HM Revenue & Customs

Jon Thompson
Chief Executive

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Dear Stephen,

In the 53rd PAC report of session 2016-17 published on 28th April, 2017 following the hearing on HMRCs estate transformation, the Committee made a number of recommendations and asked us to write to them with more detail. In this letter we outline the options we have considered and the costs and benefits of these options, in addition to details of the recent extensive review of the Business Case by the Major Programme Review Group (MPRG), chaired by the Chief Executive of the Civil Service, on 3rd May, 2017

We considered 4 options before embarking on our estates transformation programme and these are outlined below:

> **1a.** To remain in STEPS properties on new terms post contract expiry and improve properties to a minimum standard; in other words **Do Nothing**.
>
> **1b.** To remain in STEPS properties on new terms post contract expiry but improve buildings to a better standard (similar to what we expect to deliver for Transitional Sites); this option would refurbish existing buildings. This is **not** a preferred option.
>
> **2.** To move to Regional Centres, Specialist Sites and a Headquarters entirely over the next ten years; the **Preferred Option.** This option was central to the approved HMRC Spending Review (SR) bid.
>
> **3.** To move out of STEPS properties and into short term leases, before moving into Regional Centres starting in the next SR period. This is **not** a preferred option.

This programme is a fundamental part of HMRC's Transformation and as such there is a strong strategic case underpinned by three key drivers; to enable delivery of HMRC's wider transformation agenda and departmental objectives, advancing the civil service wide Government Hubs initiative and the end of the STEPS PFI Contract in 2021.

The recommended option delivers our vision for the future, meets the strategic drivers and also aligns with HMRC's strategic principles for its future workspaces.

Our preferred option, number two still provides the strongest economic case and provides the best value for money option for the programme – **See Annex 1** for a summary of the costs / benefits per option.

In summary, option 2 provides an investment of **£552m** over 10 years leading to:

- cost savings of **£344m** in the 10 years to 2025
- cost avoidance of £75m per annum from 2021 (end of STEPS contract), and **£310m** in the 10 years to 2025
- annual recurring cash savings (compared to 2015-16 costs) of £74 million in 2025-26, rising to over £90m by 2028
- total annual cash savings of £165m per year against the Do Nothing option by 2028
- a projected payback period of **12 years**
- a wide range of soft benefits (including staff engagement and performance uplifts)

We recognise that this is a programme with some risk, as shared with the NAO and the Committee. Key risks to the programme relate to the following areas: approvals, business disruption, space requirements and affordability. A rigorous risk management process is in place to manage all risks. Mitigating actions have been taken to significantly reduce these risks i.e. joint HMRC/GPU approvals team established, Business Readiness Assurance Team in place, driving out costs during building acquisitions and deals agreed on 8 of 13 Regional Centres.

The programme has a 13% contingency over 10 years within the forecast cost of £552m, which is in line with the Green Book for the stage of programme development. The main proportion of this is for estates investment with the rest being for IT. In addition, access is available to further funding for HR costs from the wider HMRC budget over 5 years. The programme has a high degree of cost certainty on the property costs of each regional centre as we have detailed developer proposals on 11 of the 13 Regional Centre projects. The contingency allowed is appropriate, given the stage of programme delivery, and was endorsed by MPRG on 3 May, 2017. **See Annex 2** for more detail.

The Committee also asked us to provide more information about ***HMRCs plans to prioritise the continuity of tax collection and customer service during office closures and the moves to regional centres, and identify how we are protecting our operations from the risk of business disruption.***

HMRC recognises the importance of continuity of services to the taxpayer. We have taken a number of actions to reduce the effect of estate changes and to minimise the impact on tax collection and customer service.

While some business disruption is inevitable, we are planning for this by minimising disruption through spreading the changes over a number of years and retaining transitional sites for up to 10 years, and ensuring plans are in place for business continuity.

Using enhanced data modelling, we have analysed staff moves to the new regional centres, and identified challenges to ensure we have plans in place. We will phase moves to the regional centres, move similar functions over different periods, avoid business peaks and have contingency plans in place. We are also doing work to identify, and subsequently protect, our business critical functions, and have put in place a dedicated team to support business groups in minimising the disruption resulting from moves.

We have also rolled out WiFi in a number of existing buildings. This allows the use of mobile devices to minimise any risk of business disruption, allowing staff to work flexibly across locations and to immediately benefit from the flexible and collaborative working environment this technology allows.

We value our people and their skills and want to retain as many of our existing staff as possible. We took this into account when deciding where to locate our regional centres, modelling journey times from home postcodes, ensuring the majority of people will be able to move.

We have established Transitional Sites in areas where we know there will be a higher number of exits due to staff being outside of reasonable daily travel of regional centres, thereby allowing skills retention.

We are developing a strategy to maximise the focus on retention of key staff cohorts, in addition to continuity planning for knowledge transfer and sharing of knowledge through proactive solutions to retrain staff. We are maximising the use of HR policies to retain key staff where this is viable and cost effective, such as daily travel allowances, salary advances and home move assistance.

Despite all the actions above, should it become clear that the disruption to the department’s outputs cannot be managed, our contingency would be to slow the rate of moving staff to regional centres retaining some buildings longer than currently planned. Taking this action, would, for a short period, reduce the benefits realised by the programme, but it is a step that we are prepared to take if required.

Finally you asked us to explain ***how, if at all, it intends to make use of the proposed network of 200 mini-hubs.***

The Government Property Agency (GPA) has not yet announced the proposed locations of the 200 mini hubs. However HMRC has no plans to make use of these as we have announced the locations of our 13 regional centres and 5 specialist sites as well as the transitional and stepping stone sites that we will occupy.

Yours sincerely,

Jonathan

JON THOMPSON
CHIEF EXECUTIVE

Annex 1 – summary of Economic case

The table below provides the high level position for the economic case of each option:

	Option 1a	Option 1b	Option 2	Option 3
5 year investment costs	200	626	**457**	121
5 year running costs	1314	1314	**1283**	1314
5 year benefits	114	114	**16**	114
10 year investment costs	773	1341	**552**	581
10 year running costs	3114	3166	**2284**	3124
10 year benefits	-259	-259	**344**	-268
Payback period	N/A	N/A	**12 years**	22 years
25 year benefits NPV	-1037	-1531	**686**	67
Annual savings at 2025/26	-75	-75	**74**	-92

Annex 2 – Summary of Programme Contingency

Delivery Strands	Contingency	Optimism Bias Considerations
Estates Investment Costs	£66.3m	£38.8m fixed price design and build contract. Solution based on standard office fit out benchmarks. £27.5m TPI based forecast (inflationary)
IT	£ 5.6m	Based on standard unit price. Forecast for cabling is based on high specifications. Savings expected from volume discounts/re-use of assets. Contingency set at 10%.
HR Investment Costs	Access to up to £ 31 m (not included in the £72m programme contingency provision)	HR policies allow cost control. HMRC budget of £ 180 m over 5 years for exits is held centrally.
Time	3 months	3 month 'buffer' when offices are closed to staff to allow for readiness activity to take place prior to handback.
Benefits	Dependent on cost controls	In-year flexibility on office closures within annual allowance. Expect to use full yearly allowance and mothball surplus space. Explore re-letting of this surplus. T&S savings not yet quantified.