National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Managing and replacing the Aspire contract

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National Audit Office

HM Revenue & Customs

Managing and replacing the Aspire contract

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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This study examines HM Revenue & Customs' management of its ICT outsourcing contract, Aspire, and its progress towards replacing the contract.

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Contents

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Key facts

£813m	**£506bn**	**30%**
average amount HMRC spent each year on the Aspire contract, July 2004 to March 2014	amount HMRC collected in tax receipts, 2013-14	reduction in HMRC's operating costs, 2006-07 to 2013-14

95 per cent projects implemented since 2008-09 without high-priority incidents

387 working minutes lost in 2013-14 per full time equivalent HMRC staff member due to ICT not being available. This is down from 2,736 minutes in 2007-08

£7.9 billion HMRC paid to Aspire suppliers between July 2004 and March 2014, after adjusting for inflation

£1.2 billion profit earned by major suppliers (16 per cent of the £7.9 billion HMRC paid), after adjusting for inflation

Three years left for HMRC to reform its ICT approach, to meet government policy and replace the Aspire contract

Summary

1 The Aspire contract between HM Revenue & Customs (HMRC) and Capgemini accounts for 84 per cent of HMRC's total spend on information and communications technology (ICT). HMRC let this contract in 2004, at first for ten years, and has since extended it to 2017. It is the government's largest technology contract, costing £7.9 billion between July 2004 and March 2014. Its objectives were to ensure continuity of ICT services, while improving performance; to facilitate change to HMRC's business to meet its strategy; and to provide HMRC rapid access to up-to-date skills and technologies.

2 Through Aspire, Capgemini and its subcontractors provide technology services and development projects to HMRC. They maintain and run most of HMRC's major taxation systems and provide printing, desktop computers, telephony, data centres and networks. The contract has also been critical to developing and improving HMRC's technological capability. This includes expanding the online submission of income tax and VAT returns and increasing automation to improve efficiency and reduce fraud and error.

3 Long-term prime contracts for technology, such as Aspire, are no longer consistent with government policy. The Cabinet Office now requires government departments to let shorter-term contracts for ICT and work with a wider range of suppliers to increase competition and promote innovation. Departments, such as HMRC, must now take more direct responsibility for their systems and strengthen their technical and commercial capability. In 2012, HMRC and Capgemini agreed to make changes to the Aspire contract which, when fully implemented, would bring the contract closer to the new policy.

Our 2006 report on Aspire

4 We reviewed the Aspire contract procurement in 2006, two years after HMRC let the contract. HMRC (then the Inland Revenue) had successfully replaced its existing outsourced technology supplier, reducing its expected ICT costs by £1.6 billion compared with costs of continuing the previous contract. We found that performance in the first year of the contract had been acceptable. However, costs increased as HMRC commissioned more work than anticipated. We warned that HMRC could spend over £7 billion, nearly twice the original projections of £3.6 billion to £4.9 billion. We recommended that HMRC closely monitor lifetime contract costs, and ensure it had robust project management arrangements to get the best supplier performance possible.[1]

5 In this report we examine whether the contract has been effective and economical in meeting HMRC's changing business needs, and HMRC's progress since 2012 to replace it.

1 Amounts throughout this report have been updated to 2013-14 prices using the GDP deflator.

Key findings

How Aspire has met HMRC's needs

6 **Aspire has provided service continuity, enabling HMRC to collect around £500 billion of tax each year with few significant service failures.** Aspire has provided high levels of service continuity and systems availability. There have been few major incidents that affected HMRC's system performance since the contract began (paragraphs 2.2 and 2.7).

7 **Aspire has helped HMRC to improve its operations by reducing operating costs, increasing tax yield and improving customer service.** Over the contract's lifetime, HMRC has integrated two former departments (Inland Revenue and HM Customs and Excise). It has progressively generated more tax yield from its compliance work and substantially reduced its headcount through more automated processes. It has improved customer service, such as by helping more taxpayers to make their returns online. HMRC's operating costs fell by 30 per cent between 2006-07 and 2013-14. The projects and services provided through Aspire have been central to these improvements (paragraphs 2.2 to 2.4).

8 **HMRC and Capgemini have implemented 95 per cent of major technology projects since April 2008 without a high-priority incident, though problems with some projects have had a significant impact.** Several factors have helped HMRC and Capgemini to minimise the number of incidents affecting performance. These include taking a cooperative, partnering approach, and having experienced and qualified project managers and an extensive planning phase. However, where projects have experienced difficulties, this has resulted in significant impacts, such as when the PAYE service was impaired by problems HMRC encountered when centralising its databases. HMRC attributed these problems to failings in its own processes, rather than to poor performance by its Aspire suppliers (paragraphs 2.8 to 2.11).

9 **In over 80 per cent of projects, HMRC and Capgemini changed the agreed scope, time or budget.** One feature of the cooperative approach between HMRC and Capgemini has been a willingness on both sides to make changes once the extensive planning is complete and budget, scope and timing has been agreed commercially. These changes are made through formal governance processes and usually help to reduce risk. Some change is to be expected as part of good project management. However, we consider that HMRC and Capgemini made more changes than normal on projects after the point at which budgets, scope and timing had been commercially agreed. The degree of change makes it very difficult to hold the Aspire suppliers to account for their performance across the portfolio of projects (paragraphs 2.11 and 2.15 to 2.16).

10 **Although Aspire has delivered improvements which have been fundamental to improving the way HMRC administers tax, HMRC has not evaluated the overall strengths and weaknesses of the contract over its ten years.** Projects under Aspire have provided demonstrable benefits. However, HMRC has not assessed the overall value from the Aspire contract, nor the balance between risk and value achieved. This could have helped it to plan its future technology strategy (paragraph 2.5).

HMRC's commercial contract management

11 **HMRC has commissioned much more work through the Aspire contract than was modelled.** We estimate that by the time the contract ends in June 2017, HMRC will have spent £10.4 billion compared to the £4.1 billion used when evaluating Capgemini's bid. The contract includes provisions for volume growth, scope change and extension. HMRC has used these provisions to (paragraph 3.17):

- merge the Inland Revenue and Customs and Excise ICT estates (£1.0 billion);
- undertake greater transformation than planned and increase the scope of services within the contract (£3.0 billion); and
- extend the contract by three years (£2.3 billion).

12 **Both Capgemini and its subcontractor, Fujitsu, have achieved considerably more profit than was modelled in 2004.** Many factors will influence the profit achieved, including the volume of work and the degree of innovation and risk transferred. Largely as a result of increases in scope and volumes suppliers have more than doubled their profits compared to the model. Profit margins, as measured by the contract, averaged 16 per cent to March 2014, also higher than the model had anticipated in 2004. HMRC believe that this is comparable with industry margins for similar services, though the scale and breadth of the contract makes like-for-like comparisons difficult (paragraphs 3.19 to 3.22).

13 **After 2004, HMRC did not market-test any significant element of the contract but has used benchmarking to inform periodic contract negotiations.** HMRC has grown the contract considerably without market testing despite evidence when benchmarking has been done that HMRC has paid above market rates. HMRC say it did not market test for a number of reasons including: technical constraints; the need to respond with speed to legislative changes; and contractual constraints that operated at points during the contract. HMRC has instead used the benchmarking evidence to negotiate savings on the contract. Based on payments made and projections agreed at the time of negotiations, HMRC estimates its savings to be £750 million up to March 2014 (paragraphs 3.14 to 3.16 and 3.18).

14 **Pressures to find cost savings led HMRC to trade away some of its negotiating power and hindered its ability to get strategic value from such a long-term contract.** When negotiating cost savings in response to successive funding settlements, HMRC conceded many of its commercial safeguards through major renegotiations of the contract between 2007 and 2009, including the right to share in supplier profits when they were higher than target and the right to compete services. Since 2012, HMRC has negotiated some of these controls back (paragraph 3.3 and 3.4 and Figure 8).

15 **HMRC was overly dependent on the technical capability of the Aspire suppliers between 2004 and 2012, which limited its ability to manage the contract commercially.** HMRC has recognised this. It has increased its capability since 2012. For example, by taking back responsibility for overall system design and how the parts of these systems work together. It has also appointed a new director general with relevant experience from the private sector to lead technological and digital transformation. However, significant gaps in HMRC's commercial and technical capability remain and it has not fully identified the gap between current and future capability needs (paragraphs 3.6 to 3.8).

HMRC's progress towards replacing Aspire

16 **The Aspire contract conflicts with current government policy on how departments should buy technology.** In 2010, the Cabinet Office announced that long-term contracts with a prime supplier do not deliver optimal levels of innovation, value for money or pace of change. In 2014, the Cabinet Office announced new rules to limit the value, length and structure of ICT contracts. It introduced a presumption that departments do not just extend existing contracts (paragraphs 1.13 to 1.16 and 4.2).

17 **Since 2011, HMRC has accepted the Cabinet Office's view that the Aspire contract was no longer a suitable vehicle to provide value for money and needed changes, but has had limited success in negotiating these with suppliers.** HMRC identified three main points of renegotiation to start to break-up the contract (paragraphs 4.2 to 4.5):

- **to agree a direct contract with Capgemini's main subcontractors, Fujitsu and Accenture.** By July 2014, HMRC had not yet agreed a direct contract with either of Capgemini's main subcontractors, Fujitsu and Accenture;
- **to change Capgemini's role to separate its responsibility for providing services and projects from its responsibility as an integrator of services and projects.** Capgemini has created a separate unit to deliver integration but HMRC has yet to set out the full commercial arrangements for this change;
- **to benefit from greater innovation, faster implementation and lower costs by introducing more competition.** In 2012, HMRC took back responsibility for innovation in service delivery but since then has held competitions for just 14 contracts outside Aspire, with an annual value of £22 million or 3 per cent of the Aspire cost in 2013-14.

18 HMRC faces a considerable challenge to reform the contract while developing a new approach to technology which is suitable for digital services. HMRC has been slow to develop its approach to replacing the Aspire contract. It is now choosing to do this alongside negotiating further changes to the current contract. HMRC launched a programme in early 2014 to develop its future ICT capability, which it called the Aspire Replacement Programme. By July 2014, HMRC had produced limited information about the Aspire Replacement Programme. For example, it did not have a business case or full project plan and had yet to fully quantify the capability gaps it needs to bridge or the resources it needs. HMRC must now act quickly, to replace the Aspire contract by June 2017 (paragraph 4.6 to 4.9).

19 There are serious risks to HMRC's business if the Aspire Replacement Programme fails to meet its objectives by June 2017. These include (paragraph 4.14):

- HMRC extending the Aspire contract and continuing to pay more for technology than it needs because of no competitive pressures;
- severe impairment in HMRC's ability to modernise and digitise its tax collection processes and to overcome limitations of its legacy systems; and
- a fall in the quality of HMRC's service to taxpayers, putting the amount of tax collected at risk.

Conclusion

20 There are a number of features to long-term partnering contracts which we have seen reflected in Aspire. There can be significant benefits in longer-term relationships including a degree of flexibility and joint working in solving complex, technical challenges over time. Conversely, the relationship can get too accommodating, and cease to offer performance challenge or to create price tension. We believe that some of both of these elements arose in HMRC's Aspire contract.

21 HMRC faced complex, long-term technology challenges, and Aspire provided, in our view, an appropriate means of working them through and limiting risk at the same time. On the other hand, there are a number of instances set out in this report of lack of challenge in objective setting, re-scoping and renegotiation which illustrate a lack of rigour in HMRC's commercial management of the contract. This was exacerbated by the need to repeatedly renegotiate annual spending to meet budget constraints.

22 We see it as essential in any contract that the client retains the independent expertise to challenge the supplier. We welcome the fact that HMRC has recognised this part way through the Aspire contract and is now seeking to rebuild its capability. HMRC now needs to work with pace to meet the conditions of success we set out in this report. The support and collaboration of the Cabinet Office will be an important factor in ensuring the success of HMRC's future technology strategy and transformation to digital operations and services.

Recommendations

a **HMRC must urgently show how it will ensure its technology will meet its business responsibilities and risk appetite, as well as the Cabinet Office policy.** Technology is at the heart of HMRC's operation. Its technology strategy must fit with government objectives as well as its own risk appetite, structure and objectives as it digitises more services.

b **HMRC should increase its control over ICT operational performance.** As HMRC moves to a new operating model, Capgemini will become less accountable for performance. HMRC must be ready to respond by taking more control of ICT performance.

c **HMRC should urgently invest in its operational, technical and commercial skills.** HMRC recognises that it needs new skills. It has not yet set out the full implications or quantified the cost or time needed to move from a long-term outsourced contract to a more dynamic, multi-sourced and self-managed model. HMRC's capability needs are unlikely to be met solely through developing existing staff. It needs to recruit or procure new commercial and technical capability. The market for these resources is highly competitive.

d **HMRC should develop contingency plans as part of its risk management approach.** HMRC has had limited success in reforming Aspire to meet the government's new technology policy. It must work quickly to achieve its objectives by the end of the Aspire contract in 2017. Replacing Aspire is challenging, with wide-scale operational risk. During the three-year transition period HMRC will have many competing priorities. It should develop contingency plans and agree them with the HMRC board and the Cabinet Office.

e **HMRC should continue working with the Cabinet Office to ensure the skills and resources are in place to make this change; which is critical to the government's wider technology and digital strategy.** The scale of HMRC's business and dependence on technology is such that its experience in remodelling its ICT provision will help to define the market of future ICT suppliers to government. If it meets its aims, HMRC will have a pool of skills and experience from which other government departments can draw in implementing their technology and digital strategies.

Part One

Introduction

1.1 In January 2004, the Inland Revenue, now HM Revenue & Customs (HMRC), signed a contract with Capgemini to provide information, communication and technology (ICT) services. HMRC called the contract Aspire (Acquiring Strategic Partners for the Inland Revenue) and it is the government's largest technology contract. It maintains and, where necessary, replaces ICT hardware and software and carries out new technology projects. HMRC uses this technology to collect £500 billion of tax revenues a year, so it is essential to HMRC's and the government's work.

Our 2006 report

1.2 In 2006, we examined the procurement, transition to, and early operation of, the Aspire contract.[2] We found that HMRC had successfully replaced its previous outsourced technology contract with EDS. It thereby reduced its ICT costs by £1.6 billion over the initial ten-year period of the Aspire contract.[3]

1.3 We also examined the contract's early operation and concluded that ICT services were performing well. However, the contract cost more in the first year than expected because HMRC commissioned more work than originally planned. HMRC's higher-than-expected demand for ICT came mainly from project work to develop and enhance its systems to significantly change its way of working. We said that HMRC needed to control costs and get value for money from any additional spending.

1.4 We estimated that if the higher spending over the contract's life continued, HMRC could spend more than £7 billion, rather than the £3.6 billion to £4.9 billion originally projected. In 2006, HMRC expected demand for ICT to fall and therefore spend to be less than our estimate.

2 Comptroller and Auditor General, *HM Revenue & Customs: ASPIRE – the re-competition of outsourced IT services*, Session 2005-06, HC 938, National Audit Office, July 2006.
3 Unless expressly stated, amounts quoted in this report have been adjusted for inflation to 2013-14 values using the GDP deflator.

Background to Aspire

1.5 HMRC's technology estate is one of the biggest in government with around 650 systems, six major datacentres and 1.1 billion transactions. HMRC used its technology to collect £506 billion of tax revenue in 2013-14. The systems already let the public and businesses submit much of their tax information digitally. HMRC's strategy depends on enhancing its technology to make its services 'digital by default'.

1.6 HMRC set four objectives, when it let the Aspire contract:

- to ensure continuity of HMRC's ICT systems at all times;
- to continuously improve the performance of HMRC's ICT services;
- to provide rapid access to up-to-date skills and technologies to meet HMRC's requirements; and
- to facilitate change to HMRC's business processes, in line with its strategy, supporting other government departments where necessary.

1.7 HMRC let Aspire in 2004 to run until 2014, with an option to extend it for a further eight years. In 2007, HMRC extended the contract for three years, so it is now due to expire in June 2017.

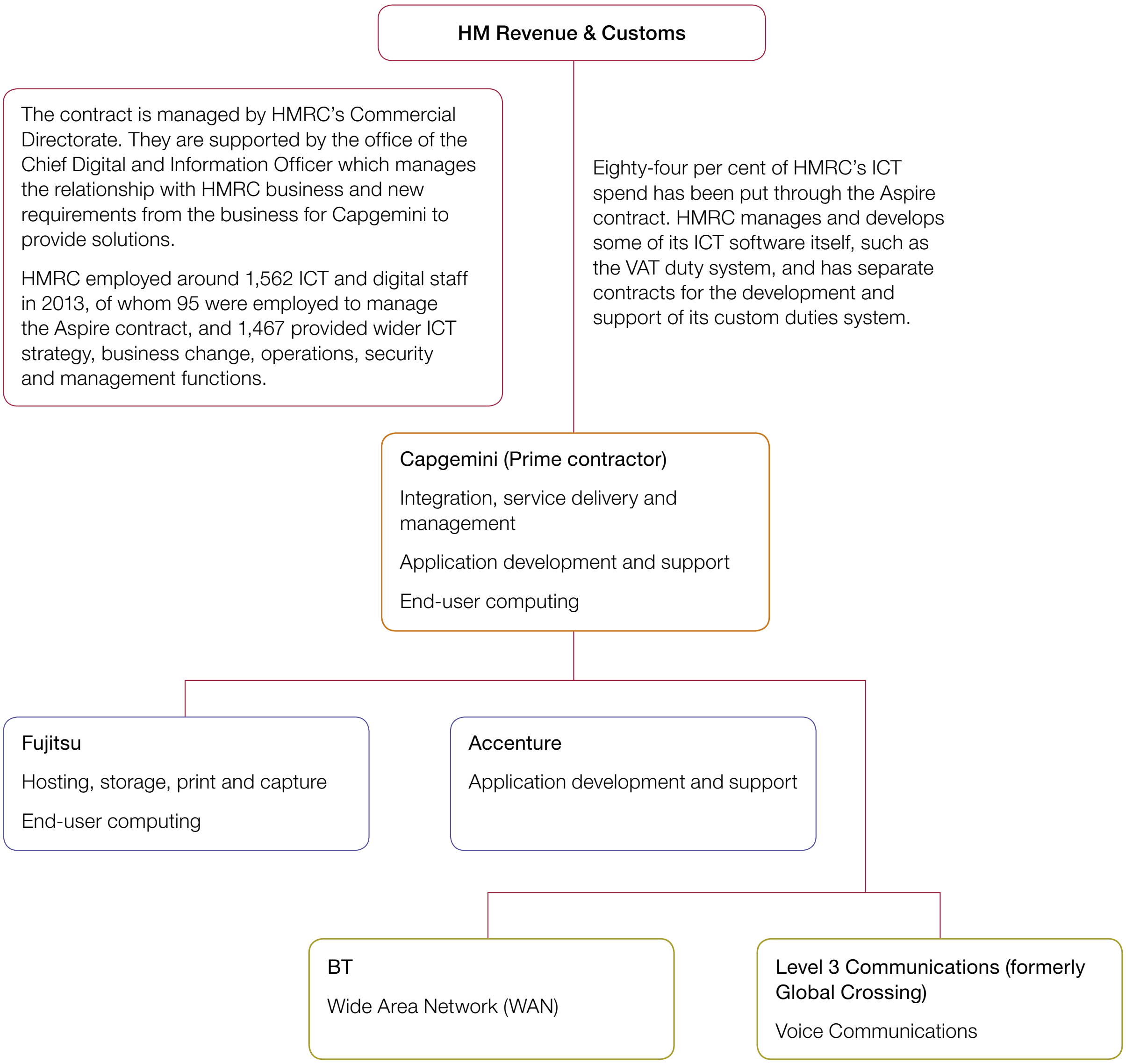
1.8 From the beginning of Aspire in 2004, until the end of March 2014, HMRC had spent £7.9 billion through the contract. In 2006, the former Inland Revenue and HM Customs and Excise merged and HMRC's annual spend through Aspire increased by around 25 per cent. Between April 2006 and March 2014, Aspire accounted for about 84 per cent of HMRC's total spending on technology.

1.9 The £7.9 billion total spend comprises:

- £4.9 billion on maintaining and running technology services, including datacentres, desktop computers and laptops, telecommunications, networks, business applications, and printing; and
- £3.0 billion on technology projects to develop and improve HMRC's systems. The £3.0 billion included major work to increase the online processing possible for income tax and VAT, and to reduce manual processing by HMRC's staff.

1.10 Aspire is a 'prime supplier' contracting model (**Figure 1**) through which HMRC contracts solely with Capgemini. Capgemini provides all services and has two main subcontracts: one with Fujitsu (worth £2.8 billion from July 2004 to March 2014); and one with Accenture (worth £0.3 billion in the same period).

Figure 1
Aspire's supply chain



Source: National Audit Office review of the Aspire contract and supply chain

1.11 Capgemini and Fujitsu both have subcontractors. In total there are over 360 suppliers and Capgemini and Fujitsu have spent £2.5 billion with subcontractors to March 2014. Since 2011-12, 7 per cent of total contract spend has been with small and medium-sized enterprises.[4]

1.12 Aspire is important to Capgemini's global business. It accounts for 9 per cent of its global revenues for the year ending 31 December 2013, and 64 per cent of its UK public sector revenues.

Government policy on buying technology

1.13 We published a 2011 report, *Information and Communications Technology in government*.[5] There we quoted the government announcement that "the days of the mega IT contracts were over"[6] and that it would enforce a maximum spend of £100 million on technology contracts. The government also said that departments should implement smaller projects, where possible, using off-the-shelf solutions and 'agile' methodologies.[7] We noted that private sector outsourcing should give greater technical capability and efficiencies, but that government had not managed relationships with large suppliers effectively to harness their skills and experience.

1.14 Our 2013 report, *The impact of government's ICT savings*,[8] described how the government was breaking up large contracts with 'system integrators',[9] by introducing a new commercial model. This model increases the number of contracts that a department must manage, splitting different types of work (for example developing software applications, networks, data centres and hosting) into smaller contracts known as 'towers'. A government department may also hold a separate contract, known as a service integrator and management contract, to help integrate and run its services. Suppliers compete separately for the towers and service integrator and management contracts. We noted that many existing contracts with large suppliers still had some years to run, so the new approach would take some time to implement.

4 Data only exists from 2011-12 onwards.
5 Comptroller and Auditor General, *Cross-government: Information and Communications Technology in government – Landscape Review*, Session 2010-11, HC 757, National Audit Office, February 2011.
6 Cabinet Office Minister's speech to supplier summit, published online at: www.cabinetoffice.gov.uk/news/cabinet-office-ministers-speech-supplier-summit, 1 December 2010.
7 Government describes 'agile' as an iterative method for delivering projects in a highly flexible and interactive way.
8 Comptroller and Auditor General, *The Cabinet Office: The impact of government's ICT savings*, Session 2012-13, HC 887, National Audit Office, January 2013, p. 28.
9 A system integrator is a single supplier that develops and operates most of an organisation's technology services.

1.15 The Cabinet Office has defined the advantages of the model as:

- Increasing competition by holding smaller and more frequent procurement exercises, giving more scope for small and medium-sized enterprises to provide services directly to government.
- Reducing risk by specifying common ICT requirements across government, reducing the need for departments to develop their own bespoke solutions.
- Making it easier for departments to adopt innovative digital solutions by ensuring they know more about their ICT architecture.
- Reducing costs by stopping suppliers profiting from their use of subcontractors.[10]

1.16 In January 2014, the Cabinet Office published its 'red lines' for ICT contracts.[11] It stated that:

- it will not allow companies with a contract for providing services to provide system integration in the same part of government;
- the government will not extend existing contracts without a compelling case; and
- new hosting contracts will not last for more than two years.

The Cabinet Office also restated that there should be no ICT contracts worth more than £100 million, unless there was an exceptional reason.

1.17 An Office of Fair Trading report in March 2014 said that competition was not working as well as it could in the public sector ICT market. Reasons for this included that procurement practices were a barrier to entry for new suppliers.[12]

1.18 Switching to a multi-supplier model has risks during the transition phase and challenges for government in managing many suppliers. Departments will need more, and different, skills and resources to be responsible for selecting and applying technology in their operations.

10 HM Government, *Government ICT Strategy*, March 2011. HM Government, *Government ICT strategy – strategic implementation plan: Moving from the 'what' to the 'how'*, October 2011. Cabinet Office, *Government Digital Strategy*, November 2012.
11 Cabinet Office press release, available at: www.gov.uk/government/news/government-draws-the-line-on-bloated-and-wasteful-it-contracts, 24 January 2014.
12 Office of Fair Trading, *Supply of Information and Communications Technology to the Public Sector*, March 2014.

HMRC is replacing Aspire

1.19 In 2012, HMRC signed a memorandum of agreement with Capgemini to make Aspire more compliant with government policy. The memorandum committed HMRC and Capgemini to introduce competitively procured services and changed Capgemini's role to separate providing and integrating services. The memorandum also committed parties to starting negotiations on direct contracts between Capgemini's main subcontractors and HMRC.

1.20 In October 2013, HMRC appointed a new chief digital and information officer. In early 2014, the chief digital and information officer launched a programme, called the Aspire Replacement Programme, to specify and procure HMRC's future technology requirements. This programme is part of HMRC's wider transformation programme, including implementing its digital strategy published in 2012.

Our approach

1.21 This report examines Aspire's performance since 2004, HMRC's management of it and the early steps HMRC has taken to replace it in line with government's new technology policy. We examine:

- Aspire's performance in meeting HMRC's needs (Part Two);
- HMRC's commercial management of the contract (Part Three); and
- HMRC's progress in reforming the contract and developing plans for when it ends in 2017 (Part Four).

1.22 Our audit approach and evidence base are at Appendices One and Two.

Part Two

Performance of Aspire

2.1 This part examines Capgemini's performance in running and maintaining HM Revenue & Customs' (HMRC's) ICT operations and developing new solutions to enhance HMRC's business. It considers:

- the overall value of the Aspire contract to HMRC's business;
- the performance of services provided through the contract;
- the performance of projects;
- the cost of services and projects; and
- staff perceptions of the Aspire service.

Overall value of the Aspire contract

2.2 The services and projects provided through Aspire have been essential to HMRC's ability to collect over £500 billion of tax each year and have helped HMRC increase the effectiveness and efficiency with which it collects that revenue. Aspire has helped HMRC reduce manual processing, increase its analytical capability and introduce case management. Over the lifetime of the contract, Aspire has also helped HMRC to integrate the two former departments (Inland Revenue and HM Customs and Excise), generate more tax yield from its compliance work, and substantially reduce its headcount.

2.3 Since 2006-07, the operational cost of HMRC (excluding what it pays out in tax credits, child benefits and other entitlements) has fallen by 30 per cent (**Figure 2** overleaf). This suggests that Aspire has contributed to improved efficiency but does not prove a causal link as a range of other efficiency programmes have operated in this period.

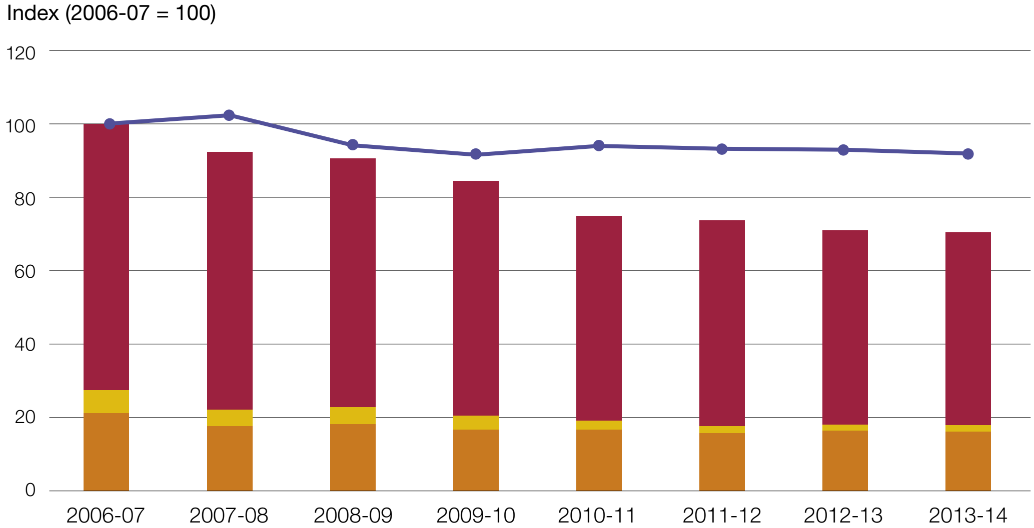
2.4 HMRC tracks benefits at individual project or programme level. For example, we reported in 2011 on how HMRC had used the Aspire contract to extend the online filing of tax returns.[13] We noted, however, that HMRC only had a high-level view of Aspire's cost for this project and could not benchmark this cost or compare it to the value created.

13 Comptroller and Auditor General, *HM Revenue & Customs: The expansion of online filing of tax returns*, Session 2010–2012, HC 1457, National Audit Office, November 2011.

Figure 2

Indexed cost and volume of work in HMRC, 2006-07 to 2013-14

The operational cost of HMRC fell by 30 per cent between 2006-07 and 2013-14 while the volume of work fell by just 8 per cent. Technology delivered under Aspire is likely to have contributed significantly to improved efficiency



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
HMRC running and capital costs excluding ICT	72	70	68	64	56	56	53	52
ICT costs other than Aspire	6	5	5	4	3	2	2	2
Aspire contract	21	18	18	17	17	16	16	16
Total HMRC costs (excluding entitlements)	**100**	**92**	**91**	**85**	**75**	**74**	**71**	**70**
Weighted average number of taxpayers	100	102	94	92	94	93	93	92

Notes

1 Operational costs include capital and running costs but exclude depreciation and entitlement payments such as tax credits.

2 Numbers are not available on a consistent basis prior to 2006-07.

3 Amounts have been adjusted to 2013-14 values using the GDP deflator.

4 Taxpayer numbers have been weighted using the average revenue collected from each type of taxpayer.

5 Numbers may not add due to rounding.

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

2.5 HMRC has not quantified the value it has obtained through the contract or made direct links between Aspire's performance and its own strategic performance measures, such as increased tax yield or efficiency savings. Further, it has not quantified the total risk associated with the Aspire arrangement. This information would allow HMRC to make strategic and long-term decisions, such as their move away from a prime supplier contract for technology and towards a new multi-supplier model, on a clear evidence base.

Performance of services

2.6 The Aspire contract contains a large number of performance measures. In January 2014 there were 554 targets, of which 159 (29 per cent) were subject to a service credit or penalty regime.[14] Sixty per cent of these targets measure the availability of ICT systems. None of the targets, however, measure the contribution to HMRC business outcomes (**Figure 3**).

2.7 HMRC has a number of measures that it has used since 2007-08 to track overall service performance. Two key measures which have shown substantial improvement since 2007-08 are (**Figure 4** overleaf):

- working minutes lost annually per full-time equivalent HMRC staff member due to ICT not being available. The working minutes lost fell from 2,736 in 2007-08 to 387 in 2013-14; and

- high-priority incidents affecting the availability or performance of ICT hardware or software. In 2007-08, there were 397 high-priority incidents falling to 105 in 2013-14.

Figure 3

Performance measures in the Aspire contract, January 2014

Type of measure	Number of targets subject to service credits	Number of targets not subject to service credits	Total number of targets	Number of targets as percentage of total (%)
Availability of ICT systems	108	227	335	60
Completeness of automated data capture and change processes	32	99	131	24
Timeliness of repairs to ICT systems and automated processing	8	53	61	11
Responsiveness of ICT systems to user input	8	15	23	4
Accuracy of data processing	3	1	4	1
Total number of measures	**159**	**395**	**554**	**100**

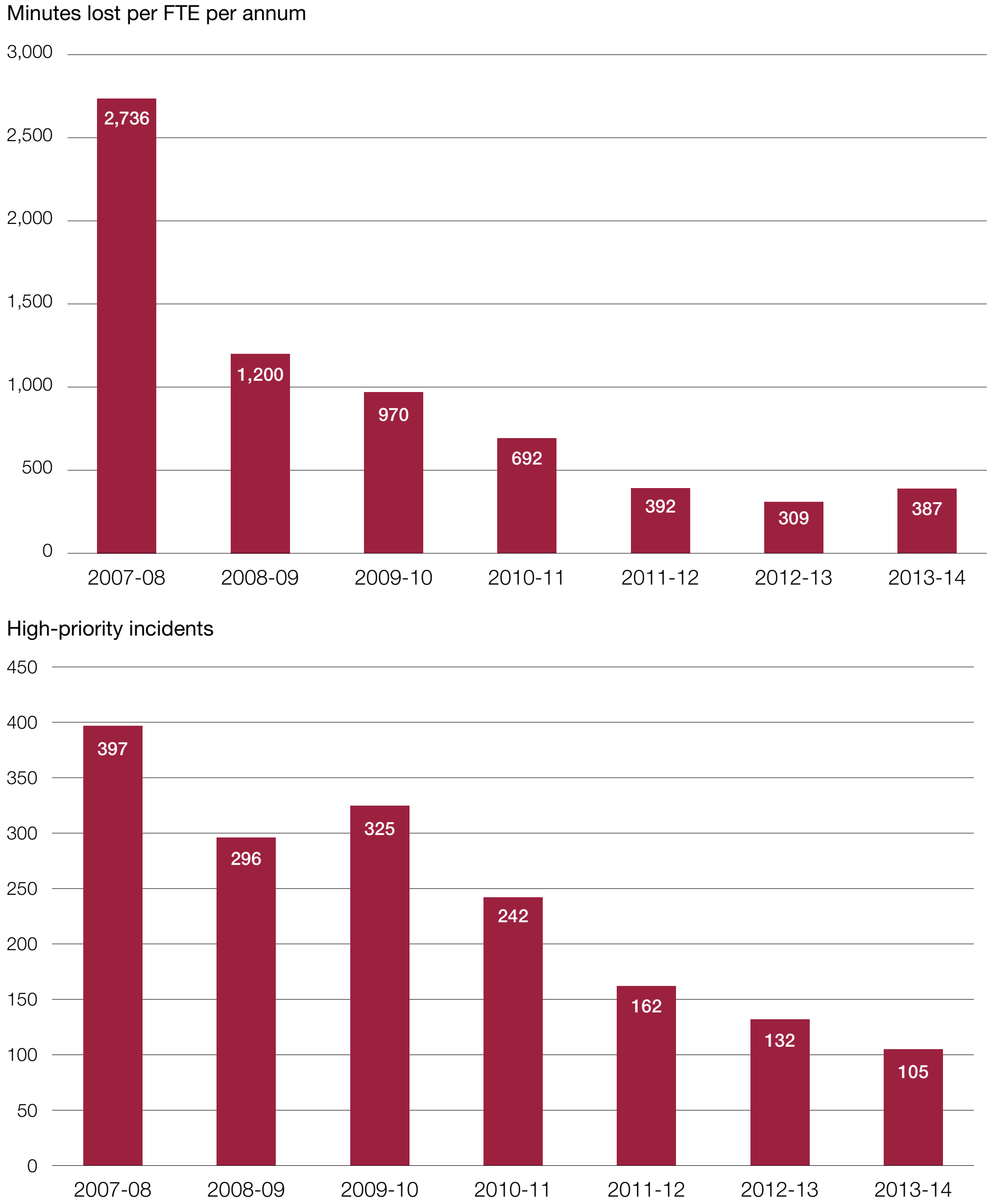
Source: National Audit Office analysis of HM Revenue & Customs' data

14 Service credits are amounts credited or paid directly to the customer in the event of an un-excused service failure.

Figure 4

Service unavailability and high-priority incidents, 2007-08 to 2013-14

These indicators show a substantial improvement since April 2007



Notes

1 High-priority incidents include events such as more than 499 users not being able to access a service or slower processing speeds affecting more than 5,000 users.

2 A composite measure of service unavailability began in 2007-08.

Source: HM Revenue & Customs

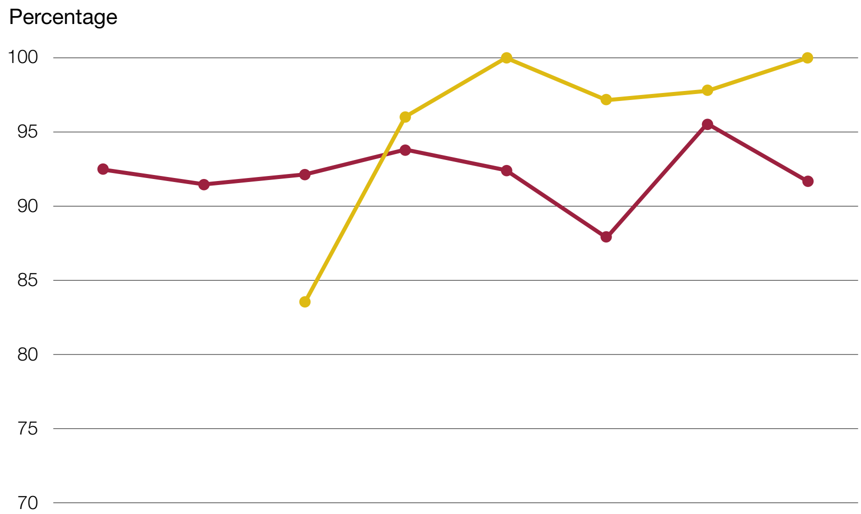
Performance of Aspire projects

2.8 We examined whether the 380 major projects that had been implemented since April 2008 had been delivered to time and quality.[15] We found that HMRC has a very high level of success in delivering to time and quality with an average of 93 per cent delivered on time and 95 per cent without a high-priority incident occurring in the first three months after implementation (**Figure 5**).

2.9 Despite this generally strong performance there have been a few cases of well-documented problems. For example, in 2009, HMRC created the National Insurance and PAYE Service to replace 12 separate regional databases. Delays and errors following the implementation of the system affected millions of taxpayers, cost HMRC £78.9 million to fix and resulted in an estimated £953 million in tax foregone.[16] However, HMRC had engaged a supplier outside of the Aspire contract, and reviews of the project attributed the problems to HMRC and not the performance of the Aspire suppliers.

Figure 5
Project delivery 2006-07 to 2013-14

Since April 2008, over 380 projects have been implemented with 93 per cent on time and 95 per cent without a high-priority incident in the first three months after implementation



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Percentage of projects delivered on time	92	91	92	94	92	88	96	92
Percentage of projects delivered without a high-priority incident in first three months	–	–	84	96	100	97	98	100

Notes
1 A deadline for delivering a project is set at the end of a detailed design phase.
2 High-priority incidents include events such as more than 499 users not being able to access a service or slower processing speeds affecting more than 5,000 users. There was no consistent measurement of the quality of project delivery before April 2008.
3 Numbers have been rounded to no decimal places.

Source: HM Revenue & Customs

15 There was no consistent measurement of the quality of project delivery before April 2008.
16 Comptroller and Auditor General, *HM Revenue & Customs 2012-13 Accounts*, National Audit Office, June 2013.

2.10 HMRC told us the main reasons for its good performance in delivering projects were the strong processes it operates, its close collaboration with the suppliers, the continuity of staff in key positions and the investment it has made in project management staff. HMRC told us that all programme managers and more than 80 per cent of project managers have a recognised project management qualification.

2.11 We also found that these factors were important to the successful delivery of projects:

- HMRC works with the supplier to agree scope, budget and timing before contractual targets are set. HMRC has a phased approach to developing projects with each phase being progressively more detailed than the previous one. Through analysing 42 projects completed between April 2006 and December 2013 we found that it took an average of seven months to complete the final, most detailed, phase which culminates in a contract between HMRC and the supplier. The available data suggests that at least an additional nine months is spent on the early phases, including time spent by HMRC on prioritising the portfolio of projects and other governance activities.[17] This approach to scoping allows both HMRC and the suppliers to reduce the risk of later slippage.
- After the contractual targets and detailed design has been approved, HMRC continues to adjust the scope, time frames and resources dedicated to a project. We examined 23 projects delivered in 2013-14 and found that, after the detailed design had been approved, changes were agreed in 19 (83 per cent) of these cases.[18]
- Most projects are put into service through major releases. Since October 2013, HMRC has moved to a monthly release programme so that it can be more flexible and responsive in the way that it introduces technology. It is too soon to know what impact this may have on the timeliness or quality of projects by potentially removing any contingency.

Cost of HMRC projects and services

2.12 Although Aspire has a very broad scope, around 85 per cent of spend was on projects and four main services (**Figure 6**).

2.13 Excluding projects, HMRC has spent £5 billion on maintaining and running technology services and managing the contract. HMRC monitors this cost, recording costs by service and by each major supplier for each year of the contract. These costs are consolidated with other information to produce an annual 'key messages' document which is used to review cost performance. Part Three discusses HMRC's response when actual service costs substantially vary from expected service costs.

17 See Appendix Two for detail on how these numbers have been calculated.

18 These 23 projects represent all of the 2013-14 projects for which a detailed design was undertaken. A further 29 projects followed a different process for which this analysis is not possible.

Figure 6
The projects and services provided through Aspire

Eighty-five per cent of HMRC's spend under Aspire was on development projects and the four largest services

	Total spend July 2004 to March 2014 (£m)	Average annual spend (£m)	Percentage of total (%)
Projects			
Design, build and test of new software. Integrate new software and hardware into the existing HMRC estate. Large-scale moves and changes within the estate	2,954.3	303.0	37
Four main services			
Data Centres Support, maintain and replace hardware used to store and process data	1,825.8	187.3	23
Desktop support Support, maintain and replace laptops, desktops, office printers and mobile devices	883.8	90.7	11
Application support Support and maintain large-scale software used by HMRC	655.5	67.2	8
Management of the agreement Indirect supplier costs involved in managing the HMRC agreement including senior management, back-office services (human resources, finances, etc.) and accommodation	411.4	42.2	5
Subtotal	6,730.8	690.3	85
Other Services			
Telephones Transmitting calls including video and audio conferencing and contact centre support	333.2	34.2	4
Networks Wide area networks between HMRC's offices	251.7	25.8	3
Large-scale printing and distribution Paper documents for taxpayers, e.g. forms, reminder letters, etc.	250.2	25.7	3
Automated data capture Scanning of documents and forms submitted on paper and support of some electronic data transfer between HMRC and taxpayer agents	152.5	15.6	2
Other Examples include small-scale moves within the HMRC estate, disaster recovery, analysis, secure document distribution, cloud services and business processing support	203.7	20.9	3
Total	**7,922.2**	**812.5**	**100**

Notes
1 Amounts have been adjusted to 2013-14 values using the GDP deflator.
2 Numbers may not add due to rounding.

Source: National Audit Office analysis of data provided by suppliers to HM Revenue & Customs

2.14 HMRC has spent nearly £3 billion on projects (Figure 6):

- About 50 per cent has been on major change projects to develop and integrate new pieces of software and capability in its systems. These major change projects are subject to highly structured and formal governance processes.
- About 25 per cent has been on minor change projects to enhance existing software. These typically have a budget of less than £250,000 and may be a response to changes announced by ministers, or simply required to keep systems working well. They are governed by an annual bidding and prioritisation process.
- The remaining 25 per cent is on a range of other services including integration and testing done outside a major project (10 per cent), a standing charge agreed in 2009 (3 per cent) and occasional consultancy work to help business units within HMRC consider future ICT development.

2.15 After a project budget has been approved, HMRC frequently changes individual budgets through an extensive governance process. HMRC manages its annual project budget as a whole, responding tactically to any potential overspending by re-prioritising, cancelling or de-scoping projects. However, HMRC does not analyse, on a supplier basis, how agreed budgets have changed. This makes it difficult to hold the Aspire suppliers to account for their performance across the portfolio of projects.

2.16 HMRC has been unable to robustly match budgeted and actual spend across a sample of projects due to data limitations. However, we found that since April 2006 additional spend beyond the original budget had been agreed in at least 22 out of 33 projects we examined.

Perceptions of Aspire's performance

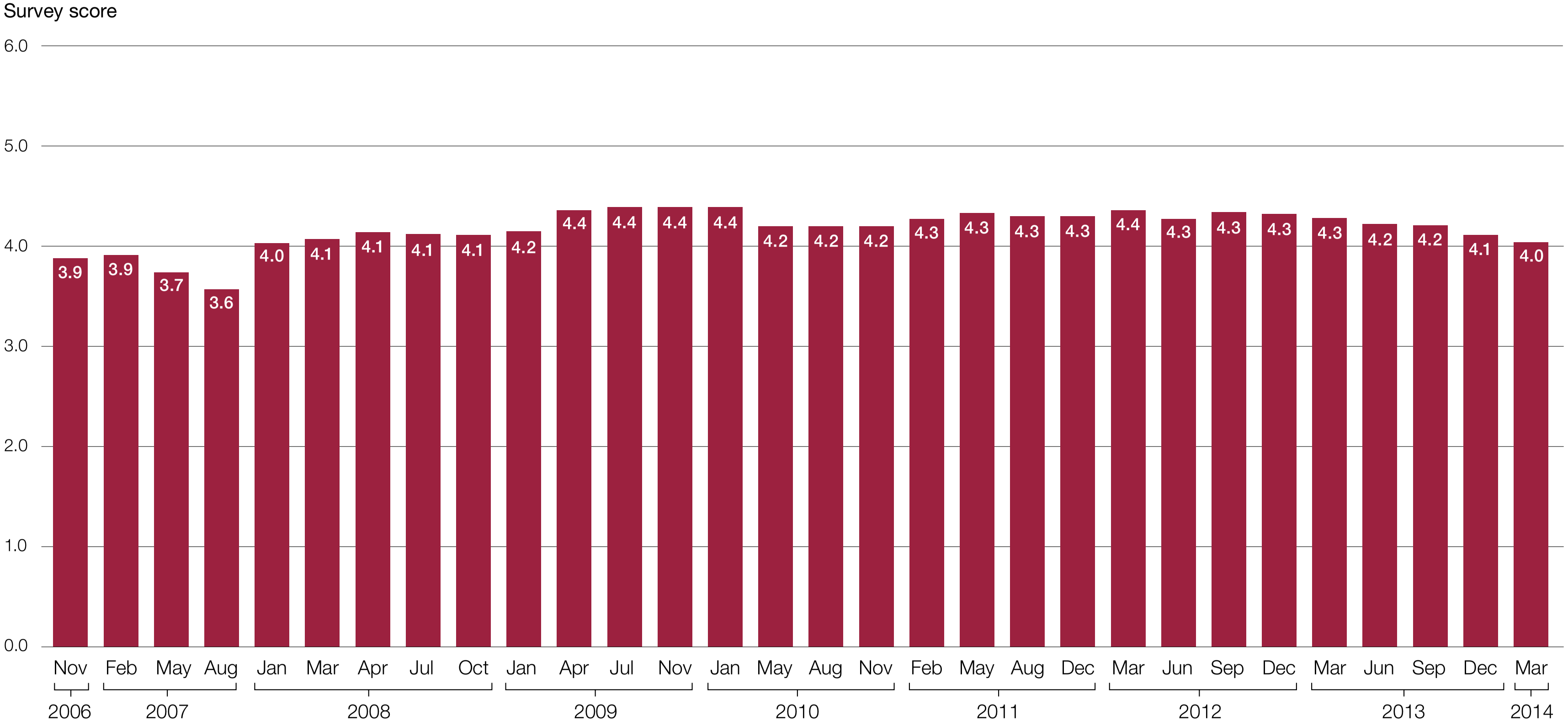
2.17 Staff and management have been reasonably satisfied with the Aspire service. HMRC randomly surveys around 5 per cent of its staff each quarter to measure satisfaction with Aspire. The results are reported on a scale of one to six (where six is good) and show that staff satisfaction has fluctuated within a fairly narrow band between 3.6 and 4.4 (**Figure 7**).

2.18 These survey results are consistent with a regular assessment by HMRC management of Aspire's support for key business events. Since 2007-08, HMRC has identified between 15 and 18 key business events in each year. These include the peak period for submitting self-assessment tax returns and for sending Pay As You Earn tax codes to employers. For each event, detailed criteria for good performance are developed in advance and actual performance is then assessed by senior managers. HMRC told us that since 2006-07, there has been only one year, 2010-11, when Aspire suppliers have not performed satisfactorily against these criteria. In 2010-11, failings were reported in the printing of self-assessment returns and tax credit renewals.

Figure 7

Staff satisfaction with Aspire contract

Satisfaction of HMRC staff has fluctuated but is generally positive



Notes

1 Since November 2006, the ICT department within HMRC has randomly surveyed 5 per cent of staff. They are asked to score performance of ICT services on a scale of one to six (where six is good). Response rate varies but is typically around 30 per cent.

2 The exact dates of the survey varied in earlier years, but from 2012 have followed a regular quarterly pattern.

3 Scores have been rounded to one decimal place.

Source: HM Revenue & Customs

Part Three

HMRC's commercial management of Aspire

3.1 This part examines how effectively HMRC has negotiated to get the technology and services it needs at reasonable cost.

How the contract evolved

3.2 Our report on procuring Aspire found the contract promised HMRC substantial savings when compared to the previous contract and that HMRC managed the transition to the new contract adequately.[19] HMRC needed to build on this successful start by taking opportunities from technological change, including reducing costs. It also needed to know what long-term value it was getting.

3.3 Since 2004, HMRC has done four major and 121 minor contract renegotiations.[20] One aim in renegotiating the contract was to reduce prices, in response to financial pressures and reductions in technology prices. Through these negotiations, HMRC and Capgemini agreed to change the Aspire contract, including:

- changing scope, such as expanding the contract to cover parts of the technology estate of the former HM Customs and Excise;
- extending the contract by three years;
- changing prices to make savings for HMRC; and
- adjusting the value-for-money controls (**Figure 8**).

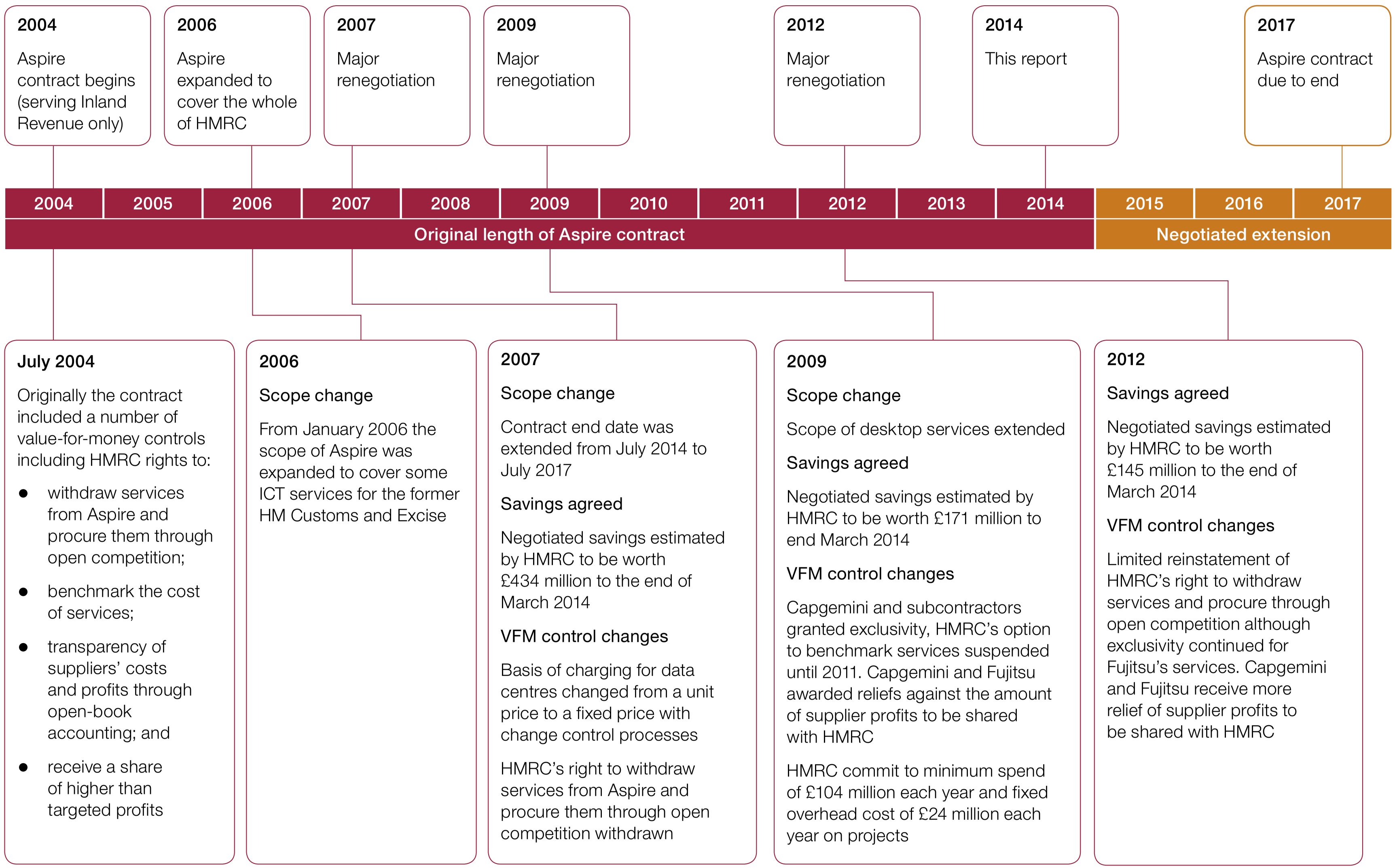
3.4 The combined effect was that HMRC achieved year-on-year savings but conceded many of the controls that had been built into the contract to safeguard value for money. Since 2012, it has negotiated some controls back, including the right to procure certain services outside of the Aspire contract.

19 Comptroller and Auditor General, *HM Revenue & Customs: Aspire – the re-competition of outsourced IT services*, Session 2005-06, HC 938, National Audit Office, July 2006, pp. 4, 15 and 19.
20 These numbers are additional to routine change controls.

Figure 8

Overview of Aspire's commercial timeline

There have been four major negotiations, each triggered by HMRC. These have substantially changed the cost and risk profile of the contract



Source: National Audit Office

HMRC's commercial management against good practice

3.5 From our experience, strong commercial and technical management of an ICT contract requires the following:

- The **internal capability** to grasp the opportunities the right technology offers an organisation, to manage risks and to challenge suppliers so services are technically efficient and fairly priced.
- **Strong cost management** and, within reason, testing the price paid for services to take advantage of the falling cost of technology.
- Reviewing **supplier profits** so they are appropriate for the capital invested, innovation obtained and risk transferred.

HMRC's capability

3.6 Most of HMRC's core technology functions were outsourced under the Inland Revenue's previous contract with technology firm EDS (which ran from 1994 to 2004). The Aspire contract continued this arrangement, consistent with many other contracts for technology developed at the time. However, by 2006, we were highlighting the importance of government departments building and retaining sufficient capacity and capability to challenge suppliers of outsourced services and hold them to account.[21]

3.7 We consider that HMRC's ability to manage its data centre costs was weakened in 2007 when it agreed to pay a fixed monthly charge for this service, albeit at an initially lower overall price than it had paid previously. Fujitsu is the main provider for the data centre service, and this accounts for 23 per cent of the total cost of Aspire. With rapid technological change, in which data centre costs are falling, HMRC now considers that its data centre costs are not value for money. This is confirmed by recent benchmarking which shows that HMRC's use of its data centre service is below industry average, indicating relatively low productivity.

3.8 In 2012, HMRC recognised that it had insufficient internal capability to challenge the cost effectiveness and suitability of Capgemini's technical proposals. Since then, it has sought to take more responsibility for strategy and design so as to control its ICT infrastructure more, and prepare to replace the Aspire contract.

21 Comptroller and Auditor General, *Delivering successful IT-enabled business change*, HC 33-I Session 2006-07, National Audit Office, November 2006.

Managing Aspire costs

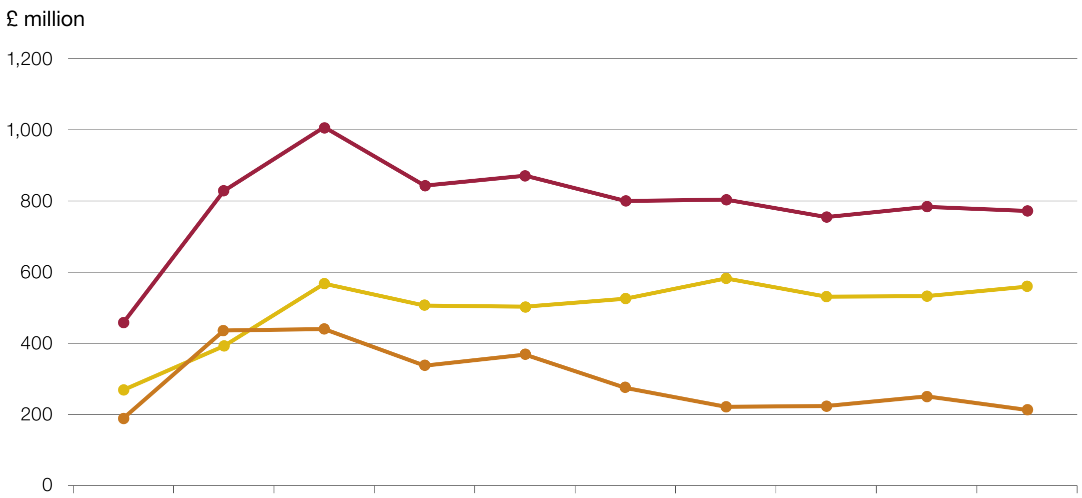
3.9 In our 2006 report we estimated that the total contract cost could be more than £7.3 billion. This is nearly twice the £3.6 billion to £4.9 billion modelled when HMRC procured the contract. The contract cost more in the first year than originally planned because HMRC increased the volume of work it commissioned. We said, in 2006, that HMRC must control costs and get value from the extra spending. HMRC said it did not expect spend to be as high as we predicted because it expected its demand for ICT services to decline.

3.10 Between contract award in July 2004 and March 2014, HMRC spent £7.9 billion on Aspire. Total annual spend on Aspire peaked in 2006-07, immediately after the merger of Inland Revenue and Customs and Excise. Since then, project spend has more than halved, and overall spend has reduced by 23 per cent. By contrast, spend on services has stayed relatively stable since 2006-07. (**Figure 9**).

Figure 9

Contract spend by financial year, 2004-05 to 2013-14

Spend peaked in 2006-07 after the merger of Inland Revenue and Customs and Excise – project spend has now more than halved, but service spend has been stable



	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Total Aspire cost	458	828	1,008	843	871	800	804	755	783	772
Services	269	392	568	506	503	525	582	531	532	559
Projects	190	436	440	337	368	275	222	224	251	213

Notes

1 Data for 2004-05 is for nine months only. The merger affected services mostly from January 2006 although project work was increasing before this.

2 Amounts have been adjusted to 2013-14 values using the GDP deflator.

3 Numbers may not add due to rounding.

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

Understanding and controlling expected spend

3.11 In our 2006 report we recommended that HMRC review the expected contract cost to account for trends in the demand for ICT services. HMRC has not implemented this recommendation. It has not constructed a financial model that represents what it considers to be a reasonable expectation of future volumes and spend over the contract life. Instead of producing long-term financial forecasts, HMRC said that it forecasts costs in line with HM Treasury's three-year spending review cycle, agreeing firm budgets annually.

3.12 We found in 2006 that HMRC had used a financial model to evaluate different supplier's bids when it let the Aspire contract. Since 2004, HMRC has paid Capgemini to maintain the model. HMRC uses the model to maintain control over the prices per unit paid. HMRC is content with the way Capgemini is maintaining the financial model. However, we found that the most recent version of the model, produced in January 2014, used out of date volume data.

3.13 By using the model to accurately represent actual and forecast volumes, as well as prices, HMRC could have controlled costs better over the contract's lifecycle, monitoring its spend against its original assumptions. By not adjusting the model to reflect changes in the volume of work, HMRC missed this opportunity.

Benchmarking the contract price

3.14 HMRC has benchmarked the price of Aspire services and projects on several occasions. The results of the benchmarking have suggested that HMRC has often paid above-market rates:

- In 2008 and 2009, HMRC commissioned a benchmarking consultancy to examine 60 per cent of the contract by value. This found that the price HMRC paid was higher than the benchmark in most areas the review covered.
- In 2009, HMRC commissioned a high-level benchmarking review of the entire contract. It suggested there was scope to reduce the contract cost by between £113 million and £225 million per annum.
- In 2010, HMRC commissioned another high-level review of the entire contract and showed there was further scope to reduce prices by £64 million per annum.
- In 2011, HMRC appointed specialists to review several contract elements, but they struggled to find market comparators. In 2014, the specialists produced estimates for one element of the contract, data centre services. On the basis of the estimates, HMRC began negotiations to recover substantial monies from 2011-12 to the end of the contract.

3.15 Benchmarking is not as strong as actual market testing in establishing market prices. As it is often not possible to agree a like-for-like comparison, suppliers dispute many of the results of the HMRC benchmarking. However, benchmarking gave HMRC evidence that it used in its major renegotiations with Capgemini.

3.16 HMRC estimates that, through its negotiations, it has made savings worth £750 million between 2007-08 and 2013-14. This estimate is based on actual payments and the modelling of savings projections for each contract change. Capgemini has told us that these savings will be worth a further £1 billion over the remainder of the contract.

Spend to the end of the contract

3.17 HMRC has made substantial use of the flexibility within the Aspire contract to change the original scope and volumes. We estimate that by contract-end in June 2017, HMRC will have spent £10.4 billion, much more than the £4.1 billion used as the central case when evaluating Capgemini's bid. The rise in cost (**Figure 10** overleaf) is due to:

- merging Inland Revenue and HM Customs and Excise in 2005-06 (£1.0 billion);
- increasing the volume and scope of the contract including doing more project development work than originally modelled, storing more data and introducing new desktop services, applications and contact centre services (£3.0 billion); and
- deciding in 2007 to extend the contract by three years (£2.3 billion).

3.18 We consider that HMRC should have taken steps to manage its costs better over the life of the contract. In particular, HMRC committed itself to an extension worth £2.3 billion when only three years of a ten-year contract had passed. This is likely to have constrained its ability in recent years to change the contract. Further, it chose to increase spend by £3 billion knowing that the contract may not consistently provide market prices. Over the lifetime of the contract, it would have been good practice for HMRC to directly market test some significant elements. For example, HMRC could have exercised its contractual right to withdraw services and procure through open competition. This would have provided greater assurance that the £10.4 billion represents a market-comparable price. HMRC say it did not market test for a number of reasons, including: technical constraints; the need to respond with speed to legislative changes; and contractual constraints, such as exclusivity, that operated at points during the contract.

Figure 10

Aspire could cost more than £10 billion

	£m
Original projection based on 2002-03 volumes	4,126
Modelled impact of changes up to and including the merger between Inland Revenue and HM Customs and Excise	974
Modelled contract value over ten years at time of merger	5,100
Increased contract volume or scope	3,027
Forecast spend over original ten-year term	8,127
Three-year extension from 2014 to 2017	2,315
Forecast total spend by June 2014	10,442

Notes

1 All numbers are in 2013-14 prices and are net of negotiated savings.

2 We have calculated the value of the three-year extension by multiplying 2013-14 spend by three.

3 The ten-year forecast has been calculated by adding the £7.9 billion spent by the end of March to HMRC's forecast spend of £204 million between April and June 2014.

4 Increased volume and scope includes additional project development work, additional data centre costs, new desktop services, new applications and new contact centre services.

5 The modelled impact of the merger between Inland Revenue and HM Customs and Excise is £918 million. The £974 million in the table above includes this and £56 million resulting from various minor changes to the contract between contract award and the merger.

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

Supplier profits

3.19 The changes to the scope and duration of Aspire, shown in Figure 9, will have increased Capgemini's return on its original investment. HMRC has 'open book' arrangements with the main Aspire suppliers so it can scrutinise their profits. Between July 2004 and March 2014, Capgemini and Fujitsu made a combined profit, as measured by the contract, of £1.2 billion.[22] This is 15.8 per cent of the revenue they made in that period. It is more than twice the £500 million modelled in 2004, which was then equivalent to a profit margin of 12.3 per cent. The additional profit should be considered in the light of the additional work HMRC has commissioned through the course of the contract and whether it has therefore received proportionally more business value, innovation or risk transfer than expected at the outset. However, HMRC has not evaluated the reasonableness of the increased profit achieved by suppliers. HMRC, believes that the margin is comparable with industry margins for similar services, though the scale and breadth of the contract makes like-for-like comparisons difficult.

22 The open-book rules in the Aspire contract establishes a way of measuring profit that combines what has been earned by Capgemini and Fujitsu. It is also measured after cost of capital charges and some, but not all, overheads have been deducted. This means that it is not directly comparable to profits either these, or other suppliers, report publicly in their annual accounts.

3.20 HMRC has the right under the contract to receive some of the additional profit that Capgemini and Fujitsu earned, through a profit-sharing agreement. However, during the major negotiations, HMRC gave Capgemini and Fujitsu reliefs against this (Figure 8). As a result, HMRC received payments worth £16 million as its share of profits earned in the period. Without the reliefs, it would have been entitled to £71 million.

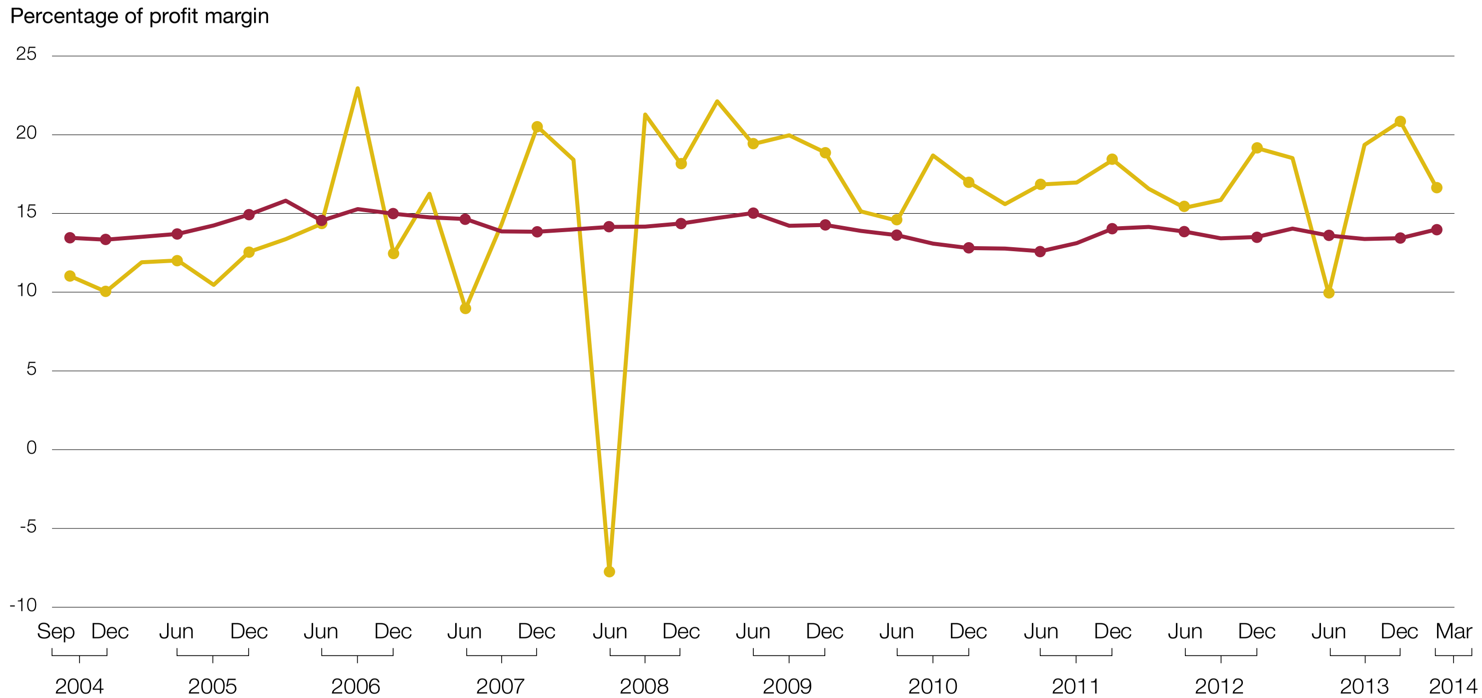
3.21 Capgemini and Fujitsu's profits have been stable for much of the contract's life. In the 39 quarters between July 2004 and March 2014 there has only been one quarter, the one ending June 2008, when suppliers failed to make a profit. In June 2008, Capgemini incurred a significant redundancy cost, which caused a quarterly loss but reduced future costs.

3.22 The Aspire contract specifies a target profit margin for Capgemini and Fujitsu that varies depending on the type of work, and has averaged 14.0 per cent between July 2004 and March 2014. There have only been 12 quarters where their actual profit margin was less than the targeted margin. The quarter ending December 2007 marked a tipping point in the contract's profitability. Up to the end of September 2007, the average profit margin was 13.6 per cent and there were 10 quarters with a margin below target. From the quarter ending December 2007, the average profit margin was 16.9 per cent and there were only two quarters with a margin below target (**Figure 11** overleaf).

Figure 11

Target and actual profit margin, quarter ending September 2004 to quarter ending March 2014

The quarter ending December 2007 marked a tipping point in the stability of margins under Aspire



	Sep 2004	Dec 2004	Jun 2005	Dec 2005	Jun 2006	Dec 2006	Jun 2007	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jun 2010	Dec 2010	Jun 2011	Dec 2011	Jun 2012	Dec 2012	Jun 2013	Dec 2013	Mar 2014
● Target percentage profit margin	13.5	13.3	13.7	14.9	14.5	15.0	14.7	13.8	14.1	14.4	15.0	14.3	13.6	12.8	12.6	14.0	13.9	13.5	13.6	13.4	14.0
● Actual percentage profit margin	11.0	10.0	12.0	12.6	14.3	12.4	9.0	20.5	-7.7	18.1	19.4	18.9	14.5	17.0	16.8	18.4	15.4	19.2	9.9	20.8	16.6
Actual margin less target margin	-2.4	-3.3	-1.7	-2.4	-0.2	-2.5	-5.7	6.7	-21.9	3.7	4.4	4.6	0.9	4.2	4.2	4.4	1.5	5.6	-3.7	7.4	2.7

Notes

1 Each service and project line has a specified target profit margin. The overall target margin has been calculated by weighting these by the actual amount of revenue recognised for a project or service in a quarter. This is then compared to the actual percentage profit margin.

2 Numbers may not sum due to rounding.

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

Part Four

Progress towards replacing Aspire

4.1 This part describes HMRC's progress towards replacing the Aspire contract in 2017.

Initial reform programme, 2012-13

4.2 While managing its services and projects, HMRC began its fourth major contract renegotiation with Capgemini in 2011-12 (Figure 8 on page 27). There were three main reasons for change:

- **Reducing costs**

  HMRC wanted to reduce the cost of Aspire. The Cabinet Office's review of HMRC's business case for a new VAT registration system challenged HMRC to reduce price and streamline the governance process. The Cabinet Office included these conditions in its approval of the business case and they contributed to HMRC's case to negotiate cost savings.

- **Strategy, priorities, innovation**

  Aspire no longer met HMRC's strategy and business priorities and HMRC considered it was holding back innovation in its business operations. HMRC maintains that it was difficult to get direction or control of its ICT; there was little flexibility to get things done with the right supplier quickly or make greater use of cross-government shared infrastructure and services. Also, exclusivity clauses prevented competition and stifled new ideas.

- **Government strategy**

  The Cabinet Office expected HMRC to reform Aspire to make it consistent with the 2011 government ICT strategy. The government strategy sought to end large technology contracts and introduce smaller and shorter contracts.

4.3 HMRC spent £4.6 million in 2012 and 2013 negotiating with the Aspire suppliers and implementing the reforms required. In the negotiations, HMRC raised with Capgemini several claimed contract breaches for Capgemini's performance and overall responsiveness. These issues were not covered by performance measures or contractual targets, nor were they the results of HMRC's satisfaction surveys. However, they helped HMRC to conclude negotiations with Capgemini. As a result, both parties signed a memorandum of agreement in January 2012.

4.4 The changes sought through this memorandum included the following:

- Making at least £202 million in savings between 2011-12 and 2016-17.
- A target of up to £152 million in extra savings, subject to opening more work up to competition, applying more streamlined and agile ways to develop new projects, and managing supplier relationships better.
- The ability to open up more work to competition outside of Aspire and the novation of Capgemini's contracts with Accenture and Fujitsu, so each would contract directly with HMRC. This would allow HMRC to manage Fujitsu and Accenture directly and reintroduce the ability to compete ICT services.
- Designing and implementing a new operating model and governance processes for commissioning services and projects through Aspire.
- A programme to develop the skills within HMRC to carry out the new operating model. Aspire has been managed by a relatively stable HMRC team. Understandably, the skill profile, roles and responsibilities of this contract management team had become streamlined to manage the relationship with a single supplier.
- Communicating the changes and their implications to HMRC staff.

Progress in carrying out the initial reform programme

4.5 The reforms required HMRC and Aspire suppliers to agree significant changes to their commercial relationships, which has been difficult. Overall, HMRC made limited progress up to the start of 2014, in carrying out the changes sought in the memorandum.

- HMRC competed only 14 contracts outside Aspire with an annualised value of £22 million, or 3 per cent of Aspire's cost.
- HMRC did not agree a direct contract with Capgemini's key subcontractors, Fujitsu and Accenture. The exclusivity granted to Fujitsu in the 2009 contract renegotiation remains in place.
- HMRC and Capgemini created a unit to integrate services, known as a System and Service Integrator or SSI. This unit was separate to Capgemini's other functions. It helped the Aspire contract to resemble the government's preferred technology supply model.
- HMRC has started to define some of the changes and communicate them to staff. However, HMRC had made little progress in defining business needs or commercial arrangements, for when the contract ends.
- HMRC has started to broaden its technical and commercial capabilities and adapt to new and faster ways of working.

The Aspire Replacement Programme

4.6 In January 2014, HMRC began a new project, which it called the Aspire Replacement Programme. A new director general led the programme; recruited from the private sector to head ICT and digital transformation in HMRC. HMRC published its new IT strategy in February 2014 setting out significant changes to how it plans to provide its services.[23] HMRC aims to collect more tax, while reducing costs by providing easy-to-use digital services that all customers can choose to use. The strategy aims to give every UK customer a personalised digital tax account. New systems will increasingly interact with customers in real time, as they put data on to the system. This is expected to improve compliance through automated checks to detect fraud and reduce human error. HMRC will therefore be able to focus more on tackling criminal activity, evasion and avoidance.

4.7 HMRC recognises the scale of this change and the challenge, which requires new organisational skills and technology. It is developing a new operating model for its technology provision. This involves HMRC becoming more directly involved in managing services, projects and more commercial relationships. HMRC plans to hasten the business change, using agile project management methods where appropriate, which it expects to give benefits more quickly.

4.8 The Aspire Replacement Programme will implement this new model for providing technology. The programme has four major phases and includes significant internal transformation and commercial activity (**Figure 12** overleaf).

4.9 The programme is at an early stage. During our fieldwork, HMRC had blueprints outlining the intended future state. It had yet to develop a formal business case and overall project plan. HMRC, therefore, has much to achieve and there is little time to complete the first three phases by June 2017.

4.10 HMRC recognises there are substantial risks associated with the programme. During our fieldwork the management response concentrated on the tactical short-term risks of mobilising the Aspire Replacement Programme rather than the more strategic risks arising from changing the Aspire contract. However, the risks noted in HMRC's 2014 IT strategy include:

> "Not delivering to budget because of the need to balance year-on-year cost savings and an increase in demand for IT services and digital transformation."
>
> "The impact of transforming the IT delivery model at the same time as developing services and infrastructure."

There are, therefore, critical and ongoing dependencies on improving organisational agility, technical exploitation, strong leadership, professional skills and staff motivation, to achieve these ambitions.

23 HM Revenue & Customs, *Information Technology Strategy*, February 2014.

Figure 12

The four phases of the Aspire Replacement Programme

Feb 2014–Jul 2014
Phase One

Jul 2014–Jul 2015
Phase Two

Jul 2015–Jul 2017
Phase Three

Jul 2017 onwards
Phase Four

Apr 2014 to Mar 2015
Annual programme
budget £5 million

Apr 2015 to Mar 2016
Annual programme
budget £25 million

Phase One: Feb 2014 to Jul 2014

HMRC aims to complete preparatory work for the programme, including recruiting staff, developing in-house ICT skills, and producing key programme documentation including programme plan and business case. It also plans to agree additional cost savings of £50 million a year from 2014-15. During this phase, HMRC also intends to progress the stalled commercial negotiations with Capgemini and its major subcontractors which were commenced following the 2012 memorandum of agreement. A key result of these negotiations is intended to be the removal of Fujitsu's right to exclusively supply HMRC with certain services and the transfer to HMRC of all subcontracts within Aspire.

Phase Two: Jul 2014 to Jul 2015

During this time, HMRC aims to complete the development and implementation of its operating model. This will include developing 'delivery groups' which aim to bring together all the skills required to develop and operate key services in data analytics, SAP[1] and Customs and International Trade. HMRC also plans to further develop its own ICT capability, and will commence preparations for procuring replacement Aspire services. HMRC intends to complete the novation of the Fujitsu and Accenture subcontracts.

Phase Three: Jul 2015 to Jun 2017

HMRC will make many public procurements during this period. This will require commercial negotiations and service transitions.

Phase Four: Jul 2017 onwards

This phase will involve embedding and improving newly procured and existing ICT services.

Note

1 HMRC uses SAP ERP, a finance, human resources and other resource planning software licensed by SAP AG.

Source: National Audit Office review of HM Revenue & Customs' blueprints

Conditions for success

4.11 The Aspire Replacement Programme will need strong leadership, capable people, strategic clarity, organisational support and sufficient funding. HMRC understands these needs but has not adequately quantified the resources needed to meet them. It has allocated initial funding for the first two years of the programme of £5 million in 2014-15 and £25 million in 2015-16. However, it cannot be confident that this will provide the required legal, commercial and technical capabilities for the new model. HMRC told us that the allocated resources are only a starting point and that it intends to use efficiency savings to further fund the programme.

4.12 We have analysed HMRC's experiences with Aspire over the past ten years and highlight several conditions for the programme's success (**Figure 13** overleaf). We have grouped these conditions according to:

- the first three Aspire Replacement Programme phases; and
- the five main categories of lessons learned that we drew out in our report on the original Aspire competition.[24]

4.13 We consider these conditions to be necessary but not sufficient. The key priorities are:

- working closely with HMRC's wider business so the new ICT and digital strategy serves customers and business users and maximises the benefits to HMRC;
- developing the capability to implement the new operating model;
- aligning the new operating model for technology with HMRC's risk appetite, ICT architecture and proposed commercial models;
- having full control over the management of ICT operational performance; and
- actively managing the risk of failing to complete the programme, and adjusting the model if it does not meet these conditions.

24 Comptroller and Auditor General, *HM Revenue & Customs: ASPIRE – the re-competition of outsourced IT services*, Session 2005-06, HC 938, National Audit Office, July 2006.

Figure 13

Specific conditions for success of the Aspire Replacement Programme

	Phase One **Required urgently**	**Phase Two** **Required by July 2015**	**Phase Three** **Required by July 2017**
Align new sourcing strategy with business need	IT strategy shows clear means to achieve digital/other business objectives IT operating model endorsed by HMRC and centre of government Outline business case and sourcing strategy endorsed by HMRC and centre of government		
Prepare for the end of the existing contract	HMRC business case to recruit and procure necessary technical and commercial skills is approved	HMRC has a clear procurement approach which sets out the sequence and interdependencies of procurement actions HMRC has a detailed financial model for new IT supply which is approved by HMRC leaders and centre of government	
Maintain service delivery	HMRC service management assumes direct responsibility for performance management of operational systems HMRC has sufficient capacity and capability for increased role in service management	Transitional arrangements are mapped and agreed, including with incumbent suppliers Baseline performance information is known and expected new performance levels are agreed	
Create competition	Procurement approach developed and designed to attract market participation Senior commercial capability is in place to lead the approach, providing credibility and authority	Sufficient procurement, legal and technical capability and capacity are in place	Long-term procurement, technical and contract management capability is established
Manage the transition	Overall programme funding secured	An approach exists for projects spanning the transition period A comprehensive risk management approach is agreed, with viable contingency plans Staffing plans for transition and longer term are developed	HMRC team for early operational stages is established Approach to surplus staff (HMRC and suppliers) determined

Note

1 Conditions are those that we consider necessary for success but not sufficient to guarantee success.

Source: National Audit Office

Failing to meet conditions of success

4.14 HMRC recognises the substantial challenge involved in the new model and the extent of the risks. If the programme does not progress according to plan, HMRC may experience several potentially damaging impacts. The risks include:

- **Forced contract extension**

  The Aspire contract lets both parties extend it by agreement for up to eight years. HMRC says it does not intend to extend Aspire further. However, an overrun could force HMRC to negotiate an extension. An extension is unlikely to be value for money, since there will be no competitive pressure.

- **Reduced ICT service**

  Delays or difficulties may require more senior management intervention, an increase or redirection of funding or another change in HMRC's management priorities. During the early years of the programme, this could lead to poorer ICT performance because of reduced funding, limits on capabilities or limits on projects. As HMRC changes suppliers (by 2017) transition issues may hinder the ICT service. Programme delays or difficulties will worsen these issues.

- **Compromised speed or depth of digital ambition**

  HMRC's ambition is to digitise its services. It wants to offer straightforward services which are designed around the citizen rather than its own operations, and are more efficient and cost-effective.[25] HMRC's in-house capability and ICT suppliers are vital parts of digital services, and programme delays or poor progress could constrain or delay this ambition.

- **Reduced service quality for taxpayers, and less tax collected**

  Part Two of this report showed that Aspire has provided a stable and predictable service. This service is core to HMRC's business and service to taxpayers. Significant problems in moving to a new operating model could have effects beyond HMRC's business. For example, HMRC only recently resolved problems with the new National Insurance and PAYE Service.[26] By March 2013, these issues had significantly affected millions of taxpayers, cost HMRC an extra £78.9 million and lost an estimated £953 million of tax.

25 HM Revenue & Customs, *Digital Strategy*, December 2012.

26 Comptroller and Auditor General, *HM Revenue & Customs 2012-13 Accounts: Report by the Comptroller and Auditor General*, National Audit Office, June 2013.

Appendix One

Our audit approach

1 This study examined whether HM Revenue & Customs' (HMRC's) management of its ICT outsourcing contract, Aspire, has been value for money. We reviewed:

- the contract's performance, cost and commercial management, between July 2004 and March 2014;
- the effect of HMRC's work since 2012 to change the contract and bring in more competition; and
- HMRC's work to replace Aspire in 2017.

2 We used an analytical framework with evaluative criteria. With these, we considered what outcomes would be optimal from such a contract and what arrangements would be optimal at this moment in preparing for the future. This analytical framework was based on the *Good practice contract management framework* developed jointly by ourselves and Office of Government Commerce in 2008.[27] By 'optimal' we mean the most desirable considering the contract's scale, the high importance of HMRC's ICT and the extent of its legacy ICT infrastructure, and current government policy on ICT contracts.

3 We established HMRC's spend through Aspire, its expenditure in managing the Aspire contract and the resources it is using to establish the new arrangements.

4 We also identified how well Aspire's services have performed and, as far as possible, the benefits to HMRC of the projects carried out through Aspire.

5 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

27 National Audit Office and Office of Government Commerce, *Good practice contract management framework*, December 2008

Figure 14
Our audit approach

The government's objective

HMRC aims to manage its ICT to collect taxes and pay entitlements efficiently and effectively.

How this will be achieved

In 2004, HMRC entered into a contract with Capgemini to provide ICT services. This contract has accounted for 84 per cent of HMRC's ICT spend since April 2006. The contract expires in June 2017 and HMRC intends to replace it with a different arrangement.

Our study

The study considered:

- the value for money from the Aspire contract since July 2004; and
- how HMRC's plans to change the arrangement were likely to affect future value for money.

We took a performance, financial and commercial approach to analysing both questions.

Our key questions

Has HMRC received optimal ICT service performance since 2004, given the amount spent and the risk transferred to Capgemini?

Will HMRC's plans at least maintain service performance, given the different balance of cost and risk that is likely to result?

Our evidence

(see Appendix Two for details)

We assessed performance by:

- reviewing HMRC's contractual and non-contractual performance data;
- reviewing the open-book financial data that the main Aspire suppliers gave HMRC;
- reviewing the contract and contract change notes; and
- interviews with HMRC and suppliers.

We assessed potential performance by:

- reviewing HMRC's documented plans for change; and
- interviews with HMRC, suppliers and the Cabinet Office.

Our conclusions

There can be significant benefits in longer-term relationships including a degree of flexibility and joint working in solving complex, technical challenges over time. Conversely, the relationship can get too accommodating, and cease to offer performance challenge or to create price tension. We believe that some of both of these elements arose in HMRC's Aspire contract. HMRC faced complex, long-term technology challenges, and Aspire provided, in our view, an appropriate means of working them through and limiting risk at the same time. On the other hand, there are a number of instances set out in this report of lack of challenge in objective setting, re-scoping and renegotiation which illustrate a lack of rigour in HMRC's commercial management of the contract. This was exacerbated by the need to repeatedly renegotiate annual spending to meet budget constraints. We see it as essential in any contract that the client retains the independent expertise to challenge the supplier. We welcome the fact that HMRC has recognised this part way through the Aspire contract and is now seeking to rebuild its capability. HMRC now needs to work with pace to meet the conditions of success we set out in this report.

Appendix Two

Our evidence base

1 We reached our independent conclusions on whether HMRC has got value for money from its Aspire contract with Capgemini after analysing evidence we collected between January 2014 and March 2014.

2 We used an analytical framework with evaluative criteria to consider what outcomes would be optimal from such a contract and what arrangements would be optimal at this moment in preparing for the future. Our audit approach is outlined in Appendix One.

3 We collected our evidence using five main methods.

Contractual and non-contractual performance data

4 In producing Figure 2:

- We got publicly available statistical data on the number of taxpayers in each type of tax stream and how those taxpayers contribute to overall tax revenues. We used an average overall contribution, for 2006-07 to 2013-14, to weight the number of taxpayers and see the trend in the volume of work.
- We used unaudited statistical data from HMRC's annual report to examine the overall trend in operational spend. We excluded annually managed expenditure from this total. We inflated this spend using the GDP deflator, from the Office for National Statistics and HM Treasury websites. Within this, we used data obtained from HMRC to show the percentage of overall spend on Aspire and other ICT.

5 In producing Figures 3, 4, 5, 7 and other performance data references within the report:

- We got different managerial performance data, including a list of all contractual targets and details of how they have evolved, and different versions of performance reporting that HMRC has used to manage, and report on, the performance of its ICT services. We summarised and analysed these data to draw out the key messages.
- We also viewed some HMRC performance hubs in their offices in Telford to see how they use this data to manage their ICT services.

6 In undertaking the analysis in paragraph 2.11 and 2.14 to 2.15:

- We got an analysis of the amount that HMRC spent on projects.
- There are four main steps in HMRC's planning and approval cycle – value, viability, define and design. The value phase is internal to HMRC and the supplier starts to be engaged from the viability phase. We sampled 57 items and requested documentation from HMRC to conclude on approval dates and financial amounts.
- HMRC could provide data on the approval dates of viability stage for 45 items, end of define stage for 32 items and end of design stage for 47 items. Between each phase there may also be standstill time for prioritisation and other governance activities. To reduce the effects of this, HMRC gave us dates for the start of the design phase in 27 instances.
- Overall we could calculate that, across 39 items, it takes 16 months from the end of viability to the end of design phase, across 28 items it takes nine months from the end of define to the end of design and across 27 items it takes seven months from the start of design to the end of design.
- Our average of seven months quoted in paragraph 2.11 is calculated by using the 27 items for which we have start and finish of design phase plus an additional 15 items for which we have end of define stage date but not start of design phase date. The additional nine months quoted in paragraph 2.11 was calculated using 38 items for which we have a viability date, end of define or start of design stage date and end of design stage date. The 95 per cent confidence interval on the seven months is plus or minus two months and on the nine months is plus or minus three months. The nine months is an underestimate as it excludes time in value or viability phase. HMRC told us that each of these phases takes just a few weeks.
- We tried to examine actual spend against budget for the 47 items with a design stage budget. As some projects have multiple design stages this amounted to 33 projects. We could not finish this analysis because of changes in how HMRC record the data in their accounting systems. However, we could identify that in at least 22 cases (67 per cent) additional spend beyond the original budget was agreed by HMRC and Capgemini after design stage concluded. The 95 per cent confidence interval on this 67 per cent is plus or minus 15 per cent.
- In addition, we got from HMRC an analysis of all projects delivered in 2013-14 that counted towards their key performance indicators. From this we determined which had design proposals and those for which changes were made after design proposal.

Open-book financial data

7 Each quarter, Capgemini, Fujitsu and Accenture provide HMRC an analysis of expenditure incurred analysed by service and some cost categories (for example revenue, staff costs, profit). HMRC's internal audit and commercial teams audit this annually. We reviewed the results of this audit to assess whether data were reliable. We also got from HMRC details of the cost model for the Aspire contract at certain moments. Throughout, we inflated this spend to 2013-14 terms using the GDP deflator that we got from the Office for National Statistics and HM Treasury websites.

8 We summarised and analysed this data using a financial model that we developed to produce Figures 6 and 9 in the report and other financial data on the contract throughout the report.

9 In producing Figure 10 we used the open-book financial data and the financial models agreed at contract signature and when the merger was agreed. The value of the three-year extension was estimated by taking the amount spent in 2013-14 and multiplying that by three.

Reviewing the contract and contract change notes

10 We got from HMRC details of the original contract and major change notes. We analysed these to understand the major contract terms and how these had changed. We used the results in Part Three of the report.

Interviews

11 We interviewed 25 HMRC staff in service delivery, project management, commercial and financial management roles on the Aspire contract and the Aspire Replacement Programme. We also interviewed the Chief Digital and Information Officer within HMRC and met with HMRC internal audit.

12 We also interviewed key financial, commercial and operational staff within Capgemini and senior staff responsible for the contract in Fujitsu and Accenture. We interviewed senior Cabinet Office staff responsible for ICT and digital strategies and for managing government's relationship with Capgemini.

13 We used the results of the interviews to understand HMRC's relationship with the Aspire suppliers and their future strategy.

Review of HMRC's documented plans for change

14 HMRC had few documents available on their plans for change including a strategy document. We reviewed these documents to understand HMRC's plans.

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