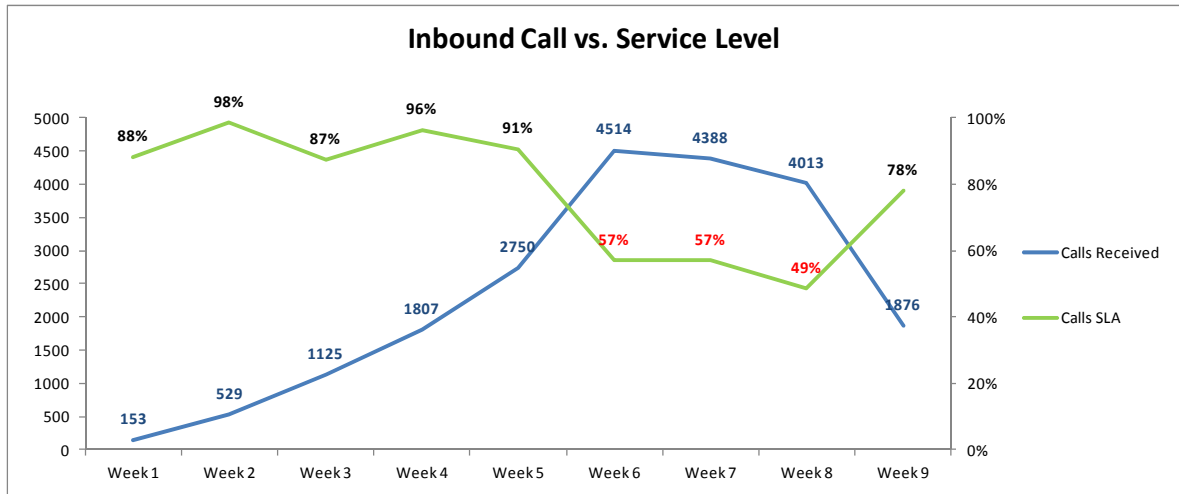
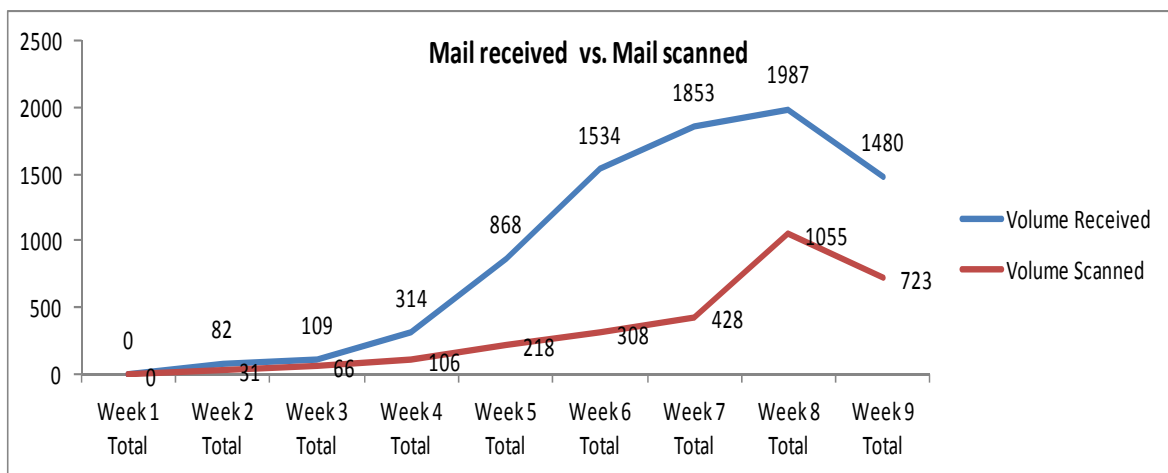


Figure 10 – Supplier Mail Process

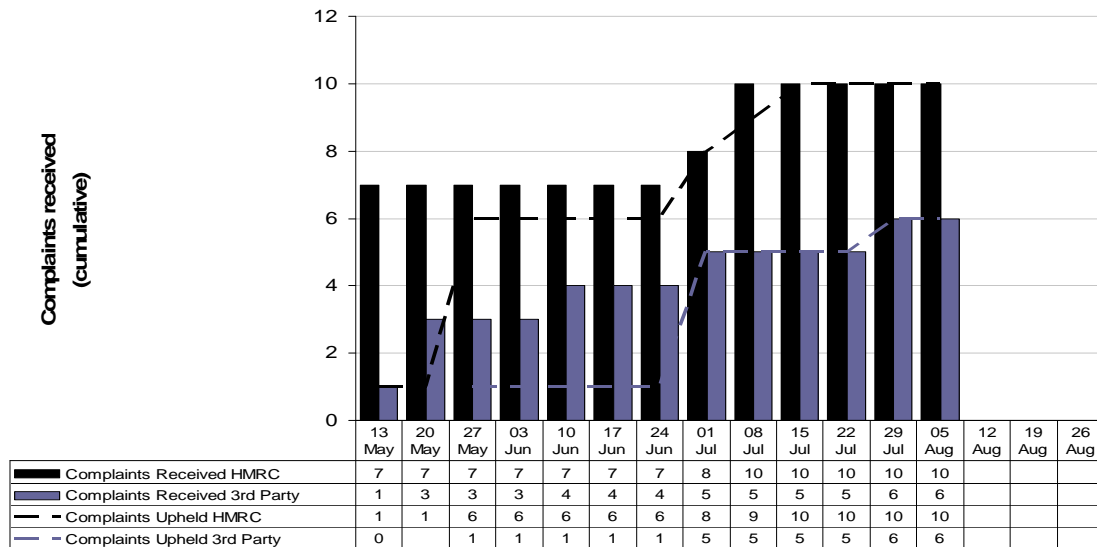


- The impact of the supplier not having access to our tax credits system highlighted the importance of any scaled model managing the end-to-end process. Despite significant prompting by HMRC, the supplier did not adequately plan properly and take suitable remedial action to address the issue raised. Accordingly, in any scaled model, HMRC must sign off delivery plans before implementation.

Hypothesis 4: That the Service Provider could feasibly provide levels of Customer Service in line with HMRC standards. Proof of Concept will be deemed a success if:

4.1 Complaints upheld are in line with or less than the control group

Analysis: The levels of complaints and upheld complaints were consistent with HMRC delivery.



4.2 Appeals are in line or less than those of the control group

Analysis: The levels of complaints and upheld complaints were consistent with HMRC delivery.

4.3 Reconsiderations are in line with or less than those of the control group

Analysis: There is evidence of a disproportionate number of requests for reconsideration, in comparison with HMRC activity. However, early analysis indicates that this was as a direct result of data integrity issues in relation to the child dataset.

4.4 Quality assurance results are the same or better than HMRC

Analysis: Independent checking of supplier decisions by HMRC showed a pass rate of 70%.

4.5 Research results into comparative levels of customer experience

Analysis: As part of the trial, we contracted an independent research agency to test the reaction of 500 customers from the control group and 500 from the supplier.

Analysis of the customer experience of the supplier intervention, published alongside this evaluation, confirms that there is no evidence of a customer refusing to engage with the private sector during the trial, or of antipathy towards them or the activity.

Conclusion: In respect of meeting customer expectations, in terms of repair work and overall customer satisfaction, the evidence suggested that the private sector could manage tax credits error and fraud interventions without detriment to overall customer satisfaction.

2.2 Capability to securely transfer and receive data

Objective - Prove that HMRC has sufficient capability to transfer cases, receive them and then enter data from a private sector partner on to the tax credits system.

Hypothesis 1: That data can be accurately and securely transferred between HMRC and the Service Provider.

Hypothesis 2: That no instances of data misuse occur with the Service Provider.

Tax credits customer data for the Tax Credits Error and Fraud Additional Capacity Trial was sourced from the Tax Credits mainframe in Worthing. 100,000 cases were extracted by HMRC analysts using the KAI wide area network (WAN) and moved to the Strategic Risk and Research Team (SRRT) Controlled Access Folder (CAF). At this point further analysis was undertaken by SRRT analysts to refine the data before being spilt in to work packages for the supplier and HMRC.

Transfer of data between HMRC and the primary supplier was conducted via Secure Electronic Transfer (SET), HMRC's approved external transfer mechanism. SET carries data packages across the Internet via the Government Gateway in an encrypted format using public / private key encryption.

Hypothesis 3: That there are no instances of serious security breaches through the Service Provider.

There were 8 security breaches reported in respect of supplier activity (very similar to the 9 incidents that were reported in respect of HMRC activity). The circumstances of the breaches in both HMRC and supplier activity were broadly similar, for example, enveloping errors (where the caseworker puts one customer's data in an envelope addressed for another).

One of the reported supplier incidents was due to a systemic failure. An errant data item (customer name), in itself innocuous, was included in the address field of 41 customer letters. This breach occurred on, or very near to, supplier go-live and was undoubtedly a consequence of programming error and insufficient testing of supplier systems.

Conclusion

There is no evidence to indicate that there were serious data losses or misuse. Equally, the volume and type of data protection breaches did not exceed those reported within HMRC's control group over the same period. HMRC Internal Audit, in their report of 16 July, recognised that, while the nature and speed of the trial, as well as the tactical data transfer solution in the absence of direct access to the tax credits system, created its own risks, the governance of activity had been robust, exposing issues with both HMRC and Bosch/Transactis activity, identifying lessons to be learned and applied.

Lessons learned

- It is clear from the systemic error that caused a customer name to be sent to 41 separate customers was as a consequence of a) inadequate testing of automation systems and b) inadequate in-flight assurance. Whilst this error did not at any time undermine the security of the taxpayer, it demonstrated that any scaled model must ensure that sufficient time is built in to implementation to ensure robust user testing of multiple scenarios before 'go-live'.

2.3 Disbenefits

Objective - Establish any disbenefits attached to private sector delivery.

Hypothesis 1: That there may be an adverse customer reaction to delivery by the Private Sector, resulting in increased reputational risk.

Analysis: There were no indications of adverse customer reaction to delivery by the private sector. As part of EFACT, we contracted an independent research agency to test the reaction of 500 customers from the control group and 500 from the supplier. The report of the survey, published alongside this evaluation, confirms that, attitudinally at least, there is no barrier to private sector delivery.

Hypothesis 2: That the customer debt balance will increase if Losses Identified and Prevented targets are met.

Analysis: This was not tested within the proof of concept and there is insufficient data within the trial to judge the hypothesis beyond known volumetrics. It is inevitable that levels of tax credits overpayments increase with additional error and fraud interventions. In fact it is a benefit, as it crystallises a previously unquantified liability, turning it into a quantified asset (in balance sheet terms), that may be realised as a saving in the context of annual managed expenditure.

Hypothesis 3: That there would be a disproportionate demand placed on HMRC Contact Centres and caller demand would peak.

Analysis: Management information was incomplete and therefore the best estimate of contact centre demand was somewhere between 100 and 150 calls. The data indicated between 12 and 15 were calls placed in the 'refuse to comply' category

(meant to indicate that the customer had refused to engage in the intervention on the basis that it was undertaken by the supplier). However, on listening to a number of the telephone calls it was clear that this was not the case and, in fact, related to renewals calls.

Hypothesis 4: That HMRC processing costs, as a result of repair and downstream impacts of Private Sector delivery, may outweigh the benefit of the additional losses identified and prevented.

Analysis: There was insufficient data within the trial to judge the hypothesis beyond known volumetrics. The timing of the trial was such that the appealable 'decision' (the change to the award) was made by HMRC some time after the supplier recommendation to amend. What is clear from existing operational delivery, and subsequent Parliamentary consideration, is that the correct balance must be struck between resources deployed to undertake error and fraud interventions and consequential repair work if customer service is to be maintained and reputational damage avoided.

Conclusion

There is no evidence to suggest that the disbenefits of private sector delivery would outweigh the impact of HMRC increasing tax credits error and fraud activity itself.

There were certainly no contra indications of a decline in customer experience.

Levels of repair work were commensurate with existing HMRC business as usual error and fraud activity.

Part 3: Conclusions

3.1 General

The trial tested the basic proposition that the private sector could feasibly, with appropriate levels of support and training, engage with tax credits customers, collect and assess evidence and make decisions on the circumstances affecting tax credits entitlement. The trial was not intended to deliver a direct comparison of private sector and HMRC performance and costs.

3.2 Delivery Process

As explained in paragraph 1.12, there were restrictions to the original design of the trial that meant that the HMRC High Risk Renewal process could not be performed in its entirety; specifically renewal legislation, the timing of the trial in relation to the 1st specified date (1SD) as well as the critical issue of supplier access to the core tax credits IT system (to process any relevant adjustments).

It was clear from how the trial unfolded that the lack of direct IT system access and the artificial segmentation of the end-to-end process led to significant issues in both HMRC and supplier delivery. For example, the provision of tax credits core data prior to the trial starting meant that in some instances, decisions were taken on old data, i.e. the customer had subsequently made a change of circumstances that meant the award had changed. This affected the customer journey as well as the 'decisions' sent back to HMRC.

Lessons Learnt

- If HMRC is to maximise the impact of a private sector partner and minimise lost opportunity costs that may affect realisable benefits, then it is clear that the

3.3 Supplier Delivery

The key part of the trial was to observe how a private sector partner could, within the overall framework of standard HMRC processes, legislation and policy, consider those processes and organise themselves to deliver efficiencies and best practice. It is clear from the results that the basic proposition was proven. A critical component of supplier delivery was the management of cases through the bespoke customer relationship management platform (see paragraph 1.14). This allowed both automated issue of opening letters, as well as an important way of directing caseworker activity via the contact centre style telephony operation. Deployment of this component resulted in an average opening productivity of around 22 per caseworker per day compared to 9.81 manual supplier openings (HMRC business as usual achieves in the region of 12 per day (High Risk Change of Circumstance intervention)). If deployed in a scaled model the benefits in relation to staff required in the initial period of the campaign would be significant and allow much greater flexibility.

However, performance was less assured as the trial drew to a close. The benefits of the automated acknowledgement of decisions to HMRC was not delivered as the supplier did not adequately plan resources against case closings, i.e. the supplier could not physically handle customer correspondence leading to a situation where expired deadlines for customer responses could not be actioned as the supplier simply did not know if the customer had indeed responded. However, it is clear that this was due to inadequate planning rather than a fundamental gap in the ability of the supplier to look at customer evidence and make judgements on tax credits entitlement.

Supplier analytics played a key role in their performance. As explained, like-for-like comparison is not possible, given the short nature of the trial and the difference in HMRC and supplier delivery; but to deliver around £20m notional losses identified and prevented from around 5,500 cases demonstrates that the supplier segmentation adds value. However, because the nature of the trial dictated that the supplier could not test the whole 50,000 cases, some of those benefits cannot be evaluated.

3.4 Proposition

The trial demonstrated that it would be feasible for a private sector partner and HMRC to work together to address tax credits error and fraud. It will be key to maximising delivery that the HMRC / supplier relationship is based on the ability to conduct the full end-to-end process and successfully implement the direct lessons learnt from the trial as well as core principles of existing error and fraud activity, including an effective planning cycle.