House of Commons

Committee of Public Accounts

Managing and replacing the Aspire contract

Thirtieth Report of Session 2014–15

Report, together with the formal minutes relating to the report

Ordered by the House of Commons to be printed 12 January 2015

HC 705
Published on 27 January 2015
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Committee of Public Accounts

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Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Sue Alexander and Jamie Mordue (Committee Assistants) and Janet Coull Trisic (Media Officer).

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Contents

Summary

Most of HM Revenue and Customs' (HMRC's) major tax collection systems are provided under one contract, the Aspire contract. While this has provided stability over the last ten years HMRC has not managed the costs of the contract well. It has cost some £7.9 billion over this period and generated profits for the suppliers of some £1.2 billion. When the current contract ends in 2017 HMRC intends, in accordance with government IT procurement policy, to move from the current single contract to a new model with many short-duration contracts with multiple suppliers. However, HMRC has made little progress in defining its needs and has still not presented a business case to government. Once funding is agreed, it will have only two years to recruit the skills and procure the services it will need. Moreover, HMRC's record in managing the Aspire contract and other IT contractors gives us little confidence that HMRC can successfully achieve this transition or that it can manage the proposed model effectively to maximise value for money. HMRC also demonstrates little appreciation of the scale of the challenge it faces or the substantial risks to tax collection if the transition fails. Failure to collect taxes efficiently would create havoc with the public finances.

Introduction

The Aspire contract between HMRC and Capgemini is the government's largest technology contract accounting for 84% of HMRC's total spend on information and communications technology (ICT). HMRC let this contract in 2004 for ten years, but extended it in 2007 for a further 3 years to 2017. The main sub-contractors under the contract are Fujitsu and Accenture. The Aspire contractors maintain and, where necessary, replace ICT hardware and software and carry out new technology projects. The Aspire contract has delivered certainty and continuity over the past decade but it is frustrating that HMRC is still unable to properly assess the value and risks attached to a long-term contract of this nature and therefore unable to evaluate this approach against current Government approaches. 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. These state that no contract should exceed £100 million; that no single supplier should provide both services and systems integration to the same area of government; and that existing contracts should not be extended without a compelling case. This is based on the view that smaller contracts should allow many more companies to bid, including SMEs, and provide an increase in competition which is expected to drive down costs. HMRC has agreed to move to the new model for commissioning and providing this ICT infrastructure without challenging the view of the potential impact these changes could have on the accuracy and timeliness of collecting tax revenue.

Conclusions and Recommendations

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.** Although HMRC decided three years ago to move in principle to a new contracting model it still does not have a detailed business case for the change although this was originally expected before July 2014. HMRC says it hopes to publish the business case next spring, which will leave only two years to engage the market, recruit the skills, and procure and manage the transition of the services it will need before the existing contract expires in 2017. The Department is confident it can meet the 2017 deadline although some of the key milestones may shift. The Department expects the new arrangements to reduce its running costs by 25%. However, HMRC still cannot estimate the cost of this change, in terms of moving staff, equipment and office space; it could not even provide the Committee with a range. Cabinet Office in its evidence accepted that it would be better to delay the project and negotiate an extension to the expensive Aspire contract than risk a failure in tax collection. Cabinet Office accepted the need for a contingency plan, but HMRC appeared not to do so.

Recommendation***: 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.***

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**. Although expensive, the Aspire contract has provided stable systems to support the collection of taxes, over £500 billion in 2013-14. A failure of HMRC's ICT could put at risk the timely and accurate collection of tax, potentially resulting in reduced revenue. This was illustrated by difficulties in a project to centralise HMRC's PAYE and National Insurance databases. In this case failings by HMRC when it engaged a supplier outside the Aspire contract resulted in nearly £1 billion of tax foregone. HMRC is aware of the risks involved in replacing the Aspire contract but it has not quantified them.

   Recommendation***: 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.***

3. **HMRC has been outmanoeuvred by suppliers at key moments in the Aspire contract, hindering its ability to get long term value for money**. The contract, which cost £7.9 billion from July 2004 to March 2014, has generated a combined profit for Capgemini and Fujitsu of £1.2 billion, equivalent to 16% of the contract value paid to these suppliers. HMRC considers the contract to have been expensive, and pressure to find cost savings in the short-term led it to trade away important value for money controls. For example, in a series of disastrous concessions, HMRC conceded its rights to withdraw activities from Aspire, to benchmark the contract prices against the market to determine whether they were reasonable. It also gave up its right to share in any excess profits. In 2007, HMRC negotiated a three-year extension to the Aspire contract just three years after the contract was let, extending the end of the contract from 2014 to 2017. The Department has still not renegotiated the terms of the contract in line with a memorandum of agreement it signed in 2012 designed to separate Capgemini's role in service provision from its role as service integrator and introduce more competition.

   Recommendation***: 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.***

4. **HMRC's experience in managing multiple ICT suppliers, the essential ingredient of the new approach, is limited.** HMRC anticipates meeting its future ICT requirements with a 'mixed economy' of small and large suppliers. However, since 2006-07, some 84% of HMRC's ICT spend has been through a single supplier under the Aspire contract. While HMRC has tried to compete more work outside the Aspire contract, it has tendered only £22 million a year since 2012, some 3% of the annual amount paid under Aspire. Getting the skills to manage multiple suppliers,

and to design and integrate technology, is a pre-requisite for the success of the proposed change. HMRC believes that it is an attractive employer for ICT specialists due to the scale of its digital ambitions and it plans to expand programmes to recruit graduates and apprentices. So far HMRC has recruited some new staff at senior and operational levels but it has yet to recruit staff for many critical technical and commercial roles despite there being less than 3 years before full implementation has to be achieved. The constraints on public sector pay have been a factor in other departments having failed to recruit and retain the technical and commercial skills they need and HMRC will face similar constraints.

Recommendation*: 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.*

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**. An extension to Aspire could prove costly: as well as paying more for technology than it otherwise would due to the absence of competitive pressures, HMRC risks delaying its plans to improve efficiency and customer service by modernising and digitising its tax collection processes and overcoming the limitations of its legacy systems. Even more importantly, problems with transition, or inadequate management of the new model, could put the amount of tax collected at risk.

Recommendation*: 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.*

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. Although progress has been slow, the Cabinet Office is confident that HMRC's plans are the right approach and show a good understanding of the risks HMRC needs to address. The Cabinet Office maintains that its 'red lines' on IT procurement will be applied pragmatically if HMRC cannot comply with them fully. Having mandated the new approach to buying technology, the Cabinet Office shares responsibility with HMRC for its implementation and accepts accountability for the success of this transformation.

Recommendation*: 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.*

1 HMRC's ability to deliver the change required by 2017

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue and Customs (HMRC), the Cabinet Office and Capgemini on the replacement of HMRC's Aspire contract.[1]

2. In January 2004, the Inland Revenue, now part of HMRC, signed a ten year contract with Capgemini to provide ICT services. HMRC called the contract Aspire (Acquiring Strategic Partners for the Inland Revenue) and it is the government's largest technology contract. Under the contract Capgemini maintains and, where necessary, replaces ICT hardware and software and carries out new technology projects. HMRC uses this technology to collect £500 billion of tax revenues a year, so it is essential to HMRC's and the government's work. HMRC's four objectives for the Aspire contract were to ensure continuity of its ICT systems at all times; to continuously improve the performance of HMRC's ICT services; to provide rapid access to up-to-date skills and technologies to meet HMRC's requirements; and to facilitate change to HMRC's business processes, in line with its strategy, supporting other government departments where necessary.[2]

3. By the end of March 2014, HMRC had spent some £7.9 billion through the contract since it started in 2004. In 2006, the former Inland Revenue and HM Customs and Excise merged to create HMRC and annual spend through Aspire increased by around 25%. Between April 2006 and March 2014, Aspire accounted for about 84% of HMRC's total spending on technology. Aspire represents a 'prime supplier' contracting model through which HMRC contracts solely with Capgemini. Capgemini provides all services and has two main subcontracts: one with Fujitsu (worth £2.8 billion from July 2004 to March 2014), and one with Accenture (worth £0.3 billion in the same period). Capgemini and Fujitsu spent some £2.5 billion with subcontractors to March 2014.[3]

4. HMRC let the Aspire contract in 2004 to run until 2014, with an option to extend it for a further eight years. In 2007, HMRC extended the contract for three years, moving the expiry date to June 2017. 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.[4] In 2014 the Cabinet Office announced new rules to limit the value, length and structure of ICT contracts. The 'red lines' introduced by the Cabinet Office state that no contract should exceed £100 million, while other stipulations prevent a supplier from providing both services and systems integration to the same area of government, disallow contract extensions without a compelling case, and limit new hosting contracts to two years. Smaller contracts should allow many more companies to bid,

1 C&AG's Report, *Managing and Replacing the Aspire Contract*, HC 444 Session 2014-15

2 C&AG's Report, para 1.6

3 C&AG's Report, paras 1.10 and 1.11

4 Cabinet Office Minister's speech to supplier summit, published online at: www.cabinetoffice.gov.uk/news/cabinet-office-ministers-speech-supplier-summit, 1 December 2010.

including SMEs, and it is claimed that an increase in competition will drive down costs. On expiration in June 2017, the Aspire contract should therefore be replaced by a multi-supplier model with shorter contracts, with none exceeding £100 million unless there is an exceptional reason.[5]

5. HMRC has not properly evaluated the value and risks of employing a long-term contract of this nature so it cannot assess the costs or benefits of the two approaches. In 2012, HMRC signed a memorandum of agreement with Capgemini to begin to make Aspire more compliant with current government policy. The memorandum committed HMRC and Capgemini to introduce competitive service procurement and changed Capgemini's role to separate service provision from its role as service integrator. The memorandum also committed HMRC and Capgemini to introduce more competition by negotiating direct contracts between HMRC and Capgemini's main subcontractors, Fujitsu and Accenture. These negotiations have still not been completed, two years on.[6]

6. We asked what costs would be associated with the change from the current model to one with multiple suppliers and no contracts of more than £100 million. HMRC told us that it was in the process of preparing a business case and was still scoping options. Accordingly, it was unable to describe to us the model it expected to operate after 2017, without proper modelling or a clear understanding of costs. The Department still claimed that it expected the change to reduce its cost base by 25%. HMRC has budgeted £5 million in 2014-15 and £25 million in 2015-16 for extra staff costs to manage the change, but HMRC could not provide any estimate of what the transition would really cost including other costs such as buildings and infrastructure as these depend on which option is chosen. HMRC expects its business case to be agreed with the Cabinet Office by Christmas and intends to publish in early 2015.[7]

7. HMRC noted that it supports in principle the move to short-duration contracts with many suppliers, and anticipates meeting its future ICT requirements with a mixed economy of small and large suppliers. While HMRC was confident that it would meet the 2017 deadline and stated that it had no plans to extend the existing contract with Capgemini beyond that date. However the Cabinet Office in its evidence said that the contingency plan, should it be necessary, would be to extend the Aspire contract.[8]

8. Between April 2006 and March 2014, 84% of HMRC's ICT spend was through the single Aspire contract. Since 2012 HMRC has tried to compete more work outside Aspire but has tendered only £22 million per annum since that time, equivalent to just 3% of the average annual cost of Aspire. HMRC recognised that it would need to redesign its business processes and systems in order to cope with up to 400 suppliers, comparable to the number of subcontractors currently managed by Capgemini and Fujitsu under the Aspire contract. HMRC accepted that it would need different skills sets at different stages of the transition. HMRC currently has 95 contract managers and expects to need 250 during transition, then around 150 thereafter. So far HMRC has only made three senior technical appointments. It

5 Q 240; C&AG's Report, para 1.16

6 Q 135; C&AG's Report, para 1.19

7 Qq 6-7,14,17,20

8 Qq 21-22,40,126,237

has yet to address middle management recruitment. It also told us it had recruited 26 people at lower levels, and had made a further 13 job offers, in part through its apprenticeship and graduate programme.[9]

9. In response to our concerns about its ability to recruit the staff required in a very competitive IT market HMRC told us that it was confident that it would be able to attract the right staff, and that by recruiting outside London—in Newcastle, Manchester, Telford and Southend—the position would be sustainable. It believed that it was becoming a 'Go To' employer for ICT, providing career-enhancing opportunities due to the scale of its digital ambitions. HMRC noted that it already has 300 experts in systems administration and coding, enabling HMRC staff to manage the applications that support 34% of all tax currently collected, and that this would rise to 40% by the end of the year. HMRC also noted that 40% of design and project work by volume (20% by value) was currently run by HMRC, and it expected this proportion to increase as it moved more infrastructure to a cloud-based model.[10]

2 Managing the risks to tax collection and value for money

10. The National Audit Office concluded that the Aspire contract has provided high levels of service continuity and systems availability and noted that there have been few major incidents that have affected HMRC's system performance since the contract began. HMRC told us that it does not expect tax losses as a result of the proposed changes. HMRC's risk register includes reduced tax take as a result of a failure to replace Aspire successfully, but it has not quantified that risk.[11]

11. We questioned HMRC's ability to manage these changes given its track record in managing IT contractors. For example, in 2009 it engaged a contractor outside the Aspire contract to consolidate 12 separate regional databases to form a centralised data management system for PAYE and National Insurance. However, delays and errors following the implementation of the system affected millions of taxpayers, cost HMRC £78.9 million to fix and resulted in nearly £1 billion in tax revenue being lost to the Exchequer.[12]

12. HMRC maintained that it had learned valuable lessons about implementing large projects through the development of Real Time Information (RTI) which, while not pain-free, demonstrated that HMRC could achieve substantial change very effectively. HMRC also highlighted the successful digitisation of tax credits serving 410,000 citizens, which had been introduced successfully in eight weeks, built using only in-house resources. HMRC also cited other examples of change it said it had successfully managed, including updating company car tax, the creation of a single account space for businesses, and the digitisation

9 Qq 58,60,63-65,67,71-73; C&AG's Report, paras 1.8 and 4.5

10 Qq 34,36,85,93

11 Qq 30,31,39,107; C&AG's Report, paragraph 6

12 Q 30; C&AG's Report, para 2.9

of HMRC's forms to allow on-line submissions. HMRC welcomed the opportunity to work with small and medium-sized enterprises (SMEs) and noted its contract with a small firm called Kcom, one of its first contractors through an independent bid process, which had resulted in the speedy and efficient introduction of innovative solutions such as on-line chat and secure messaging.[13]

13. Yet HMRC's management of the Aspire account suggests it has been repeatedly outmanoeuvred in its negotiations. The total cost of the contract reached £7.9bn in March 2014, which HMRC admitted was expensive while insisting that it had provided a high quality, stable platform for tax collection. From that, Capgemini and Fujitsu had secured a combined profit of £1.2bn, giving a profit margin of 15.8%. HMRC has benchmarked the price of Aspire services and projects on several occasions. The results of the benchmarking have suggested that HMRC has often paid well above market rates. [14]

14. 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. HMRC negotiated away key value-for-money controls including its right to share in excess profits and to withdraw activities from the Aspire contract, which was partially reinstated in 2012. It also negotiated a three-year extension to Aspire in 2007, just three years into the contract, when there was still seven years left to run. The decision in 2007 to accept a fixed monthly charge for data centre services from Fujitsu, which accounts for 23% of Aspire costs, also proved poor value for money, given the extent to which these costs have been driven down by technological change. HMRC estimates that, through the negotiations, it secured savings totalling £750 million.[15]

15. Although progress has been slow and it has yet to see the business case, the Cabinet Office expressed confidence that HMRC was taking the right approach and showed a good understanding of the risks that need to be addressed. The Cabinet Office also acknowledged its role in issuing the new guidelines, and accepted that it would also be accountable should efforts to replace the Aspire contract end in failure. The Cabinet Office maintained that its 'red-lines' on IT procurement were pragmatic, and if HMRC's business case was not convincing by next March, there was the contingency of extending the Aspire contract beyond 2017 if necessary. However, an extension would risk HMRC paying more for technology than it otherwise would due to the absence of competitive pressures; undermine HMRC's ability to modernise and digitise its tax collection processes; and service quality to taxpayers may be impaired. The Cabinet Office told us that while it could formally recommend that HMRC does not proceed with its change programme, the final decision would rest with HM Treasury.[16]

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13 Qq 118.126,135

14 Qq 98,101,121; C&AG's Report, paras 14, 3.14 and 3.19

15 Qq 101-105,132-133,138,171; C&AG's Report, paras 14, 3.7, 3.16, 3.18 and figure 8

16 Qq 221-222,224,240,243

Formal Minutes

Monday 12 January 2015

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon	Meg Hillier
Guto Bebb	Stewart Jackson
Mr David Burrowes	Dame Anne McGuire
Stephen Hammond*	Austin Mitchell
Chris Heaton-Harris	Stephen Phillips

Draft Report (Managing and replacing the Aspire programme), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Thirtieth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 14 January at 2.00pm

* *Stephen Hammond was not a Member of the Committee when it took evidence in relation to this Report.*

Witnesses

Monday 27 October 2014

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/pac.

Lin Homer, Permanent Secretary, HM Revenue and Customs; **Mark Dearnley**, Chief Digital and Information Officer, HM Revenue and Customs; and **Andrew Levitt**, Chief Executive Officer Aspire, Capgemini Q1-199

Wednesday 29 October 2014

Liam Maxwell, Government Chief Technology Officer Q200-251-

List of printed written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/pac. ASP numbers are generated by the evidence processing system and so may not be complete.

1 Cabinet Office (ASP 0001)

2 Capgemini (ASP 0002)

3 Airwave (ASP 0003)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

First Report	Personal Independence Payment	HC 280
Second Report	Help to Buy equity loans	HC 281
Third Report	Tax reliefs	HC 282
Fourth Report	Monitor: regulating NHS Foundation Trusts	HC 407
Fifth Report	Infrastructure investment: impact on consumer bills	HC 406
Sixth Report	Adult social care in England	HC 518
Seventh Report	Managing debt owed to central government	HC 555
Eighth Report	Crossrail	HC 574
Ninth Report	Whistleblowing	HC 593
Tenth Report	Major Projects Authority	HC 147
Eleventh Report	Army 2020	HC 104
Twelfth Report	Update on preparations for smart metering	HC 103
Thirteenth Report	Local government funding: assurance to Parliament	HC 456
Fourteenth Report	DEFRA: oversight of three PFI waste projects	HC 106
Fifteenth Report	Maintaining strategic infrastructure: roads	HC 105
Sixteenth Report	Early contracts for renewable electricity	HC 454
Seventeenth Report	Child maintenance 2012 scheme: early progress	HC 455
Nineteenth Report	The centre of government	HC 107
Twentieth Report	Reforming the UK Border and Immigration System	HC 584
Twenty First Report	The Work Programme	HC 457
Twenty Second Report	Out-of-hours GP services in England	HC 583
Twenty Third Report	Transforming contract management	HC 585
Twenty Fourth Report	Procuring new trains	HC 674
Twenty Fifth Report	Funding healthcare: making allocations to local areas	HC 676
Twenty Sixth Report	Whole of government accounts 2012-13	HC 678
Twenty Seventh Report	Housing benefit fraud and error	HC 706
Twenty Eighth Report	Lessons from major rail infrastructure programmes	HC 709
Twenty Ninth Report	Managing and removing foreign national offenders	HC 708