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The HMRC Estate

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The Committee of Public Accounts

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Contents

Summary

HM Revenue & Customs (HMRC) is one year into a 10 year plan to transform the way it collects tax. As part of this it plans to reduce its 170 offices nationwide to 13 large regional hubs in city centres. We do not believe that it will save as much money as HMRC has predicted and we are concerned that it has not thought through all the negative costs to the wider economy of its approach and the impact on local employment. The fact that it has already changed its plans to set up a large office in Stratford, east London demonstrates that.

Introduction

HM Revenue & Customs (HMRC) has a strategy to redesign and reduce its estate over the next 10 years. It plans to move from a current estate of 170 offices to 13 large regional centres, supplemented by four specialist sites and a headquarters in central London. HMRC's estate programme is one of 15 current major programmes aimed at transforming how it operates and administers tax. Two thirds of HMRC's current estate is provided under the STEPS contract, a 20-year private finance initiative (PFI) deal, which HMRC set up in 2001 with Mapeley STEPS Contractor Ltd (Mapeley). HMRC considers that the end of this contract in 2021 provides an opportunity to reconfigure its estate. HMRC's relocation programme is the first significant step in government's wider plans to move most civil servants to regional hubs.

In 2015–16, HMRC spent £269 million running its estate, accommodating some 58,600 staff. It forecasts that implementing its plan for a new estate will need an investment of over £500 million over the next 10 years. HMRC considers that it will achieve cumulative efficiency savings of over £300 million in running its estate by 2025–26, and £80 million a year thereafter. It expects that closing existing offices and opening regional centres will result in 38,000 employees needing to move their workplace and estimates that 5,000 staff may leave.

Conclusions and recommendations

1. **HM Revenue & Customs has yet to demonstrate that it has a realistic and affordable plan to deliver such a radical change to its estate, and we do not believe that it needs to be based in expensive cities across the UK.** HM Revenue & Custom (HMRC) aims to bring its staff together in large regional centres located in the centre of the main city in each region. Between November 2015 and September 2016, HMRC's estimate of the cost of its estate over the next 10 years rose by £600 million (22%), at which point it acknowledged that its original plan was not affordable. It has since identified options for reducing the cost to bring it nearer to the funding level agreed in the spending review 2015, but its plans are evolving and it does not have a settled business case. HMRC has not demonstrated how moving to major city centre locations will achieve its intended benefits, given its strategy is to transform its services to mainly digital channels. It has not adequately explained why offices in such expensive locations are necessary to serve customers better or increase the efficiency and effectiveness of its tax compliance work. For example, HMRC has chosen to locate its Yorkshire office in Leeds, despite being more expensive than Bradford, where many HMRC staff already work.

   Recommendations:

   In re-working its business case, HMRC should reconsider whether moving to major city centres is the optimal way to deliver its objectives and achieve value for money. As part of this exercise it should compare the costs and benefits of its chosen approach, and the selected locations, with alternative sites.

   HMRC should write to us by the end of June 2017 identifying the costs and benefits of the options it has considered in its revised business case, the risks it will need to manage, and what contingency plans it has in place.

2. **Measures being considered to de-scope the programme to reduce its costs could compromise the long-term outcomes sought by HMRC.** In November 2015, HMRC forecast £499 million of savings by 2025–26 from the moves to regional centres, but by September 2016 had cut its forecast savings by more than half, to £212 million. HMRC is examining options to reduce costs and told us it now expects to restore the planned savings to at least £300 million. Its options include: closing some existing buildings earlier; opening regional centres later; moving some work to cheaper locations; and using space more intensively. HMRC's strategy is predicated on a more modern and flexible estate to support flexible ways of working both for HMRC and for other government departments which would also use the hubs. It told us that it would consider the programme worth doing even if no savings were generated. It was not clear to us that the twin aims of improving the estate and saving money were reconcilable, or how HMRC, the Treasury and the Government Property Unit will make judgments where there is trade-off between quality and cost. Unless there is clarity about the main objective of the programme, there is a high risk that decisions made now to reduce its scope could prove to be wrong in the long run.

Recommendation: ***HMRC, HM Treasury and the Government Property Unit must decide what matters most: a programme which makes savings for HMRC in the short to medium term; or one which optimises the value for money of HMRC's and wider government's estate in the long run. When we return to this topic, we expect to hear how government has reconciled these potentially conflicting challenges.***

3. **The scale of HMRC's relocation plan carries a high risk of disruption to its core business of collecting tax and serving customers.** HMRC has embarked on one of the largest organisational change programmes in Europe. It is carrying out 15 large and interdependent change programmes and will have to deal in the same period with the consequences of Brexit. There is a significant risk to maintaining business as usual while moving to new premises and relocating so many of its employees. Around 38,000 of HMRC's employees will need to move to a different office, or leave, when their workplace closes. HMRC expects around 5,000 employees will leave because of its relocation programme. It accepts that this loss of staff will drain corporate memory and expertise but does not yet have a solution. HMRC already experiences too high a level of staff turnover, with 5–6,000 staff leaving each year, and it will take time to recruit and train staff in the new regional centres.

Recommendation: ***HMRC must prioritise the continuity of tax collection and customer service during office closures and the moves to regional centres, and identify how it is protecting its operations from the risk of business disruption. It should develop a clear plan to preserve its corporate memory and retain the expertise of key staff for as long as is necessary to recruit and train adequate replacements. HMRC should set out the actions it is taking when it writes to us in June 2017.***

4. **HMRC's 20-year contract with Mapeley STEPS Contractor Ltd was too large and took control away from HMRC, leaving the department with an estate that no longer meets its needs.** HMRC now doubts that the STEPS contract with Mapeley, which it entered into in 2001, was ever capable of providing value for money for government or the taxpayer. The "sale and lease back" arrangement left HMRC paying high costs over an extended period because it had to cover Mapeley's costs of raising finance from the private sector. Because the contract is so big, HMRC has borne a high risk should the contract collapse because of default by the contractor. In addition, deductions made for under-performance in any single area have been insufficient to act as an incentive for Mapeley to perform better. For example, HMRC reduced its payments to Mapeley by about £700,000 in 2014–15 to compensate for under-performance against the standards set for its facilities management services, but felt that this amount, which was just 0.5% of the annual contract value, was not enough to incentivise Mapeley to improve in this area.

Recommendation: ***The Government Property Unit and Cabinet Office should work with HMRC to identify and apply the lessons learnt for government from the STEPS contract. It should prioritise putting in place the commercial and property skills needed to negotiate contracts and manage government's future estate efficiently and effectively.***

5. **HMRC has signed 25-year leases for two of its regional centres which, as technology and working practices change, could lock government into holding larger properties than it will need.** HMRC has signed lease agreements in Croydon and Bristol, without any break clauses, for its first two regional centres. But it does not know if these properties will match its needs beyond 2026. It has negotiated conditions which would enable it to sublet any surplus space to other government departments but has no further flexibility in the leases. The Government Property Unit considers the use of long-term leases can help departments to negotiate the best commercial deals, but wants to develop a mixture of longer and shorter lease terms in each region to maintain flexibility across the estate.

   Recommendation: ***HMRC and the Government Property Unit should work together to ensure there is an appropriate mix of medium- and long-term leases that provide flexibility for regional centres and hubs so that the government estate can adapt to future changes in the way departments work.***

6. **The Government Property Unit did not convince us that its plans to manage the government estate through a new quango will improve value for money.** The Government Property Unit is introducing a new Executive Agency to centralise management of the government estate and to take a more commercial approach to government property. But the rationale for the new agency and how it will deliver value for money are not finalised. It informed us that, while it has appointed an interim chief executive, the strategy and remit are still very much in development and there is still some way to go before plans for the new agency are finalised. We have commented before on the failure of units at the centre of government to get enough buy-in from departments across Whitehall to central initiatives, and to make sure that individual departments act collaboratively rather than independently, for example in our recent reports on shared service centres and on the use of consultants and temporary staff.

   Recommendation: ***Before committing itself to establishing a new agency, the Government Property Unit should write to us setting out clearly why it thinks centralising the management of the government estate will improve quality and efficiency. It should identify in its letter the proposed aim, role and responsibilities of the new organisation, including what authority it will have over government departments.***

7. **It is not clear how the local impact of office closures is being factored into relocation decisions.** The Government Property Unit plans to introduce a network of government hubs in major cities, supported by around 200 "mini-hubs". These mini-hubs will vary in size, with up to several hundred people in some cases, but the unit has not fully decided on their purpose or on locations. HMRC has not indicated any intentions to use mini-hubs, despite the opportunities they could offer for retaining experienced staff or for maintaining a physical presence in some communities. Closing down offices in any town will affect that local community. For example, HMRC employs around 1,500 people in Cumbernauld, who will be expected to move to the regional centre in Glasgow. Closure of the Cumbernauld office will have a serious impact on the town, community and local businesses. It also takes no account of the already overcrowded transport into the city. We raised similar concerns about the closure of the Livingston and Wrexham offices

specifically but this will be a concern across many other towns and communities facing office closures and job losses, and these wider concerns will have a practical impact on HMRC's plans.

Recommendations:

The Government Property Unit should set out the rationale for having regional hubs and mini-hubs and for determining their locations. It should also explain how it is taking into account the impacts on local economies when deciding how the government estate should be configured. We have concerns that HMRC savings could end up shunting costs to other parts of the public sector particularly if jobs are lost. It should confirm as soon as possible the planned locations of regional hubs and mini-hubs.

When HMRC writes to us in May 2017, it should tell us how, if at all, it intends to make use of the proposed network of 200 mini-hubs.

1 HMRC's estate strategy

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) and the Government Property Unit about HMRC's strategy for moving to regional centres, how this fits with its other transformation programmes and with the Government Property Unit's plans for estate rationalisation, and how HMRC is managing the STEPS contract, through to its end in 2021.[1]

2. In 2015–16, HMRC spent £269 million running its estate, accommodating some 58,600 staff in 170 buildings dispersed across the United Kingdom.[2] HMRC now intends to move from these buildings, to 13 large regional centres, supplemented by four specialist sites, and a headquarters in central London.[3] This 10 year estate strategy is part of HMRC's overall transformation of its business. It considers that large regional centres will offer the right infrastructure and working environment to enable digital ways of working for its staff and customers. HMRC's plan also aims to support the wider civil service agenda to move to shared government regional hubs, led by the Government Property Unit. HMRC considers that the end of the STEPS contract in 2021 (which covers around two-thirds of its current estate) provides an imperative to reconfigure its estate on a large scale.[4]

Developing realistic and affordable plans which deliver the intended outcomes of the new estate

3. HMRC's forecasts of the costs and savings from implementing its estate strategy have fluctuated. In HMRC's spending review bid in November 2015, it forecast over the next 10 years a total cost of £2.65 billion, and cumulative efficiency savings of £499 million in running its estate.[5] At that time HMRC had not consulted the property market and had less understanding of property costs.[6] In September 2016, HMRC updated its forecasts for the 10 year period, following consultation with property markets. It then forecast an increase in the total cost of £600 million (22%), to £3.24 billion, and reduced its forecast savings to £212 million.[7]

4. At that point, HMRC decided its plans were unrealistic. HMRC told us that it had since refined its forecasts further, and now expected a total cost of £2.8 billion (an increase of £150 million from its original forecast), and expected cumulative savings of over £300 million, over the next 10 years.[8] HMRC estimated it would achieve a sustainable reduction of around £80 million a year thereafter.[9] While HMRC was reasonably confident that these figures were more realistic, it highlighted that its forecasts were still fluid. It maintained that it would consider the programme worth doing, even if it made no savings.[10]

1 C&AG's Report, *Managing the HMRC estate*, Session 2016–17, HC 726, 10 January 2017
2 C&AG's report, para 2
3 C&AG's report, para 1
4 C&AG's Report, paras 4, 6, 11
5 C&AG's report, paras 3.4 and figure 8
6 Q 154
7 C&AG's Report, paras 18,19, 3.4, 3.6,
8 Q 89
9 C&AG's Report, paras 10, 17
10 Qq 88–89

5. HMRC does not yet have a final business case for its estate strategy. It hoped to submit a business case to the Chief Secretary of HM Treasury for approval, by the end of March 2017.[11] It told us that it had looked at four means to control cost increases: closing a number of existing offices earlier than it had previously planned; phased delivery of some regional centres, opening some later; moving some work to more cost-effective location, by reviewing where it needed to recruit staff; and looking again at space planning to make more intensive use of the proposed estate.[12] HMRC's measures to control cost increases included the need to change its initial plans for Stratford regional centre in London. In January 2016, HMRC told us that it proposed to have a couple of big bases on the edges of London, and 8,000 staff at Stratford regional centre.[13] However, in January 2017, we asked HMRC if this were still happening. HMRC confirmed that its plan had changed and that its current staff number for Stratford was 5,500. HMRC had also not made a final decision on the location for east London, and told us that the site for this regional centre would be the last decision it would make.[14]

6. HMRC's estate strategy intends to bring its staff together in large regional centres which will be sited in more expensive locations in the centre of the main city in each region.[15] HMRC told us that it initially developed eight selection criteria to produce a shortlist of where it would locate regional centres. Alongside costs, HMRC's criteria included transport, digital infrastructure, and opportunities for staff career development.[16] It told us that it had not included the impact on its staff in its selection criteria.[17] It initially chose 42 towns and cities and evaluated them against the eight criteria, to select the locations for the 13 regional centres. The outcome was that the chosen locations were all major cities.[18] HMRC agreed that major city centres were more expensive, and that it could get cheaper rents in some of the towns it initially considered. For example, HMRC decided upon Cardiff as the site for its regional centre in Wales, despite nearby Swansea offering lower property rental costs.[19]

7. HMRC decided to close some large offices, such as Cumbernauld, Livingston, Wrexham, and Bradford, that appeared to tick the boxes for regional centres. In some cases, these were modern offices, located near to planned regional centres, or were in large towns that had good transport and lower property rental costs. HMRC told us that while it included Cumbernauld in its initial list of 42 locations, the town had not made the cut against its criteria.[20] HMRC also debated Leeds and Bradford as a Yorkshire regional centre, which involved a dialogue with local authorities. HMRC attributed its preference for Leeds over lower cost Bradford, in part, to shorter journey times to Leeds than Bradford for HMRC staff in other offices in Yorkshire that it was closing, such as York.[21]

11 Qq 90, 157–158
12 Q 185
13 Committee of Public Accounts, *Tackling tax fraud*, Thirty-fourth Report of Session 2015–16, HC 674, March 2016, Oral Evidence, Q 31
14 Qq 146–147
15 Q 100, 147
16 Q 148
17 Q 150
18 Q 100
19 Q 187
20 Q 148, 190
21 Q 150, 186–187

Managing business disruption

8. The large scale of HMRC's estate strategy, alongside its wider transformation, carries a high risk of disruption to its core business of collecting all tax due, and improving service to customers and customer compliance. HMRC considered that business disruption (and particularly the impact on its staff during office closures and transfers to regional centres) was in the top three risks of the estate programme.[22] HMRC is currently carrying out one of the largest organisational change programmes in Europe. This involves 15 large and interdependent change programmes, which HMRC described as combining into "a very substantial and risky programme".[23]

9. HMRC expected to lose corporate memory and expertise from the office closures, and had not developed a solution to the disruption to its performance and operations that could result.[24] HMRC told us that around 38,000 of its staff would need to move to a different office, or leave HMRC, when their workplace closed.[25] The average driving distance between an office closing and its nearest regional centre was 18 miles. The longest driving distance was 174 miles, from Redruth in Cornwall to Bristol regional centre.[26] HMRC told us that it had assumed around 5,000 staff would leave because of its relocation programme, through taking redundancy or, potentially, redeployment with another government department. HMRC recognised that it had to develop a means to capture the knowledge that such staff hold, and share this with the people it recruited in the regional centres.[27]

10. HMRC's already high level of staff turnover is a further risk to disruption to its operations. HMRC told us that almost 6,000 staff leave each year.[28] HMRC would prefer a level of staff turnover at half this level to reduce organisational risk.[29] It said that it was carrying out a recruitment drive, attempting to recruit 9,000 people this year. It also planned a further significant recruitment drive in 2018. It would take time to train the newly recruited staff in the regional centres.[30]

11. Brexit adds a further challenge to HMRC's transformation. HMRC said it was carrying out contingency planning for Brexit. It considered that it faced six main issues related to the United Kingdom leaving the single market, the first of which was the implications for the customs union, and the second, was how that affected various aspects of indirect tax, as VAT is administered within a European framework. HMRC said that the other issues it faced relating to Brexit included its responsibilities for £40 billion worth of benefit expenditure, and for tax credits; its data exchange with other parties, which it considered essential in running a tax system; a series of litigations in which the application of European law was questioned in relation to tax; and finally, the impact on its customers, particularly for those trading within the European Union, and what that meant to their relationship with HMRC.[31]

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22 Q 91
23 Qq 97–99
24 Q 91
25 Q 91
26 C&AG's Report, para 3.16
27 Qq 94–95,
28 Q 102
29 Qq 159
30 Qq 159–160
31 Qq 192–193

Maintaining flexibility

12. HMRC has already locked itself into 25 year leases, without break clauses, for its first two regional centres in Bristol and Croydon, which limits its future flexibility to adapt its estate to changing needs. HMRC said it signed long leases without break clauses to get a lower price.[32] It had done so without having a settled business case for its 10 year estate strategy. HMRC accepted it took on risk with longer leases.[33] HMRC stated that each of these two regional centres had a strong case, independent of its wider estate strategy, and of any changes to its future staffing numbers. The terms of these two leases allowed HMRC to sublet space, that become surplus to its needs, to other government departments. This assumed that other government departments would want to take up its surplus space in these cities. It had no further flexibility in the leases.[34] HMRC had not forecast its staffing needs long-term and accepted that, if its future staffing needs fell by, for example a further 5,000 people, it might then need only 12 regional centres.[35]

32 Q 119
33 Q 119
34 Q 115, 156–158
35 Q 156

2 The Government Property Unit's strategy for regional hubs

13. The Government Property Unit leads and coordinates the management of the government estate. Its estate strategy aims to develop an estate that provides value for money, delivers better integrated public services and acts as an enabler for growth. It told us that in the past year, it had generated just under £1 billion of capital receipts from sales of public buildings.[36]

The plans for a Government Property Agency

14. The Government Property Unit is introducing a new executive agency to take a more commercial overview of government property.[37] The Government Property Unit said it was consulting government departments as part of finalising the remit of the agency and its operations, and that it was currently going through a business case process.[38] It agreed a strategic outline business case in December 2016 and will produce a full business case in Summer 2017.[39] Despite still developing its business case, the Cabinet Office had already announced its appointments for interim chief executive and interim executives for the agency.[40] The Government Property Unit told us that the Government Property Agency entered a "shadow running" phase in January and will begin operations fully in Autumn 2017.[41]

15. The Committee of Public Accounts has commented before on the way that the centre of government has unsuccessfully relied on encouragement and persuasion when trying to convince individual departments to play their part in central initiatives.[42] In October 2016, we reported that one of the failings of the government's shared service centres programme was that the Cabinet Office, once it had decided not to make it compulsory for departments to join the programme, did not secure sufficient buy-in from them to choose to do so voluntarily. We also found that, even if departments agreed to take part, it was then too easy for them to pull out subsequently and put at risk the significant benefits that shared services can deliver.[43] In April 2016, on the use of consultants and temporary staff across government, we reported that governmment's ability to get the best deals was compromised because the agreements negotiated on behalf of government by the Crown Commercial Service were only being used for about half of all assignments.[44]

36 Q 174; C&AG's Report, para 1.11, Government Property Unit website, accessed April 2017
37 Qq 106–113
38 Qq172–176
39 Government Property Unit (HME0008)
40 Cabinet Office press release, Government Property Unit appointment: Ian Playford, November 2016
41 Qq 172–174, 176, written evidence to the Committee following the evidence session
42 Committee of Public Accounts, Cabinet Office: Improving government procurement and the impact of government's ICT savings initiatives, Sixth Report of Session 2013–14, HC 137, September 2013
43 Committee of Public Accounts, *Shared service centres*, Twentieth Report of Session 2016–17, HC 297, October 2016
44 Committee of Public Accounts, *Use of consultants and temporary staff*, Thirty-sixth Report of Session 2015–16, HC 726, April 2016

Regional hubs strategy

16. The Government Property Unit's estate strategy aims to introduce a network of between 18 and 22 'regional hubs', located in major cities. It claimed that the regional hubs would deliver around £2.24 billion worth of savings. It told us that it also intended to set up 200 "mini-hubs" across the country.[45]

17. The Government Property Unit emphasised that it was critical to be closely joined up with HMRC and other government departments, to determine their accommodation preferences. To do so, it said it had recruited property professionals to work with HMRC, and other government departments, to discuss their need for accommodation space; their required standards on aspects of accommodation such as IT and security; and their preferred timings for transferring work to regional hubs. It told us that it was using this information to help determine the final locations of regional hubs, when they would open, and their initial size.[46]

18. The Government Property Unit has not made any final announcements on the locations of regional hubs. It confirmed that HMRC's announced locations for regional centres matched the locations of some regional hubs. It told us that it had avoided naming the regional hub locations to maintain flexibility and to take advantage of favourable rental prices, before making property deals. It said it was still studying local property markets and rental levels in the locations in which it was considering regional hubs. The Government Property Unit said it intended to renegotiate any deals it had already made, if it subsequently found that property market conditions had changed.[47]

19. The Government Property Unit told us that its decisions on locations for regional hubs were focused on best meeting government departments' own needs.[48] Its decisions had not factored in the impacts on local economies. It accepted that its evaluation of location options had not considered the relative value of jobs in different towns and cities, with different levels of unemployment. It had not assessed the external impacts on the locations in which government offices are to close. It pointed to its continuing analysis of the potential locations for mini-hubs as an example of where it could seek that compromise.[49]

20. The Government Property Unit's proposal for a network of 200 mini-hubs could offer opportunities for government departments to maintain a local physical presence and retain experienced staff. The Government Property Unit told us that it was still finalising the purpose of mini-hubs through consulting government departments to discuss their requirements, agree where the mini-hubs should be located, and determine how many staff would be based in each hub. It expected that mini-hubs would vary in size, with some accommodating up to several hundred people.[50]

21. We received written evidence from the Member of Parliament for Cumbernauld, Kilsyth and Kirkintilloch East, who expressed concern about the impact that closing HMRC's office in Cumbernauld would have on the community and local businesses. He

45 Qq 104–105, 174
46 Qq 104–105
47 Q 105
48 Q 168
49 Qq 167–169
50 Qq 165–166

stated that HMRC was the town's largest single employer and had an office of around 1,500 people.[51] We also received evidence from the Member of Parliament for Wrexham, who expressed a similar concern about the impact HMRC would have on Wrexham by closing its office there. He said that HMRC's office employed 350 people in Wrexham, a large number for the town. He pointed out that HMRC's regional centre in Wales would be in Cardiff, a long way from Wrexham, meaning that retention of Wrexham staff within Wales was unfeasible.[52] Similarly, the Members of Parliament for Livingston and for Linlithgow and East Falkirk raised with us concerns about closure of the Livingston office, both about job losses in Livingston and the relatively higher cost of office space in Edinburgh.[53] The Government Property Unit accepted that mini-hubs could help address the concentration of public sector jobs in the metropolitan centres selected for the much larger regional hubs.[54]

22. We asked the Government Property Unit about HMRC having signed 25 year leases, without break clauses, for its first two regional centres in Bristol and Croydon. The Government Property Unit believed that it may make sense for HMRC to sign these two 25 year leases, if HMRC had negotiated good value commercial deals, and if the deals enabled HMRC to meet its future operational needs. It told us that it expected other government departments would set up in Bristol and Croydon, alongside HMRC. It said it was confident that HMRC would be able to sub-let any space which it no longer needed in these two regional centres to other government departments who were moving into each city.[55]

23. The Government Property Unit said it expected to see variety in the length of lease terms for the public estate. It told us that this was an important feature in achieving future flexibility, and also that it was obtaining varied lease terms in its own negotiations on properties.[56] However, the Government Property Unit was also aware of cases of long lease terms for public buildings, which did not have a break clause, where it had been possible to negotiate breaking the contract at a future date.[57]

51 Stuart McDonald, MP for Cumbernauld, Kilsyth and Kirkintilloch East (HME0005)
52 Ian Lucas, MP for Wrexham (HME0001)
53 Q 82
54 Q 169, 190
55 Qq 115–117
56 Qq 117–118
57 Qq 117–118

3 HMRC's STEPS contract

24. HM Revenue & Customs (HMRC) is preparing for the end of the STEPS contract in 2021, which covers two-thirds of its current estate. This is a 20-year private finance initiative deal, which HMRC set up in 2001 with Mapeley STEPS Contractor Ltd (Mapeley).[58] The Committee of Public Accounts previously took evidence on the STEPS contract in 2004 and 2010. In the 2010 report, the Committee concluded that HMRC had failed to achieve value for money, as it had not secured all of the benefits available and had no plan for obtaining the savings available from allowances in the contract to vacate properties.[59]

Learning lessons from the STEPS contract

25. HMRC told us that it had learnt a number of important lessons from failings in the STEPS contract. HMRC received an upfront cash pot (£370 million) from selling two-thirds of its estate to Mapeley.[60] However, HMRC had had to make higher lease payments to Mapeley, to cover Mapeley's costs of financing the £370 million. HMRC pointed out that Mapeley would have incurred significantly higher borrowing costs than Government would have borne.[61] HMRC told us that it now had significant doubts over whether the fundamentals of the STEPS deal, which sold properties to a company, and then leased them back from that company, could ever be demonstrated to be value for money.[62]

26. HMRC considered that the biggest obstacle to receiving the required accommodation standards in the properties it leased from Mapeley was that the STEPS contract wrapped up together all aspects of leasing and facilities management of the estate and is paid as a single sum. However, any lapse against standards in one activity within the contract covered only a relatively small part of HMRC's overall payment to Mapeley and were therefore not material to the overall deal.[63]

27. HMRC told us that it had deducted around £700,000 a year from the lease payments to Mapeley, due to failures to perform up to the contract standards, which was 0.5% of the total annual contract value.[64] HMRC said that any penalties it had imposed had not incentivised Mapeley to improve performance in a particular area, as they had not been a material amount of its overall payment.[65] While HMRC considered that Mapeley's performance had been improving, there remained shortfalls against required standards in facilities management, such as cleaning and security. HMRC staff in the offices affected had highlighted these problems regularly, and HMRC told us that it had raised the concerns with Mapeley.[66]

58 C&AG's Report, para 4
59 Committee of Public Accounts, *PFI: The STEPS Deal*, Twentieth Report of Session 2004–05, HC 553, June 2005; Committee of Public Accounts, *HM Revenue & Customs' estate private finance deal eight years on*, Thirty Second Report of Session 2009–10, HC 312, April 2010
60 C&AG's Report, para 2.2
61 Q 121
62 Qq 120–121, C&AG's Report, para 4
63 Q 136
64 Q 137, C&AG's Report, para 2.10
65 Q 136
66 Qq 132–133; C&AG's Report, para 2.10

28. HMRC considered that one of the challenges and risks which it had to bear, through to the end of the STEPS contract, was whether Mapeley could remain financially viable. It added that a further challenge was whether Mapeley would be able to afford the significant investment to maintain standards of the estate, as the contract was so big. HMRC acknowledged that the taxpayer may suffer a high cost if Mapeley defaulted on the contract, which could be as high as £200 million.[67] HMRC told us that it was keeping this risk under close scrutiny, and that it was managing the risk, to enable the contract to run through to its end. HMRC added that it had received a commitment from Mapeley to see the contract through to its end in March 2021.[68]

29. HMRC told us it had confidence in the business continuity arrangements it had made, should Mapeley default on the STEPS contract. It considered these arrangements should enable it to continue using the offices covered by the contract. HMRC said that it had also made, and tested, business back-up plans with suppliers and contractors to service the buildings.[69]

30. HMRC said that over the life of the STEPS contract since 2001, it did not have sufficient property expertise. As a consequence, it had recently recruited experienced property professionals to prepare for the end of the STEPS contract in 2021 and ensure it had good in-house expertise.[70] It considered that more conventional measures to manage its estate, for example through more normal leases and facilities management contracts instead of the nature of its large private finance initiative deal with Mapeley, would be intrinsically lower risk.[71]

31. The Government Property Unit said it had no plans to enter into a large private finance initiatives, like the STEPS contract. The Government Property Unit emphasised that in future building contracts, it wanted to maintain its flexibility and to ensure that the buildings remained fit for purpose. It considered that entering into a large contract might not give it the flexibility it wanted.[72]

67 Q 134, 141–142; HMRC (HME0007)
68 Q 138
69 Q 141
70 Qq 121, 123
71 Qq 121–122
72 Q 129

Formal Minutes

Wednesday 19 April 2017

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon	Nigel Mills
Philip Boswell	Anne Marie Morris
Chris Evans	Bridget Phillipson
Caroline Flint	Karin Smyth
Kevin Foster	Mrs Anne-Marie Trevelyan
Kwasi Kwarteng	

Draft Report (*The HMRC Estate*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 31 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Fifty-third 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 Monday 24 April 2017 at 3.00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 25 January 2017

Question number

Sherin Aminossehe, Executive Director, Government Property Unit, and Head of Government Property Profession, **Jon Thompson**, Chief Executive and Permanent Secretary, and **Justin Holliday**, Chief Finance Officer, HM Revenue & Customs Q1–108

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

HME numbers are generated by the evidence processing system and so may not be complete.

1 Association of Chartered Certified Accountants (HME0003)

2 Association of Revenue and Customs (ARC) (HME0004)

3 Government Property Unit (HME0008)

4 HMRC (HME0007)

5 Mr Ian Lucas (HME0001)

6 PCS (HME0002)

7 Stuart McDonald MP (HME0005)

8 Stuart McDonald MP (HME0006)

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)
Eighteenth Report	Better Regulation	HC 487 (Cm 9389)

Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770 (Cm 9433)
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774 (Cm 9433)
Thirty-seventh Report	NHS treatment for overseas patients	HC 771 (Cm 9433)
Thirty-eighth Report	Protecting information across government	HC 769 (Cm 9433)
Thirty-ninth Report	Consumer-funded energy policies	HC 773 (Cm 9433)
Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766 (Cm 9433)

Forty-first Report	Excess Votes 2015–16	HC 954 (Cm 9433)
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
Forty-seventh Report	Delivering the defence estate	HC 888
Forty-eighth Report	The Crown Commercial Service	HC 889
Forty-ninth Report	Financial Sustainability of Schools	HC 890
Fiftieth Report	UKTI and the contract with PA Consulting	HC 772
Fifty-first Report	HMRC's contract with Concentrix	HC 998
Fifty-second Report	Upgrading emergency service communications	HC 997
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835

Public Accounts Committee

Oral evidence: The HMRC Estate, HC 891

Wednesday 25 January 2017

Ordered by the House of Commons to be published on 25 January 2017.

Watch the meeting

Members present: Meg Hillier (Chair); Mr Richard Bacon; Philip Boswell; Charlie Elphicke; Kevin Foster; Kwasi Kwarteng; Nigel Mills; Anne Marie Morris; Bridget Phillipson; John Pugh; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, John Thorpe, Executive Leader, NAO, Claire Rollo, Director, NAO, Rob Prideaux, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-108

Witnesses

I: Sherin Aminossehe, Executive Director, Government Property Unit, and Head of Government Property Profession, Justin Holliday, Chief Finance Officer, HMRC, and Jon Thompson, Chief Executive and Permanent Secretary, HMRC.

Report by the Comptroller and Auditor General

Managing the HMRC Estate (HC 726)

Examination of witnesses

Jon Thompson, Justin Holliday and Sherin Amminossehe.

Chair: Okay. You will all be saved by the bell in about 10 minutes, but mid-sentence or not, we will be back to pursue you. As I mentioned at the beginning, our second session will look at how the HMRC estate management and reorganisation programme is going. It is one of 15 major parts of the transformation that Mr Thompson is responsible for, so it is quite a task. Our hashtag for the session is #hmrc.

I will introduce our witnesses. We have Justin Holliday, who is the chief finance officer at HMRC; welcome back, Mr Holliday. We also have Jon Thompson, who I introduced earlier but who I will introduce again for anyone who is tuning in. He is the chief executive and permanent secretary at HMRC. We also have Sherin Aminossehe. Miss Aminossehe is executive director of the Government Property Unit, which is the overarching body in Government that looks at how Government buildings and services are delivered and the new hubs that have been created. I ask Charlie Elphicke to kick off.

Q1 **Charlie Elphicke:** Good afternoon everyone. I am going to start with you again, Mr Thompson. Can you tell the Committee the main benefits that you expect to see from the regional centres?

Jon Thompson: Yes, sure. First, what we are clearly trying to do is to reduce the cost base; you will undoubtedly want to come back to that. Secondly, we are also trying to modernise HMRC and the ways in which it works. Thirdly, we have the opportunity at the end of the STEPS contract to look again at how we do this. Ultimately, all of that, combined with the rest of the transformation programme, will, we hope, lead to better services for customers and improvements on yield and compliance and so on, which the Committee has regular conversations about.

Q2 **Charlie Elphicke:** Would you be undertaking this reform if the amount of savings being made were zero? If you made no savings whatsoever, would you be doing this?

Jon Thompson: I think we probably would.

Q3 **Charlie Elphicke:** You probably wouldn't?

Jon Thompson: No, we would. I think it is the right thing to do.

Charlie Elphicke: Let me take you to paragraph 19 of the Report. Originally, it was assumed that there would be efficiency savings of £500 million. That has already been reduced to £212 million. This looks to me to bear all the hallmarks of one of the cases were Ministers say they need savings and the figures are then provided, but it turns out that they are slightly illusory. Do you believe that the £212 million of savings will be achieved, or will this all just disappear to zero at the end of the day?

Jon Thompson: No, I don't believe it will be £200 million; I think it will be significantly more than that. I think that it is worth going back to where this Report has positioned things. As a Committee you have rightly taken the view that you want to see something early. You are seeing this very early. You are seeing a project between a spending review bid and a business case to be approved by Treasury Ministers. You are in that window, so what you are getting here is a drop of data at a particular point in that formulation period. For example—you will undoubtedly want to get to this—the famous figure 8 says there is £600 million of cost growth. If you had had that table at the end of December, it would have identified that the cost growth was £150 million and not £600 million. That is because you are in the phase where you are heading toward a business case.

Long-standing members of the Committee will recall my eight years of giving you evidence about Ministry of Defence projects. You are seeing this project well before the main gate business case is approved. There are clearly advantages to that, because you wanted to be involved early, but you are also therefore going to see a bit of fluidity in the data. Our current estimate of the savings is the other side of £300 million. That was a very long answer to your question.

Q4 **Charlie Elphicke:** So the figure started off at £500 million, then became £212 million and now you are saying it will be over £300 million.

Jon Thompson: Yes. Ultimately what we will have to do is put that all together in a business case to go to the Chief Secretary by the end of March, so you will have some further data there. Undoubtedly, I guess, you will want to come back to this or expose some of that to the NAO. By the way, it is worth me saying that this has been a very constructive conversation, and I am not in any way doubting the facts you have got. I have simply got more facts because time has passed.

Chair: Mr Thompson, funnily enough, we predicted that you might have some more information for us. We don't normally accept that sort of thing, but I appreciate what you are saying about it moving. We are pleased to be looking at this early, and we have done that for a reason—because we want to help you to avoid failure down the line.

Q5 **Charlie Elphicke:** Looking at the challenges of your managing to achieve these benefits, my understanding is that 40,000 HMRC staff will have to move office. Do you think that might be too much, too quickly?

Jon Thompson: The business disruption, and particularly the impact on staff, is the third of the big risks of this programme. The other two are clearly time and money, and those are both referred to in the Report. That is definitely the third one, and there are a series of others too. It is actually spread over quite a long period of time—it is spread over five years—and the vast majority of the 38,000 people who will need to move are not moving that far. As the Report says, the average is 18 miles.

Q6 **Charlie Elphicke:** I think you have an office in St Ives or Redruth in Cornwall, and that is being moved to Bristol, which is a long way—or, indeed, Inverness to Edinburgh. Let us say you have some expertise in that office. Is there a risk to corporate memory with this kind of programme?

Jon Thompson: Yes.

Q7 **Charlie Elphicke:** So how do you manage that?

Jon Thompson: We recognise that that is a risk. It is apparent the first time you have a conversation about this—about staff leaving and whether or not they are prepared to move. You have chosen the most extreme example, but such is life. Redruth to Bristol is, indeed, 178 miles, but if we are being frank about it—

Q8 **Charlie Elphicke:** I could have picked north Wales to Cardiff, which is similar.

Chair: It is still about three and a half hours on a train—

Jon Thompson: According to the BBC, that is the furthest anyone has got to move. If you wish to doubt the BBC—

Mr Bacon: We never doubt the BBC.

Jon Thompson: I am totally realistic about that, and that is one of the reasons why the Report says we have assumed that around 5,000 people will probably end up in some sort of redundancy situation or potential redeployment with other Government Departments. That is a risk and we have to deal with corporate memory and losing people who have good local knowledge. That will be lost in this, I agree.

Q9 **Charlie Elphicke:** So how will you mitigate it? How will you manage that and make sure that you do not lose valuable information built up over many years?

Jon Thompson: I am slightly struggling with how we ask people to give us that corporate memory, but it is definitely something that we have to solve. If you have been working in Redruth for 32 years and are not going to go to Bristol, and meanwhile we are going to recruit more people in Bristol, we have got to find some way in which the knowledge that you have built up about how we have worked over the years can be translated into systems or the wisdom of giving it to other people. At the minute, we do not have a solution that I am aware of for that risk.

Q10 **Charlie Elphicke:** The reason I am asking this is because my understanding is that what you are doing is a kind of trailblazer for the Government Property Unit programme. They will learn from this experience and then do things—

Sitting suspended for a Division in the House.

On resuming—

Charlie Elphicke: Mr Thompson, before the break I was talking about my understanding that you are a trailblazer for a strategy of the Government Property Unit and Government in general, and that the Government Property Unit are using you and HMRC's transformation programme as a learning place on which to base what may happen with other areas as well. Is that correct?

Jon Thompson: Yes.

Q11 **Charlie Elphicke:** We have looked at the risk that you don't make savings and at the risk of losing people and corporate memory. The other thing is, how many other transformation programmes have you currently got under way?

Jon Thompson: Fourteen.

Charlie Elphicke: So this is one of 15 transformation programmes.

Jon Thompson: Yes.

Q12 **Charlie Elphicke:** Is that not quite a lot all at once?

Jon Thompson: Yes.

Q13 **Charlie Elphicke:** Do you think you ought to be doing all of them at the moment? Are you going to be able to manage quite so many different programmes?

Jon Thompson: We are trying to change HMRC fundamentally and reorientate it from being a tax system that essentially thinks about taxes, as opposed to customers. If you want to walk your way through the other elements of the transformation programme, I am very happy to do that, but building our future locations is an essential element of how we deliver better compliance, how we improve our corporate services, how we make tax digital, how we improve digital working, how we drive better use of data, and so on.

Does this combine into a really significant organisational change? Yes. Various commentators have claimed that it is one of the biggest organisational transformations in Europe. It certainly feels pretty enormous from this perspective, and there are a number of key interdependencies between these various programmes that combine, all round, into a very substantial and risky programme. So yes, I would acknowledge it.

Q14 **Charlie Elphicke:** So let's look at the issue of costs. Your plan is to move into central locations in each of the relevant regions' biggest cities. Would it not be cheaper to go for offices in less central locations?

Jon Thompson: You might be able to debate that, but it depends on what you believe is value for money. There has been various narrow correspondence and debate about whether it is cheaper to rent in different places other than central Leeds, for example, but we need to be really clear. I do not think this is in the Report, but when HMRC was thinking about where it wanted to be located, we used eight selection criteria, of which cost was one, but we played in other relevant factors, such as transport infrastructure, whether it could support the digital infrastructure that we need, what it would mean for staff in terms of their career paths, and so on. I can run you through the eight if you want.

We evaluated 42 locations against those eight criteria. That was narrowed down to 15 locations for the spending review, and in the end it was further refined to 13. So cost is a factor, but it is not the only factor. We need staff to be able to get there, and we need the digital infrastructure to be able to support them and so on.

Q15 **Charlie Elphicke:** Looking at the whole issue of concentrating in regional centres, one thing that people are inevitably going to say, which is allied to the corporate memory point, is this. We now live in an age in which there is the internet, broadband, instantaneous communication, yet what you are doing is concentrating in the city, rather than enabling people who do not live in city centres to do work from elsewhere, which they could equally well do given that we live in the information age. Is this the right strategy? Should you be looking at the possibility of home working, particularly given the whole corporate memory issue?

Jon Thompson: We do offer the facility of very flexible working in a number of different ways. Several hundred different working patterns are available. That does include facilitation of some home working. Even in this model, when you eventually land with 13 regional centres and some specialist sites, there will still need to be some home workers. That is also appropriate for colleagues who have particular needs and so on. But I don't think you can really reasonably run 61,500 people in an organisation all working at home on broadband.

Q16 **Charlie Elphicke:** Finally from me, you are planning to reduce headcount by 8,000. Do you see that as part of this programme, or is it separate? Will you do it as part of the reorganisation into regional centres, or is the 8,000 going to be an entirely separate matter?

Jon Thompson: No, some of the reductions towards the 2020 target will come from this programme. Some will come from perfectly natural turnover. Almost 6,000 people leave for perfectly natural reasons; there is a level of natural turnover in staff, too. Some combination of the two would mix together to give you the flight path necessary for the end of the spending review.

Q17 **Kwasi Kwarteng:** The issue that I want to pick up on is your compliance work. How can you ensure that you reach the same standard on that through the use of regional centres?

Jon Thompson: The point of view that has been put is that compliance requires a local office network and therefore local knowledge of what is really going on in an economy. That is an alternative scenario. We don't really believe in that.

Our strategy is based on this. We have a range of information about taxpayers, whether they are businesses or individuals. You combine that information and you are very risk-driven in your interventions in the compliance area. What this does is accelerate that programme of people working collaboratively, getting better data and digital working, and focusing the compliance interventions in those areas where we think there is risk in the system.

That is not the situation that occurs in all countries. There are different models that apply out in the world. We have had some work undertaken by McKinsey about the two models. Our model is very risk-driven and intervenes in only about 20% of the global benchmark, if you like, if you were to compare us against the other large tax management organisations. But we produce more than 100% of the average yield, so our risk-driven basis does produce yield. It is also perfectly right to say that other countries in the world do mass marketing, mass intervention, in the compliance field without any risking, but that requires significantly more people spread in a different way. We have chosen one strategy. There is an alternative strategy, which we have not chosen.

Q18 **Kwasi Kwarteng:** That is a very clear answer. I want to talk about what you are doing in connection with other Government Departments. This question is for you and for Sherin as well. How are you going to make sure that what HMRC is doing with respect to its estate fits in with the broader programme that you are pursuing?

Sherin Aminossehe: Shall I go first?

Kwasi Kwarteng: Yes, why not, since you haven't said anything?

Sherin Aminossehe: Since I've been sitting here quiet! Obviously, this is part of a much bigger programme—something that we are hoping will deliver around £2.24 billion-worth of savings. There are a number of hubs with multi-departmental organisations within them. We are working very closely with HMRC, as well as other Government Departments, to set standards in terms of occupations, how each of the hubs is going to work, IT and security, so that Departments can use hubs across the country and are not just limited to one location.

For us as well, it is important to note that it is not just about the savings; it is also about the quality of the workplace and the workforce, tied in with what universities, higher education colleges, workforces and so on are available in those locations.

Q19 **Kwasi Kwarteng:** It is very clear what you are saying. You have got a very clear strategy, but how nimble are you? For example, what happens if there are significant changes to property prices and all the rest of it? How robust are you in dealing with that?

Sherin Aminossehe: That is really important for us. We have got a team of highly experienced property people—commercial—as well as a good team of consultants who have been supporting us. We keep a very close eye on rental levels in locations that we are interested in and on the workforce needs and operational needs of the Departments.

That is why we have not gone out saying, "Look. These are 22 locations. These are where it is going to be, and that is the end of it." Otherwise, we would have come across exactly the point that you are making, that we couldn't be flexible.

We are doing it on a phased basis. We are going with departmental need as to when those hubs need to go online, obviously with HMRC being a big part of that, so it is critical that we are joined up. So we will take the deals. We have absolutely no issue with renegotiating deals if market conditions change.

Q20 **Kwasi Kwarteng:** Okay. So, let's wind the clock forward. We are in a position where there is far too much office space. Who carries the responsibility for that? In accounting terms, whose balance sheet risk is that? Is that yours or HMRC's?

Sherin Aminossehe: We are working on detail about the final balance sheet risk, but we are currently developing an agency that will have central ownership and management of a large number of our offices.

Q21 **Chair:** Is this a new quango? When you say agency, can you be clear what you mean?

Sherin Aminossehe: It is a new organisation that will have a more commercial overview of property.

Q22 **Chair:** So will it be a Government non-departmental body or an arm's length body?

Sherin Aminossehe: It is an executive agency.

Chair: A new quango.

Q23 **Kwasi Kwarteng:** That seems to be quite a serious development. You are suggesting that there is a new body that will hold assets.

Sherin Aminossehe: Yes, which is currently being developed, and it has been announced.

Q24 **Kwasi Kwarteng:** And they will be managing the assets.

Sherin Aminossehe: They will be managing the assets.

Q25 **Kwasi Kwarteng:** So your answer to my question is that neither HMRC nor the Government Property Unit will be responsible.

Sherin Aminossehe: Well, no; we are the sponsor, so in a way the risk is managed by both of us in terms of being the sponsor body within the Cabinet Office and also the executive agency. We are working with the Treasury at the moment, and we can give you more details as that develops. It is actually the subject of part of an NAO review at the moment.

Sir Amyas Morse: I want to be clear about what level of decision making we are at with regard to the possibility of having a body at the centre own a property. I think I am right in saying that there is a bit of ground to cover before we are quite there.

Sherin Aminossehe: There is.

Sir Amyas Morse: Just to be clear for the Committee, that is a little bit down the road, I think it is fair to say.

Sherin Aminossehe: It is, absolutely.

Q26 **Kwasi Kwarteng:** Presumably, we will want to have more details about this new body.

Sherin Aminossehe: You will.

Q27 **Kwasi Kwarteng:** This seems like a new departure from my point of view, and I would be interested to know what the details are and what the management structure will be.

Sherin Aminossehe: We are currently working through that. As Sir Amyas said, this is early in the process, and we are working through how that will go with Departments—with the Treasury and our own Department.

You also talked about risk and flexibility and what happens. There are two parts to that. We have been working with Departments, looking at workforce data and future projections as to where we and they think Government Departments are likely to be in the longer term. It is also important for us in terms of the types of leases we enter into, that we can sub-let those leases and have flexibility.

Q28 **Kwasi Kwarteng:** With respect to HMRC, what comfort do you have that they are getting the best deal? I am not asking you to say that they have got the best deal and it is marvellous. I am just asking what comfort you have and what risks you are worried about. Are you comfortable with their identification process?

Sherin Aminossehe: We are comfortable with their processes because we are jointly doing the programme. We share consultants that we are both working with. We have the same advice coming to us. We also mix through our senior property people and each other's boards. We are co-developing a lot of the standards for the types of leases that we will be taking in the future, and, as I said, the way in which we will be occupying buildings.

Jon Thompson: It is worth adding that the Minister for the Cabinet Office has to sign off our signing a lease.

Q29 **Kwasi Kwarteng:** I am just submitting this point in a personal capacity. It seems to me a risk when we have civil servants playing the property market. That is the broad risk in this thing. I just wanted to put that across.

Sir Amyas Morse: I think I am right in understanding that HMRC has recently taken out two long-term 25-year leases with no break clauses. How does that fit in with the flexibility?

Sherin Aminossehe: Are you talking about Croydon and Bristol?

Sir Amyas Morse: Yes.

Sherin Aminossehe: I understand what you are saying, but I think we need to be less fixated on the length of the lease, rather than the conditions attached to the lease. Those leases are set up in such a way that we can sub-let to Government Departments. They are locations where we are confident that other Government Departments will be coming in. For example, in Bristol, the very early phase was a Government hub that we established in 2012. It has been growing, and has got 16 different organisations in it. Phase 2 of Bristol, which HMRC will be going into as phase 1, will have further Government Departments going into it. There is always that potential to bring other people. Croydon has similar potential.

Q30 **Chair:** As Amyas was saying, it is an interesting point, but that does tie those Departments into the Government Property Unit's exact strategy. I know Departments like to have their own control over their own premises and their own costs. They are going to be buying into something you have negotiated. How can you be sure that they and the taxpayer will get a good deal and you are not just tying yourself into long-term expensive contracts?

Sherin Aminossehe: That is a lesson from previous times that we are very conscious we have to learn from, but we are also very conscious of the advice that we are getting in negotiating the best deal. Also, we are finding that because we are basically leveraging the Government covenant, when we go in as a greater whole we get extremely good deals. Some of it, obviously, is commercially sensitive, but we have been getting deals across the country that are at record levels in terms of how low they are. That is really important to us.

Q31 **Kwasi Kwarteng:** On this 25-year lease, is that something you would be willing to repeat in future?

Sherin Aminossehe: If the circumstances make sense and it makes sense for the operational needs of the Department and the deal that we get, yes. We need to be conscious of the fact that we should not have a whole load of buildings all with the same lease terms. We need variety to give flexibility across the estate.

Sir Amyas Morse: To be clear, if I come along and say, "I'll take a 25-year no-break lease", I will get better terms than if I get one with a break clause.

Sherin Aminossehe: Yes.

Sir Amyas Morse: And that is because you are taking more risk.

Sherin Aminossehe: Yes. There is something, though, to be said about the break clause. We have had examples on the Government estate where there was no break clause in sight and we have negotiated a break. Just because there is no break clause, it does not mean you cannot break the contract at a future date.

Q32 **Chair:** When you talk about managing this risk, are you making sure that across the whole of the country you have got some longer leases and some shorter leases in the same general region?

Sherin Aminossehe: Yes.

Q33 **Chair:** You are. So you are looking at the geographical problem.

Jon Thompson: I agree with the Comptroller and Auditor General that that is a reason in relation to risk transfer, but there is also something significant about 25 years. Beyond 25 years you tip into the annuity and pension market, and that is also a reason why you get a lower price, because that can be offset against future pension annuities.

Q34 **Kwasi Kwarteng:** The issue of 25 years is about flexibility. Certainly in the current environment, 25 years seems a long time to lock yourself into a deal. From the taxpayer's point of view, that is significant.

Can I ask, with permission from the Chair, about the STEPS contract, the existing contract that you have? This is particularly to the HMRC reps. What features of that contract do you feel you would want to keep in future deals, Mr Thompson? What are the attractive features, if any, of that contract?

Jon Thompson: We have been debating whether you would ask us this question.

Kwasi Kwarteng: Well, I am. End of debate.

Jon Thompson: I was buying myself some mental time. I have on three separate occasions in my career, I think, debated with Sir Amyas whether a sale and leaseback, which is essentially the underpinning of this deal, is a good thing and whether it could deliver value for money. I have significant doubts about whether it could. I do not need to reveal his position, but at the Ministry of Defence we never did those deals. Does this provide us with value for money? Well, you can debate that. I personally doubt that sale and leaseback can ever drive value for money.

Q35 **Kwasi Kwarteng:** Forgive me, but you raise an interesting point. What features of sale and leaseback are particularly unsatisfactory from your point of view?

Jon Thompson: None of us were party to the period between 1998 and 2001 when this deal was done, but the fundamental financials of a sale and leaseback are that essentially you are generating a cash pot, but in exchange for that, you are paying the financing costs of the private sector, which are highly likely to be significantly more than the financing costs of Government. You would therefore have to question whether the fundamentals of that deal could ever be demonstrated to be value for money.

Justin Holliday: Can I try to help there and also make a link back to the expertise point? It is interesting that over the life of the STEPS contract we had less in-house property expertise. One of the things that we have done in the build-up to this programme is recruit some experienced property professionals into HMRC to ensure that we are getting good advice and are good at securing advice from outside. We are also deliberately securing a much more market-conventional set of arrangements. They are much more normal leases and normal FM contracts.

Q36 **Chair:** To be clear, what is FM?

Justin Holliday: Facilities management contracts. It is a much more market-normal thing than STEPS, which was a big, wrapped-together PFI arrangement. The new arrangements are helping us to manage the risk going forward, because we are buying things that are more normal and the market is better able to supply them, because they are more normal things.

Q37 **Kwasi Kwarteng:** For clarity on this point, what you are saying is that the deals you are doing are essentially more liquid, in market parlance. With the STEPS deal, the initial contract was a specifically tailored financial instrument. You are saying that because you have the more common market deal, you are somehow saving money. Is that the argument? I just want to follow through your thinking.

Justin Holliday: My argument is that you were rightly asking us about civil servants playing the property market and—

Kwasi Kwarteng: Yes, I worry about that.

Justin Holliday: You were also asking about lessons from STEPS. I was making two points. First, we have tried to ensure that we have good in-house expertise. It is not generally civil servants; it is property professionals who are supporting us. Secondly, moving from a pretty bespoke PFI deal to something that is more conventional is a lower-risk enterprise.

Q38 **Philip Boswell:** Following on from my colleague, Mr Kwarteng, on what Ms Aminossehe said and Mr Thompson added: I share your concerns on the wisdom of leasing to private equity when you could manage and maintain yourself. In 2001, HMRC sold its freehold properties—two thirds of its portfolio—to Mapeley, the STEPS contractor. Assuming that basic maintenance and upkeep were done, what is that portfolio worth now?

Sherin Aminossehe: I couldn't tell you off the top of my head the exact total value of it, but I could write to you with that.

Q39 **Philip Boswell:** That's fine; we're going to get there. According to the PIA's "Property Data Report 2015", commercial property in the UK—this is averaged over the UK—has increased in value by around 70% since 2000. That means you would have had around £600 million of property. With this initiative, was it worth it losing £600 million of property? Can you prove it? Can you write to us? Can you attempt to justify, one, the decision in the first place and, two: before you go off quangoing into the sunset with a continuation of this strategy, can you prove it is the right idea and thing to do?

Sherin Aminossehe: Can I quickly make a few points of clarification? Obviously, I was not around at the time of the 2001 PFI, so there are certain things that I will not be able to tell you.

Q40 **Chair:** There wasn't a Government Property Unit as you are now, was there?

Sherin Aminossehe: No, it was in a different formation and the majority of the people who work with me now were not there either. In terms of the valuations that you are looking for, obviously there are many ways of doing valuations. I want to be certain what kind of valuation you were looking for: commercial, existing use, the portfolios then or the portfolios it has now.

Q41 **Philip Boswell:** I am talking about the basic processes you would go through. Mr Holliday spoke about getting in experienced property people and experienced property management people. When you go through the stage-gate process of making a decision—the standard justification required by any competent professional—I would expect to see expressed in the letter justification as to why, one, the decision was the right/wrong one in the first place and, secondly, whether it is prudent to continue down this track or maybe revisit the quango decision. I am looking for the justification on that.

Sherin Aminossehe: Let me see if I have understood your question properly. In terms of the qualified individuals, I myself am a fellow of the Royal Institution of Chartered Surveyors as well as an architect, so I do have a good understanding of buildings, as do a large number of the people in my team and those we are looking to in the early stages of looking at creating this agency.

As Sir Amyas said, there are still a number of steps to go, so we are not going, to use your words, to ride into the sunset and just create something for the hell of creating it. I know there are lots of National Audit Office lessons learned in terms of centralisation of organisations. That is why we don't want to go into anything too quickly, and want to ensure we are learning from what has gone before. I can definitely give you that assurance.

Q42 **Philip Boswell:** I am not seeking "War and Peace", Ms Aminossehe; I am just looking for the standard process and justifications a competent professional would expect to be able to present for the decision-making process in order to say, "Yes, let's continue to do it this way," and justify whether it was the right idea or the wrong idea to do it in 2001.

Sherin Aminossehe: I can't talk to you about 2001 because I wasn't here.

Q43 **Chair:** What Mr Boswell is rightly saying is that we often get assurances here. I don't know if you were here during the previous session, but Mr Thompson has acknowledged that there was not commercial expertise on some of these issues. Mr Holliday has said that similarly for the estate side of things. There is a danger. You say lessons need to be learned, but we have seen repeatedly in this Committee that lessons are not learned. You can give us some assurance now, and then any data you can provide in writing would be helpful.

Sherin Aminossehe: Sorry; I think I might have misunderstood the question. I can definitely give you that assurance. We have no plans to start a large PFI contract. I can say that in respect of how we procure buildings in future, we want to maintain our flexibility and ensure that they are fit for purpose, rather than enter into a large contract that might not give us that flexibility.

Q44 **Chair:** You say you have got expertise. Are you benchmarking the way you work and the practice and price you are getting against other sectors?

Sherin Aminossehe: We do. We run a very rigorous quarterly benchmarking process and we publish it annually. It will be laid before Parliament very shortly—next week, I think.

Q45 **Chair:** Mr Boswell will have some nice bed-time reading.

Sherin Aminossehe: I am sure you will enjoy reading it. It is called "The State of the Estate" report, where we benchmark how we are doing against the private sector by Department and overall. We also use that data to think, "Okay. We are going to be going in this location; we want to get into this building. Are we getting value for money?" We also use more extensive external benchmarking as well. So, I can give you that assurance that value for money for the taxpayer is uppermost in our mind.

Chair: It is always uppermost in people's minds until it goes wrong, "she said cynically".

Q46 **Kwasi Kwarteng:** Can I ask more specific questions about Mapeley and the company that is supposed to be delivering these standards? First, are you satisfied by the performance of this company in delivering?

Jon Thompson: Are you asking us? Part 2 of the Report—

Q47 **Kwasi Kwarteng:** Yes. I know what the Report says; I'm just asking you whether you agree with it.

Jon Thompson: Well, it has definitely improved, but if we are up-front about it, there remain questions about service delivery, particularly in relation to cleaning and other aspects of facilities management. I travel around our estate on a very regular basis. Those are issues that are put to me by the staff: "Why can't we get better cleaning standards? Why can't we get better security standards?" We have a process of being able to put those issues to Mapeley.

In general, their performance has improved. Justin and I met the chief executive of Mapeley in the run-up to Christmas to talk to him about how we get from here to the end. There is a conversation with their facilities management contractor about exactly those things. So it could be better—it has improved, but it could still be better.

Q48 **Kwasi Kwarteng:** What are the obstacles to getting better performance in your view?

Jon Thompson: In my view?

Kwasi Kwarteng: I am not asking you about the Chancellor of the Exchequer's view or anyone else's this time. Your view.

Chair: Touché. Mr Thompson has plenty of views.

Jon Thompson: I believe that makes it 15-all.

As the Report says, one of the challenges and risks about entering the last 20% of a PFI is whether Mapeley continues to be financially viable. It is in the Report. It is a risk that we have to manage.

If we continue to press on, we need to have significant investment, and then that is going to bump into that risk. You are trying to manage those two risks together and get us to the end of this deal. If you wind it all the way back to the Report, we are trying to get out of this deal. We know it is coming to an end, so we have anticipated that it is and we are trying to create a strategy so that we exit into a different place.

Q49 **Kwasi Kwarteng:** You have tried, I understand, to give them incentives in terms of performance, have you not? Am I right in suggesting that?

Jon Thompson: Yes. I am sure that Justin can give you a bit more about how we manage the contract and the estate within his area, if you want to.

Q50 **Kwasi Kwarteng:** Specifically on that, how do you think you could have given a better incentive to the company, if that were possible?

Justin Holliday: We have been actively managing this contract. As the Report says, the evidence of that is that we are deducting something like £700,000 a year from their fee. That is not a happy place because you do not want to be deducting from a supplier, because you want them to deliver at the standard that you want them to deliver.

The biggest obstacle is the construct of the contract, because it wraps up everything from rent through to cleaning. Therefore, if you are unhappy with, let's say, cleaning, that is a relatively small part of the overall payment and is hard to get to in contract terms because it is not material to the overall deal.

Part of the reason why we are adopting a different approach with the new buildings, of having individual contracts for different things, is that if a thing is failing, you can deal with that thing, and it will be material to that thing. So, if the cleaning contract is not working, you can deal with that directly, rather than it being wrapped up.

Q51 **Kwasi Kwarteng:** Given that full answer, can I draw the conclusion that you think that the £700,000 reduction did not actually have much effect, or will not have much effect, on Mapeley's performance?

Justin Holliday: Jon has clearly said that, as we go round the country, people say to us and we see that the standards are not high enough, so clearly that deduction is not enough to incentivise the better performance.

Kwasi Kwarteng: That is the conclusion I drew. I just wanted to know whether that was right.

Justin Holliday: Yes, I agree.

Q52 **Chair:** On that point, if they are not performing and they are having penalties, are you confident that Mapeley will continue to the end of the contract? What would be the consequence for HMRC if they collapsed?

Jon Thompson: As I said, we met the chief executive of Mapeley and the chief executive of the subsidiary company, which I think is called Salisbury, a facilities management contractor, in December. I think we are reasonably confident that they will get to the end but, as you rightly said, their financial situation is probably the No. 1 risk. I think we are reasonably confident, from everything we know and from talking to them, that they will get to the end, and they have given us a commitment that they will.

Kwasi Kwarteng: I have a specific question on their performance. I understand that the 2015-16 figures on their performance are not available. I wonder why that is the case. Is that something we should be concerned about?

Justin Holliday: It is not something that you should be concerned about. Every year we pull together an overall value for money assessment, which is a bit late. All of the data that we have about performance are managed on a daily, weekly, monthly basis. It is not that we do not have the 2015-16 data. What is referenced in the Report is that we haven't pulled that together into an overall value for money assessment.

Q53 **Kwasi Kwarteng:** Looking at the end of the contract, presumably you have a plan. I am asking whether you have a plan for how you would perhaps occupy new buildings when the contract runs out.

Jon Thompson: That is the point of this Report, is it not?

Q54 **Kwasi Kwarteng:** How match-ready are you? I hear these things all the time. I have been on various Committees during my time in the House. Everybody says, "You know, of course, this is obvious; it is going to be fine," at the end of whatever contract. I want to get more comfort from you.

Jon Thompson: Let's try to do that. Nobody is saying that this is fine, are they? The Report rightly says there are risks with this programme. There are risks, we know that there are. We have already talked about three of those. One is money and the second is time, because we need to be able to deliver this before the end of the contract, in order to be able to exit as appropriate, although there may be one or two sites where we want to try to strike a new deal with Mapeley. There are a range of other risks, too. I think they will be made available to the NAO, and I can run you through what the top seven are, if you want me to.

Chair: I am going to ask the Comptroller and Auditor General to come in at this point.

Sir Amyas Morse: I do not think we are necessarily in different places, but just reflecting on the Mapeley deal, they have actually held their financial state over HMRC all the way through as a reason for not being able to exercise your rights under the contract freely. That has inhibited the range of exercise of rights.

Assuming you don't disagree with that, let me go on one moment more. Really, oddly enough, they were not a substantial enough counterparty, were they? Going forward, thinking again and looking at the future, it is really necessary if you are going to have a huge contract that you have a counterparty substantial enough that they really can support the implied liability, even if the market is not going the way they hoped it would. To be honest, that has been the experience, hasn't it?

Jon Thompson: Yes. To use different language, it is putting all your eggs in one basket. Disaggregating into 13 regional centres and a number of specialist sites and doing individual deals, even if it is with other Government Departments, significantly reduces that risk. Now you have got one tactical site, as opposed to if Mapeley went into a financial black hole and we would be looking at, "I've got 170 sites. How do I manage that?" You are right that this strategy in that sense reduces the level of risk.

Q55 **Chair:** You said you would list the seven risks for us, so that you can get them on the record and we can hold you to them.

Jon Thompson: There is money, which is highlighted in figure 8. There is time: can we get this done in sufficient time? There is the business disruption question that Mr Elphicke put to us. Can we deliver the benefits? Mr Elphicke also put that to us. Is the business ready? We can produce, let's say, a fantastic site in Croydon, but is the business ready to move people around and then accommodate all of that?

Will we get the necessary suppliers that can actually deliver the sites? Last, but by no means least, what does this mean for our colleagues in HMRC in terms of leaving, moving and the very human aspects of trying to reconfigure the workforce from 177 sites down to 13 in the end? Those are the risks.

Kwasi Kwarteng: The Comptroller and Auditor General mentioned what in my banking days used to be called counterparty risk, in terms of the other people you are dealing with—the risk that they blow up or for whatever reason cannot perform. I want to ask more specifically about that. If, for whatever reason, the contract ends prematurely—it could be the counterparty or another reason—what is the taxpayers' financial exposure to that? What ballpark figure are we looking at?

Jon Thompson: I wouldn't be able to answer that question.

Justin Holliday: I haven't got a ballpark figure with me. There are two things. There is business continuity, and I am really confident that we have practised business continuity arrangements. If Mapeley were to default, we have arrangements to be able to get into the building, step in and we have got back-up from suppliers and contractors to be able to deal with servicing those buildings. There are a range of liabilities under the contract that would potentially return to us in that situation, and we keep those under close scrutiny. Undoubtedly there is potential for that liability to return.

Q56 **Kwasi Kwarteng:** But you don't have a view on the scale. You can't quantify what that risk is.

Justin Holliday: It can be quantified but, I'm sorry, I don't have the numbers.

Jon Thompson: We will happily write to you if that helps.

Kwasi Kwarteng: I would be quite interested, given that we are the Public Accounts Committee. It would be quite nice to have a figure in terms of the risk and potential liability, should the contract end prematurely.

Q57 **Philip Boswell:** My question is on the numbers and the geographical nature of the cuts. Looking at the maps, at figure 3 on pages 16 and 17, like many things in this House it indicates a London-centric focus. When I look at the figures, it says that the UK number of employees at 58,600 will reduce to 50,000. That is a reduction of 8,600, which is about a 14% cut in staff across the UK. When I look at the Scottish cuts—Aberdeen; Bathgate; Cumbernauld; Dundee; three in East Kilbride; three in Edinburgh; two in Glasgow; Inverness, Livingstone, Irvine and Glenrothes—

Chair: That's too fast, Mr Boswell. *Hansard* are marvellous, but if you could just slowly read your list of cities.

Philip Boswell: Certainly—Aberdeen, Bathgate, Cumbernauld, Dundee, three in East Kilbride, three in Edinburgh, two in Glasgow, Inverness, Livingstone, Irvine and Glenrothes. When I look at the Scottish jobs, I understand we do not have a region by region split available in the Report or around anywhere. The BBC, admittedly in a dated report, stated there would be about 2,000 cuts in Scotland from 8,300 jobs. It also reported a range. That range is 2,000 to 2,600 from 8,300, which is from a 24% cut up to a 31% cut. Why, if the UK average cut is 14%, does Scotland receive cuts of 24% to 31%?

Jon Thompson: I can't answer that question, but I will attempt to answer your question in a slightly different way, if you'll indulge me.

Chair: We'll indulge you and then see if we are happy with the answer, Mr Thompson.

Jon Thompson: In the end, we will be in three sites in Scotland: a regional centre in Glasgow, one in Edinburgh and the Scottish Crime Campus in Gartcosh. When the programme is completed, 11.4% of HMRC staff will be in Scotland. I believe that Scotland represents 8.3% of the UK population, so one would think that HMRC is appropriately represented in Scotland. I can do the Welsh one, as well.

Chair: Yes, if you would.

Jon Thompson: In Wales, these are the equivalent numbers. I believe that Wales is 4.8% of the UK population and HMRC will have 7.9% of the staff. In Northern Ireland, for completeness' sake, it is 2.8% of the UK population and 3.6% of HMRC staff will be in Northern Ireland.

Mr Bacon: Over-represented!

Q58 **Philip Boswell:** I am sure you saw this question coming, hence the percentage representation. Can I ask that you write to us and look at the regional cuts? I am sure that all my colleagues will be interested to see exactly what was the position, and what will be the position, region by region. It may address some of the concerns that some of us have about the London-centric nature of pretty much everything.

Jon Thompson: I am happy to do that if you can tell me what the starting point is that you want me to draw from.

Philip Boswell: The reported figure in the NAO Report of 58,600 employees in 170 offices, as illustrated in figure 3 on pages 16 and 17.

Jon Thompson: To be clear, I refute the London-centric allegation.

Philip Boswell: Let's see.

Q59 **Chair:** You say that you refute that, but your predecessor came in front of us and we were quizzing her about the plan—

Jon Thompson: Sorry, the what?

Chair: This was back on 13 January 2016; about a year ago. Your predecessor, Dame Lin Homer, was in front of us, and we were asking her about this strategy. I asked her about the proposal to base 8,000 staff in Stratford, in what we might call central London—you might call it east London; as an east London MP, I certainly think it is central London. Is that still happening?

Jon Thompson: No.

Q60 **Chair:** No? Okay. Are those 8,000 staff going to be somewhere else in London?

Jon Thompson: The current Stratford number is 5,500.

Q61 **Chair:** Okay. We are talking about big centres. We can argue about whether it is London-centric or not, but it is still quite a large hub in an expensive part of London. Do you know where those 5,500 staff are going to be in London? Is it Canary Wharf?

Jon Thompson: The east London decision is the last we are going to make.

Chair: I was just trying to tease that out.

Jon Thompson: The reason for that is that the very nature of the property market in that particular part of London is changing, particularly in relation to Canary Wharf.

Chair: We pointed out to Miss Homer a year ago that it was an expensive part of London. We are glad to know you are looking at that; that is heartening.

Nigel Mills: I have a couple of questions on how events might impact on the strategy, if this is the right place.

Q62 **Philip Boswell:** Again on the regions and how the decision was made and how much consideration was given to your people involved in these cuts, my hon. Friend from the neighbouring constituency of Cumbernauld, Kilsyth and Kirkintilloch East, Stuart McDonald, wrote to the Committee raising particular concerns over the closing of the Cumbernauld office. I think he was referring to HMRC's original plans being unrealistic, which is covered in paragraph 17 on page 9 of the

Report. Why close the Cumbernauld office when it ticks all of the boxes? That decision goes against what it says in the "Building our Future" document.

Jon Thompson: I think I was fairly clear in my answer before on the narrow point about rents. We had eight selection criteria and we evaluated 42 locations. That led to the 15 in the spending review, which was ultimately refined into the 13 that are set out in this paper, and Cumbernauld didn't make the cut. There are a whole range of cities in the original 42 that would also, I guess, try to make that—

Q63 **Chair:** There are a lot of issues that we want to come on to; I hope within the next 20 minutes we will cover the territory we need to. To pick on what Mr Boswell was asking about Cumbernauld, Stuart McDonald MP has been in touch with us because he obviously has concerns. To give an idea of one of the things you have to juggle and the human impact on your staff, commuting to Glasgow from Cumbernauld will cost between £672 and £1,272 annually. I am sure there are a lot of staff in HMRC who are very well paid, but a lot of your staff won't be. That is quite a hit on a basic salary. What amelioration and relocation packages are you offering staff?

Jon Thompson: The table—figure 8—records the line, "Daily travel allowance". Depending on various criteria, we will pay reasonable daily travel for either three or five years.

Q64 **Philip Boswell:** A final dimension on that: I absolutely accept that you have to predetermine criteria to make these decisions and follow through, but what weighting did you give to the consideration of the effect these closures will have on, for example, the 1,500 staff in Cumbernauld or, as Charlie Elphicke, who is no longer in his place, mentioned earlier, the staff in Redruth? Was that a factor? What kind of weighting did you give to the consideration of your own people when making these decisions?

Jon Thompson: I think I was reasonably clear about what the selection criteria are. It is not apparent to me, having taken this programme over, how much the impact on staff— It wasn't formally part of the selection criteria. I know that an enormous amount of work was done to take somebody's home postcode and map them against the various locations, because we have the ability to do that.

One of the points about the evaluation was to say—if I go to the famous debate between Leeds and Bradford, for example—what impact does that have on the staff in that area? I have been taken through that. It wasn't actually formally part of the selection criteria, but the executive committee of HMRC were aware of the impact of that on the basis of people's home postcodes.

Q65 **Nigel Mills:** I guess, while we are on the impact on nations and regions of the UK, it is tempting to ask what your level of staffing is in the east midlands, compared with the population proportionately; I guess we'll gloss over that.

In terms of events that might happen, we are devolving taxes to various different nations. Have you factored in the possible impact on the estate if, all of a sudden, Revenue Scotland took over responsibility for all income tax in Scotland and needed thousands of staff and extra buildings, whereas you might have thought of managing those individuals in a different way across the country?

Jon Thompson: It was not formally factored into the eight selection criteria, but in terms of the statistics I gave you, let us assume that Scotland had full devolution of all aspects of taxation in Scotland.

Philip Boswell: That would be nice.

Chair: Mr Thompson, you are currying favour with the Prime Minister and the SNP.

Jon Thompson: If that happened, it seems to me that having 5,000 people based in three locations would be somewhat of an over-representation. That would be enough of a starting point for whoever was responsible for that to be able to build from. The same goes for Wales and Northern Ireland.

Q66 **Nigel Mills:** I was just wondering whether you had thought that rather than moving all 5,000, half of those need to go to a separate site. It just looks like a rather expensive option to have exited sites and then tried to get them back to do something with them. Is that something that you can try to think through this early?

Jon Thompson: You are asking me to answer a question about something that I do not believe is currently part of Government policy, and I am not even sure that it is being currently considered, right? So we ought to be up-front about that. We have an excellent working relationship with both the Welsh revenue authority and the Scottish equivalent. Indeed, one of my colleagues, Jim Harra, gave lengthy evidence to the Scottish Government on this point before Christmas. It seems to me that it would be a good place to start with the 5,000 people in Scotland, the 3,500 people in Wales and the 1,600 people in Northern Ireland. I have to deal with my problems and challenges now. I am not withdrawing from Scotland or Wales; there is a decent footprint there and you would be able to build away from that.

Q67 **Nigel Mills:** One other question on how Government policy might impact. Let us say hypothetically you had to administer customs duties on imports and exports on all transactions to the other 27 member states of the EU. Have you thought about how many staff and premises you would need to be able to help businesses through that and to make sure that they were complying effectively? Would that alter how you would calculate that change?

Jon Thompson: Yes, we have thought that through. Yes, I have an initial view of how that would operate. Actually, to be transparent with you, the operation of the customs declaration service is currently based in Manchester. The vast majority of customs declarations are actually done electronically on an IT system called the customs handling import and export facility, or famously known as CHIEF. Some 99.5% of all import and export transactions are done automatically through a risk assessment engine, and the 0.5% that require human intervention are handled in

Salford. I went there the week before last. We would have to think about how that operation works were the United Kingdom to exit the customs union.

Chair: We may come back to that at the end of our session.

Q68 **Kwasi Kwarteng:** I would like to find out a bit more about the risks that you have outlined. It seems to me that there are substantial risks relating to finance, rental costs and all the rest of it—market risks. Mr Holliday, your forecast of the total cost has gone up nearly £600 million in less than a year, according to the Report. You cannot be certain, but what level of comfort do you have that those costs will not increase in the next few years?

Justin Holliday: As Mr Thompson said at the beginning of the session, the £600 million is a point in time comparison between an SR bid and the draft business case at the time of the NAO's work. Since then, the £600 million increase has come down to an increase of about £150 million. So costs have come down. I am reasonably confident that we have got a handle on those costs, and that we have now got a more realistic assessment of them. Clearly, when you are doing a spending review bid you are doing it in private; you are not engaging with the market. We took advice, but we didn't actively engage with the market. Now, a year into the programme, we've done that kind of active engagement and we've got a hugely better understanding of what's going on in the real world in all the locations where we want to be. You can never say never in these things, but I am reasonably confident.

Q69 **Kwasi Kwarteng:** But markets are volatile, we know that. Markets can move huge amounts—we've seen that in the last year—and this is essentially the game, so to speak, that you're playing at the moment. Is there a point at which this strategy becomes unaffordable and essentially becomes obsolete, because it doesn't actually make the savings that you had anticipated?

Justin Holliday: I do not think that there's a point where this strategy becomes obsolete, because you've got to compare it with securing property in the market. HMRC needs buildings to work within and we are in a position, because of the STEPS arrangement, where a significant proportion of our property finishes in 2021. So whatever scenario you look at, we're in the place of buying or renting buildings.

You're right to say this market can be volatile. I think the commercial property market can be a bit less volatile than some other markets. However, whatever scenario you look at, I think things would be moving in the same way.

It's worth saying that the savings we've been talking about are the comparison between what we spend now and what we anticipate spending later. We have also estimated that if we did nothing or did a kind of minimum programme—essentially, that would be rolling on STEPS—we would spend about another £75 million per annum on top of our current budget. So, the amount we're saving, if you take both cost avoidance and actual cashable savings into account, is about £150 million by 2025-26.

Q70 **Kwasi Kwarteng:** But my understanding is that you have also extended the period of investment costs in your model. Am I right to suggest that?

Jon Thompson: Sorry, clarify the question.

Kwasi Kwarteng: You were saying that, in terms of the estate, the investment costs are now continuing for 10 years, as I understand it.

Justin Holliday: I don't think it's extended; I think it's just that the presentation in the Report shows 10 years' worth of costs. The business case will be, as best we can, on a 25-year basis, because that is the right sort of time period to be looking at for buildings.

Sir Amyas Morse: One thing that might be interesting in understanding the future-proofing of this strategy would be to think about it given the rapid forward march of technology. If I take the Government as a whole and HMRC in particular, how much would your staff requirement need to go down to materially change this strategy? I am just trying to test and feel for where the edges of it are. Any idea?

Jon Thompson: We haven't actually done that work, so if you want us to do it, as a way of properly giving you an evaluation, then we could. However, there is a point—let's say there was another 5,000—at which you might have to say, "It's not 13 regional centres. You'll have to switch to 12."

Sir Amyas Morse: So it's really flexible in your view.

Jon Thompson: It may be. But we also need to be up-front with you about where we are with the 13. Actually, although we've announced two sites—Croydon and Bristol—we've made really good progress with all of the other 11. So it will certainly be in 2017 that we'll be clear about where all 13 sites are.

Q71 **Kwasi Kwarteng:** On the two sites that you've got—this is on the point that has just arisen—why did you sign off on the Croydon and Bristol sites so soon?

Jon Thompson: Because although in my introductory remarks I said that we haven't actually put down a business case for all 13 in this whole programme and we're heading towards that by the end of March 2017, you could stand up those two sites as a business case on their own. So because of the way in which the governance and control works in this, we had to be able to demonstrate that. Sharon had to be able to say that she was comfortable with that, and it had to go to the Minister for the Cabinet Office. So we could stand up a business case for Croydon as a centre and Bristol as a centre on their own—

Q72 **Kwasi Kwarteng:** Independently of the rest?

Jon Thompson: Independently of actually doing the overall thing, which we need to be able to do by the end of March.

Q73 **Kwasi Kwarteng:** Obviously we could ask more questions on that, but I just want to ask, before we proceed, about the human dimension. We have talked a lot about financial risk. We have talked a lot about the risk to the estate. In terms of the numbers of people leaving HMRC, is there a level at which you would be concerned—let us say if 10,000 people opted to leave, instead of the 5,000 that you estimated? Would that in itself impede or hamper your desire to pursue the programme?

Jon Thompson: On this programme the estimate is that up to 5,000 people would leave as a result, but natural turnover is also running at anything between 5,000 and 6,000 a year, too. So you have got that factor naturally, just in running a large organisation. So what that means for us is that we have been on an enormous recruitment drive. I think I gave some evidence to the Committee before that we have been attempting to recruit 9,000 people in the current year, and there will be a significant recruitment drive next year, because you have got both of those factors combining. That is why Mr Elphicke's question about the dynamics of the workforce presents us with a risk; because I frankly think that natural turnover in the organisation is a little high for me.

Chair: Nearly 10% from what you are saying.

Jon Thompson: You are trying to find the sweet spot—

Q74 **Chair:** Just to be clear, was that 6,000 out of roughly 60,000 or 61,000—about 10%?

Jon Thompson: It is 61,400.

Chair: And it is about 6,000 turnover a year.

Jon Thompson: It is between 5,000 and 6,000. My sense is that is a little high. I would prefer it to be more like 3,000, so more like 5% rather than pushing towards 8% to 10%. So that is an additional factor in there. So it is 5,000 as a result of this—because of the Redruth factor, for example. But it is a genuine organisational risk, staff fluidity.

Q75 **Kwasi Kwarteng:** My last question relates to this question of the HMRC estate and the Government Property Unit. What sort of lessons are you learning from HMRC's experience? My understanding is that HMRC is a trailblazer. It is doing something that you would hope to replicate across the Government property estate. I just wanted the Committee to learn from you the lessons you have learned from this; and, also, looking at costs going forward, what is your strategy for regional centres and hubs, and all the rest of it? Does your strategy dovetail with this, or are you maybe trying a new direction?

Sherin Aminossehe: I will start with the strategy first, and then go on to the lessons learned, if I may. So in terms of strategy, yes, it is dovetailing. A significant number of the HMRC hubs—in fact all the HMRC hubs—are part of our wider hub strategy, which is, in total, for somewhere between 18 and 22, depending how the workforce numbers work over the coming 10 years, which is the timeline for it. So it is very much dovetailing, and obviously in a number of the areas where HMRC has a significant presence there will be other Government Departments as well. So for us, in terms of lessons learned, one is length of time—the preparation that is obviously needed, and getting everybody aligned to go into hubs—and also business cases and the amount of preparation required. So that is all quite helpful.

Another lesson learned for us is, obviously, we want there to be a good standard in terms of all these hubs, so work is needed to align everybody in terms of IT requirements so that you can have true flexible working across the place. Also in terms of facilities management contracts and so on and so forth.

Also, obviously, we need to have the right type of professional advice on board to make sure that we are making the right decisions on behalf of the taxpayer and making sure—this is a long programme, especially for Government hubs; we are looking at 10 years hence—that we retain flexibility looking forward into the future. We need to make sure that any deals that we enter into are value for money, but also that we can make changes as and when required, because as we know, policy landscapes can be fluid.

Q76 **Kwasi Kwarteng:** Broadly, it sounds like you are very stuck on this line. It seems to me that you have got your programme and this thing, and nothing will deviate. You don't necessarily mind if people leave. You think you can recruit more people. In terms of implementing the programme, is there anything that could derail this or make you believe that perhaps this was not the right strategy? It seems to me that there is not really a plan B, so far as you are concerned, and that is concerning, perhaps.

Jon Thompson: Mr Holliday was relatively clear with you that there is a counterfactual, which is that we could roll over STEPS, but that requires another £150 million a year.

Q77 **Chair:** No, that's a bit simplistic. You have got 170 offices. You are going to 13. There are a few midway points in between.

Jon Thompson: Well, yes, but in that case you can pick an infinite number of locations. I have been really clear that we had eight selection criteria. We evaluated 40 locations and ended up with 13. It is totally possible, as Mr Boswell said, to say, "I don't like that one. I would like this one." It is perfectly possible to be able to run that. To respond directly, it may happen that we could not land a deal for an appropriately sized building in one of the locations. That would be a significant issue for us. Another would be if the prices rise from what we anticipate when we go to market. That would be an issue for us in determining whether the programme is affordable. I think I was transparent enough to say programme risk in terms of affordability is the No.1 thing that we are trying to manage.

Q78 **Kwasi Kwarteng:** But my question was whether there is an actual plan B. Clearly you do not think that is an important question.

Jon Thompson: I am slightly struggling with what it is you think you want me to do.

Q79 **Chair:** Let me come at it from a slightly different angle. You are going through a major change. You have other areas of responsibility as a Government Department. In some cases, you create jobs in areas where there are not many jobs. Really, the question is for Ms Aminossehe about the conversations you have had with other Government Departments, such as DCLG, and the sense of place-making that the whole Government hub programme has. You are ripping out jobs that make some city or town centres viable and putting them—in the case of Wales, it is all the way down in south Wales and there is nothing at all in the rest of Wales. These are big decisions, and there is a wider social impact. A dividend to the taxpayer is not just in cash terms or HMRC service terms. With 13 or 20, you can still get some dividends for HMRC, but you might get other dividends for people. What conversations have you had about that?

Sherin Aminossehe: We have been concentrating a lot on the larger Government hubs. What we have not really spoken about is the 200 mini-hubs across the country. The fact that we are concentrating on the bigger hubs does not mean that we are ripping out jobs from every other part of the country and just concentrating them on those metropolitan centres.

Q80 **Chair:** Do you know where those mini-hubs will be and how many people roughly will be based in them?

Sherin Aminossehe: We know a good chunk of them, but not all of them as yet, because obviously they are very much linked to departmental need. We are not in the business of going, "This is the strategy and we are not going to change that", because this is for the whole of Government, not just for one Department. We have a good idea where the majority of those are going to be. Some of them will be quite small and some of them will engage several hundred people.

Q81 **Chair:** I repeat my question about the conversations you are having about place-making and the importance of Government jobs in certain areas.

Sherin Aminossehe: Our own particular Minister, the Minister for the Cabinet Office, is particularly keen on place-making, as am I from my previous professional past. We are engaging with external advisers to ensure that when we are going into a new place or an existing place, we are looking at such things as the public realm and the impact on the wider economy. We are also looking at connectivity in terms of transport links. We want to ensure that when we go into a location, it is not unsafe in terms of the wider public realm terms for employees if they are leaving at certain hours, such as with shift work and so on.

Q82 **Chair:** I'll try to canter through some of the examples. I will hand to Mr Bacon in a moment. For example, take Livingston. Hannah Bardell is the MP for Livingston. Martyn Day is the MP for Linlithgow and East Falkirk. They have raised concerns about the closure of the Livingston office. They have produced a lot of information, which with Hannah's permission I will pass on to you. I have to make sure that that is okay, but I don't doubt that it would be. There are some compelling figures about the relative cost of an office in somewhere called the Pyramids business park in comparison to the cost of a central Edinburgh location. There is an interesting point here. The job market in Edinburgh is highly competitive, whereas just a step outside—there are still reasonable transport links—there are good valuable jobs for people. Maybe this question is for both of you, but particularly for the Government Property Unit: is that a consideration, because those jobs are far more valuable to people in Livingston in one sense than they are to people in Edinburgh? They might be the same people who commute that it affects, and it might be easier and better for that locality if the Government jobs are retained in an area that has a lower employment rate.

Sherin Aminossehe: I completely understand what you are saying and the concerns of those people. We arrive at our locations on the basis of departmental need. That is one of the big areas. In terms of working with HMRC or with other Government Departments, we look at where their business model is going to be and where they feel that their workforce projections, as Jon Thompson talked about earlier, are going to take them. That is part of the reasoning.

Q83 **Chair:** But, Ms Aminossehe, you can be the driver. The Government can be the driver. Look at Morpeth, which was a mining area. It was a small town. It is now quite a big hub because DWP do all our pensions work—or a lot of it—up there. The Government decision to base something there brought about major change. There are other hubs around the country. The General Register Office is based in Stockport. There are hugely expert people, and they probably would not move to other jobs. So you can be a driver for that. You are listening to what the Departments want, but you can probably compromise in some areas and create a better dividend for the taxpayer in social and economic terms as well as delivering what Departments need. Is that something that is on your radar?

Sherin Aminossehe: I recognise that and I think that is a fair point, which is why we are still working on the location of our mini-hubs to see where we can make that compromise.

Q84 **Chair:** Are you talking to Members of Parliament about that? I do not usually do anecdotes, so I hope the Committee will indulge me. I was passports Minister for a while and I discovered, when I was being reassured very often that things were all fine, that once I started talking to MPs who had not been consulted, they were coming up with better solutions very often and pointing out that some of the simple straight lines drawn on maps were actually cutting across mountains, valleys and all sorts of other things and making journeys ridiculous for people. In that case it was about customers rather than staff. I have to say—a bit of an advert—we MPs know our patches. Are you engaging with MPs?

Sherin Aminossehe: At the moment, no, not directly, but obviously we are through our Ministers and the Ministers for other Government Departments that we work on.

Q85 **Chair:** I shall write to them and encourage them to engage with your Minister, at the very least. Do you have any way that MPs can feed directly to you their knowledge about the local property market and what the benefits will be?

Sherin Aminossehe: We are always open to wider consultation, so we would be very happy to take that on board.

Q86 **Mr Bacon:** A perfect segue. You may be interested to know that Post

Office Ltd is trying to get rid of the Diss Crown post office and move it to a WH Smith, which is one of the smallest WH Smiths in the country, somewhere between half and two thirds of the size of a postage stamp. It does not have disabled access. It is a completely idiotic idea. It is a wonderful building that we want to keep, so you might look at having a hub there.

I have a more general question about the Government Property Unit. I was interested in what Mr Kwarteng had to say about this. It sounds great in theory. Also, I am heartened that we have in Mr Thompson a man with a financial qualification and in you a professional with both a membership of the Royal Institute of British Architects and a fellowship of the Royal Institution of Chartered Surveyors. It is a worrying precedent that we are going to have people running the country with domain expertise who actually know what they are doing. I am looking at your cartoon on the Saatchi website where you call it "Consolidating at Christmas". Another one, which is even more worrying, says "Santa shouldn't do planning". I hope that those are not a metaphor for where the Government Property Unit will end up in a few years' time.

You said there was going to be an agency. Is there a business case? When is it going to be launched? Who will the chief executive be? Where will it be based? What will its budget be? What will its remit be?

Sherin Aminossehe: As Sir Amyas said, it is very much in development at the moment. I can say that we are currently going through a business case process. We have some people that we have appointed as interim chief executive and interim executives, and we have recently announced who they are. I can either talk you through them or I can give you further information—

Q87 **Mr Bacon:** Perhaps just send it to us. That would be great.

Sherin Aminossehe: I'd be more than happy to send you that.

Q88 **Mr Bacon:** What is the remit going to be about?

Sherin Aminossehe: The remit is about being able to be more commercial about property than Government have been so far. We have achieved quite a lot. With the help of Departments, we have made a lot of savings: £840 million plus in terms of running cost savings and in the past year alone just under £1 billion of capital receipts. This is good. We have been working with local authorities to—

Q89 **Mr Bacon:** Does that include the old War Office building?

Sherin Aminossehe: The old War Office building is part of that, yes.

Q90 **Mr Bacon:** That was £350 million, wasn't it?

Sherin Aminossehe: It was a significant chunk, yes, but there are obviously also others in that as well. It is about portfolio management of property—being able to manage offices as a whole portfolio, or warehouses as a whole portfolio, and being able to leverage that Government covenant that I spoke about earlier much more successfully than if it was with individual Departments. However, as I said, it is still early days. We still have a number of months before we go live, and we are in the process of developing with Departments exactly how that organisation is going to work.

Q91 **Mr Bacon:** Is this part of the drive by the Cabinet Office for much more streamlined and powerful functional leadership?

Sherin Aminossehe: Yes, it is.

Q92 **Mr Bacon:** I am looking at an aerial photograph of what I would call the strategic Government estate, basically from Parliament down to the old War Office building and across to Horse Guards and so on, which you will be familiar with. Some of that is now privately owned, including the old War Office building. Mr Thompson, I can see your office as well. That was part of the £1.6 billion—what was it called? "Exchange partnership 1" and "exchange partnership 2," I think. They were around £800 million each, so I'm sure you will not be moving from there soon.

Do you disagree with Sir Nick Macpherson, who is now in the House of Lords, when he says there is such a thing as the strategic estate? You are happy to sell off buildings like that in that location. I can see that at £350 million, the Chancellor might think Christmas has come early, but when I heard that it was being sold, I worried that in seven or 17 years' time—at some point—someone was going to say, "Why on earth did we do that?" because there would be a better use. I appreciate that apparently it is going to be a Raffles and you will be able to go across and have a Singapore Sling after a hard day's work, but do you think that there is such a thing as the strategic estate, or not?

Sherin Aminossehe: Yes, I do believe—

Q93 **Mr Bacon:** And where is it?

Sherin Aminossehe: The strategic estate is beyond Whitehall. It is not just about that street that you are talking about; it is also about key buildings that we have across the country that we know are critical to the functioning of Government and that are good value for money, but that are also important in the way that they function. The strategic core estate will change over time, just as working practices have changed over time. Something that was core estate 10 years ago may not be core estate in exactly 10 years' time.

Q94 **Mr Bacon:** How do you decide? For example, I know that when there was a proposal to sell the old Home Office, no one bid enough and they decided to keep it, and now it is the Ministry of Justice—and a very good thing, too. But Admiralty Arch was sold for £60 million or £70 million, and now we see that flats in there are going to be sold for over £100 million each. You wonder where the taxpayer gains from all this.

Sherin Aminossehe: I was not personally involved in that deal, but I can say that for us, there is a balance between having a building that is effectively lying fallow, not being used and actually costing the taxpayer money, and being able to get the right revenue in—bringing economic use into that building rather than it just sitting empty. To us, that is an important part of it.

Q95 **Mr Bacon:** Is HMRC, or indeed this new Government property unit or agency, definitely not going to engage in the kind of tax avoidance behaviour that we saw with Mapeley Steps?

Sherin Aminossehe: I jolly well hope not. No, not at all.

Q96 **Mr Bacon:** You hope not, but that's—

Sherin Aminossehe: We won't.

Q97 **Mr Bacon:** Good. I read—I presume this is true—that there is a 250-year lease on the old War Office building. Presumably the Government retain the freehold. Do they?

Sherin Aminossehe: Yes, we do—just as with the Arch.

Q98 **Mr Bacon:** I am sure that if it is turned into a hotel, the people who are going to do it have a lot of experience, so hopefully it will be a success. But were there a financial failure—were it for some reason not to happen—what protection do the Government have so you do not end up with the equivalent of Battersea power station in central Whitehall for 30 years? Do you have clawbacks?

Sherin Aminossehe: There are clawbacks within the contract, and through the Ministry of Defence, who actually did the deal; we can give you further details of that.

Mr Bacon: If you'd write to us with that, it would be very helpful. Thank you.

Q99 **Chair:** We have to canter through a few more important issues, hopefully in the next 10 minutes, so if we can keep our questions and answers brief, that would be very helpful.

Going back to the issue about the cost increases—you have gone down from £600 million to £150 million. As you point out, there are points in time at this stage of a programme where you are making judgments, but can you tell us, Mr Holliday, what has changed to bring that level of cost increase down? What has happened? What have you done?

Justin Holliday: There are four big groups of things that we have looked at and are proposing to do. The first one is phased delivery in a number of locations. The second is a number of offices that we are proposing to close a bit earlier than we had previously planned. Thirdly, we have looked again at our space planning and the intensity of the use of the proposed estate.

Finally, in the light of the staff turnover issues that Jon referred to, we have looked at where we need to recruit and whether we have the right balance of recruitment against cost-effective locations. We have managed effectively to move some work around the country to more cost-effective locations. Those are the things that we have done to bring costs down.

Q100 **Chair:** Obviously, we will call you back to see how that target moves. Before I hand over to Mr Boswell on some of the key points, we have covered some of the Brexit stuff, but not everything. On the issues around the Bradford office, Imran Hussain MP has highlighted what he thinks are cost savings if an office were in Bradford rather than Leeds.

I know you have talked about looking at the costs of offices. It seems that every office is in one of the really major cities, yet, as has been highlighted, offices could be in nearby locations to those city centres where premises might be cheaper. I am puzzled in that case—if he says that there are £70 million savings to be made—as to whether you have had conversations with local MPs or local councils about that. Secondly, why are you not pursuing an option just down the road that is cheaper and might be better for the taxpayer?

Jon Thompson: Bradford is an area where there has been significant dialogue between the chief executive of Bradford City Council and my predecessor, and indeed with me. I have spoken to Kersten England, the chief executive there, on several occasions. They asked me to review the Bradford Leeds decision when I took up the post. I did that.

Again, to repeat, this is not just about property costs. For example, if you are in York and now we say your job is in Bradford, you would have to go in and out of Leeds. Whereas if you are in Leeds, it is less of a journey. As I said in answer to Mr Boswell's questions, we mapped those things out and that was a factor.

Q101 **Chair:** I am interested to hear you say that you mapped that. Clearly you are considering it. I am just puzzled why that was not one of your eight key considerations—where staff are. You are saying that you use it all the time and yet it was not one of your core considerations. Was it the ninth consideration that you had not put down? It sounds like you did it pretty comprehensively. If I were you, I would claim it as more of a success, if that is really what you are doing.

Jon Thompson: I am saying that our evaluation took into account eight factors. In the narrow perspective of rent, it is possible that in relation to the 13 locations, we might be able to get a cheaper rent in other places. Swansea might be a good example. But we evaluated 42 locations and settled on 13. Bradford specifically asked me to look at it; I looked at it. I exchanged various letters.

Q102 **Chair:** I am interested. I think you are going to get a flurry of MPs asking for revisits. There is one very important point about the Welsh Language Unit office. You are probably aware of that. Perhaps not everyone will be aware that there is an HMRC Welsh Language Unit office, which is obviously important though not for everybody.

The challenge of recruiting Welsh speakers in Cardiff may be a little more difficult. What consideration have you given to your Welsh language support? Is it going to be continued at the same rate? Are you going to reduce it? Is it a commitment that you are sticking to; that you will have a Welsh Language Unit?

Jon Thompson: We have a statutory obligation to do so and we are working with the DWP to create a joint Welsh Language Unit.

Q103 **Chair:** In Cardiff?

Jon Thompson: No, somewhere in north Wales.

Mr Bacon: I was going to suggest Caernarfon. There are lots of Welsh speakers there.

Q104 **Chair:** Okay. That is very helpful. I am sure that Liz Saville Roberts, the MP for however it is pronounced, will be interested in that. On Wrexham, we are talking about 350 staff. That is an example. I don't know where the mini-hub is going to be. That is quite a lot of jobs in Wrexham. Their nearest place would be in England, probably in Liverpool, because it is a three and a half hour train journey to Cardiff. When you are looking at the hubs, is Wrexham one of the areas you are looking at as a mini-hub, so that north Wales has some presence?

Sherin Aminossehe: We are looking at areas in north Wales. I can't off the top of my head remember where. I don't think Wrexham is currently on that list.

Q105 **Chair:** Will you write to us and let us know where the places are in north Wales? That would be very helpful. I am sure that other MPs will follow up on their own areas.

Sherin Aminossehe: Yes, we can.

Q106 **Philip Boswell:** I just have a couple of points on Brexit; points raised earlier by my colleagues, Mr Mills and Mr Kwarteng, partly covered this. Concerns have been raised around Brexit, and we are asking every Department for key issues. Particularly given the cuts that are coming and the relocation and disruption that you face, there is talk of people thinking that you should perhaps hold off from this change until you have assessed the impact of what some people are calling a hard Brexit. What are the main half a dozen or so issues concerning your Department, given that we face Brexit?

Jon Thompson: There are six, I think. The Prime Minister was very clear at Lancaster House—if one might repeat her, "I want to be clear: what I am proposing cannot mean membership of the single market"—so the top two things for us will be, first, what that means for the customs union, and secondly, where that leaves us with various aspects of indirect tax. Remember, VAT is a European framework with more sovereign powers to be able to administer.

There are four other issues. Thirdly, what happens with social security? Obviously, we have responsibility for both child benefit and tax credits. We are responsible for £40 billion-worth of benefit expenditure. Fourthly, where are we with data exchange? Data exchange with other parties is an essential part of running a tax system. Fifthly, in the past—and currently—there have been a series of litigations, in which the application of European law is questioned or otherwise by various parties in relation to tax.

Lastly, but by absolutely no means least, we have to factor in the impact on our customers. For small businesses that import or export, what will leaving the European Union mean, and what does that mean in terms of their relationship with us? Those are probably the six big areas for us.

Q107 **Philip Boswell:** Thank you. We are a few years away from Brexit, although we may trigger article 50 shortly. Because we don't know the exact details of Brexit and its ramifications, is there any consideration of stopping or slowing your downsizing—or of postponing this restructure?

Jon Thompson: My instructions are to carry on as per the instructions.

Philip Boswell: Carry on regardless; is that a Carry On film?

Jon Thompson: No. That would be an interesting Carry On film. My instructions are to carry on but to do contingency planning for Brexit. We are in the middle of doing that contingency planning, in order to be able to advise Ministers—most notably the Chancellor of the Exchequer—about the potential scenarios and what those might mean for HMRC. That is the phase we are in.

Q108 **Chair:** One final question from me. Mr Thompson, reports were in the news not that long ago about the Italians claiming tax back from Google. They appear, from the news reports, to have claimed more back from Google than we have managed in the UK. Are you talking to your Italian counterparts about what they have done, and whether there is any scope for pursuing for more tax in the UK?

Jon Thompson: The answer is yes, to put it bluntly. You know as well as I do—it is worth repeating for the Committee—that all tax settlements are on the basis of full disclosure. If we identified further information that would change the decision, we would simply reopen the settlement and start those conversations all over again. That is exactly how it works for anyone, whether a small business or individual, or a multinational.

Chair: Thank you for your forbearance. Sorry that we were interrupted by a vote; that is the reality of Parliament. The transcript will be up on the website in the next couple of days. The report will be out at some point after the half-term period; I cannot tell you precisely when. I thank you very much for your time.

I have no doubt that we will be calling you back. With 15 big projects on the go, you are going to be here more than you are managing those at this rate, Mr Thompson. Thank you very much indeed.

Jon Thompson: I look forward to that joy.

Chair: That’s a cheery thought.