National Audit Office

Memorandum
for the House of Commons
Committee of Public Accounts

HM Revenue & Customs

Replacing the Aspire contract

JUNE 2016

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Contents

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Summary

1 In 2014, the previous Committee of Public Accounts (the Committee) examined HM Revenue & Customs' (HMRC's) management and early preparations for the replacement of its long-running contract for IT services with Capgemini, known as Aspire. The purpose of this memorandum is to provide an agreed factual update to support the Committee in examining HMRC's progress in replacing Aspire since then. In preparing this memorandum, we have not sought to evaluate HMRC's approach or to draw conclusions.

2 Key facts and events:

a In replacing its Aspire contract, which has cost around £700 million a year, **HMRC is seeking to take greater control of its IT services, make efficiency savings and enable wider transformation** (paragraphs 1.4 and 1.5).

b HMRC calculates that its programme to replace Aspire – called Columbus – will deliver **recurring savings of around £200 million a year (around 25%)**. The **programme has a budget of £700 million** (paragraphs 3.8 and 3.9).

c When HMRC appeared before the Committee in March 2015 it was **not planning to extend Aspire but replace it in phases**. Since then HMRC has developed its approach through business cases which have changed the nature and timing of the phases. HMRC believes a phased approach reduces technical and operational risk and gives it the continuity it needs to carry out its transformation plans, protect tax revenue and maintain customer service standards. The last phase of the replacement is now due to be completed in 2020 (paragraphs 1.7, 1.8 and 2.2 to 2.4).

d In the last 18 months, HMRC has taken important steps forward to replacing Aspire:

- **i** In January 2015, **HMRC took over the contractual management of the two main subcontractors** from Capgemini, following an agreement reached in January 2012 (paragraph 2.8).

- **ii** In August 2015 and March 2016, **HMRC announced agreements to extend some Aspire services beyond the contract's June 2017 end date, bring others in-house before then and re-procure others with replacement services starting in July 2017** (paragraphs 2.3, 2.9 and 2.11).

iii In December 2015, **HMRC completed the first phase of its exit from Aspire when 228 supplier staff and contractors transferred to a newly created government company** to help HMRC run three former Aspire services (paragraph 2.10).

iv HMRC has **appointed permanent staff to 18 of the 20 senior IT posts** it was seeking to fill (paragraph 4.5).

e Leading up to the final phase of the Aspire contract, HMRC has further important activities to complete. HMRC needs to:

i **Determine the IT model it will adopt from 2020 onwards,** and make the commercial and operational changes necessary to implement that model (paragraph 2.13).

ii **Build the range of commercial and IT capability and capacity** needed to replace Aspire while managing its other IT change programmes and business as usual (paragraphs 4.5 to 4.7 and 4.10).

iii **Close its IT skills gap.** HMRC has identified a 25% gap in the skills of its IT workforce (paragraph 4.5).

Part One

Introduction

1.1 This part sets out:

- the purpose of this memorandum;
- the reasons why HM Revenue & Customs (HMRC) is replacing Aspire; and
- the views of the previous Committee of Public Accounts (the Committee) when it considered Aspire in 2014-15.

The purpose of this memorandum

1.2 This memorandum has been prepared to support the Committee in considering HMRC's approach to replacing its contract for IT services with Capgemini, known as Aspire.[1] In this memorandum, we set out HMRC's approach, its business cases and the risks it has to manage. We have not sought to evaluate HMRC's approach or progress, and therefore this memorandum does not draw conclusions.

1.3 In preparing this memorandum, we interviewed HMRC staff and examined HMRC papers. At HMRC's request, we have not included material that it considers commercially sensitive and that could have a negative impact on the agreements it is finalising with its suppliers or the services they provide.

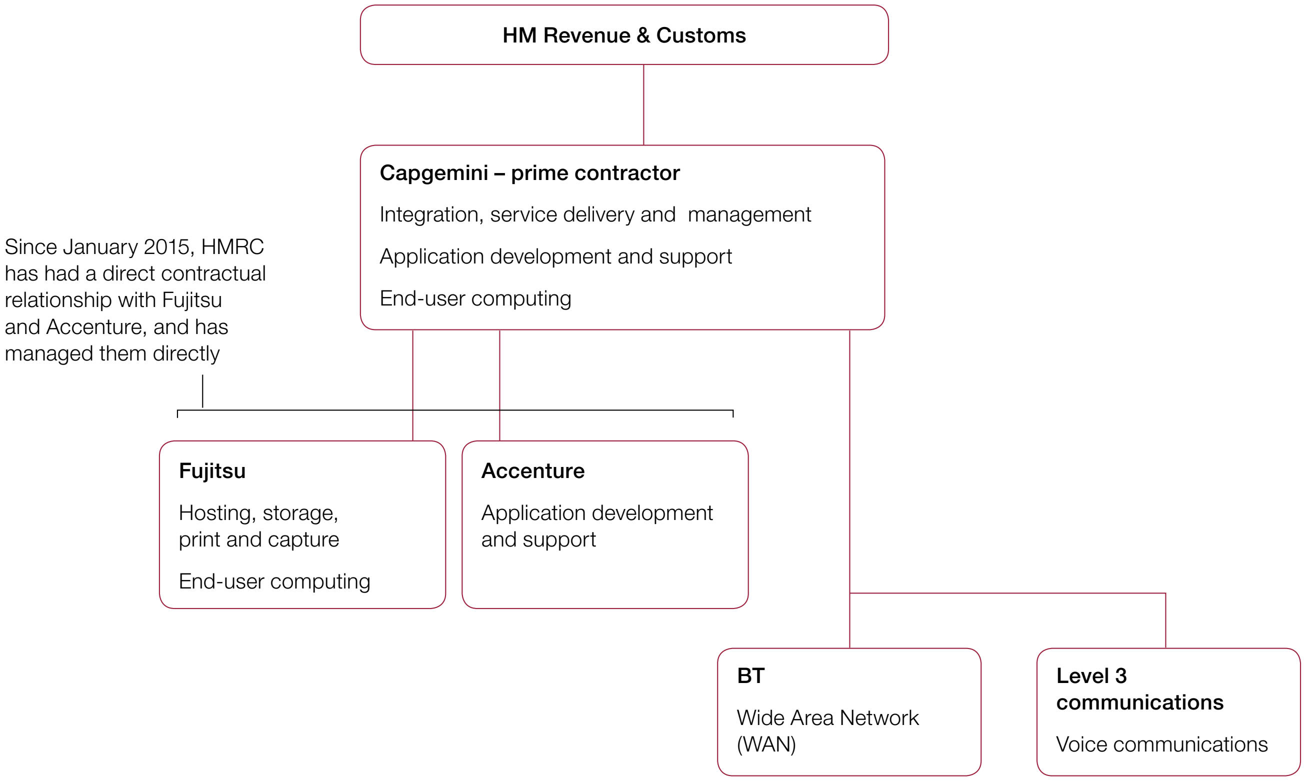
HMRC wants to take greater control of its IT by replacing Aspire

1.4 HMRC has a large IT estate. Most of this has been provided through the Aspire contract, which HMRC let to Capgemini in 2004 (**Figure 1**). HMRC's IT enables it to collect over £500 billion of tax revenue each year. Aspire has been the government's largest IT contract, costing around £10 billion over the 13 years to 2017.[2] Between April 2006 and March 2014, Aspire accounted for about 84% of HMRC's total spending on technology. The Aspire contract has provided stable but expensive IT systems. The contract has contributed to HMRC's technology becoming out of date. HMRC is now replacing Aspire so that it can take greater control over how its IT is developed and provided.

1 Aspire stands for Acquiring Strategic Partners for the Inland Revenue. The original contract was with the Inland Revenue. The Inland Revenue and HM Customs & Excise merged in 2005, and the latter's IT services contract was incorporated within Aspire in April 2006.

2 Spend was around £700 million in 2014-15. In previous years it had been higher at around £800 million.

Figure 1
Structure of the Aspire contract and supply chain up to the end of 2014



Source: Comptroller and Auditor General, *Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014

1.5 Replacing Aspire is integral to HMRC's wider transformation. HMRC aims to make better use of digital technology and information to make its tax services more effective, more efficient and easier for taxpayers to use. By 2020, it plans to have moved to a fully digital tax system where taxpayers spend less time providing HMRC with information, experience less delay and have access to digital accounts.

1.6 HMRC's commercial strategy is to work with more IT suppliers, including small and medium-sized enterprises. It will let shorter, more flexible, contracts and avoid extending contracts wherever possible. This strategy is consistent with Cabinet Office policy, which strongly advocates that departments should move away from large, long-term contracts with prime suppliers.[3]

3 In March 2011, the Cabinet Office issued *Government ICT strategy*, which sought to end large technology contracts and introduce smaller and shorter contracts.

The previous Committee was concerned about HMRC's plans to replace Aspire and its progress

1.7 In January 2015, the previous Committee reported that the Aspire contract had provided stability but HMRC had not managed the costs of the contract well.[4] The Committee was concerned about HMRC's progress in preparing to replace Aspire, which was due to end in June 2017. The Committee found that changing to a new IT model required HMRC to:

- manage risks to tax collection and customer service;
- ensure long-term objectives are articulated and supported; and
- acquire the necessary commercial, technical and operational skills (**Figure 2**).

Figure 2
Summary of recommendations made by the previous Committee in its 2015 report

1 HMRC needs to develop a coherent **business case**, setting out the commercial and operational model it will deploy to replace the Aspire contract.

2 HMRC should identify the **key risks to tax collection and customer service**, both during transition and once operating its new model, and develop a strategy to mitigate them.

3 HMRC should take a consistent, **whole-life approach to costs and benefits** in both its commercial negotiations and in its management of contracts, so that its long-term objectives for tax collection are properly supported.

4 HMRC must produce a realistic plan setting out how it will recruit the necessary **commercial, technical and operational skills**, and act with pace to implement it.

5 HMRC and the Cabinet Office should jointly agree key milestones and warning flags leading up to the end of the contract in June 2017, with **contingency plans** that manage the risks to value for money should these milestones be missed.

6 The Cabinet Office needs to help HMRC build the commercial and technical capability it needs, playing a **strong coordinating role for government** by working with suppliers and managing the market.

Note

1 Appendix Two sets out the Committee's recommendations in full and HMRC's response.

Source: National Audit Office

4 HC Committee of Public Accounts, *Managing and replacing the Aspire contract*, Thirtieth Report of Session 2014-15, HC 705, January 2015.

1.8 The previous Committee followed up on these issues when it recalled HMRC to discuss Aspire in March 2015. HMRC was unable to give details on its preferred approach to replacing the Aspire contract at that hearing, as it did not have an agreed business case and was in negotiations with its suppliers. However, it did say that it expected that replacing Aspire would reduce its IT costs by at least a quarter.[5] In March 2016, HMRC announced that it had reached agreements with the two main Aspire suppliers that together account for around 85% of HMRC's spending on Aspire services. HMRC said the agreements would lead to the end of the Aspire contract, but with some services extended to 2020.[6]

The structure of this memorandum

1.9 The remaining parts of this memorandum set out:

- the approach HMRC has now established for replacing Aspire (Part Two);
- HMRC's business case for replacing Aspire (Part Three); and
- the risks HMRC has to manage in replacing Aspire (Part Four).

5 HC Committee of Public Accounts, *Oral evidence: managing and replacing the Aspire contract – recall*, HC 1122, 16 March 2015, Q62.

6 HM Revenue & Customs, "HMRC announces agreement to exit its £10 billion IT contract", press release, 30 March 2016, available at: www.mynewsdesk.com/uk/hm-revenue-customs-hmrc/pressreleases/hmrc-announces-agreement-to-exit-its-ps10-billion-it-contract-1356780. HM Revenue & Customs plans to announce how it will exit from the services provided by the third largest supplier – Accenture – in June 2016.

Part Two

HMRC's approach to replacing the Aspire contract

2.1 This part sets out HM Revenue & Customs' (HMRC's) approach for replacing the Aspire contract which was due to end in June 2017. HMRC is taking a phased approach that will see it replace Aspire in stages between 2015 and 2020. This part also explains the main steps HMRC has taken so far to replace Aspire.

HMRC is replacing Aspire over the period 2015 to 2020, by extending some services, reletting others and bringing some in-house before the 2017 contract end date

2.2 HMRC's initial plan was to replace all Aspire services by June 2017. When we last reported on Aspire in July 2014, HMRC was at an early stage of designing its approach to replacing the contract and had not undertaken a full options appraisal.[7] Its initial plan was to replace the Aspire contract by June 2017, obtaining the replacement services by running a series of procurement exercises starting in July 2015.

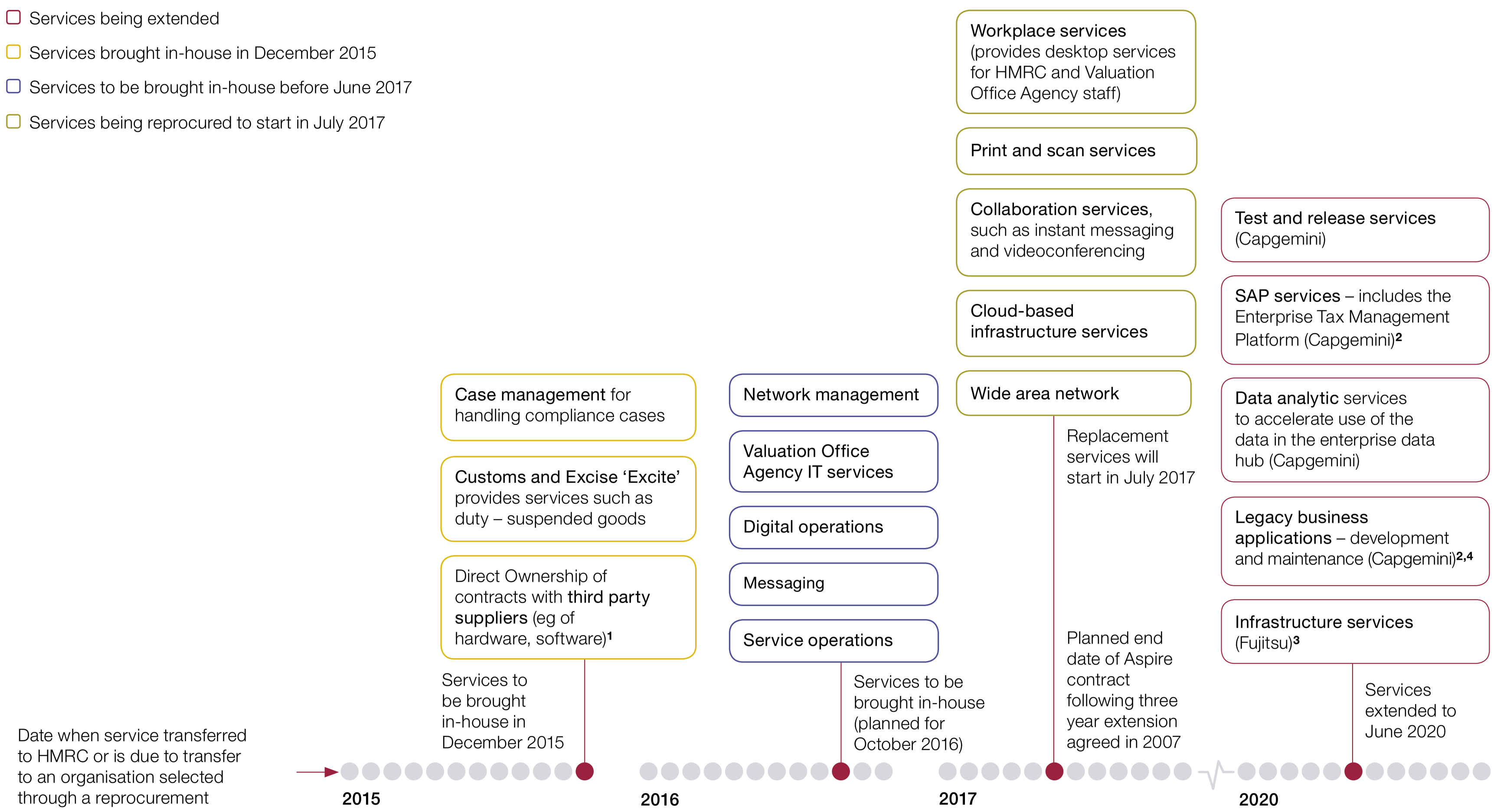
2.3 HMRC is now planning to replace Aspire in phases over the period 2015 to 2020. In March 2015, HMRC told the previous Committee it would replace Aspire in phases.[8] It has now agreed on those phases for the services provided by the two main Aspire suppliers – Capgemini and Fujitsu. It will procure replacements for five Aspire services currently provided by these suppliers by 2017. Another five services will remain with these Aspire suppliers until 2020. HMRC is also bringing eight services in-house before June 2017, along with some of the suppliers' staff to run those services (**Figure 3**). HMRC plans to announce how it will exit from the services provided by the third largest supplier – Accenture – in June 2016.

7 Comptroller and Auditor General, *Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014.
8 HC Committee of Public Accounts, *Oral evidence: managing and replacing the Aspire contract – recall*, HC 1122, 16 March 2015, Q10.

Figure 3

HMRC's plans for the Aspire services provided by the two main suppliers – Capgemini and Fujitsu

Aspire services are now ending in phases – before, on and after the planned contract end date of June 2017



Notes

1 Further third party contracts are planned to be in-sourced in October 16.

2 This service includes some functions of strategy, architecture and IT integration.

3 For Fujitsu infrastructure, HMRC is only extending a minority of the service.

4 HMRC intends to de-commission legacy applications during the term of contract extension.

Source: National Audit Office presentation of HM Revenue & Customs material

2.4 HMRC's phased approach reduces the amount of change it has to manage in the period up to the planned contract end date in June 2017, and thus the technical and operational risks it faces. HMRC judges that keeping some IT services with current suppliers will have three important benefits:

a HMRC will be better placed to achieve commitments it made in summer budget 2015 and spending review 2015 to increase tax and make savings. For example, HMRC's commitments under spending review 2015 include making sustainable annual savings of £717 million by 2020, and collecting additional tax revenue of around £1,000 million by 2020-21. The savings and tax revenue are due to come from HMRC implementing initiatives that depend on the continuity of its IT systems.

b Service continuity will reduce the risks to tax collection and customer service that arise from replacing Aspire.

c HMRC will be able to focus its internal IT capacity on: procuring the Aspire services it is reletting to start in July 2017; managing and transforming the Aspire services that it is bringing in-house; and considering by 2017-18 the options for IT provision from 2020.

2.5 HMRC initially planned to end all Aspire services by June 2017 but changed its approach when Capgemini's negotiating position was strengthened by IT deals being struck by other public bodies. In December 2014, HMRC reached a non-binding agreement with Capgemini. The agreement would have seen HMRC exit from all Aspire services by June 2017. HMRC would have brought some services in-house in a number of phases before the end of the contract and re-procured other services to start in July 2017. This agreement was consistent with the Cabinet Office 'red lines' for IT contracts, which said the government would not extend existing contracts without a compelling case.[9]

2.6 By February 2015, HMRC was in the process of agreeing with Capgemini the contract changes necessary to formalise their agreement. At this point, another government department announced it was planning to extend its IT contract with its prime supplier.[10] Capgemini considered that this extension, combined with other public bodies planning to extend their IT contracts, meant that the government had changed its position on extensions. Capgemini argued that the December 2014 agreement with HMRC no longer represented a balanced settlement. Capgemini therefore pushed for contract extensions for some Aspire services as a condition of agreeing to other services being transferred to HMRC before the end of the Aspire contract.

9 Cabinet Office, "Government draws the line on bloated and wasteful IT contracts", press release, 24 January 2014, available at: www.gov.uk/government/news/government-draws-the-line-on-bloated-and-wasteful-it-contracts

10 The Department for Work & Pensions worked with the Cabinet Office and the Legal and Crown Representative for Hewlett Packard Enterprise, to consider how it could facilitate the transition and exit from its Standard Services Business Allocation Hosting contract which was due to expire on 23 February 2015. It became clear to the Department for Work & Pensions during those joint discussions that in order to facilitate the exit, it would need to consider a variation to the contract to enable a controlled disaggregation of the Hosting Services. Through the period covered by the variation – 24 February 2015 to February 2018 – the Department for Work & Pensions aims to disaggregate the contracted services without disruption to business or critical delivery services.

By April 2016, HMRC had taken important steps towards replacing the Aspire contract

2.7 HMRC took the first step to replacing Aspire in 2012, five years before the contract was due to end. In March 2016, HMRC agreed contract changes with the two main Aspire suppliers.[11] The changes will enable HMRC to replace Aspire in phases. **Figure 4** on pages 14 and 15 sets out the major events that have, or will now, take place over the period to 2020. These include HMRC:

- taking over the contractual relationship and direct management of the two main Aspire subcontractors at the start of 2015;
- bringing in-house three Aspire services at the end of 2015;
- establishing a new government company; and
- negotiating contractual terms with the two main Aspire suppliers for services being extended beyond June 2017 and for other services being brought in-house before then.

2.8 Following an agreement made in January 2012, HMRC took over the contractual relationship and direct management of the two main Aspire subcontractors in January 2015. In 2011-12, HMRC began a fourth major renegotiation of the Aspire contract with Capgemini. Through these negotiations, HMRC wished to gain the right to manage the services provided by the two main Aspire subcontractors. This was so it could improve its understanding of the services they provided, and thus put it in a better place to re-compete those services at the end of the Aspire contract. By January 2012, HMRC had reached a non-binding agreement with Capgemini to take control of the subcontractors, but HMRC then made limited progress in formalising that agreement. At a session of the previous Committee in October 2014, HMRC committed to completing negotiations by the end of 2014. Following this hearing, an intense period of negotiations took place. As a result, the subcontracts with Fujitsu and Accenture, with a total value of around £250 million a year, were novated from Capgemini to HMRC on 1 January 2015.

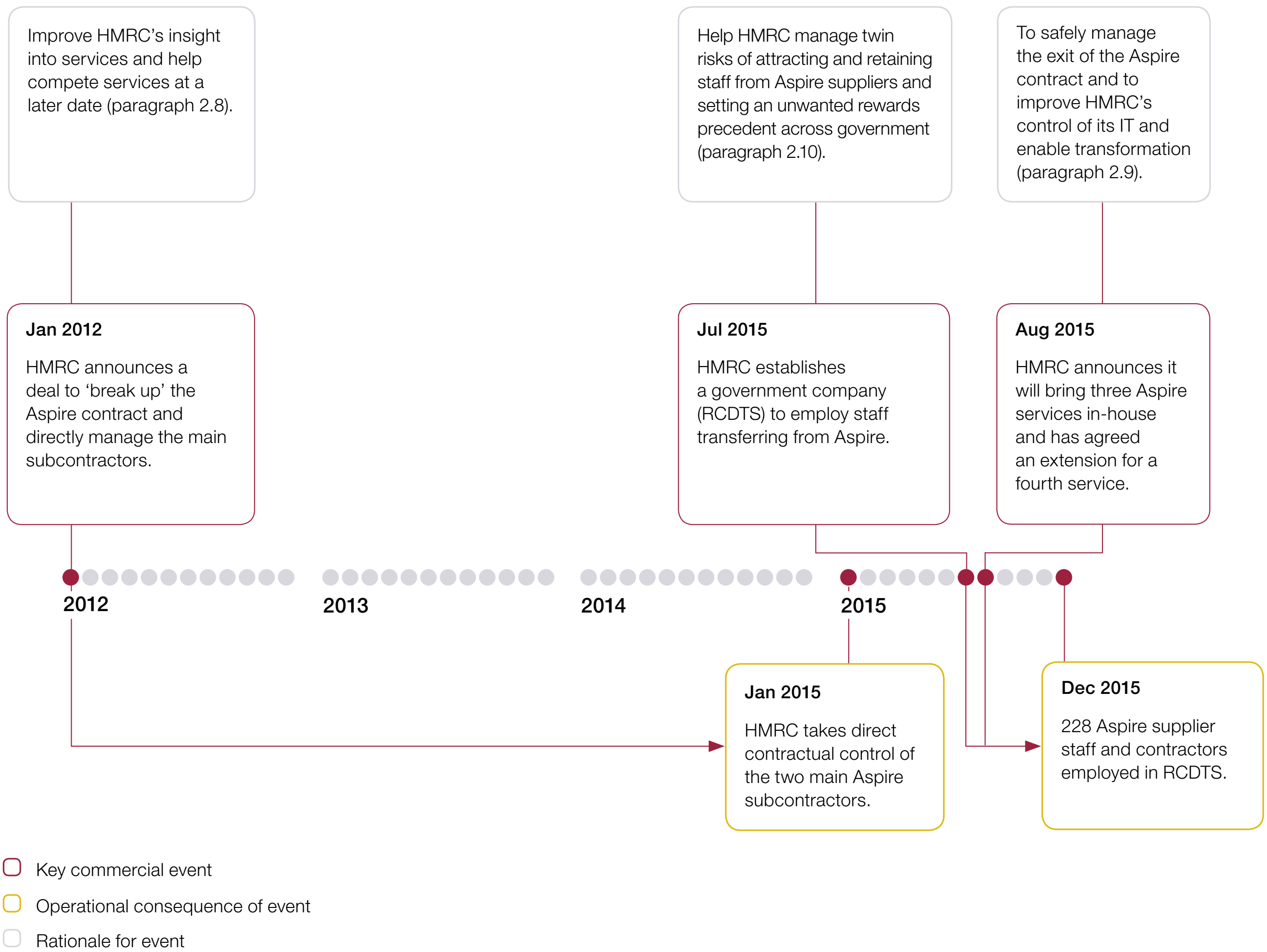
2.9 In December 2015, HMRC brought three Aspire services in-house. The insourcing was part of an agreement HMRC announced in August 2015. The agreement also included HMRC extending the Aspire contract for one service provided by Capgemini to 2020.[12] The August 2015 agreement was the first of a series of agreements that HMRC is reaching with suppliers to exit from Aspire.

11 HM Revenue & Customs, "HMRC announces agreement to exit its £10 billion IT contract", press release, 30 March 2016, available at: www.mynewsdesk.com/uk/hm-revenue-customs-hmrc/pressreleases/hmrc-announces-agreement-to-exit-its-ps10-billion-it-contract-1356780

12 HM Revenue & Customs press release, available at: www.gov.uk/government/news/hmrc-takes-next-step-towards-creating-a-digital-future-for-taxpayers, 5 August 2015.

Figure 4

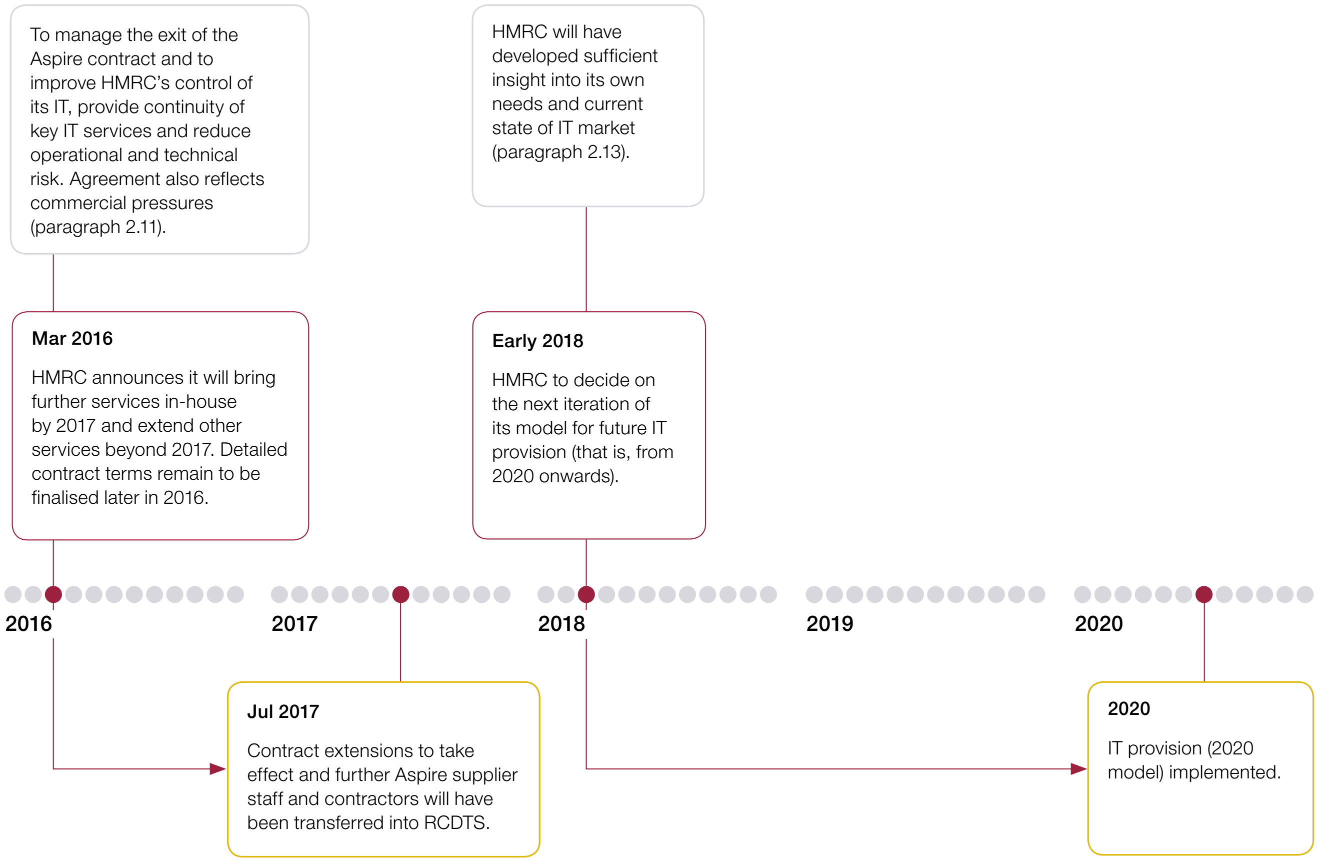
Major commercial and operational events and planned events in the replacement of the Aspire contract between 2012 and 2020



Note

1 RCDTS = Revenue & Customs Digital Technology Services.

Source: National Audit Office summary of HM Revenue & Customs' documents


To manage the exit of the Aspire contract and to improve HMRC's control of its IT, provide continuity of key IT services and reduce operational and technical risk. Agreement also reflects commercial pressures (paragraph 2.11).
Mar 2016
HMRC announces it will bring further services in-house by 2017 and extend other services beyond 2017. Detailed contract terms remain to be finalised later in 2016.
HMRC will have developed sufficient insight into its own needs and current state of IT market (paragraph 2.13).
Early 2018
HMRC to decide on the next iteration of its model for future IT provision (that is, from 2020 onwards).
2016
2017
2018
2019
2020
Jul 2017
Contract extensions to take effect and further Aspire supplier staff and contractors will have been transferred into RCDTS.
2020
IT provision (2020 model) implemented.

2.10 HMRC has created a government company to employ staff transferring from Aspire suppliers. During 2015, HMRC created Revenue & Customs Digital Technology Services (RCDTS). RCDTS – rather than HMRC – employs the people transferring from Aspire suppliers to provide the services HMRC is bringing in-house, including 228 staff and contractors that transferred in December 2015 (**Figure 5**).[13] HMRC considered that creating a government company was the best way of managing two risks:

a HMRC needs to ensure that it can attract and then retain enough Capgemini staff to run the transferred services. HMRC judges that Capgemini staff have marketable skills on legacy IT systems, which makes them both attractive to other employers and difficult to replace. HMRC must therefore offer these staff a sufficiently attractive reward package.

b HMRC needs to reduce the risk that offering a sufficiently attractive package to Capgemini staff might set a precedent across government. Private sector staff typically have a different reward package to civil servants, with a greater focus on base pay over pension provision. HMRC assesses that on average Capgemini's staff earn more than HMRC's existing IT staff, but when all aspects of remuneration are considered the total packages are broadly similar.

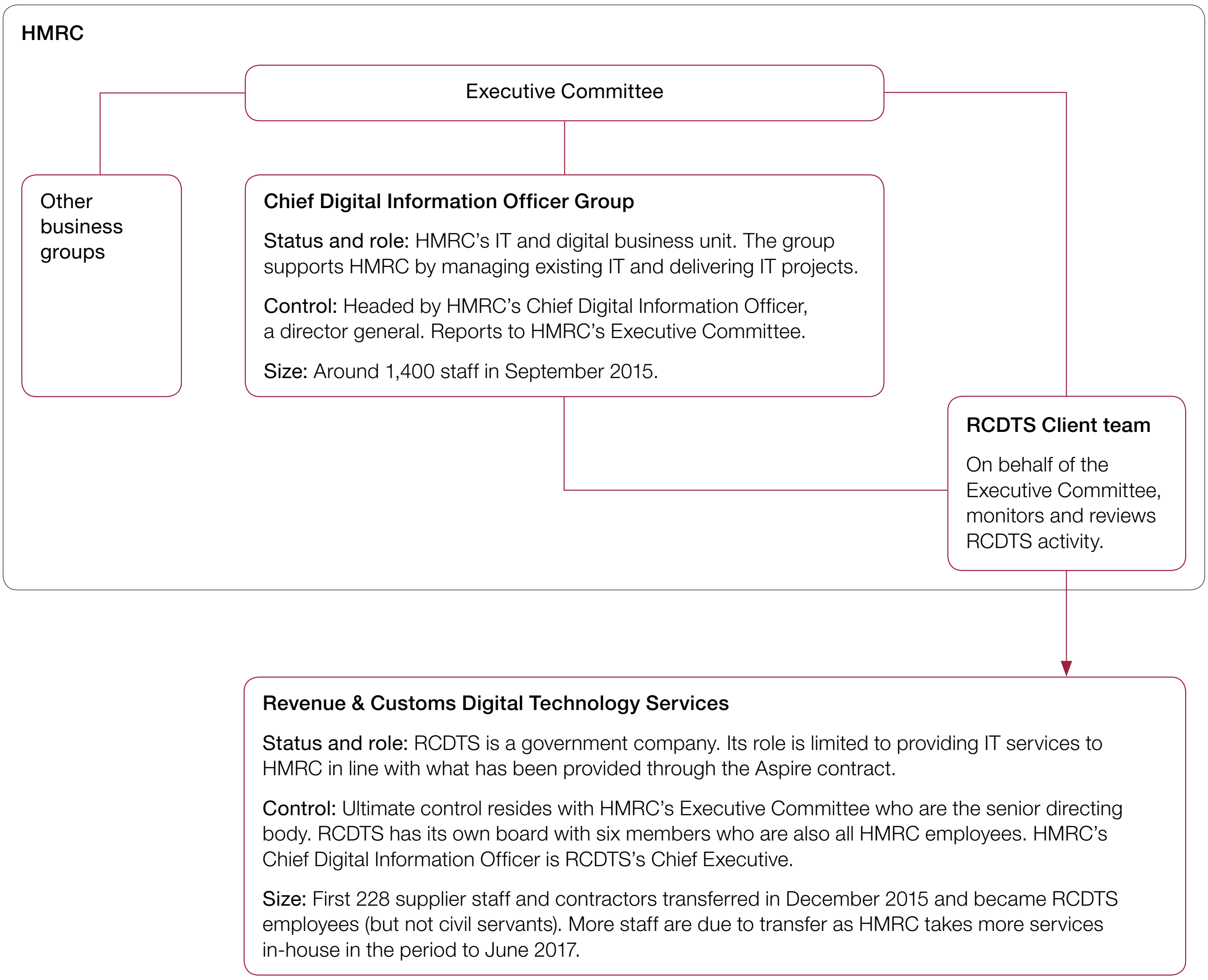
2.11 In March 2016, HMRC reached agreements with Capgemini and Fujitsu on the Aspire services they provide which were not covered by the August 2015 announcement (paragraph 2.9). HMRC agreed contract changes with these two Aspire suppliers and now plans to finalise all contractual terms by September 2016. The contract changes include some services passing to HMRC before the planned contract end date of June 2017 and others being extended beyond that date. As these changes were negotiated as part of a wider package of changes to existing contacts, HMRC did not compete the service extensions. HMRC considers that some of the contractual changes it is seeking will help it secure improved value for money from the extended services.

2.12 The actions HMRC has taken to date to replace the Aspire contract will lead to a different model of IT provision. HMRC forecasts that the model will reduce the cost of providing existing IT services. In the period to 2020-21, an increasing proportion of HMRC's spending on existing IT services is likely to go on services it provides in-house.

13 In February 2015, HMRC had brought in-house a non-Aspire service from Capgemini, along with 20 supplier staff. This insourcing has informed the approach HMRC has adopted for insourcing Aspire services.

Figure 5

Overview of Revenue & Customs Digital Technology Services (RCDTS), its relationship with HMRC and HMRC's internal IT group



Source: National Audit Office presentation of material from HM Revenue & Customs and Companies House

In 2017-18, HMRC will decide on the IT model it will operate from 2020

2.13 In 2017-18, HMRC will decide on how its operating and commercial model for IT services should evolve, and thus the IT services it should operate from 2020. HMRC will take account of what it needs to do with extended services and its plans to transform and provide a fully digital tax system by 2020. It will also take account of developments in both the IT market and technology, which should provide it with a different choice of options. HMRC expects to be better placed to reach decisions in 2017-18 as it should have better information on these factors, and also a better understanding of its existing IT.

Part Three

HMRC's business case for replacing Aspire

3.1 This part sets out how HM Revenue & Customs' (HMRC's) preferred option for replacing Aspire evolved through three business cases it prepared from November 2014. It also summarises the main savings HMRC plans to make, and the main costs it expects to incur, in replacing Aspire.

Since November 2014, HMRC has prepared three business cases setting down different preferred options for replacing Aspire

3.2 During 2014, HMRC created a separate programme for replacing Aspire. At the start of 2014, HMRC had a single programme covering both the replacement of Aspire, and the planned transformation of its IT applications, infrastructure and desktops. By the end of 2014, HMRC had narrowed the scope of this programme to focus on the replacement of the Aspire contract. The programme – now called Columbus – is responsible for identifying how to replace Aspire and then managing that replacement. The scope of the Columbus programme has not changed since the end of 2014.

3.3 HMRC's proposed approach for replacing Aspire changed during 2015. Between November 2014 and November 2015, the Columbus programme prepared three business cases for replacing Aspire. In the first business case, HMRC was proposing to exit from all Aspire services by June 2017. As part of this plan, HMRC proposed bringing in-house up to 3,100 staff from Aspire suppliers. This was to happen in several phases in the period up to June 2017. HMRC was also planning to run re-procurements so that it could replace the other Aspire services at the end of the contract. As a result of negotiations with its Aspire partners, a wider government review of its business case, and the importance of maintaining IT continuity to deliver its commitments under spending review 2015, HMRC revised its approach to the one it is now implementing. This keeps some services with the existing Aspire suppliers to 2020, increases the number of services being re-procured and reduces the services HMRC will bring in-house. **Figure 6** on pages 20 and 21 summarises each of HMRC's business cases and the main events that contributed to changes in HMRC's preferred options.

Figure 6

Evolution of HMRC's business case for replacing the Aspire contract, November 2014 to February 2016

Business cases

November 2014

Summary of preferred option
Phased exit from Aspire through partial insourcing over the period 2015 to 2017, followed by selective re-procurement from 2017.

Contract extensions
None.

Degree of insourcing
3,100 staff to be insourced by 2017.

Net present value
£372 million.

Programme cost
£563 million.

May 2015

Summary of preferred option
Phased exit from Aspire through partial insourcing over the period 2015 to 2017, partial contract extensions to 2020, with selective re-procurement from 2017.

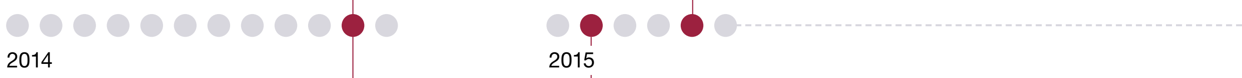
Contract extensions
Three services to be extended, one for three years, one for two years and the other for a single year.

Degree of insourcing
3,100 staff to be insourced by 2017.

Plans include HMRC and Capgemini reaching a series of staggered agreements covering different services to be insourced early from Capgemini as part of the phased exit of Aspire.

Net present value
£492 million.

Programme cost
£557 million.



Key events affecting business case and preferred option

November 2014

HMRC splits the combined business case for replacing the Aspire contract and IT transformation activities into separate cases (paragraph 3.2).

February 2015

A government department announces the extension of its IT contract with its prime supplier. Capgemini asserts that it is aware that other public bodies also plan to extend their IT contracts and considers that the UK government has changed its position. Capgemini negotiates for extensions to some Aspire services in return for transferring other services to HMRC before the end of the Aspire contract (paragraphs 2.5 and 2.6).

November 2015

Summary of preferred option
Phased exit from Aspire through a combination of partial insourcing from 2015 to 2017, and partial re-procurements and contract extensions from 2017.

Contract extensions
Six services to be extended for three years.

Degree of insourcing
Number of staff to be insourced to be determined but will be much lower than under the May 2015 business case.

HMRC and Capgemini to reach one further agreement (additional to the August 2015 agreement – paragraph 2.10) covering all remaining services to be insourced from Capgemini.

Net present value
£233 million to £374 million.

Programme cost
£654 million to £694 million.

2015

2016

July 2015

The Government considers HMRC's May 2015 business case. Ministers approve the first stage of insourcing, including 228 staff, but require HMRC to return with different options for the remaining stages.

August 2015

HMRC and Capgemini announce deal for three Aspire services to be transferred to HMRC from December 2015 and one other service to be extended to 2020 (paragraph 2.9).

August 2015

Capgemini asserts that negotiating a series of staggered agreements for the remaining Aspire services (as HMRC had planned) has caused staff uncertainty and led to attrition. Capgemini negotiates for a single agreement covering all remaining Aspire services.

November 2015

HMRC's spending review settlement requires it to make savings and increase tax revenue through initiatives that depend on the continuity of underlying IT systems (paragraph 2.4).

February 2016

Ministers approve November 2015 business case.

Notes

1 HMRC also prepared a business case earlier in 2014 which covered both the transition of services from Aspire and the longer-term transformation of those services. In November 2014, HMRC separated these into independent but related business cases.

2 The numbers of extended services shown here cover all Aspire services and thus are different from those shown in Figure 3.

Source: National Audit Office summary of HM Revenue & Customs' documents

3.4 The critical success factors HMRC used to appraise options for replacing Aspire addressed the issues that were of most concern to the previous Committee. HMRC established seven critical success factors in 2014. The factors included service continuity, HMRC's capacity and value for money. Therefore, the factors addressed the main risks and issues of concern to the previous Committee when it examined Aspire in 2014-15. **Figure 7** summarises HMRC's assessment of the main options it considered for replacing Aspire in May 2015.

HMRC forecasts that replacing Aspire will cost up to £700 million but will deliver recurring savings

3.5 HMRC calculates that its preferred approach to replacing Aspire has a net present value of between £233 million and £374 million (Figure 8). The costs HMRC will incur in replacing Aspire, and the resulting reductions in its annual IT costs, will in part, depend on the operating and commercial model HMRC puts in place for 2020-21 (paragraph 2.13). HMRC plans to take decisions on the model during 2017-18.

Figure 7

HMRC's assessment of the main options it considered for replacing Aspire in its May 2015 business case

	Option	Assessment
a	Multi-source IT services at the end of the Aspire contract in 2017.	Rejected because it was a poor strategic fit and would not meet HMRC's investment objectives, as it would not enable HMRC to transform its IT services.
b	Terminate Aspire for convenience in 2015 and insource IT services, followed by selective re-procurement.	Made the shortlist as it supported HMRC's strategic objective of transformation. However, it would have tested HMRC's capability and required an aggressive timeline for terminating the Aspire contract. There were also questions about the affordability of compensation payments to Aspire suppliers.
c	Insource IT services at the end of the Aspire contract in 2017 followed by selective re-procurement and IT transformation.	Made the shortlist. Limited strategic fit, as both transformation and compliance with government policy on procurement would be delayed until 2017. Option scored well on achievability.
d	Phased exit of Aspire through insourcing and partial contract extensions between 2015 to 2020, followed by selective re-procurement from 2017.[2]	Preferred option as it was assessed as 'medium fit' against each of the critical success factors. Option subsequently developed in HMRC's November 2015 business case.
e	'Do minimum' option of extending the existing Aspire contract for up to five more years from 2017.	Option rejected on grounds of value for money and poor strategic fit as it did not meet government policy on procurement and would not enable HMRC to transform its IT.

Notes

1 The critical success factors used by HMRC were: strategic fit, both with HMRC's strategy and with wider government objectives, in particular Cabinet Office policy on IT contracts; continuity of services, with at a minimum no decline in service quality for customers; value for money; affordability; resource availability; and the capacity of suppliers and HMRC to deliver the proposed solution.

2 HMRC's November 2015 business case further developed option **d** rather than undertaking a further detailed options analysis.

Source: National Audit Office summary of HM Revenue & Customs' documents

Figure 8

Summary of HMRC's estimates of the costs and savings from replacing Aspire in the period 2014-15 to 2021-22

	Present value of the IT model yielding the smallest return (£m)		Present value of the IT model yielding the largest return (£m)	
Savings in annual IT costs				
Removing supplier profit margins and overheads on services being brought in-house, and reducing margins on other services from contract changes	635		708	
Improving the way IT services are organised and delivered	226		262	
Other	1		(2)	
Total savings		**862**		**968**
Cost of the programme				
Resource costs	(551)		(517)	
Capital costs	(59)		(59)	
Total costs		**(610)**		**(576)**
Risk adjustment[3]		(18)		(18)
Net present value		**233**		**374**

Notes

1 HMRC adjusted both savings and costs for optimism bias.

2 As this table shows present values, the values for programme costs differ from the cash values stated in paragraph 3.9.

3 Risk adjustment is for risks retained by HMRC on pension costs and data security.

4 Individual entries may not sum to totals due to rounding.

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

3.6 HMRC's current approach to replacing Aspire has a smaller net present value than other options but HMRC considers it to be lower risk and will put it in a better place to manage other changes it is seeking to introduce. The net present value of the approach HMRC is adopting is around 30% to 60% lower than its latest estimate of the option it proposed in its May 2015 business case, which involved bringing more of its IT services in-house.[14] Most of the fall in net present value is because of HMRC paying profit margins and overheads on the larger range of services that suppliers will now remain responsible for providing.[15] By 2020-21, HMRC calculates that the difference in running costs between the option it is adopting and the one that it proposed in May 2015 would decline to around 10%.

3.7 HMRC considers that the lower net present value of its current approach is more than compensated for by unquantified benefits (paragraph 2.4). In particular, HMRC considers the approach:

- offers continuity of IT services, which is important to fulfilling commitments made under spending review 2015;
- reduces the scale of change, and thus technical and operational risk, including the risks to tax collection and customer service; and
- is deliverable, with HMRC having negotiated with its suppliers some of the agreements necessary for the approach to be implemented.

3.8 HMRC plans that replacing Aspire should save it around £200 million (or around a quarter) a year by 2020-21 on providing like-for-like IT services, against a 2014-15 baseline. Around three quarters of these savings would come from HMRC removing supplier profit margins and overheads by insourcing services, and from reducing profit margins on other services. The other quarter would come from HMRC improving the organisation and delivery of services (Figure 8). HMRC's forecast savings include optimism bias, which reduces their value by around 15%.

3.9 HMRC estimates that replacing Aspire could cost up to £700 million.[16] Around a quarter of HMRC's estimates of total programme costs are accounted for by optimism bias. The estimates also include costs that HMRC will only incur if certain risks materialise. In particular, HMRC has allowed around £100 million for the costs of transferring data from servers currently managed by Aspire suppliers to providers that will make use of cloud computing technology.[17] This cost will only be incurred if a second HMRC programme – which focuses on how HMRC exploits cloud technology – is unsuccessful. The other costs of the Columbus programme include the cost of buying back assets, staff costs, consultancy costs and legal costs.

14 In November 2015, HM Revenue & Customs recalculated the net present value for the option it had proposed in its May 2015 business case, increasing it from £492 million to £565 million.

15 HMRC estimates that supplier fees are higher than the costs it would incur if the services were provided by staff employed by HM Revenue & Customs or Revenue & Customs Digital Technology Services (RCDTS).

16 This is the cash cost over the period 2014-15 to 2021-22.

17 £100 million excludes optimism bias.

Part Four

The risks HMRC faces in replacing the Aspire contract

4.1 This part considers the risks that HM Revenue & Customs (HMRC) has to manage in replacing the Aspire contract. It covers the risks that the previous Committee of Public Accounts (the Committee) identified when it considered HMRC's plans in 2015, the risks identified by HMRC, and those identified by the Cabinet Office's Infrastructure and Projects Authority when it last reviewed the programme.[18]

The risks identified by the previous Committee in 2015

4.2 When the previous Committee reported on Aspire in January 2015, it was concerned about the progress HMRC had made in preparing to replace the contract. The Committee made a series of recommendations, which HMRC accepted. Most of the recommendations focused on what HMRC could do to better identify and manage risks arising from the replacement. Appendix Two sets out the Committee's recommendations in full and how HMRC has responded.

4.3 The previous Committee was concerned that replacing the Aspire contract with separate contracts with many suppliers would put tax collection and customer service at risk. In responding to the Committee's January 2015 report, and during the session the Committee held in March 2015 to discuss Aspire, HMRC and the Cabinet Office acknowledged the importance of ensuring operational continuity.[19]

4.4 HMRC has considered, at both the programme level and corporate level, the risk that replacing Aspire brings to its operational stability. HMRC included business continuity within the critical success factors it used to assess the options for replacing Aspire. The option HMRC is now pursuing requires less change to its suppliers and its IT systems in the short to medium term. This means HMRC and the Infrastructure and Projects Authority consider it lower risk than the options HMRC proposed in its November 2014 and May 2015 business cases. In 2015, HMRC added the Columbus programme, including the possible threat to tax revenue and customer service from replacing Aspire, as one of the top risks in its corporate risk register.

18 The last review was conducted in December 2015 by the Major Projects Authority. The Infrastructure and Projects Authority was formed on 1 January 2016, when Infrastructure UK and the Major Projects Authority were brought together.

19 HM Treasury, *Treasury Minutes Government responses on the Thirtieth, the Thirty-fifth, the Thirty-seventh, and the Forty-first to the Fifty-third reports from HC Committee of Public Accounts*: Session 2014-15, Cm 9091, July 2015, paragraph 1.4; and HC Committee of Public Accounts, *Oral evidence: Managing and replacing the Aspire contract – recall*, HC 1122, March 2015, Q49.

4.5 **The previous Committee also stressed the importance of HMRC developing its commercial, technical and operational skills so it could introduce and manage the new model of IT provision.** HMRC has taken five main actions to improve its overall capacity to manage both the replacement of Aspire and its wider IT services:

- **Recruited senior staff**

  Since the start of 2015, HMRC has made 18 permanent appointments to the 20 senior IT posts it was seeking to fill within the programme to replace Aspire and HMRC's other internal IT teams. The appointments included eight external recruits (see Appendix Two, page 32 for more details).

- **Established Revenue & Customs Digital Technology Services (RCDTS)**

  HMRC's ability to manage the Aspire services that it is bringing in-house depends on the number and quality of people it can attract from Aspire suppliers (paragraph 2.10). In its most recent review of the Aspire programme in December 2015, the Infrastructure and Projects Authority concluded that the initial phase of 228 staff transferring into RCDTS had been successful.

- **Began assessing the skills of all HMRC's IT staff, including those employed by RCDTS, to inform team and individual development plans**

  By April 2016, HMRC had assessed 1,061 staff (around two thirds of its total IT workforce). It had identified a skills gap of 25%, as staff on average were assessed as needing to become competent in a quarter of the skills needed for their role (see Appendix Two, page 32 for more details).

- **Reviewed the Columbus programme's capacity and capability**

  In April 2016, HMRC identified that as the programme moved into its next phase it would need to increase the number of full-time equivalent staff by around 50% to an average of around 240 for the remainder of 2016. Of these 240, HMRC expected around 100 to come from the private sector to provide a range of expertise including service transition, legal and commercial.

- **Engaged consultancy support**

  In particular, in September 2015, HMRC engaged the management consulting firm Bain & Co to assist it in managing the move to a new IT service provision model. HMRC estimates that it will spend between £5 million and £20 million on this contract over a three-year period.

4.6 In April 2015, the Cabinet Office and HM Treasury issued a joint assessment of HMRC's overall commercial capability. This assessment concluded that HMRC needed additional commercial capacity and skills given the challenges it faced then and in the future. The challenges included the need to develop a better understanding of the digital marketplace and the ability to manage multiple suppliers. The Cabinet Office and HM Treasury recommended that HMRC review the size, profile and experience of its commercial teams. They said HMRC needed to have more senior and less junior roles, and HMRC is in the process of making this change. In April 2016, HMRC appointed a commercial strategic delivery partner – Proxima – to increase senior leadership within the commercial function.

4.7 With respect to IT, the April 2015 commercial capability assessment led to HMRC moving its IT commercial team into Columbus. It also increased the size of this team – by around a fifth – and the team's skills by adding three staff from the Crown Commercial Service and eight interim staff. HMRC is currently recruiting a permanent commercial director for Columbus. The role has been held by an interim since February 2015.

The risks that HMRC is now managing

4.8 Both HMRC and the Cabinet Office's Infrastructure and Projects Authority have considered the risks to replacing Aspire successfully.

The Infrastructure and Projects Authority assessed the deliverability of the Aspire programme on three occasions in 2015, each time rating it as 'amber/red'.[20] In its most recent review covering HMRC's November 2015 business case, the Infrastructure and Projects Authority concluded that "considerable progress had been made since [its last review in June 2015], leading to an increase in delivery confidence." However, the Authority did not change the programme's overall rating. Since then, in April 2016, the Columbus programme board has recommended that the programme's rating should be changed to 'amber'.

20 Amber/red is defined by the Infrastructure and Projects Authority as "Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible."

4.9 In December 2015, the Infrastructure and Projects Authority highlighted six remaining areas of concern. The first of these was resolved when HMRC received government approval to proceed with its preferred option. The second area of concern was HMRC's ability to achieve the required commercial agreements with its key suppliers. This has now partly been addressed by HMRC reaching agreement with the two largest Aspire suppliers (paragraph 2.11). The four other areas of concern remain live. They are:

- the willingness and ability of Aspire suppliers to make the required improvements in delivery performance and value for money, and the capability of HMRC to manage this process;
- the extended period before the programme can determine the final model for HMRC obtaining its IT services from 2020 and thus the end-state of the programme;
- the ability of the Columbus programme board to provide the necessary scrutiny and challenge to the programme team – HMRC subsequently restructured the programme board so it would provide independent, senior-level scrutiny and challenge to the delivery of the programme; and
- HMRC's capacity and capability to carry out the replacement of the Aspire programme alongside other change programmes (required to transform IT and deliver HMRC's commitments under spending review 2015; paragraph 2.4), and continue to run business as usual services safely. HMRC's progress in assessing and improving its capacity and capability is summarised in paragraph 4.5.

4.10 HMRC's risk register for replacing Aspire currently includes 21 open risks covering the costs and benefits of the programme, people, delivery and capability, legal, supply chain and governance. There is much common ground between these risks and the areas of concern identified by the Infrastructure and Projects Authority. Additional areas of risk identified by HMRC include: whether benefits will be realised; whether the nature of the change is understood by others in HMRC; whether different parts of HMRC will work well together; and whether HMRC has the right estate to house RCDTS (**Figure 9**).

Figure 9
The programme risks HMRC gave the highest risk scores in March 2016

Ordered by risk score – high to low

1 The change the Columbus programme is seeking to achieve is not articulated clearly to HMRC.

2 HMRC's internal IT organisation does not have the capability to transform into the future operating model (ie HMRC's desired model for delivering IT services).

3 Benefits will not be realised as outlined within the programme's business case.

4 Changes arising from the replacement of Aspire impact on HMRC's operational stability and effectiveness.

5 The time allowed to deliver proposed changes is insufficient and the scope too ambitious to deliver by 2021.

6 Lack of a clearly designed end-state and scope.

7 Governance and decision-making not at the appropriate level to support effective programme delivery.

8 Dependencies within the programme, HMRC's internal IT organisation and wider HMRC are not identified or managed.

9 HMRC's internal IT organisation and Revenue & Customs Digital Technology Services fail to work together productively.

10 HMRC's Telford estate, where Revenue & Customs Digital Technology Services will be based, does not meet the needs of the new organisation.

11 HMRC's internal IT organisation and Revenue & Customs Digital Technology Services are unable to attract and retain key resource expertise.

12 Aspire supplier behaviours will be disruptive.

13 HMRC is not equipped to operate in a multi-supplier environment.

14 Delivery of new technology capabilities fails to support Columbus objectives and wider spending review 2015 priorities.

Source: National Audit Office summary of HM Revenue & Customs' documents

Appendix One

Overview of the Aspire contract's commercial timeline

Date	Event
2004	Aspire contract begins, serving Inland Revenue only.
2006	Aspire expanded to cover the whole of HMRC after Inland Revenue and HM Customs & Excise merged in 2005.
2007	Major renegotiation including: contract end date extended by three years to June 2017; savings agreed; basis of charging for data centres changed; HMRC's right to withdraw services from Aspire removed.
2009	Major renegotiation including: savings agreed; Capgemini and subcontractors granted exclusivity; HMRC's option to benchmark services suspended until 2011; Capgemini and Fujitsu awarded reliefs on sharing supplier profits with HMRC; HMRC commit to minimum spend and fixed overhead cost.
2011-12	Major renegotiation including: savings agreed; limited reinstatement of HMRC's right to withdraw services and procure through open competition, although exclusivity continued for Fujitsu's services; Capgemini and Fujitsu receive more relief on sharing supplier profits with HMRC. HMRC also sought to directly manage the two main Aspire subcontractors, Fujitsu and Accenture, and reached a non-binding agreement with Capgemini in January 2012 to do so.
January 2015	The agreement signed in January 2012 led to Capgemini moving its contracts with Fujitsu and Accenture to HMRC so that HMRC took over the contractual relationship and direct management of the two subcontractors.
December 2015	Following an agreement between HMRC and Capgemini, announced in August 2015, HMRC brought three Aspire services in-house, and 228 staff and contractors transferred from suppliers to Revenue & Customs Digital Technology Services (RCDTS). As part of the August 2015 agreement, HMRC extended one Aspire service to 2020.
March 2016	HMRC reached an agreement with the two main Aspire suppliers that will lead to some Aspire services and staff being transferred to HMRC in the period to 2017 and some Aspire services being extended to 2020.

Appendix Two

Summary of the previous Committee's conclusions and recommendations in its January 2015 report on Aspire and HMRC's response

Figure 10

Summary of the previous Committee's conclusions and recommendations in its January 2015 report on Aspire and HM Revenue & Customs' response in full

Previous Committee's January 2015 report – summary of conclusions and recommendations	Treasury minute response July 2015 – full text
1 HMRC faces an enormous challenge in moving to a new contracting model by 2017 and appears overly complacent given the scale of the transformation required. **HMRC needs to move quickly to develop a coherent business case, setting out the commercial and operational model it intends to put in place to replace the Aspire contract. This should include a robust transition plan and budget.**	HMRC provided a single response for recommendations 1, 2, 3 and 5. **1.1** The Government agrees with the Committee's recommendations 1, 2, 3 and 5. **Target implementation date: Autumn 2015.** **1.2** HMRC submitted a business case in December 2014, which includes details of the commercial and operational model it intends to establish to replace the Aspire contract, and provides a robust transition plan and budget. **1.3** This is going through extensive governance processes, including a comprehensive review by the Cabinet Office and the Treasury. HMRC is expecting a Government decision by autumn 2015. Following this decision, HMRC will work collaboratively with the Cabinet Office to develop detailed transition plans, based on the scenario approved. Contingency plans have been developed and are being reviewed by Cabinet Office and the Treasury. **1.4** Through its Aspire Replacement Programme (ARP) [now Columbus], HMRC has considered a number of risks that could hamper or prevent the replacement of the Aspire contract. Ensuring operational continuity will be a key consideration in all ARP decisions up to 2017. HMRC's plans for replacing the Aspire contract address risks to tax collection and customer service, as described in the business case and supporting plans.

Treasury minute response February 2016 – full text

HMRC provide a single response for recommendations 1, 2, 3 and 5.

1.1 The Government agreed with the Committee's recommendations. **Recommendations implemented.**

1.2 HMRC's business case, set out the commercial and operational model, including robust transition plans and budget, it will establish to replace the Aspire contract. In July 2015 the Chancellor of the Exchequer approved the first step in a managed transition from the Aspire contract.

1.3 HMRC has worked with Cabinet Office, Treasury and Major Projects Authority (MPA)[1] to develop the business case for the next steps; that is now commencing the Government governance processes. HMRC is managing risks that could hamper or prevent the replacement of the Aspire contract. Ensuring operational continuity will be a key consideration in all decisions up to 2017. The business case and supporting plans describe how HMRC will address risks to tax collection and customer service; contingency scenarios address the impact at worst case scenarios. Senior stakeholders worked with MPA in September 2015 to refresh these risks.

1.4 HMRC's technology direction is set through its IT Strategy that was updated in January 2016, to reflect the July 2015 Budget and Spending Review plans. It was also aligned to HMRCs Business Strategy that shows clear means to achieve departmental business objectives. The transformation in the Strategy recognises the need to move away from the current supplier model and is fully symbiotic with HMRC's business case.

Additional NAO commentary drawing on current HMRC documents including November 2015 business case

To manage commercial and technical risk, HMRC is now implementing an approach that will see it replace Aspire and move to a new IT operating model in phases that will run from 2015 until June 2020.

HMRC set out its commercial and operational model in its latest business case (November 2015). The business case has been reviewed and approved by HM Treasury and the Cabinet Office.

HMRC has established a budget of up to £700 million for the programme to replace Aspire.

Note

1 The Major Projects Authority became part of the Infrastructure and Projects Authority when it was formed in January 2016.

Figure 10 *continued*

Summary of the previous Committee's conclusions and recommendations in its January 2015 report on Aspire and HM Revenue & Customs' response in full

Previous Committee's January 2015 report – summary of conclusions and recommendations	Treasury minute response July 2015 – full text
2 The end of the Aspire contract and the move to replace it with many more contracts and suppliers puts both the service HMRC provides to customers and tax collection at risk. **As part of its business case, HMRC should identify the key risks to tax collection and customer service, both during transition and once operating its new model, and develop a strategy to mitigate them.**	See entry under recommendation 1.
3 HMRC has been outmanoeuvred by suppliers at key moments in the Aspire contract, hindering its ability to get long-term value for money. **HMRC should develop a clear view of how the new model will support its long-term vision for tax collection. It should take a consistent, whole-life approach to costs and benefits in both its commercial negotiations and in its management of contracts, so that the long-term objectives are both clearly articulated and properly supported.**	See entry under recommendation 1.
5 The consequences of this transition failing are severe and HMRC and the Cabinet Office are jointly accountable for managing the risks to tax revenue and value for money. **HMRC and the Cabinet Office should jointly agree key milestones and warning flags leading up to the end of the contract in June 2017, with contingency plans that manage the risks to value for money should these milestones be missed. HMRC should provide a note to this Committee by the end of February 2015 setting out what plans, including contingencies, it has put in place to manage the transition.**	See entry under recommendation 1.

Treasury minute response February 2016 – full text	Additional NAO commentary drawing on current HMRC documents including November 2015 business case
See entry under recommendation 1.	HMRC considered the risks to operational continuity and tax collection in selecting its preferred option to replace Aspire. For example, service continuity was included in the critical success factors used by HMRC to assess options for replacing Aspire. Compared with the options it previously proposed, the option HMRC is now pursuing requires less change to its suppliers and to its IT systems in the short to medium term. In 2015, HMRC added the Columbus programme, including the possible threat to tax revenue and customer service from replacing Aspire, as one of the top risks in its corporate risk register.
See entry under recommendation 1.	HMRC views the Aspire replacement programme as laying the foundations for its digital and technology transformation. Replacing Aspire is one of four major linked IT programmes that HMRC is currently running. In deciding on its approach to replacing Aspire, HMRC had to balance a number of medium- and longer-term priorities, including: delivery of commitments under spending review 2015 to reduce costs and collect more tax in the period 2016 to 2020; speed of IT enabled transformation; speed with which IT costs are lowered; and managing the risks to tax collection and customer service arising from changing how services are provided.
See entry under recommendation 1.	The Cabinet Office, and its sponsored bodies, are involved in programme governance. In particular: 1 The Columbus programme board includes the Cabinet Office's chief commercial officer and chief technology officer, and the Infrastructure and Projects Authority's chief executive. 2 The programme's business cases are reviewed by the Cabinet Office and the Infrastructure and Projects Authority. HM Treasury is also represented on the programme board and reviews the programme's business cases.

Figure 10 *continued*

Summary of the previous Committee's conclusions and recommendations in its January 2015 report on Aspire and HM Revenue & Customs' response in full

Previous Committee's January 2015 report – summary of conclusions and recommendations	Treasury minute response July 2015 – full text
4 HMRC's experience in managing multiple ICT suppliers, the essential ingredient of the new approach, is limited. **HMRC must produce a realistic plan setting out how it will recruit the necessary commercial, technical and operational skills in a market which is likely to be overheated, and act with pace to implement it.**	**4.1** The Government agrees with the Committee's recommendation. **Target implementation date: Autumn 2015.** **4.2** HMRC is already investing in IT, Digital, Security and Commercial staff and their professional skills. At a leadership level, it has recently externally recruited a new Director of Development, Test and Operations, a new Digital Transformation Director and interim Directors for Finance, Commercial, HR and Infrastructure Transformation for ARP. Working with the Crown Commercial Service, HMRC is actively working to recruit a permanent Commercial Director. **4.3** HMRC is employing more technical staff, and building a talent pipeline through industry placements for university graduates, apprentices and IT graduates. HMRC is confident that the scale of the digital transformation it is undertaking makes it an attractive proposition for those with the skills it is looking for. Where necessary, HMRC will use specialist external help from the market and across Government to get the skills needed through the transition to the new model. HMRC is also assessing the technical capability of its current cadre of staff using the industry-standard Skills Framework for the Information Age (SFIA) tool. HMRC will target learning and development spend to bridge the capability gap. HMRC will have a formal people plan by autumn 2015 which will be clear about capability needs and costs.
6 We are not convinced that the Cabinet Office's 'red lines' on IT procurement, such as its restriction on any IT contracts over £100 million, are realistic in a business as large as HMRC's, or that transformation on this scale is achievable by July 2017. **The Cabinet Office needs to help HMRC build the commercial and technical capability it needs, playing a strong coordinating role for government by working with suppliers and managing the market. It should offer support to HMRC where it can, but also provide challenge and ensure that HMRC is actively managing the risks to tax collection.**	**6.1** The Government agrees with the Committee's recommendation. **Recommendation implemented.** **6.2** The Cabinet Office recognises that HMRC's IT contract is the largest in Government and is working collaboratively with HMRC to ensure it is replaced successfully. The Cabinet Office is fully involved in HMRC's Aspire Replacement Programme (ARP) [now Columbus], with people working on all levels of governance. For example: The Government Chief Technology Officer and the Government Chief Commercial Officer are on the ARP Programme Board.

Source: HC Committee of Public Accounts, *Managing and replacing the Aspire contract*, Thirtieth Report of Session 2014-15, HC 705, January 2015; HM Treasury, *Treasury Minutes Government responses on the Thirtieth, the Thirty-fifth, the Thirty-seventh, and the Forty-first to the Fifty-third reports of Sessions 2014-15* from the Committee of Public Accounts, Cm 9091, July 2015; and HM Treasury, Treasury Minutes, *Progress report on the implementation of Government accepted recommendations of the Committee of Public Accounts*, Session 2010–2012, 2012-13, 2013-14 and 2014-15, Cm 9202, February 2016; and National Audit Office summary of HM Revenue & Customs' documents

Treasury minute response February 2016 – full text

4.1 The Government agreed with the Committee's recommendation. **Recommendation implemented.**

4.2 HMRC has put in place capability and recruitment plans that are reviewed and updated regularly to reflect workforce changes. It is already investing in IT, Digital, Security and Commercial staff and their professional skills. At leadership level, it has externally recruited the Director of Development, Test and Operations, Digital Transformation Director, and Programme Director, as well as permanent or interim Directors for the Design Authority, Finance, Commercial and HR functions, and Cloud Transformation Director for its Columbus Programme (to replace Aspire contract).

4.3 HMRC is also employing more technical staff and building a talent pipeline through industry placements for university graduates, apprentices and IT graduates. HMRC is confident that the scale of its digital transformation will make it an attractive proposition for those with the required skills. Where necessary, HMRC will use specialist external help to address skills gaps during transition to the new model.

4.4 HMRC is assessing the technical capability of its current cadre of staff using the industry-standard Skills Framework for the Information Age (SFIAplus) tool. The tool is now operating and informs targeted learning and development spend to bridge capability gaps.

Additional NAO commentary drawing on current HMRC documents including November 2015 business case

Senior IT appointments. Since the start of 2015 and April 2016, HMRC filled 18 of the 20 senior posts it had wanted to fill with permanent appointments. The two director level posts for infrastructure and commercial were unfilled permanently but interim staff are in place. The six most senior of the 20 posts were:

i the finance director, human resources director and commercial director for HMRC's chief digital information officer group – all three external appointments and two filled permanently;

ii Columbus programme director – external appointment;

iii infrastructure director – post covered by an interim; and

iv director of security and information – internal HMRC appointment.

Skills assessment. By April 2016, HMRC had used the Skills Framework for the Information Age tool (see previous cell), to assess the degree to which its IT staff, including those employed by RCDTS, had the skills needed for their role. The assessment identified that on average staff had a skills gap of 25% (ie on average staff were assessed as needing to become competent in a quarter of the skills needed for their role). The top areas HMRC needs to develop are:

i application development methods, techniques and standards;

ii operational/service architecture;

iii business analysis techniques;

iv proof of concept and prototyping; and

v agile delivery, including agile tools and techniques.

Commercial skills – see paragraph 4.6.

No update required as HMRC assessed the recommendation as implemented in July 2015 Treasury minute.

The Cabinet Office's role in the programme is explained in the entry covering recommendation 5 on page 35.

HMRC is aiming to comply with the spirit of most of the Cabinet Office's 'red lines'. In its November 2015 business case, HMRC says it will aim to let new contracts that have a maximum duration of three years and that enable new suppliers and small and medium-sized enterprises, where appropriate, to come on board. It also says it aims to keep contracts below £100 million lifetime value although it says that exceptions may arise.

One of the Cabinet Office's 'red lines' was no contract extensions without a compelling case. HMRC gained Cabinet Office approval before agreeing with Aspire suppliers in 2015 and 2016 to extend some Aspire services.

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