National Audit Office

HM REVENUE & CUSTOMS

ASPIRE – the re-competition of outsourced IT services

LONDON: The Stationery Office
£11.25

Ordered by the
House of Commons
to be printed on 17 July 2006

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 938 Session 2005-2006 | 19 July 2006

EXECUTIVE SUMMARY

1 In January 2004 the Inland Revenue, now HM Revenue and Customs,[1] entered into a contract with Capgemini to provide IT services to support the Department's business. The strategic outsourcing contract, known as ASPIRE (Acquiring Strategic Partners for the Inland Revenue), replaced the Department's previous contracts with EDS for IT services and with Accenture for the National Insurance Recording System (NIRS2). The ASPIRE contract, which came into operation in July 2004, is worth between £3 billion and £4 billion over a ten year term, with an option to extend for up to eight more years. The Department embarked on the competition, having evaluated various options for providing its IT services including whether to extend the existing contracts. It concluded that its requirements could best be met by a strategic partnership with co-partnering with a single supplier having overall accountability for IT delivery.

2 ASPIRE is crucial for the Department in meeting its objectives. The Department serves 29.5 million taxpayers, around two million employers and one million companies, as well as 70 million accounts in the national insurance system. It employs 95,000 full time equivalent staff across around 600 offices and in 2005-06 collected almost £400 billion in receipts. The Department is responsible for collecting the bulk of tax revenue as well as paying tax credits, policing the national minimum wage, collecting student loan repayments as well as strengthening the UK's frontiers. During 2005, the Department's IT systems issued 16.5 million income tax self assessment statements, 1.4 million corporation tax notices to file, six million personal pension statements to employers and processed 9.7 million annual tax codings reviews.

3 This report examines how well HM Revenue and Customs handled the procurement and the subsequent transition to a new contract and supplier. It covers:

- **the procurement:** whether the Department took appropriate steps to choose the right option to meet its IT needs and get value for money (Part 1);
- **the transition:** the Department's management of the transition from one supplier to another (Part 2); and
- **initial performance:** the Department's management of ASPIRE and how the contract is dealing with changing requirements (Part 3).

4 Our study methodology is at Appendix 1. It included interviews with the main project team, bidders and suppliers; review of the contract and procurement documents and of the process used to test the financial model for the contract; comparisons of ASPIRE with other contracts in the UK and overseas; benchmarking of contract profit margins, and advisers' and procurement costs, and case examples of business-critical projects to examine the effects of changing supplier on projects spanning the transition. With effect from 1 April 2006 the Department extended the ASPIRE contract to include the services previously provided by Fujitsu under the former HM Customs and Excise IT PFI contract together with other former 'in-house' IT services. While this report refers to the change in the contract it does not evaluate the value for money of the revised contract.

1 Until April 2005, responsibility for ASPIRE was vested in the Inland Revenue. Under the Commissioners for Revenue and Customs Act 2005 HM Revenue and Customs assumed the functions previously vested in the Inland Revenue and HM Customs and Excise. In this report, references to HM Revenue and Customs, or the Department, cover both the functions of the Inland Revenue up to 18 April 2005 and the new HM Revenue and Customs.

Main conclusions

5 The Department was successful in completing the first major re-competition of a large public sector IT contract. As the Department's IT services had been already outsourced there was no public sector comparator available. It was concerned that potential competitors might perceive EDS to be a strong incumbent that could not be easily displaced. But the Department secured competition for the £3 billion ASPIRE contract which meets its IT needs, and completed the transfer from one supplier to another without a loss in service to the Department's customers.

6 It is the usual practice when purchasing goods and services for the bidders to meet their own costs and to pay the costs involved in taking over the position from the previous supplier. It is not usual practice for the purchaser to create the competition by contributing to firms' costs of bidding, paying the winner's costs in taking over from the existing supplier, discounting the transition costs for the purposes of comparing bids and paying the incumbent supplier to effect the transfer. The payment of such costs is not unknown, and the Committee of Public Accounts outlined the circumstances in which this could be advantageous namely to avoid such costs being incorporated, with a mark up, in higher charges, and to encourage bids.[2] In the case of ASPIRE the premium paid by the Department to secure a competition was £8.6 million in contributions to bidding costs, and £43.3 million in paying for contractors' transition costs.

7 There was justification in this case for using incentives to encourage competition. The Department's reasons for paying this premium and discounting it when evaluating the bids were to secure a competition to get the best results. It ruled out the possibility of renegotiating the existing contracts, after taking legal advice which indicated it would risk legal challenge from the incumbents' competitors. The Department also considered that not to pay these costs would send out a wider signal to the market that the Department was effectively locked-in to the incumbent supplier because the costs of transition would make the competition unwinnable for any supplier other than the incumbent.

8 Contributing to bidders' costs and the costs of transition to encourage and maintain sufficient competition during the procurement was an essential step to achieving value for money in this deal. Compared to the total value of the ASPIRE contract the costs of procurement and transition totalling £75 million were small – some two per cent of the projected value of the contract. The Department estimated that transition costs would be in the range of £30 million to £50 million. The actual transition costs were £37.6 million paid to Capgemini and £5.7 million paid to EDS and Accenture as the incumbent suppliers. There remains a question whether the Department needed to pay this much. Although the Department was in new territory, it might have obtained better value for money from this spending by maximising the benefits from its contribution to the cost of bidders' design and implementation studies and from tighter control over the transition costs. The actual transition costs were negotiated after the contract was awarded and included a profit margin of 15.5 per cent for Capgemini. One lesson is to negotiate the terms on which transition costs are to be paid while the procurement is still underway to benefit from the competitive tension. The Department also incurred an extra £2 million on the delayed transition of NIRS2 which did not run according to plan. Further lessons are to secure the intellectual property rights to use the IT system after the contract ends and require the incumbent supplier to share information with bidders, and to ensure the contractor bears its own cost overruns.

9 The new supplier has provided IT services from day one of the contract, meeting or exceeding target service levels. Since transition there have been some delays on projects, attributable mainly to changes in the Department's requirements. For ongoing projects the Department agreed cost, time and delivery outputs which were more cautious than those agreed under the previous contract, and for 18 months the new supplier was paid for ongoing projects on the delivery terms of the previous contract which stipulated payment on the basis of resources used but using the costs agreed under the new contract. The payment terms of the new contract are linked more closely to project delivery than under the previous contract, and these are being applied to new projects.

2 Committee of Public Accounts Report, *London Underground Public Private Partnerships*, HC446, March 2005.

10 There have also been significant cost increases due to the Department's increased demand for IT services and projects which was higher than it anticipated at the time the procurement was run. The actual profits made by the supplier have also been higher than expected when the Department awarded the contract because of the higher volume of work and large number of IT projects in development but the overall target profit margin has not been exceeded. The contract prices include profit margins in line with industry margins, with lower margins for lower value-added service lines and higher margins in the riskier project area. The contract includes a provision for prices to increase annually with the Retail Price Index and annual reductions for efficiency improvements. Prices can be varied for events outside the contractor's control and there are penalties for underperformance. Prices can and have been renegotiated up and down where volumes change. If the overall target profit margin of 12.3 per cent is exceeded, the Department can obtain an equal share of the extra profits.

11 The overall value for money of this contract, and the premium the Department paid to secure it, will ultimately depend on how well it meets the Department's IT needs over the lifetime of the contract, including how well it deals with the degree of change in taxes and other services and the Department's systems and organisation. It will also depend on how well the Department controls costs and manages performance to ensure the benefits of the contract are achieved. The Department does not have an estimate of the final costs of ASPIRE because it is difficult to predict the level of IT demand, price changes and changes to the Department's activities over the lifetime of the contract. It has yet to evaluate the new supplier's overall performance. The business change and innovation aspects of the ASPIRE contract have assumed greater importance with the creation of HM Revenue and Customs in April 2005, and the increased levels of work which have placed greater pressure on the Department and Capgemini's capacity to deliver. The Department will need to continue to review resourcing priorities with Capgemini so as to maintain ongoing services as well as delivering change programmes, and ensure it has robust arrangements for managing the contract so that it delivers the best performance from the contractor.

Wider lessons

12 Across government there are around 540 Private Finance Initiative (PFI) contracts with a total capital value of almost £40 billion[3] and other IT outsourcing contracts. As these contracts reach the end of their first-term, departments are likely to face similar competition and transition issues to those HM Revenue and Customs has encountered.

13 ASPIRE provides lessons on preparing for the end of a contract and encouraging competition, and for managing the transition from one supplier to another and in providing sufficient flexibility within a contract to deal with likely changes in IT requirements. Good practice to help departments in re-competing their IT contracts and managing transitions (Part 4 of this Report) should result in financial savings from better contracts, and reduce transition costs and the risk of service disruption. Implementation of this including the good practice which the Department developed and adopted is likely to save at least 10 per cent of the costs of procurement and transition and our recommendations are aimed at departments doing that in similar situations.

14 Now that the public sector has demonstrated it is not locked into retaining well established incumbent suppliers for contracts of this size, there is a need for the Office of Government Commerce to provide guidance on:

- the contract provisions needed to deal with the end of a contract and securing the best prospect of effective competition at that time;
- the use of incentives to stimulate competition; and
- managing the transition to a new supplier.

15 The changes required for the merger of the Inland Revenue with HM Customs and Excise so early in the life of the ASPIRE contract suggest the need for a mechanism by which government IT contracts can be looked at as a whole, as the decisions made by one department can affect others. Such horizon-scanning would ensure that IT contracts across government are managed effectively: examining overarching issues of competition, supplier capacity, exit arrangements and transition planning. This would enable departments to have meaningful discussions about contract strategies and timings rather than pursuing purely independent strategies. The lesson for government departments is that even with that central oversight, they need to build into their contracts a sufficient level of flexibility to deal with machinery of government changes.

3 HM Treasury PFI signed project list.

Key facts, findings and conclusions

16 The Department estimated extending the existing contracts would cost £4.1 billion compared with £3.8 billion for the chosen solution (a strategic partnership with co-partnering with a single supplier having overall accountability for IT delivery). Once that option had been selected the Department went out to competition and developed its IT requirements which included further changes in requirements and changes in contractual volumes. The RPS bid (EDS/Accenture) was within 1 percent of the Capgemini bid at £2.83 billion. The costs incurred by HM Revenue and Customs during procurement (£27.5 million), transition (£47.5 million) and in the first year of the ASPIRE contract (£539.3 million) are set out in **Figure 1** opposite. Compared to the contract it replaced, the new supplier is paid on the basis of performance achieved (outputs) rather than resources used (inputs). ASPIRE also has incentives for improved efficiency over the lifetime of the contract and greater flexibility for the Department to decide the most desirable point for re-competition.

The Procurement

17 To secure competition and to choose an option to meet its IT needs, the Department:

- Followed Office of Government Commerce guidance, drew on lessons from the previous contracts which ASPIRE replaced and followed the recommendations from the Committee of Public Accounts' previous report on the Inland Revenue/EDS strategic partnership.[4]
- Drew on the experience of the London Underground PPP that in some cases departments may not be able to develop sufficient competition without reimbursing bid costs.[5]
- Evaluated eight contracting options and selected a strategic partnership with co-partnering, where a single supplier has overall responsibility and accountability for IT integration and the Department has access to a range of suppliers and new technology so it is not locked into one or two large suppliers.
- Consulted the market early, fostered competition by persuading senior management in the IT industry to bid for the contract and convinced bidders that it intended to seek genuine competition.
- Encouraged competition by partially paying bid costs (£7.7 million for work to allow bidders to demonstrate their IT capabilities), paying for the 'unique' costs of transition (£37.6 million) and excluding the costs of transition from the bid evaluation.
- Maintained competitive tension until the final contract award by negotiating with two bidders until the end of competition, aided by agreeing to contribute towards the costs of the losing bidder (£0.9 million).

18 The Capgemini bid best met the Department's IT needs. The eventual value for money of ASPIRE will also depend on how far the Department can control additional costs arising from changes to the contract. It will also depend on how well investment in individual projects and the programme as a whole supports its change programme for integration, improving efficiency and achieving its Public Service Agreement targets.[6, 7] The detailed results were:

- Capgemini's bid (£2,830 million) was £32 million higher than that (£2,798 million) of the other final bidder, RPS (EDS in alliance with Accenture). But Capgemini's bid better met the Department's IT needs to support its change programme and implement business transformation. It was around 21 per cent lower (£816 million) than the Department's Should Cost Model had indicated. That Model included some efficiencies over the life of the contract but both bidders were more aggressive in their forecasts of efficiencies.
- The Department assessed the value for money of the bids on the basis of a combination of financial and qualitative analysis of potential suppliers to provide the IT flexibility required to support ongoing IT applications and to implement business transformation.

4 Inland Revenue/EDS Strategic Partnership: *The Award of New Work* (28th Report 1999-2000).
5 C&AG's report on London Underground *PPP: were they good deals*, HC 645, June 2004.
6 *Financing Britain's Future – Review of the Revenue Departments*, Gus O'Donnell, March 2004, HM Treasury Cm 6163.
7 *Releasing resources to the front line – Independent Review of Public Sector Efficiency*, Sir Peter Gershon July 2004.

1 ASPIRE costs

Stage	Costs (£ million)	Comment
Procurement		
Procurement advisers and commercial lawyers	9.5	
Contribution to Design and Implementation Studies and tender costs	7.7	The Department capped its contribution to the Design and Implementation Studies for each bidder.
Departmental staff and running costs	9.4	18,000 staff days were charged. Also includes £3.1 million for IT support for Design and Implementation studies.
Due diligence	0.9	The Department capped these costs at £3.3 million for each bidder. £0.9 million was paid to EDS, who as the incumbent had less due diligence. Had Capgemini lost the competition it would have charged £3.3 million.
Total	**27.5**	
Transition		
Unique Transition Costs	37.6	Paid to Capgemini. EDS estimated Unique Transition Costs (UTCs) at £4.4 million if it had won the contract. (£3.4 million of UTCs paid to Capgemini/Fujitsu for NIRS2 transition is included in the £37.6 million).
Costs paid to the Incumbent suppliers for supporting the transition	5.7	£2.3 million to EDS (support during the transition) and £3.4 million to Accenture for support during transition and the re-platforming of NIRS2.
Departmental staff and running costs	1.3	6,800 staff days were charged.
Consultants	2.4	
Department of Work and Pensions staff and IT support costs	0.5	
Total	**47.5**	
Contract year 1		
Service lines	298	
Project lines	244	
Service credits in respect of services	(2.67)	This related to 8 IT system failures in the first contract year. There were 10 failures costing £3.25m in the first 15 months.
Total	**539.3**	

Source: National Audit Office analysis of the costs incurred by HM Revenue and Customs from the different stages of ASPIRE, up to the end of the first contract year

NOTES

1 Costs in £ million including the VAT which is irrecoverable to the Department.

2 In preparing for the transfer, the Department also incurred £14 million for the rights to use NIRS2 after the termination of the contract although the intellectual property rights remained with Accenture. This represented a closing payment as part of the 1995 PFI contract.

- An Office of Government Commerce review concluded that the Department had run the competition to a high standard and had maintained an effective competition.
- The Department managed the procurement at a cost of £27.5 million, including £6.3 million for staff and running costs, £9.5 million for advisers and £7.7 million for bidders to assist them to demonstrate their IT capabilities and £3.1 million to provide infrastructural support to that exercise. This compares favourably with the procurement costs on PFI contracts.
- The contract includes service line thresholds so that if there is a significant change in demand for IT services beyond the thresholds, the Department can negotiate price changes.

The transition

19 While the contract will only achieve value for money in the longer-term if the new supplier delivers a good service and progresses IT projects as planned, it was important for the Department to manage the risks of transition. These were that services would be disrupted, individual project deadlines missed, the incoming supplier (Capgemini) not ready to run the service and carry out business-critical projects and that the costs of transition would be higher than expected.

The costs of transition

20 The transition cost the Department £47.5 million, including £37.6 million paid to the incoming supplier for its 'unique' transition costs and £5.7 million to EDS and Accenture over and above normal running costs to facilitate the transition.

- The payment of transition costs was justified because it encouraged and maintained competition. These costs would have been very much lower had the existing suppliers continued to provide the IT service.
- The Department reviewed Capgemini's financial estimates for 'unique' transition costs. While the Department laid out the principles for qualification as a unique transition cost and controlled individual transition costs within the budgets set, it had not agreed in advance with Capgemini the detail of what would qualify as a 'unique' transition cost until the transition had started. It considered it could not have anticipated all the elements to include at that stage. This resulted in both parties spending valuable time during transition negotiating whether or not a particular cost was unique. The Department also paid Capgemini a profit margin on the staff costs involved.

Maintaining service during transition

21 During the transition there were no major disruptions to services and the incumbent suppliers' performance remained steady.

- The main transition was completed according to schedule in six months. Keeping ongoing projects on track was a major part of the transition.
- There were nearly 100 of these projects valued at £439 million in development, including several 'mission-critical' projects with tight deadlines such as the Modernising PAYE Processes for Customers, the introduction of the Child Trust Fund, Reform of the Construction Industry Scheme, and Modernising Stamp Duty.
- The transition was helped by the professional working relationship of EDS and Capgemini and the collaborative partnership relationships that the Department fostered. This was supported by the exit clauses the Department had negotiated in the previous contracts which bound EDS to levels of support, assistance and delivery during the transition. EDS also agreed to fund the £65 million pension shortfall of the staff transferring from the previous contract.
- By June 2004 Capgemini had taken over 97 per cent of third-party contracts used by EDS and around 96 per cent of EDS staff, including 80 per cent of the key staff identified, and had filled many of the vacancies of EDS staff leaving at the end of the contract.

National Insurance Recording System (NIRS2) transition

22 The NIRS2 transition was run as a separate project from the main transition with a budget of £16.2 million and involved the transfer of IT data systems from Accenture. This proved more difficult than expected, took longer than planned and cost the Department £3.4 million paid to Accenture to support the transition and £3.4 million paid to Capgemini for transition costs. Accenture were retained by Capgemini as a sub-contractor.

- Under ASPIRE, the Capgemini and Fujitsu consortium took over responsibility for the running of NIRS2 from Accenture in January 2005 which included the re-platforming of the IT system.
- Delays occurred in re-platforming NIRS2 because: Capgemini's transition plans proved to be ambitious given its level of expertise in the design and operation of the system; the structure of the PFI deal with Accenture meant that the degree of collaboration between Accenture and the incoming supplier was initially not as strong as in the main transition, and Accenture's workforce was less willing to transfer to the new supplier.
- The nature of the PFI contract with Accenture meant that the Department had to agree with Accenture exit procedures to disclose key information during due diligence to assist the incoming supplier and the Department had limited in-house knowledge of the IT used in NIRS2. The Department for Work and Pensions also incurred £0.5 million staff and IT costs for the NIRS2 transition. Accenture met its obligations under the agreed exit provisions.
- Capgemini/Fujitsu encountered problems in its first attempt at providing the new IT hardware, operating system and database to support NIRS2. The Department requested changes to Capgemini's plans. Capgemini retained Accenture as a sub-contractor under ASPIRE and rescheduled the work in phases which was completed in September 2005.
- The cost of completing the migration in the deferred timescale was £9.9 million, of which Capgemini/Fujitsu paid for £7.9 million and the Department £2 million. The total costs to the Department to complete re-platforming were £14.9 million. This was within its original estimate of £16.2 million so the Department decided that it was not worthwhile establishing all the causes of failure and attribute them to any party, although it did not accept liability for the costs of any consequential reworking. Although the delays did not affect service delivery, the system was not fully operational until November 2005 and since then the system has performed at improved levels.

Management of the contract

23 An initial view of how the contract is performing was assessed from the performance of the supplier in delivering IT services and progressing the main IT projects supporting the Department's business and change programme, the cost of ASPIRE and the degree to which the Department is acting as an intelligent customer of IT services.

Provision of IT services and delivery of IT projects

24 The new supplier has provided IT services from day one of the contract but since transition there have been some delays and cost increases.

- The performance of IT services is acceptable, although there have been some isolated system failures for which the supplier has paid £2.67 million in penalties in the first contract year.
- Although the new supplier has delivered a number of IT system releases, there have been some delays and cost increases to business-critical projects (for example the Construction Industry Scheme, the Modernisation of PAYE Processes (MPPC), Better Data for corporation tax, on-line services and the External Routing Interface Component for electronic returns by employers). The delays and cost increases are mainly due to the Department changing its requirements and due to the inclusion in project costs of overhead rates previously budgeted for centrally.

ASPIRE Costs

25 The ASPIRE contract has cost more in the first year than the Department originally planned because the Department had increased the volume of work that it required from ASPIRE.

- The Department estimated it would spend £383.8 million (excluding VAT) in the first year of the contract. This was based on the demand for IT services in 2002-03 which was used in the invitation to tender. The expenditure in the first year from July 2004 to June 2005 was £539.3 million (and the Department forecasts expenditure in the second year to be around £800 million).
- The increase in spending on ASPIRE has been due mainly to the 132 per cent rise in spending on projects (an increase of £98 million) and consultancy (an increase of £27 million). The retention of Accenture to provide application development support for NIRS2 has cost £3.24 million in the first year of the contract and is estimated to cost £8.04 million over three years.
- The Department considered that bidders might be deterred by the prospect of taking on nearly 100 existing projects, valued at £439 million, with outputs and timetables they had not planned, so it paid the new supplier for ongoing projects on the terms of the old contract. While this may have helped maintain competition by persuading bidders that a new supplier would not be bound by the existing project delivery plans, it meant for the initial period of the contract, the Department could not benefit from the delivery benefits of the new contract which pays on the basis of performance achieved rather than resources used.

Acting as an intelligent customer

26 The increase in the cost of ASPIRE emphasises the importance of the Department being able to control costs and to ensure value for money from the additional spending. This includes triggers to review the supplier's profit margins to ensure that the Department gets a share of any additional efficiency savings from increased levels of work.

- The Department's higher than expected demand for IT has arisen mainly from the project work involved in developing and enhancing IT systems and significant changes to the Departmental infrastructure.
- The higher than expected demand for IT has generated a higher profit for Capgemini in the first year, likely to be £53.9 million[8] (10 per cent profit margin) compared to the projected profit of £38 million (also with a 10 percent profit margin). The target profit margin was based on 2002-03 levels of IT demand and is around 12.3 per cent which is within the range of PFI deals of between 10 to 17 per cent. As the projected profit margin is lower than the target profit margin, it is unlikely that any profit share will accrue to the Department for the first year.
- If this level of higher spending continues at the same level over the lifetime of the contract, the final cost of the ASPIRE contract could be in excess of £6 billion rather than the originally projected £3-4 billion. But the Department does not expect this level of internal demand for IT services to be sustained. It considers its demand for IT services will decline because of its targets for reducing staff levels by 12,500, an increase in the use of electronic services with a reduction in keyed input and printed outputs, proposals to rationalise IT systems, and its aim to reduce spending on IT to less than 20 per cent of the Department's budget.

8 Based on provisional figures.

- The need to control costs is reinforced by the growth in the Department's demand for IT services under the previous contract which led to increased charges. When the Department awarded the previous contract in 1994 it was valued at £1 billion (which excluded price indexation or growth). By 2000 the Department estimated that it would cost £2 billion taking account of price increases and demand for IT services and the final spending under the contract was £2.5 billion due to the increase in its demand for IT services.
- As the Department's volume of demand for individual IT services increases beyond agreed caps it will obtain discounts on unit price based on economies of scale. However price increases are also possible where the supplier has been unable to avoid extra costs. Some of the thresholds have been exceeded in the first year and the Department has negotiated price changes with Capgemini which resulted in a minor price increase and three significant price reductions.

27 The Department is changing the way it manages the new IT contract which is more focused towards service delivery and productivity. The Department:

- is reviewing the number and kind of performance measures it uses to monitor the contract to identify gaps and improvements and to align measures to business targets and outcomes. There are over 500 performance measures, of which some 200 are key performance indicators and carry service credits for underperformance;
- has recognised that its staff need a better understanding of the new contract and has provided training for staff on how the new contract operates;
- is seeking to reduce the ratio of staff it uses to manage the contract compared to the supplier's staff from 30:70 to 20:80; and
- is collecting information to evaluate the performance of the supplier such as: monitoring progress made on major projects, evaluating performance against a range of targets and reviewing financial statements showing the actual costs and the supplier's profit margin. However it recognises that this needs to be improved to reflect the new contract. The Department has taken 18 months to get an overall view of how the contract is performing and to put into effect the arrangements for managing the contract.

Contract flexibility

28 With effect from 1 April 2006 the Department brought those services previously provided to the former HM Customs and Excise by Fujitsu under the PFI contract into the ASPIRE contract. ASPIRE is now the main contract for the provision of IT services to HM Revenue and Customs.

- When the former HM Customs and Excise renegotiated its PFI contract with Fujitsu in 2003, it considered that its IT infrastructure could be connected to that of the Inland Revenue at no significant additional cost.
- The Department considers that in merging the PFI contract with Fujitsu into the ASPIRE contract the changed contract should provide a lower cost of delivery than having two separate contracts over the lifetime of the ASPIRE contract.

RECOMMENDATIONS

29 The specific recommendations for HM Revenue and Customs which the Department is putting into action are that it should:

a **ensure it has effective governance and performance management systems** which provide a clear view of the contractor's overall performance and inform any negotiations on contract changes.

b **update and rationalise by early 2007 the ASPIRE contract Key Performance Indicators so that they are better aligned to the business of the new Department, focus on the main areas of supplier performance and are output-orientated.**

c **extend the education programme during 2006 to ensure that all key staff in the Department's business areas are trained in how to carry out output-based contract management.**

d **review the priority of its existing projects so that they match the capacity of its own staff and IT suppliers to deliver them** and make progress payments on all projects on the basis of outputs/ outcomes achieved rather than resources used by the supplier.

e **review the expected cost of ASPIRE over the lifetime of the contract using sensitivity analysis to take account of trends in the demand for IT services, price changes and the inclusion of the PFI contract with Fujitsu and monitor the efficiency savings delivered.**

f **ensure the Department has in place robust programme and project management arrangements so that it can extract the best supplier performance from the ASPIRE contract.**

Wider Recommendations

g **Other government departments should learn the lessons from ASPIRE outlined in Part 4 of this report.** To support this, the Office of Government Commerce (OGC), will be working with the National Audit Office and HM Revenue and Customs to produce guidance on lessons learnt from the ASPIRE exercise. Any guidance should cover:

- **the need for departments to review existing contracts** to ensure that they have the necessary provisions to deal with the end of the contract and for managing a transition to a new supplier if the incumbent is not retained;
- **the contract arrangements for initial outsourcing deals that give the best prospect of achieving effective competition when the contract comes to an end;**




- **the use of incentives to encourage other suppliers to compete including the circumstances in which contributions to bidding and transitions costs might be made, and alternatives where they provide better value for money,** for example:
  - solely disregarding transition costs in the evaluations of bids;
  - disregarding transition costs in the bid evaluation and paying a share of transition costs; and
  - disregarding transition costs in the bid evaluation and negotiating a capped budget for transition costs.
  - If transition costs are paid they should be negotiated as part of the deal to maintain competitive tension and the contract should include a trigger which requires the supplier to repay some part of the transition costs where first year profits are higher than expected.
- **the options, use and cost-effectiveness of methods to test bidders' capabilities when there is a well established incumbent supplier.**

h **The Office of Government Commerce should take the lead in coordinating a centralised process to review the number and timing of large government IT contracts which are nearing the end of their term so that re-competitions can be scheduled in a way that stimulates effective competition for each.** The process should involve representatives from departmental procurement and IT strategy teams across government.