Table of Contents:

1. Introduction pg. 2
2. Part 1: The Economic Impact on Scotland of HMRC's Building our Future Programme pg. 7
3. The Rational for Restructuring pg. 8
4. The Case Against Restructuring pg. 9
5. The Impact on Scotland pg. 11
6. The Impact of Cuts on the National Economy pg. 11
7. The Glasgow Catchment Area: - Cumbernauld, East Kilbride and Glasgow pg. 14
8. The Edinburgh catchment area: - Bathgate, Edinburgh and Livingston pg. 16
9. Outside Catchment Areas: - Aberdeen, Inverness and Dundee pg. 17
10. Summary pg. 18

11. PART 2: An Alternative Vision pg. 19
12. Key Themes pg. 20
13. Digitalisation pg. 21
14. Local pg. 24
15. Compliance pg. 25
16. Employee Empowerment pg. 27
17. Conclusions & Recommendations pg. 30
Fighting for Tax Jobs, Fighting for Tax Justice: A Workers' Alternative

HMRC's "Building Our Future" proposals will involve some of the most radical changes to tax collection and administration in British history. The plans mean that most tax offices will close and tax services will be centralised in regional super-hubs with the official purpose of saving money and modernising the service for the digital age. They are being pushed ahead against the wishes and the judgment of HMRC employees who believe these changes will damage morale, punish vulnerable economies and deprive the tax service of crucial knowledge and skills.

Tax collection and administration are vital parts of government because they generate the income that makes all other government services possible, so the value of a reliable, efficient and fair system needs little explaining. In theory, digital technology should enrich this service, allowing tax officers to better police the evasion and avoidance which drains our public services and adds to rising inequality. However, digitalisation is not an alternative to human knowledge and oversight. HMRC staff have the training, skills and specialised knowledge that are crucial to the fight against fraud. Making drastic changes to the tax infrastructure without consulting them is extremely risky and could do long-term damage to our public services.
Toward the end of last year, the Scottish Government opened a call for evidence on how a "Scottish Approach" to taxation should work, to which our union contributed. Given that PCS has long campaigned for tax justice and is the largest union for HMRC workers, our continuing input into the Scottish Government's approach is crucial. This report will critically examine the Building Our Future proposals in Scotland and offer constructive principles about how to organise a better reform package. Part 1 presents a detailed study of how the changes will damage Scotland's economy, focusing particularly on the towns and cities affected by centralisation. Part 2 identifies principles for a more effective set of reforms. These reforms aren't simply plucked from policy experts: they are the suggestions, solutions and conclusions of 'worker experts'. That is, the workers' vision for a better taxation system, presented in Part 2 of this report, has been created from countless workshops held in offices across the country. HMRC workers have come together, collectively through the trade union to put their vision forward for a better system and more fulfilling working life. The UK Government, according to our research, has significantly overestimated the benefits and significantly underestimated the costs of it plans.

- The Government’s modelling for the impact of cuts on the broader economy is outdated. We use the IMF’s revised estimates for the fiscal multiplier, which take greater account of data after the Great Recession. Using these findings, we show that any “efficiency savings” from cuts will eventually be wiped out by the resulting contraction in tax revenue;
- However, the reality could be far more damaging if HMRC cuts make the campaign against tax avoidance and evasion less efficient. If so, HMRC cuts will mean a reduction in tax revenue for all public services. They will also damage the drive to reduce the social inequality and injustice caused by failure to enforce the tax system;
- Current HMRC plans foresee a leaner service that does more with less thanks to centralised digital technology systems. Our research suggests that the practicalities of this model have not been thought out, particularly in areas like customs and excise which will be inundated with new problems after Brexit. According to widespread reports, existing cuts have already had a “chaotic”[1] and “shocking”[2] impact on HMRC administration, suggesting that a more cautious estimate of administrative change is needed. The current plans are, by contrast, radically optimistic in assessing the impact of replacing human services with technology;
- International evidence suggests that Britain’s model is inefficient and will not work. Where digital technology has been a success, it has been married to increases in staff numbers, not decreases.
This report will examine the Scottish dimension to these cuts.

- These decisions have been made by the UK Government with little consultation with the Scottish Government over the likely impact. This raises constitutional questions about democratic accountability;

- The cuts will exacerbate uneven development, both across the UK and within Scotland. Edinburgh, which already gets a significant subsidy from jobs created by public sector administration, will get a further boost under the plans. By contrast, businesses and communities in poorer areas like West Lothian, Cumbernauld and East Kilbride will suffer from centralisation;

- The plans risk a breakdown in trust and authority between central Government and Scotland's communities;

- The plans make heroic assumptions about Scotland's vast geography. They underestimate commuting times (and stresses on both individual and existing transport systems) in Greater Glasgow. They also take insufficient account of the waste and cost of sending mobile teams from Edinburgh or Glasgow to crucial economic areas like Aberdeen and Inverness;

- The Scottish Government has its own semi-independent taxation system, Revenue Scotland. However, HMRC's Building Our Future proposals would violate many of the principles advocated by the Scottish Government as basic norms for a just tax administration. Moreover, and perhaps most significantly in the current political climate, we expect the proposed changes to interfere with the collection of the Scottish Rate of Income Tax, with consequences for funding public services in Scotland.
Drawing on extensive workshops with front-line staff, we suggest four key principles for a constructive approach that uses technology to genuinely improve the service.

- **Digitalisation “should be the servant, not the master”**. Technology can be an invaluable tool in combating tax fraud and building a compliance culture where it streamlines processes and helps to crunch “big data”. But used uncritically it becomes a hindrance, undermining quality of service, causing errors, disturbing HMRC working practices, acting as a bureaucratic burden and offering crude simplifications for services that need human input (like assessing “risk”);

- **Building a culture of tax compliance should be prioritised over simplistic targets to raise tax yield per HMRC officer**. The system runs smoother if errors and fraud are not committed in the first place, meaning more revenue is collected with greater efficiency for businesses and taxpayers. Currently, an obsession with easy targets in big industries is weakening the cultural fabric that links HMRC to business;

- **Local knowledge and local contact are the foundations of an efficient service**. These links are the best way of assessing risk and building relationships that can establish a voluntary compliance culture;

- **HMRC workers in Scotland must feel empowered**. That means effective governance and tax strategy with real roots in Scotland; an “end to end”, whole casework approach that provides clear accountability; a return to proper training; development of rounded taxation expertise; a wage that reflects market value; flexibility including home working; local bases in key areas of the country; management that understands the work and is not target-obsessed; and sufficient staffing to complete the necessary tasks.
To conclude, we recommend:

- For the Scottish Government to make urgent representations to the UK Government to immediately halt the Building Our Future program;

- The establishment of a Scottish Government taskforce to look at tax administration and collection in Scotland: specifically, whether Scottish HMRC should continue to be under the control of the UK Parliament or whether its powers should be transferred to Holyrood; and whether Scottish taxes should be collected under one body rather than divided between Scottish HMRC and Revenue Scotland;

- The abandonment of costly PFI programs for office buildings;

- That the Scottish Government should independently investigate further international best practise in tax administration and collection.
In July 2015 HMRC revealed its “Building our Future”\textsuperscript{[3]} plan which proposes, by 2020, to close or transfer most of the UK’s 170 tax offices, centralising the system into thirteen regional centres and five specialist sites. Although the plan proposes to minimise the impact on staff affected by the changes, it nonetheless involves a cut from 60,000 Full-Time Equivalent (FTE) positions in 2015 to 52,000 by 2020, a fifteen percent cut in working hours. The fall off is yet more drastic when compared to the numbers at HMRC’s creation in 2005, when it ran 593 offices and supported 97,000 FTE positions. In Scotland, 8,435 FTE jobs across eighteen tax offices will be slashed to a maximum of just 5,790 positions based in Glasgow and Edinburgh, with a specialist site in Gartcosh. At best, nearly a third of Scotland’s FTE tax jobs are scheduled for redundancy. This first section will examine the economic impact of these cuts, both Scotland-wide and in the specific towns, cities and regions affected.
Rationale for Restructuring

HMRC claims their plan will reduce their annual running costs by between £83 million and £100 million by 2025-26.\textsuperscript{[4]} It contributes to a broader programme of austerity which involves cutting HMRC’s departure expenditure limit from £3,748 million in 2016-17 to £2,911 million in 2019-20, a total reduction of £837 million.\textsuperscript{[5]}

HMRC say the restructuring will move staff out of old, inefficient and ill-equipped offices into cheaper modern buildings more geared to digital tasks. They will save on rent by consolidating services under one roof. And, as services move online, they argue there is less need for offices to be physically close to clients, and tax officers can check on compliance with greater efficiency through digital records, although the plan offers a small concession to remoter regions by promising mobile compliance and audit teams.

However, beneath these official arguments lie some murkier but arguably more pressing motives. In 2001, the government sold 600 buildings belonging to what was then the Inland Review to Mapeley, a property investment group, and leased the offices back under the now-controversial PFI scheme. Like most PFI contracts, the finances of this deal were opaque and arguably unsound. But to compound these general problems, Mapeley registers the HMRC estate under its system company in Bermuda, meaning the institution responsible for collecting tax in the UK is renting its offices from a company registered in a tax haven.\textsuperscript{[6]} Also, this means the UK government will receive no capital gains tax when the estate is sold on. These PFI contracts will expire in 2020-21, and arranging new contracts could mean a big rise in running costs. The bizarre finances of this deal mean that HMRC is pushing through its new regional hubs to ensure they are ready before the deal expires.
PCS and the Tax Justice Network offer a useful summary of the case against restructuring in “Building an Uncertain Future”,[7] a report based on a survey of HMRC employees. They point to the damage done by falling staff numbers which, added to problems created by previous batches of job cuts is, over time, draining experience from departments and degrading tax operations, a view which runs against the HMRC’s glossy picture of ever-tightening efficiency. HMRC workers also reject the view that staff can be shifted across the country with minimal upheaval. The current plans foresee that staff living beyond a “reasonable” commuting distance will be offered support to move. However, given the upheaval involved for workers who might have families, it is not surprising to find that the historical rate of uptake on these relocation schemes is very low. For example, when HMRC previously transferred jobs from Dundee to Edinburgh not a single member of staff opted for resettlement.[8]
HMRC claim the digital divided will offset the problems posed by centralisation. Staff reject this view, arguing that many services cannot be effectively “digitised” in the manner imagined in the plan. For example, with customs, a key HMRC duty, to inspect cargo and interview customs violators a member of staff must be physically present. Sending a mobile team from Edinburgh to Inverness Airport in the manner HMRC envisage would mean travelling three and a half hours for one interview, which is inefficient and wasteful. Staff believe the UK’s customs operation has already been degraded.[9] The current policy focus on immigration paradoxically weakens the UK’s borders because less time is spent on customs enforcement. This makes Britain vulnerable to cross-border trade in illicit goods. To take one example of why this matters, the system’s many weak points mean that the UK is facing a multi-billion euro fine for letting illegal Chinese goods leak into the Eurozone economy.[10] Things could quickly worsen, since the Building Our Future plans were drawn up and decided before the 2016 EU referendum. They do not account for the material change in circumstances which leaving the EU represents, and recent reports suggest that Brexit could mean a “collapse” in the IT systems for customs declaration, which, depending on the final trade deal, may see a fivefold increase in workloads.[11]

Research also suggests that the UK’s “easy” customs regime contributes significantly[12] to a “tax gap” that, by some estimates, exceeds £120 billion per year.[13] HMRC offer a far lower figure, at £35 billion,[14] which they promote as one of the “smallest tax gaps in the world”, but the House of Lords Economic Affairs Committee criticises the accounting behind this, calling it “little more than guess work”. Regardless of the true figure, deep cuts in staff numbers will eventually cut into the system’s efficiency, making it increasingly difficult to narrow the gap in future. The customs example therefore highlights a broader point. So-called efficiency savings, where they dilute enforcement, could eventually cost the taxpayer millions or billions.

Staff believe that centralisation will mean withdrawing HMRC from “huge swathes” of the country,[16] leading to confusion about how to pay taxes and even the temptation to deliberately evade or avoid tax. Without a visible presence, there is a risk of government appearing remote and of the system lacking accountability. As staff numbers fall, and more people specialise in digital tasks, there will be less chance to physically access premises to check records for deliberate evasion or accidental error. Specialised industry-specific or regional knowledge will languish.

The plan’s underlying premise, that most people are “digital native”, could also pose problems. Staff note that many groups, including poor, disabled and especially elderly people, are less likely to be comfortable in online environments and to trust digital systems. These groups need offline support to make correct decisions. However, the plan’s authors do not consider their unequal impact on vulnerable people.
The Impact on Scotland

While the HMRC plans apply across the United Kingdom, this paper focuses on the specific impact on Scotland and the Scottish economy. To be precise, it examines the towns, villages and communities of Scotland that may lose thousands of jobs from what could be the region’s primary employer, often in areas that have already experienced devastating industry closures. The knock-on impact on local businesses, services and politics could be severe. While the paper highlights the Scottish national picture, its focus is the local impact which so far has barely figured in the debate.

The Impact of Cuts on the National Economy

Here, we estimate the economic impact of HMRC cuts on Scotland’s economy. However, first we must clear up some methodological issues in assessing how a drop in public spending affects the size of the economy as measured in gross domestic product (GDP).

Increases in public spending will boost national GDP and in turn increase tax revenue, both directly through employee wages (income tax, National Insurance contributions, etc.) and indirectly by injecting consumer spending which supports private sector jobs. Conversely, public spending cuts will shrink GDP and have implications beyond the immediate target of the cut. Traditionally this has been called the “multiplier effect”. To measure the expected effect of its austerity program, the Conservative Government applied its own “fiscal multiplier” to quantify the effect of cuts on GDP. The UK Office for Budget Responsibility (OBR) estimated[17] that each £1 cut would reduce UK GDP by £0.60, giving a fiscal multiplier of 0.6. However, other research suggests that this number severely underestimates the impact of the cuts that followed the Great Recession. The IMF has updated the methodology[18] behind fiscal multipliers and now recommends setting the figure between 0.9 and 1.7, or higher. If true, this suggests severe flaws in the accounting used to justify austerity, which may explain why cuts had a deeper impact on GDP than anticipated.
By current projections, HMRC spending will fall in real terms by £837 million by 2020-21. Using the IMF's preferred model, these cuts will reduce the United Kingdom's GDP by anywhere between £753 million and £1,433 million. Given an average tax-to-GDP ratio of 32.5 percent, a rough estimate would be that such a fall in GDP will reduce tax revenue by between £245 million and £465 million per year. Factoring this in, many expected savings from the plans start to erode. Indeed, the Government expects these plans to make annual savings of just £83 million by 2025-26. HMRC do not say whether they considered this drop-off in revenue into their plans. One possibility is that they used the OBR's flawed, low estimate fiscal multiplier to measure this impact. If the sturdier IMF figures prove correct, any savings from cuts will eventually be wiped out by the resulting contraction in tax revenue.

Scotland, specifically, will be disproportionately hit by job losses as explained above. At present, gaining a detailed breakdown of the precise drop in HMRC spending in Scotland is difficult, and a full regional audit has not been completed. Nonetheless, we do know the pay structure of workers in Scotland's HMRC offices, and, since their spending largely drives the fiscal multipliers, these numbers allow us to roughly estimate the regional effect of cuts.

The total before tax payroll (excluding employer's contribution of NI, pension, etc.) for Scotland's 8,435 HMRC workers is just under £200 million per year, giving an average salary of £23,500. This number, however, is misleading because it ignores the spread of salaries found within any workplace. 60 percent of HMRC workers in Scotland earn less than £20,000 per year (the UK figure for those who occupy comparable job grades is 44.3%). If the distribution of staff after restructuring matches the current spread, the proposed 2,000 net job losses would reduce Scottish income by £50 million. Applying the fiscal multipliers above to this sum, Scottish GDP would drop by between £45 million and £85 million. By contrast, if Scotland's share of job cuts was proportionate to HMRC across the UK – where 15 percent of jobs will be cut – then the impact on GDP would be far smaller, between £27 million and £51 million.

Assuming the cuts apply in full, and are spread across all pay grades, we can estimate the fall in public revenue due to lost income tax and national insurance. At 2017/18 rates, £5.45 million would be lost in income tax (which is largely devolved to Scotland) and £8.36 million would be lost in National Income (reserved to Westminster). The income tax figure deserves close attention, since it represents a direct loss of revenues to the Scottish Government due to a decision taken by the UK Government over which Holyrood has little control or influence. These cuts may seem small on a national scale, but on a local scale they are magnified multiple times. Below is a list of closures, highlighting the number of staff affected.
<table>
<thead>
<tr>
<th>HMRC Office</th>
<th>Number of</th>
<th>Annual Payroll</th>
<th>Closure Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen (Ruby House)</td>
<td>100</td>
<td>2,912,522</td>
<td>2020-21</td>
</tr>
<tr>
<td>Bathgate (Pyramids Business Centre)</td>
<td>813</td>
<td>17,366,860</td>
<td>2019-20</td>
</tr>
<tr>
<td>Cumbernauld (Accounts Office)</td>
<td>1267</td>
<td>27,313,235</td>
<td>2019-20</td>
</tr>
<tr>
<td>Dundee (Sidlaw House)</td>
<td>556</td>
<td>11,301,410</td>
<td>Transfer to DWP</td>
</tr>
<tr>
<td>Dundee (Caledonian House)</td>
<td>119</td>
<td>3,158,328</td>
<td>2017-18</td>
</tr>
<tr>
<td>East Kilbride (Hawbank Stores)</td>
<td>3</td>
<td>58,002</td>
<td>2020-21</td>
</tr>
<tr>
<td>East Kilbride (Plaza Tower)</td>
<td>844</td>
<td>17,845,765</td>
<td>2020-21</td>
</tr>
<tr>
<td>East Kilbride (Queensway House)</td>
<td>1858</td>
<td>42,548,976</td>
<td>2025-26</td>
</tr>
<tr>
<td>Edinburgh (Elgin House)</td>
<td>382</td>
<td>10,249,636</td>
<td>2019-20</td>
</tr>
<tr>
<td>Edinburgh (Grayfield House)</td>
<td>580</td>
<td>13,701,427</td>
<td>2019-20</td>
</tr>
<tr>
<td>Edinburgh (Meldrum House)</td>
<td>270</td>
<td>9,321,750</td>
<td>2019-20</td>
</tr>
<tr>
<td>Glasgow (Cotton House)</td>
<td>552</td>
<td>15,173.187</td>
<td>2019-20</td>
</tr>
<tr>
<td>Glasgow (Portcullis House)</td>
<td>786</td>
<td>19,611,610</td>
<td>2019-20</td>
</tr>
<tr>
<td>Inverness (River House)</td>
<td>43</td>
<td>1,295,376</td>
<td>2017-18</td>
</tr>
<tr>
<td>Livingston (Barbara Richie House)</td>
<td>261</td>
<td>5,311,076</td>
<td>2019-20</td>
</tr>
</tbody>
</table>

As indicated above, historical evidence suggests that few if any of the people currently employed in Inverness, Aberdeen and Dundee will transfer to the new regional offices in Glasgow and Edinburgh. Moreover, assuming current projections, just 2,680 Edinburgh jobs and 2,870 Glasgow jobs (plus a further 240 in Gartcosh) will remain after the cuts, suggesting that even workers within a “reasonable commuting distance” will face layoffs. In the remaining sections, we will estimate how the cuts will hit specific towns, cities and communities in Scotland.
The Glasgow Catchment Area: Cumbernauld, East Kilbride and Glasgow

Most staff at the Cumbernauld office are classified as living within HMRC’s “reasonable travel” time of one hour each way from the proposed regional office in Glasgow. This definition seems rather generous given the potential variations in traffic conditions on some of Scotland’s most congested roads. At rush hour travel times can easily exceed one hour, with much of the journey spent in slow-moving traffic. Research shows that commuting through such conditions is bad for the health and wellbeing of workers.[22] By insisting on these long commutes, HMRC risks declining performance and efficiency and more time lost due to ill health. Long term, the burden of such unsustainable work arrangements will fall on other areas of the public sector like the National Health Service.

Those workers who commute via public transport may also face prohibitive extra costs. A typical annual season ticket between Cumbernauld and Glasgow costs roughly £1,000 depending on the precise route and purchase plan. The Cumbernauld office currently employs 1,267 people, three-quarters of whom earn less than £20,000 per year, meaning these extra costs are an even greater burden, especially after years of public sector pay freezes and rising living costs have already eroded their standard of living. Additionally, the House of Commons Committee of Public Accounts has questioned whether the local public transport network can cope with additional loads caused by the HMRC move.[23] Again, the plan does not consider these problems or estimate their economic impact.

Of all Scotland’s towns, East Kilbride will perhaps bear the heaviest cost to its local economy, with more than 2,700 people employed across three buildings, the largest of which, Queensway House, sustains 1,850 jobs alone. Again, workers here, assuming they get a transfer to the Glasgow regional office, face long commutes through rush hour traffic – a journey of half an hour on an empty road can easily take more than an hour during peak time – with all the health issues and infrastructure problems this implies. Like their counterparts in Cumbernauld, staff at East Kilbride are disproportionately low paid, with two-thirds earning less than £20,000 per year.
Under any circumstances, the mathematics of transferring these thousands of workers to Glasgow are bleak. Currently, there are more than 5,300 HMRC posts in the Glasgow catchment area; under the new proposals, this must shrink to 2,870 remaining jobs in the new regional hub. Even assuming nobody from outside the catchment area is transferred to Glasgow, this leaves a shortfall of about 2,440 jobs. Centralisation is thus likely to send a severe shock to local economies: in East Kilbride, HMRC provides 8.5 percent of jobs in the town; in Cumbernauld, 6.3 percent.[24]

Even in the best scenario, assuming the job losses fall evenly across Cumbernauld, Glasgow and East Kilbride, the latter will still lose 813 jobs, or one job in every fifty in Scotland’s largest town, removing £18 million in lost salaries from the local economy. Using the IMF fiscal multiplier, East Kilbride stands to lose between £16.3 million and £30.7 million from its economy. Since East Kilbride has already lost 16 percent of its job stock between 2009 and 2014, the proposals will compound the economic pressures facing the town.[25]

Across the Glasgow catchment area, the proposed job cuts would reduce regional GDP by £92 million, draining nearly £30 million tax revenue per year.
The Edinburgh Catchment Area: Bathgate, Edinburgh and Livingston

The proposed Edinburgh regional office will house 2,680 staff drawing from the current total of 2,307 staff employed across Edinburgh, Bathgate and Livingston. On the surface, this means that Edinburgh will face an opposite problem to the Glasgow catchment area: the main issue might be filling vacancies. Even if everyone in the catchment area takes a job in the new centre, that leaves a shortfall of 373 staff. The new employment would give Edinburgh a modest boost in GDP of between £7.3 million and £13.8 million.

The politics of this decision deserve greater scrutiny. Edinburgh is already one of Britain’s wealthiest areas, with, by their City Council’s own claims, the lowest unemployment and the highest average gross disposable income by resident of any comparable UK city.[26] In Edinburgh, moreover, nearly one-in-four pupils attend a private school.[27] However, much of this wealth is rooted in public sector unemployment. As Iain MacWhirter notes, “The political renaissance of Edinburgh, combined with the rescue of the banking sector, has fuelled a public spending boom of epic proportions”.[28] Moving employment out of West Lothian, Cumbernauld, Glasgow and East Kilbride into the capital therefore seems likely to exacerbate uneven development in Scotland.

Workers in Bathgate and Livingston will likely face commuting difficulties like those mentioned above. However, the situation will worsen if HMRC chooses to fill the Edinburgh vacancies by redeploying workers from other HMRC branches in Scotland who are facing heavy layoffs. A season ticket from Cumbernauld to Edinburgh, for example, would cost more than £3,800 per year, unaffordable for all but the highest-paid staff. The alternative would be to employ new staff, but this would drain the workforce of experience and know-how and add to training costs.
Outside Regional Office Catchment Areas: Aberdeen, Inverness and Dundee

Of the offices scheduled for closure, Aberdeen and Inverness are located furthest from the proposed new regional hubs in Glasgow and Edinburgh. Neither city lies within HMRC’s “reasonable travel” guideline, so staff must either move house or face redundancy. The plan thus removes an annual £1.3 million in staff wages from Inverness’s economy and almost £3 million per year from Aberdeen’s economy. The result will be a loss in strategically crucial local knowledge. Taken together, the two cities form regional hubs for the oil and fishing industries. These two offices employ many highly trained and experienced enforcement and compliance officers, and losing them will damage the department’s overall ability to collect tax and minimise avoidance and evasion.\textsuperscript{29} HMRC says little about the vast distances between these areas and the central belt. Sending mobile compliance teams to investigate individual cases could involve trips lasting multiple days and overnight stays, at significant cost.

Dundee, similarly, lies far away from its nearest regional centre in Edinburgh and falls outside of the HMRC’s “reasonable travel” definition. Currently, 119 jobs are based at Caledonian House, and a further 559 staff are employed at Sidlaw House which is due to transfer to the Department for Work and Pensions (DWP). These workers face an uncertain future, with no confirmation that they will be retained and retrained.

These potential jobs losses are a serious concern for Dundee, and they should be a serious concern for HMRC. During a previous round of cuts, when HMRC transferred Dundee jobs to Edinburgh, not a single worker opted to relocate, stripping the service of valuable expertise and experience.\textsuperscript{30} In Caledonian House, there are several couples working in the department who will face losing their entire household income.\textsuperscript{31}

Assuming a best-case scenario, where the DWP retrainis all staff in Sidlaw House and the Caledonian House staff leave the Dundee economy, the effect would be £3.16 million per year in lost wages, depriving the city of between £2.8 million and £5.4 million and £1.75 million in annual tax revenue.
The Building Our Future programme proposes 2,000 job losses in Scotland due to the move from a semi-decentralised tax office model to a centralised regional office model. The restructuring will have an uneven impact on Scotland. Cities like Aberdeen, Inverness and Dundee are located far away from the new regional centres, and the changes will likely erode region-specific knowledge and weaken ties between these economies and HMRC. Edinburgh, by contrast, will probably gain jobs from the proposals, though with greater burdens on workers and infrastructure. Special concern surrounds East Kilbride, which faces sizeable job losses and, for those who keep a job, difficult and costly commutes. The mooted job losses in this town represent a good part of the overall workforce and the economic damage could be severe and lasting. Below is tabulated a summary of the effects identified within this report in terms of job losses and potential impacts to local GDP (based on a fiscal multiplier of 1.7) and tax revenue per year (based on 32.5% of GDP).

<table>
<thead>
<tr>
<th>Town</th>
<th>Potential Job Impact</th>
<th>Maximum GDP Impact (£Mn)</th>
<th>Tax Revenue Impact per year (£Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>-100</td>
<td>-5.0</td>
<td>-1.61</td>
</tr>
<tr>
<td>Inverness</td>
<td>-43</td>
<td>-2.2</td>
<td>-0.72</td>
</tr>
<tr>
<td>Dundee</td>
<td>119</td>
<td>5.4</td>
<td>-1.75</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>+373</td>
<td>+13.8</td>
<td>+4.47</td>
</tr>
<tr>
<td>Glasgow Catchment</td>
<td>-2,440</td>
<td>-90.2</td>
<td>-29.8</td>
</tr>
<tr>
<td><strong>Total Identified Impact</strong></td>
<td><strong>-2,329</strong></td>
<td><strong>-£89.0</strong></td>
<td><strong>-£29.4</strong></td>
</tr>
</tbody>
</table>
Workers in HMRC have faced pay caps for nearly a decade now, and on average have lost up to twenty per-cent of their take home pay. Yet thousands are still dedicated to providing a public service that keeps the economy running. One of the biggest frustrations for HMRC workers, across all pay grades, is the lack of control over the jobs they do every day. All too often change is ‘forced upon’ workers, be it in terms of process, IT, management structures and so on. This creates a sense of frustration, because in reality the people best placed to design tax systems are the workers who operate it daily, along with other stakeholders, like service users and small businesses.
Key Themes

Four central themes emerged from the interviews:

- Digitalisation “should be the servant, not the master”. As far as digitalisation improves efficiency, makes processes easier and is resourceful in crunching big data, it is effective. As far as it undermines quality of service, is prone to error, does not fit into the actual working practises of HMRC, acts as a bureaucratic burden on the time of HMRC workers and is overly relied on for tasks that also require human input (like assessing ‘risk’), it is a hindrance.

- Local knowledge and local contact is, in at least some areas, absolutely indispensable to effective tax administration. It is not possible to digitalise and centralise all aspects of, for instance, HMRC Excise alcohol duty work or counter-avoidance work, which will no longer be actionable in Scotland under the proposals of Building Our Future. Local knowledge is the best way of assessing risk and to build relationships that can establish a voluntary compliance culture. The shift to two regional centres in Scotland will create large swathes of the country – such as the north-east of Scotland – with no effective HMRC coverage whatsoever. This will lead to a geographical imbalance with more cases being taken up in the central belt while other areas become known as places where tax evasion is a low risk activity.

- Prevention in tax compliance should be prioritised rather than tax yield per HMRC officer. If errors and fraud are not committed in the first place the system runs smoother, more revenue is collected and it works more efficiently for businesses and taxpayers. This is likely to be the most effective strategy in closing the tax gap. In pursuing tax evasion and avoidance enforcement big businesses should be treated the same as small and medium sized enterprises.

- HMRC workers in Scotland need to be empowered to do their job effectively. That means effective governance and tax strategy from Scotland, an ‘end to end’ whole case work approach that provides clear accountability, a return to proper training, development of rounded taxation expertise, a wage that is not well below market value (as it is currently), flexibility including home working, local bases in key areas of the country, management that understands the work and is not target- obsessed, and sufficient staffing to share the load.
Workers in VAT identified problems with computer error that can create confusion for businesses and lead to duplication for staff:

“The computer is usually allocated with a VAT compliance ‘risk’ case before the worker ever gets to see it. So, the letter will go out automatically to the business, but when you [the worker] get a chance to look at the case, you often realise its one you’ve dealt with before and you know there’s no problem with it - you’ve fixed any issues they have had in the past, and rather the computer has wrongly identified a ‘risk’. The worker then needs to get back in touch with the business to apologise for the letter and to cancel the investigation. It’s embarrassing for the workers, and HMRC - plenty of accountants have called HMRC out on this.”

"Jane", a worker in the non-established taxable persons unit who has worked for HMRC for over 20 years, stated that the system in place for getting a government gateway account to overseas traders so they can register for VAT is highly inefficient, with post sent out with a log-in that expires in 28 days, but often taking six weeks to arrive with the client. “This leads to delays and makes the department look unprofessional.”

Mail can get “trapped” inside the HMRC system for up to 10 days, and outgoing mail has to be transferred from Aberdeen to Wolverhampton and back again to move from one envelope to another as there is no way to record international addresses and it’s difficult to identify who is an EU and non-EU based trader. 6,000 items of mail are moved in this inefficient way every month, a problem that could be solved if staff in Aberdeen were given greater control and responsibility.
Workers in HMRC’s counter avoidance team, which is set to lose its whole 22 strong team by 2020, were insistent that staff in Edinburgh and Glasgow will not be able to take part in any counter avoidance activity: “You absolutely need local knowledge, this can't all be done digitally.”

Workers in compliance at Elgin House, Edinburgh, said they “should be local”, arguing that much of their work involved doing visits and checks. It should also be “end to end”, meaning staff seeing through the whole case.

"John" works in Edinburgh at the Excise department in alcohol duty:

“Companies which apply to sell alcohol must have a home visit. We need home workers who can go out and visit these companies. It can be a huge distance to travel.

“We used to have people at every port, at every warehouse, and now it is all being centralised. We don't have the resources to deal with the huge increase in whisky and gin warehousing. Much of the Excise regulations are out of date."

“As a local officer you will get a contact with a business and try to build a relationship. But for them to contact you they have to go via a helpdesk, there's no direct access to the officer. This is a burden on resources and damages relationships with the business community.”

Workers in compliance in Dundee stated: “In terms of solving problems like risk - work must be done locally or regionally. Face to face is absolutely key and there should be at least an element of human input into compliance.”

One area that this was particularly important was building up “a strategic picture of risk” through local knowledge, rather than relying on the computer system which only allocated risk based on prior information (see digitalisation section above) and on tip-offs from the public or businesses.

“To build up a strategic picture of risk HMRC requires intelligence at local level, using local knowledge. We used to be proactive in finding this. However, now, the department ‘sits back’ and waits for phone calls to come in.”

Workers in compliance stated that the IT system used for managing work on a day-to-day basis, ‘Case Flow’, was “a disaster”.

“The system works so badly we always need ‘workarounds’ sent to us. When you close a case you have to map out the yield - we've been given a work around, patching up ‘holes’ in the systems to make them work.

“Case Flow is costly and a disaster - you have to try it three or four times to get it to work. The idea of paperlessness is generally supported but the bugs in Case Flow mean that things end up taking longer.
“There ends up being a lot of double handling - Case Flow can’t do all of the functions necessary, and not everyone can access all the information they need- so often work has to be duplicated on other systems.”

The dominance of the IT system over human input meant the way ‘risk’ of avoidance or evasion was allocated by the system is “warped”.

“The algorithm of risk is warped as the system can only select what is already in the system and is more likely to select the same cases that have previously been investigated - even if all problems have been cleared up.”

They continue: “The way people ‘get into’ the HMRC system, i.e. end up on the radar of compliance etc, is usually because they’ve had a previous ‘issue’ or have had a ‘red flag’ against their case due to information submitted etc. It’s very rare that you’ll have a new investigation generated in the system who isn’t already on it, even if locally the tax officer can see there’s something wrong.”

Compliance workers proposed a number of solutions to the IT systems problem:

• Have an honest assessment of the IT failures rather than denying there is a serious problem.

• Stop buying IT software off the shelf. A department as crucial to government operations as HMRC should not be buying off the shelf IT.

• Design IT systems in conjunction with workers and in-house, so that they actually fit the requirements of the job (make IT systems “the servant, not the master”).
Workers in HMRC’s counter avoidance team, which is set to lose its whole 22 strong team by 2020, were insistent that staff in Edinburgh and Glasgow will not be able to take part in any counter avoidance activity: “You absolutely need local knowledge, this can’t all be done digitally.”

Workers in compliance at Elgin House, Edinburgh, said they “should be local”, arguing that much of their work involved doing visits and checks. It should also be “end to end”, meaning staff seeing through the whole case.

"John" works in Edinburgh at the Excise department in alcohol duty:

“Companies which apply to sell alcohol must have a home visit. We need home workers who can go out and visit these companies. It can be a huge distance to travel.

“We used to have people at every port, at every warehouse, and now it is all being centralised. We don’t have the resources to deal with the huge increase in whisky and gin warehousing. Much of the Excise regulations are out of date.

“As a local officer you will get a contact with a business and try to build a relationship. But for them to contact you they have to go via a helpdesk, there’s no direct access to the officer. This is a burden on resources and damages relationships with the business community.”

Workers in compliance in Dundee stated: “In terms of solving problems like risk - work must be done locally or regionally. Face to face is absolutely key and there should be at least an element of human input into compliance.”

One area that this was particularly important was building up “a strategic picture of risk” through local knowledge, rather than relying on the computer system which only allocated risk based on prior information (see digitalisation section above) and on tip- offs from the public or businesses.

“To build up a strategic picture of risk HMRC requires intelligence at local level, using local knowledge. We used to be proactive in finding this. However, now, the department ‘sits back’ and waits for phone calls to come in.”
Workers in compliance in Edinburgh argue that HMRC’s strategy is all about the tax yield compliance officers bring in from non-compliant businesses rather than prevention to reduce avoidance and evasion in the first place.

“HMRC never want to talk about how to minimise the risks anymore, they just want to jump on the most risky businesses when they can and add to their ‘yield’ figure, probably so it looks like they are closing the tax gap. However, the workers in compliance are saying that if only HMRC focused on stopping the risk happening in the first place, then the tax system would just generally work better; prevention, rather than cure etc.”

The yield HMRC claims to bring in is not even entirely accurate, they said, as it is based on future estimates of what a newly compliant company will pay in the future as well as the fine it has paid for non-compliance, a calculation called Future Revenue Benefit (FRB).

“The larger potential FRB figure that the company - especially small to medium enterprises - would pay in future combined with the size of the fine would mean that business will most likely fold, meaning that FRB will never be collected.”

Nonetheless, even if the business does fold, the FRB figure remains on the official tax yield of HMRC - it is not changed to reflect the fact the company has ceased trading. The number of mistakes made by businesses, especially small ones that can’t afford an accountant, due to poor book-keeping, lack of knowledge and the complexity of HMRC’s digital by default system all has a serious effect on compliance.
“Previously, HMRC did outreach work with local businesses and put on training sessions for local traders to let them come together with staff. That's something that we'd like to see HMRC doing again,” One worker in the compliance team stated. “At the moment, part of any ‘compliance visit’ is showing people how to do their tax and accounting processes correctly. However, that contact and that visit is only made when something has been flagged up as wrong in the first place.”

A similar view was expressed by compliance workers in Dundee, who stated that “we should be working towards getting people to actually comply, not catching them out”.

“Too often workers are told that they need to ‘keep producing yield’, even thought this is a fantasy figure, in order to ‘keep their office open’. If HMRC focused on reducing risk rather than ‘catching the bad guys’ we’d be in a better place. Education, and face to face work, and local tax offices mean that people are more aware of how to deal with HMRC.”

They added that the eradication of enquiry centres was a big mistake which reduced voluntary compliance.

“To deliver tax justice we should bring back enquiry centres. Not everything can be done digitally! There are people who want to contribute and people who don’t pay the right amount. The service should be designed to allow people to pay their taxes with ease.”

Compliance workers stated that the new Scottish HMRC regional centres would not have a dedicated compliance section, which they expected to have “a negative impact on yield”, including on the Scottish Rate of Income Tax, especially as Scotland is already certified as an area of “minimal” risk of non-compliance by HMRC.

“Policing tax will be driven from London. This will have an impact on collection and enforcement in Scotland and the Scottish public purse.”
Employee Empowerment

VAT workers felt that the replacement of ‘whole case’ work, where a worker would see through a case from start to end, had been replaced by more specialisation and thus accountability and responsibility had become more confused:

“Quite often when VAT officers refer cases on to other specialists to be investigated, they often don’t come back - so there’s no continuity or sense that you see a case through from beginning to end.”

Compliance workers in Dundee stated that compliance was set to get even more compartmentalised, which would be “a step backwards”.

“Where compliance centres exist, you won’t be responsible for a case, the process is going to be functionalised. That means no end to end process at all, and a ‘compliance case’ will be all cut up and bits of the job will be done by different people. This is a step backwards. Staff want to be able to form relationships with their customers. Customers would rather have face to face visits, including educational visits for local businesses.”

The time put in to staff training in has been “dramatically reduced”, compliance workers in Edinburgh stated.

“It used to take two years to become a fully qualified compliance officer in HRMC and now it’s taking 12 weeks. The job hasn’t changed that much. HMRC clearly don’t want to train people up or to invest in them, because they know the rate of pay for someone doing this work is so far below market value and that training under a pay cap might lead to a loss of staff to the private sector.”

They said that the Scottish Government should “have some control” over the governance of tax collection in Scotland. HMRC’s position is that the risk of avoidance and evasion in Scotland is “minimal”, but staff believed that risk should be analysed on a “regional risking” basis: “profiling by region”.
'Jean' in the non-established taxable persons unit described the work as "very unique and highly specialised":

“It needs a great deal of experience to function and preferably an 'end to end' process so that when customers call up they are only ever dealing with the same person, not being passed around.

“Mail and correspondence should be digitised- it's now probably more secure than post.

“It was the Aberdeen team who instigated the policy requirement for Ebay and Amazon to ask their international traders who trade in the UK to become VAT registered.”

This is one area where digitalisation could clearly help but 'Jean' stated that Building Our Future is not going to move away from hard copies in the mail and correspondence of non-EU taxable persons.

Workers in compliance in Dundee also believed the mail system to be “unwieldy” and overly centralised.

“HMRC operates a central printing system where it's cheaper and more convenient to issue the letters in bulk. But the system is unwieldy. You have an accountant and a tax payer and both need to see each other's correspondence. You need to open up both letters and any attachments and you create ad hoc docs. This isn't good service and takes too much time. Staff should be able to control mail flow.”

This was also a problem for the accessing of digital records, where a complex compartmentalisation slows down processing.

“Obviously more and more companies keep their records digitally now. If a compliance officer receives info on a USB drive then they have to send it to the office in Bootle [in England] to have it "cleared" by security. If a compliance officer fails to do that, it's a serious offence. They will then send it back to Dundee. It's done by TNT. All these things take up time.”

Workers at Elgin House felt that the official processes of communication across HMRC failed to provide the range of information needed to ensure compliance:

“Getting information to the right person at the right place at the right time is crucial for compliance but to make that happen, we end up relying on personal relationships across departments.

“For example let's say I've spotted something that might be risky activity, but if I elevate it through the HMRC process it'll probably never be looked at or reach its destination. So, if you've got a pal in the relevant department, then you just use your personal connections to pass on work.”

“This obviously falls apart when massive chunks of the workforce move, as is planned with the Building our future Programme.”
Several times, under this theme of empowerment, expert workers felt that the management chain in HMRC was unhelpful- both to them and to their managers. Many direct line managers are not 'taxation experts', but rather 'HR experts' with a shallower knowledge of the tax their team are dealing with. This is surely not to denigrate their own areas of expertise, but when complex cases arise or advice is required, many workers rely on personal networks to seek additional knowledge. These personal networks will be completely disrupted under Building Our Future. Without a structure in place, this loss of knowledge and skill contributes to longer term problems- low morale and stress across the entire workforce.

Workers suggested that a dual management role in slightly larger teams could be a solution for such a problem. This would essentially entail the creation of a leadership role based on tax skill, knowledge and experience and underneath it a chance for workers to grow into this role. Of course, this would again require HMRC to invest in better, proper training for staff.

Training is a huge part of empowerment. The workers PCS spoke to in HMRC's 'Tax Academy' who design programmes are now expected to design training packages on taxes they themselves have not been trained in.
New digital technology and approaches to data collection offer real opportunities to enforce a better and fairer tax gathering and administration service. Such reforms are badly needed to address the United Kingdom's tax gap. However, HMRC's proposed measures risk cancelling all the benefits of technology with damaging cuts, believing that more can be done with far less money and people, which will likely result in a widening tax gap. Austerity here represents a vicious circle of cuts that lead to inefficiency and loss of revenue and thus further cuts.

HMRC will face significant customs challenges resulting from the United Kingdom's decision to leave the European Union. However, the current proposals will weaken customs, leave the UK unprepared for a raft of new trade rules, regulations and tariffs. Centralisation will leave customs officers unable to enforce the law on goods passing between the UK and other trading zones.

Overall, HMRC has built its proposals on flawed methodologies, especially where it concerns estimates of the tax gap and fiscal multipliers. The UK Government should undertake a deeper, more independent analysis of this using the most up to date methodologies. If the accounting justifying the proposals is discredited – as we believe – then the rationale for the whole cuts package is dubious.

Closures, layoffs and centralisation may lower public spending slightly. But the taxation system raises revenue, and cuts to the service can easily lower tax take and worsen the UK's fiscal position. HMRC seems wildly optimistic in believing that a large round of layoffs and centralisation will be offset by digital productivity. We believe that, instead of a rational cost-benefit analysis, the proposals reflect an ideological belief that smaller government is inherently more efficient. Instead, this case will prove the contrary, that cuts are often damaging and costly and have little practical benefit.

Finally, we have observed that PFI contracts are one reason for HMRC wishing to leave its existing offices. Such contracts are needlessly expensive and put the public sector in a precarious position, and they should be avoided in future.
In summary, this report recommends that HMRC undertakes the following points:

- Immediately halt the Building Our Future programme;
- Open the proposals for any new building contracts to scrutiny to avoid PFI contracts like those which provoked Building Our Future;
- Undertake a fully transparent public and staff-led consultation on the future of HMRC. Plans must take into greater account the health and wellbeing of staff to ensure optimum productivity and retention of experience within the department;
- The “tax gap” must be reassessed in an independent manner and plans drawn up to explore methods of closing it. These plans should feed in to the consultation on the successor programme to Building Our Future;
- The successor programme must draw on the latest research and findings regarding the impact of public spending both nationally and locally;
- Customs and excise has been drained of resources and treated as an afterthought. The likely impact of Brexit will show this was a flawed move. It must be prioritised in future.
References:

[1] C Hope, “More than 3 Million People May have Paid the Wrong Tax after Chaos at HMRC Left Callers Waiting for up to an Hour”, The Telegraph, 25th May (2016)
[18] International Monetary Fund, “World Economic Outlook” Ch 1, pg 95, October (2012)