HM Revenue and Customs'

Asset Management Strategy

February 2008

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HMRC Asset Management Strategy

Introduction

This Asset Management Strategy outlines the asset management practices which HMRC has in place, and also includes those of its Executive Agency, The Valuation Office Agency (VOA). It sets out the Department's asset position as at 31 March 2007, and its approach to disposal of relevant assets identified as asset stock for the Lyons Review of Asset Management.

HM Revenue and Customs (HMRC) was formed from the former Departments of the Inland Revenue and HM Customs and Excise on 18 April 2005. This paper provides a consolidated picture of its capital asset and expenditure position, and builds on earlier plans and policies of the two former Departments.

HMRC spends only a relatively small amount of its annual net expenditure (7% in 06/07) on capital investment. It outsourced provision of Estates and IS services under the STEPs and Aspire contracts in 2001 and 2004 respectively, and as a result the Department holds only a small asset portfolio. However, capital investment, particularly in IS services, is a key enabler for the Department to achieve its business and efficiency targets, and to allow it to operate effectively within its CSR settlement, and as such the Department manages its capital investment carefully as a key part of its business planning processes.

Our investment strategy is two-fold: it is geared towards sustaining the integrity of existing capital investments - such as our IT infrastructure and operational assets, eg vehicles and mobile scanners - to enable us to fulfil our SR04 and CSR07 commitments, whilst at the same time allowing us to invest for the future in projects that enable us to transform the way we provide services.

VOA brings together the previously separate Valuation Office organisations in England and Wales (established in 1910) and in Scotland (established in 1911), and was launched under the Next Steps initiative on 30 September 1991. It provides valuation and estate surveying services, including advice on minerals, to Government Departments, the wider public sector and other areas in the public interest.

VOA's investment strategy is geared towards maintaining the effectiveness of its existing capital investments – such as its IT infrastructure and specialist software, whilst at the same time allowing it to invest for the future in projects that drive it towards delivery of the Agency's World Class agenda, as set out in its Forward Plan. Capital investment is relatively small, accounting for around 5% of the Agency's expenditure.

1. Capital Stock Survey

1.1 Condition of Assets

Business managers are responsible for the effective control and utilization of the Department's assets, including ensuring assets are maintained in an operational state. Therefore, asset condition is assumed to be acceptable unless damage is reported or identified. However, for certain assets there are specific arrangements in place to monitor condition:

Radios – the core infrastructure is managed by the National Radio Communication Unit in conjunction with the supplier's on-site technical team. Both the operational and core infrastructure assets are tested weekly and any non-operational assets are investigated.

Vehicles – there are documented requirements for period checks (daily, weekly and monthly) and a clearly defined accident reporting system is in place.

1.2 Departmental Asset Register

1.2.1 HMRC provided an update, of its fixed asset position at 31 March 2005, to the published National Asset Register of those assets it inherited from its predecessor departments.

At 31 March 2005, the three classes of fixed assets with a significant value were:

FreM category (total)	Sub category	Sub category
Information technology: £481.0m	Computer hardware: £71.8m	Developed Software: £409.2m
Land and Buildings: £183.5m	Freehold property: £89.9m	Leasehold Enhancements: £93.6m
Development expenditure: £143.1m	Assets under construction (software): £143.1m	

Of the overall asset portfolio, there were some 90 individual assets with a net book value (NBV) of £1m or greater. Net book value is the original cost of the asset less accumulated depreciation.

The most significant individual items are the land value and refurbishment costs associated with the occupation of the 100 Parliament Street building (£88.8m NBV at year end). The Inland Revenue and HM Customs and Excise entered into a joint 33 year finance lease agreement with Exchequer Partnerships in September 2002 in respect of 100 Parliament Street, which provides for the refurbishment and provision of serviced office accommodation from November 2004 to October 2037, in return for an annual unitary payment. The building is subject to a 35 year Private Finance Initiative contract, which started in August 2002. Following consultation with NAO and Treasury experts, HMRC recognised the capitalised value of the land and buildings and the refurbishment work provided under the contract as assets on completion of the refurbishment in 2004.

Other assets include a number of bespoke software systems, boats and scientific aids, and other capitalised refurbishments, where the properties are managed through the STEPs contract, but where HMRC capitalises enhancement costs to spread over the useful lives of the properties.

1.2.2 At 31 March 2007 the fixed assets owned by HMRC and VOA were:

HMRC Fixed Assets 31 March 2007

Asset	NBV (£m)
Freehold land & buildings	90.7
Accommodation refurbishments	81.3
Office & computer equipment	74.1
Vehicles	9.1
Furniture & fittings	56.1
Developed computer software	693
Assets under construction	219
Vessels	19
Scientific aids	21.3
Intangible assets	8.2
Total	1271.8

VOA Fixed Assets 31 March 2007

Asset	NBV (£m)
Refurbishments	0.8
Computer Equipment	0.6
Computer Software	24.2
Leased Equipment	0.1
Office & Other Equipment	1.6
Assets Under Construction	6.0
Total	33.3

The main growth areas in our asset base are: developed computer software and assets under construction, mainly under the banner of the Departmental Transformation Programme (see also para 4.2). Assets Under Construction (usually software being developed) are assigned to specific programmes under the DTP governance and the costs of development tracked accordingly – when the software goes live the assets are transferred and amortisation is charged as appropriate.

Examples of where expenditure has taken place, and the benefits this has brought are:

Pensions Simplification – this has resulted in a simplified tax regime by consolidating eight complex pensions schemes into one. The Programme has delivered an online system, which enables online submission of reports and returns by pension scheme administrators and practitioners. This should make pension schemes easier to operate and contribute to, as well as reducing compliance costs for the pensions industry.

Customs Service Transformation – the Programme involves major modifications to existing IT systems, along with the development of new services and re-engineering business processes. The Programme's aims include: facilitation of legitimate passenger and freight movement; strengthening our defences for protection of EU and UK frontiers from exploitation by terrorists and other significant threats; and increasing compliance and reducing the tax gap whilst reducing compliance and transactions costs.

Tax Credits Transformation Programme – a key part of the Programme is to deliver an improved customer experience through enhancements to the IT infrastructure which supports tax credits, and to provide staff with the required skills. This should facilitate improved authentication procedures, and real time compliance checks. The Programme aims to: reduce the burden for customers; reduce the level of overpayments; and align, where possible, the delivery of Tax Credits and Child Benefit. By helping our customers to get it right we will build trust, improve the customer experience, and allow HMRC to run more streamlined, targeted and efficient operations.

2. Asset Disposal Plan

2.1 Procedures in place to identify disposal opportunities

Assets will be disposed of when they are no longer required for use anywhere within HMRC, or where it is decided by the asset manager that they no longer work cost-effectively. Certain assets are subject to particular disposal policies:

Vehicles – these are replaced after the earlier of three years or 80000 miles for petrol engines, and 100000 miles for diesel engines. This policy is based on industry standards and intended to ensure no loss on disposal, and avoid increased running costs as vehicles age. The replacement policy is reviewed annually.

Furniture – disposals are based on the reducing numbers of staff within the Department. Furniture is re-used where possible to replace damaged and non-repairable items.

IT – disposals are based on reducing numbers of staff within the Department. IT hardware is re-used via the IT Pool to support office moves and to replace broken kit.

IT software which is being replaced by Change (Departmental Transformation Programme) initiatives is now decommissioned: this is an essential part of all DTP programmes. Unused and obsolete systems are considered for decommissioning through consultation between our Information Management Solutions (IMS) directorate and the business owner of the system.

2.2 Disposals

Inland Revenue and HMCE provided information on their tangible asset base as at 31/3/04 as input into the Lyons review of government assets. The total reported tangible asset portfolio was £808.3m in net book value. The largest value items in this holding were in capitalised enhancements to leasehold property, office equipment and furniture and fittings, as well as scientific aids and operational support equipment, such as vehicles and vessels.

Since the 2001 National Asset Register update, the Departments have disposed of £112.6m of fixed assets at NBV, 11.8% of the value of the total asset register at 31 March 2005. Assets still to be identified, but likely to be vessels and scientific aids, will be transferred to the newly formed Borders Agency during the period 2008 to 2010.

A table showing acquisitions and disposals since 2003-04 is included below.

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Acquisitions	231.6	460.9	385.0	307.6	288.2	261.0	255.0	248.0
Disposals	3.8	61.1	17.7	3.6	2.1	2.2	2.0	1.8
Net book value	808.3	954.9	1235.5	1305.1	1,425.7	1492.2	1531.0	1537.8

The most significant disposal has been of computer equipment used by the Inland Revenue's former computer services partner, Electronic Data System Ltd (EDS). Ownership of these assets was transferred to Inland Revenue's new service partner, CapGemini, at the start of the ASPIRE contract on 1 July 2004, at a charge of £1. The assets were valued at open market value on that date, and the transfer of the assets was treated as a fixed asset disposal (at the open market value of £54m) with the value being transferred to debtors under HM Treasury's PFI barter deal arrangements.

In 2006-07, HMRC completed the disposal of Elmbridge Court, Gloucester, the only building it owned, other than 100 Parliament Street.

The vast majority of VOA fixed assets – over 85% - relate to IT software and are depreciated to zero over their useful economic life. Disposals are not, therefore, material to VOA.

3. Asset Management Practice

3.1 Capital planning, allocation and management

3.1.1 The maintenance of assets

HMRC has in place a number of maintenance contracts to ensure assets remain fit for purpose. Assets such as vehicles, vessels, and tobacco scanners, are serviced and maintained in accordance with the relevant manufacturer's recommendation. And as stated at 1.1, clear procedures are in place for reporting lost or damaged items.

Maintenance of IT hardware is managed through periodic refresh programmes during which particular assets are replaced. This ensures IT assets remain fit for purpose, and also helps the Department to take advantage of technological developments.

3.1.2 Financial management/Corporate governance

Most assets are centrally managed within specialised units:

Vehicles, radios and office machines are managed by the Commercial Directorate. Furniture, property refurbishments, and antiques/artwork are managed by the Estates and Support Services Directorate.

IT hardware and software assets are managed by IMS. Asset managers for hardware and for major IT systems are responsible for managing the integrity of the assets and, for software, ensuring that proposed changes are consistent with the effective working of the system.

There is in place a comprehensive approvals process, including the need for a business case, and all requests for new assets are subject to this process. An immutable requirement, or significant benefits, need to be shown before procurement is considered.

3.1.2.i Achieving best value from the balance of assets and outsourced services

HMRC has transferred the ownership of the majority of the assets previously associated with its estates and information technology services to third parties. It works carefully with its partners to ensure best value from these contracts.

- Management of Estates services

HMRC transferred the balance sheet risk associated with its estates portfolio to a third party contractor, Mapeley, under its Steps/PFI contract. From April 2001, Mapeley took on ownership of almost all of the properties Inland Revenue and Customs and Excise owned or leased. The key benefits of the outsourcing deal are risk transfer and the ability for the Department to focus on its core business. But even though HMRC has transferred ownership of the assets, to maximise value for money, the Department is actively looking at proposals to significantly reduce the total estate within the contract.

As an Agency of HMRC, VOA is able to take advantage of the benefits of the STEPS PFI contract. As such, the same arrangements apply to VOA's estate, as apply to HMRC's, in that the balance sheet risk associated with the estates portfolio is transferred to a third party contractor.

- Management of information technology services

HMRC IMS provides overall management of all IS Services, with the Aspire Contract responsible for the maintenance on these systems. Before merger, Inland Revenue selected Cap Gemini as its new IT partner with effect from July 04, which resulted in the transfer of ownership of mainframe assets and maintenance on computer hardware (excluding office machinery) to Cap Gemini. HM Customs and Excise's IT infrastructure was provided under a PFI contract with Fujitsu, let from August 1999. Following one of the recommendations of the O'Donnell Review, HMRC reconsidered its IT strategy and determined that the harmonised provision of services – with a single IT support contract covering all employees – would best serve business needs. The two main IT service contracts (ISA and ASPIRE) were merged at the end of March 2006, providing a value-for-money means of delivering an improved platform to align the provision of IT with business objectives. This strategic partnership delivers value to HMRC through transferring the risk of ownership and maintenance to a specialised private sector partner, and HMRC is working with its ASPIRE partners to ensure it achieves best value from its resource spend.

Similarly, VOA is able to take advantage of the Cap Gemini ASPIRE partnership rather than make separate arrangements. VOA's IT infrastructure is also not included on its balance sheet as development and maintenance of it is provided through contracts with external partners.

3.1.3 Investment appraisal

Investment in capitalised software and refurbishment programmes is critical to HMRC's achievement of its CSR07 targets and efficiency commitments. As such, capital investment is managed as a high priority, through the senior decision making bodies of the Department. ExCom, HMRC's Executive Committee, takes overall decisions on the allocation of resources between strategic programmes, on the basis of projected benefits from the investments, and Director level SROs are accountable for achieving the planned benefits within agreed expenditure levels.

Decisions are based on lifetime projections of costs and benefits, but funding allocations are made for particular expenditure periods with regular review points before further funding is released, to ensure that planned benefits are still likely to be realised. These decisions are supported by robust business cases, reviewed by the central finance Investment Appraisal team using techniques and systems that are fully in accord with HMT Green Book guidance. A central Departmental Transformation Programme Office supports ExCom by managing the balance between change portfolios, and ensuring that investment patterns support the strategic direction of the Department. Directors with responsibility for each class of spend then manage expenditure to deliver these strategic priorities.

In support of its "world-class" vision, the VOA's capital investment programme comprises a number of projects, which are often interdependent, and are brought on stream in such a way as to ensure maximum potential for improvements in service delivery. The projects, both individually, and as part of the overall programme, are required to demonstrate through detailed business cases the expected business benefits. Following implementation the impacts are monitored to ensure benefits are realised.

The Agency is also developing a capital investment strategy, which will ensure that investments are considered with a 'commercial eye' in terms of, for example, NPV, payback and return on investment: this should give greater assurance to the policy departments/devolved administrations for whom we undertake work on a full cost recovery basis that we are investing sensibly and that the investment is sustainable across the life of the project.

3.1.4 Potential for wider markets activity

HMRC has made contact with Partnerships UK, and work is underway to explore opportunities for using public sector assets in the commercial world to realise some of their value.

4. Forward Investment Plan

4.1 The Department's capital investment plans are split approximately half for transformation and half for regular business. Regular business will involve capital replacement programmes, such as vehicles and radios as well as new investment. All investment will be subject to investment appraisal and approval processes.

4.2 Departmental Transformation Programme

The DTP Portfolio is an intrinsic part of the Department's planning for CSR07 and included in this are moves to strengthen data security and extend the remit of DTP to include wider change across the whole of HMRC. A summary of the key capital investment programmes is given below. Further information on these programmes can be found in the Department's Value for Money Delivery Agreement dated December 2007.

Carter - this will deliver robust and reliable online services, which customers have helped design and want to use, so that HMRC can achieve its aspiration that, by 2012, all businesses and IT-literate individuals will file their returns on-line.

By increasing take-up of electronic filing, introducing automation to some processes, and improving data quality, the Programme achieves significant operational efficiencies for HMRC, as well as reducing the overall volume of post and telephone contact with our customers.

Pay As You Earn - this will enhance the customer experience and secure VfM benefits through the introduction of a new national, single view of employee data, underpinned by transformed processes and increased automation.

The key outcome of this Programme, the single customer record will ensure customer queries are dealt with at the first point of contact. From an operational perspective, it will deliver both a high level of automation leading to a reduced cost to serve, and cleaner data.

Debt Management and Banking - a new technology system will be implemented, alongside new business processes. This will provide a more tailored treatment for customers based on behavioural risk, recognising their total liabilities and entitlements, facilitating flexible methods of payment supported by reformed and streamlined processes; in addition, will also deliver management information to better target debt and allow benchmarking.

Considerable staff savings will be achieved with its introduction, and it is key to enabling HMRC to look at customer debts holistically, reducing interventions for the customer and workload for the Department.

Enterprise Infrastructure Foundation & IT Infrastructure – new technology systems will be introduced, which will deliver improved service and efficiency levels from our IT services on a reduced cost base, underpinned by a simplified and consolidated approach to customer contact that will be delivered through an enhanced telephone system, supported by improvements to the desktop.

Savings will be achieved through, for example, reduced travel and subsistence through the use of at-desk collaboration and conferencing facilities; flexibility to use any workstation without the need to re-set personal IT and telephone applications. System owners will see project costs for infrastructure substantially reduced and will notice improved service availability that is also more responsive to changes in demand;

4.3 The VOA plans to streamline its processes by continued investment in technology, including specialist software. It is also potentially looking to rationalise its accommodation, including the closure of some offices. Together these investments will reduce the Agency's operating cost in future years whilst offering the potential for efficiencies and effectiveness and improved value for money service for its customers.

HMRC
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