

### Summary and recommendations

Information is central to the revenue departments' business – information wasted is revenue lost or an opportunity to improve customer service or efficiency missed. The creation of a new department (see Chapter 3) represents an opportunity to make better use and improve sharing of information across the tax system, to the benefit of the department and its customers, as:

- compliance action is more effectively targeted, improving use of resources and fairness for honest customers by enabling a 'lighter touch' approach to compliant customer groups while focussing efforts on the non-compliant; and
- understanding of customers is improved, moving towards a 'whole customer' view so that processes can be focussed most effectively and efficiently on meeting customers' needs coherently across the tax system.

Good quality data also underpin coherent and evidence-based policy-making and implementation – and vice versa as policy design and implementation powerfully influence the content and form of information gathered, as well as the way it is used.

The use of information is a key theme of this review. This Chapter identifies some of the benefits of information sharing and better use of information, and highlights some priorities for the new department.

In the context of the review's recommendation that a new department should be created, the review recommends that the new department's management should:

- establish a unified information strategy, with strong information governance arrangements and a joint knowledge centre, as part of a re-engineering of business processes. Existing information activities should be reassessed in the light of this; and
- seek to achieve a whole customer view starting with business customers, working progressively towards understanding customers across their interactions with the department, with the aim of reducing compliance costs, improving service, and minimising non-compliance.

Flowing from this recommendation:

- investment in management information systems should be a priority, in order to support more effective and efficient resource deployment and accountability for it;
- the Treasury, in partnership with the new department, should bring forward legislation to allow the best use of information in the new department, to improve customer service, effectiveness, and support for policy, taking account of the need to preserve confidentiality and proportionality;
- the new department should consider the possibility of introducing a single business identifier as part of its efforts to improve interactions with business customers; and
- as part of the creation of the new department, links to other parts of Government such as the ONS and DWP, and external organisations, should be maintained and strengthened.

## INTRODUCTION

**4.1** The Prime Minister has stressed the importance of information in delivering better public services, speaking of “an information age which offers new opportunities for greater prosperity, and a better quality of life.”<sup>1</sup>

### Extensive users of information

**4.2** Tax systems have huge information needs. The revenue departments are among the most extensive users of information in the UK, and are heavily reliant on the IT platforms on which information is held. They have tens of millions of customer records. This information is supported by over 1,000 IT systems and subsystems. The Revenue’s new Aspire IT contract is worth around £300m a year. The scale of information represents both a challenge and an opportunity for the departments.

### Growing importance of IT...

**4.3** The proportion of information that is provided or gathered electronically and by telephone, and stored electronically, is growing, along with electronic services to help customers assess their obligations and entitlements. For example, of the eight million self-assessed Revenue customers, around 5% filed electronically in 2001-02, rising to 9% in 2002-03, and more than 13% this year.<sup>2</sup> However, many customers still use paper forms and correspond with the departments on paper. E-mail communication is not generally available with the Revenue, and only to a limited extent with Customs. While Customs maintains electronic folders on all its 1.7 million VAT customers, the Revenue still keeps paper-based files in many cases, for example on enquiries or complaints, inhibiting the analysis of this data. While the use of paper in part reflects customer preferences, it also reflects the design of the departments’ interfaces. There are strong links between better information use and the further development of E-services, with both acting as drivers of efficiency.

### ...but information silos limit effectiveness

**4.4** Better use of information also holds out the prospect of improvements for customers and in effectiveness. The departments’ main existing IT systems have been designed and put in place to support particular aspects of their business e.g. a particular tax. They represent various generations of technology, and act as ‘silos’ for information since they cannot readily communicate with one another. This is a feature of many large organisations with several streams of business, such as insurance companies. The Revenue and Customs have been working to improve the reliability and flexibility of data and reduce duplication – however there is still a long way to go:

- the records of a single customer are often still spread across systems which are not linked, sometimes using different reference numbers e.g. national insurance or VAT numbers, requiring separate updating; and
- relatively little consideration has yet been given to the scope for harmonising information requirements from customers and having one tax ‘piggy-back’ on another.

**4.5** There are clear opportunities for improving the use of information, and meeting the review’s objectives depends on seizing these opportunities. Chart 4.1 shows how improving service provision and customer service, compliance, and policy and accountability, are each supported by cycles of information gathering and feedback:

- better use of information is central to providing good customer service and reducing compliance costs. It means having readily available information

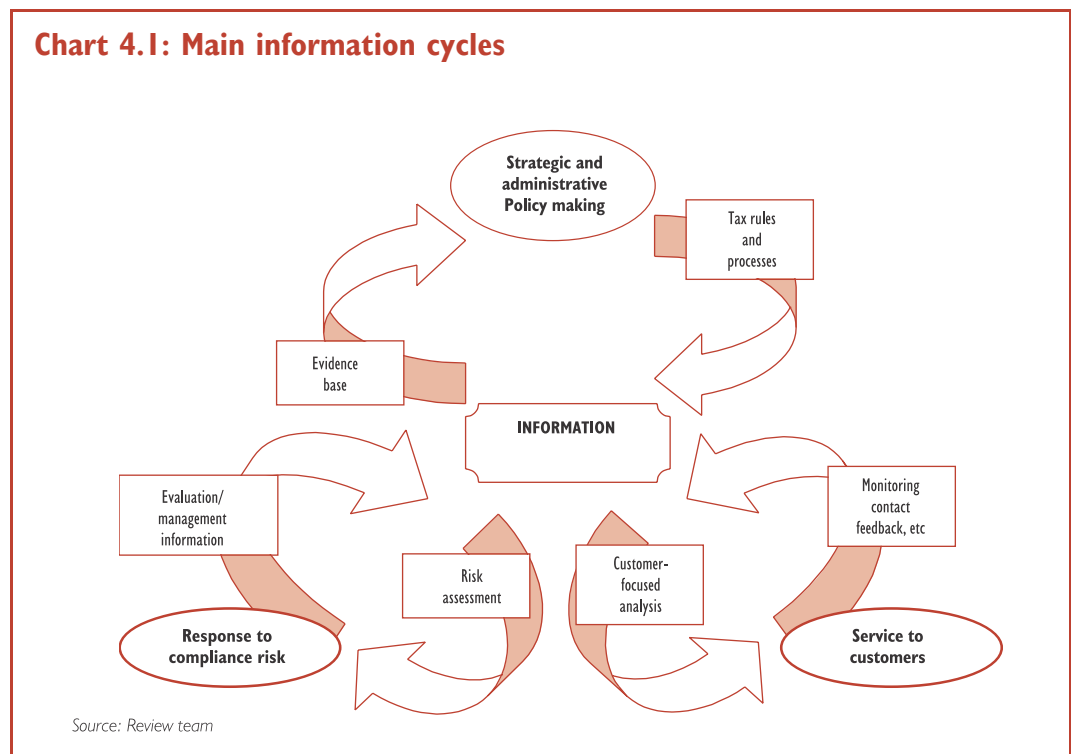
<sup>1</sup> Prime Minister’s foreword, *Our Information Age: The Government’s Vision*, May 1998.

<sup>2</sup> Source: the Revenue.

and advice on the tax system for customers, and on what a particular customer owes or is owed, and easy access to information to do tax calculations;

- good information drives good policy, and vice versa. Good analysis and links with operational work are key sources of policy evidence, and policy and legislation dictate what information is collected and how;
- the Revenue and Customs are risk management organisations, operating to minimise the risks of non-compliance across the ‘compliance continuum’ (see Chapter 2), ranging from simple error to deliberate fraud. Good information supports effective risk assessment and action, facilitating minimal intervention for compliant customers, and better tackling of non-compliance (see Box 4.1); and
- management information is garnered from outputs such as tax collected or customer feedback, or underlying measurements such as staff performance or the impact of an advertising campaign. As set out in Chapter 6, good internal data support good performance management and accountability, and are also central to resource allocation. For example, as indicated in Chapter 2, large numbers of staff work on transaction processing and better use of information should encourage more effective deployment of staff.

**Chart 4.1: Main information cycles**



**4.6** Better use of information is central to the review’s recommendation that a new, integrated department should be created. Some of the review’s objectives could be achieved through a more strategic approach to sharing and using information between the departments (which would be part of the strategic alignment option explored in Chapter 3). But, leaving aside the other disadvantages of the strategic alignment option, the review’s judgement is that this would not be sufficient. This Chapter explores a priority area for the new integrated organisation, and points to the benefits that would accrue from better use of information, both within the department but also between the

department and external stakeholders, whether customers or other Government departments.

**A whole customer view of businesses**

**4.7** Specifically, creating an integrated department holds out the prospect of being best able to develop a ‘whole customer’ view of businesses. Even within the existing departments, it is not currently possible to gain a view of the totality of a customer’s profile. In discussions with the review, many external stakeholders have supported moves in this direction, highlighting potential improvements in customer service and reductions in costs – subject to the need to respect taxpayer confidentiality.

**Box 4.1: information, compliance and risk**

As set out in Chapter 2, the departments have to understand compliance risk to provide the most effective and proportionate response. A recent pilot exercise by Customs used information on qualifications in company accounts, identifying risk categories in relation to certain types of qualification, which were then tested and refined by assurance activity. Results were fed back to inform case selection and risk modelling.

In another pilot, Customs used information on risks to achieve compliance benefits with minimal intervention. Members of a low risk trader group were invited to self-audit, using guidance on common areas of error. Take-up was high, at 55%, since businesses benefited by avoiding the burden of full audit. Compared to a full audit, self-audits produced 7.5 times more revenue per hour, and took significantly less time.<sup>3</sup>

**4.8** This Chapter:

- makes the case for better use of information and developing a whole customer view; and
- examines the legal framework, technology and E-services, business identifiers, information strategies and a knowledge centre as areas where progress will need to be made to move towards better information use and a whole customer view.

## THE CASE FOR CHANGE

**4.9** As noted in Chapter 3, the IMF and OECD identify evolution towards a whole customer view as best practice in tax administration. It is also a priority in private sector service organisations. Banks, for example, aim to develop a whole customer view in order to promote cross-selling (e.g. home insurance to mortgage customers), making customer interactions easier (e.g. updating customer details across several products) and also to produce aggregate pictures of credit risk in relation to particular counterparties.

**Channel strategies...**

**4.10** The Revenue’s Employer and Agent Channel Strategy also illustrates how good information on customers has the potential to improve service. The Revenue is focussing on employers and their agents as the first stage of developing a channel (i.e. post, telephone, Internet, face-to-face) strategy across their business. The work has mapped the processes by which employers or their agents contact the Revenue, and the systems into which these contacts feed. It has also segmented customers to establish likely needs and reactions, for example those who are less likely to want to use the latest technology. This has identified opportunities for service improvement, such as

<sup>3</sup> Source: Customs.

reducing the large number of telephone numbers currently available, or automating simple transactional contacts, providing round-the-clock service at a reduced cost.

**...and E-services** **4.11** Developing the E-services channel offers great potential improvements for customers and for Government. In line with international best practice,<sup>4</sup> both departments have strategies for providing services electronically, and equally importantly, targets to make E-tax services attractive and beneficial to users so that they achieve high levels of take up.<sup>5</sup> Although there are existing examples of joint working that use shared information to support customers,<sup>6</sup> the new department will provide a focus on business taxpayers that has not been possible within existing departmental boundaries. Developing E-services focussed around customer groups, rather than taxes, presents a particular opportunity.

**Compliance benefits** **4.12** Better information sharing across the tax system supports fairness for compliant customers and protects revenue collection. Existing examples of benefits illustrate the potential, and include:

- a success rate of over 75% in a 2003 pilot exercise using Revenue systems for tracing 'missing' Customs debtors. As the Revenue handles more tax regimes, it often contacts customers more frequently than Customs and holds more up-to-date details. The 75% rate compares to 25-30% on Customs' own systems in one region, and around 30% from using a commercial tracing agency;<sup>7</sup>
- the Revenue becoming aware of undesirable avoidance schemes in Corporation Tax, alerted by information from Customs, at least two years earlier than under normal procedures. As VAT returns are received quarterly (for the most part), non-compliance can be picked up by Customs sooner than by the Revenue, who see Corporation Tax returns some time after the end of the accounting period. A project has now been established on avoidance to allow more systematic measurement of benefits and incorporation into business as usual;<sup>8</sup> and
- benefits from sharing information and working together to tackle businesses operating in the shadow economy (see Box 4.2).

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<sup>4</sup> *International e-Economy Benchmarking: The World's Most Effective Policies for the e-Economy*, Booz / Allen / Hamilton for the Information Age Partnership, November 2002, available at [www.e-envoy.gov.uk](http://www.e-envoy.gov.uk)

<sup>5</sup> Information on use of E-services can be found in the UK Online Annual Report 2003, available at [www.e-envoy.gov.uk](http://www.e-envoy.gov.uk)

<sup>6</sup> One example is the Joint Voluntary Arrangement Service (JVAS), a closer working initiative where the revenue departments work side-by-side in cases where businesses are experiencing financial difficulties. A voluntary arrangement is a formal agreement between debtors and their creditors, including the revenue departments, regarding payment of their debts.

<sup>7</sup> Source: Revenue departments.

<sup>8</sup> Source: Revenue departments.

**Box 4.2: Joint Shadow Economy Teams (JoSETs)**

Closer working has not generally transformed the way the departments work (see Chapter 3). JoSETs have, however, been successful. Since 2002, 20 teams have been established around the country, with staff from the Revenue, Customs and more recently DWP, working under single line management. Where possible, information is pooled. The teams seek to identify 'ghosts' (who operate wholly in the informal economy) and 'moonlighters' (who conceal or suppress one or more aspects of their activities) who are not registered for VAT and may be failing to declare their true income for direct tax. The results for 2002-03 were:<sup>9</sup>

- yield for the Revenue of £2.14 million and identification of 245 joint 'ghost' cases;
- 3,633 new VAT registrations (an increase of over 50% over the first year) and identification of VAT arrears of nearly £25 million; and
- nearly £750,000 of DWP sanctions issued and 431 overpayments identified (from less than a full year's involvement in the teams).

JoSETs demonstrate the potential for sharing information to take a common approach to shared risk areas – but they also exemplify some of the barriers that must be overcome. Co-location has meant costs and work-arounds to resolve IT issues, and although there is single management, individuals still have separate performance measurement systems, and pay structures. The JoSET Statement of Measures emphasises a joint contribution to targets, but objectives have remained essentially separate for each of the departments.

**4.13** But these examples are the exception, rather than the rule. Despite ten years of closer working, information sharing has not always become the norm or even a priority, because the departments have been organised to achieve separate targets, and have legal and practical restrictions on the extent to which they can work together. Existing examples of information sharing indicate the potential if sharing were made more comprehensive within the new department. Box 4.3 illustrates this potential for a single category of data – Revenue information on businesses close to the VAT threshold.

**Box 4.3: sharing Revenue data on businesses close to the VAT registration threshold**

This type of data can enhance VAT risk assessment around the threshold (a point where the risks of evasion may be high), bringing to Customs' attention businesses that might not otherwise feature in risk profiles. Improved risk assessment could enable better-targeted action, with benefits for compliant business where a lighter touch could be taken. Information on businesses approaching the VAT threshold could also enable Customs to supply timely information on VAT and registration to those likely to need it. In the long run, if basic data were consistent, elements of Revenue data could even be used to pre-populate VAT registration forms, saving time for customers and removing duplication.

**4.14** International examples also provide an indication of the potential scope for increases in effectiveness (see Box 4.4).

<sup>9</sup> Source: Revenue departments

**Box 4.4: information sharing between direct and indirect taxes in Canada**

Since the integration of the direct and indirect tax administrations in Canada (see Chapter 3), considerable progress has been made in matching data across the taxes. Risk analysis on the main indirect tax (GST, equivalent to VAT) has been the main beneficiary. Before the new department was created, the only information routinely available was that gathered at registration, during audits, or from the GST return. Integration has considerably enhanced the GST data set.

As in the UK, the Canada Revenue Agency (CRA) works within information laws, and care is taken not to compromise any individual's right to privacy. In some instances the CRA works in partnership with businesses to identify problem areas and create new risk identification models.

The CRA estimates that roughly 50% of the algorithms used to identify GST risks require links into corporate or personal income tax generated information. One of the most successful ways of identifying GST risks has proved to be a simple comparison between GST and income tax declarations.<sup>10</sup>

**Benefits of a whole customer view**

**4.15** Taking a whole customer view requires a succession of steps amounting to a radical change. In the long run it would:

- enhance risk assessment and analysis, which even at its best is currently based on roles or aspects of a customer's interaction with the departments, not on entities as a whole. This would benefit compliant customers and the exchequer, through better targeting of resources to address non-compliance, and through the enhanced efficiency that this improved resource targeting would allow;
- enable better understanding of customer needs and preferences, so that guidance and services can be more effectively targeted and made accessible. This again could contribute revenue benefits as errors are reduced; and
- enable customers to directly share the benefits of their complete profile (perhaps through a personal portal for transactions and guidance). If information could be supplied only once and duplication avoided, because it was clear what was already held, costs would be lower for customers and the department.

**4.16** Moving towards a whole customer view is key to realising the benefits of an integrated revenue department, but in practice, a whole customer view could not be achieved in a single 'big bang.' It should be developed through improvements in particular areas, extending existing strategies, moving towards a complete picture and providing benefits incrementally. For example:

- certain types of information may be of high immediate value as risk indicators, e.g. PAYE records might link strongly to compliance in VAT, and could be matched prior to a complete profile, benefiting targeted action and continued extension of a 'lighter touch' approach for low risk groups; and
- specific services such as a single customer account for payments to and from the department, or a single registration process for basic data, could benefit customers and improve efficiency prior to offering a single customer record with all transactional services attached.

<sup>10</sup> Source: Review team interview.

**Recommendation:** the management of the new revenue department should seek to achieve a whole customer view starting with business customers, working progressively towards understanding customers across their interactions with the department, with the aim of reducing compliance costs, improving service, and minimising non-compliance.

**Areas where progress is needed**

**4.17** There are five areas where progress is needed to improve the use of information and move towards a whole customer view:

- the legal framework;
- technology and E-services;
- business identifiers;
- information strategies; and
- information governance and the knowledge centre.

### The legal framework

**4.18** Confidentiality and human rights requirements, gateways, and the statutory rules and powers that make up the tax system all have implications for customer data, which, as the key data source for the departments, is the focus of this section.

**Confidentiality**

**4.19** Information held in relation to individuals and companies is confidential, with criminal sanctions against wrongful use or disclosure (see Box 4.5). It is one of the objectives of this review that taxpayer confidentiality should be respected.

**Box 4.5: confidentiality of customer information**

The legal requirements for confidentiality arise from four main sources:

- confidentiality of information provided for specific statutory purposes, such as taxation, is a tenet of common law. Disclosure is possible in certain circumstances, most relevantly where specific statute permits or requires it;
- section 182 of the Finance Act 1989, as well as the Revenue's oath at Schedule 1, Taxes Management Act 1970, provide statutory statements of confidentiality, echoing the common law requirements;
- the Data Protection Act (DPA) 1998 includes eight principles specifying how data relating to individuals shall be processed and used. These provide that data must be processed fairly and lawfully, for specific necessary purposes to which the data are adequate, relevant and not excessive;
- the Human Rights Act (HRA) 1998 incorporates into UK law the rights and freedoms provided for by the European Convention on Human Rights. Article 8 provides for the right to respect for private and family life, home and correspondence. Any interference with this right must be justified in the terms of the Act, in proportion to a necessary, lawful aim.

**Gateways 4.20** Confidentiality requirements mean that disclosure of taxpayer or claimant data to other bodies, including between the revenue departments, must be legally justified – usually by a statutory gateway. The principal gateway between the revenue departments, Section 127 of the Finance Act 1972, is extensive, providing that Commissioners or authorised officers of the Revenue and Customs may disclose information to one another and use information received from the other “for the purpose of assisting them in the performance of their duties.” This gateway allows officers of the revenue departments to share, for example, information relating to an individual case of fraud, or information to improve risk assessment on a specific business sector. Care is taken to ensure only relevant information passes.

**4.21** Although the existing gateway is extensive, the passage of legislation to create a new department (see Chapter 6) will present an opportunity to consider how data can best be used to improve risk assessment, customer service, and policymaking. This would also present an opportunity to consider the gateways with other departments, such as DWP.

**Recommendation:** the Treasury, in partnership with the new revenue department, should bring forward legislation to allow the best use of information in the new department, to improve customer service, effectiveness, and support for policy, taking account of the need to preserve confidentiality and proportionality.

**Departmental powers 4.22** Recent Department for Constitutional Affairs<sup>11</sup> guidance on the law relating to data sharing emphasises that this should be looked at in the context of the substantive activity it is intended to support. The statutory rules in relation to particular taxes determine the obligations on customers to provide particular information at particular times, which in turn affects processes and the ways in which information can be used. For example, the Revenue may work with information from past accounting periods after the end of the three-year VAT enquiry window. Legislation also determines the departments’ powers to require information, gain access to premises and so on. For example, at present joint visits can require taxpayer consent since Customs has powers to enter premises that the Revenue does not have.

**4.23** There are good reasons for different powers in some circumstances. However, the creation of an integrated department will allow an overview to be taken of powers, and their impact on information use. There is a balance to be struck between lowering compliance costs for customers, and ensuring that the right information is collected to inform future development and analysis. The right technical solutions and use of information, for example collecting basic data on a once-only basis and/or through electronic channels, can ensure that costs are lowered without leaving out data that may be important. There is therefore an important link between powers and information strategy, and the powers of the revenue department will need to be considered as part of the legislation to establish the new department (see Chapter 6).

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<sup>11</sup> *Public Sector Data Sharing: Guidance on the Law*, Department for Constitutional Affairs November 2003, available at [www.dca.gov.uk](http://www.dca.gov.uk)

## Technology and E-services

**4.24** The revenue departments face great challenges in providing the information technology needed to support their current and planned business. Both are on target to have 100% of services available electronically by 2005 (but provision does not guarantee take-up, as noted below). Both departments are changing their IT systems as a result of changing technology and pressure from customers for better service. The departments must balance competing demands for investment between basic infrastructure needs, improvements to existing systems, and new systems or services driven by policy – the latter have been a particular focus for the Revenue in recent years, for example in tax credits.

### Systems are 'silo' based

**4.25** The principal systems have largely been put in place around particular taxes or credits, on a 'silo' basis. They reflect a variety of technologies, some of which are now relatively old and inflexible. Systems can have their own:

- customer data;
- data capture mechanisms, validation and processing rules;
- references and identification numbers (see below); and
- discrete sets of internal users.

**4.26** The recent growth in the Revenue's responsibilities has further increased the range of information being managed – for example, introducing the new category of the household for tax credits – in part duplicating information on existing systems. As noted above, customers currently interact with the revenue departments in several different ways. For example a small businesswoman could be an individual taxpayer, national insurance contributor, employer and VAT registered business. System silos reflect these distinctions, but do not match them entirely – for example, data on employers' obligations with respect to national insurance and PAYE might go to different systems, and could deliberately or by accident suffer from data variation. Some data variation, even in basic data such as names and addresses, can be justified – for example companies may use a head office address for one tax and a trading address for another. Silos can, however, give rise to accidental variation, frustrating the departments and their customers – for example if an address is updated in one system but not others, resulting in misdirected contact.

### Convergent architecture

**4.27** The challenges of providing new services and dealing with system silos are common to the revenue departments. As a result of this and convergence in IT industry standards and approaches, there are common elements to the departments' programmes, including:

- web-based technologies for presentation and improved accessibility (see below);
- phased rationalisation or replacement of elements of legacy systems (as opposed to a 'big bang' replacement of whole systems, which would be contrary to private sector best practice, and present an unacceptable risk) focussing on capabilities and common components rather than products;
- additional functionality above existing systems to increase flexibility, for example using data mining techniques; and

- adherence to Office of the e-Envoy standards on metadata and the E-Government Interoperability Framework, which aim to ensure consistency and coherence between Government systems.

**4.28** While there is some strategic convergence, and there has been some communication between the departments, this has not resulted from joint consideration of the best way forward – naturally enough, given that there are currently two separate departments, engaging in a limited degree of closer working, with separate IT providers (see Box 4.6).

**Box 4.6: IT contracts**

IT provision in the revenue departments is affected by their contractual arrangements with external suppliers. The Revenue and Customs use different models for IT provision based on their different needs, with Customs contracting with Fujitsu for infrastructure whilst outsourcing other work on a project basis or keeping it in house, while Revenue act as an ‘intelligent client’ of a single strategic IT partner, bringing in co-partners as required.

Both departments have sought to ensure flexibility within these contracts so far as is commercially realistic. Within the new department these arrangements will continue to support existing systems and services, as well as offering the option to migrate some service provision if required. In the longer term it would be possible to harmonise IT provision fully, though not without cost.

In January 2004, the Revenue signed the ‘Aspire’ contract with their new strategic partner Cap Gemini Ernst and Young, which will run from July 2004 to June 2014 (with the option to continue for a further eight years). The Revenue has robust plans in place to manage the supplier transition, and key stages should be completed before any new requirements from integration of the departments start to be felt. The Aspire bidding process also emphasised the capacity to support future business change.

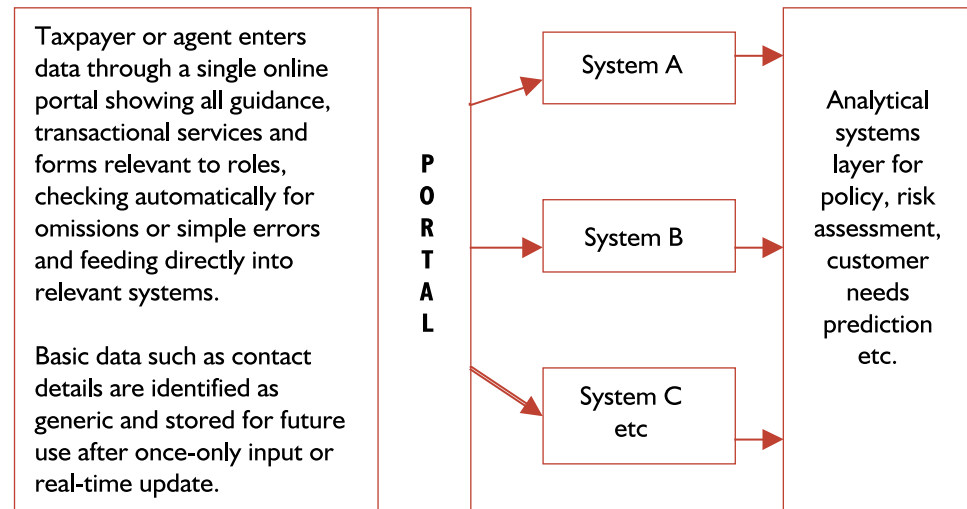
Differences in IT provision should not therefore present a barrier to integration of the revenue departments, though management will need to consider:

- their IT strategy, to what extent this will involve harmonisation of provision, and what underlying model will best serve the business needs; and
- how to ensure a collaborative approach to resolving any issues that arise, bringing in IT partners promptly, for example if there is a need to co-locate teams in offices that currently support only one department’s systems.

**4.29** IT architecture should be driven by business processes and policy aims – and so shared business processes and aims are necessary to drive properly convergent IT, both within the new department, and, for example between the new department and DWP. This convergence is one of the underpinnings of the whole customer view, and should be an early priority in the new department. There is a risk that systems issues are not seen as a priority, because they may not realise benefits in themselves prior to changes in business processes, but this would be a mistake.

**IT and customers** **4.30** Chart 4.2 provides one illustration of how new technology could improve the relationship with customers. A single web-based portal, which could be accessed by customers and by staff, would provide basic data, and feed into product-specific systems. This portal could work with existing systems, avoiding the need for a ‘big bang’ replacement of existing systems.

**Chart 4.2: Example of possible future relationship of customer to systems**



Source: Review team

**The Government's approach to on-line services** **4.31** In recent studies,<sup>12</sup> the UK Government's general approach to putting services on-line has been compared favourably to other European countries, the US and Canada. For example, use of portal and gateway platforms, with content organised around users' needs or life events, has seen SME take up of the Internet increase considerably since the launch of UK-Online, with the Government hitting its target of getting 1.5m SMEs online by 2002. More recently, business.gov (see Box 4.7) has successfully developed a customer-centred approach for businesses.

<sup>12</sup> Studies listed in the UK Online Annual Report 2003, for the Office of the e-Envoy, available at [www.e-envoy.gov.uk](http://www.e-envoy.gov.uk)

**Box 4.7: information to support business – business.gov<sup>13</sup>**

The revenue departments have both supported the DTI-led business.gov initiative, which has made information more useful and accessible to businesses. The site ([www.businesslink.gov.uk](http://www.businesslink.gov.uk)) offers a single entry point for information and transactions relating to Government, and also involving voluntary and other services. It is organised around businesses' needs and actions (e.g. start-up, or employing staff) rather than around Government structures, or reproducing paper guidance on-line.

The site has proved popular with users, with 86% on initial trials saying that they would recommend the site to others.<sup>14</sup> Initial research on customer learning is supported by feedback and testing to ensure that customer needs are continuously understood and not taken for granted. The site is an example of an area where the revenue departments have already integrated their services across their interactions with customers, and has the potential to develop further with the further development of electronic services and the whole customer perspective. In particular, the website could in the future extend the links between information on business events and transactional services such as forms and payments - and ultimately do this proactively e.g. by issuing email updates, reminders, and alerts to relevant new services or legal changes.

**Take up of tax E-services 4.32** In some areas the revenue departments' on-line strategy has been successful in providing services that customers want, and therefore achieving high take-up: in others less so. High take up is vital for online services, given that they have high start-up costs, but low marginal costs.

**4.33** Since 2002, there have been visible improvements in the E-services offered by the revenue departments, although services are still offered on a tax-by-tax basis. The Revenue has seen a strong upward trend in take-up of electronic services, with over one million tax returns now reaching them electronically.<sup>15</sup> In part, this demonstrates the increasing maturity of the UK E-economy, with levels of trust required to commit personal or financial information over the Internet growing with experience of use, and services improving as they are tested under a real load.<sup>16</sup> This has also been apparent in the 99.5% take up achieved by Customs for the electronic New Export Service, where import services had been available electronically, and have been widely used, for a number of years.

**4.34** Where businesses have seen electronic services as being less beneficial to them, there has been a poorer take up. The E-VAT return piloted in 2000 was a case in point. After two years, only 2,700 traders (fewer than 1% of the 1.7 million registered traders) had submitted returns through the E-VAT service. One reason for the poor take up was that it provided no tangible benefit to customers. Applying for a digital certificate, registering and completing the return could take up to three weeks, whereas the single page paper return is a simple and easily completed document. The new E-VAT pilot, targeted towards the IT sector, will use PINs and passwords rather than digital certificates.

<sup>13</sup> Business.gov is the name of the project. The website referred to is at [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

<sup>14</sup> Source: the Revenue

<sup>15</sup> Source: the Revenue

<sup>16</sup> *International e-Economy Benchmarking: The World's Most Effective Policies for the e-Economy*, Booz / Allen / Hamilton for the Information Age Partnership, November 2002, available at [www.e-envoy.gov.uk](http://www.e-envoy.gov.uk)

**Making tax E-services more attractive** **4.35** Research on behalf of the NAO<sup>17</sup> suggested a number of incentives that could be added to the E-VAT service to make it more attractive, including later payment or filing dates, offering E-payment options at the same time and even making the service compulsory. The Revenue's on-line self-assessment service automatically calculates the tax return, making filing easier for customers and for the department.

**4.36** In part because they have unified tax administrations, countries such as Australia, Canada and the US have been able to improve take up by providing 'bundled' services for tax intermediaries and customers through a single business tax portal. In the UK there has been no single tailored gateway for business to taxation services – separate tax authorities have resulted in there being no access to information, on-line authentication and services across the tax system. Bundled services – providing information, on-line application, E-payment and other benefits in one place – are routinely provided by the insurance industry, which offer advice, ready reckoners to test different scenarios, and on-line applications in one place. This model has been echoed by the tax credits on-line service, where applicants can go on-line to check their eligibility (information); use a ready reckoner to check entitlement (service) and then apply on line (service), all in one transaction. So far, 11% of New Tax Credit claims are via the Internet, representing 17% of families.<sup>18</sup>

**Compulsory use of electronic services** **4.37** Many banks are now migrating customers to electronic channels, including providing financial incentives for new business customers using Internet or phone banking, which embed electronic transactions in business processes.

**4.38** Government strategies need to encourage take-up by specific customer groups, with wider use of incentives and compulsion considered for some groups. Intermediaries (banks, software developers and accountants) will also be well placed to deliver services as the E-economy matures.

**4.39** The Carter report<sup>19</sup> has set out a timetable for compulsory E-filing of employers' end of year PAYE returns. In response, the Government has introduced legislation mandating businesses with 250 or more employees to do so by end 2004-05, whilst smaller businesses have until 2009-10, although with financial incentives for earlier uptake. A similar segmented approach to business customers is being taken by Customs.

**4.40** With banks deliberately migrating customers away from cheques, one report<sup>20</sup> notes that, in future, businesses may only use a company chequebook to pay Government – at which point banks themselves would question the viability of keeping paper-based channels open. As the E-economy matures, the incentives for collecting information electronically, for customers, Government and the wider economy will increase, and the new department should be at the forefront of driving the Government's E-services agenda.

<sup>17</sup> Margetts, H and Yared, H on behalf of the National Audit Office, *Incentivisation of e-government*, 2003, available at [www.nao.gov.uk](http://www.nao.gov.uk)

<sup>18</sup> Source: the Revenue.

<sup>19</sup> Carter, P, *Review of Payroll Services*, September 2001, available at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

<sup>20</sup> Margetts, H and Yared, H on behalf of the National Audit Office, *Incentivisation of e-government*, 2003, available at [www.nao.gov.uk](http://www.nao.gov.uk)

**4.41** The development of better technology to serve customers and the departments, along with the linked idea of business identifiers holds out the possibility that pre-population of forms could be developed. As noted below, countries such as Sweden and Denmark are able to pre-populate forms extensively by drawing upon data from bank accounts. This might be controversial in the UK, and would need consultation. However, given that the Revenue already receives considerable data about employees from employers, there may be scope for using this existing information for pre-population.

**4.42** Overall, making progress in E-services offers the prospect of substantial benefits in for customers and for the revenue departments, both in terms of effectiveness and efficiency. The departments' E-services have not been successful in all areas, but there has been significant progress in recent years. The establishment of a new department provides the opportunity to build upon this progress.

### Business identifiers

**4.43** One of the main barriers to taking a whole customer view and sharing data on business customers is the difficulty in matching information across different IT systems and taxes. This is not to say that data matching is impossible – Customs are currently running a pilot to target businesses that have failed to register by matching Revenue data against their own records, and staff in both organisations can manually check customer records across a number of systems in the course of routine work. This is however a far cry from the ability to draw together all relevant aspects of a customer's record electronically and immediately, for example to support call centre staff in handling a query. Unique business identifiers have been adopted in other countries (see Box 4.8) as a way of making data matching easier, thereby contributing to the development of a whole customer view.

#### Box 4.8: international business identification

In 2000 the Australian Taxation Office established the Australian Business Number, and Register, with a budget of A\$128.8 million over four years. This formed part of wider changes, which included integrated accounting and harmonised reporting obligations across the tax system. These changes aimed to provide a single point of collection, verification and storage for basic business information (some of which is publicly available).

Registration has exceeded expectations, due in part to the fact that a Business Number is required to register for Goods and Sales Tax (equivalent to VAT), and tax must be withheld from payments to suppliers without a Business Number. Whilst the Register does help to draw together business roles for tax, a recent report<sup>21</sup> by the Australian National Audit Office points out that: businesses still need to quote a separate Tax File Number when lodging income tax returns; maintaining the integrity of data remains a challenge; and most importantly that legislative barriers and delays in achieving full functionality have meant limited progress towards the original aim of a 'Tell Once Use Many' whole-of-government system.

(continued overleaf)

<sup>21</sup> Administration of Australian Business Number Registrations, ANAO Report no. 59 2002-03, available at [www.anao.gov.au](http://www.anao.gov.au). Other content in this box is sourced from Review Team interviews.

**Box 4.8: international business identification (continued)**

Following the integration of the Canadian direct and indirect tax administrations (see Chapter 3), Canada adopted a Business Number in 1995. Businesses are required to have a Business Number, and provide other basic data (e.g. up to two business names, and two addresses) for the main business taxes, and for payroll. For each transaction, the Business Number is required, along with extra codes relating to the account type (e.g. payroll) and location. For complex businesses, numbers are required for each partnership or company.

Registration links the Business Number with the social insurance number of at least one owner or director, facilitating risk assessment and intervention through the linking of records. The Business Number has provided a number of benefits by facilitating links between previously disassociated data sets. For example, corporate income (corporation) tax information can be linked via shareholder listings to individual taxpayer returns.

The Danish Customs and Tax Administration uses long established personal and business identification numbers, which are used across government and also more widely, for example a personal number is required to set up a bank account. The schemes are separate, so for instance a sole trader will use their personal number for income tax and have a separate number for their business, but these records can be linked. The systems of unique identifiers are at the core of compliance work (for example new business registrations can be checked against owners' records) and service delivery (for example obtaining information automatically from banks or from companies' own systems, saving them time and expense). Some of the benefits of this system however, for example pre-population of personal tax returns with information from banks and employers, would not be transferable to the UK at present as they rely on the use of identification numbers beyond government.

**Challenges 4.44** Unique identifiers offer significant potential gains, but are not straightforward to introduce. Different names, premises, transactions, organisational levels and descriptions of business activity are relevant for different purposes. One business may play the roles of employer, VAT trader, importer, payer of Corporation or Income Tax, intermediary, and so on. Even greater complexity arises for groups of companies, which may be differently defined for tax and commercial purposes, with different interpretations of which parts of a group constitute a single business. A single reference would have to be 'pinned' to a core set of business data, but it would be difficult for such a core to cover all the necessary perspectives to allow all relevant data to be matched.

**4.45** One Government project<sup>22</sup> that examined the issue of a unique identifier concluded that a single number for all Government purposes (as opposed to a single number for taxation purposes) was not possible, and that the solution should be to enable data to be flexibly matched. This could take place through a 'virtual data hub', drawing on (as opposed to incorporating) existing information sources and databases in the public and private sectors. A hub could reduce duplication in data requested from customers, and could be accessed by customers to view or amend their own data. Within such a structure, referencing for tax could be rationalised, as a step towards a unique identifier.

<sup>22</sup> The Business information in Government project addressed the need for better business identification. It ran from 1999-2001, and involved the Revenue, Customs, the Office for National Statistics, Companies House and the Department of Trade and Industry. Further information and a summary report of the project are available at [www.statistics.gov.uk](http://www.statistics.gov.uk).

**Data matching and identifiers** **4.46** There is to some extent a circular relationship between data matching and identifiers. An identifier can be a tool to link data that would otherwise be separate. However, for an identifier to be effective, there must already be some data matching underway. The departments do currently conduct some data matching, internally and across departmental boundaries. Customs is currently running a pilot in its Northern region involving matching of Revenue data against Customs' records in order to target businesses that have failed to register. More broadly, Customs is examining common re-useable elements in the process of registration, to avoid duplication in the future. This type of approach, taken forward by an integrated department, would support steps towards fuller data matching and a whole customer view, as well as having possible application across Government in the future.

**4.47** As noted above, extending the scope of E-services is part of the departments' existing strategies. Business identification could be developed as part of the extension of E-filing; this is the approach that is being taken in France.

**Recommendation: the new department should consider the possibility of introducing a single business identifier as part of its efforts to improve interactions with business customers.**

## Information strategies

**4.48** Many of the necessary improvements in information use in the new revenue department will come from implementing the departments' existing strategies, adapted to take account of the opportunities presented by the new environment.

**4.49** This Chapter has illustrated the common drivers for the revenue departments in terms of the importance of information, some of the current barriers, and the strong links with customer service, E-business and IT agendas. There are therefore strong similarities at the core of their plans for information, in particular with regard to strengthening basic data quality, accessibility, flexibility and consequently analysis, and driving forward efficient electronic service channels both to provide and to collect information. In addition, both are starting to develop information or knowledge centres, which are discussed below.

**Revenue's strategy** **4.50** There are however some differences of emphasis in their detailed approach. Revenue's Information Resources team act as a focus for data, information and knowledge management, and have developed the department's Information Strategy. This strategy aims to ensure that:

- data are managed effectively as a corporate resource;
- data can be used in a timely, straightforward and cost-effective way; and
- information is accurate, up to date and complete.

**4.51** Some early work has focussed on internal information use, including records management strategy and improvement of staff access to information through the Revenue's intranet. Another strand of work has comprehensively analysed the department's information requirements, and suggested areas for rapid action and for development, including:

- better customer understanding and improved risk assessment, for example by respectively improving the use of contact centre data and focussing on analytical tools in relation to companies; and

- a strong focus on management information to enhance resource use, including fuller exploitation of electronic human resources systems, and better operational management information in finance and resourcing, moving towards full enterprise resource planning.

**Customs' strategy** 4.52 Customs' approach is driven by its development of a strategic operating model aligned around five business capabilities: direction, intervention, customer service, support services and knowledge. Information and knowledge are therefore a central stream in its business change programme, prioritised alongside other projects to deliver the business transformation envisaged in the operating model.

4.53 In support of the central role of the knowledge capability, Customs' aims include the development of a departmental data repository, to be a single authoritative information source. This data warehouse would be developed incrementally, building on existing systems and bringing in data streams over time. Whilst Revenue also plan to improve data matching and management, making some use of data warehousing, the greater scale of their information means that they place less emphasis on a single warehouse.

4.54 In line with their aim of becoming "the best risk manager in the public sector, comparable to the best in the private sector",<sup>23</sup> Customs' other key priority is in continued improvement of risk analysis, through pilots, new risk models and the development of national strategic pictures of trends.

**The future** 4.55 These existing plans will need to be adapted to the business strategies and priorities of the new department, to ensure the strongest solutions in the longer term with a continued focus on:

- improving operational management information, resource and cost understanding, and workflow systems to distribute work based on risk and capacity. These can be overlooked in meeting immediate priorities, but are essential for an effective and efficient organisation;
- measures to improve data quality, consistency and flexibility and establish trusted data sources, including planned systems improvements, use of new tools, and establishment of consistent data standards, reducing duplication and making progress towards the whole customer view;
- exploitation of these improvements to inform analysis for policy and risk assessment; and
- cultural change and further improvements to knowledge management.

**Recommendation: investment in management information systems should be a priority, in order to support more effective and efficient resource deployment and accountability for it.**

## Information governance and the knowledge centre

4.56 Achieving the changes set out above will require strong governance arrangements for information and an integrated knowledge centre.

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<sup>23</sup> Source: Customs Annual Report.

**4.57** Box 4.9 summarises the departments' current knowledge centre plans. The exact approach to knowledge management would clearly be for future management to develop, in line with business process improvement. Specifications for a new joint knowledge centre will depend on departmental needs and future priorities. One role for a new governance structure will be establishing the best way forward based on current plans, the reality of existing data and systems and any new possibilities. A joint knowledge centre may describe both IT systems and a management unit or units, and should act as an intermediary and service provider in converting the departments' data assets into knowledge and business benefits. It might do this by:

- maintaining an overview of the data sources available, improving clarity on the totality of information available;
- being closely involved in developing data solutions and exploring options including data warehouses and data cleansing, as well as being a centre of expertise on data interrogation tools and techniques in support of managing risk and understanding customers;
- devising solutions to business data needs and offering a 'helpdesk' facility; and
- identifying opportunities to improve data use and accessibility, for example supplying pre-processed data on trade statistics, so that the benefits of information assets are fully exploited.

**Box 4.9: existing departmental plans – the role of a knowledge centre**

The development of a knowledge or information centre figures in the Revenue and Customs' existing information programmes, though with differences in emphasis.

Customs has established a knowledge centre as part of the knowledge capability envisaged in their operating model, incorporating information law experts, library and audiovisual teams, information and knowledge management teams and some analysts.

Revenue has had close links with DWP's development of an information centre on individuals, and, drawing upon this example, envisages a slightly looser information centre arrangement than Customs, based on new systems and under the direction of their information resources team. Some groups such as analysts would be 'expert users' of the systems rather than directly within the centre itself.

Despite these differences, there are significant areas of common ground:

- in both cases, the centres are closely linked to the establishment of data warehouses or data marts;
- neither Revenue nor Customs envisage physically centralising or re-locating staff, but both are concerned to strengthen the links between key groups of workers; and
- both see a role for a knowledge centre as an intermediary between knowledge capabilities and the wider business, for example exposing trends that may lead to a change in business priorities, helping the business to converge on areas of greatest benefit through effective information use.

**4.58** It is likely that this centre will need to be developed in stages, extending management links between knowledge workers and adding data streams or capabilities as wider information, data and systems improvements are put in place. Creation of the centre will require the investment of considerable resources over time. A knowledge resource can be costly to build up, but if properly done in line with business needs it can pay very significant dividends, informing better policymaking (including forecasting of revenues), improving customer service and effectiveness, and contributing to efficiency.

**Governance 4.59** Closer working between the revenue departments has highlighted the risk that where priorities, budgets and accountabilities are separate this leads to the development of separate and sometimes divergent approaches. This and the recognition in both departments that information is central to their operations suggests that there is a case for a Board member with explicit responsibility for information and analysis within the new department. High level targets and the supporting target structure should also provide incentives for, or at least not discourage, effective information use across organisational boundaries within the new department and in support of policy work, as well as cooperation with others such as DWP.

**4.60** Below Board level, an information steering structure will be needed to take an overview of information strategy, drawing in representation from the wider business to ensure alignment with wider priorities and particularly with IT development (which is integral to information strategy). This structure might also have a role in directing resources, and would need to take account of the recommendation in Chapter 5 that a new unit responsible for tax analysis and statistics should be created, building upon the existing resources. Finally, it will need to ensure that information is a resource not just for the new department, but other departments with a strong interest such as DWP.

**4.61** The new department will therefore need to consider the best governance structure for information, to take forward the recommendations of this review and ensure that:

- information and IT strategies align with one another and with business processes;
- short to medium term incremental development projects do not lose sight of the longer term aims;
- improvements to systems and data possibilities are translated into more effective information use in practice; and
- new opportunities from improved information are recognised and acted upon, with virtuous circles of feedback, learning and development.

**Recommendation: the management of the new revenue department should establish a unified information strategy, with strong information governance arrangements and a joint knowledge centre, as part of a re-engineering of business processes. Existing information activities should be reassessed in the light of this.**

**An outward looking department 4.62** The new department will make up a large part of the Government's interactions with citizens and businesses. The costs paid by citizens and businesses in interacting with the new department should not be duplicated by other arms of Government. The improvements in the use and management of data in the integrated department set out

in this Chapter would facilitate wider improvements, for example where data is shared with other departments such as DWP, and in the production of national statistics.

**4.63** The Allsopp Review of Statistics for Economic Policymaking<sup>24</sup> recommends greater access for the Office for National Statistics (ONS) to administrative data, in particular that collected by the revenue departments. Revenue department data already plays an important role in national statistics, but improved data and access to it could potentially reduce the costs currently imposed by ONS seeking data directly from businesses. Direct access to the new department's data by ONS would require legislation. The new department would also benefit from improved access to ONS' data analysis. Given the importance of business data, there is also a case for examining links with Companies House.

**Recommendation: as part of the creation of the new department, links to other parts of Government such as the ONS and DWP, and external organisations, should be maintained and strengthened.**

**4.64** This Chapter has considered priority areas for the new department, and indicated areas where the management of the department should drive forward as part of the creation of the new organisation. The following Chapter considers an area that depends heavily on effective information: the arrangements for making policy.

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<sup>24</sup> *Review of Statistics for Economic Policymaking – First Report*, Christopher Allsopp, December 2003.

