National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Managing and replacing the Aspire contract

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Key facts

£813m
average amount HMRC spent each year on the Aspire contract, July 2004 to March 2014

£506bn
amount HMRC collected in tax receipts, 2013-14

30%
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.