HM Revenue
& Customs

Sir Jim Harra KCB
Chief Executive and First Permanent Secretary

100 Parliament Street
London
SW1A 2BQ

Sir Geoffrey Clifton-Brown
Chair of the Public Accounts Committee
House of Commons
Palace of Westminster
Westminster
LONDON
SW1A 0AA

12 December 2024

Dear Sir Geoffrey,

Thank you for your letters dated 26 November 2024 regarding my Accounting Officer Assessments (AOA) on the Locations Programme and the Making Tax Digital (MTD) Programme.

Making Tax Digital (MTD)

I am glad that you found my earlier correspondence on MTD for Income Tax helpful, including my explanation of how HMRC has updated its assessment of both costs and benefits in line with recommendations made by the National Audit Office.

In your letter, you request that a new or updated AOA is published for MTD for Income Tax in March 2025. You also request that HMRC commit to producing separate AOAs for MTD VAT and Income Tax in the future or ensure the figures for each element are separated if covered within the same assessment.

HMRC is working to update the MTD business case in early 2025. Although HM Treasury's guidance does not stipulate that an AOA must be produced alongside an updated business case, the recently announced changes to MTD mean that I intend to update my AOA once the updated business case is in place. I expect this to be in the spring of 2025.

Advice from the Infrastructure and Projects Authority is that an AOA should reflect the same entity as is recorded on the Government Major Projects Portfolio (GMPP) i.e. there should be no disaggregation. So, I intend to publish a single updated AOA for the MTD Programme; however, I will ensure that the updated AOA provides continued transparency around the MTD Programme's various components.

Additionally, as you will know, the Chancellor announced at the Autumn Budget that MTD for Income Tax will be extended to those with a qualifying income of over £20,000 by the end of the Parliament. We are considering how best to reflect this commitment in the next MTD business case and updated AOA.

Locations Programme

I remain committed to ensuring the Committee has the information it needs, although I would like to reiterate that there were no omissions from the original Locations Programme AOA.

We have followed HM Treasury's AOA guidance since it was introduced in 2017, and as I explained in my 8 July letter, this did not require an earlier AOA to be produced for the Locations Programme.

We sought advice from HM Treasury officials about how the initial AOA guidance applied to existing programmes (and again when the guidance was updated in 2021) and whether the policy should be applied retrospectively. HM Treasury's advice was that existing programmes did not need to complete an AOA. Since that point, and in line with the AOA guidance, the Locations Programme has been appraised at regular points in its delivery lifecycle on whether it has departed from the four Accounting Officer standards or the agreed plan, which are the practical tests for drawing up a revised AOA.

HM Treasury guidance is clear that beyond these points, normal governance procedures, such as the production and approval of business cases, should provide sufficient assurance against the Accounting Officer standards. The Locations Programme has regularly updated its business case, which has been subject to internal and external scrutiny.

Your letter highlights there was a business case review in 2017 that should have triggered an AOA as costs had increased to £2.8bn. However, costs had not increased at this time, so no trigger point was reached. We have provided an explanation below, of why this was the case.

In July 2022, HM Treasury notified departments that the AOA guidance had been updated and any deterioration in delivery confidence assessment (DCA) – e.g. through a formal IPA Review or GMPP quarterly return – should prompt a refreshed AOA. In line with this guidance, a Locations Programme AOA was triggered following a change in the programme's DCA which arose from an IPA Assurance Review in September 2023.

In addition, your letter asks for an outline of changes to the programme costs and benefits over its lifetime, details of leases, rental values, and use of Regional Centre space.

Further to the evidence I provided to the Committee during the oral evidence session on 28 November 2024, I would like to reassure you that programme costs have not increased substantially over the lifetime of the programme. The programme Whole Life Cost (WLC) [1] of £2.8 billion, referred to in your letter, relates to both investment and ongoing running costs over a period of 10 years starting 01 April 2016.

For completeness and as stated in your letter, you compare investment costs with WLC; however, these are different things. Investment costs are included in the £2.8 billion.

[1] Whole Life Cost (WLC) for the Locations Programme includes all running costs and investment, including freehold purchases.

In 2018/19 and following reporting of WLC to GMPP, the business case was refreshed. The WLCs were revised to a 25 year period in line with industry standard. This approach has been consistently applied in all subsequent iterations of our business cases.

As you highlight, investment costs did reduce from £588 million (NAO review) to £552 million. This was due to the refinement of the figures, which led to the reduction in costs, reflecting HMRC's deeper understanding of the supplier and market conditions. Investment costs have increased from £552 million in 2017 to £953 million following HMRC's decision in 2021/22 to increase its scope in order to retain a presence in several locations not previously considered.

The cost increases are primarily due to;

1. Expanded scope of the programme.

2. This, coupled with unprecedented high levels of inflation over recent years, has contributed to like for like costs being more expensive when compared to the delivery of equivalent projects earlier in the programme's lifecycle.

3. On-going legal challenges to the then government's proposed changes to its voluntary redundancy scheme.

4. A decision to convert an upfront developer's contribution and instead take a reduced rent over 25 years.

A breakdown of changes is provided in Appendix A.

Overall, the Programme's WLCs have remained stable, currently stated as £2.88 billion in our latest business case. This is due to HMRC driving down the overall running costs by consolidating old estate (from c.170 offices) into a smaller, modern and more environmentally efficient network of Regional Centres and workplaces. This has resulted in increased programme benefits overall.

I can confirm HMRC does not hold any 40 or 45 year leases. As of September 2024, seven out of twelve Regional Centres were initially committed for 25 years (with lease breaks at year 20) and five committed for 20 years. As we are already several years into our leases, remaining lease terms range between 15 and 22 years. We have the freehold of Croydon and will acquire a freehold interest in our new Portsmouth site in 2026. Having a mix of freehold and leasehold offices diversifies the government property portfolio. Where a developer offers a freehold option, this is considered alongside leasehold solutions to secure the best value for money for HMRC and the taxpayer. The requested details on the acquisition/lease commencement (usually upon completion of construction), lease length, and lease breaks for HMRC's regional centres are provided in Appendix B.

You also requested details of the difference between the rents being paid for the Regional Centres leases and the current market values. This is commercially sensitive information, although I can share these details with the Committee, if required, in a closed session.

Turning to your request for the percentage of Regional Centre space currently occupied. As of September 2024, HMRC had sublet c.61,000 square metres of office space in the 12 Regional Centres for occupation by 14,000 FTE from 52 departments, generating £36.6m of income for HMRC this financial year with a forecast £39.2m in 2025/26. HMRC also sublets space in our wider estate to other government departments (combined with Regional Centres this equates, as of September 2024, to c.85,000 square metres of space, housing 15,300 FTE from 54 departments).

Building occupancy measures the amount of building capacity being used. The Cabinet Office occupancy calculation divides the average attendance over a defined period by building capacity. Based on that methodology, the occupancy rate across the 12 HMRC regional centres, which excludes capacity allocated to other government departments, was 67% in September, though it fluctuates month on month. HMRC's allocated capacity currently exceeds our needs because we are holding space for the future workforce growth announced by the Chancellor in her autumn Budget. I expect HMRC occupancy levels to rise as we continue our planned workforce growth and sublet more of our allocated capacity.

I trust this response, in addition to my answers at the Committee on the 28 November, provides you with all the information you need.

Yours sincerely,

Jim Harra
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY

Appendix A

Locations Programme investment cost drivers between 2017 and 2024

WLC have remained stable between the 2017 business case and the current 2024 case (from £2.835 billion to £2.884 billion). This reflects the revision of the programmes assessment period from 10 to 25 years and includes extension of the programme's investment period from 10 to 15 years. This is testament to the value for money solutions we have been able to secure. Investment costs, which form part of the WLC, have increased from 2017 and the headline drivers for changes, much of which occurs within the additional 5 years of the programme's lifecycle, are shown below.

Headline Changes driving investment[2] costs 2017 – 2024 (detail in business cases)	Cost £m	Rationale for changes
Original Programme Business Case (PBCv1.0 2017)	**£552**	Over 10 year Programme investment lifecycle
Expanded scope, including freehold purchase, and industry cost increases	+ £248	• New sites included in the programme (East Kilbride, Preston, and Portsmouth). • These deliveries are impacted by construction and supply cost increases following domestic and global upheaval. • Strategic decisions to acquire freeholds, providing better value for money.
Exits	+ £82	• Legal challenge to Civil Service Compensation Scheme so anticipated 2019/20 changes were not introduced requiring a reversion to the more expensive 2010 scheme.
Developer contribution converted to rent reduction	+ £41	• Developer contribution renegotiated to be applied as rent reduction resulting in additional up-front budget.
Manchester 2	+ £27m	• Extended timescales of programme delivery in 2021 bring Manchester 2 in scope.
Resource and overheads	+ £23	• Reflects longer length of programme to manage expanded programme scope.
Net of all other changes	+ £3	• For example, change of VAT treatment implemented at 2020/21.
Moves Adjustment Payments	- £23	• Saving arising from flexible ways of working and retention of presence in some locations.
PBCv6.1 (2024)	**£953**	Over 15 year Programme investment lifecycle

[2] This includes costs for investment, delivery, associated paybill, Exits and Moe

Details of Regional Centre (hub) acquisition dates and lease terms

Site Name	Lease Commencement	Lease Term (Yrs)	Residue Of Lease Term (Yrs)	Next Break Date
Bristol, Glass Wharf	27-Sep-19	25	20	N/A
Leeds, 7 & 8 Wellington Place	04-Nov-19	25	20	04-Nov-39
Belfast, Erskine House	06-Jan-20	24 Years 4 Months 10 Days	20	N/A
Edinburgh, Queen Elizabeth House	21-Feb-20	24 Years 3 Months	20	20-Feb-40
Cardiff, Ty William Morgan House	30-Apr-20	25	21	N/A
Stratford, Westfield	26-Feb-21	25	22	25-Feb-2041
Manchester, New Bailey	12-Mar-21	25	22	12-Mar-41
Birmingham, Arena Central	14-May-21	25	22	N/A
Liverpool, India Building	31-May-21	25	22	N/A
Nottingham, Unity Square	31-Dec-21	25	21	N/A
Glasgow, Atlantic Square	28-Feb-22	25	23	28-Feb-42
Croydon, Ruskin Square	Virtual Freehold			
Newcastle Pilgrim Quarter	HMRC has signed an Agreement for Lease to take a 25-year lease			
Portsmouth, No1 Goodsyard	Freehold (due 2026)			
Telford, Parkside	MOTO[3] from Government Property Agency (GPA) (GPA holds the freehold)			
Manchester 2	Not known at this stage (currently reviewing developer returns)			
East Kilbride	Not known at this stage (next steps options being finalised)			
Preston	Not known at this stage (Request for Information/Request for Proposal process yet to commence)			

[3] Memorandum of Terms of Occupation: a type of licence agreement for the sharing of accommodation between government organisations known as 'Crown bodies.' All MOTOs are governed by the Civil Estate Occupancy Agreement (Volumes 1-3).