



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **HM Revenue & Customs**

# Investigation into HMRC's contract with Concentrix

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National Audit Office

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HM Revenue & Customs

# Investigation into HMRC's contract with Concentrix

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 16 January 2017

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

13 January 2017

Our investigation considers HM Revenue & Customs' (HMRC's) contract with Synnex-Concentrix UK Ltd. The contract was designed to add capacity to HMRC's programme of interventions to prevent or detect error and fraud in personal tax credits awards. The investigation sets out the aims of the contract; the management of the contract; the decision to terminate the contract; and the impact of the contract termination.

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## **Investigations**

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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# Key information

## 1 Error and fraud in tax credits has been a significant challenge for HMRC

**Apr 2003**  
Government introduced tax credits to support low-income families. In 2003-04 the rate of error and fraud due to overpayments as a percentage of entitlement was **9.7%**

**Jul 2008**  
HMRC introduced a target to reduce tax credits losses due to error and fraud to 5.0% by Mar 2011. In 2008-09 the rate of error and fraud was **8.9%**

**Apr 2009**  
HMRC introduced a new strategy for tackling error and fraud, moving from detecting to preventing error and fraud. In 2009-10 the rate of error and fraud was **7.8%**

**2010-11**  
HMRC increased the number of error and fraud interventions from 123,000 in 2008-09 to 2 million. In 2010-11 the rate of error and fraud was **8.1%**

**£28bn**  
HMRC spend on tax credits in 2015-16

**2014-15**  
In 2014-15 the rate of error and fraud was **4.8%**

## 2 HMRC contracted with Concentrix to add operational capacity to review and correct tax credits claims

**May 2014**  
HMRC signed a three-year contract with Concentrix

**Sep 2016**  
HMRC announced it would not be extending the contract beyond May 2017

**Nov 2016**  
HMRC and Concentrix agreed to terminate the contract with immediate effect

**Sep 2014**  
Original contract start date

**May 2017**  
Planned contract end date

**Nov 2014**  
Actual start date for the contract

## 3 Concentrix had to follow HMRC's process for investigating claims

**a HMRC carried out analysis** to identify cases it considered to have characteristics that suggest the award may be incorrect

**d Claimants submitted evidence** and Concentrix made a decision, or claimants did not submit evidence and Concentrix made a decision

**e Claimants either** accepted the decision or requested a reconsideration of the decision

**b Concentrix carried out further analytics**, including data-matching and identification of anomalies using other third-party data

**c Concentrix wrote to claimants** requesting further evidence where it considered characteristics existed that suggested awards were incorrect

**4 Roles and responsibilities of HMRC and Concentrix under the contract**

**HMRC**

Responsible for ensuring tax credits are paid to claimants accurately, managing tax credits appeals and complaints, and monitoring Concentrix's actions

**Concentrix**

Responsible for engaging with tax credits claimants, collecting and assessing evidence and making decisions on whether amendment is necessary on an award

**Daily, weekly and monthly**

review of performance information from Concentrix

**5 The contract in numbers**

**104 of 242**

Applicable monthly performance indicators met by Concentrix, Nov 2014 to Sep 2015

**35%**

Percentage of calls answered in five minutes by Concentrix in Aug 2016, against a target of 90%

**£1bn** original estimated savings over the life of the contract

**£193m** estimated savings from the contract



**12%**

of investigated cases stopped or amended throughout the contract

**32%**

cases overturned following a reconsideration

**3.9%**

Commission rate paid to Concentrix between Nov 2014 and Sep 2015 for meeting performance and quality targets

**11%**

Commission rate paid to Concentrix under the contract between Oct 2015 and Sep 2016

**£32.5m**

total paid to Concentrix over the life of the contract

**670**

Weekly average of full-time equivalent staff HMRC reallocated to work on clearing outstanding Concentrix cases

**243**

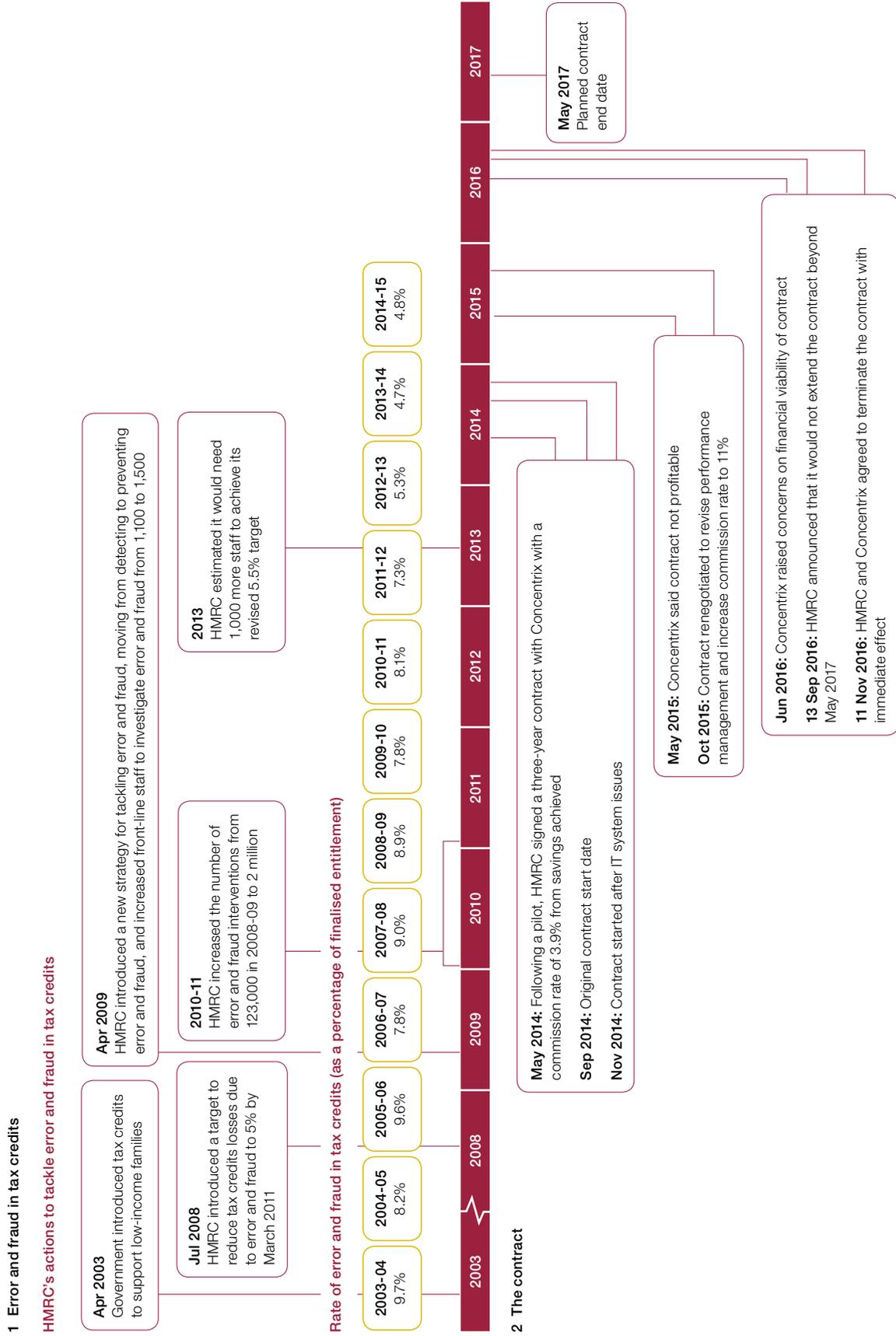
full-time equivalent staff Concentrix transferred into HMRC via a TUPE arrangement



## What this investigation is about

- 1** Personal tax credits were introduced in April 2003 to support low-income families. Awards are based on initial estimates, and finalised at the end of the year. Overpayments and underpayments are an inherent part of the system. The process for finalising awards relies on claimants providing complete and accurate data, and HM Revenue & Customs (HMRC) calculating awards accurately. Error and fraud in tax credits has been a significant challenge for HMRC since the government introduced tax credits in 2003 (**Figure 1**).
- 2** In July 2008, HMRC announced a target to reduce tax credits losses (overpayments) due to error and fraud to no more than 5.0% of the value of finalised awards by March 2011. To help it achieve the target, HMRC increasingly focused activities on cases with characteristics suggesting the tax credits award might be incorrect. However, by 2012, losses remained above this level. With pressure on public sector spending and resources, HMRC looked at different ways to further increase its capacity to review awards and reduce levels of error and fraud. This included a pilot to determine whether it could use a third party to check additional cases to create more processing capacity and innovation in the use of data.
- 3** In May 2014, HMRC signed a three-year contract with Synnex-Concentrix UK Limited (Concentrix) to provide additional capacity and analysis to review and correct personal tax credits as part of HMRC's compliance process for tax credits. Under the contract Concentrix was responsible for examining the risk of error and fraud in a proportion of cases either during the year or as part of the renewals process at the end of the tax year. Claimants are required to renew their claim each year by reporting actual income and circumstances.
- 4** In August 2016, MPs and the public raised concerns that Concentrix had incorrectly suspended or terminated a number of claimants' tax credits awards. For example, Concentrix mistakenly believed claimants were living with individuals unconnected to them. Substantial numbers of claimants also had difficulties contacting Concentrix to discuss their awards. It became clear the contract was not working as HMRC intended. Concentrix was not working on as many cases as HMRC had expected or meeting performance standards. In November 2016, HMRC and Concentrix agreed to end the contract and a number of Concentrix staff transferred to HMRC.

**Figure 1**  
Timeline of tax credits error and fraud and the Concentrix contract



5 This report sets out the facts about the contract between HMRC and Concentrix and its termination. Our investigation covers:

- the aims of the contract;
- the management of the contract;
- the decision to terminate the contract; and
- the impact of the contract termination.

6 Our findings are based on documents provided by HMRC and Concentrix, and interviews with staff from both organisations. Appendix One sets out our methodology.

# Key findings

## HMRC's aims for the contract

**1 HM Revenue & Customs' (HMRC's) contract with Concentrix aimed to provide additional processing capacity to check and amend cases, and innovation in the use of data to identify cases for investigation.** Concentrix selected cases to investigate from a group of cases that HMRC considered to have characteristics to suggest the tax credits award might be incorrect. These cases included claimants that HMRC considered to be at risk of misreporting childcare costs or hours worked, or failing to declare a partner. For example, Concentrix used credit reference agency data to identify potential undeclared partners (paragraphs 1.11 to 1.17 and 2.6 to 2.8).

**2 HMRC expected its contract with Concentrix to provide good customer service standards for claimants.** The contract required Concentrix to follow the same procedures as HMRC when investigating tax credits awards, after training provided by HMRC. Concentrix collected and assessed evidence on claimants' circumstances and determined whether the award was accurate. Concentrix then made amendments to those claimants' tax credits or stopped them altogether where it believed the award to be incorrect. HMRC continued to manage awards, recover any overpayments and deal with claimants' appeals (paragraphs 2.2 to 2.10).

**3 HMRC estimated in November 2013 that its contract with Concentrix would save £1 billion over the life of the contract.** HMRC estimated that Concentrix would provide additional capacity to investigate up to a further 1.5 million awards per year. Savings would come from stopping incorrect claims, reducing overpayments and the recovery of money already paid out. HMRC expected to pay Concentrix between £55 million and £75 million over the three-year life of the contract (paragraph 1.17).

**4 In March 2016, HMRC had reduced its forecast of expected savings to £405 million.** HMRC analysis identified that two main factors led to the reduction: a two-month delay to the contract start date because of delays in developing the IT infrastructure to transmit and manage cases; and Concentrix working fewer cases than HMRC originally expected. Concentrix, however, believes that the reduced level of savings was as a result of less fraud and error in the system and changes in the mix of cases it was given to work (paragraph 1.18).

## **HMRC's management of the contract**

**5 The contract included incentives for Concentrix to meet customer service and quality targets.** HMRC's business case recognised the risk of the supplier increasing profits at the expense of customer service. To mitigate this risk, HMRC reviewed a sample of decisions and associated actions each month to measure the quality of Concentrix's compliance decisions. HMRC also required Concentrix to meet key performance indicators (KPIs) for customer service. Concentrix reported to HMRC its performance against these KPIs on a daily, weekly and monthly basis (paragraphs 2.23 and 2.24).

**6 Between November 2014 and September 2015 Concentrix consistently failed to achieve more than half of its performance targets.** During this period Concentrix met 104 of a total 242 applicable monthly performance indicators. Its performance was worst during the peak renewals period in mid-2015. For example, in July 2015, it answered an average of 4.8% of calls within five minutes against the target of 90% (paragraphs 3.2 and 3.14).

**7 HMRC reduced Concentrix's commission payments by a total of £3.5 million over the life of the contract, after it missed quality and customer service targets.** HMRC paid Concentrix only for the percentage of cases meeting quality standards throughout the contract. In October 2015, HMRC introduced a further penalty that reduced the commission paid to Concentrix when it failed to meet customer service targets for handling calls and post (paragraphs 3.6 to 3.7).

**8 In October 2015, HMRC and Concentrix agreed to vary the contract, introducing a revision to the performance management arrangements and an increase in the level of commission payments.** Concentrix was set to earn less commission than it predicted as the savings identified by its work were lower than expected, and it questioned the value of continuing the contract. Concentrix's level of commission increased to 11%, compared with 3.9% (with a possibility to earn 6.9% if savings reached particular thresholds) in the initial contract. Under the revised contract, HMRC required Concentrix to report data under new performance measures and to enhance its planning (paragraphs 3.3 to 3.5).

## **Termination of the contract in November 2016**

**9 After some improvement, the performance of Concentrix fell again during the 2016 renewals process.** A number of factors contributed to the fall in Concentrix's performance in August 2016. Concentrix's failure to process compliance cases in accordance with its plan meant resourcing in call centres was not sufficient to meet the resulting increase in customer calls. Higher than expected terminations where claimants failed to renew their tax credits awards and IT issues in August further increased call volumes and delayed processing (paragraphs 3.10 to 3.11 and 3.16 to 3.17).

**10 By 20 September 2016 when the high-risk renewals process was scheduled to complete, there was a backlog of 181,000 open cases.** Although Concentrix opened 324,000 compliance investigations on high-risk renewal cases, as was planned, it did not conclude its enquiries and close the cases as it expected. This backlog of cases contributed to the higher than expected call volumes and to the higher than expected award terminations when claimants failed to renew (paragraphs 3.18 to 3.21).

**11 Concentrix was unable to cope with the volume of calls from claimants during August 2016, which were significantly above forecast.** Concentrix had initially estimated weekly call volumes at around 8,000 during August 2016, but call volumes reached six times this level. For example, in the week commencing 15 August, Concentrix received a peak of 48,000 calls, of which 19,000 were unanswered. Concentrix redeployed staff to call centres but this was insufficient to cope with the volume of calls and meet service standards, and was below the resourcing set out in its plan. This meant that some claimants were unable to contact Concentrix to discuss their award (paragraphs 3.22 to 3.24).

**12 More awards were terminated as a result of the renewals process than were expected, increasing demand on the call centre.** HMRC stops making provisional awards to tax credits claimants where they fail to renew their claim by 31 July. In 2016 the number of provisional awards terminated as part of the high-risk renewals process conducted by Concentrix was significantly higher than expected, at 45,000 against 21,800 anticipated in its plan. These higher than expected terminations would have been lower if Concentrix had processed more cases prior to 31 July (paragraphs 3.28 to 3.31).

**13 Concentrix's performance in August 2016 was also affected by IT failures.** A routine technical update to Concentrix's systems on 11 August 2016 prevented its staff from accessing or updating claimant details for a total period of 26 hours. This lack of access led to higher call volumes from 12 August onwards. There is evidence that some claimants had to call multiple times to get in contact with Concentrix. Concentrix cites two further IT failures in its and HMRC's systems as contributing factors (paragraphs 3.32 to 3.35).

**14 HMRC took steps to mitigate the impact of Concentrix's performance on claimants after the problems were escalated to its senior management on 5 September 2016.** On 7 September 2016, HMRC stopped passing new cases to Concentrix. HMRC reallocated a weekly average of 670 full-time equivalent staff between 12 September and mid-November 2016 to work on clearing a total of 181,000 cases returned from Concentrix. These staff were reallocated from working on HMRC's own tax credits compliance activity (paragraph 3.36).

**15 In November 2016, HMRC and Concentrix agreed to terminate the contract with immediate effect.** In September 2016, HMRC announced that it would not use the option to extend the contract beyond May 2017. Following discussions and consideration of options both parties agreed to terminate the contract (paragraphs 3.41 to 3.42).

## **Impact of termination**

**16 In total, Concentrix stopped or amended tax credits awards in around 12% of cases investigated, of which 32% of these decisions were overturned following a mandatory reconsideration.** Concentrix has stated that the average length of time for which claimants had their tax credits stopped and then subsequently reinstated was between six and eight weeks. Between November 2014 and mid-December 2016, HMRC had paid a total of £86,815 in compensation for complaints relating to cases handled by Concentrix (paragraphs 2.16 to 2.18).

**17 The contract with Concentrix delivered estimated savings of £193 million against a payment of £32.5 million.** Estimated savings are assessed as £223 million net of opportunity costs of £30 million relating to the diversion of HMRC staff to complete Concentrix cases. The payments to Concentrix included £23.1 million in commission and £6.9 million that related to mandatory reconsiderations where decisions were overturned and HMRC agreed as part of termination not to adjust payments to Concentrix, along with amounts for partly worked cases and sub-contractor costs following termination, and additional IT-related costs. HMRC did not meet any severance costs for staff leaving Concentrix following the agreement to terminate the contract. Concentrix told us that it made a loss of £20.5 million on the contract (paragraphs 1.19 and 3.45 to 3.48).

**18 HMRC will not replace Concentrix with another third-party provider.**

It transferred 243 staff from Concentrix under TUPE regulations who will now work on tax credits error and fraud interventions.<sup>1</sup> HMRC told us it had concluded that the risks of a third-party arrangement to customer service outweighed the benefits, notwithstanding the 'net positive' savings against costs it reports (paragraphs 3.49 and 3.50).

<sup>1</sup> TUPE refers to the Transfer of Undertakings (Protection of Employment) Regulations, which preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer.

# Part One

## Rationale for third-party support

**1.1** In 2015-16, HM Revenue & Customs (HMRC) spent £28.2 billion on personal tax credits, a benefit paid to support around 4.4 million low-income families.<sup>2</sup> In this part, we set out the background to error and fraud in tax credits and the rationale for the contract, including its aims and objectives.

### **Error and fraud in the tax credits process**

**1.2** Tax credits are an annual award (**Figure 2** overleaf). Because a household's income is liable to change during the year, the Tax Credits Act 2002 requires HMRC to make a provisional award and calculate awards based on estimated income. At the end of the tax year, claimants are required to renew by reporting actual income and circumstances. The renewal process:

- a** finalises the claimant's tax credits award for the previous year, reflecting their final entitlement; and
- b** estimates the claimant's entitlement for the following year.

**1.3** If a claimant does not respond by the deadline of 31 July, HMRC terminates payment of the provisional award for the following year because a valid renewal claim has not been made. The provisional award is reinstated where the claimant contacts HMRC within 30 days to re-confirm their entitlement.

**1.4** This process of finalisation can identify overpayments and underpayments where the information held by HMRC is not in line with claimants' actual circumstances. These overpayments and underpayments are not classed as error and fraud, as long as claimants have met conditions for reporting changes in circumstances. HMRC recovers overpayments against future awards or, where there is no current award, directly from the claimant. It makes awards directly to the claimant where an underpayment is identified.

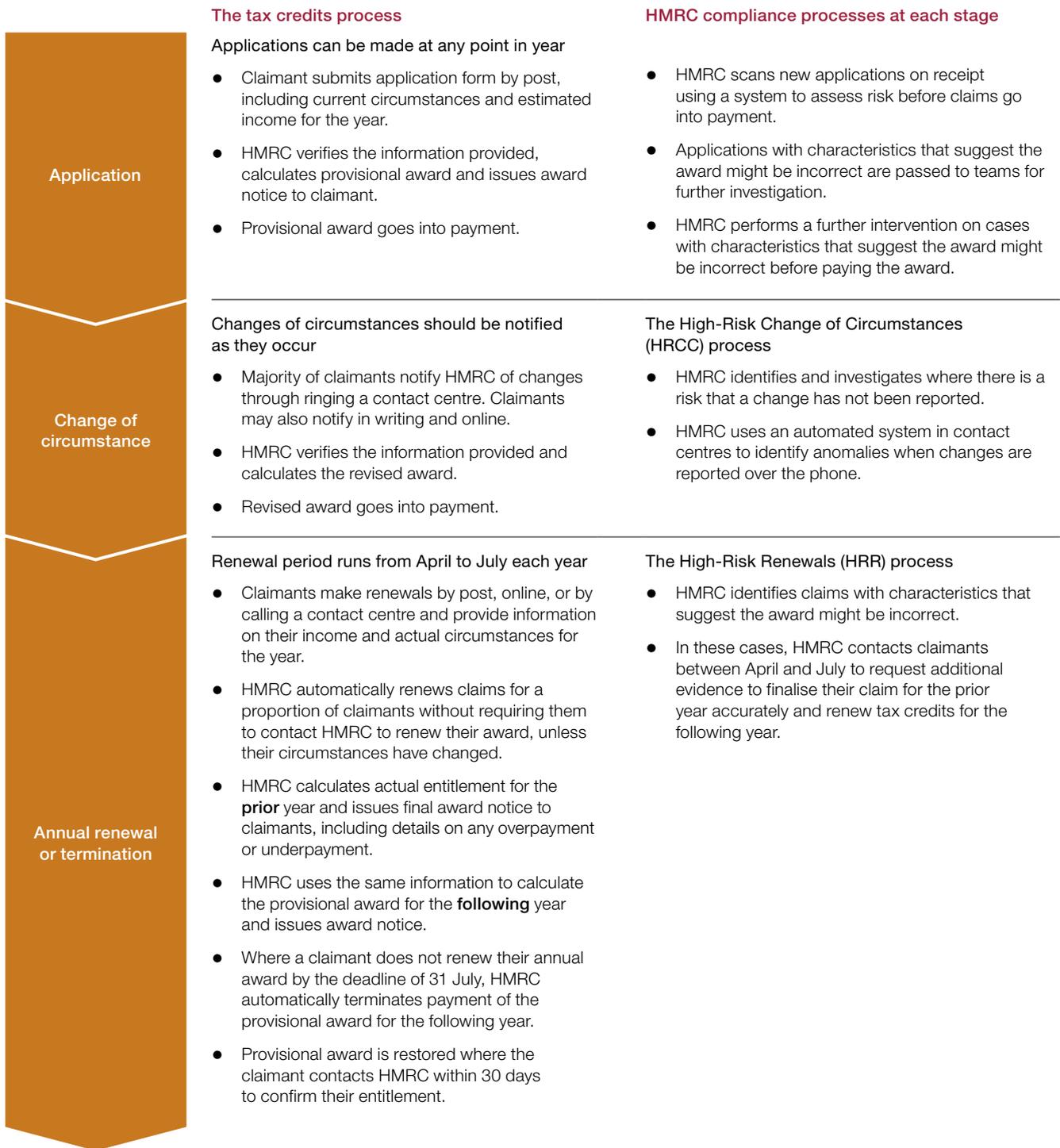
**1.5** Error occurs when claimants do not give HMRC accurate information on their circumstances before their award is finalised, or provide inaccurate information that they believe to be correct, or when HMRC makes a mistake when processing the claim. Fraud occurs when claimants knowingly give HMRC inaccurate information or deliberately conceal information to increase the value of their award.

<sup>2</sup> National Audit Office, *HMRC annual report and accounts: Report by the Comptroller and Auditor General*, July 2016, paragraph 4.1.

**Figure 2**

The process for claiming tax credits

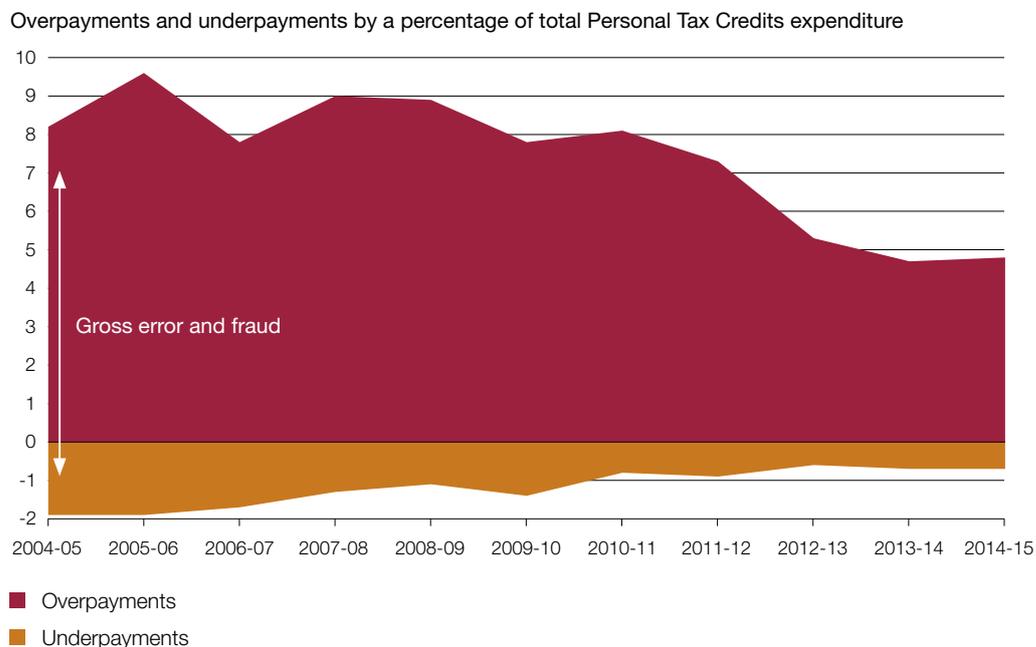
HMRC completes compliance checks at several stages of the tax credits process



**1.6** The level of error and fraud is a persistent concern in tax credits.<sup>3</sup> From 2004-05 to 2010-11, the HMRC central estimate of the level of error and fraud remained in the range of 7.8% and 9.6% of total finalised tax credits expenditure (**Figure 3**). In July 2008, HMRC announced a target to reduce overpayments in personal tax credits due to error and fraud to no more than 5% of the value of finalised entitlement by March 2011.

**Figure 3**  
Overpayments and underpayments by percentage of total tax credits expenditure

The rate of error and fraud has declined since 2010-11



**Note**

1 HMRC has set a new target for 2016-17 to keep error and fraud resulting in overpayments no higher than 5% of personal tax credits spend.

Source: National Audit Office analysis of HM Revenue & Custom's Child and Working Tax Credits Annual Error and Fraud Statistics 2014-15

## **Increasing capacity to tackle error and fraud**

**1.7** In 2009, HMRC reassessed its approach to error and fraud. It changed its strategy to move from compliance interventions that were largely designed to identify error and fraud after claims had entered the system ('pay now, check later') to interventions that were increasingly designed to prevent error and fraud from entering the system ('check first, then pay').

**1.8** At the same time, HMRC increased the number of error and fraud checks on claims from 123,000 in 2008-09 to nearly 2 million in 2010-11 and targeted the claims at greatest risk of containing error and fraud. It also increased the number of front-line staff involved in checking claims from 1,100 to 1,500.

**1.9** HMRC's change in approach involved disaggregating, by risk type, losses from overpayments to identify the underlying causes of error. To tackle error and fraud, HMRC uses interventions targeted at the six main causes of loss:

- disability (incorrectly reporting disability status);
- children (incorrectly including children or young persons on a claim);
- income (inaccurately reporting income);
- childcare costs (claiming for incorrect childcare costs);
- undeclared partner (making a single claim instead of a joint claim); and
- work and hours (overstating hours worked).

**1.10** In June 2012, HMRC published its performance for 2010-11 estimating the overall level of error and fraud in tax credits at 8.1%, a loss of £2.3 billion, and in excess of its 5.0% target. In November 2013, HMRC reset its error and fraud target to no more than 5.5% of finalised tax credits entitlement by 2014-15.

## Increasing capacity through use of third parties

**1.11** While HMRC expanded the number of staff dedicated to checking claims from 1,100 to 1,500 in April 2009, it only expected this to lead to a moderate (0.5%) decline in the rate of overpayments due to error and fraud. In order to achieve its new target of 5.5%, HMRC estimated in 2013 that it needed more than 1,000 further staff checking claims.

**1.12** Given pressure on public sector spending and resources, HMRC considered using third parties to increase capacity. In 2013, we also recommended that HMRC should evaluate ways to improve the quality and volume of interventions through the use of third parties.<sup>4</sup> This followed HMRC's experience of using credit reference agencies to identify new sources of data that it could use to tackle the undeclared partner risk.

**1.13** HMRC conducted a pilot to test whether the private sector could provide additional capacity for tax credits compliance interventions and to improve opportunities for using data. It ran the pilot with a private sector provider, Transactis, between March 2013 and July 2013. A separate contractor, Bosch Security Systems Ltd, was responsible for the customer engagement elements of the pilot.

**1.14** The pilot concluded that a private sector partner could provide additional capacity to deliver tax credits error and fraud interventions. HMRC selected 50,000 cases from the tax credits population that it believed were potentially incorrect based on the characteristics of cases that had error or fraud. These cases were passed to Transactis, who identified 16,569 cases to investigate further. After applying its own analytics to these cases, Transactis recommended stopping 5,430 awards and amending a further 3,422 awards. HMRC estimated that this prevented notional losses of £18.3 million over the nine-week period.<sup>5</sup>

**1.15** The pilot focused on two out of the six risk categories for error and fraud: 'children' and 'childcare costs'. As it was conducted in the period March to July 2013, it did not cover the entire year-end claims renewals process, which accounts for a large proportion of the cases HMRC reviews. HMRC structured the pilot to allow Transactis to demonstrate its ability to carry out HMRC's checks but not to make changes to the core IT system for tax credits.

**1.16** While the pilot focused on whether the private sector was capable of providing additional capacity, it did identify issues with call-handling and the accuracy of Transactis' decisions. Bosch Security Systems Ltd answered 14,344 (or 68%) of the 21,114 calls received. HMRC's final evaluation report concluded that customer service suffered as a result. The evaluation report found that the accuracy rate of Transactis' decisions was 70%.<sup>6</sup>

4 National Audit Office, HM Revenue & Customs, *Tackling tax credits error and fraud*, Session 2012-13, HC 891, February 2013, p. 11.

5 HM Revenue & Customs, *Tax credits error and fraud additional capacity trial: final evaluation*, May 2014.

6 Accuracy was measured by whether Transactis had issued the correct opening and closing letters and calculated the correct amendment or terminated the award, based on the claimant's evidence and in line with HMRC's guidance. HM Revenue & Customs, *Tax credits error and fraud additional capacity trial: final evaluation*, May 2014.

## HMRC's aims for the contract

**1.17** At the Autumn Statement in 2013, the government announced that HMRC would contract with a third party to provide additional capacity and additional data analytics capabilities to reduce the level of error or fraud in tax credits towards its 5.5% target. HMRC identified the expected outcomes from the contract in both its business case and the bid document it issued to potential suppliers:

- It estimated that a third party would investigate up to a further 1.5 million awards per year relating to the childcare costs, work and hours and undeclared partner risk categories, which had a relatively high level of error and fraud.
- It expected that the supplier would deliver an effective service to claimants without detriment to customer service, through achieving key performance indicators.
- It estimated that the contract would deliver a total of £1.03 billion in savings over the life of the contract from September 2014 to March 2017, by stopping incorrect awards, reducing overpayments and allowing the recovery of money already paid out.<sup>7</sup>

**1.18** Following successive revisions to the original estimate, however, expected savings at the Budget Statement in March 2016 were £405 million, some £600 million below the initial forecast. The downward revisions to the estimated savings reflected:

- a delay to the start date for Concentrix's work, from September 2014 to November 2014, due to delays in developing the IT infrastructure to transmit and manage cases; and
- Concentrix working fewer cases than originally anticipated (discussed in Part Two of this investigation).

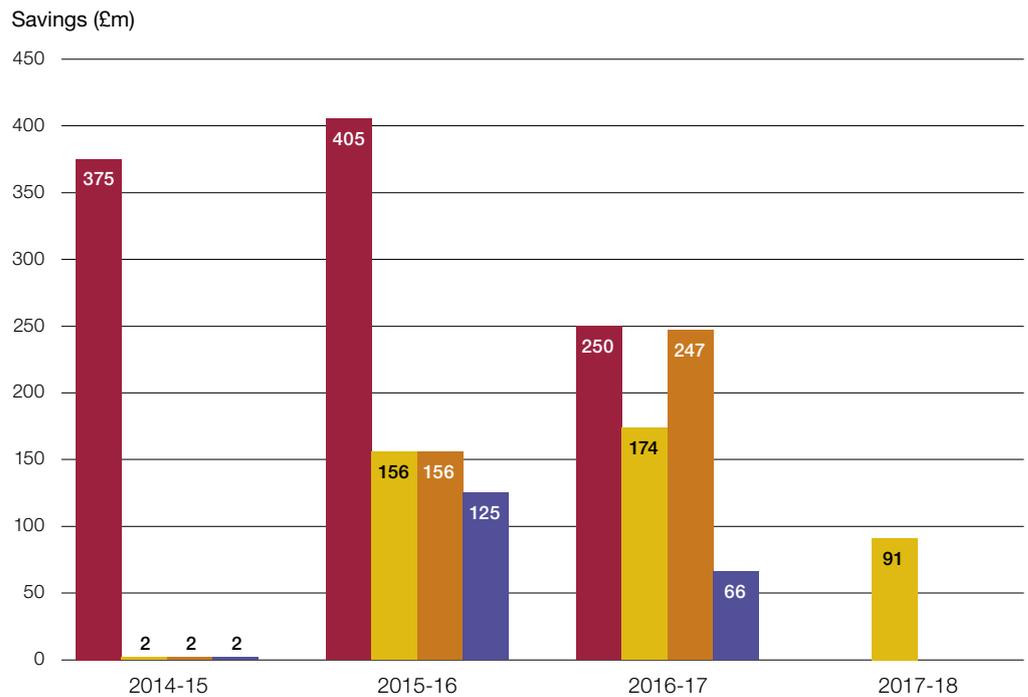
Concentrix, however, believes that the reduced level of savings was as a result of less error and fraud in the system and changes in the mix of compliance cases it was given to work.

**1.19** Over the life of the contract, total estimated savings at November 2016 were £193 million: £2 million in 2014-15, £125 million in 2015-16 and £66 million in 2016-17 (**Figure 4**).

<sup>7</sup> HM Revenue & Custom's estimate was based on a methodology agreed by the Office for Budget Responsibility.

**Figure 4**

Estimated savings from the contract, 2014-15 to 2017-18

**Estimated savings at November 2016 were much lower than initial estimates**

- Estimated savings: December 2013
- Estimated savings: July 2015
- Estimated savings: March 2016
- Estimated savings: November 2016

**Notes**

- 1 Savings are calculated as the recovery of incorrect awards already made and prevention of future overpayments.
- 2 Estimated savings are shown on an accruals basis. Cash savings resulting from actions taken may not be realised until later years. This is the primary reason why savings for November 2016 were estimated rather than actual savings.
- 3 Forecast savings published by the Office for Budget Responsibility are on a cash basis and do not match the figures used here.
- 4 Estimated savings at December 2013 are based on a contract start date of September 2014.

Source: National Audit Office

## Part Two

### Contract approach and performance monitoring

**2.1** HM Revenue & Customs (HMRC) is responsible for ensuring that tax credits are paid to claimants accurately and managed effectively. In this part we set out Concentrix's role and how HMRC managed the contract.

#### **Scope of the contract**

**2.2** Under the contract Concentrix undertook some of the compliance processes carried out by HMRC. It engaged with tax credits claimants, collected and assessed evidence and made necessary changes to their tax credits entitlement that fed through to HMRC's IT systems. HMRC retained responsibility for the management of tax credits awards, as well as appeals and complaints relating to the award.

**2.3** Unlike in the 2013 pilot (paragraphs 1.13 to 1.15), Concentrix worked on claims through the end-of-year renewals process. The checks made during the renewals period make up the majority of claims checked and account for peaks in workload during July and August each year (**Figure 5**).

#### **Concentrix's role: part capacity, part innovation**

**2.4** The contract required Concentrix to carry out interventions on a proportion of tax credits cases as part of HMRC's error and fraud compliance process. HMRC carries out a range of compliance processes throughout the tax credits cycle to investigate cases where there is potential for error or fraud. These include where claimants report changes of circumstances in-year, or as part of the annual renewals process. HMRC has undertaken interventions at these points in the tax credits cycle since it introduced tax credits.

**Figure 5**  
Overview of Concentrix's role in the compliance process

Concentrix undertook some of HMRC's compliance work for changes in circumstances and renewals

	HMRC compliance processes at each stage	Pilot scope	Concentrix role
Application	<ul style="list-style-type: none"> <li>HMRC scans new applications on receipt using a system to assess the risk of claims before they go into payment</li> <li>Applications containing characteristics that suggest the award might be incorrect are passed to teams for further investigation</li> <li>HMRC performs a further intervention on cases with characteristics that suggest the award might be incorrect before paying the award</li> </ul>	X	X
Change of circumstance	<p><b>The High-Risk Change of Circumstances (HRCC) process</b></p> <ul style="list-style-type: none"> <li>HMRC identifies claims – where there is a risk that a change has not been reported – for further investigation</li> <li>HMRC uses an automated system in contact centres to identify anomalies when changes are reported over the phone</li> </ul>	<p>✓</p> <p>Childcare and children only</p>	<p>✓</p> <p>Childcare, work and hours and undeclared partner:</p> <ul style="list-style-type: none"> <li>HMRC sends information on claims with characteristics that suggest the award might be incorrect to Concentrix</li> <li>Concentrix filters cases based on its own analytics</li> <li>Concentrix undertakes review of case and contacts claimant as in HMRC process</li> <li>Concentrix makes a decision on the claimant's entitlement</li> <li>HMRC system terminates or amends claim as required</li> </ul>
Annual renewal or termination	<p><b>The High-Risk Renewals (HRR) process</b></p> <ul style="list-style-type: none"> <li>HMRC identifies claims with characteristics that suggest the award might be incorrect</li> <li>In these cases, HMRC contacts claimants between April and July to request additional evidence to finalise their claim for the prior year accurately and renew tax credits for the following year</li> </ul>	X	

Source: National Audit Office

**2.5** In 2009, as part of its strategy to tackle error and fraud, HMRC increased the volume of interventions at the change of circumstance and renewals phases. This included using more data as part of HMRC's risk assessment process. HMRC conducts two compliance processes:

- High-Risk Renewals (HRR) run from April to August. Under an HRR intervention, the burden of proof is on the claimant to provide the correct information, and satisfy the decision-maker that the basis of their claim is correct.<sup>8</sup>
- High-Risk Change of Circumstances (HRCC) run from August to April. Under an HRCC intervention, the burden of proof is on HMRC to identify and confirm the presence of error and fraud within a claim.

**2.6** HMRC required Concentrix to follow the same processes as HMRC staff where it was adding capacity to check claims. At the same time, Concentrix was contractually committed to innovate in its use of analytics and third-party data to better target its identification of high-risk cases. **Figure 6** illustrates the main steps in the compliance process for renewals.

**2.7** In selecting cases to pass to Concentrix, HMRC applied its own predictive analytics to the tax credits population to identify those with characteristics that suggest the award might be incorrect. HMRC also cleansed the caseload, for example to remove secure and sensitive cases and those concerning recently deceased claimants.

**2.8** The additional analytics performed by Concentrix involved data-matching with third parties, including credit reference agencies. For example, a joint bank account for a claimant without a declared partner in the tax credits claim would indicate a higher risk. Concentrix also stratified the data to identify averages and anomalies, for example, a disproportionately high level of childcare costs would increase the assessed risk of a claim being incorrect. This risk analysis took place after cases were passed to Concentrix. HMRC expected Concentrix to innovate in its risk analysis, in collaboration with HMRC.

### **Concentrix was responsible for contacting claimants**

**2.9** Concentrix was responsible for writing to claimants as part of its investigation of claims. The initial letter from Concentrix to claimants, provided in Appendix Two, explained that Concentrix was working on behalf of HMRC to ensure that people receive the right amount of tax credits.

**Figure 6**

## High-Risk Renewals process and associated planned and actual volumes 2015 and 2016

Concentrix was responsible for identifying and investigating claims containing characteristics to suggest the award might be incorrect

	Compliance process	2015		2016	
		Planned	Actual	Planned	Actual
Referral	HMRC does its own scan to identify cases that have the potential to be incorrect	Not forecast	612,900	Not forecast	1,596,600
	HMRC sends Concentrix some of the identified cases				
Prioritisation	Concentrix removes duplicates already reviewed	Not forecast	353,784	Not forecast	1,227,249
	Concentrix does a second scan for cases with characteristics to suggest the award might be incorrect and sends the de-selected cases back to HMRC				
Investigation	Concentrix writes to claimants requesting further evidence of entitlement to tax credits	406,105	259,116	347,468	324,351
Claimant response	Claimant has 30 days to respond to Concentrix request	N/A	N/A	N/A	N/A
Review	Concentrix reviews evidence provided Award amended following receipt of evidence from claimant or because claimant does not respond	60,420	38,858	97,679	59,059
Award terminated	HMRC's system terminates provisional award for the following year where claimants fail to renew	Not forecast	49,056	21,839	45,508
Reconsideration	Concentrix notifies claimant of decision	Not forecast	7,710	Not forecast	34,759
	Claimant has 30 days after decision to request mandatory reconsideration and provide new information Concentrix undertakes the mandatory reconsideration				
Appeals	Claimant can appeal to independent tribunal if reconsideration upholds decisions	Not forecast	Not available	Not forecast	Not available

■ Main roles for Concentrix within the compliance process

**Note**

1 HMRC holds numbers on total forecast and actual appeals, but does not hold data on appeals broken down by campaign. Figure 7 shows the total number of appeals of Concentrix cases.

**2.10** HMRC expected that Concentrix would provide good customer service standards for claimants. The Committee of Public Accounts noted, however, that claimants were concerned about receiving a request for detailed personal information from a private sector company (see Appendix Three). The extent to which claimants' concerns about Concentrix's role led to increased contact to its call centres is unknown. HMRC and Concentrix did not record data on calls relating solely to concerns about receiving letters from Concentrix. HMRC recognised the risk that claimants might consider the letters to be "phishing" for personal details, and provided a reference to the [www.gov.uk](http://www.gov.uk) website in the letters sent out to claimants so that they could verify that Concentrix was legitimately acting on behalf of HMRC.

**2.11** The opening letter to claimants included both HMRC and Concentrix logos. HMRC determined that letters issued to tax credits claimants should include both HMRC's and Concentrix's logos on the letters so that claimants would know who was contacting them. This followed HMRC's assessment of the impact on claimants of using joint branding during the pilot and discussions with consumer representative groups, including Citizens Advice. It was consistent with HMRC's practice for other outsourced contracts. HMRC was also concerned that branding with its own logo alone could lead to confusion and increase claimant contact to HMRC's tax credits line. Concentrix was reluctant, however, to include its logo on letters issued to claimants. Concentrix does not use its logo for other outsourced contracts as it is acting on behalf of the business.

**2.12** In HMRC's 2013 pilot, the supplier used several alternative approaches to contact claimants. These included calling claimants prior to sending out a letter that contained joint branding. This was not part of the compliance process that Concentrix was required to follow.

### **Concentrix handled reconsiderations of its decisions**

**2.13** Mandatory reconsiderations are the process by which claimants can ask for a decision made by either HMRC or Concentrix to be reviewed. If a claimant is not satisfied with the decision reached on their award, they have the right to request a mandatory reconsideration within 30 days of the decision being made. Mandatory reconsiderations can also arise from claimants' tax credits awards being stopped following a claimant not responding to the request for information.

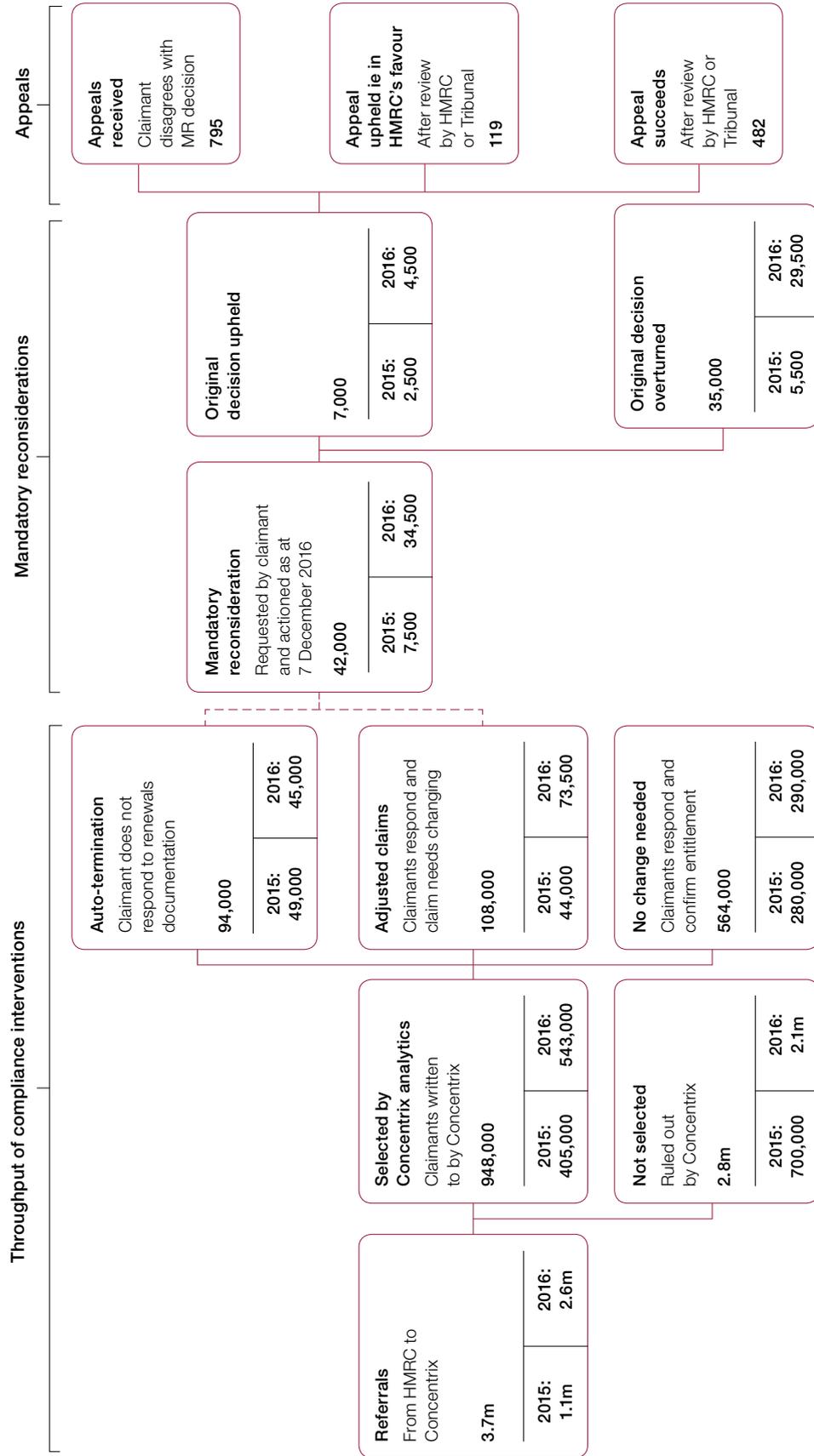
**2.14** A mandatory reconsideration gives a claimant an additional 30 days to provide evidence not previously supplied in order to satisfy the decision-maker that the basis of their claim is correct. Where this new information supports the claim, HMRC will reinstate the award. If the original decision is upheld, a claimant can appeal to an independent First-Tier Tribunal. Decisions by Concentrix could be appealed in the same way as a decision by HMRC.

**2.15** Under the contract, all mandatory reconsiderations on cases originally worked by Concentrix were to be handled by Concentrix. HMRC retained responsibility for appeals.

**2.16** During the life of the contract, Concentrix identified 948,000 cases for investigation, of which 108,000 were adjusted or terminated. By 7 December 2016, 42,000 mandatory reconsiderations of Concentrix decisions had been received and actioned (39% of cases adjusted or terminated). Some 35,000 (or 85%) were upheld in the claimant's favour. Of the total of 795 appeals received relating to Concentrix decisions, 601 have concluded. Of these, 482 (or 80%) were upheld in the claimant's favour (**Figure 7**).

**Figure 7**

Cases and mandatory reconsiderations worked by Concentrix, November 2014 to 30 September 2016

**Notes**

- The figures in the third column (94,000, 108,000 and 564,000) total 766,000 cases. This does not sum to the 948,000 cases selected by Concentrix analytics because 181,000 cases were not completed by Concentrix and were returned to HMRC for action.
- Some mandatory reconsiderations and appeals were concluded after 30 September.
- Numbers for mandatory reconsiderations and appeals are as at 7 December 2016.
- Figures used include all compliance processes for both 2015 and 2016.

Source: National Audit Office analysis to HM Revenue &amp; Custom data

**2.17** Concentrix reported to the Work and Pensions Select Committee that claimants went without tax credits for between six and eight weeks.<sup>9</sup> HMRC does not record the length of time that awards are stopped prior to being reinstated. HMRC has told us that it would not necessarily seek to collate information on how long claimants are out of payment, but that this information is available for individual claimants should it need to review any hardship caused by decisions that are subsequently overturned.

**2.18** If a claimant has lost out financially, or suffered anxiety or distress, as a result of error or delay, HMRC provides for payment of compensation, in addition to payment of tax credits. As at 14 December 2016, HMRC had paid a total of £86,815 in compensation payments to claimants handled by Concentrix. This consisted of:

- £67,434 in payments for worry and distress;
- £15,906 in payments for costs, actual financial loss or reimbursement; and
- £3,475 in other compensation payments.

## **Contractual incentives**

**2.19** HMRC expected payments to Concentrix to be outcome-based, under a payment-by-results model. In the contract, HMRC paid commission to Concentrix as a percentage of savings from reducing error and fraud. HMRC calculated savings based on the value of recovering incorrect payments already made and preventing future overpayments. Concentrix would not be paid for any cases where its decision was overturned.

**2.20** HMRC considered alternatives when designing the payment structure for the contract. These included a provision for variable bids in its invitation to tender. It also included scope for a different payment structure for the first five months of the contract, for example, fixed monthly payments or an up-front investment by HMRC. HMRC concluded that a payment by results mechanism should be introduced, which would take the financial risk away from HMRC and place it with the provider. This conclusion was fully supported by both HMT and Cabinet Office representatives.

**2.21** HMRC had never used or managed a payment-by-results contract for tax credits compliance before, although it had used this commercial model for contracts for debt recovery. HMRC's pilot did not test the use of payment-by-results. Instead, Transactis was paid on a fixed-fee basis.

**2.22** In its July 2016 report, the Social Security Advisory Committee noted: "there is an incentive for Concentrix staff not to overturn decisions given it would impact negatively on their revenue."<sup>10</sup> The chief executive and permanent secretary for HMRC told the Committee of Public Accounts that there was a question about whether a payment-by-results contract was the right mechanism for this public service.<sup>11</sup>

<sup>9</sup> Work and Pensions Select Committee, *Oral evidence, Concentrix and tax credits*, HC 720, 13 October 2016, Q69.

<sup>10</sup> Social Security Advisory Committee, *Decision-making and mandatory reconsideration*, occasional paper no. 18, July 2016.

<sup>11</sup> HC Committee of Public Accounts, *Oral evidence, HMRC performance and tax transparency*, HC 712, 26 October 2016, Q39.

**2.23** HMRC recognised in the business case that there was a risk Concentrix might try to profit at the expense of customer service. **Figure 8** overleaf shows the contractual penalties that HMRC could use to encourage Concentrix to meet both quality targets and customer service targets. HMRC used penalties available to it based on Concentrix's performance:

- Penalty 1 in Figure 8: HMRC reduced commission payments during the life of the contract by £2.8 million for missing quality targets;
- Penalty 2 in Figure 8: HMRC applied £0.7 million in service credits for missing performance indicators; and
- Penalty 3 in Figure 8: HMRC withheld three of five contractually required early-stage payments in the first year of the contract as Concentrix did not meet performance targets.

A fourth penalty, withholding payments for meeting fewer than half of performance targets, was not applied under the original contract because HMRC instead withheld stage payments.

## Performance monitoring

**2.24** The Committee of Public Accounts raised several concerns (outlined in Appendix Three) about HMRC's oversight of both Concentrix and the quality of service for claimants. HMRC managed the contract through:

- **a suite of contractual performance indicators** to monitor performance. These included indicators for opening and closing cases, processing post, telephone calls and complaints, accuracy of decisions and data security. These performance indicators are set out in full in Appendix Four;
- **a target for each performance indicator**, which represented the level of service it expected Concentrix to achieve. The performance indicators were based on HMRC's own measures for compliance interventions;
- **weekly reports from Concentrix** outlining its performance against contractual indicators. HMRC also monitored information beyond the contractual indicators to give a wider view of performance, including the number of calls to HMRC's customer lines, the level of contact from MPs and feedback from stakeholder representative groups;
- **assurance over performance information**, including agreeing indicators before the HRR and HRCC processes, assurance visits and reviewing samples of decisions. During assurance visits, HMRC observed the production of draft management information to assure accuracy, listened to a sample of claimants' calls and reviewed the systems used to produce the management information; and
- **assurance over the quality of Concentrix's decisions** by reviewing a random sample of decisions made each month. Under the original contract the minimum sample required was 10%. After the contract was revised in October 2015, this requirement was amended to review 500 decisions per month. Where Concentrix made fewer than 500 decisions in a month, HMRC reviewed all of the decisions made, meaning that the relative proportion of decisions verified by HMRC varied each month.

**Figure 8**

## Penalties to incentivise customer service in the contract

**HMRC used several contractual penalties to incentivise customer service**

Contractual penalty	Penalty in original contract from November 2014	Penalty in revised contract from October 2015 <sup>1</sup>	Penalty used by HMRC
<b>1</b> Reduced commission payments proportional to the accuracy of decisions (for example, if Concentrix achieved an accuracy rate of 90%, HMRC would pay only 90% commission)	Yes	Yes	Yes
<b>2</b> Payments for meeting all targets or reduced payments for not meeting customer service targets such as call and post handling	Yes – this included a reward payment for meeting all of the key performance indicators	Yes – this included a system of service credits, which reduced payment for not meeting key performance indicators	Yes
<b>3</b> Withholding early-stage payments	Yes	Not applicable <sup>2</sup>	Yes
<b>4</b> Withholding payments for meeting fewer than half of performance targets	Yes	Not applicable	No <sup>3</sup>
<b>5</b> Terminating the contract for repeat failure <sup>4</sup>	Yes	Yes	Not applicable
<b>6</b> 'Gain share' agreement to mitigate the potential risk of Concentrix generating excessive profits	Yes	Yes	Not applicable <sup>5</sup>
<b>7</b> A cost of £240 per case for failure to meet HMRC guidance requiring HMRC to re-work a case	Yes	Yes	Not applicable

**Notes**

- 1 In October 2015, HMRC and Concentrix renegotiated some of the contractual terms in the original May 2014 contract to take account of how the contract had operated to that point.
- 2 HMRC could not withhold early-stage payments under the renegotiated contract because these were paid in the initial period of the contract only.
- 3 HMRC did not apply this penalty in the first year of the contract; it instead withheld stage payments.
- 4 Under the original contract, HMRC could terminate the contract if Concentrix failed to meet one or two of the same performance indicators in four consecutive months, three of the same performance indicators in three consecutive months or four or more of the same performance indicators in two months of a three-month rolling period. In the revised contract, HMRC could terminate the contract if Concentrix received more than 30 service credits across any four consecutive months.
- 5 The conditions to trigger the gain-share contractual penalty did not arise.

Source: National Audit Office analysis of HM Revenue & Custom's contract

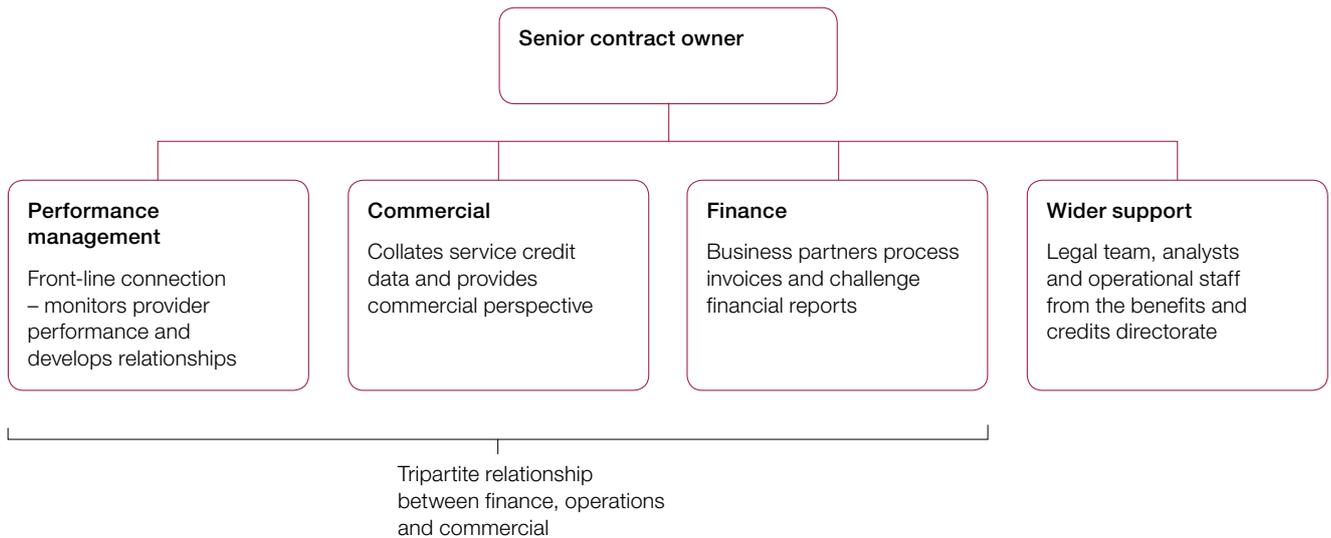
## HMRC capacity for contractual oversight

**2.25** HMRC had two teams responsible for liaising with Concentrix staff and managing performance. These included a commercial contract management team and a performance management team (**Figure 9**). Additionally, staff from the finance team within the benefits and credits directorate were responsible for payment of invoices, and staff from the benefits and credits analytics team provided data analytics. To increase capacity, HMRC recruited an additional experienced contract manager in August 2014.

**Figure 9**

## Contract governance and responsibilities

HMRC had two dedicated teams involved in managing the contract with Concentrix, including a commercial contract management team and a performance management team

**Notes**

- 1 The senior contract owner is the Director for the benefits and credits directorate.
- 2 There were three different senior contract owners during the period of the contract. The current senior contract owner has been involved since March 2016.
- 3 The performance management team also collated service credits data.

Source: National Audit Office analysis of departmental documents and meetings with HM Revenue & Customs

**2.26** Between August 2015 and September 2016, HMRC reduced the number of staff involved in the contract from 120 to 42 full-time equivalent (FTE) staff (**Figure 10** overleaf). Two of the most significant reductions in HMRC's support were in October 2015 and December 2015. HMRC reduced the number of 'subject matter experts' available to Concentrix in October 2015 by 45 FTE staff. The staff who left this area in October 2015 provided support to Concentrix's staff to become familiar with HMRC's processes. HMRC planned for this reduction in its business case for the contract. The reduction in December 2015 related to IT specialists. These specialists had completed work to link Concentrix's system with HMRC's IT systems in December 2015.

**Figure 10**

Number of staff in HMRC's performance management team, January 2015 to September 2016

HMRC reduced the number of staff in its performance management team throughout the life of the contract

HMRC full-time equivalent staff in the Service Management Office

**Note**

1 Staff numbers are full-time equivalent.

Source: National Audit Office analysis of HM Revenue & Customs data

## Contract governance and escalation of issues

**2.27** In its business case, HMRC recognised that effective and ongoing monitoring of Concentrix's performance would be critical, given the nature of responsibilities that it delegated to Concentrix. It took the following steps to understand Concentrix's performance:

- Developing detailed contract management guidance that explained governance and performance monitoring arrangements.
- Providing a substantial volume of guidance to Concentrix to help it understand the processes it was to follow. This included detailed guidance and process maps on decision-making (for example, in undeclared partner cases), dealing with mandatory reconsiderations and imposing penalties.
- Requiring Concentrix to maintain and retain open book data, to which HMRC had full access – Concentrix had to produce daily, weekly and monthly performance data to allow HMRC to assess its performance against contractual performance indicators, upon which its payments and other incentives were based.
- Holding a series of weekly, monthly and regular strategic meetings between HMRC and Concentrix staff involved in overseeing the contract – these are outlined in **Figure 11**.

**Figure 11**

## Performance review meetings between HMRC and Concentrix

Frequency	Attendees	Items discussed
Weekly phone calls	HMRC contract management team Concentrix project executive Concentrix delivery executive Concentrix contract manager	Performance against contractual indicators Review of risks and issues Performance against any remedy plans
Monthly meetings at Concentrix's offices in Belfast	HMRC contract management team Concentrix project executive Concentrix contract manager Concentrix performance, security, quality, training and IT	Performance against contractual indicators Review of action points and areas of focus Any support required from HMRC
Senior monthly meetings	HMRC benefits and credits team, including data security, change, repair, communications and finance HMRC commercial team Concentrix project executive Concentrix delivery executive and contract manager	Any key risks and issues arising from the monthly meetings outlined above Progress against delivering the plans for the High-Risk Renewals and High-Risk Change of Circumstances processes
Regular strategic meetings	Chaired by the senior contract owner, who is the director for HMRC's benefits and credits directorate; Concentrix senior vice-president; The contract steering group, which included: <ul style="list-style-type: none"> <li>● the senior lead from the contract management team;</li> <li>● representatives from HMRC customer strategy, policy, communications and finance in the HMRC benefits and credits team;</li> <li>● wider HMRC teams, including internal audit, commercial, knowledge, analysis and intelligence, legal and corporate finance; and</li> <li>● representatives from HM Treasury and Cabinet Office.</li> </ul>	Progress against delivering the plans for the High-Risk Renewals and High-Risk Change of Circumstances processes Challenges impacting on operational performance Any support needed from HMRC
Quarterly Security Awareness Working Group	HMRC data guardian HMRC digital team Concentrix assurance and security manager Concentrix security contractor HMRC performance management team	Business and IT processes Security issues in Concentrix's IT systems Update of new security policies Security incidents

**Note**

1 The Steering Group has a strategic oversight of the contract and the relationship between HMRC and Concentrix.

Source: National Audit Office analysis of departmental documents and meetings with HM Revenue & Customs

**2.28** Concentrix escalated issues to HMRC through the weekly, monthly and strategic meetings, or to the HMRC executive team through the senior contract owner. The Chief Executive and Permanent Secretary for HMRC told the Committee of Public Accounts that HMRC has lessons to learn about the speed of escalation, so that people know how quickly to refer issues to decision-makers who can resolve them.<sup>12</sup> HMRC staff first discussed issues about Concentrix's call-handling within the 2016 HRR process with the senior contract owner on 24 August 2016. Concentrix put in place a recovery plan that aimed to restore required levels of service within a week. The failure to recover against this plan was escalated to the Director General for benefits and credits on 5 September, prior to HMRC staff being deployed to work cases for Concentrix on 7 September.

<sup>12</sup> See footnote 11.

# Part Three

## Contract renegotiation and termination

**3.1** In October 2015, HM Revenue & Customs (HMRC) and Concentrix renegotiated some contractual terms to take account of how the contract had operated to that point. Following further poor performance during 2016, HMRC and Concentrix agreed to terminate the contract in November 2016. In this part, we set out the performance of Concentrix from November 2014 to October 2015, the reasons for renegotiating the contract and Concentrix's performance under the revised contract from October 2015.

### **Performance from November 2014 to September 2015**

**3.2** Concentrix consistently missed more than half of its performance indicators between November 2014 and September 2015. During this period, Concentrix met 104 out of 242 applicable monthly performance indicators. Its performance began to improve in April 2015 but declined again when Concentrix began the 2015 High-Risk Renewals (HRR) compliance process in June 2015 (**Figure 12** overleaf).

### **Renegotiation of the contract in October 2015**

**3.3** Following the fall in performance against contractual indicators, HMRC and Concentrix renegotiated and revised the contract in October 2015. The main changes to the renegotiated contract included a revised commission rate, additional requirements for Concentrix and changes in the arrangements for HMRC monitoring.

- Revised commission rate:
  - a higher rate of commission for Concentrix, increasing from the basic level of 3.9% of savings made, to 11% of all savings; and
  - service credits that reduced Concentrix's commission should it fail to meet customer service targets.
- Additional requirements on Concentrix to produce:
  - an improvement plan to address issues with Concentrix's IT systems;
  - plans for the HRR and High-Risk Change of Circumstances (HRCC) compliance processes; and
  - a correction plan within five working days to remedy performance failures.

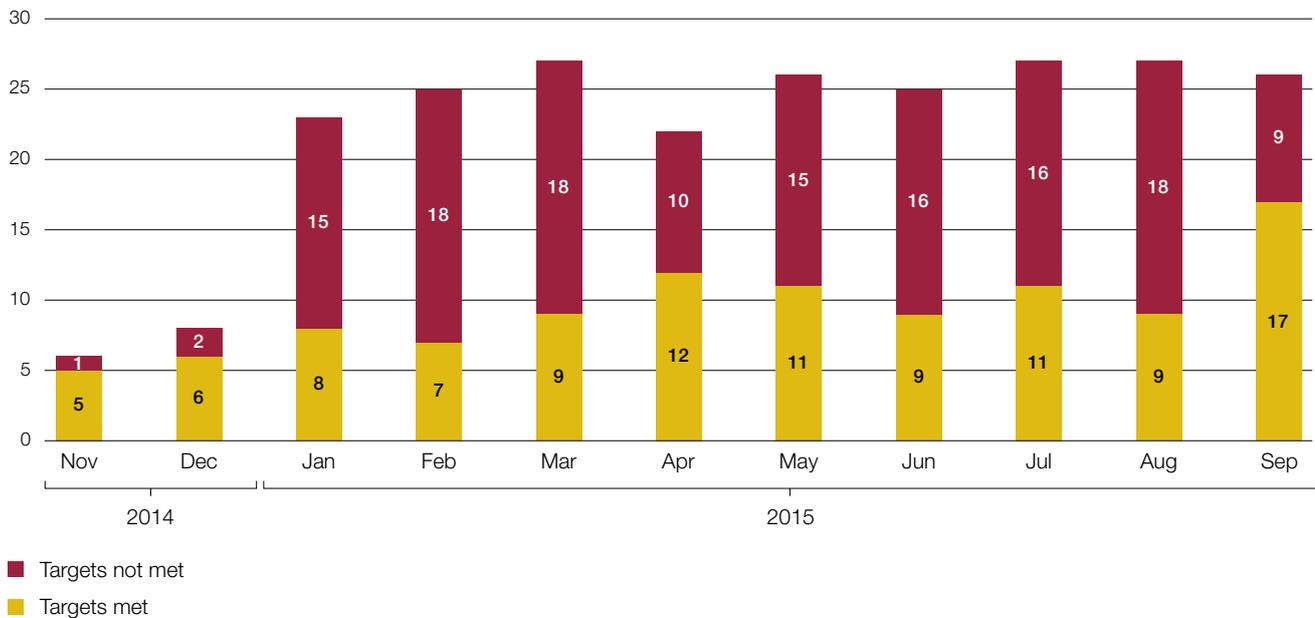
- HMRC monitoring:
  - revised performance indicators: three key performance indicators and 19 service performance indicators, which Concentrix reported each week; and one quality performance indicator, which Concentrix reported each month (see Appendix Four for more details); and
  - an open book mechanism to monitor costs on a monthly basis.

**Figure 12**

The number of performance targets met by Concentrix, November 2014 to October 2015

**Concentrix missed more than half of its performance indicators**

Number of performance targets met by Concentrix



**Note**

1 HMRC did not record data for several indicators. This figure shows performance where HMRC did record data.

Source: National Audit Office analysis of HM Revenue & Customs data

## Higher commission for Concentrix

**3.4** From October 2014 to October 2015, Concentrix received £3.2 million for two-early stage payments and £3.1 million in commission. The contract included early-stage payments to fund Concentrix's work until it earned commission, which were offset against future commission payments. During the first year of the contract, Concentrix could have received five early-stage payments of £10 million, but HMRC did not make the last three early-stage payments, citing Concentrix's poor performance.

**3.5** Concentrix initiated the renegotiation mainly because it had received less revenue than expected from the 2015 compliance processes. As savings were below what was expected (see para 1.18), so too was Concentrix's revenue. Under the initial contract, Concentrix earned commission at a contractual rate of 3.9% (with a possibility to earn 6.9% if savings reached particular thresholds). Under the renegotiated contract, the rate of commission increased to 11% for all savings achieved.

## Service credits for performance failings

**3.6** HMRC used the contract renegotiation to strengthen the incentives for improving Concentrix's customer service in 2016. The renegotiated contract introduced a new day-to-day contractual penalty in the form of service credits. The service credits reduced the commission paid to Concentrix when it failed to meet customer service targets for handling phone calls or post. Under the terms of the contract, Concentrix could have accrued service credits for missing performance targets of up to a maximum of 10% of its commission; the deductions for missing quality targets were not capped.

**3.7** Between October 2015 and September 2016, HMRC reduced its payments to Concentrix by £3.5 million; £2.8 million for missing the 97% quality performance indicator and £0.7 million for missing key performance indicators. The £0.7 million reduction was 3% of the total £23.1 million of commission paid throughout the contract. HMRC told us that it applied service credits in all applicable circumstances.

## Improvement plans to address performance

**3.8** The renegotiated contract recognised that more formal improvement plans would also be required to address major performance issues when they arose. The contract required Concentrix to notify HMRC promptly of any failures in performance, along with a report detailing their nature and causes. Concentrix was required to submit a draft improvement plan within five working days of the end of the monthly reporting period if requested by HMRC. This plan had to set out the corrective actions that Concentrix intended to take.

**3.9** HMRC told us that correction plans worked better for less serious performance failures than in urgent, high-priority situations. HMRC used a correction plan to address customer service issues in 2015. Given the urgency of customer service issues in August 2016, HMRC insisted on a recovery plan to address performance challenges as they happened.

### Performance from October 2015 to September 2016

**3.10** Figure 13 shows the number of performance targets that Concentrix met from October 2015 to September 2016. Although performance improved after October 2015, it fell again between May 2016 and September 2016. In September 2015 and June 2016, the Committee of Public Accounts raised concerns about Concentrix's service (outlined in Appendix Three).

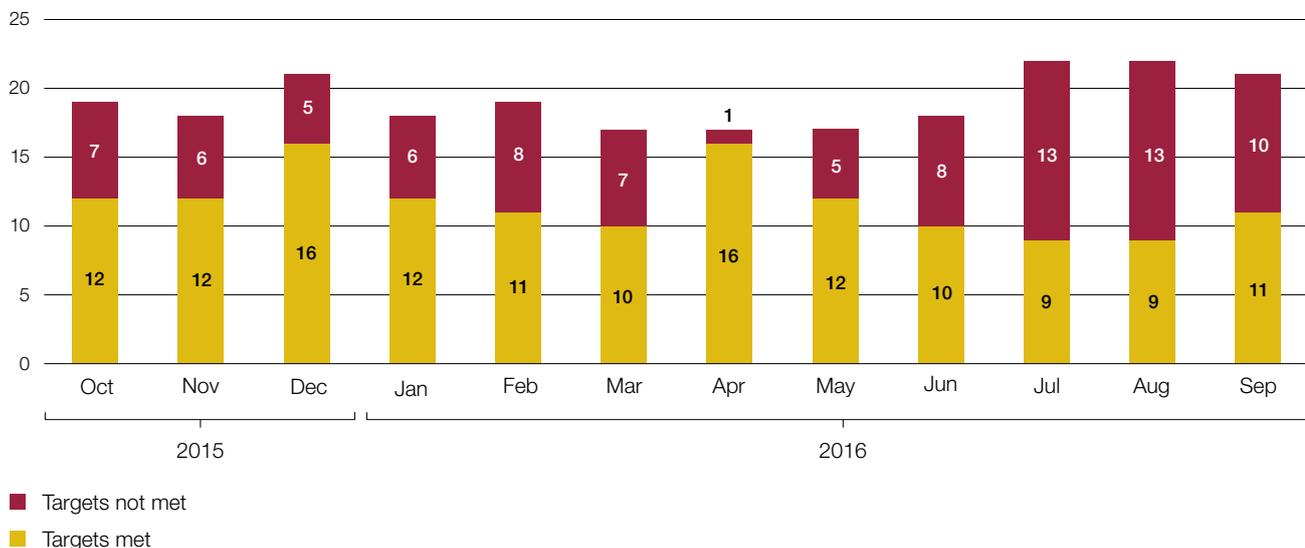
**3.11** HMRC prioritised its monitoring of Concentrix's performance on four of the 24 performance indicators in the revised contract (Figure 14). These indicators focused on quality and customer service and missing targets resulted in reduced commission payments. Concentrix's performance against these indicators fell towards the end of the contract (Figure 15 on page 38). Paragraphs 3.12 to 3.15 set out Concentrix's performance against each of these indicators.

**Figure 13**

The number of performance targets met by Concentrix, October 2015 to September 2016

The number of performance targets met by Concentrix fell between May and September 2016

Number of performance targets met by Concentrix



**Notes**

- 1 Some performance indicators were not applicable for some months, for example in months where no complaints were received, all performance indicators relating to complaints were applicable.
- 2 A full list of performance indicators in place between October 2015 and September 2016 are shown in Appendix Four, Figure 25.

Source: National Audit Office analysis of HM Revenue & Customs data

**Figure 14**

Priority performance indicators used by HMRC in the revised contract

**HMRC prioritised its monitoring of Concentrix's performance on four performance indicators**

Indicator	Description	Target (%)	Figure in the report
QPI 1	Quality	97	Figure 16
KPI 1	Call-handling: telephone calls answered in five minutes	90	Figure 17
KPI 2	Post-handling: claimant correspondence registered as received and scanned within 15 working days	80	Figure 18
KPI 3	Post-handling: claimant correspondence registered as received and scanned within 40 working days	100	Figure 18

**Notes**

- 1 'QPI' refers to the quality performance indicator.
- 2 'KPI' refers to the key performance indicators.
- 3 A full list of the quality performance indicator, key performance indicators and service performance indicators in the revised contract is provided in Appendix Four, Figure 25.

Source: National Audit Office

## Quality performance

**3.12 Figure 16** on page 39 shows Concentrix's performance against its quality performance indicator during the life of the contract. Under the contract, a decision would meet the quality performance indicator if it was made in line with all of HMRC's prescribed procedures. These procedures included whether Concentrix had:

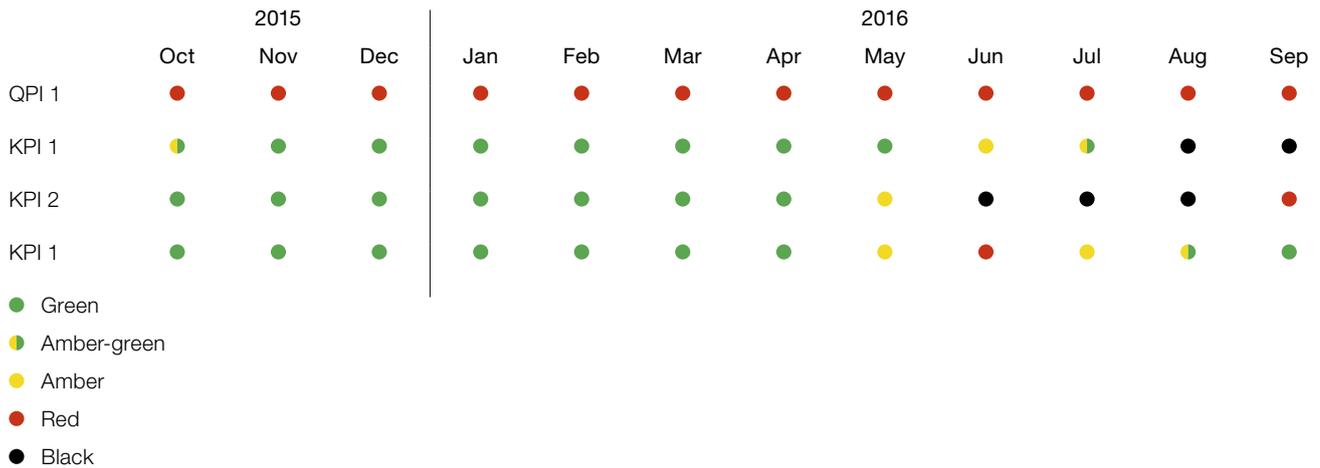
- chosen to work the case or not as appropriate;
- issued the correct opening and closing letters;
- calculated the correct amendment or terminated the tax credits award (based on the claimant's evidence and in line with HMRC's guidance);
- made appropriate adjustments to data on systems (including a change of circumstances); and
- accurately calculated the losses prevented.

**3.13** Although Concentrix improved its performance against the quality performance indicator between April 2015 and September 2015 and between June 2016 and September 2016, it consistently failed to meet the target of 97% set by HMRC in the contract. Concentrix only achieved its quality performance target in September 2015 during the 2015 HRR process.

**Figure 15**

The number of quality and customer service targets met by Concentrix, October 2015 to September 2016

Concentrix's performance against the QPI and three KPIs fell towards the end of the contract

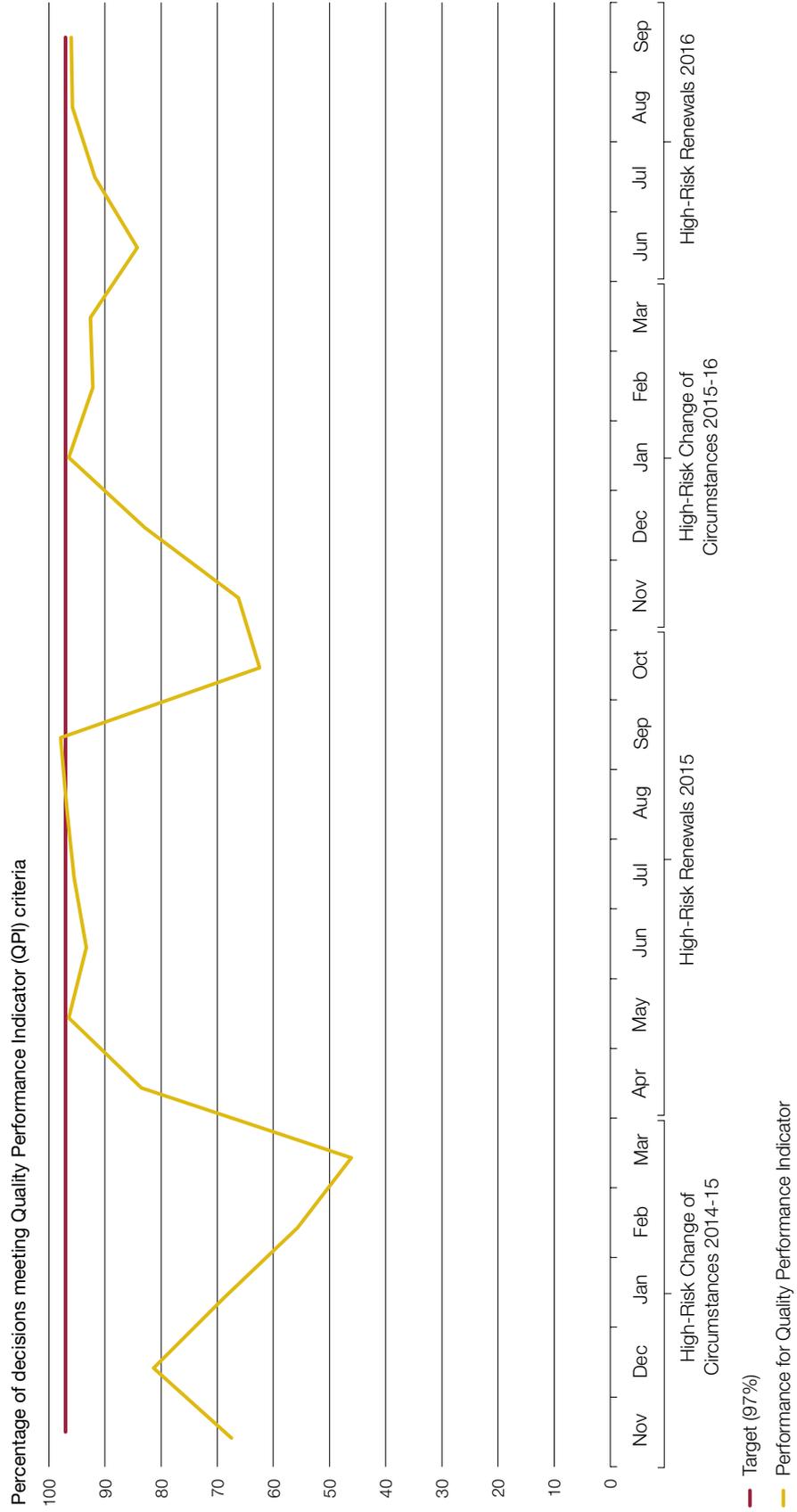


**Note**

- HMRC rated Concentrix's performance as green or red for the QPI (97% or more – green; 96.99% or less – red), and green, amber-green, amber, red or black using different performance levels for the three KPIs:  
 KPI 1 : Telephone calls answered in five minutes (90% or more – green; 80% to 89.99% – amber-green; 60% to 79.99% – amber; 40% to 59.99% – red; 40% or less – black).  
 KPI 2 : Claimant correspondence registered as received and scanned within 15 working days of receipt (80% or more - green; 70% to 79.99% – amber-green; 60% to 69.99% – amber; 50% to 59.99% – red; 50% or less – black).  
 KPI 3 : Claimant correspondence registered as received and scanned within 40 working days of receipt (100% – green; 95% to 99.99% – amber-green; 90% to 94.99% – amber; 80% to 89.99% – red; 80% or less – black).

Source: National Audit Office analysis of HM Revenue & Customs data

**Figure 16**  
 Concentrix's quality performance for tax credits decisions, November 2014 to September 2016  
 Concentrix improved its performance against the quality performance indicator between April 2015 and September 2015 and between June 2016 and September 2016. It met its target in September 2015



**Note**  
 1 HMRC could not check quality for April 2016 and May 2016, as Concentrix did not make any decisions in these months. This was the start of the 2016 HRR process where Concentrix sent opening letters.

Source: National Audit Office analysis of HM Revenue & Customs data

## Call-handling

**3.14** **Figure 17** shows how Concentrix's call-handling performance (the percentage of calls handled within five minutes) has fluctuated during the lifetime of the contract. In August 2016, Concentrix answered only 35% of calls within five minutes. HMRC cited Concentrix's call-handling performance in August 2016 as the main reason for not extending the contract. Concentrix's call-handling performance had also fallen during the previous year's HRR process, when it answered only 4.8% of calls received within five minutes in July 2015.

## Post-handling

**3.15** Concentrix's performance fell below targets for opening post following both the 2015 and 2016 HRR processes (**Figure 18** on pages 42 and 43). In June 2016, for example, Concentrix's sub-contractor opened, scanned and returned 32% of post within 15 days of receipt, against a target of 80%.

## Reasons for the fall in performance during August 2016

**3.16** A number of factors contributed to the fall in Concentrix's performance in August 2016. Concentrix's failure to process compliance cases in accordance with its plan meant that there was a significant backlog of open cases at the point at which the 2016 HRR process was due to end. This meant that the planned level of resourcing in its call centres was not sufficient to meet the increase in customer calls in August 2016. Although Concentrix took steps to increase its resourcing, this did not enable it to meet the increase in call volumes, and was below its planned resourcing levels.

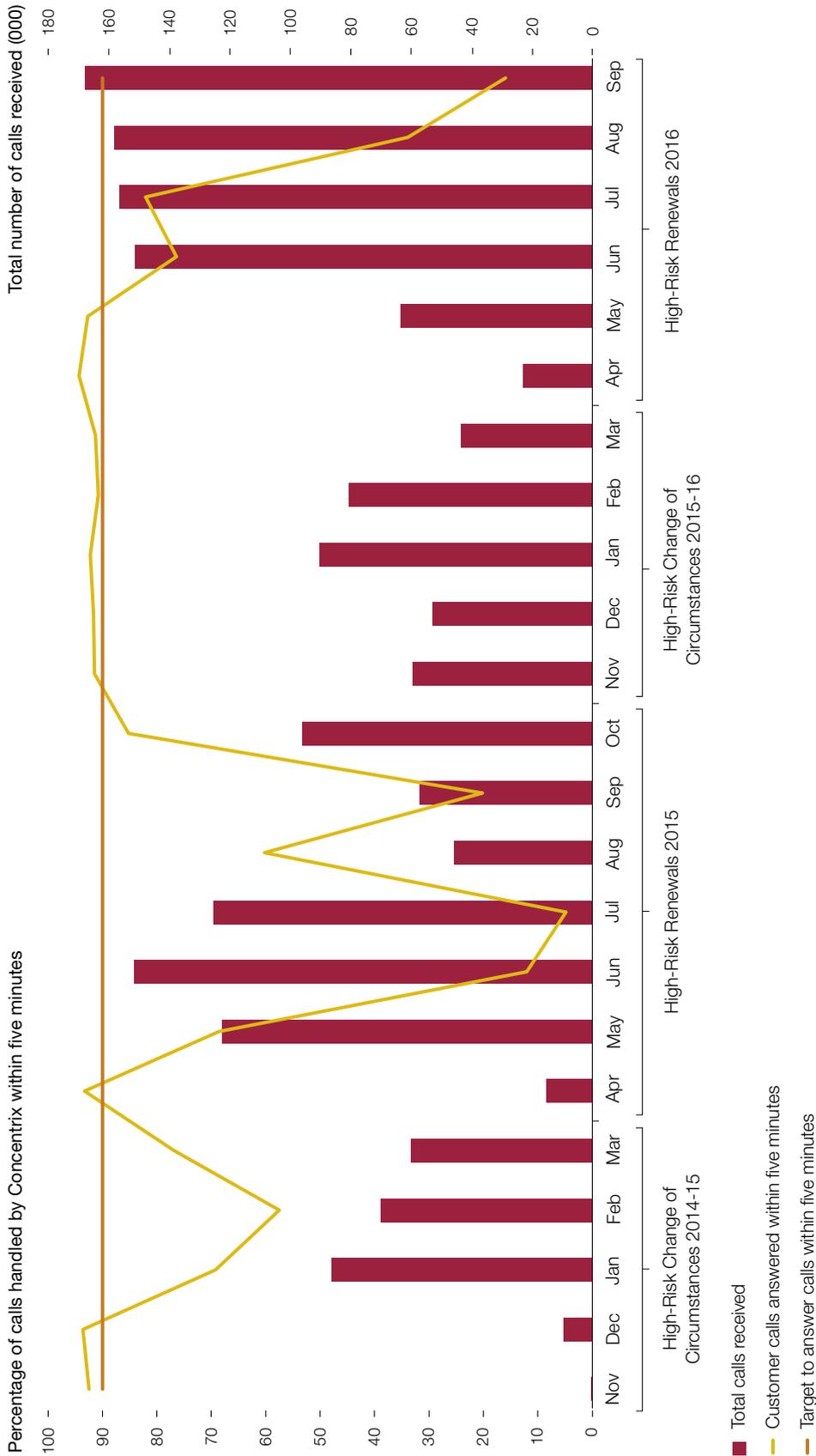
**3.17** These problems crystallised on 11 August and 12 August 2016, at the point when the claimants who had not responded to the request to renew began to be notified that their awards would be terminated. The problems were compounded by issues experienced in Concentrix's IT systems on 11 August 2016, which prevented its staff from accessing or updating claimant details for 26 hours.

## Backlogs in the processing of renewal cases

**3.18** Concentrix did not deliver its plan for the 2016 HRR process as it intended. It planned to open a total of 347,000 compliance cases under the 2016 HRR process between 25 April and 20 June 2016 (**Figure 19** on page 44). The plan also forecast that it would close 10,000 compliance cases a week from 2 May 2016, rising to 30,000 cases throughout July and reducing throughout August and September 2016. Concentrix expected to complete the final case closures by 26 September 2016.

**Figure 17**  
 Concentrix's call-handling performance, November 2015 to September 2016

As the volume of calls increased in August 2016, Concentrix handled 35% of calls within five minutes

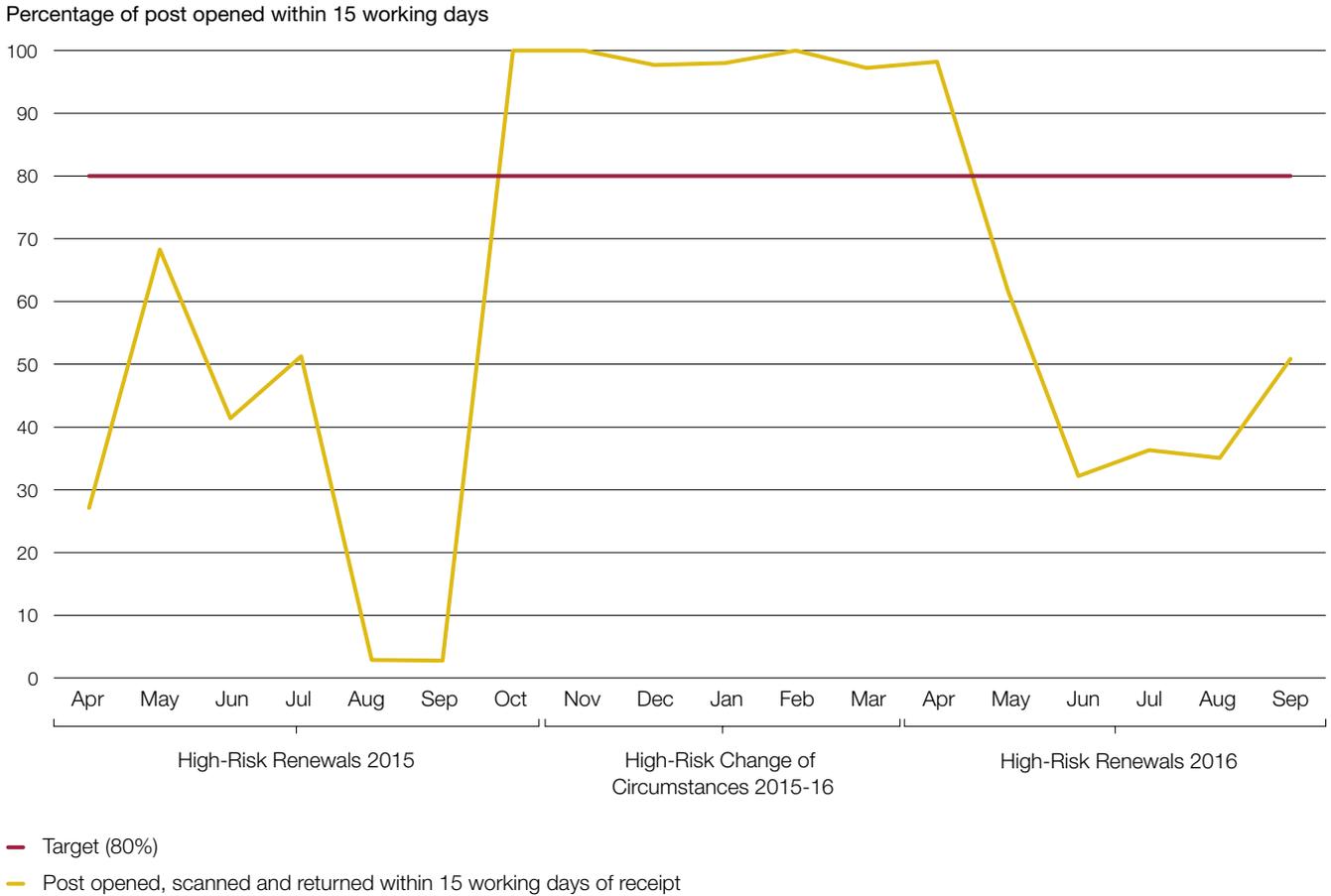


Source: National Audit Office analysis of HM Revenue & Customs data

**Figure 18**  
Concentrix's post-handling performance, April 2015 to September 2016

Concentrix's post-handling performance fell during the 2015 and 2016 High-Risk Renewals processes

**a) Post opened, scanned and returned within 15 working days of receipt**



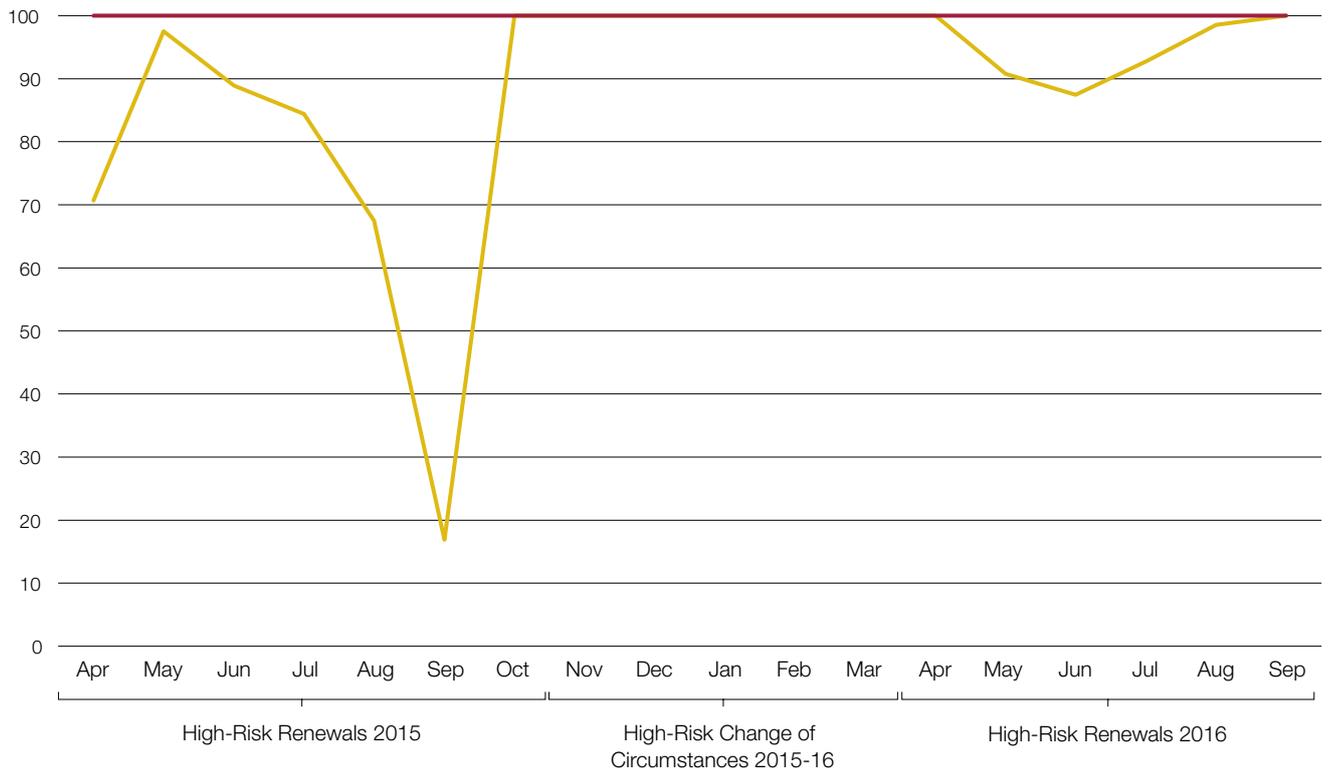
**Notes**

- 1 HMRC did not receive reliable data on post-handling performance from Concentrix's sub-contractor between November 2014 and March 2015, which covered the 2015 HRCC process.
- 2 Chart a: data for March 2015 to September 2015 relate to key performance indicator 9A of the original contract: the contractor will ensure that 80% of post is subject to appropriate action by reference to the intervention, reconsideration or complaints process within 15 working days of receipt.
- 3 Chart a: data for October 2015 to September 2016 relate to key performance indicator 2 of the revised contract: the percentage of post opened, scanned and any documents returned to the claimant or disposed of as appropriate within 15 working days of receipt.
- 4 Chart b: data for March 2015 to September 2015 relate to key performance indicator 9B of the original contract: the contractor will ensure that 100% of post is subject to appropriate action within 40 working days of receipt.
- 5 Chart b: data for October 2015 to September 2016 relate to key performance indicator 3 of the revised contract: the percentage of post opened, scanned and any documents returned to the claimant or disposed of as appropriate within 40 working days of receipt.

Source: National Audit Office analysis of HM Revenue & Customs data

**b) Post opened, scanned and returned within 40 working days of receipt**

Percentage of post opened within 40 working days



- Target (100%)
- Post opened, scanned and returned within 40 working days of receipt

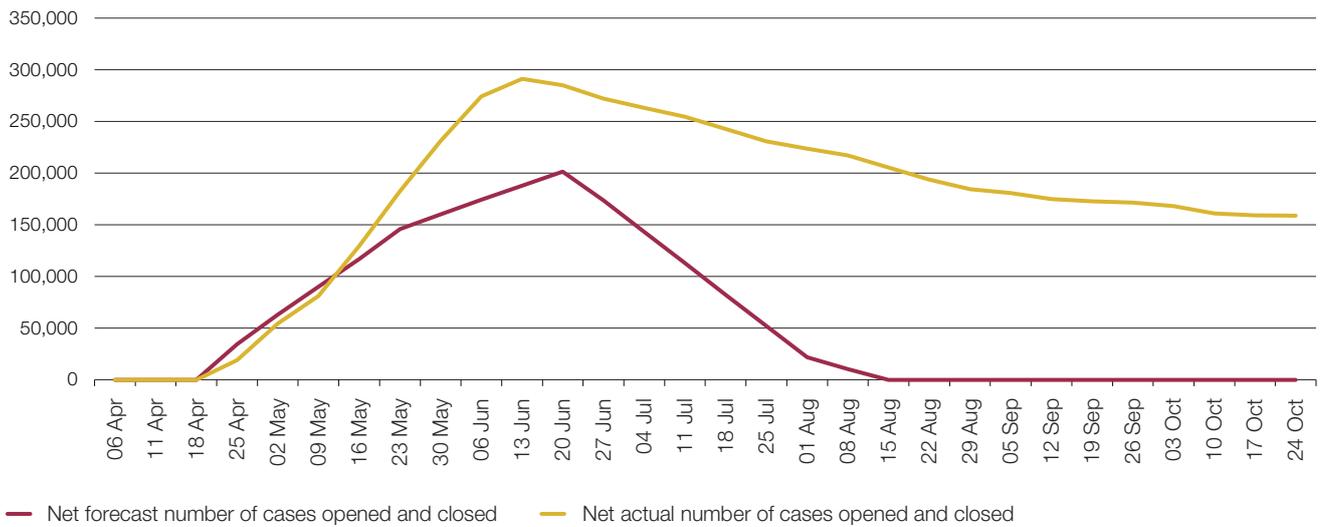
**Figure 19**

Forecast and actual number of open and closed cases, April 2016 to October 2016

Concentrix was not able to complete its review of cases and close them at the rate it had planned in its 2016 HRR plan

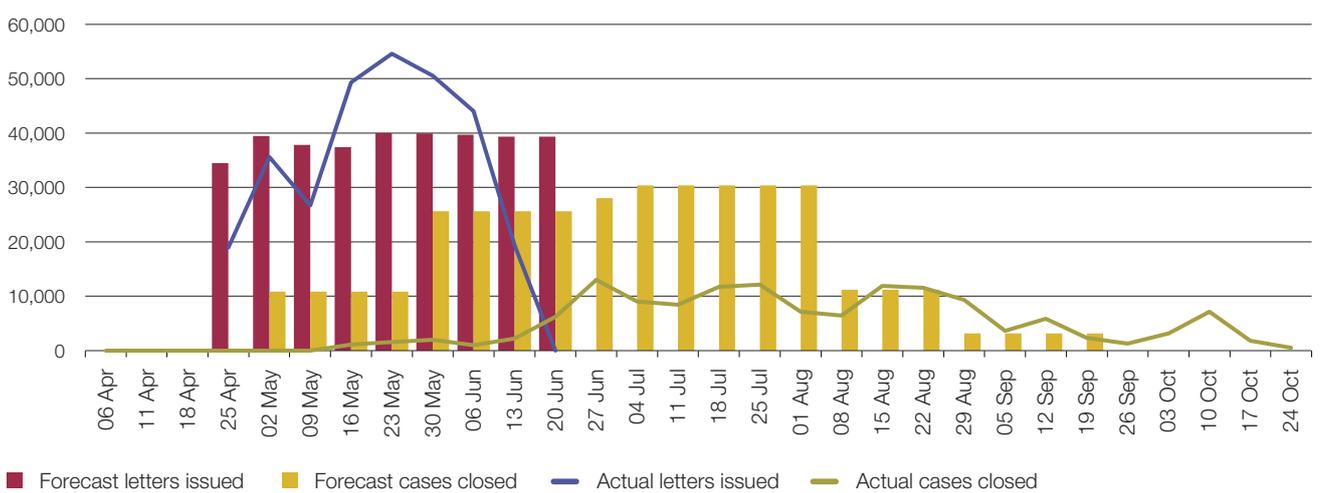
**a) Net, cumulative number of cases opened and closed, forecast and actual**

Total cumulative net position of case openings and closings



**b) Forecast and actual number of cases opened and closed**

Number of cases



**Notes**

- Figure 19a presents the cumulative number of cases opened for investigation by Concentrix less the number of decisions made up to that point. The difference between the two lines represents the remaining open cases.
- Forecast numbers are from the HRR 2016 plan. Actual numbers are from Concentrix daily contractual reports provided to HMRC.
- Claimants were issued 'opening letters', which requested that they provide evidence to support the finalisation and renewal of their claim within 30 days. Concentrix closed a case when it had received this evidence and decided whether to amend the claim, or took action if the claimant did not respond.
- The net forecast figure is zero from 15 August onwards. The number of auto-terminations was 24,500 more than forecast. These cases have been excluded from the cumulative forecast. Including such cases would have resulted in a negative forecast figure.

**3.19** Evidence has been presented to the Work and Pensions Select Committee stating that a number of claimants had not received letters issued by Concentrix.<sup>13</sup> Concentrix acknowledges that in some instances letters may not have been received by individual claimants; however, it has shown that there was no systemic issue with the issuing of letters, in that it has identified that of all daily batches sent, a proportion of claimants have responded. However, where a claimant has not received a letter prompting the submission of information, this is likely to have led to further calls to Concentrix when further action was taken on claimants' tax credits awards.

**3.20** As Figure 19 shows the number of closed cases was below forecast. Although Concentrix initially fell behind its plan for opening compliance cases, it increased the rate at which it opened cases through May 2016 and early June 2016 to recover progress.

**3.21** Concentrix was not able to complete its review of cases and close them at the rate it had planned. Between May to July 2016, it closed an average of 6,200 cases a week, compared with its planned rate of closure of 30,000 per week. The lower rate of case closures contributed to a peak of 300,000 open cases in mid-July 2016, some 100,000 higher than forecast. While this reduced due to the subsequent closure of cases, there was a backlog of 181,000 open cases at 20 September 2016, which was when the 2016 HRR process was due to end.

### Higher than expected call volumes

**3.22** During the 2016 HRR process, Concentrix received more claimant calls than it had forecast.<sup>14</sup> While Concentrix anticipated that it would receive 373,700 calls relating to the open compliance cases in the period between 2 May and 5 September 2016, it received some 571,900 calls in this period, of which some 484,300 were answered. As **Figure 20** overleaf shows, Concentrix was unable to handle all calls received in the two weeks commencing 23 May 2016, the peak period for case openings, and its call-handling performance fell significantly from 8 August onwards. From 1 August 2016 to 5 September 2016, Concentrix received 201,000 calls and answered 139,000.

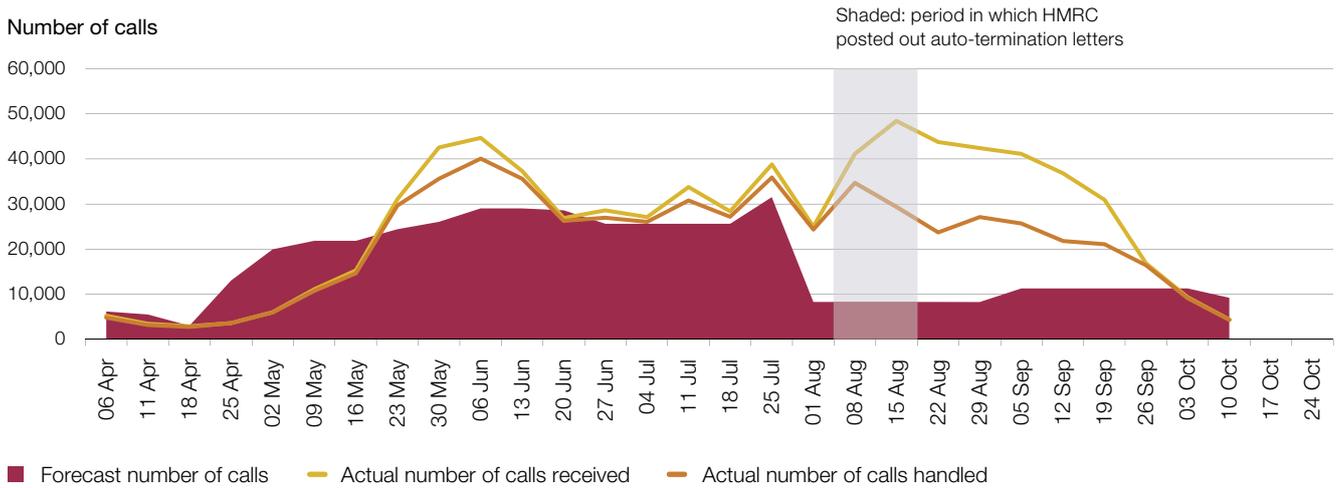
<sup>13</sup> Customer service failures section of the Work and Pensions Select Committee report, [www.publications.parliament.uk/pa/cm201617/cmselect/cmworpen/720/720.pdf](http://www.publications.parliament.uk/pa/cm201617/cmselect/cmworpen/720/720.pdf)

<sup>14</sup> Concentrix forecast calls received as part of preparing its HRR 2016 plan. The forecast calls received were not shared with HM Revenue & Customs and therefore, not signed off by HM Revenue & Customs.

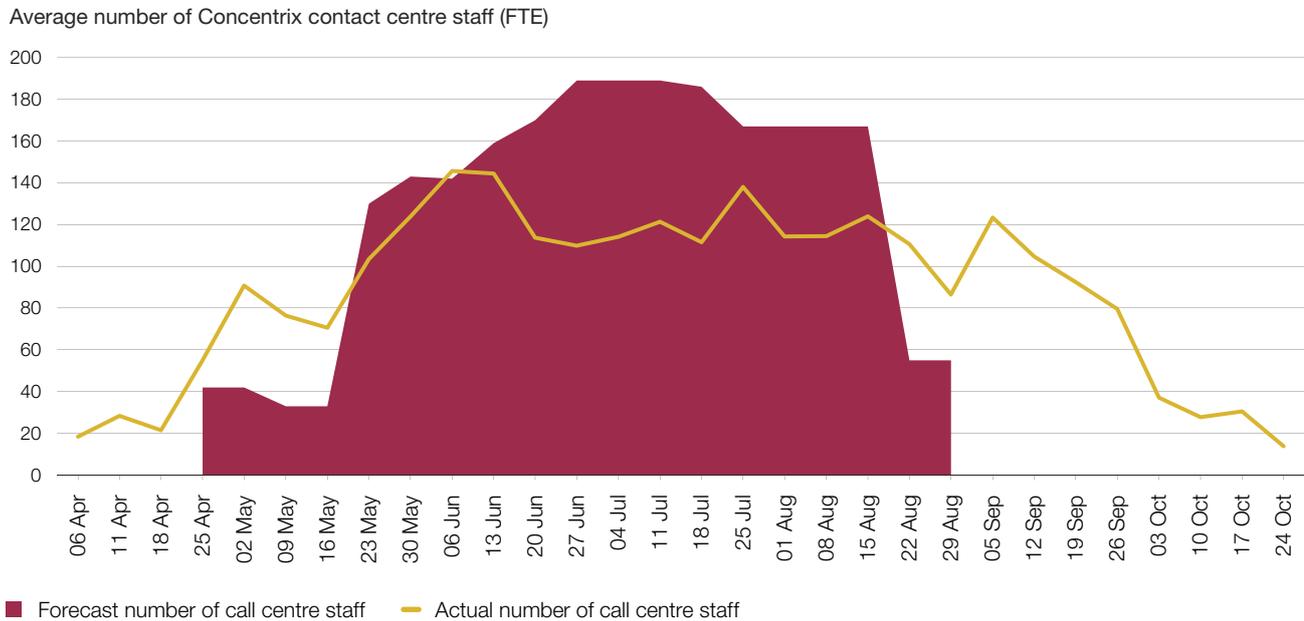
**Figure 20**  
Forecast versus actual calls and Concentrix contact centre staff

Concentrix received more calls than expected, while the number of Concentrix contact centre staff was lower than planned

**a) Forecast and actual calls received and handled by Concentrix**



**b) Forecast and actual number of full-time equivalent Concentrix contact centre staff**



**Notes**

- 1 Calls to Concentrix are shown as the volume of total calls received. Individual callers may have called multiple times, as reported to the Work and Pensions Select Committee on 25 October 2016, Q104.
- 2 The actual full-time equivalent data is based on Concentrix's daily contractual reports provided to HMRC during the 2016 HRR process and is the data used to monitor performance during the contract. It reflects the staff time attributed to call-handling within these reports.
- 3 Forecast numbers of call centre staff and number of calls were produced by Concentrix in advance of producing the 2016 HRR plan; however, the forecast volumes of calls were not shared with HMRC.
- 4 Actual full-time equivalent staff is calculated by taking a simple average of the daily number of full-time equivalent contact centre staff for each week and is not weighted for daily call volumes.

**3.23** There are a number of factors that could have contributed to the increased volume of calls including Concentrix's failure to work cases in line with the plan. As Figure 18 shows, Concentrix failed to meet its target of opening and scanning 80% of post within 15 working days from May 2016 onwards. These delays in processing will have contributed to some claimants calling Concentrix to check on progress, although data are not available to evidence the proportion of callers who fell into this category. Data shared by Concentrix with HMRC in its regular reporting showed that as at 1 August 2016 there were 103,000 cases where evidence had been provided by claimants to Concentrix which had not been worked within 30 days, increasing to more than 129,000 by the end of August 2016.

**3.24** The failure to process cases where claimants had not responded will also have contributed to the increase in calls, particularly in August 2016 when awards were terminated. Where a claimant does not renew their tax credits claim by 31 July, their provisional award ends and payments stop. Contact with claimants through the HRR process before payments are stopped in this way, for example through discussions with claimants as decisions are made and payments are varied, enables renewals to be completed at the same time and reduces the number of claimants who fail to renew on time. The backlog of open cases and much lower number of variations and decisions on claims than planned reduced the potential benefit from this claimant contact and was a factor in the higher numbers of terminations than planned. During the 2016 HRR process, Concentrix varied around 20,700 compliance cases compared with its forecast of some 115,000 cases.

### Call centre staffing

**3.25** As part of Concentrix's 2016 HRR plan, it forecast the level of full-time equivalent (FTE) staff that it would require over the period of the HRR process. This included peaks in call-centre staff in the last week of June 2016 and throughout July 2016 when it expected call volumes to be at their highest (Figure 20). Concentrix outlined its strategy for call centre staff in the 2016 HRR plan stating that: "Our strategy will be to use the dayshift agents for telephony and the nightshift for back office work. As a result of this, we have amended the spread of shifts for the dayshift. For HRCC this spread was 6am until 12 midnight, this will now be amended to 7:30am until 8:30pm. Additionally, we will be removing Sunday opening. This will allow us to have 375 staff spread across the six days of telephony shifts, increasing our ability to meet the voice SLA [Service level agreement] to customers. As our forecast requires 175 full-time equivalent staff at the highest peak we can comfortably handle the volumes that will result."

**3.26** To deal with high volumes of calls, Concentrix moved staff from other areas of its business to its call centre. In its contract, HMRC did not set a required level of Concentrix contact centre staff responsible for answering calls from claimants. Instead, HMRC signed off Concentrix's plan that included the expected level of Concentrix contact centre staff for the 2016 HRR process alongside the number of opened and closed cases.

**3.27** Actual FTE contact centre staffing levels did not reach the peak levels that Concentrix had planned. The actual average daily number of FTE staff per week peaked at 146, against a forecast peak of 189 FTE staff.

### Higher than expected terminations of awards where claimants did not renew

**3.28** The termination of provisional awards when a claimant does not respond is an established part of the tax credits process (outlined in Figure 2). HMRC's normal process is to terminate awards where no response has been received from the claimant as promptly as possible after the 31 July review deadline. HMRC does this to manage the risk of making provisional awards to claimants who are no longer entitled to tax credits and minimise the level of overpayments for recovery.

**3.29** Between 8 August and 16 August 2016, HMRC's system terminated provisional awards to 45,508 claimants from the 324,000 cases that Concentrix had opened, as part of the 2016 HRR renewals process. This compares with Concentrix's forecast that 21,800 provisional awards would be terminated within the cases passed to it. As outlined in paragraph 3.24, contact with claimants through the HRR process before payments are stopped in this way enables renewals to be completed at the same time and reduces the number of claimants who fail to renew on time. Concentrix's working of fewer cases than planned ahead of the renewal deadline contributed to the higher than planned number of terminations.

**3.30** During the 2015 HRR process, Concentrix opened 259,116 cases. Of these cases, HMRC's system terminated 49,056 awards for the forthcoming year, following claimants failing to renew. Following Concentrix's request for HMRC to delay the terminations, HMRC's system terminated these 49,056 cases in batches over a six-week period.

**3.31** Concentrix made no equivalent request for the 2016 HRR process and so the terminations in 2016 were made over a one-week period (the week commencing 7 August 2016). Concentrix told us that if HMRC had staged the terminations over six weeks, call volumes would have been distributed over a longer period. Concentrix was informed of the timetable for these types of terminations, and at the same time HMRC offered any support Concentrix needed. At this time HMRC and Concentrix could not identify which of the forecast total number of terminations related solely to Concentrix cases. Concentrix did not raise concerns with HMRC, and HMRC did not stagger terminations during August 2016.

### Changes to IT systems also interrupted customer service

**3.32** During the 2016 HRR process, IT problems affected Concentrix's ability to access its systems and its ability to process claimant changes during the period when the termination letters were being issued and claimant contact was likely to increase. A routine technical update to Concentrix's systems on 11 August 2016 prevented its staff from accessing or updating claimant details for a total period of 26 hours.

**3.33** Claimants were asked to phone back during this time because Concentrix was not able to deal with their call. On 12 August 2016, Concentrix received 12,127 calls compared to 9,093 on 11 August, and would have received increased calls on subsequent days. Complaints to HMRC show that there are instances where claimants reported this happening multiple times and this too, would have increased call volumes.

**3.34** Other IT issues affecting childcare updates and the reinstatement of suspended awards also interrupted aspects of processing. On 1 August 2016, HMRC discovered an error in the system that prevented Concentrix case workers from updating childcare cases on HMRC's tax credits system. The error arose from a routine update by HMRC on 15 July 2016, but the issue was not discovered until Concentrix tried to action larger numbers of childcare amendments on 1 August 2016. On identifying the issue, HMRC asked Concentrix to stop making any further changes to childcare cases, and Concentrix held back around 9,000 cases until HMRC fixed the error on 11 August 2016.

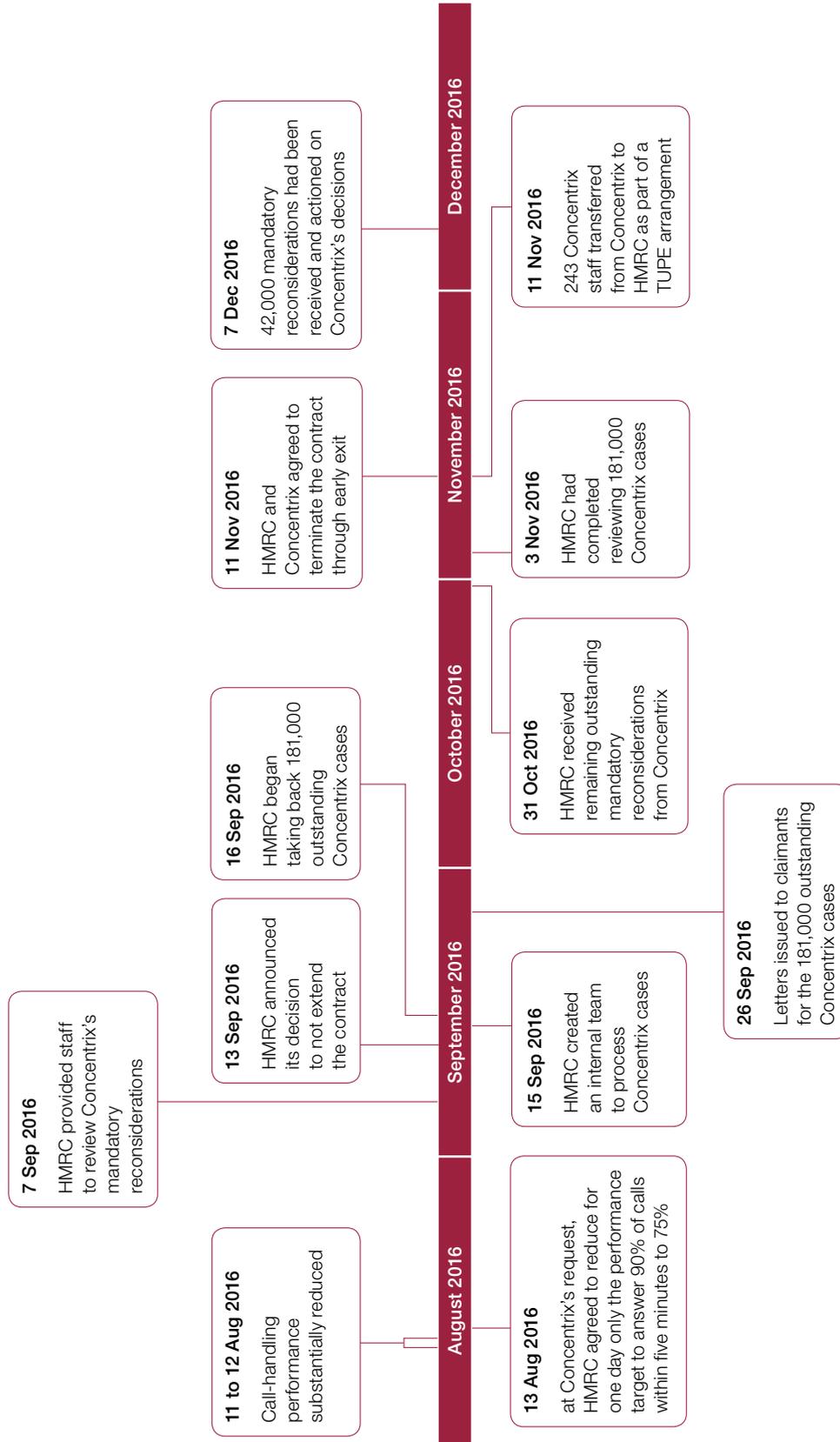
**3.35** As part of Concentrix's IT improvement plan that was signed off by HMRC, Concentrix updated its systems to improve its ability to reinstate awards. Issues with HMRC's test environment in March 2016 meant that HMRC could not test the change ahead of implementing or ahead of the 2016 HRR process. HMRC agreed the change should go ahead without testing because this particular function would have no adverse impact on claimants if it did not work, as HMRC could reinstate awards on behalf of Concentrix. On 16 August 2016, Concentrix discovered it was unable to reinstate awards as a result of the change. To resolve the issue HMRC identified a solution, which Concentrix's IT supplier implemented on 1 September 2016. Between 16 August and 1 September, HMRC reinstated around 4,000 awards on behalf of Concentrix. HMRC believes that this eliminated the impact on Concentrix and claimants.

### **HMRC's response to customer service issues in August 2016**

**3.36 Figure 21** overleaf shows a timeline of events and action taken during August and September 2016. HMRC took several steps to help Concentrix manage performance problems:

- **Reducing call-handling targets:** On 13 August 2016, at Concentrix's request, HMRC agreed to reduce the performance target to answer 90% of calls within five minutes to 75% for one day only. Between 15 August and 26 August 2016, HMRC agreed to Concentrix's further request to relax the target on a temporary basis, on the condition that Concentrix achieved at least 80% of calls within five minutes. HMRC agreed to relax the target to help Concentrix apply contingency measures to recover call-handling performance while meeting other contractual targets.
- **Reallocating staff to clear mandatory reconsiderations on Concentrix decisions:** HMRC reallocated 50 staff on 7 September 2016 and a further 140 staff on 15 September 2016 to work on mandatory reconsiderations passed to it from Concentrix.
- **Passing no new cases to Concentrix from 7 September 2016.**
- **Reallocating HMRC staff:** On 21 September 2016, HMRC reallocated 200 staff to answer calls to HMRC's tax credits line. HMRC also reallocated staff to work on clearing 181,000 cases returned from Concentrix on 16 September 2016.

**Figure 21**  
Timeline of events, August to November 2016



Source: National Audit Office analysis of HM Revenue & Customs data

**3.37** Between 12 September and mid-November 2016, an average of 670 FTE staff each week were reallocated to work on cases that would otherwise have been carried out by Concentrix. These staff were reallocated from working on HMRC's own tax credits compliance activity.

**3.38** HMRC told us that reallocating its staff to work on Concentrix cases had no material impact on customer service. However, HMRC had completed fewer than planned HRCC compliance interventions at mid-December 2016, which could potentially impact on the level of error and fraud in 2016-17. HMRC has assessed the opportunity cost at a maximum of £30 million, reflecting the savings that have not been realised following the redeployment of HMRC staff to complete Concentrix cases. HMRC told us it had mitigated this impact by redeploying 100 additional full-time equivalent staff to its tax credits compliance activity. These people would otherwise be working on lower-priority activities, which will be completed over a longer period of time than originally planned.

### **Termination of the contract**

**3.39** In August 2016, HMRC recognised that customer service levels were falling below the contractual requirements. Together with the fall in performance against the contractual performance indicators during the 2016 HRR process, the proportion of tax credits complaints made to HMRC that related to Concentrix increased during this period (**Figure 22** overleaf). The volume of calls from MPs to HMRC's MP hotline increased during the 2016 HRR process (**Figure 23** on page 53).

**3.40** The contract included an option to extend for further periods of up to two years in total beyond the end date of 5 May 2017.<sup>15</sup> Discussions on continuing with the contract and the possibility of extending the contract beyond May 2017 were ongoing until early September 2016. However, there were significant issues to be resolved prior to any extension, for example whether both HMRC and Concentrix's logo would remain on letters sent out to claimants. Correspondence between HMRC and Concentrix showed that in June 2016, Concentrix was reluctant to continue with the contract due to low profits and HMRC's position that joint branding would be included on letters sent to claimants.

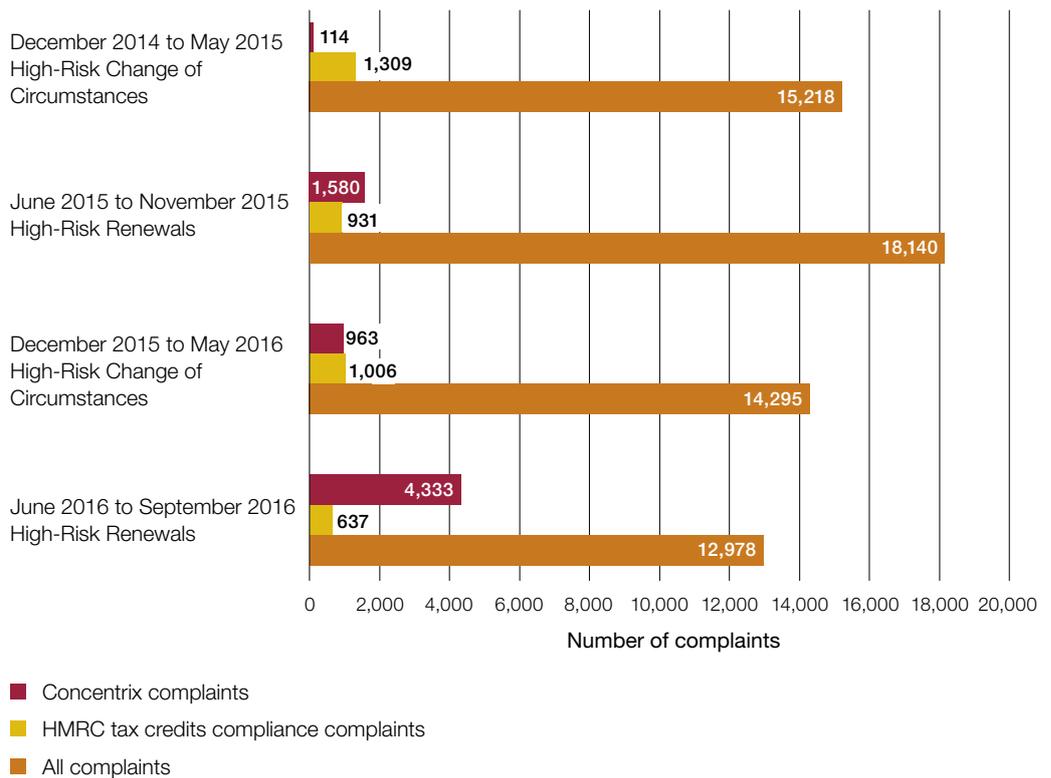
**3.41** On 13 September 2016, HMRC announced it would not extend the contract with Concentrix, citing poor customer service levels in relation to Concentrix's call-handling during August 2016. HMRC made the announcement to allay concerns of claimants and MPs over Concentrix's handling of cases. HMRC initially gave Concentrix 15 minutes' notice, which was increased to 1.5 hours, before issuing a press notice announcing that the contract would not be extended. Up until this point, Concentrix believed that negotiations were continuing. However, neither HMRC nor Concentrix had made a formal commitment to extend the contract beyond May 2017.

<sup>15</sup> The extension of the initial contract period is outlined in Schedule E of the contract.

**Figure 22**

Number of complaints relating to Concentrix, HMRC tax credits compliance activities and all tax credits complaints, December 2015 to September 2016

The proportion of complaints about Concentrix increased during the 2016 High-Risk Renewals process, representing 25% of all tax credits complaints

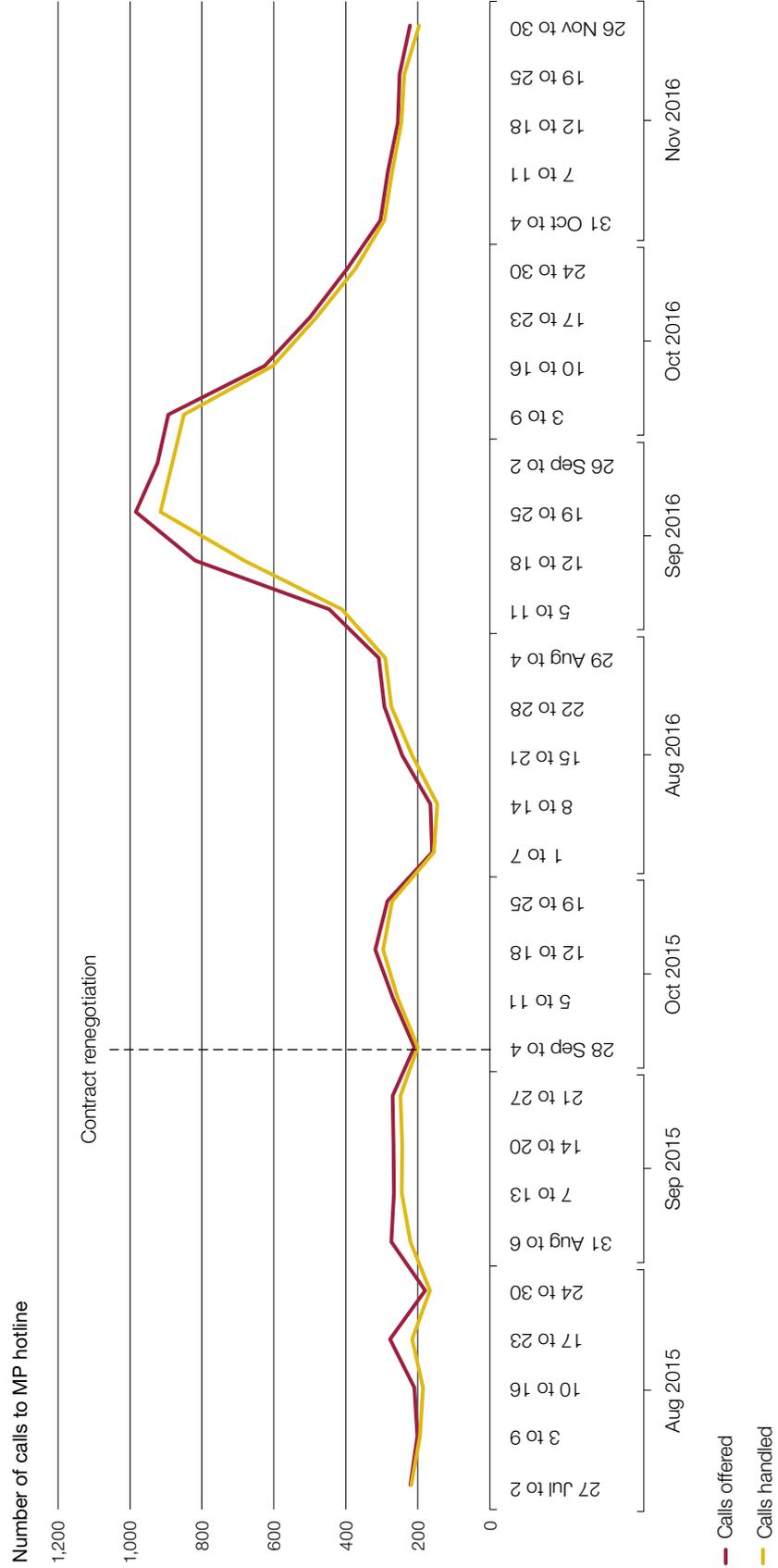


**Note**

1 'Concentrix complaints' relates to complaints made to HMRC about Concentrix's handling of cases; 'HMRC tax credits compliance complaints' relates to complaints made about HMRC's handling of compliance cases and 'all complaints' relates to all complaints received by HMRC about tax credits.

Source: National Audit Office analysis of HM Revenue & Customs data

**Figure 23**  
 Calls to HMRC's dedicated Member of Parliament hotline: August to October 2015 compared with August to October 2016  
 There was a sharp increase in calls to HMRC's MP hotline between 12 September to 18 September 2016



**Note**  
 1 The numbers in this figure represent all calls made to the MP tax credits hotline, which includes Concentrix-related calls.  
 Source: National Audit Office analysis of HM Revenue & Customs data

**3.42** On 11 November 2016, HMRC announced that it had reached agreement with Concentrix to terminate the contract early, ahead of the scheduled end date of May 2017.<sup>16</sup> In assessing its exit from the contract, HMRC considered three options:

- an agreed and managed exit through HMRC and Concentrix agreeing a variation to the contract to terminate the contract early;
- contractually permitted termination for convenience at any point with three months' notice; and
- issuing a breach notice to terminate for breach of contract based on Concentrix's performance.

**3.43** HMRC assessed these options against the impact on claimants, value for money, the respective speed of execution, management time and risk. There were likely to be significant costs if the contract was terminated for convenience. Issuing a breach notice would have potentially led to a long process of litigation. HMRC chose to follow an agreed and managed exit because it believed it to be the quickest route to resolution, and therefore the best option for handling claimants' cases effectively, as well as providing the most certainty on the financial cost.

**3.44** HMRC followed an agreed and managed exit on the basis that it was unhappy with the customer service provided by Concentrix. HMRC was no longer willing to provide Concentrix with further cases from September 2016, and this effectively meant the contract had to come to an end.

### **Impact of the termination of the contract**

**3.45** Over the life of the contract, HMRC paid Concentrix £32.5 million. Of this, £23.1 million was commission paid under the contract, which represents around 10.4% of savings against the gross estimated savings made of £223 million. HMRC has assessed the net savings over the life of the contract at £193 million, which is the gross savings of £223 million less the assessed opportunity cost of £30 million for HMRC staff completing Concentrix's cases. HMRC told us it had mitigated this impact by redeploying 100 additional full-time equivalent staff to its tax credits compliance activity (paragraph 3.36 above).

**3.46** The remainder of the payment to Concentrix comprises:

- £6.9 million that related to mandatory reconsiderations where decisions were overturned and HMRC agreed as part of termination not to adjust payments to Concentrix
- £0.5 million for 22,700 cases that Concentrix part-worked and returned to HMRC prior to July 2016;

<sup>16</sup> Written Ministerial Statement: *Update on HMRC's contract with Concentrix*. Available at: <https://hansard.parliament.uk/Commons/2016-11-14/debates/16111412000006/HMRCContractConcentrix>, 14 November 2016.

- £0.8 million for 181,000 cases that Concentrix part-worked and returned to HMRC in September 2016;
- £0.5 million for Concentrix's sub-contractor costs; and
- £0.7 million related to additional IT solutions outside of the original contract.<sup>17</sup>

**3.47** HMRC did not make any severance costs for those staff leaving Concentrix as a result of the termination of the contract. HMRC concluded its discussions with Concentrix when it considered that there was no further room for manoeuvre on either side, and it had a settlement figure that allowed it to consider that option against the other options available.

**3.48** Concentrix told us that it made a financial loss of £20.5 million over the life of the contract, with an approximately equal split between 2015-16 and 2016-17.

**3.49** HMRC has stated that it will not seek to replace Concentrix with another third party. Instead, it will seek to provide the interventions itself. A total of 243 staff transferred from Concentrix to HMRC under TUPE regulations.<sup>18</sup> This represents a net increase in HMRC's staffing levels. The majority of these staff are now working on HMRC's compliance interventions for the HRCC process. In future, HMRC's intention is to carry out error and fraud interventions in-house following its existing process.

**3.50** The Chief Executive and Permanent Secretary for HMRC highlighted that HMRC has learned five lessons from its contract with Concentrix. These are:

- a need to prioritise claimants in delivering a public service;
- more thorough assurance about contingency planning;
- the speed of escalating issues to decision-makers who can resolve them;
- whether third parties can understand the subtleties of delivering a public service; and
- whether a contract with financial incentives for reducing error and fraud is the right mechanism to ensure good customer service.<sup>19</sup>

<sup>17</sup> The £0.7 million paid to Concentrix related to £0.1 million for IT licence service charges and £0.6 million relating to change requests for additional IT solutions.

<sup>18</sup> TUPE refers to the Transfer of Undertakings (Protection of Employment) Regulations, which preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer.

<sup>19</sup> Committee of Public Accounts, Oral evidence, *HMRC performance and tax transparency*, HC 712, 26 October 2016, Q39.

# Appendix One

## Our investigative approach

### Scope

- 1 We conducted an investigation into three specific areas. These were:
  - the aims and objectives of the contract;
  - HM Revenue & Customs' (HMRC's) contractual approach and performance monitoring; and
  - the renegotiation and termination of the contract.

### Methods

- 2 In examining these issues, we drew on a variety of evidence sources.
- 3 We drew on knowledge from our financial audit team to identify details about the contract gained through our past audits of benefits and tax credits.
- 4 We undertook peer review using our existing contracting and commercial teams' expertise to challenge our findings. In considering how HMRC has managed the contract we reviewed:
  - the original and revised contract to understand variations that occurred;
  - payment mechanisms and finance models (such as service credits and payment by results);
  - HMRC's documents including commercial meeting minutes, the business case for the contract and risk registers; and
  - quality assurance arrangements in place to support accurate decision-making and customer service standards.

**5** We assessed Concentrix's performance up to September 2016 by analysing:

- contractual performance reports used by HMRC to monitor Concentrix's performance against agreed contractual levels;
- procedures for managing complaints;
- contract remedies put in place to improve performance; and
- savings realised under the contract against expected savings.

**6** We interviewed key individuals from HMRC and Concentrix to establish: how the contract was set up and managed; Concentrix's performance; the reason for not extending the contract and termination of the contract. The people we interviewed included:

- the Director of benefits and credits and senior contract owner at HMRC;
- the deputy Director of benefit and credits compliance operations at HMRC;
- the commercial directorate from the tender and throughout the contract management period at HMRC;
- individuals responsible for the management of the contract at HMRC; and
- the Senior Vice-President at Concentrix.

## Appendix Two

### Example of the initial letter from Concentrix to tax credits claimants

**1** The initial letter from Concentrix to claimants explained that Concentrix was working on behalf of HMRC to ensure that people receive the right amount of tax credits.



Concentrix on behalf of  
HM Revenue and Customs  
PO Box 4049  
Lancing  
BN11 9YS.

Recipient name line 1  
Recipient address line 1  
Recipient address line 2  
Recipient address line 3  
Recipient address line 4  
Recipient address line 5  
Recipient postcode

Phone 0345 6003130  
8am to 8pm Monday to Friday  
8am to 4pm Saturday

Date DD MM YYYY  
Case number Case reference  
NI number NINO

Dear Recipient name line1

**We need to check some details about your tax credits for tax year 6 April 2015 to 5 April 2016.**

We need to check your payments are correct to avoid you being overpaid.

We are working on behalf of HMRC to ensure that people get the right amount of tax credits. For more information about who we are, go to: [www.hmrc.gov.uk/security/contacts.htm](http://www.hmrc.gov.uk/security/contacts.htm)

**We need information from you about:**

- your claim

**Please send us all of the information we ask for by DD MM 2016 to the address at the top of this letter. If we don't hear from you by this date we may reduce or stop your tax credits payments.**

So that we can complete our checks we also need your completed tax credits renewal. Please complete your tax credits renewal pack and send it to the address given on your pack as soon as possible. If you do not renew by 31 July, we will stop your tax credits. You can renew online at [www.gov.uk/renewtaxcredits](http://www.gov.uk/renewtaxcredits)

You have made a tax credits claim as a single person, but we have information that there may be another adult living with you. If you're married, in a civil partnership, or usually live with a partner, you must make a joint claim for tax credits. We need some information to check whether you should be claiming as part of a couple.

It's really important that you don't ignore this letter. What we're trying to do is to make sure you don't end up being paid too much tax credits, resulting in a debt which you'll have to repay later.

Information is available in large print, audio and Braille formats.  
Text Relay service international number: 18001 0345 6003130



Please read the enclosed leaflet 'WTC/FS10 Tax credits checks' which explains why we check claims and what your rights are.

We have chosen your award to check if the information we hold for you is right.

**What you need to do by DD MM 2016**

Evidence you need to send us about your claim:

- your bank, building society or post office account statements, including any joint accounts or online accounts for you, for the period from 06 April 2015 to 05 April 2016
- your mortgage statement or rental agreement for 6 April 2015 to 5 April 2016
- your Council Tax statement for 6 April 2015 to 5 April 2016
- your gas, electricity, water and phone bills for 6 April 2015 to 5 April 2016
- any court or solicitors letters including legal separation documents, decree nisi or absolute

If we do not receive this information by DD MM 2016, we may reduce or stop your tax credits payments.

**You need to send the information to us at**

Concentrix on behalf of  
HM Revenue and Customs  
PO Box 4949  
Lancing  
BN11 9YS

Please send us original documents where possible, or print-outs from online accounts. We will send any original documents back to you.

If you have difficulties supplying information, call us and we can discuss alternatives.

If you contact us, we can deal with you more quickly if you quote the National Insurance number NINO, case number Case reference and provide a daytime phone number.

**What happens next?**

Once you have sent us your documents, we'll need time to consider them along with any other information we hold. Please give us fifteen working days after you send us the documents before you try to contact us. We will then reach a decision about your current tax credits award and send you a reply in writing.

We may use the information you give us during our check to decide:

- what tax credits you are entitled to
- what tax credits you should pay back to us, if we have paid you too much
- whether we should charge you a penalty if you have made an error

We will really value your cooperation with our check so that we can work out how much tax credits you are due.

The extent to which you cooperate with us and provide us with information is entirely a matter for you. In making your decision you may wish to get help from a professional adviser or a welfare organisation such as Citizens Advice. If you have an adviser acting for **\*\*PLEASE CLICK HERE\*\***, please show them this letter.

If you choose not to cooperate, we may reduce or stop your tax credits.

If our check shows you have made an error, we will consider whether you must pay a penalty as shown in the enclosed leaflet 'WTC7 Tax credits penalties'. We will not charge you a penalty if you have taken care to give us the correct information but still made a mistake.

When we make a decision on your award, you have the right to ask us to review our decision.

#### **Your rights and obligations**

Your Charter explains what you can expect from us and what we expect from you. For more information go to [www.gov.uk/hmrc/your-charter](http://www.gov.uk/hmrc/your-charter)

Go to [www.gov.uk/browse/benefits/tax-credits](http://www.gov.uk/browse/benefits/tax-credits) for more information about your tax credits claim.

Yours sincerely

Concentrix

# Appendix Three

## Concerns raised by the Committee of Public Accounts about Concentrix

1 The Committee of Public Accounts raised concerns about Concentrix in its previous evidence sessions with HMRC in September 2015 and June 2016, which are set out below.

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### Concerns raised by the Committee between 2015 and 2016

Date	Committee's concern	HMRC response
<p><b>14 September 2015</b></p> <p>Evidence session on fraud and error stocktake</p>	<p>HMRC has employed a private sector partner to increase the number of tax credits claims that are checked, but we are concerned that the contractor's approach has been excessively threatening. Requiring people to provide large amounts of information in less than a month, and cutting off benefits from those who fail to do so, can cause people enormous difficulties (conclusion 5 – Available at: <a href="http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpublicacc/394/394.pdf">www.publications.parliament.uk/pa/cm201516/cmselect/cmpublicacc/394/394.pdf</a>).</p>	<p>HMRC admitted to the Committee that claimants had initially complained about the overly threatening tone of letters they received from Concentrix, which had led to them being rewritten (Qq 124, 128, 131, 132, 145 – Available at: <a href="http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/fraud-and-error-stocktake/oral/21563.pdf">http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/fraud-and-error-stocktake/oral/21563.pdf</a>).</p> <p>HMRC acknowledged that claimants might react differently to receiving a request for detailed personal information from a private sector company, than if it had come from HMRC itself (Qq 130, 136, 137 – Available at: <a href="http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/fraud-and-error-stocktake/oral/21563.pdf">http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/fraud-and-error-stocktake/oral/21563.pdf</a>).</p>
<p><b>13 June 2016</b></p> <p>Evidence session on the quality of service to personal taxpayers</p>	<p>Concerns about Concentrix's approach in relation to focusing on single parent claimants to find out if they are or are not in a relationship, when claimants have provided the evidence to HMRC (Q116 – Available at: <a href="http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/78/78.pdf">www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/78/78.pdf</a>).</p>	<p>The Chief Executive for HMRC told the Committee that he was not content that Concentrix was acting appropriately in securing income from taxpayers (Q116 – Available at: <a href="http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/78/78.pdf">www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/78/78.pdf</a>).</p> <p>The Chief Executive for HMRC wrote to the Chair on 26 July 2016 and provided reassurance that HMRC has worked with Concentrix to bring its service up to an acceptable level.</p>
<p><b>26 October 2016</b></p> <p>Evidence session on HMRC's performance in 2015-16</p>	<p>HMRC's contract with Concentrix to investigate cases of potential fraud and error has been a complete failure. HMRC must ensure that lessons are learned from how this contract was designed and managed to make sure that such an unacceptable breakdown in service is not repeated (conclusion 5 – Available at: <a href="http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/712/712.pdf">www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/712/712.pdf</a>).</p>	<p>HMRC told the Committee that Concentrix had failed to cope with an increase in call numbers following a letter it had sent to a large number of claimants about their claims. For example, in the third week of August 2016 the basic levels of customer service provided by Concentrix deteriorated to the point that less than 10% of phone calls were being answered within five minutes. HMRC considered that such an increase in call volumes had been entirely predictable (conclusion 5 – Available at: <a href="http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/712/712.pdf">www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/712/712.pdf</a>).</p>

# Appendix Four

## Contractual performance indicators in the original and revised contracts

- 1** The contract between HM Revenue & Customs (HMRC) and Concentrix, in place between November 2014 and October 2015, contained 32 performance indicators (**Figure 24** on pages 64 and 65).
- 2** In October 2015, as part of the contract renegotiation, HMRC reviewed these contractual performance indicators. **Figure 25** on pages 66 and 67 sets out the performance indicators that were in place between October 2015 and the termination of the contract in November 2016.
- 3** All of the performance indicators that were in the renegotiated contract were also in the original contract, but in the revised contract HMRC prioritised its monitoring on four indicators.
- 4** The performance indicators that HMRC excluded in the revised contract are marked with an asterisk in Figure 24.

**Figure 24**

## Contractual performance indicators, November 2014 to October 2015

Reference in the contract	Performance indicator description	Target
<b>Error and fraud compliance interventions</b>		
KPI 1*	Meet targets for proxy losses prevented	100%
KPI 1.1*	Meet minimum strike rate for the detection of error and fraud	8% (11% for High-Risk Change of Circumstances (HRCC) 2015) work and hours strike rate 25% (20% for HRCC 2015) undeclared partner strike rate 27% (34% for HRCC 2015) childcare strike rate
KPI 1.2*	Meet minimum average losses prevented per case	£5,253 (£2,489 for HRCC 2015) per work and hours case £7,350 (£3,801 for HRCC 2015) per undeclared partner case £4,774 (£2,429 for HRCC 2015) per childcare case
KPI 2*	Apply data-matching and analytics	Within 10 working days of receipt
KPI 3	Return de-selected cases to HMRC	100% within two working days of applying data analytics
KPI 4*	Open interventions by date specified by HMRC	97% of interventions
KPI 4.3*	Claimant documents receive appropriate verification checks	100% of documents received
KPI 5	Opened tax credits interventions closed	80% of opened interventions closed within 75 days <sup>1</sup> Remaining 20% closed within 90 days
<b>Accuracy</b>		
KPI 4.1	Accuracy of outbound letters	99.6% of claimant details match data on HMRC's system
KPI 4.2*	Specified factsheets included in outbound letters	100% of outbound letters
KPI 6	Accurate tax credits decisions <sup>2</sup>	97%
KPI 7	Accurate penalty determinations applied <sup>3</sup>	97%
KPI 8	Accurate reconsideration decisions <sup>4</sup>	97%
<b>Outbound and inbound post facility</b>		
KPI 9	Claimant correspondence registered as received and scanned	80% within two working days of receipt <sup>5</sup> Remaining 5% within four working days of receipt <sup>6</sup>

Reference in the contract	Performance indicator description	Target
KPI 9.1	Identification documents (eg passport, birth certificate) returned to claimant	95% returned within two working days of receipt Remaining 5% within five working days of receipt
KPI 9.2*	Appropriate and accurate action taken for inbound post	97% accuracy
<b>Telephony service</b>		
KPI 10	Claimant calls answered	90% of calls answered in five minutes
KPI 10.1	Accuracy of claimant calls <sup>7</sup>	97% of live calls 97% of recorded calls
KPI 10.3*	HMRC caller authentication procedure is adhered to	100%
<b>Claimant complaints about tone and treatment<sup>8</sup></b>		
KPI 11	Tone and treatment complaints accurately actioned and responded to claimant	80% within 15 working days 100% within 40 working days 97% accuracy
KPI 12	Claimant tone and treatment complaints upheld	Must not exceed 1% of tone and treatment complaints received
<b>Data security</b>		
KPI 13	Keep claimant data safe on transfer and receipt	100% of claimant data No instance of serious data loss
KPI 13.1	Security incidents reported to HMRC	100% reported within two working days
KPI 13.3	Concentrix personnel conform to HMRC security checks	100% of personnel
<b>External scrutiny</b>		
KPI 14	Cases with media or parliamentary interest sent to HMRC	100% within 24 hours (including weekends)
KPI 15	Provide HMRC with report of interested cases and assessment of any remedial action	100% within one working day

**Notes**

- The opened tax credits interventions must be closed within 75 days excluding mandatory reconsiderations.
- Under Sections 16, 18 (revised decisions and decisions after final notice) and Section 24 (payment) of the Tax Credits Act 2002, 97% of decisions made by Concentrix are accurate, measured against HMRC criteria.
- Under Sections 31 (incorrect statements from an individual) and 32 (individual fails to comply with requirements) of the Tax Credits Act 2002, 97% of penalty terminations applied by Concentrix are accurate measured, against HMRC quality criteria.
- Measured against the HMRC quality criteria, 97% of reconsideration decisions made by Concentrix are accurate.
- Eighty per cent (80%) of post must be opened, scanned and any documents returned to the claimant or disposed of as appropriate within 15 working days of receipt.
- One hundred per cent (100%) of post must be opened, scanned and any documents returned to the claimant or disposed of as appropriate within 40 working days of receipt.
- Measured from a random sample size, 97% of all claimant contacts by telephone are accurate and adhere to the HMRC Customer Charter.
- 'Tone and treatment complaints' are complaints against personnel about the way they were spoken to or their issue was handled.

Source: National Audit Office contract analysis

**Figure 25**

## Contractual performance indicators, October 2015 to November 2016

Reference in the contract	Performance indicator description	Target (and performance level for KPIs)
QPI 1	Financial accuracy	97% or more – ● <sup>1</sup> 96.99% or less – ●
KPI 1	Telephone calls answered within five minutes	90% or more – ● 80% to 89.99% – ●● 60% to 79.99% – ● 40% to 59.99% – ● 40% or less – ●
KPI 2	Appropriate and accurate action taken for inbound post within 15 working days of receipt <sup>2</sup>	80% or more – ● 70% to 79.99% – ●● 60% to 69.99% – ● 50% to 59.99% – ● 50% or less – ●
KPI 3	Appropriate and accurate action taken for inbound post within 40 working days of receipt <sup>3</sup>	100% – ● 95% to 99.99% – ●● 90% to 94.99% – ● 80% to 89.99% – ● 80% or less – ●
SPI 1	Return de-selected cases to HMRC	100% within 20 working days of applying data analytics
SPI 2	Accuracy of outbound letters	95% of claimant details and factsheets are correct
SPI 3	Opened tax credits interventions closed	80% of opened interventions closed within 75 days 100% of opened interventions closed within 90 days
SPI 4	Accurate tax credits decisions <sup>4</sup>	97%
SPI 5	Accurate penalty determinations applied <sup>5</sup>	97%
SPI 6	Accurate reconsideration decisions <sup>6</sup>	97%
SPI 7	Identification documents (eg passport, birth certificate) returned to claimant	95% returned within two working days of receipt
SPI 8	Identification documents (eg passport, birth certificate) returned to claimant	100% returned within five working days of receipt
SPI 9	Accuracy of claimant calls	97%

Reference in the contract	Performance indicator description	Target (and performance level for KPIs)
SPI 10	Tone and treatment complaints accurately actioned and responded to claimant <sup>7</sup>	80% within 15 working days
SPI 11	Tone and treatment complaints accurately actioned and responded to claimant	100% within 40 working days
SPI 12	Tone and treatment complaints accurately actioned and responded to claimant	97% accuracy
SPI 13	Non-tone and treatment complaints referred to HMRC	100% referred within five working days
SPI 14	Claimant tone and treatment complaints upheld	Must not exceed 1% of tone and treatment complaints received
SPI 15	Keep claimant data safe on transfer and receipt	100% of claimant data No instance of serious data loss
SPI 16	Security incidents reported to HMRC	100% reported within two working days
SPI 17	Concentrix personnel conform to HMRC security checks	100% of personnel
SPI 18	Cases with media or parliamentary interest sent to HMRC	100% within 24 hours (including weekends)
SPI 19	Provide HMRC with report of interested cases and assessment of any remedial action	100% within one working day

#### Notes

- 1 Measured from a random sample size, 97% of all claimant contacts by telephone are accurate and adhere to the HMRC Customer Charter.
- 2 Eighty per cent (80%) of post must be opened, scanned and any documents returned to the claimant or disposed of as appropriate within 15 working days of receipt.
- 3 One hundred per cent (100%) of post must be opened, scanned and any documents returned to the claimant or disposed of as appropriate within 40 working days of receipt.
- 4 Under Sections 16, 18 (revised decisions and decisions after final notice) and Section 24 (payment) of the Tax Credits Act 2002, 97% of decisions made by Concentrix are accurate measured against HMRC criteria.
- 5 Under Section 31 (incorrect statements from an individual) and Section 32 (individual fails to comply with requirements) of the Tax Credits Act 2002, 97% of penalty terminations applied by Concentrix are accurate, measured against HMRC quality criteria.
- 6 Measured against the HMRC quality criteria, 97% of reconsideration decisions made by Concentrix are accurate.
- 7 'Tone and treatment complaints' are complaints against personnel about the way they were spoken to or their issue was handled.

Source: National Audit Office contract analysis



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National Audit Office

Design and Production by NAO External Relations  
DP Ref: 11401-001

£10.00

ISBN 978-1-78604-097-8

