National Audit Office

HM Revenue & Customs

Managing the HMRC estate

Appendix Four

JANUARY 2017

Appendix Four

Assessment of HMRC's estate strategy against the NAO framework for estates management

In January 2017, the NAO reported on HM Revenue & Customs' (HMRC) management of its estate.[1] To support comparisons with other departments, this appendix sets out our assessment of HMRC's estate strategy against the National Audit Office framework for estates management:[2]

1. Vision and strategic planning. Departments need to set out their goal for what they want their estate to be, preferably with a plan for how this will facilitate wider reform.
2. Collating and sharing information. Departments need good information on their estates to support them in achieving the estate they need.
3. Addressing financial barriers. A sufficient historic and current investment in infrastructure. Departments must address perverse incentives that drive short-term decisions, at the expense of long term value for money.
4. Maintaining financial discipline. Department must achieve compliance with national property controls and government targets.
5. Working together and aligning interests. There should be a clear understanding on roles and responsibilities and alignment of stakeholder interests in order to execute decisions quickly and effectively.
6. Skills, expertise and governance. Departments need suitably skilled and capable staff, overseen by a robust governance structure, to manage their estate and deploy resources to where they are most needed.

1 Comptroller and Auditor General, *Managing the HMRC estate*, Session 2016-17. HC 726, National Audit Office, January 2017.

2 Comptroller and Auditor General, *Improving the efficiency of central government office property*, Session 2010-12, HC 1826, National Audit Office, March 2012. We have modified the framework set out in this report to enable analysis against the scope of our examination. The framework is applicable to different types of estate.

Vision and strategic planning

HMRC's strategic business case identifies three main reasons why it is seeking to move from a widely dispersed estate to regional centres:

- it considers a different estate is necessary to support the wider transformation of its business;
- HMRC's programme will support the wider civil service agenda to move to shared regional hubs; and
- the end of the STEPS contract in 2021 provides an imperative for HMRC to act and an opportunity to reconfigure its estate on a large scale.

HMRC aims that regional centres will provide the right infrastructure for digital working for its customers and staff, and provide a working environment that will attract and retain talented staff, increase the flexibility of its workforce, and provide economies of scale.

HMRC's programme to rationalise its estate is one of 15 major programmes it is implementing concurrently to transform how it operates and administers tax. It aims to become "one of the most digitally advanced tax administrations in the world". HMRC's transformation is large and complex, and many of the programmes within it are interdependent. **Figure 1** overleaf shows the strategic aims of HMRC's transformation programme and how the plans for its estate support its wider objectives.

HMRC initially expected its strategy for regional centres would save £405 million over the period 2016-17 to 2024-25 and that the programme would see a payback period of, at most, 11 years when compared to what it pays for its current estate. HMRC estimated that running costs in its new estate, covering leases, facilities management and utilities, would save between £80 million and £100 million each year after 2025.

In its initial strategic outline case, the risk assessments were optimistic, both in terms of both the severity of the risks, and of their mitigation. HM Treasury's approval process for HMRC's estate programme highlighted affordability constraints in the strategic outline case. The strategic outline case was based on location specific advice from HMRC's property advisor but without direct consultation with developers. HMRC had not defined some of the benefits at that time, or how they related to different stakeholders. The strategic outline case did not set out expected performance outcomes or a plan for realising the benefits from regional centres. It also did not feature a critical path for moving to regional centres.

HMRC's executive committee has said that the original strategic outline case, on the basis of which HM Treasury agreed funding in late 2015, was unrealistic.

Figure 1
HMRC's strategic aims and transformation

Maximising revenues due and bear down on avoidance and evasion:

- Increase total revenues
- Invest in additional work to tackle evasion and non-compliance in the tax system
- Transform approach to compliance, using the 'promote, prevent, respond' strategy
- Use data more efficiently
- Stop non-compliance before it starts

Design and deliver a professional, efficient and engaged organisation:

- Develop professional and motivated people with digital skills
- Ensure people have the right tools to do their job and deliver outcomes
- Deliver cutting-edge corporate services
- Modernise IT so that it supports the delivery of transformation
- **Provide modern offices that are fit for our people now and in the future, based across the UK**

Transform tax and payment for our customers:

- Finish the delivery of multi-channel digital services to become a 'digital-by-default' organisation
- Deliver digital tax accounts
- Ensure that taxpayers can see their complete financial picture in their digital account
- Provide a range of third-party software products that link securely to HMRC systems
- Put in place support for digitally-excluded customers
- Increase tax revenue by making it easier to pay the correct tax and reducing error

Source: National Audit Office analysis of HM Revenue & Customs' single departmental plan 2015–2020

Collating and sharing information

HMRC collates information on the STEPS contract, including the projected whole life cost of the contract, as a measure of value for money. Its latest estimates suggest that the whole life cost of the contract will be £4.2 billion. This is £213 million more than it originally forecast. HMRC collates information on the performance of the STEPS contract against 13 qualitative measures and analyses trend data. Each measure is scored from zero to three depending on how well performance meets HMRC's requirements. It is weighted on the measure's importance in reaching HMRC's strategic goals. HMRC brings together this information in internal assessments of performance on the STEPS contract. It can use data showing underperformance against the STEPS contract to issue Mapeley with penalties for under performance. In 2014-15, HMRC's payments to Mapeley for facilities management were reduced by just under £700,000 to compensate for Mapeley's under performance in that year. This equates to about 2% of what HMRC pays to Mapeley annually for this part of the contract.

HMRC maintains information on the size of its estate. It uses the information in measuring the amount of space it can vacate each year, under the terms of the STEPS contract. It also uses the information in assessing the savings generated from these 'vacation allowances' against its savings target. Between 2011 and 2016, HMRC vacated nearly 300 properties in total, of which 169 were managed by Mapeley under the STEPS contract. Its total floor area decreased from 1.4 million to 994,000 m^2.

Addressing financial barriers

HMRC faces risks during the remaining years of the STEPS contract, should the contract come to a premature end. There are provisions within the contract for buildings to revert to HMRC ownership. In these circumstances, HMRC would be faced with the costs of maintaining and improving buildings it does not intend to stay in, and would need to manage the disposal of properties which might not have a ready market.

HMRC has taken action to manage this risk. It has put in place a specific team to oversee the period to the end of the contract and has engaged external experts to assess how large its financial commitments could be following any sudden loss of services under the STEPS contract. HMRC has developed business continuity plans to manage the risks of loss of services under the contract.

Since 2011, Mapeley has given HMRC access to a range of financial information relating to the STEPS contract. This includes management accounts, financial forecasts, loans and intercompany funding. This enhanced access has provided HMRC with much greater transparency about Mapeley's ability to meet its obligations to HMRC under the STEPS contract. This aims to help HMRC understand and manage financial risks.

Maintaining financial discipline

In this examination, we have not assessed compliance with national property controls and this is not within the scope of our work.

In September 2016, HMRC updated its strategic outline case with a revised forecast of the costs and timeline of the programme. The forecast cost of the new estate over 10 years (including investment and running costs) rose by almost £600 million (an increase of 22%). The revised business case forecast investment costs of £495 million between 2016-17 to 2020-21, with additional spending beyond 2021 bringing total investment costs to £588 million by 2025-26. HMRC had previously forecast no investment costs beyond 2020-21. It estimated that the average annual running cost of the new estate over these 10 years would be £160 million, a 27% increase in HMRC's original estimate. In the longer term, its forecast for annual running costs have increased from around £150 million to £180 million per year.

The increase in the forecast costs is largely due to: changes in programme scope, to include specialist and transitional sites; the requirement to bring pay costs into the programme; higher rental costs than anticipated; and increased allowances for exits and daily travel allowances. Having consulted the property market, HMRC concluded that suitable property would not be available in some of its chosen locations within the time frame set out in its 2015 spending review settlement. The revised business case also set out that the financial benefits HMRC had estimated from the new estate would be reduced by likely changes to the timetable for occupying regional centres, requiring HMRC to keep existing offices open for longer.

HMRC's executive committee has agreed some proposals for reducing costs, but has sought further analysis of some of the options proposed to reduce further the risk of business disruption. The proposals which the executive committee has agreed so far would reduce the total spending on the estate by nearly £150 million up to 2020-21, but would defer some spending to a later date.

Working together and aligning interests

HMRC aims to support the Government Property Unit's strategy for cross-government regional hubs in England. The locations which HMRC selected for its regional centres match the Government Property Unit's proposed locations for hubs. In these regional hubs, HMRC aims to share space, services and facilities with other departments, agencies and local bodies. HMRC's strategy for regional centres also intends that this will give its staff opportunities to work across the government departments in these hubs, providing more job and career development opportunities.

HMRC intends to have an estates service headquarters in Nottingham, plus a small service in each of its locations. It is not yet clear how HMRC is aligning its plans to manage the regional centres itself with the Government Property Unit's intention to centralise the ownership and management of the public estate within the new property model.

Skills, expertise and governance

HMRC has made progress in developing the leadership, management and commercial skills needed in the transition to regional centres. HMRC now employs a specialist team which oversees the STEPS contract and will do so for the remainder of the contract. HMRC has put together a team to focus on transforming its estate. The team includes external recruits, brought in to provide additional management capacity and capability on estates. HMRC will change the composition of this team to reflect the skills needed, as regional centres progress from planning to implementation and evaluation. The transformation team grew to around 40 people, reporting to HMRC's Director of Estates Transformation. HMRC also brought in additional external expertise, to provide information on local property markets, and to give advice on aspects such as commercial fit costs out of the new estate, to meet HMRC's operating needs.

HMRC has put in place a clear governance structure to oversee the programme to transform its estate. The executive committee oversees delivery of HMRC's entire transformation programme, including its estates strategy. The investment committee makes investment decisions on behalf of the executive committee. It has scrutinised the initial and revised strategic outline case for the new estate and the outline business cases for individual regional centres. The locations programme board considered the strategic case for HMRC's new estate and makes recommendations about how the programme should develop. It considers emerging risks, affordability and timing, and proposed changes to the programme and its forecast costs and benefits. The board includes membership from HM Treasury, the Government Property Unit and the Infrastructure and Projects Authority.

The executive committee, investment committee and programme board have provided robust challenge to HMRC's estates strategy and proposals. Each group has recognised that the estates programme faces pressures on its budget, timetable and to business disruption and have asked for more analysis and the consideration of wider options where they have considered this necessary. As a result of such challenge, HMRC does not yet have an agreed programme business case.

National Audit Office

Design and Production by NAO External Relations
DP Ref: 11334-002