HM Revenue and Customs: Our Lean Journey

Learning to Adapt, not Adopt

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What we do

HM Revenue and Customs (HMRC) is UK’s tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK’s public services and help families and individuals with targeted financial support.

We are one of the UK’s biggest organisations. At 31 March 2016, we had around 58,600 full-time equivalent employees in 167 offices across the UK, collecting tax and duties from 45 million individuals and more than 5.4 million businesses, and paying tax credits to 4.4 million families and Child Benefit to 7.4 million families. We also work with a number of other government departments to help deliver their objectives; for example, in collecting student loans and in enforcing the National Minimum Wage and National Living Wage.

To give an idea of the size and scale of what HMRC does, our performance in 2015 to 2016 included:

£536.8bn total tax revenues - that’s £19.1 billion more than the previous year, an increase of 3.7%. We’ve now brought in record total tax revenues for the sixth consecutive year

£26.6bn compliance revenues secured - making a total of more than £110 billion since 2011 to 2012

£14.9bn tax protected through successful litigation

£210m annual sustainable cost savings, exceeding the target set by the government

754,900 tax credits customers renewed online using our digital service - almost double the 2014 figure

46,000+ staff attended 616 Building our Future events across 84 locations to discuss our transformation

2.5 million people are now using the new online Personal Tax Account

89% of Self Assessment returns were done online by the 31 January deadline - a new record

94% of all customs clearances for trade cleared within 2 hours
**Efficiency**

We exceeded our 2010 to 2016 investment and efficiency commitments by continuing to drive out efficiency savings. We made £210 million sustainable cost savings in the year 2015 to 2016, and have now made £1.2 billion in savings since 2010, exceeding the targets set by government.

Over the next four years in total, our digital transformation will contribute £643 million to our efficiency savings target.

The efficiencies we have delivered, together with increasing revenues, mean that the cost of collecting taxes in the UK dropped from 1.11 pence in the pound in the year to 2006, to 0.63 pence in the pound in the year to 2011, to 0.55 pence in the year to 2016. This means we have halved the cost of collecting taxes in the UK over the last ten years.

In the year 2005 to 2006 HMRC running costs were £4.1bn. Ten years later, in the year 2015 to 2016 HMRC running costs were £3.58bn. Over the ten year period that HMRC has been using Lean we have seen our running costs reduce and our staff numbers reduce. In the same period the amount of revenue we collect has increased and the way we interact with our customers has changed, for example in the year 2005 to 2006 two million individuals submitted their tax returns online, in the year 2015 to 2016 over nine million individuals submitted their tax returns online.
Transformation

HMRC is going through a major transformation to deliver new and improved digital services. We have a bold vision for the future of HMRC. Over the next few years, we will invest a further £1.3 billion to transform into one of the most digitally advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a digital-by-default organisation.

We will transform the tax system by introducing simple, secure and personalised digital tax accounts, removing the need for annual tax returns. This will give individuals, businesses and their authorised agents a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe and payments they are due to receive. These reforms will deliver the biggest transformation of the tax system in a generation, making it more effective, efficient and easier for taxpayers.

We want the customer experience to be consistently excellent by building on our progress in rolling out new digital services that will make dealing with tax and payments quicker, easier and more efficient for millions of our individual and business customers.

At the same time we will be transforming how we work together within the Department. We plan to bring our employees together in 13 large, modern offices, equipped with the digital infrastructure and training facilities needed to build a more highly-skilled workforce, with a greater opportunity to build their careers.

We are committed to improving our understanding of the needs of our customers. We will support our employees to enable them to give their best, feel they are treated fairly and valued for their contributions, and be able to progress their careers.

We need strong leaders to take us through change and people with the skills required to work in an increasingly flexible environment, so we continue to invest in leadership and skills.

Continuous Change needs Continuous Improvement

This major transformation makes it essential that HMRC uses Lean and other continuous improvement methodologies to identify and make the most of the experience and knowledge within the organisation.

We don’t want to simply turn our current paper-based processes into new digital services, we want to ensure we are designing improved, simpler, easier to use services and using the experience of our people to inform those designs and change the way we work with each other to make the most of the opportunities and changes we are facing.

Like most organisations, change is a constant in HMRC. The current transformation agenda is massive but it’s not the first, and won’t be the last, major change the people working here have experienced.

In 2005 two former government departments came together to create HMRC – the Inland Revenue and HM Customs & Excise. This merger brought together the tax authority and the customs authority, creating a new department with about 100,000 staff and 600 offices. The need to bring two very different organisations together led to the start of HMRC’s Lean journey.
Different phases

HMRC has been using Lean for over ten years. We started with a small trial looking at how Lean could help improve the efficiency of one of our large volume annual cycles of work. This led to us developing our own approach called “PaceSetter”. An outline of our PaceSetter journey is:

2004   The first Lean trial looking at the processing of tax returns, with an emphasis on looking for efficiency savings.
2006   PaceSetter is launched in the large processing operational teams. The approach sought to combine process improvement and developing leadership capability. At this time the trade unions objected to the standard procedures being too rigid.
2007   The process improvements within teams using PaceSetter leads to other areas wanting to launch it in their areas.
2008   PaceSetter is rolled out across HMRC. The PaceSetter Roadmap is launched.
2009   HMRC Vision, Purpose and Way launched including the statement that “We drive continuous improvement in everything we do” as part of the HMRC Way.
2010   PaceSetter is accredited by Cardiff University’s Lean Enterprise Research Council. HMRC start to train staff from other government departments to share our Lean approach.

A joint statement is agreed with the trade unions that PaceSetter applied correctly helps “continuously improve the service HMRC delivers, from the perspective of the customer experience, involving the people who do the work. This will remove unnecessary and time consuming bureaucracy within working practices, improve efficiency, and improve the quality of customer service.”

2013   HMRC achieves “Universal Coverage”, every team is using PaceSetter to drive performance improvements
2014   HMRC sets a new ambition to use PaceSetter to aim to be the best continuous improvement organisation in the public sector and an exemplar to others.
2015   HMRC runs assessment centres to understand the capability of the expert PaceSetter resources and puts in place learning to broaden their skill sets, complementing Lean with other methodologies to support to the transformation of end to end processes and working methods.
2016   The emphasis on the culture and behaviour needed to sustain continuous improvement is strengthened. Progress across the different locations and work areas is compared to inform a refresh of the support for leaders.
Learning on the journey

HMRC’s PaceSetter Journey is a success story. We have made substantial efficiencies and our workforce has reduced substantially in size, while performance is improving year on year.

This balance of cost reduction and performance improvement has not come easily. Transformation of an organisation of the size and scale of HMRC is a complex task.

Lean has its origins in manufacturing. HMRC’s environment is in the public sector, dealing with a great variety of customers with very different needs and expectations, and much of our work is considerative.

We have made mistakes in adapting Lean to HMRC. There are many lessons we have learned and definitely things we would do differently if we were starting from the beginning again.

We have shared our lessons with colleagues in some other UK government departments, shortening their journeys considerably. Hopefully by setting out some of our lessons here we can help shorten your journey towards embedding continuous improvement into your organisation’s day to day work too.

Lessons

1. It works!
   We have made mistakes but we have achieved significant efficiency gains and changed the way we work. Discussions about data and performance have become accepted, and expected, as simply part of how everyone in HMRC works. Performance boards are used in every part of the organisation, including at the very top in the Executive Committee meetings.

   Results are improving year on year. The teams that have fully embedded PaceSetter into their day to day work are the teams with higher performance levels, higher employee engagement levels and higher levels of communication and involvement between the different roles and management layers.

   If we were starting again we would do some things differently but we would still want to introduce Lean thinking to HMRC.

2. Targets drive behaviours
   The books about Lean will tell you about the dangers of targets and how people will work towards a target even if it distorts behaviour and leads to unintended consequences. Even knowing this, we went down this path.

   We introduced a PaceSetter Roadmap showing the steps we would expect each part of the business to go through on their way to fully embedding continuous improvement as a way of working. It helped teams understand what they needed to do.
Then it became a target. Teams were measured against the PaceSetter Roadmap and we set a goal of every team reaching a certain point by a certain date. So they did. They made sure they had evidence of each of the steps on the day that their progress was being assessed.

Some teams found that, as they worked to make sure they hit the target, they liked this way of working and it helped their performance so they carried on. Others had done the minimum needed to satisfy the target and didn’t carry on once they were no longer being checked.

The books are right, even targets with the best of intentions can drive unwanted behaviours and so don’t achieve the outcome you want.

3. **Watch your language**

We trained our managers and specialist practitioners on the Lean tools. We taught them a lot of detail about a lot of tools. We used the Lean terminology for the tools and then added to it with some of our own jargon until we had built a new language.

We focused too much on the tools and language without ensuring our people really understood the principles of Lean and the practical application of the tools. We have since simplified the tools that most managers use, training a few specialists in the rest to provide support when appropriate. Some of the language has seeped into day to day use, most of the rest we have stopped using. We now talk about continuous improvement and the principles in straight forward language.
4. **Tools can become rigid templates**
   Our focus on the tools meant that many of the tools were turned into templates and forms. Those templates and forms were completed because they existed. Completing the template became the objective. People were completing them without understanding why or how to use that information to generate change.

   Where people didn’t fully understanding the continuous improvement cycle, Standard Operating Procedures became static. They were seen as the way to do work rather than a starting point to identify improvement. Standards became rigid and stifled innovation rather than encouraging it.

   We should have spent more time explaining why we wanted to use Lean and the difference people could expect to see in how they work. We should have focussed more on the behaviours, conversations and actions that would generate better ways of working, showing how the tools supported that.

   This is what we now focus on. Training for both managers and for specialist practitioners now has an equal emphasis on behaviours and techniques: effective change management is taught alongside problem solving.

5. **Check your enthusiasm**
   As the teams using PaceSetter achieved efficiencies and the cost savings grew, there was a growing excitement about how PaceSetter could deliver more savings if only more teams were using it. We rolled it out at speed across the organisation to the point that many people felt PaceSetter was being done to them rather than done with them.

   We didn’t listen sufficiently to the people doing the work and weren’t checking how ready they were for the changes being introduced. In our enthusiasm we lost the engagement of the very people who needed to be at the heart of the new ways of working.

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**PaceSetter statement (2015)**

PaceSetter is how we improve performance, leadership and engagement in HMRC.

We aim to be the best continuous improvement organisation in the public sector and an exemplar to others.

PaceSetter gives us the tools and techniques to achieve this, bringing better performance, better engagement and better leadership.

*Through visual management tools,* we’ll all be able to see how we’re performing and how we contribute to HMRC.

*Through problem-solving tools and techniques,* we’ll all be empowered to use our knowledge to make things better for our customers.

*Through the effective use of data,* we’ll all be able to understand what we’re doing well and where we could do things better.

Every day at every level, we’ll all play our part in making HMRC a modern and mature continuous improvement organisation.
6. **Adapt not adopt**

HMRC is a large, complex organisation. We started using PaceSetter in our large volume operational offices. Significant amounts of duplication and waste were taken out of their processes. So we rolled out the same approach to other parts of our organisation.

What worked in a customer-facing contact centre didn’t resonate with a Minister-facing policy unit. We found that we needed to adapt our approach for our different business areas and not ask them to all adopt exactly the same tools and techniques in the same way.

We needed to allow flexibility in our approach in order to change the “It won’t work for us”, “You can’t do that here”, “It doesn’t work for us, we are different” into “It will work if we adapt it”, “It can be done if we work together”, “Let’s go and see somewhere that’s like our area where we know it does work”.

7. **Better engagement, Better performance**

Employee engagement scores are not high in HMRC. Within the overall position, we can see that where leaders are encouraging continuous improvement conversations and actions, where teams are involved in understanding and improving their work and services to customers, employee engagement levels increase. Where employee engagement levels increase, performance increases.

HMRC started using Lean to help us meet some challenging efficiency targets. Now we focus more on the principles of Lean and involving the people doing the work in improving our services to customers. In turn we are finding teams are talking more about continuous improvement and are using PaceSetter as a way to support employee engagement, which is delivering efficiency savings as a consequence of the improvements made by a more engaged workforce.

8. **Leadership matters**

Applying some Lean tools to your high volume processes can generate some impressive efficiency savings, but this won’t give you a Lean thinking organisation. To build continuous improvement into how your organisation works, and to sustain that over time, you need to lead from the top. Senior managers need to demonstrate their personal commitment and involvement. All leaders, at every level, need to lead by example and get involved.

It is vital that the behaviour of your leaders matches the behaviour your Lean approach is describing.

We put a lot of effort into training our senior leaders on “Leading in a Pace Setter Way”. We put a lot of effort into supporting our front-line teams to understand their customers and processes. However, we put less effort into supporting our middle managers.

This led to a break in the chain for solving problems. Improvement ideas that the teams couldn’t act on themselves were passed up the management chain but we hadn’t equipped the middle managers to know what to do next to resolve them. Ideas became stuck and credibility was lost.
Implementation isn’t a choice between “bottom up” or “top down” or even a combination of both of these, you need to equip every level of your organisation to understand what you want to achieve and their role in that.

9. **Persistence is required**

HMRC have been using PaceSetter for over ten years. We’ve come a long way and made many improvements to how we work, but there is more we can do.

After the initial push to train all our managers we stepped back and thought the job was done. Doing this meant that we relied on new managers learning about PaceSetter from their colleagues – with mixed results. We now realise that the training of new managers and induction training for new staff has to be constant and consistent if we want a sustainable change to the way we all work across the organisation.

There are parts of HMRC that are working in a Lean way. There are highly engaged teams with autonomy to drive improvement. These teams and their leaders have a high level of understanding about how to use the different tools to drive better performance and greater customer understanding. They share best practice and work together to keep learning and improving.

There are other teams that regularly discuss their performance and want to be continuously improving but still struggle to see how PaceSetter can be applied to their work.

There are people who find it difficult to look past the mistakes we’ve made to try again to use PaceSetter in their team.

PaceSetter has been through highs and lows. Over the years we have put varying amounts of emphasis and effort into how we have used it. We have changed our approach as we’ve learned what has and hasn’t worked in different parts of the organisation.

There are still inconsistencies across the organisation but we heading in the right direction.

It takes time and is hard work. You need to keep going and celebrate your achievements along the way.

10. **You must continuously improve your approach to continuous improvement.**

The principles of PaceSetter have been consistent and are still valid. Our approach, how we explain the principles and how we share them across our organisation have changed, and will keep changing as we learn more about what works and doesn’t work, as our work changes, as our customers’ expectations change and as the environment we work in changes.

If we are asking everyone in our organisation to embrace continuous improvement then we must also continuously improve how we support them in achieving that.