

HM Revenue & Customs' estate private finance deal eight years on

Appendix four

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Scope and Methodology

Scope of the study

- 1 This report examines:
 - the performance of the contract – costs of the contract, service delivery and gain sharing (Part 1);
 - the Department's management of accommodation changes – its use of property vacation allowances and inclusion of additional buildings in the contract (Part 2); and
 - the Department's management of contract risks – how it is managing risks from the economic downturn and whether it has an effective partnership with Mapeley (Part 3).
- 2 The National Audit Office (NAO) previously examined the contract in its report *PFI: The STEPS deal* (2004). We examined the Department's progress in implementing recommendations from the 2004 report and subsequent Committee of Public Accounts (PAC) report.
- 3 We used five main methods in researching the report:
 - document review;
 - semi-structured interviews;
 - analysis of financial, estates and cost information;
 - focus group; and
 - review of comparator contracts.

Document review

- 4 We reviewed the contract, contract amendments and other associated documentation to identify the key contractual terms and areas of change. We focused in particular on property vacation clauses, gain-sharing provisions, the performance measurement system, assigned leases and termination of the contract.

5 We reviewed other Departmental documents, including those related to the Estates Consolidation Programme and the Estates Transformation Programme, Internal Audit reports, Board minutes, the Department's work on contractor viability, and reports from external advisers commissioned by the Department. We also reviewed information provided by the Department to the Treasury Select Committee for its hearing on estates management in the Chancellor's departments in June 2008, and files containing correspondence with Mapeley on development gain and deals extending leases.

6 We reviewed NAO publications including:

- *The PRIME project: The transfer of the Department of Social Security estate to the private sector*, HC 370 Session 1998-99, 23 April 1999.
- *PFI: The STEPS deal*, HC 530 Session 2003-04, 7 May 2004.
- *Accommodation services for the Department for Work and Pensions: Transfer of property to the private sector under the expansion of the PRIME Contract*, HC 181 Session 2004-2005, 26 January 2005.
- *A Framework for evaluating the implementation of Private Finance Initiative projects*, May 2006.
- *Improving the efficiency of central government's office property*, HC 8 Session 2007-2008, 28 November 2007.
- *HM Revenue & Customs' transformation programme* HC 930 Session 2007-08, 18 July 2008.

7 We also reviewed the PAC report (*PFI: The STEPS deal*, Twentieth Report of Session 2004-05, 14 June 2005) following the previous NAO study, the Treasury Select Committee report on *The handling of the joint Inland Revenue/Customs & Excise STEPS PFI project* (HC 184 Session 2002-03) and relevant guidance published by the Office of Government Commerce and HM Treasury, Mapeley Annual Reports 2005-2008, and other information supplied by the Mapeley such as the monthly performance report.

Semi-structured Interviews

8 We carried out semi-structured interviews between November 2008 and May 2009 with key members of staff within the Department, Mapeley and other stakeholders across Government as follows:

- **HM Revenue & Customs** – discussions informed all areas of the report. In particular, we focused on the Department's management of the contract, management of the estate and use of vacation allowances, arrangements related to payments and costs, gain sharing mechanisms, partnership, and risks associated with the contract.

- **Mapeley** – we discussed challenges of managing the contract, the level of partnership between Mapeley and the Department, and potential risks to the contract.
- **Office of Government Commerce** – discussions to support our understanding of the wider context in which the contract operates, best practice in contract management, and the performance of the Department in achieving estate-related efficiencies compared to other departments.
- **Operational Efficiency Programme** – to understand the latest thinking on the Government estate.
- **Partnership UK** – to obtain an insight into best practice in using public assets through partnerships between departments and private sector service providers.
- **Department for Work and Pensions** – we discussed the Department for Work and Pensions' estate strategy, strategic management of estate, risk management, partnership with its estate management provider, use of benefit sharing mechanisms, and relationship with the Department as its tenant and its landlord.
- **Serious Organised Crime Agency and Revenue and Customs Prosecution Office** – to discuss the process of de-merging from the Department and potential issues from being the Department's tenant.
- **Department of Health** – we met with the building representative to discuss their experience of being a minor occupier.
- **Northern Ireland Office** – we discussed with the Corporate Services Director key lessons learned from Private Finance Initiative contracts identified when negotiating the Workplace 2010 Northern Ireland estates contract (terminated in February 2009).
- **National Savings and Investments** – we discussed the contract manager lessons learnt from its PFI deal with Siemens including issues around governance, partnership and measuring value for money.

Analysis of financial and estates information

9 We reviewed the amount paid each year to Mapeley, and the Department's estimates of future costs. We compared these figures with the bid model and the model included in the contract.

10 We obtained basic information on the size of the Department's and Valuation Office Agency's estates from the Department's Accommodation Management Information System (ACCOMIS). However, as there are issues with the maintenance of this database, we recreated the starting position from contract documentation.

11 In conjunction with PricewaterhouseCoopers, we built a model to calculate potential savings available under the contract and analysed data on the vacations including:

- the Department's ACCOMIS database;
- the Department's records of space vacated;
- the Department's plans to vacate space under its Estates Consolidation Programme; and
- the Department's records of savings achieved under its Spending Review 2004 targets.

12 Other analysed data included:

- refinancing credit notes received by the Department; and
- calculations of development gain.

13 The Department provided and validated these documents.

Focus Group

14 We held a focus group in April 2009 at the NAO, facilitated by representatives of PricewaterhouseCoopers. The attendees were:

Organisation	Position	Links to Study
Mapeley	Head of Contract Management	Responsible for day to day liaison with the Department on contractual issues and provision of services.
HM Revenue & Customs	Property Manager	STEPS contract Management Team.
HM Revenue & Customs	Regulatory Affairs Manager	Responsible for liaising with our study team.
HM Revenue & Customs	Data and Performance Manager	Responsible for managing data for estates.
HM Revenue & Customs	Estate Consolidation Programme Manager	Responsible for the Estates Consolidation Programme.

15 The objectives were to consider a number of themes arising from our review, to identify opportunities to improve effectiveness of the partnership, and to discuss possible practical and constructive recommendations. We covered three areas: strategic alignment, innovation, and managing risk. Open and informal discussion during these sessions contributed to achieving the objectives, and fed into the overall findings and recommendations.

Use of external expertise

16 We engaged one of our strategic partners, PricewaterhouseCoopers (PwC), to enhance our team with external expertise and commercial experience. It carried out the work between December 2008 and May 2009. This work included:

- review of the contract and associated documentation to identify areas that enabled adaptation to change, and elements of good practice that may be applicable to other departments setting up long term service contracts;
- creation of a model to assess the vacations provisions, potential savings and the savings the Department has achieved;
- an assessment of the Department's understanding of the risks to Mapeley;
- analysis of gain-sharing provisions through an assessment of the benefit Mapeley is deriving from changes in ownership, refinancing, and selling property, and if the Department has shared in this benefit appropriately; and
- an assessment of the impact of Mapeley's corporate structure on tax payable.

Review of comparator contracts

17 To understand the wider context of the property management Private Finance Initiative market, we compared the contract to key public sector comparators: the Department for Work and Pensions' PRIME contract, National Savings, and the Northern Ireland Office Workspace 2010 Project (terminated in February 2009). PwC also compared aspects such as management of the estate, dealing with major events, use of gain-sharing mechanisms, managing key risks, and estate efficiency with private sector comparators such as Abbey and Aviva.