



House of Commons
Committee of Public Accounts

The Efficiency Programme: A Second Review of Progress

Forty–eighth Report of Session
2006–07

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Greg Clark MP (*Conservative, Tunbridge Wells*)
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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Pam Morris (Secretary), and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

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Summary

The Government's Efficiency Programme is designed to achieve ongoing efficiency gains across the public sector of £21.5 billion a year by 2007–08 to improve front line services, to reduce Civil Service posts by more than 70,000 and to reallocate a further 13,500 posts to front line services.

Departments are responsible for delivering and quantifying the efficiencies achieved while the Office of Government Commerce (OGC) checks the robustness of figures put forward and provides support to help departments deliver their gains. The £21.5 billion target is a mix of ongoing cashable and non-cashable gains. Cashable gains are defined as reductions in inputs which do not adversely affect the quality of outputs. Overall, around two thirds of the £21.5 billion target is expected to release resources in this way. The remainder of the £21.5 billion target will be in the form of non-cashable gains, where additional outputs such as enhanced quality of service are obtained for the same level of inputs.

On 26 February the Committee took evidence on the £13.3 billion of annual efficiency gains departments had reported up to 30 September 2006, 60% of which were cashable. While some of these reported gains are robust, such as the £200 million saved each year by the Home Office through reducing the cost of asylum accommodation, almost £10 billion of reported efficiency gains remain uncertain. Some of this uncertainty is due to an inability by departments to demonstrate that efficiency gains are genuine, in that they are sustainable and have not affected service quality. There is also uncertainty around reported gains due to inaccurate measurement, such as the reporting of gains without taking account of additional costs.

Three weeks before we took evidence, the Treasury announced that another £2 billion of annual efficiency gains had been achieved since 30 September 2006 and it subsequently confirmed in the Budget that it was now claiming £15.5 billion.

By the time of the Budget, departments had also claimed 50,800 headcount reductions and 9,700 reallocations to the front line. Reported headcount reductions were broadly robust because they used sound information systems and consistent definitions for headcount. However, reported reallocations were less reliable. In some areas they included projected staff numbers rather than actual numbers, and there is also no consistent definition across the Programme of what constitutes a 'front line' role.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence from OGC and the Treasury on four main issues: the measurement of efficiency gains and headcount reductions; the effects of efficiency projects on service quality; the management of the Programme; and embedding a culture of efficiency into the public sector.

1 C&AG's Report, *The Efficiency Programme: A Second Review of Progress*, HC (2006-07) 156

Conclusions and recommendations

1. **Some £13.3 billion efficiency gains have been claimed, but while £3.5 billion represent efficiencies there are some doubts, and measurement weaknesses, around the reliability of the remainder.** The programme has brought a greater focus on efficiency in departments, but the lack of sufficiently reliable data, reliance on estimates and inconsistency in the way costs are treated mean that some 74% of efficiencies remain uncertain. Departments need to improve their measurement of efficiency by establishing reliable baselines, taking account of all additional costs involved in achieving efficiencies and having supporting evidence which is subject to independent challenge by, for example, internal audit.
2. **There is evidence that some efficiency projects may be having an adverse impact on service quality.** The Department of Health, for example, claims efficiencies through patients spending less time in hospital despite the rate of readmissions rising. The relationship between efficiency and quality of service is complex and not always susceptible to precise measurement, so departments need a portfolio of indicators to identify more accurately factors contributing to changes in quality. These should include baselines against which to assess changes in quality, cover the critical elements of service quality such as timeliness, accessibility and customer satisfaction, and demonstrate the impact on achieving key outcomes such as improved healthcare or standards of education.
3. **Improvements in efficiency may not be sustainable.** Some projects, such as the Ministry of Defence's early decommissioning of some of its fast jets have achieved one-off financial savings rather than improving efficiency for the long term. If lasting change is to be demonstrated departments need to develop measures which reflect the unit cost of delivering key services and outputs over time. In this way departments would be better equipped to focus on underperformance where it occurs.
4. **By not including on-going costs six of the ten largest departments may be overstating their efficiency gains.** Despite a recommendation by this Committee² departments still report efficiencies without netting off the expenditure incurred to achieve them. The Department for Work and Pensions, for example, did not subtract the £164 million cost of the Post Office Card Account, which it incurred in 2005–06 as part of its efficiency initiative to move customers to cheaper methods of payment. The Treasury has announced that for the next spending period such costs should be taken into account, but this requirement should also apply to the remainder of the current period to 31 March 2008.
5. **Headcount reductions are being secured, but the use of different starting points partly diminishes confidence in what has been achieved.** Five departments secured the Treasury's agreement to use staffing baselines prior to 1 April 2004 which was the starting point for the programme. The Department of Health for example, used a

2 Committee of Public Accounts, Fifty-fifth Report of Session 2005–06, *Progress in improving government efficiency*, HC 978

baseline of March 2003 enabling it to claim an additional 450 headcount reductions. Adopting a similar approach the Department for Work and Pensions reported an additional 2,060 reductions. Across the programme 3,205 headcount reductions were delivered prior to 1 April 2004, representing 7% of reported progress. A single starting point would improve the clarity of what has been achieved, though previous performance in reducing headcounts should be reflected in setting departmental targets.

6. **Reported reallocations of staff to the front line are less reliable.** Inconsistencies in the definition of the front line (the definition used by HM Revenue and Customs includes some managers, administrative support and IT staff), and reliance on projected rather than actual numbers (the Department of Work and Pensions relies on projected numbers of personal advisers who have moved to the front line) throws doubt on reported reallocations to the front line. The Treasury should set a clear and consistent definition of what constitutes a 'front line' role, and departments should only report reallocation when they have actually been achieved.
7. **There remains evidence that the basis for some claimed efficiencies has been insufficiently challenged.** The Department of Health with OGC's agreement, for example, made a statistically unsound adjustment to a baseline which added £300 million to reported efficiencies. Over the past year the challenge provided by the OGC has, in many respects, become more targeted and informed. In assuming overall responsibility for efficiency from OGC the Treasury should adopt a still more rigorous process for reviewing the supporting evidence for department's claims, using qualified analysts and statisticians when required.
8. **The full potential to achieve efficiencies is not being realised.** Almost every week the Committee is confronted with the problems departments have in delivering public services efficiently and effectively. Efficiency improvements in the current spending period are, however, being sought from the narrow basis of a small collection of projects in each department, which does not encourage departments to look at efficiency in the round. While the basis for seeking efficiency improvements in the next spending period may be wider, the Treasury should work with departments to put in place a more coherent performance framework including targets and benchmarking to reduce corporate overheads and administrative functions, with unit cost and productivity measures for all key outputs. There should also be regular opportunities for front line staff to have a say in how service quality and efficiency can be improved.

1 Whether the Programme is achieving genuine efficiency improvements

1. The Efficiency Programme aims to improve radically the value for money of the public sector. It affects all public services, from health to education, and all public bodies, from local authorities to Whitehall departments. At the same time as delivering savings, departments must demonstrate that the quality of public service delivery is not at risk. Following Sir Peter Gershon's 2004 Report on public sector efficiency,³ departments were set targets to secure £21.5 billion of annual efficiency gains, make 70,600 headcount reductions and 13,500 headcount reallocations,⁴ and embed efficiency for the long term.

2. **Figure 1** shows that halfway through the Programme the Government reported that it had achieved £13.3 billion of the targeted efficiency gains, 45,551 of the targeted headcount reductions, and 9,412 of the targeted reallocations of posts to the 'front line'.⁵ However, as **Figure 2** demonstrates, of the £13.3 billion efficiency gains now reported: £3.5 billion fairly represent efficiencies made; £6.7 billion represent efficiency but carry some measurement issues and uncertainties; and £3.1 billion may represent efficiency, but the measures used either do not yet demonstrate it or the reported gains may be substantially incorrect.⁶

3. There is a real possibility that some of the reported figures did not represent genuine efficiency improvements. One reason is that attempts to improve the efficiency of some activities may have led to unintended falls in service quality. Demonstrating that service quality has not been adversely affected is essential if the Programme can be regarded as a success, and yet it has proved difficult for several departments. For example while customer service measures within Jobcentre Plus⁷ show that overall satisfaction among benefit recipients has been maintained, the average time taken to process Jobseeker's Allowance claims rose from 11 days in March 2004 to 16 days in March 2006.⁸ Similarly, the Department of Health is reporting over £1 billion of efficiency gains as a result of reducing the average length of time patients stay in hospital, yet the proportion of patients who are readmitted as emergencies within 28 days of discharge has been rising consistently.⁹ The Department was unable to demonstrate that this rise was unrelated to the initiative to reduce patients' length of hospital stay.¹⁰

3 *Releasing resources to the front line*, Sir Peter Gershon, July 2004

4 Headcount reallocations are new posts that have been established to fulfil 'front-line' roles.

5 C&AG's Report, Summary, para 2. Subsequent to this the Budget reported that £15.6 billion had been achieved, along with 50,900 headcount reductions and 9,700 reallocations (*Budget Report 2007*, paras 6.18–6.20).

6 *Ibid*, Summary, para 5

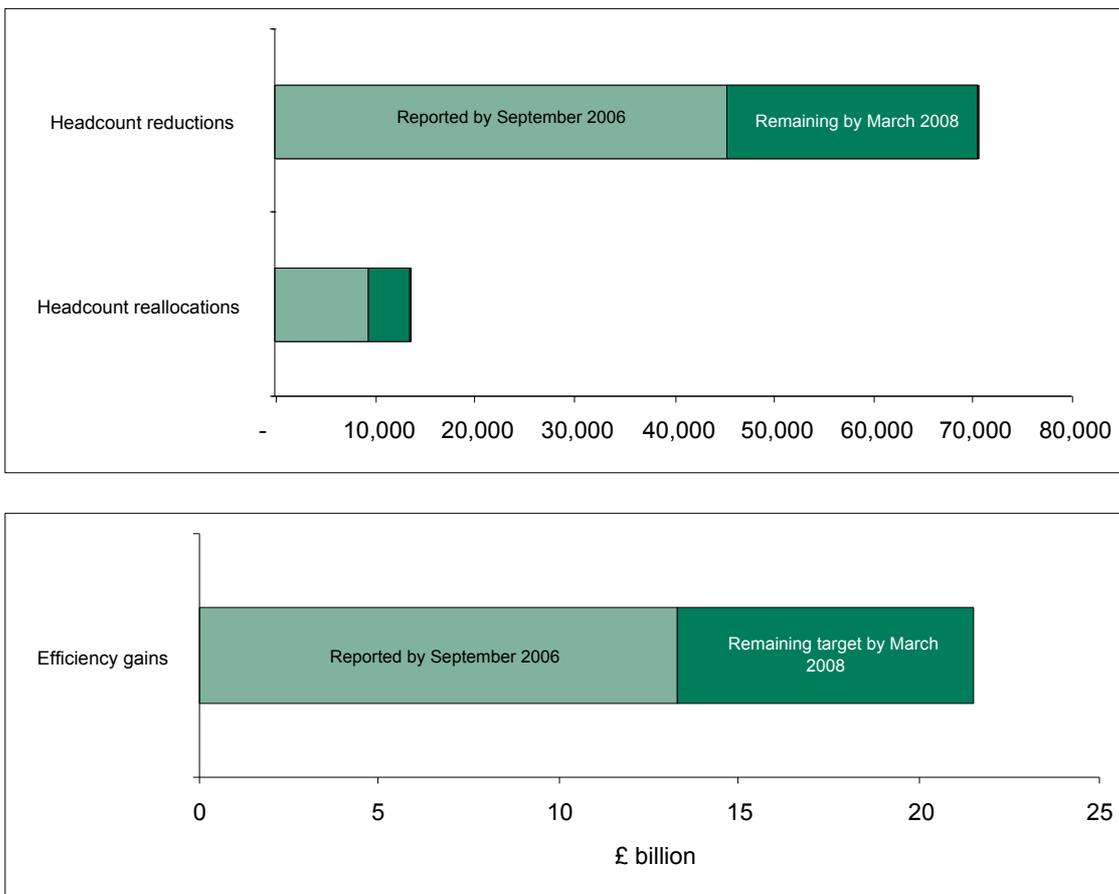
7 Qq 8, 26

8 C&AG's Report, para 3.19

9 Q 7

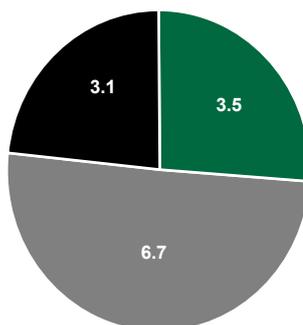
10 C&AG's Report, para 2.34

Figure 1: Departments have reported considerable progress towards their efficiency targets.



Source: C&AG's Report, para 3.1

Figure 2: Only a quarter of reported efficiency gains are reliable.



Green: The reported figures fairly represent efficiencies made
 Grey: The reported figures represent efficiencies, but carry some measurement issues and uncertainties
 Black: There may be efficiencies taking place, but measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect.

Source: C&AG's Report, figure 8

4. The second concern around the authenticity of efficiencies is that some reported gains are one-off cost reductions rather than lasting improvements in efficiency. The Department for Communities and Local Government is upgrading fire brigades' wide-area communication equipment to a system called Firelink by 2010. Until the new system is

implemented, the Department is centralising the procurement for existing systems as a means of reducing the costs. Because this is a one-off opportunity, it will not deliver financial savings beyond 2010 and is therefore not sustainable.¹¹ Similarly, the Ministry of Defence is decommissioning some of its fast jets ahead of their original decommissioning date of 2009. Driven by the introduction of the Typhoon multi-role fighter, this is another one-off opportunity and not a lasting change to the overall efficiency of the Department.¹²

5. The final concern is that unlike headcount reductions, which are relatively well defined, the nature of headcount reallocations varies across departments. Two departments, the Department for Work and Pensions and HM Revenue and Customs, have reported re-allocating more than 9,000 civil service posts to the 'front line' of public services. While the Department for Work and Pensions only counts positions that are customer-facing as being on the 'front line', HM Revenue and Customs includes managers, administrative support and IT staff that are employed in any of its business units which it classifies as being 'front line'.¹³ To convey what is meant by reallocations, departments need to use a consistent definition of 'front line'.

11 *Ibid*, para 2.31

12 *Ibid*, para 2.30

13 *Ibid*, para 3.14, 3.15

2 Whether reported improvements are calculated accurately

6. Where departments have identified genuine efficiencies, in most cases the measurement of these efficiencies has not been sufficiently robust. Departments need to use reliable measures for calculating their efficiency gains in order both to gauge the success of their actions and to gain public trust in their reported statistics.

7. Because efficiency gains are a relative, rather than an absolute, measure they need to be calculated relative to a baseline. To know the extent of improvement achieved, it is essential to select a baseline that fairly represents the level of performance before the relevant changes were made. For its initiative to reduce the average length of time patients stay in hospital, the volatility of the data led the Department of Health to make an adjustment to the 2003–04 baseline figure. This adjustment was not statistically sound, and inflated the reported efficiency gains by £300 million when compared to a calculation that uses an unadjusted baseline figure.¹⁴

8. The selection of the baseline period has also been an issue when reporting headcount reductions. On the basis of the C&AG's report, the NAO can give substantial assurance on the headcount reductions reported by the Department for Work and Pensions and HM Revenue & Customs. However, the Programme reported over 3,000 reductions which were achieved before the official baseline period of 1 April 2004.¹⁵ Using various starting points against which to measure the improvements of a single programme diminishes confidence in what has been achieved.¹⁶

9. To provide an accurate reflection of the level of efficiency gains achieved, it is also necessary to reflect all of the ongoing costs and benefits associated with an initiative. Though most efficiency projects have not incurred significant ongoing costs, the Department for Work and Pensions ignored substantial additional costs when reporting £300 million of efficiency gains from an initiative to pay benefits electronically. Because not all customers have bank accounts in which to receive such electronic payments, the Government introduced the Post Office Card Account. The contract for administering this account cost the Department £164 million in 2005–06, but this cost was not accounted for in its reported efficiency gains,¹⁷ thus giving an overly-optimistic picture of what has actually been achieved and of the true benefit of the initiative to the taxpayer.¹⁸

10. Reported efficiencies are also more reliable if they are based on measures of actual performance, as opposed to estimates or projections. The Department of Health reported £93 million of efficiency gains as a result of eliminating a number of bureaucratic tasks required of GPs. The methodology used fails to provide a sufficiently robust representation

14 C&AG's Report, para 2.14

15 *Ibid*, para 3.9

16 Qq 13, 24

17 C&AG's Report, para 2.21

18 Q 18

of the situation either before or after the reforms. In the case of the baseline position, the Department used a survey based on the experiences of just 0.15% of GPs.¹⁹ Similarly, for some areas both the Department for Work and Pensions and HM Revenue and Customs used projections of staff numbers to calculate the number of posts they had reallocated to the 'front line', rather than using actual numbers.²⁰ To calculate efficiency gains more accurately, departments should calculate the actual amount of time, costs or headcount before and after any changes are implemented, even if this entails a delay in reporting progress.

19 C&AG's Report, Appendix 3

20 Ibid, para 3.16

3 Embedding efficiency into the public sector

11. The purpose of the Efficiency Programme was not only to produce annual efficiency gains of £21.5 billion by 2008, but to create a public sector that is always seeking to improve the efficiency with which it delivers public services. In order to drive this cultural change, the OGC established an Efficiency Team which is responsible for the overall delivery of the Programme.²¹ While each department is responsible for achieving its own efficiency targets, the Efficiency Team co-ordinates, monitors and supports departments' progress.

12. Embedding change, and in this case greater efficiency, usually needs strong, external challenge. The OGC has challenged departments more effectively over the past year through more structured six-monthly meetings between the Chief Executive of the OGC and departments' Permanent Secretaries,²² and issuing more comprehensive guidance on measuring and reporting efficiency gains.²³ However, that only a quarter of reported efficiency gains are judged to be reliable indicates that the Programme would benefit from greater challenge of departments' progress. The fact that the Department of Health's incorrect adjustment of a baseline went unchallenged, though inflating reported efficiency gains by £300 million, shows that there is still more to do.²⁴

13. For efficiency to become part of the culture of the public sector, reported efficiency gains need to be based on sound measurement principles. The Efficiency Programme established a number of principles that departments should follow when measuring their efficiency gains, which were the basis on which the efficiency targets were set. However, a number of these principles do not represent good practice, such as reporting efficiencies gross of additional costs, and improvements only needing to be sustainable for two years.²⁵ Any future efficiency programme needs to learn from experience with this Programme if it is to produce reliable numbers that are both useful and trustworthy. It is a positive step that the Treasury has stated its intention to report efficiency gains net of implementation costs in the next spending period.²⁶

14. Although departments report progress against their own efficiency targets in their annual department reports and autumn performance reports, the level of detail varies and, prior to the 2007 Budget there was no consolidated view of progress against the Programme overall.²⁷ Without this transparency there is a risk that the importance of efficiency is lost, making it harder to embed within the management culture of the public sector.²⁸ Transparency was improved in the 2007 Budget Report, which included a

21 From April 2007 responsibility for co-ordinating the Programme was transferred to HM Treasury.

22 Q 28

23 C&AG's Report, para 4.2

24 Q 9

25 Qq 34, 35

26 *Budget Report 2007*, para 6.24

27 Q 4, 20

28 C&AG's Report, para 4.8, 4.9

breakdown of progress by department and reference to further consolidated details on the OGC website.²⁹

15. Measuring activities in isolation does not make it possible to determine whether government as a whole is becoming more efficient.³⁰ Departments need more comprehensive measures of efficiency, such as the unit costs of key outputs, to assess overall efficiency more reliably. These measures should in turn be part of a general performance framework that positions efficiency alongside issues of departmental capability, and progress towards strategic objectives such as Public Service Agreement targets.³¹ For example, the Home Office reported that it has secured more than 90% of its efficiency target, while at the same time the Home Secretary declared it ‘not fit for purpose’. Although these statements are not contradictory, they highlight how reporting indicators of performance in isolation can distort perception of a department’s overall performance.

29 *Budget Report 2007*, para 6.18

30 Q 16, 28

31 Q 27

Formal minutes

Monday 9 July 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr David Curry

Mr Ian Davidson

Mr Philip Dunne

Ian Lucas

Mr Austin Mitchell

Mr Don Touhig

Draft Report

Draft Report (The Efficiency Programme: A Second Review of Progress), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-Eighth Report of the Committee to the House.

Ordered, That the Chairman 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 until Wednesday 10 October at 3.30 pm.]

Witnesses

Monday 26 February 2007

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John Oughton, Chief Executive, Office of Government Commerce; **David Rossington**, Director of the Efficiency Programme; and **John Kingman**, Managing Director, Public Services and Growth, HM Treasury.

Ev 1

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Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110 (Cm 7019)
Fifth Report	Postcomm and the quality of mail services	HC 111 (Cm 7018)
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people	HC 112 (Cm 7019)
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Fourteenth Report	Ministry of Defence: Delivering digital tactical communications through the Bowman CIP Programme	HC 358 (Cm 7077)
Fifteenth Report	The termination of the PFI contract for the National Physical Laboratory	HC 359 (Cm 7077)
Sixteenth Report	The Provision of Out-of-Hours Care in England	HC 360 (Cm 7077)
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Nineteenth Report	A Foot on the Ladder: Low Cost Home Ownership Assistance	HC 134 (Cm 7077)
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Twenty-second Report	Tax credits	HC 487 (Cm 7151)
Twenty-third Report	The office accommodation of the Department for Culture, Media and Sport and its sponsored bodies	HC 488 (Cm 7152)
Twenty-fourth Report	Ofwat: Meeting the demand for water	HC 286 (Cm 7151)
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The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Public Accounts Committee on Monday 26 February 2007

Members present:

Edward Leigh, in the Chair

Mr Richard Bacon
Helen Goodman
Mr Austin Mitchell

Mr Alan Williams
Mr Iain Wright

Sir John Bourn KCB, Comptroller and Auditor General, Tim Burr, Deputy Comptroller and Auditor General, and Keith Davis, National Audit Office, were in attendance and gave oral evidence.

Marius Gallaher, Alternate Treasury Officer of Accounts, was in attendance and gave oral evidence.

Witnesses: **John Oughton**, Chief Executive, Office of Government Commerce; **David Rossington**, Director of the Efficiency Programme; **John Kingman**, Managing Director, Public Services and Growth, HM Treasury

Q1 Chairman: We now come on to our main hearing on efficiency, which, of course, will continue in public, so if Mr Oughton is present, perhaps he will come forward. The hearing is on the Comptroller and Auditor General's Report. *The Efficiency Programme: A Second Review of Progress.* We welcome John Oughton, who is Chief Executive of the Office of Government Commerce, and John Kingman, who is the managing director of public services at the Treasury. Mr Oughton, this is a pleasurable occasion for you because it is your last hearing in front of us. Later on, perhaps in a private session, there will be an opportunity for Members to ask you some valedictory questions about how we can improve good governance. We are now on the efficiency programme. I shall start with a general question relating to paragraph 5, on page 6 of the summary, which claims that the taxpayer is more than £13 billion better off. However, from that paragraph, we know that there are problems with the measurement of £10 billion of those efficiency gains. Does the £13 billion claim stack up?

John Oughton: Chairman, I think that it does. In comparison with the position reported by the National Audit Office last year, when it rightly regarded all the figures as provisional—that was the word used by the NAO—we now have greater certainty. In fact, the figures show that three quarters of the total represents efficiency. There is no question about that. The green rating represents efficiency fairly, and the amber rating—half the programme—represents efficiency, although that carries some measurement issues. However, that is not the same as saying it is not efficiency. The final quarter—23%—might represent efficiency, but with measures that either do not demonstrate—

Chairman: So this paragraph 5 is not an entirely fair representation?

John Oughton: It is perfectly fair. It rather depends on whether you consider the glass half full or half empty. I agree absolutely with the NAO Report and the Comptroller and Auditor General on the facts in the document—three quarters of the programme

represents true efficiency—but the NAO rightly draws attention to some measurement issues. I might question some of the judgments made, particularly in appendix 3, but I do not question the facts in the Report.

Q2 Chairman: It says that £6.7 billion—51%—of gains represent efficiency but carry some measurement issues. Do you accept that?

John Oughton: Yes.

Q3 Chairman: It also says that £3.1 billion—23%—might represent efficiency but that “the measures used either do not yet demonstrate it or the Reported gains may be substantially incorrect.” Do you accept that as well?

John Oughton: Yes, but as I say, if you turn to the detail underpinning that £3.1 billion, set out in appendix 3 of the Report, you will find some very testing judgments, I think, such as on page 50, which talks about efficiency in relation to UK Trade and Investment. The NAO concluded that of the £19 million in efficiency claimed by UKTI, £2 million might be double-counted, or is at risk of being double-counted, by the Foreign Office. Some 10% of the £19 million is questionable in the sense that it might be double-counted. That is saying not that the efficiencies are not there, but that the counting and measuring methodology needs to be nailed down absolutely. I think that the programme is demonstrating that good efficiency is being delivered, but we need to be certain that we are accounting for it properly.

Chairman: Presumably you agree that the process should be as transparent as possible, do you not?

John Oughton: Yes, I do and I have said that to the Committee before.

Q4 Chairman: So would you accept the recommendation on page 7 that one option would be a scorecard published on a central website, providing information on significant projects or workstreams, including the nature of the work,

Office of Government Commerce & HM Treasury

whether the efficiencies are cashable or non-cashable, how the efficiency gains are being measured, how the levels of output or service policy are being maintained and contact details for others interested in replicating that success? Presumably you would accept that recommendation, would you?

John Oughton: I accept the substance of the recommendation in the sense that I think that all those issues need to be properly exposed. Whether I would bundle them together in a single scorecard is a matter of presentation rather than substance. There is a significant amount of material available already in departmental reports, and a significant amount of information available through the Budget Report and pre-Budget Report. In addition to what we already publish, however, we have listened hard to the Committee, and we recognise the importance of making as much information available to the Committee as we can. So we do plan to publish departmental breakdowns shortly. Those breakdowns would show the efficiency savings, headcount reductions and relocations, and we will do the same with the breakdown by workstream—the six Gershon workstreams—that were set out in his original report, in the same way as the data are constructed by the NAO. We are going as far as I think we can in putting together in one place data on the efficiency programme.

Q5 Chairman: So you say you are working hard to carry out what we have suggested, but if you look at paragraph 7 of the summary on page 6, you will see that it says: “The NAO criteria include the need to net off additional ongoing costs arising from efficiency initiatives.” So how do you make sure that additional costs incurred to achieve efficiencies are in fact removed from the final report, as we suggested?

John Oughton: As we discussed last year, the basis on which the current efficiency programme was established, on Sir Peter Gershon’s recommendations, was that the efficiency savings should be scored regardless of whether investments had been made or needed to be made in order to achieve those efficiencies. We were counting the efficiencies in gross terms rather than net terms. As I explained to the Committee last year, we were discussing with all Departments how we could move to a position where new efficiency measures that were undertaken should be accounted for in net terms. As Mr Kingman can explain, in terms of how we intend to handle the next spending review, the emphasis will be very strongly on net gains and cashable gains, which will give you a great deal of certainty over how those gains are being constructed.

Q6 Chairman: How do you know that one part of government that you are not monitoring is not undoing the part of government that you are monitoring?

John Oughton: I am sorry, I am not sure of the point of your question.

Chairman: How do you know that a part of government that you are not monitoring is not undoing the work of a part of government that you are monitoring?

John Oughton: In terms of the efficiency programme, between my own team, Mr Rossington here, the director of the efficiency team, and my colleagues in the Treasury, we monitor across government. In my own team, we look at the eight largest contributing Departments to the efficiency programme, and my colleagues in the Treasury and the spending teams take that responsibility for the rest of government. I would not say that there is a black hole or a gap where we are not monitoring what is happening.

Q7 Chairman: Okay. Let us look at that sort of idea in a bit more detail. Please turn to page 17. Looking at the Department of Health, the headline is: “Where quality measures have been established, departments have not always been able to confirm that service quality has been maintained.” So what we read here is that the time that patients spend in hospitals has fallen—which, presumably, is good—but the likelihood of their being readmitted has risen. Presumably that is because they are spending less time in hospital. So are you still claiming that that is an efficiency gain?

John Oughton: Yes, I am, because the quality measures identified and selected by the Department of Health are more than just the question of readmissions to hospital. The Department of Health selected a group of six quality measures, of which readmissions to hospital is one, and five of those measures are showing clear quality maintenance while efficiencies are being scored. In the sixth and last measure there is a trend that started before the efficiency programme, all the way back in 2002, of readmissions to hospital rising. I do not quite make the cause and effect link that it is the efficiency programme that is reducing the quality of health care as measured by readmissions to hospital. The reason why readmissions might be rising, of course, is that as part of the Government’s policy on health care more treatment for patients post-hospitalisation is carried out in the community. There is a strong drive not to readmit patients to hospital. The patients who are most likely to be readmitted to hospital are therefore those with the most complex and serious cases. It is the most difficult subset of all patients who are treated in hospital, and I suggest that that may be a reason why the trend is showing as it is.

Q8 Chairman: There is another, similar problem. Paragraph 3.19, for example, is on the Department for Work and Pensions. It says: “A sample of DWP employees feel recent reforms which have enabled the headcount reductions, such as the increased use of contact centres as the first point of contact for customers, have lengthened the time taken to process claims.” In a sense, that is trumpeted as an efficiency gain, but actually service quality may be declining.

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John Oughton: But of course you also have to take account of the fact that for customers of the DWP, and indeed consumers of all Government services, the Government are trying to make available a range of channels. Face-to-face contact in Jobcentre Plus, for example, and other Government offices, is not the only way in which the service is provided. Telephone contact centres are not the only way either. We are trying to produce a range of approaches.

Q9 Chairman: The last thing that I want to ask you about is the problem of baselines, which we have discussed with you in the past. There is an example of it in paragraph 2.15, on page 14. It seems that the Department added £300 million to its claimed savings by making an unsupportable baseline adjustment. Is that right?

John Oughton: I would not say that it was an unsupportable adjustment. The paragraph is fair in describing the steps that the Department went through.

Chairman: All right, well explain what happened, then.

John Oughton: What happened was that the Department settled on the baseline in 2003–04 and then recognised that it was not statistically sound. I should point out that the Department itself brought that to the attention of both ourselves and the National Audit Office.

Chairman: Did you spot it?

John Oughton: Yes, in the discussions that we had with Departments.

Chairman: They drew it to your attention.

John Oughton: They drew it to our attention, but the opportunity to do so came because we have a close and continuing dialogue, not just my scrutiny session once every six months with the Permanent Secretary but the continuing relationship with Mr Rossington and his account managers.

Chairman: It says here, “However, this adjustment is not statistically sound and, following discussions with the NAO, the Department is looking” and so on. It was you who raised this, was it, or was it them? How did it happen?

John Oughton: It was a combination. The Department recognised that it was a tricky issue and discussed it, of course, with us and the account managers whose responsibility is to scrutinise the programme, and it was also raised with the National Audit Office. Collectively we have taken the view, as the paragraph accurately records, that the matter needs to be worked on before we can have accuracy.

Chairman: Thank you.

Q10 Mr Wright: What is considered more important and given the higher priority: a reduction in the headcount or efficiency savings through reduced costs?

John Oughton: The target set out by the Chancellor in 2004 had three elements. The first was a reduction in resources being consumed in non-front-line activities, so that they could be recycled into front-line service delivery—that is the more than £20 billion identified in the Gershon Report.

Alongside that was a reduction in the headcount of 84,000 gross and 70,000 net and the relocation of 20,000 posts outside London and the south-east. That is not covered in the Report but it is managed as part of the efficiency programme. All those targets are equally important to deliver on.

Mr Wright: That seems to suggest that the headcount is considered very important. I draw your attention to page 22, on the experience of DWP. Paragraph 3.13 states: “In the two years to March 2006, DWP incurred costs of £219 million on such schemes at an average cost of £57,000 for each employee. . . . By March 2008, DWP expects to have incurred a further £300 million to fund the number of early releases”. Figure 2 on page 9 gives the DWP savings target of £960 million. That is 54% of the saving. That is not good enough. It is throwing public money at just trying to reduce headcounts.

John Oughton: The DWP is trying to reduce headcounts as it is changing the way it delivers services to claimants, consumers and citizens. Its programme was based on a reduction in headcount that followed on from its end-to-end service redesign programme. The reductions that have been made here and their costs are contained in the departmental administration budget. They are not additional costs that fall to DWP. They are costs that were planned and are contained in the existing budget to deliver a different way of providing services.

Q11 Mr Wright: I will come on to those points in a moment. You have mentioned different ways of delivering. I draw your attention to paragraph 3.21, which states: “Our focus groups also showed that some employees had concerns at the level of training”. Given the quite marked reduction in the headcount and movement to different providers, whether in the private sector or other deliveries, there seems to be a loss of organisational memory that is not conducive to good customer service. There is a Revenue and Customs contact centre close to my constituency. Some of my constituents work there and they say that that has certainly been the case. People have left and have not passed on vital information on things such as tax, VAT and so on. There is poor customer service as a result. Is that a fair point?

John Oughton: I could not comment on that particular set of circumstances—

Mr Wright: But in terms of paragraph 3.21?

John Oughton: As a general principle, in terms of what is set out in the Report, I would hope that Departments will continue to change the way that they deliver services—perhaps less face-to-face contact in static offices and more online and telephone contact. Some of the corporate memory of doing things the old way is not relevant to how you want to do things in the new way. I am not surprised that, as changes happen, new skills and new approaches have to be developed. That is the whole essence of the modernisation and change programme that is under way.

Mr Wright: Are you suggesting that that takes place? In your experience, is the need to look at things differently and to respond to different challenges being met? That is certainly not the impression I am getting.

John Oughton: I think so. If we take HMRC again, the Department has under way a very significant internal efficiency programme—the lean programme. It is designed to take unwanted steps out of the delivery chain. They call it their angels and dragons programme. It is designed to put a great deal of opportunity in the hands of the HMRC work force to identify ways in which the service being delivered can be made more efficient. The proposition is that those who are closest to the workplace best know what is working well and what needs to be fixed. This is a very common technique. It is used in large private sector and public sector bodies. The Royal Mail is another good example of asking the work force what needs to be changed so that it can work best. As the work force have the knowledge base, HMRC want them to come forward with plans for changing the way the service is delivered. That is in line with what I am describing.

Q12 Mr Wright: Can I go back to the feeling that we have generated £1 billion of savings, but it has cost £950 million? Let us look at paragraphs 4.3 and 2.19. It seems that we are looking at the credit side of the two sheets rather the debit side. You cannot be happy with that. We are not getting a proper view. There is a distorted view of the amount of Government savings being made. Departments can pick and choose whether they include the costs of having realised those savings.

John Oughton: I would argue that the Committee and all of us are getting a very accurate view because this information is exposed. It is not that Departments can pick and choose whether they include the investment costs—

Mr Wright: Sorry, but paragraph 4.3 states: “Although OGC measurement guidance recognises that accounting for additional ongoing costs arising from reforms is best practice, only four out of the 10 departments contributing most to the £21.5 billion target try to subtract such costs from their Reported savings.” Is not my original premise correct then?

John Oughton: That was recognised at the outset. When Sir Peter Gershon produced his Report, he thought long and hard about whether a single common approach to establishing the baseline and accounting for savings net or gross should be laid down. He was very clear at the time that it would not be possible or practical to attempt to untangle the investment that was already being made in the delivery of efficiency gains. He concluded that the right way of motivating Departments to keep on going and to deliver efficiencies was to allow them to adopt the approach that they had started upon. In some cases that took account of investment and in some cases new investment was required at a later stage. Sir Peter Gershon recognised that, at this first stage, you had to have a degree of variable geometry—you could not have a single approach operating in every Department.

Q13 Mr Wright: I am not convinced. I would have thought that in order to get a true, stark and transparent assessment of savings, baselines needed to be at a certain point so that the taxpayer could feel confident that £21.5 billion of savings occurred in a certain period. The Chairman picked up on something in paragraph 2.13 and the fact that Departments have considerable autonomy to make choices about baselines. If I were an Accounting Officer and I knew my Department, I would have thought, “I will choose 2001–02 for the baseline because I know that there will be considerable savings.” Why were they not forced to work from a set point and to look for savings above and beyond what they had already tried to factor in?

John Oughton: I do not think that that description of how the programme started is quite right. It was not that Departments were allowed to choose their baseline and when they should set them. Agreement was struck, Department by Department, to reflect the reality of what was happening in those Departments. To take the DWP, for example, the modernisation programme and therefore the headcount reductions that were taking place started from April 2004. Had the agreement been with the DWP that its start point, the baseline, should be April 2005, which was the start of the spending review 2004 period, all its efforts in that first year would not have counted. It would not have gained credit for the steps that it had taken in the year preceding the formal start of the clock running to account for gains. That is pretty demotivating for the DWP. It is not going to score any credit, so why would it get on and make the changes?

We had the same issue in local government, where many authorities said to us, “We are ready to make efficiency gains, but if you don’t start the clock until 1 April 2005, we will lose the opportunity to gain credit for the steps that we are taking.” Our judgment at the time was that we should set the baselines realistically at the start point of each Department or sector’s programme. In the case of the DWP it was 2004; in the case of some other Departments that were not already in the efficiency game, it was 2005.

Q14 Mr Wright: I am very conscious of time. I have got so much more to ask, but I do not have enough time.

I do disagree. We got a supplementary document about this matter from a different range of stakeholders¹. Is that not missing the point? Are not Gershon and the efficiency programme about changing the culture of the civil service? One of the points made in the essays provided to us is the hope that this is not just a complete butchering of public money, and that spending does not start drifting up again in the next decade or so. It is about changing the way that we look at things. The way that you described it seems to me to indicate that you are going to cut in order to make that point, but then it will start moving forward again. Is not that the case?

¹ Ev 18–21

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I want to mention very quickly figure 13 on page 21. There is a standard baseline of April 2004, yet the Department for Environment, Food and Rural Affairs goes back to April 2002 and the Department of Health goes back to March 2003. Again, very considerable flexibility has been provided to ensure that Departments can achieve what they want rather than someone being rigorous and transparent, and saying to them, "These are the savings that you need to make."

John Oughton: I completely agree that the purpose of this programme is to change the way we do business in government, and change the culture, if you like. My aim, I hope, is that an approach to efficiency should become embedded in the normal way of doing business in government. It should be in the DNA of Departments and wider public sector bodies. That is where I want to end up.

The question for all of us when this programme started was what was the best way to encourage that to happen, and the judgments that were made at the outset reflected different circumstances in different Departments. How do you motivate people to get on now, and how do you ensure that they are not prevented from getting on because they do not gain the credit for the changes that they are making? That was the point about baselines being set in different years.

Two years into the programme, I cannot go into any Department in Whitehall without finding that efficiency is discussed frequently, regularly and at main board level. It is a key topic on the agenda and an essential part of the business planning process of every Department. Two or three years ago you would not have seen that in most Departments in Whitehall; it is a significant shift in attitude and culture. I am not suggesting for one moment that everything that is done in every Department is perfect and absolutely brilliant, but I am suggesting that all Departments are on a journey that they were not on before the Gershon Report was written.

Q15 Helen Goodman: I would like to pursue the issue of financial savings and headcount savings. Looking at chart 2 on page 9 it is clear that there is virtually no correlation between the amount of money and the number of posts across all the Departments. Why did you advise Ministers to have a headcount target as well as a financial target—assuming that you did?

John Oughton: I am not usually one to slope shoulders, but I have to plead innocence. The decisions on the targets were taken by Ministers and announced in the July 2004 spending review settlement, based largely on the work done by Sir Peter Gershon in his Report. He identified the opportunities for making efficiency gains.

Helen Goodman: Are you content to have both headcount and financial targets?

John Oughton: My responsibility started with my being asked to take on implementation, so in accepting it I took on the implementation of all three targets—money, headcount and relocation. Therefore, the answer is yes, I am happy with that; those are the three targets in the programme.

Q16 Helen Goodman: Do you not think that the headcount targets are a slightly false constraint, and that it is all rather politically driven? For example, in the case of civil servants, who are unpopular in the public mind, we want to get the numbers down, whereas in other areas of public service—say, nurses or policemen who are tremendously popular in the public mind—we have targets to get the numbers up. Are the targets not slightly irrational?

John Oughton: I shall ask Mr Rossington to comment on the linkage between the money target and the headcount target, because it is perfectly fair to focus on table 2 and look at whether there is internal consistency. I would simply observe—as I did to Mr Bacon twelve months ago—that you are right to say that the headcount target is an issue of political debate between the major parties, as it was at the time at which the efficiency work was done.

Helen Goodman: I do not think that that is so. There is complete consensus among the parties on who is good and who is bad.

John Oughton: I would not dream of passing an observation on the views of particular parties. The issue was being discussed by the major parties during the period when Sir Peter Gershon's work was being done. It is, therefore, unsurprising that when the work was completed a headcount target was part of the agenda. I simply accept that and try to implement it as best I can. David, would you like to say a bit about how the money and the numbers link?

David Rossington: The headcount targets, like the efficiency gains targets, were drawn up by Sir Peter Gershon, Department by Department, in discussion with Departments, so they reflect a view agreed between the Gershon review team and each Department, case by case. It is true that the savings produced by the reductions in posts contribute towards the efficiency gains, but they are not the major part of it. They contribute less than 20%—15%, perhaps—to the total efficiency gains.

Q17 Helen Goodman: Mr Oughton, I wonder whether I could draw your attention to chart 4. Reported progress varies significantly across Departments. The chart is rather surprising because it suggests that the Home Office is the most efficient Department in Whitehall. Do you think that that is a true reflection of reality?

John Oughton: What this chart shows is that the Home Office has successfully achieved most of the commitments that it signed up to in the efficiency programme. It is on course to meet its targets.

Q18 Helen Goodman: There has been a lot of criticism of the Home Office recently, yet the table shows that all the efficiency targets have been met. Does that suggest that those targets are not quite right in some sense? It is not quite clear.

John Oughton: I would not say that. When the efficiency programme was put together, it represented, as the NAO acknowledged, a first comprehensive attempt by the Government as a whole to have a serious look at efficiency. It was

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designed to be the most ambitious and all-embracing efficiency programme yet created—the NAO made that point in the report last year.

We are feeling our way into this. All Departments, in discussion with Sir Peter Gershon's team and Treasury colleagues, in the run-up to the announcements in 2004, settled on targets that reflected their best understanding of their business at the time. Now, we are two years on from that and about to address—in fact, are addressing—efficiency in the context of the next spending review. We now have the benefit of two years of knowledge and understanding from our experience of efficiency, which will make the efficiency agenda in the next spending review easier to manage.

Q19 Helen Goodman: Taking that experience into account, will you tell us a little more about HMRC? My understanding is that the tax gap on VAT has increased from 11% to 14%. Coming back to the point that the Chairman made, that suggests a very large revenue loss. Do you know how much that is worth? It would be interesting to know. We need to get that tax gap down as well, do we not?

John Oughton: I am aware of the issue. Mr Kingman can respond to this.

John Kingman: It is a big issue and has been looked at. A great deal of analysis has been done because it is material to public finances as a whole. Missing trader fraud is driving the change in the chart. As you know, that has been a huge issue. The Government and HMRC do not believe that any of the efficiency savings in the report have had an impact on that chart—rather the reverse because HMRC has actively added several hundred staff to its resources in order to focus on that specific problem.

Q20 Helen Goodman: So do you think that had we not had these efficiency measures, the tax gap would have increased even more? That is the logic of what you are saying.

John Kingman: What I am saying is that the efficiency savings have not had an impact on the tax gap. If you look at the measures agreed by HMRC to be used to assess whether the efficiency savings were having an impact on the quality, you will see that actually it is doing extremely well, as the Report shows.

Helen Goodman: What has been the increase in the value of the tax gap?

John Kingman: I do not have that figure at my disposal, I am afraid.²

Q21 Helen Goodman: It would be very helpful to the Committee if we could have it.

On health, the Chairman asked you about what was going on with the lengths of stay. It is not clear from the numbers before us whether any increase in costs falling to primary care trusts have been taken into account. You said, quite reasonably, "Well, more care is done in the community". Have you taken

account of the cost of that extra care in the community when making those measurements on the health front?

John Oughton: I do not have numbers available to answer that question, but I shall be very happy to write to the Committee.³

Q22 Helen Goodman: I should also like to ask you about the Post Office, which seems to be another area in which we are taking account of savings, but not of costs. Why did you not take account of the cost of the Post Office card account?

John Oughton: As with all these programmes, we are overseeing the implementation of a set of agreements entered into in the summer of 2004. As I tried to explain to the Committee, those agreements were struck on a different basis in different Departments. In this case, costs were handled in one way, and in other Departments they are handled in another. Our responsibility is to oversee and validate the efficiency gains in order to be satisfied that the cost savings and efficiency improvements to which we have committed ourselves are delivered in the time scale set.

Q23 Helen Goodman: I understand that, Mr Oughton, but if we have a measurement of those changes in the Post Office which does not reflect the whole reality, that will drive future decisions—it is driving future decisions—on the closure of rural post offices. I put it to you that you are not including the costs of the card account, and that is having a very detrimental effect on Ministers' understanding of the real costs of the Post Office.

John Oughton: I would put it rather the other way, because the costs of the card account, or of any service being provided through the Post Office, are visible and accessible. What I am not doing is taking them into account in calculating the progress that is being made towards the achievement of the £21.5 billion. The numbers are there on the table, so Ministers are perfectly able to see, and to weigh in the balance, all the data that are available before reaching their decisions.

Q24 Helen Goodman: May I ask one last question, about the Rural Payments Agency? As you know, it is another area that is extremely fraught. Again, we seem to be in a situation where headcount reductions were included, but the subsequent shambles at the RPA, which involved taking on temporary staff, was not taken into account. Why is that?

John Oughton: The Rural Payments Agency embarked on a major business modernisation programme, of which putting in place the arrangements to make payments to farmers under the new scheme was but one part. There was a broader agenda of business change and modernisation to be undertaken, the result of which, the Agency expects, will be a reduction in the number of staff. You are absolutely right in saying

² Ev 21

³ Ev 21

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that as a result of the difficulties over the payments scheme, headcount reductions have not been made to the extent that the agency originally expected.

Helen Goodman: Well, as far as one can tell anything.

John Oughton: The issue for DEFRA is how the Department achieves its headcount targets overall. It is absolutely its choice to look across the whole of the Department to see what is the most effective way of meeting those targets. This is not, I would argue, in terms of the headcount reductions, an issue about the Rural Payments Agency. It is an issue for DEFRA as a whole to address.

Q25 Mr Dunne: The CBI recently conducted a survey that suggested that a very large proportion of its members do not believe that the Government are going to achieve their targets. Would you like to comment on that?

John Oughton: I take the views of the CBI very seriously, and spoke to the Deputy Director General, John Cridland, last week to arrange for his staff and mine to get together so that we could go through the progress made so far with the efficiency programme. I discussed the matter briefly with the director general of the CBI last week, too. I want to take every step I can to ensure that we have explained, as we are doing with the Committee here today, how we are approaching the issue. Clearly, we want confidence levels about the achievements of the programme to be high.

Q26 Mr Dunne: Do you think that the situation may have been compounded by the lack of transparency in calculating the efficiency gains, or the perception of a lack of transparency?

John Oughton: In terms of the transparency of the results, there is a good deal of information already available in the public domain, but as I have said to the Committee this afternoon, we intend to give further departmental breakdowns subsequent to this hearing. As for the transparency of the calculation and methodology that has been used to produce these numbers, we listened very hard to the Committee's remarks and recommendations last year. We have put a considerable effort into developing a better measurement methodology, and have worked that up with the involvement of both the Audit Commission and the NAO, but at the end of the day we have to take responsibility for the system that we have implemented. It is a more robust system. I would like to ask Mr Rossington to say a word or two about its contents, but our judgment is that this is now a much more robust way of measuring the efficiency gains than was the case last year, which is why the NAO regarded the numbers as provisional last year, but did not use that word about the numbers this year.

David Rossington: The first thing to say about the measurement guidance is that it is publicly available. It is on websites and can be looked at. The system asks Departments to certify their efficiency gains and to do so at a very senior level—either permanent secretary or board member. It requires them to submit figures quarterly and asks them to classify

their gains using a number of categories; for example, to take account of whether the data are final or whether there is the possibility of some change. It also gives advice on definitions of things such as “cash” and “non-cash” and for when an efficiency gain should be treated as sustainable. It is a clear and comprehensive framework and it is publicly available.

Q27 Mr Dunne: Mr Oughton, do you think that public scepticism about the reliability of the gains may have been compounded by, for example, announcements by the Chief Secretary of an extra £2 billion of gains on the same day as the Comptroller and Auditor General's Report was announced, which had not actually been verified at that point?

John Oughton: I have regretted ever since the programme started the scepticism that is apparent on the progress that we are making with the efficiency programme, which I think is substantial and real. What the Chief Secretary said on the day of publication was to give further endorsement and support for the progress that is being made in the efficiency programme. That seems to me entirely appropriate given what the NAO Report says.

Q28 Mr Dunne: Can we turn to a couple of questions on details in the Report? Have you calculated an aggregate across the programme of what the cost of achieving the savings has been? There are various references in the Report to one-off costs, particularly in the DWP—I think that it comes to £408 million, if I have calculated it correctly—and in HMRC of £150 million as estimated to March 2008 in achieving its targets. Do you have a full figure, and are those figures netted off in any way in arriving at an overall saving?

John Oughton: I cannot give you a single figure across the table, because we have not approached the programme in that way. Most of the costs of implementation of the efficiency changes have been contained within existing departmental administration budgets, so no additional money has been provided for the purpose of making these changes happen, except in one very specific respect. The Treasury made available a modernisation fund in 2004 to provide some pump-priming funding. The numbers for that are on the public record. Other than that I have not needed to calculate the costs of implementation, because they are contained within existing departmental administration cost budgets.

Q29 Mr Dunne: I turn to paragraphs 3.14 to 3.16, under the heading, “Only partial assurance can be given to reported reallocations”. How reliable do you regard the reallocations as being, given that several of them are based on projections rather than actual figures?

John Oughton: I agree with the NAO Report, which I have signed up to. It gives partial assurance, not complete assurance. To take one obvious example, which is quoted in the Report, in Jobcentre Plus the figure of 12%—821 out of 6,600 members of staff—reflects posts created in the front line, but it is an

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estimate. It is not a completely accurate, reliable and assured figure. I accept that there is more to do to provide assurance.

Q30 Mr Dunne: Mrs Goodman touched on the chart on page 21, table 13, which refers to the different baselines that each Department has used in calculating its head-count reduction. We talked in particular about the DEFRA number, which was the earliest anticipation of head-count reduction. What can you tell us about what is being done in your review to try to standardise baselines and provide a bit more security to the numbers?

John Oughton: I shall ask Mr Kingman to comment on that, if I may, because the next important way-point is the setting of baselines for the next spending review, the comprehensive spending review 2007. That is the point at which we will take account of the progress that has been made in Departments in this efficiency programme and calculate and set the commitments to be met in the next.

John Kingman: We are still discussing how we approach efficiency in our next spending review with Ministers and Departments. We have made it clear that we expect a very challenging approach to efficiency in the next spending review, with savings of at least 3% in Departments. In setting the baselines we will need to make detailed announcements. We clearly need to need to learn the lessons of experience to date and, indeed, the lessons of the work that the NAO has done to date.

Q31 Mr Dunne: It may be appropriate for Mr Rossington to answer my final question. There is a general concern about the non-cashable savings. Cashable savings are clearly more readily identifiable. Although I accept that there are detailed analyses on the website which describe how a non-cashable item can be calculated, there is a scepticism that several non-cashable items are fictitious in one way or another. They may relate to one-off gains and not sustainable gains. Would you like to comment on that?

John Oughton: It has always been the case that by definition cashable gains were easier to nail down and validate. Many of the cashable gains, as the Report makes clear, come from the early progress that we have made on procurements where you can find cash savings coming off the bottom line through negotiating tighter contract deals. So that is not surprising in a sense. I think it is important, however, that we do not lose sight in this efficiency programme of the benefit of the non-cashable.

On page 41 you find the NAO's judgment of the Department for Education and Skills' information and communications technology in higher education. What is being commented on there is a cost reduction through a negotiation of better terms and better subscription rates for online services. But actually what is also contained in that, and why I think the red rating is a little ungenerous, is the fact that what is also being achieved, by definition, is an improvement in the service being provided in higher education. By giving access to those services, we are providing better support for the students in higher

education. That is much more difficult to quantify, but it seems to me to be a good outcome from the efficiency programme and we should be encouraging gains of that sort.

Q32 Mr Mitchell: A lot of this worries me. You get in a great brain who proclaims targets for efficiency and cuts across the Departments, without any detailed knowledge of what each is doing or how those can be achieved. Then you get a lot of smoke and mirrors. It must have led to an enormous amount of smoke and mirrors in the whole of the public service. We end up with a situation in which 26% of the so-called economies do fairly represent efficiencies made; 51% represent some efficiency but it is not measurable and is questionable in some respects. So that is a partial smoke and mirrors effect. Finally 23%:

"may represent efficiency gains but the measures used either do not yet demonstrate efficiency or the reported gains may be substantially incorrect."

You are proclaiming it all okay to show your reputation for rigour and control. This is a confidence trick in part, is it not?

John Oughton: I do not think that I have claimed that it is all okay. I would not have signed up to this Report if I thought that everything was absolutely 100% okay. But the Report is very precise in categorising the efficiency gains that have been identified by the NAO. What it says about the middle category—the category that you have described as partial efficiency—is that the £6.7 billion represents efficiency. It does not say that it might represent efficiency or that it represents some efficiency. Its says that it represents efficiency, but it carries some measurement issues and uncertainties.

Q33 Mr Mitchell: Even that is questionable. The PCS puts it more effectively when it says that the first tendency is to go for staff reductions⁴. Staff reductions are measurable, but the quality of service is much more difficult to measure. One cannot really say that the quality of service is maintained or improved because it is so difficult to measure.

John Oughton: I do not think that that is a fair description of what is happening in the efficiency programme, Mr Mitchell. As Mr Rossington pointed out, the contribution being made from the headcount reductions is a relatively small proportion of the total. There is absolute effort going into delivery of the £21.5 billion. That is a key achievement that we have to secure, so I would not say that all of the effort is going into head count reductions at the expense of quality of service. In the Report, in the example to which the National Audit Office draws most attention—this is an issue that we have discussed at some length—five of the six quality measures that the Department of Health uses are showing positive. One is not, and there is a debate about the degree to which that is affected by the efficiency programme.

⁴ Ev 18–20

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Q34 Mr Mitchell: Well, let us take it bit by bit. As the PCS said, the Department for Work and Pensions has had significant head count reductions. At the same time, the time taken to process claims for jobseeker's allowance and income support benefit—I can testify to this from my experience in my constituency—has got worse. You said that diversity of contact was a good thing, but it means less personal contact in the DWP offices.

John Oughton: The DWP has a very extensive programme for modernising and changing the way in which it delivers services to all its claimant groups. It is absolutely committed to meeting, and is required to meet, the public service agreements into which it entered under the spending review of 2004. Mr Kingman might want to comment on the performance of the DWP in meeting those public service agreements, but I assure you that scrutinising progress of the programme means looking at a combination of the numbers, where the head count reductions are taking place, whether service quality is being sustained and the public service agreement.

Q35 Mr Mitchell: If claims are taking longer, the Department is less efficient.

John Oughton: I do not think that that necessarily follows. It is a combination of factors.

Mr Mitchell: Obviously other sections of the Department will find it more difficult to get to grips with the issue, because the claim has not been processed.

John Oughton: I understand your point, but it might well be that for the resource that is devoted to the task, a level of service is being provided that is consistent with the commitments entered into in the public service agreement.

Q36 Mr Mitchell: Well, let us look at the efficiency gain. In some other cases, you could argue that reduction in staff numbers leads directly to disaster. Take the Rural Payments Agency, for example: it fiddled the figures by claiming that reductions had taken place before the efficiency programme had begun. Smoke and mirrors were used very vigorously. Having recommended perhaps the most complicated system of rural payments to fit in with new requirements, it then demanded more staff. It took back people from agencies, increased the numbers and ended up with a major cock-up. It will now be fined massively by the EU for screwing the whole business up. Is that an efficiency saving?

John Oughton: As you rightly say, the Committee has looked at the Rural Payments Agency issue. The Department for the Environment, Food and Rural Affairs chose a hybrid scheme, which was challenging to implement.

Mr Bacon: Ha! Challenging!

John Oughton: It is my word. We all know the consequences. The point is this: whatever changes might have taken place in the Rural Payments Agency, whether reductions in staff, increases in staff or reinforcement to try to deal with the operational difficulties of making payments to

farmers, which have been clearly acknowledged by the Department, DEFRA is committed to meeting a head count reduction of 2,400.

Q37 Mr Mitchell: Clearly, in this case it certainly did not increase efficiency. Look at the Home Office: we were told that it was making significant reductions in its head count. Now the Home Secretary tells us that it is a dysfunctional Department and is in a mess.

John Oughton: Not in meeting its efficiency targets. I am very happy with how the Home Office is doing; it is one of my favourite Departments.

Mr Mitchell: Touché. But how do we know that significant reductions in head count are not partly responsible for the mess that the Department is in?

John Oughton: I do not think that you can draw that conclusion. The difficulties that the Home Office faces are well known; the capability review of the Home Office—

Mr Mitchell: Many people there demand more staff.

John Oughton: Excuse me, the capability review that was published last summer, which was one of the first capability reviews of Departments, was very clear in drawing attention to the key issues in the Department. It did not say that the Department does not have enough people to do its job. It said there were issues around the management of the Department and the management of the portfolio of major initiatives being followed. It did say something about the performance regime of the Department; it did not say there were not enough people there.

Q38 Mr Mitchell: Well, some of the efficiency claims seem to me to be direct fiddles. Paragraph 2.30 of the Report says that efficiencies reported by the Ministry of Defence's fast jets programme occurred because a number of Jaguar and Tornado jets which were due to have been decommissioned in 2008 have been taken out early, so there is a big saving—leaving the country defenceless, or less defensible. Did you heighten that, or did it have to be heightened by the National Audit Office? Did you draw attention to that? Did you tell them off for that?

John Oughton: I certainly did not tell them off because in the work we do with all major Departments we scrutinise the proposals that come forward and we judge whether they are being recorded accurately. We also judge whether the changes that are being made are sustainable and are delivering efficiencies in terms of the programme. It is for the Ministry of Defence to judge the right way to set its force structure. I do not want to get into a conversation about what the chiefs of staff and the Secretary of State for Defence decided about the right force mix for the armed forces, but they will have made a judgment of priorities about where their forces should be and they have made a judgment that these assets should be removed from service. That is their judgment; I do not question it; it is a judgment of policy.

Mr Mitchell: Yes, but you might be sweet and nice and easily connable.

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John Oughton: Well, I might be.

Q39 Mr Mitchell: The Report effectively says the gains required greater challenge by you. Why were they not getting a greater challenge?

John Oughton: Well, the Report also says that what we have done in the last year, again listening hard to the words of the National Audit Office 12 months ago, is to develop a tighter relationship with Departments and spend more time with them. I now hold six-monthly scrutiny meetings with the Permanent Secretaries of the key Departments in Whitehall and I can assure you that they all come and they all go through the process because they know it is important to be held to account for these issues. I am confident that we have a good finger on the pulse and, if you like, a good foot on their neck in the sense that we are applying pressure and demanding visibility of what they are doing.

Q40 Mr Mitchell: But you will not be there to maintain that pressure.

John Oughton: Sadly, that is true.

Q41 Mr Mitchell: If you have been nice and easily connable, your successor needs to be tougher or you need to stay and toughen up your act.

John Oughton: Ah well, the good news is that the really tough way of handling efficiency in the next spending review will be through the good offices of my friend Mr Kingman and the Treasury. I think that leverage will be very effective.

John Kingman: You may take it that the Treasury intends to be very firm about these things. I am pleased that Nicholas Macpherson, the Treasury's Permanent Secretary, will take over from John the role of senior responsible officer for the programme.

Q42 Mr Mitchell: Will it be better?

John Kingman: It will be essential for Departments to deliver real gains, both in preparing for and delivering their settlements in the next spending review.

Q43 Mr Mitchell: Will the Treasury be tougher?

John Kingman: The Treasury will be at least as tough.

John Oughton: I think people will listen to the Permanent Secretary to the Treasury, Mr Mitchell.

Chairman: Some of the responses you made to Mr Mitchell with regard to the Home Office should really have figured in an episode of "Yes, Minister". Are you really saying that in the Kafkaesque world in which you operate it does not matter that the Home Office is "not fit for purpose" according to its own Secretary of State, so long as it meets its efficiency targets? Therefore, according to you, it is an efficient Department because it is meeting its efficiency targets, although apparently it is not doing its job.

John Oughton: No, Mr Leigh. I apologise to the Committee if my remarks sounded flippant in any way. What I am saying is that I want all Departments to be fit for purpose and all effectively delivering on their departmental agendas. In a sense,

that is the given in this efficiency programme. The definitions of efficiency make it very clear that what we are trying to achieve here is either the delivery of the same output with a reduced level of input or the same input delivering more output so that we can provide better services and recycle more resources into front-line service delivery. I am not contemplating an outcome here that has any Department failing to deliver on its public service agreement and the targets that it set for delivering services. I want them all to succeed and I want them to do so by using their resources as efficiently and effectively as they can.

Q44 Mr Bacon: Mr Kingman, one of the key aspects of delivering public services efficiently has been the use of the private finance initiative. PFI has been a subject that the NAO has studied greatly and we have taken many reports on it, but it is sometimes difficult to get a clear view of whether it is truly efficient, effective and economic, because there is not always the available information at the level of detail that one would like.

In our meeting on 11 December, you undertook to supply the Committee with some information. In the note that you have produced so far, one of the things that the Treasury says is that the data on various aspects, such as accounting treatment, unitary charges, capital value of each individual project and so on, will be available around March, and you will then supply those data to the Committee. Are you still expecting that information to be available in March?

John Kingman: I am certainly expecting to supply it to the Committee as soon as we can. I am afraid I do not know exactly whether it is on track, but I will be happy to update the Committee on that.

Q45 Mr Bacon: Another thing that the note from the Treasury says is that the information that will be provided will be all the information that is publicly available, because of restrictions arising from commercial confidentiality. Can you say whether the number of projects that are PFI projects is commercially confidential, or not?

Q46 John Kingman: Not off hand; it does not appear so.

Mr Bacon: It is not, no. Are the details of those that are on balance sheet commercially confidential?

John Kingman: It depends what you mean by the details. The project by project—

Q47 Mr Bacon: In saying of a project, is this one on balance sheet or not, yes or no—is that commercially confidential?

John Kingman: I think that, rather than answer these questions—

Mr Bacon: I would like you to answer my question, Mr Kingman. Is it commercially confidential whether a PFI project is on balance sheet?

John Kingman: I think that, rather than giving an off-hand reaction to these specific questions, it will be sensible for me to come back to you.

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Q48 Mr Bacon: Are you seriously telling me that you cannot tell me whether the fact that a PFI project is treated as on balance sheet is commercially confidential or not?

John Kingman: I am saying that, rather than giving you a guess as to what the answer is, it would be sensible for me to give you a correct answer.

Chairman: So you do not know the answer?

Mr Bacon: So you do not know the answer?

John Kingman: I do not myself.

Q49 Chairman: So you will produce a note on that?

John Kingman: Yes, we would be happy to do that.

Q50 Mr Bacon: Is the fact that a PFI project is off balance sheet commercially confidential or not?

John Kingman: I think that the answer must be the mirror image of that to the previous question.

Q51 Mr Bacon: You mean that you will give me the opposite answer to the one that you gave last time?

John Kingman: I will give you the same answer.

Q52 Mr Bacon: So it is not a mirror image?

John Kingman: I think that it is the same question put another way.

Q53 Mr Bacon: It is not the same question. I am asking about off balance sheet; I was asking previously about on balance sheet. Are you saying that, if a project is off balance sheet, you do not know whether that is commercially confidential or not? Is that what you are saying?

John Kingman: I am saying that I do not wish to give you an answer off hand without understanding the full ramifications of it.

Chairman: I am afraid that is what senior civil servants have to do in this sort of Committee. That is why you are here. Are you saying again that you do not know the answer?

John Kingman: I am saying—I believe that I am here to answer questions on the NAO's Report on efficiency. I would be delighted to answer Mr Bacon, but I would rather give him an accurate answer that addresses the full ramifications.

Q54 Mr Bacon: What about the length of contract for each PFI project? Is that commercially confidential?

John Kingman: I think that we are likely to go around in the same circle on these questions; again, I would be happy to provide you with the answer.

Q55 Mr Bacon: What about the total amount of cash paid for each project by the authority concerned over the life of the project?

John Kingman: Again, I would be happy to provide you with an answer.

Q56 Mr Bacon: Mr Gallaher, when PFI projects are done by different Departments, they have an inflation assumption. Where do Departments that may not necessarily have an expertise in the

economy—let us say the Department for Culture, Media and Sport—get their inflation assumptions from? Do they come to the Treasury for that?

Marius Gallaher: They are very welcome to come to the Treasury; the Treasury has a unit that can offer advice to Departments in that area.

Q57 Mr Bacon: Are they expected to come to the Treasury? Mr Kingman? Your note says that the Treasury does not collect information centrally on the inflation assumptions that have been applied, but Departments must get their inflation assumption from somewhere. Obviously, if it is the DCMS it might pick it up off the back of the No.11 bus, just like it does for the Olympics. However, presumably the other Departments come to somewhere expert to get a view on what the inflation assumption should be, do they not?

John Kingman: There are a number of different measures of inflation. A project in the health sector, for example, might well rely on a measure of medical inflation, which is going to be different from general inflation. Therefore, there is no general Treasury requirement on these things; they are part of the negotiation on the deal.

Q58 Mr Bacon: Is the inflation assumption that is used in the project commercially confidential?

John Kingman: I should be happy to address that in the note that I shall provide.

Q59 Mr Bacon: Is the discount rate that is used in each project commercially confidential?

John Kingman: I should be happy to address that.

Q60 Mr Bacon: Is the net present value of each project commercially confidential?

John Kingman: I should be happy to address that.

Q61 Mr Bacon: What about the total capital value? Is that commercially confidential?

John Kingman: I should be happy to address that.

Q62 Mr Bacon: Is the public sector comparator that is used for each project commercially confidential?

John Kingman: I should be happy to address that.

Q63 Mr Bacon: I take it that the signed project list is not commercially confidential, because that is on the internet—it is publicly available.

John Kingman: Well, if it is on the internet—

Chairman: We are starting to stray.

Q64 Mr Bacon: Just one more question, if I may, about one of the figures in the signed project list. Plainly, that is not commercially confidential as it is publicly available on the website. For example, the website says that the total capital value of the Ministry of Defence main building—a project on which we took evidence—is £345 million. The NAO's Report says that it is £746 million. What is the basis of the figure for the total capital value that is used on the PFI signed project list?

John Kingman: I should be very happy to address that.

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Mr Bacon: If you could send us a note with all of those details when they are available—which you said in your earlier note would be in March—that would be excellent.

John Kingman: Certainly.

Q65 Mr Williams: I have a great regard for you, Mr Oughton, so I apologise in advance for some of the questions that I might ask.

John Oughton: We are here to assist the Committee, Mr Williams.

Q66 Mr Williams: Way back in history, in the 1960s, I was in a Department known as the Department of Economic Affairs. As I have joked to this Committee before, I have served in four Departments and not one of them has survived my coming. That one did not last very long at all after I got there. Those were the days of a national plan and regional planning; that was the big cry then. Claus Moser, the head of the Office for National Statistics and a man for whom I have enormous respect, was continually pointing out to us the inadequacy of Government statistics. I went there in 1967 and yet here we are, 40 years later, still dealing with sloppy statistics. I am staggered at the laxity that the Report shows. You used the term “robust”, but do you think that it is really justified in view of the record that is revealed here?

John Oughton: I think “more robust”, Mr Williams. I absolutely sign up to the NAO judgment last year that the numbers were, at that stage, provisional. I sign up, also, to the NAO’s acknowledgement that the numbers that are recorded might be higher or lower than what was the reality of the programme, and I sign up to this year’s judgment that we have moved considerably further forward. The methodology for measurement, as Mr Rossington has described, is now much better developed. How that is done is publicly available; you can see that. In categorising the programme, the NAO makes it clear that a large proportion of the programme represents efficiencies but that there are still issues to address on measurement. I accept all of that.

This happens to be a programme of a scale and ambition that have not been tried before in Government, so it is not surprising that the numbers we are trying to collect around efficiency are breaking new ground. So in a sense, what has happened in the past 40 years does not help us to answer this set of questions.

Q67 Mr Williams: You said that the figures might be higher, but that they might be lower. That is the worst of mights, is it not? At least if they are higher and you are a Minister trying to make decisions, you can make a notional adjustment for the fact that the savings that you are quoted are inflated. However, in this case you do not know which are high and which are low. You do not know whether the figures that you are using as a planning tool are meaningful, do you?

John Oughton: I take that point. What the Report is showing, in the examples quoted, is that for some of the gains that we are claiming—the £13.3 billion—

there are still some elements of doubt around the absolute, complete assurance of the numbers, and there is more work to do. However, the Report might also have drawn attention to, and indeed alludes to, the fact that, in some areas, there may be under-reporting of numbers, for two reasons. First, there may be conservative, cautious judgments on what should be reported, and there are one or two examples of that in appendix 3. Secondly, there may be a time lag in reporting, particularly, for example, in the education sector, where we collect information from schools only once a year, so the numbers are always running behind the reality. So in a sense I am not uncomfortable about the fact that there may be variations either way, as long as we understand the nature of the information we are working with.

Q68 Mr Williams: Yes, but if you take figure 8, to which my colleague referred, you can mark only £3.5 billion of the £13.3 billion with any degree of certainty. An almost equivalent amount is marked in red, and the Report says that it “may be efficiencies . . . but the measures . . . do not yet demonstrate efficiencies, or the Reported gains may be substantially incorrect”, although it does not say in which way, up or down. So the section that is reliable is counterbalanced by another, almost equivalent section that is unreliable. The other half of the diagram, which is amber, is counted as not fair; the only fair section is the green one—the £3.5 billion. What does it mean?

John Oughton: I shall make two points, if I may. On the middle block—the amber block—which is just over 50%, the NAO records in the summary, the introduction and at every point in the document that it represents efficiency. The NAO does not say that it might represent efficiency or that it might represent some efficiency, but that it represents efficiency. However, it carries some measurement issues and uncertainties that need to be resolved.

The second point relates to the red category, and I leave Committee members to make their own judgment, because I have already made my judgment on appendix 3. To turn again to the first example that I quoted, where the NAO has given UK Trade and Investment a red rating, it has done so—as I read the words here—because there is a doubt not about whether the efficiency has been made, but about whether it will be claimed twice.

Q69 Mr Williams: That would be an acceptable answer if part of the trouble were not also—if I can use a contradiction in terms—a fault in accounting philosophy. Paragraph 2.19 says that “the Gershon Review set no requirement for efficiency projects to report their efficiency savings net of ongoing costs”. Why on earth not? Surely that is the most logical thing to do. That would eliminate an error or bias in the system, would it not? It would reduce inflation of the efficiencies, so why does Gershon not require the netting out of ongoing costs?

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John Oughton: Again, if I can go back to—

Q70 Mr Williams: That is in your control; it is your rule.

John Oughton: It is a rule that was established at the start of the efficiency programme. In fact, it was established on the basis of Sir Peter Gershon's Report and the decisions by Treasury Ministers about the basis of the programme that was announced in July 2004. I have consulted Sir Peter Gershon about the basis on which those judgments were made, and he was very clear that, at the time his Report was being written, and looking at the measurement challenges involved, the right thing to do was to go with the reality of what was happening in Departments and that to attempt to construct, somewhat artificially, a single approach to net or gross calculations in all Departments would have demotivated them and prevented them from getting on with starting the programme and that it would taken longer to get traction around the efficiency programme. That was his judgment. That was the starting point that we had, and I measure from the point at which we started.

Q71 Mr Williams: Well, that is reflected again. It is more worrying because it is wider in its effect. The same thing is said under paragraph 2.21, although in a somewhat different way. It states: "Reporting efficiencies gross of costs"—in other words, not taking them out—"is in line with the 2004 Spending Review methodology."

It appals me to think that the spending review methodology reflected such a flawed concept of proper accounting. What about 2005 and 2006? Are they still in line with that thinking, or have they been revised?

John Oughton: We started where we started, for the reasons that I have just described. We do not think it is sensible to change the rules or to change the goalsposts halfway through on how we measure the programme. Mr Kingman has described the fact that baselines will need to be set for the next spending review and the efficiency challenge that will be represented in that efficiency review, and that is still to be done. I would expect that the understanding of what we have done in the past two years will inform that process of baseline setting for the future.

Q72 Mr Williams: It would be all right if we were talking about small sums, but we are talking about billions. Paragraph 3.13 on page 22 deals with natural wastage and so on as a way to achieve efficiency in relation to manpower targets. It spells out that the DWP incurred £219 million on early retirement and severance schemes, which was not taken into account, and that HMRC incurred costs of £108 million, which was not taken into account. The DWP expects another £300 million, which will not be taken into account. Grossed together, that is £777 million worth of figures that are not taken into account. They are known to be there, but they are allowed to stay there because you do not want to change the system. Would it not be better to get the

system right so that you eventually have a planning tool that is meaningful? Or are you going to say that you perpetuated the errors at the start because you will be measuring future flawed figures against past flawed figures—so that is planning?

John Oughton: No, Mr Williams. Of course things move on. My judgment was that to change the rules for measuring progress on efficiency halfway through the efficiency programme would not be manageable. I can quite imagine a conversation with the Committee about the impossibility of running an audit trail through a set of numbers that changed because we were measuring them in different ways in different years of this three-year programme. Our judgment was that we did not want to get into that territory.

However, of course we learn from the experience of how baselines were set in the Gershon efficiency work. We feed that work into the consideration that Mr Kingman has already described, which is currently under way to set the baselines for the next efficiency programme. As with everything we do in government, we want to make it better next time than it was last time.

John Kingman: But what we have said about the current spending review is that the focus will be on net cashable savings, which will be net of costs.

Q73 Mr Williams: Paragraph 2.29 of the Report has been referred to before. It states: "A true efficiency gain should represent a fundamental change to the way in which a Department behaves." You are signed up to that.

John Oughton: Yes.

Q74 Mr Williams: And yet we are told in relation to the case that was quoted by my colleague that aircraft that were due to be decommissioned in a couple of years were decommissioned a couple of years early and that the cost of the decommissioning was counted as an ongoing saving, although it was actually a finite, clear defined area of saving. How on earth can you reconcile that with the true efficiency gain representing a fundamental change to the way Departments behave?

John Oughton: It is an ongoing sustainable saving in the time scale of the efficiency programme. Again, I consulted Sir Peter Gershon on the definition of sustainability that was used at the outset. What he was looking for and made clear in his report originally were gains that were sustainable over the three-year lifetime of the efficiency commitment that was announced in July 2004. At that stage, it was the only commitment that the Government made. They made a commitment for a three-year term. Our responsibility was to ensure that the gains claimed by Departments were sustainable over that three-year period. The gains made by the Ministry of Defence are sustainable, which is why we are counting them. In the longer term, it is now clear that we will be moving into a further efficiency regime in the next spending review. Gains will need to be sustainable across that period, too, but the rules for that approach are being settled at the moment, as Mr Kingman described.

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Mr Williams: Thank you.

Chairman: Mr Mitchell has a supplementary question.

Q75 Mr Mitchell: It is a request for help actually owing to the smoke and mirrors and creative accountancy in the figures. For example, the Department of Health has reduced the average length of hospital stays, but unfortunately it has fiddled the baseline and given itself £300 million of efficiency savings to which it was not really entitled. That has been reported on. Paragraph 2.34 says that there is a “strategy to treat less ill patients out of hospital where appropriate.” What it is saying is that the average patient age and case complexity of hospital admissions have risen. What does that mean? Are we treating older, sicker people more abruptly and turning them out quicker? Why is there a fall in time spent in hospital when there is an increasing proportion of older, sicker patients? What are the consequences of that? Paragraph 2.34 also says that “the proportion of emergency readmissions within 28 days of discharge has been rising”. What is the cost of that when deducted from the so-called savings resulting from shorter treatment times?

John Oughton: Let me see if I can clarify this. As I explained earlier, the policy of the Government and the Department of Health is to treat more patients in the community at primary care level, rather than in acute hospitals. It is not for me to argue whether that is the right policy—it is the given that we have to deal with. The statistics show that, as a result of that policy, a proportion of patients discharged from hospital and then in need of readmission—for a follow-up or owing to complications—are being treated in the community, at primary care level, rather than being readmitted for acute secondary care in hospital.

Q76 Mr Mitchell: That is not necessarily the deduction. The deduction is that those being treated in hospital are sicker and, therefore, should presumably stay longer.

John Oughton: As a subset of the totality of the patients being treated, those readmitted for secondary care treatment in hospital by definition will be the more serious cases. I do not think that there is anything between us on that. You would expect, therefore, the statistics to show that the group being readmitted and treated in hospital includes more complex cases, perhaps involving older people and meeting the conditions spelt out in paragraph 2.34.

Mr Mitchell: Who should never have been turned out in the first place.

John Oughton: Those are clinical judgments made when patients go from hospital care, through rehabilitation, and into the community. Those clinical procedures change and develop over time. I cannot second guess them.

Q77 Mr Mitchell: Well, that does not answer the question. If we are treating the less sick patients outside hospital—they are not going into hospital—

it must mean that there is an increasing proportion of really sick and older patients going to hospital who should, logically, be treated for longer. And yet they are being turned out quicker. My question is why is that happening. As a subordinate question, what is the cost of the increasing number of readmissions when deducted from the savings that result from turning out people earlier?

John Oughton: The point at which a patient is discharged from hospital will be a clinical judgment by the clinicians in the hospital. It is not a decision driven by an efficiency programme. The quality measure is attempting to show that, as a result of the development of better support in the community, through PCTs and elsewhere, more patients can be treated in the community, rather than having to occupy beds in very high-cost acute accommodation in hospitals. That is the point behind the measure; that is what it is trying to achieve. No one is suggesting that patients are either discharged earlier than the clinical judgment requires or that if they need to come back into hospital, there is not the opportunity for them to do so. Clearly, there is. What this is measuring is a different point.

Chairman: Mrs Goodman wants to come in.

Q78 Helen Goodman: I want to ask Mr Kingman a follow-up to the question that Mr Bacon asked. You said that you would do a note on a number of things, and that you were not currently clear whether they were in the public domain or not. With the inflation rate, which varies, for example, in the health service, from the general rate of inflation, I can understand why you might not know. However, I was a bit surprised that you gave the same answer on the discount rate, because the Treasury publishes the green book, which is advice on what discount rates to use. Surely you do not go to all that effort to put that piece of work together just for people to apply it or not apply it.

John Kingman: No, indeed we do not. As you may remember from the hearing that we had on that subject, there is guidance in the green book on the use of discount rates, but that is guidance, and there may well be project-specific reasons why different discount rates are used. I remember that we discussed one specific instance of that at the hearing that we had a few months ago.

Chairman: If senior civil servants come to this Committee, they should generally try to answer the questions. That is why you are here. That concludes our public hearing, Mr Oughton, but if you do not mind, we would like to have a few minutes with you in private as a valedictory hearing so that we can discuss how we might improve things in future. Gentlemen, thank you very much.

Sitting suspended.

On resuming, in private

Q79 Chairman: Well, John, thank you very much for staying behind. It would be useful for us if people are moving on to get an idea in a more relaxed atmosphere. Do not worry, it is not being broadcast.

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In general terms, with your experience, what do you think are the two or three most important things that you have managed to achieve in your time in office, and what do you think should be the two or three most important priorities in the next few years? How do you think that this Committee might help in this process? Are we a bar to progress, so that people are always looking over their back, or are we stultifying initiatives? How can we help in this process, do you think?

John Oughton: I shall start with the three achievements and the three still to do. I genuinely think, notwithstanding the discussion that we have just had in the Committee, that we are hugely further forward in conducting the efficiency debate than we were at the start of this programme. Genuinely, as I go around Government Ministries, people talk about this in a way that they were not doing two or three years back. In that sense, it is now on the agenda. I think that that is good, because we are all responsible as civil servants for ensuring that the public's money—taxpayers' money—is spent effectively. It is important that we have proper stewardship of that, so it is good that people are discussing that issue in a way that they were not doing previously.

We would not have achieved that without an efficiency programme. I do not think that things happen by accident in government, and the fact that we have made progress on the efficiency programme is because we planned, executed, monitored, reported and challenged. We have got into a rhythm and a routine about the programme that has given it some momentum. I personally feel that I and Mr Rossington can take a great deal of satisfaction with the progress that has been made. You may recall, Chairman, that at the start of the efficiency programme two years ago people were very sceptical about whether any of this could be achieved at all. Everybody thought that the numbers were for the birds. I think that we will achieve it, and I hope that we will be able to demonstrate that we have achieved it.

The only other thing that I wish to say, looking backwards, is that we have also had to demonstrate that procurement, which is a very unsexy subject in Government, has become a really important part of what we do. There has been a much greater recognition that we need to spend money on goods and services wisely. We do not manage all our programmes and projects as effectively as we should—I have always acknowledged that to the Committee—and we need to be better skilled. I think that we have done a great deal in the past two or three years, building on the good work that Sir Peter Gershon did when he set up the OGC, to try to establish procurement as a central part of the agenda to deliver better public services to our citizens. The OGC and all my staff can take a great deal of credit for having moved that agenda on.

Where do I think we need to be, and where would I like us to go in the next two or three years? Well, it is about cracking the issue of skilling up in the public sector. We had a conversation three weeks ago about consultants in which we recognised that, perhaps

more often than we would like, we have to pull in skill from outside because we do not have it in Government. That is a really tricky problem for us, because to retain skill on the books as part of our permanent work force is sometimes expensive and not justifiable. There will be occasions when we do need to acquire support from outside, and we must be good at that and ensure that we get good value for what we do. Skilling up to avoid having to do that more often than is absolutely necessary is very important, as is recognising that efficiency does not stop with the delivery of this programme.

We have to tackle the risk—I use that word rather than “challenge”, which I know you find one of my favourite words—that as we move from the current efficiency programme to the next, we might drop the ball. As we focus more on a tight cash regime, with resources very much tighter, the nature of efficiency will change and it will become much more a cost-cutting exercise than it has been. From what we have done so far on efficiency we can demonstrate that it does not have to be like that. There can genuinely be better output for the same resource. We need help with that, because there is a great deal of scepticism out there about progress. Frankly, if those who are trying to deliver efficiency inside Government hear all the time about the negative things and do not get any sense that we are making progress, that is quite demotivating. There is an issue about motivating our people to do some really quite hard things in Government. That is looking forward and looking back.

On the Committee, you may find this surprising, Chairman: the PAC is an effective means of holding Accounting Officers to account. That may not be obvious from the exchanges over the table, and of course we are all intent not to be caught out by questions from Members as we sit here. That is part of the exchange between us. However, I can assure you that in my preparation for the Committee I do not just spend time trying to mug up on facts. I spend a small part of my time just absorbing data so that I can answer every single question on a fact that you put to me. I spend most of my time testing the strength of the arguments that we have and the proposition, so that if I come before the Committee I feel confident that what we are trying to do and deliver makes sense and is justifiable. For me, the pressure of accountability is that it forces me to think about what we are doing and how, not whether I can answer the individual questions that you put to us as accounting officers around the table.

However, there is one particular difficulty that I have felt in my sessions in front of the Committee. Particularly with the Public Accounts Committee it is hard to draw a distinction between the policies of the Government of the day, and the responsibilities that Ministers have for those policies, and the responsibilities that Accounting Officers and their Departments have for the effective and proper use of the funds that are voted by Parliament. I am bound to say that in quite a lot of the questioning on the subjects for which I am responsible, it is hard for the Committee to avoid straying into questioning and challenging policy. In a sense, I cannot answer for

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the policy. I implement whatever the policy of the Government of the day is. I have done that in 33 years in the civil service for Governments of whatever party. So it is quite hard to respond to questions that challenge whether what we are doing is right when actually I feel that our responsibility as accounting officers is to answer whether we are doing it well.

I should like to make one last point, if I may. You have made the point before, Chairman, that you very much hoped that there would be occasions where the Committee could celebrate success rather than difficulty. I was delighted that the NAO was able to produce a Report on successful IT projects in Government. It would also be really good and really helpful to us as Accounting Officers if the Committee signalled, as you have done on previous occasions, your willingness to pay credit to and acknowledge those accounting officers who take calculated risks. Sometimes those risks will not come off. If we are driven to a point where we never take risks, we will never be ambitious to make change happen. A little bit of help and a little bit of top cover for those of us who try to take calculated risks, even if sometimes we stumble when we do so, would be helpful both to the proceedings of this Committee and to our ability to deliver on policy.

Q80 Chairman: Can you help us with that, Sir John, in future in briefing us to congratulate Accounting Officers who take risks? By name?

Sir John Bourn: Yes, Chairman, occasionally.

Q81 Mr Dunne: This may not be a question that you will wish to answer, but have you found that some Departments have been more resistant to your entreaties for greater efficiency than others? I think in particular of the Ministry of Defence, which apparently has 50,000 people working in its procurement arm. That is roughly half the size of the Army. I was told today that the air transport refuelling aircraft programme, for example, has been a seven-year project. The procurement team now holds Christmas parties every year. It should have been disbanded after one. It is not that difficult to choose between a Boeing and an Airbus.

John Oughton: On the efficiency programme as a whole, I would rate the Ministry of Defence as one of the higher performing Departments. The reason for that, rather as I was saying earlier, is that to make things happen you have to be very ordered and very disciplined in planning, executing, monitoring, reporting and challenging. I have 25 years' experience of working with the MOD and when it puts its mind to it, it gets on and does things. It is very professional and very impressive.

However, you are right that in the major projects review work that comes before Parliament, it is clear not every procurement project in the MOD goes swimmingly. Procurement is a tricky issue. The first point to make is that there are about 4,000 or 5,000 people working in the procurement executive in the Defence Procurement Agency. Something like 20,000 people work on procurement in the Defence Logistics Organisation. The modernisation of that

function and the merger of those two organisations, which the Secretary of State and Lord Drayson announced last year, are designed to drive some efficiencies and some streamlining into that process. I know from personal experience the difficulties you face if you have one group of people responsible for developing and buying something and then they have no responsibility for maintaining it in service afterwards, so they have no interest in the whole-life cost issues. Their only concern is cheap initial price. The changes being implemented through that merger give the Ministry a better chance to address whole-life cost issues and proper trade-offs, which I hope will make the procurement process better.

Q82 Mr Williams: One of the continuing problems for Departments is IT. Do we get it more wrong in Government? Obviously it is more upfront and transparent. We are dealing in very large projects. Do you think we are more accident prone or incompetent in dealing with IT projects than the private sector, or is the private sector able to bury things more easily?

John Oughton: I am not sure that there is much to choose between us. There is some quite good analysis which the Standish Group has done both in the United States and the UK looking at success rates for IT projects in the private and public sectors. Actually, there is not much to choose between them.

Q83 Mr Williams: That is my recollection.

John Oughton: I think the real difficulty in Government is that by comparison with a major corporation where, if you were thinking about major change programmes that demanded attention at board level, most major corporations would think they should do perhaps two, three or four of those at any one time, because the management capacity to take on a very large number of major changes at any one time is limited. I think the issue in Government is that because of the breadth of the agenda we are tackling we are trying to do very many of these things at once. That puts a strain on the senior management capability as well as the technical capability and resources in Government to do all of these things at once.

Dare I say it, I think one of the reasons why we do so many things is because in our democracy, certainly in the period since 1945, there has been a sense that Government have to be responsible for doing things. We emerged from a period in 1945 where the Government had run a very command economy, for a very obvious reason, and very successfully. The Government did everything, organised everything and directed everything. Since that period, with some variation and swing of the pendulum in one direction or another, it is still largely the case that when events occur in our society, one of the reactions of all of us as citizens is to say, "What is the Government going to do about it?" So what tends to happen is that the Government do something about it, so they have a programme, an initiative or a project.

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Q84 Mr Bacon: Or a summit.

John Oughton: Indeed. That just adds to the agenda in a way that I think is managerially very difficult to handle if we keep on adding initiative after initiative after initiative. The public is very ambitious and demands a lot of Government so it is not surprising that politicians respond in the way that they do, but I do think that is one of the different features about what happens in central Government—it is the sheer number of major difficult things that we choose to do concurrently.

Q85 Chairman: That was very interesting and I apologise for keeping you.

John Oughton: Not at all.

Q86 Helen Goodman: I want to ask you a bit more about upskilling the staff. Last time when I asked you about it we were slightly at cross purposes. What range of skills are you looking for in the OGC? I had in mind, because of the kind of work that we were discussing that the consultants do, a merchant bank-type range of skills and I thought afterwards that perhaps you meant something rather different and I wondered what you did mean.

John Oughton: No, I do not think that it is primarily merchant bank skills. I think the financing skills are very much those that I would expect to see in the core Treasury and in Partnerships UK, because that is where the private finance initiative projects will still be handled. The sorts of skills I am talking about with the OGC's new agenda are around three things. The first is procurement. By that I mean the negotiation of deals for bulk procurement of basic commodities; it was the single-sourcing strategy that I was talking about before. It is deciding for Government collectively how we are going to procure these things so that we are not all doing it separately and tripping over one another and dissipating the limited amount of skill we do have in Government. It is the basic procurement understanding and skill, some of which is quite sophisticated, if we do category management in the way that major private sector companies do—analysing the marketplace, analysing the deals and analysing the suppliers. That is not a trivial task and so we need some good people to do that.

The second skill is around programme and project management. Again, the NAO in many reports and our own gateway reviews identify the same common issues all the time. One of the key ones is just around people who have experience and understanding of how to run and how to manage major programmes and projects and all the complexity of the different issues that need to be pulled together: how to manage and assess risk, how to manage stakeholders, the relationship you need to have with others on whom you depend to do these things, and the commercial skills you need to go out into the marketplace. There is a whole range of things and how you manage that all within a major programme or project. We need more of that skill inside Government.

The third skill that we need, very precisely and specifically, is around estates management and facilities management to deal with the very large value of the Government estate that we are attempting to rationalise as we move out of London in some cases. We are also trying to streamline our property holdings in London as well and meet the Government's longer-term commitments on a carbon-neutral Government estate. We need some very skilled people to do that for us, too.

Q87 Mr Mitchell: I was concerned about the rise in expenditure on consultancy. Is it your expectation that that increase will go on or will it tail off?

John Oughton: I think and hope that it will decline. As was probably obvious from the last session that we had on the subject, I do not regard the Government's record on employing consultants as 100% admirable. I think that there are things that we could do better. I think that we too readily grab for consultancy support when we should look at the skills that we have ourselves. The reason why I think that the trend will start to decline is because a lot of the so-called consultancy support that we have brought in from outside has been specialist skills to help deliver on major programmes and projects. We have had a long period of very significant capital investment in the last three spending reviews. Much of that capital infrastructure has been renewed, refreshed and regenerated, or it is in the course of being tackled.

In the next comprehensive spending review, as I think Treasury Ministers have made very clear, there will be tougher choices because there will be a tighter financial envelope to operate in. If there are fewer major capital investments happening and if we have already invested in the capital stock, we should not need to again. In that case I would expect that our need to acquire outside help to support such a programme would decline commensurately. My expectation is that the trend line will start to go down.

Briefly, my other very clear desire is that whenever we choose to buy in external advice we do so on proper terms and we have a better assurance that we are getting good value for money, and we need to do better on that.

Q88 Mr Bacon: I want to ask two questions. The first is about the common themes that are emerging again and again. You say that it boils down to having people with the right experience. As you say, there are loads of examples of common themes, such as not testing the product sufficiently for an IT project. Compression of the testing timetable is a thing that I have seen more times than I can count in any number of different IT projects. Not having a senior responsible owner is another one. Those are things that you would get from people with experience. If you had more people who were good at running projects, you would get more of this done.

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John Oughton: You should do.

Q89 Mr Bacon: That begs the question—another common theme—that promotion of the civil service is not project based. Five years ago, Sir Peter Gershon was sitting where you are sitting—Sir Andrew Turnbull was just about to become, or had just become Cabinet Secretary, but he has moved on now—and saying that we ought to have civil service terms that are longer, that we should go for four-year appointments rather than two-year appointments. Is there not a more radical shift that is needed that says, “It is not about two years or four years. It is about the project.”? It could mean two years and seven months or three years and nine months. Unless you privilege that and make people understand that privileging is what matters and that only by doing well and delivering a project do you get ahead—which is not the case at the moment—will you start to deliver the serious change that you are talking about because you will have more people with experience? That is my first question.

My second question is about central versus local. We saw it in the private sector with all the conglomerates in the 1960s as well as in the 1980s with Hanson, after which there was a focus on demergers. Apart from my observations working in corporate finance departments and in a financial public relations agency, in the private sector there are loads of people making money either way whether you are consolidating or decentralising. The same tensions apply in the public sector, whether you run it from the centre, from the Cabinet Office and the Treasury, or whether you give the Departments power. It sounds from what has been said about the major projects review group that it is now trending back towards the centre. What especially intrigues me is not only the greater scrutiny of the largest mission critical projects, but the phrase about stopping progress if necessary. That is the “who, whom” point: whether one will really have Napoleon or Lenin at the centre, pulling a lever. That instinctively appeals to me on a personal basis. One can let people screw up and then afterwards say to DEFRA, “Sorry, you chose a hybrid system—that is £200 million that you haven’t got next year”. That means that the money has to be found. Alternatively, somebody smart at the centre can say, “Don’t do it.” Those are my questions.

John Oughton: They are two tough ones. I am absolutely in agreement with Mr Bacon on longer project tours. Leaving this job after three years

makes me feel like something of a fraud, because in my previous two tours I was in my job for five and half years and four and a half years, and I did not feel that that was too long in either case. One needs to stay, and to see things through to a natural break point. As it happens, I have reached a natural break point, so three years was the right period for this job. Have we got something going for us here? The real trick is whether the professional skills in government agenda, as it develops, will give a career path through the system for people who undertake projects, so that rather than bumping against the glass ceiling of running the biggest project there is, but being unable to go anywhere else, they can find a route into senior management posts in the wider Department. I tell you: having someone around the main board table who has that experience will pay real dividends.

Part of what I hope we can do with the major projects review group, therefore, is to signal clearly to Departments at the earliest stages of projects—on initiation and before getting anywhere near procurement—that they will be pressed on whether they have asked the right questions on project set-up. We will be saying, “If you have not got the right people sitting round the table, and the right expertise being injected from the outset, you are unlikely to pass our test.” It will be a serious signal to Departments that unless they initiate programmes and projects well, we will say, “I am sorry, we are not going to let you go any further until you have fixed this.”

Is that a tougher regime than the gateway reviews? Yes it is. To be frank, the Treasury’s leverage talks, particularly in a period of tight money, and in those circumstances the Treasury’s leverage will be very effective, so I welcome the group.

My last comment is this. In order to take that responsibility centrally, and to take those decisions, people have to be very good at it—it is no good taking such decisions in ignorance. As Nick Macpherson himself would say to you, if he were here, the challenge for the Treasury is to become a highly skilled Ministry of Finance that has the ability to make the value-for-money judgments and to support a major projects review group in operation. OGC will support them, as will others, but it will be a challenge to do the job well.

Chairman: Thank you. Speaking for myself, it has been a great pleasure having you before us and we are very grateful to you.

**PCS Submission February 2007 to the Public Accounts Committee on the National Audit Office (NAO)
Report: The Efficiency Programme: a Second Review of Progress**

INTRODUCTION

The Public and Commercial Services Union (PCS) has approximately 325,000 members and is by far the largest Civil Service trade union in the UK.

PCS’s position on the Gershon Review and the Efficiency programme that emerged from it has been consistent since the publication of Gershon’s Report and the Chancellor’s Statement on the 2004 Comprehensive Spending Review.

While PCS is not opposed to securing greater efficiency and value for money within civil and public services, we believe that the broad-brush imposition of up to 100,000 job cuts in the civil service in the period 2004-2008, with the prospect of more to follow as a result of the Comprehensive Spending Review 2007, will not lead to greater efficiency and effectiveness in the delivery of public services.

PCS is extremely concerned that the efficiency programme is little more than a headcount reduction exercise, with service quality severely affected by the cuts in many areas. Despite the cuts being packaged as an exercise in cutting red tape or cutting “Whitehall pen pushers”, the majority of the cuts come from administrative grade staff performing front-line functions.

PCS’s General Secretary, Mark Serwotka has responded to the NAO Report:

“It is completely unacceptable that departments are dashing headlong to meet abstract numerical targets on efficiencies and job cuts without a clue of how the quality of service delivery is affected. The government may pat itself on the back about its progress with the Gershon agenda, but the evidence of PCS members suggests that job cuts are leading to delays in areas such as benefits and jobseeking, as well as Tax collection. Added to which you have departments such as HM Revenue and Customs looking to save £105 million through staff cuts, but spending £106 million on consultants all in the name of efficiency.”

KEY ISSUES

1. Accuracy of efficiency savings figures

“... many Reported efficiency gains still carry a significant risk of inaccuracy”

according to Sir John Bourn, head of The National Audit Office (NAO press release 9 February). The NAO’s assessment shows that threequarters of the Reported efficiency savings are questionable (NAO Report summary paragraph 5).

PCS is very concerned that if we cannot trust these figures, how can we trust the assurances from the departments and the OGC that the efficiency programme is an exercise in improving efficiency and not in cutting spending, and that efficiency measures, including headcount reductions, will not impact on service quality?

2. Service quality measurement

“There is increased focus on measurement of service quality . . . but some projects are unable to demonstrate clearly that both outputs and service quality have been maintained.” (NAO Report heading before paragraph 2.32)

The Report spells it out in paragraph 2 .32:

“Most of our sample projects measure efficiencies based on a reduction in the cost of inputs. In order to demonstrate that true efficiencies have been achieved, measurement methodology should contain measures of quality and output that show these have been maintained despite the reduction in input costs”.

PCS would put it another way: to most departments “efficiencies” means cuts in staff, and there is no evidence that service quality has not suffered.

The first review of the efficiency of programme a year ago found that departments were unable to measure changes in output quantity and quality as well as measuring inputs, endangering the ability of the efficiency programme to deliver real efficiency gains rather than just spending cuts. The OGC has now encouraged departments to measure service quality, but it is clear from the second review Report that they have so far not made enough progress.

We would emphasise that it is crucial that departments measure service quality. Otherwise the conclusion is unavoidable that the main priority of the efficiency programme is to save money and meet spending cuts targets.

3. Impact on service quality of headcount reductions

“In some areas assurance about the maintenance of service quality could be stronger” (NAO Report heading before paragraph 3.17)

PCS has expressed grave concerns about the impact on service delivery and service quality we are seeing as a direct result of cuts in staff numbers. The NAO Report also expresses concern about service quality in some areas.

Paragraph 3.19 makes it clear that the average time Jobcentre Plus takes to deal with claims for Jobseeker’s Allowance and Income Support benefits has risen during the period headcount reductions have been made. It reports that DWP employees feel that the increased use of contact centres as the first point of contact for customers in order to make headcount reductions has lengthened the time taken to process claims.

Concerns about the quality of service delivered through DWP contact centres are outlined in paragraph 3.20. This was an area of concern which was also the subject of a Public Accounts Committee Report last year which found that in 2004–05 over 20 million calls to the DWP contact centres were going unanswered, and that in December 2005 less than half of calls to Jobcentre Plus Direct were returned within 24 hours. (Public Accounts Committee *Department for Work and Pensions: Delivering effective services through contact centres* (HC 1034, 2005–06))

Concerns about service quality were also expressed by a Commons Work and Pensions Select Committee last year, who blamed the customer management system in JobCentre plus together with the efficiency programme for the “catastrophic failure” of the contact centres. They concluded: “We have concerns about a number of aspects of the efficiency programme. Too much has been done too quickly, in our view, and services and programmes have suffered as a result. We therefore recommend that the pace of headcount reductions in Jobcentre Plus should be slowed . . .” (Work and Pensions Select Committee, *The Efficiency Savings Programme in Jobcentre Plus*, HC 834, 2005–06)

When service quality in an area such as DWP is affected by headcount reductions, the most vulnerable feel the impact most. The Child Poverty Action Group (CPAG) found that this change in the way services are delivered, carried out in the name of efficiency, had several major failings particularly for the most vulnerable members of society. The system relying on claimants having to make claims at a distance by phone did not make adequate provision for those with special needs, including language difficulties due to poor literacy or limited knowledge of English, or those with physical and mental health disabilities. It ignored the fact that many claimants with low incomes do not have a landline phone and have to rely on mobile phones or no phone at all. The system relying on callbacks means that many have to pay a high price to pick up voicemail messages. There are examples of claims being lost and delayed, and claimants being denied crisis loans at local offices. The CPAG Report concluded: “. . . claimants have paid a heavy price for the government’s decision to deliver the benefits service by reducing staff and centralising records and delivery”. (Child Poverty Action Group *Jobcentre Plus: Changes to Service Delivery*, September 2006)

The headcount reductions are clearly having an impact on service quality in Revenue and Customs. One performance indicator outlined in the NAO Report is the VAT “tax gap” (the difference between the amount of VAT due if taxpayers comply with the law and the amount actually collected). Instead of the public service agreement to lower it to 11% having been met the tax gap has increased to 14%. It is clear that the areas from which headcount reductions have been made contributed to the failure to meet this target, and paragraph 3.24 says that this issue “. . . illustrates the difficult choices that HMRC management face in trying to deliver headcount reductions at the same time as reducing the tax gap”.

PCS would go further and say that it is irresponsible to cut thousands of staff who are responsible for collecting taxes. Our evidence backs this up. According to the department’s own calculations, in one area of HMRC, Local Compliance, shedding 600 staff will save £74 million while simultaneously contributing to a loss in tax yield of £204 million.

4. *Reallocation to the front line*

“Only partial assurance can be given to Reported reallocations” (NAO Report heading before paragraph 3.14)

Two departments, DWP and HMRC, were set targets to reallocate posts to front-line roles in the 2004 Spending Review. The NAO Report makes it clear (paragraph 3.14 to 3.15) that there are serious contradictions in the way that these departments define “front-line” posts, with the DWP defining them as certain customer facing positions, and HMRC defining them with reference to certain business units, within which all posts are classified as front-line though they include managers, administration support and IT staff.

PCS has always questioned the artificial distinction between “backroom” and “front-line” staff, with the former seen as dispensable and the promises made to increase the latter. We have always been cynical about claims that staff would be or had been reallocated to the front line, and this Report backs up our concerns.

The experience of PCS is that most of the thousands of civil service staff cuts are from important areas of work in the front-line of providing civil and public services.

5. *Use of consultants, agency staff, overtime and outsourcing*

“In making headcount the focus for departments, a major risk for the efficiency programme is the possibility that departments are spending more on labour that is not accounted for in a department headcount.” (NAO Report Paragraph 3.6)

PCS has consistently expressed concern that departments under pressure to meet headcount reduction targets are increasingly using consultants and agency staff who don’t appear on the payroll, and rely on overtime carried out by existing staff already struggling to cope with the extra workload and insufficient staffing levels. We have consistently complained about the waste of public money in paying consultants between two and five times the daily rate of civil servant colleagues doing the same work, and the excessive

fees paid to agencies to supply agency staff who work often on the minimum wage or on lower wages than civil service colleagues doing the same work. We have pointed out how inefficient this is in terms of wasting money, and also in the waste of the experience of civil service staff who are declared surplus to requirements.

The NAO Report seems to suggest that “replacement labour costs” have not increased significantly, but in paragraph 3.7 says that DWP Jobcentre Plus has increased its spending on “other staff substitutes not on the payroll” from £15 million in 2003–04 to £26 million in 2005–06. And HMRC management admitted in a Freedom of Information request response that in the financial year 2005–06 they spent over £106 million on consultants (in a period when they Reported making savings of £105 million by cutting 4000 jobs).

Concern about spending on consultants has now prompted the Treasury to write to all departments with new instructions on the use of external consultants, including specifically telling them not to hire consultants when the work can be done by civil servants, and to ensure that the costs of hiring consultants should be charged to the appropriate budget headings rather than being hidden in administrative overheads.

Numerous guidance has been issued by the NAO and other important organisations, but this has not yet had much impact. PCS remains concerned about this issue and would want to see faster progress on tackling it.

Supplementary memorandum submitted by HM Treasury

Question 20 (Helen Goodman): Value of the VAT tax gap

Helen Goodman MP asked about the increase in the value of the VAT gap. The latest information is already available in the 2006 Measuring Indirect Tax Losses document. The current estimates of the VAT tax gap suggest it has grown between 2004–05 and 2005–06 by 2.8 percentage points from 11.7% to 14.5%, and by £2.8 billion from £9.6 billion to £12.4 billion. The figures remain subject to revision.

The methodology for estimating VAT revenue losses—the VAT gap—was first set out in November 2002 and the current methodology is set out in the 2006 Measuring Indirect Tax Losses document. Following a drop in 2003–04, the VAT gap remained broadly flat in 2004–05, before increasing again in 2005–06. In considering the VAT tax gap, it is important to bear in mind that:

- VAT gap estimates are a broad measure with a high degree of uncertainty and large margins of error;
- The VAT gap includes losses from a wide range of causes such as carelessness or debt; avoidance; evasion; fraud and serious non-compliance from those working in the hidden economy;
- HMRC is tackling VAT non-compliance activities through a range of interventions, including education and advice, risk based campaign activity and civil and criminal evasion investigations;
- HMRC’s operational strategy to tackle Missing Trader Intra-Community (MTIC) fraud has been significantly strengthened including by increased operational resources, anti-fraud measures in the 2006 Finance Act and closer working with overseas/EU partners; and
- HMRC’s interventions and strengthened MTIC strategy are designed to drive the VAT gap level down. VAT gap estimates for 2006–07 will be made available at the 2007 Pre-Budget Report.

Supplementary memorandum submitted by the Office of Government Commerce

Question 18 (Helen Goodman): Whether the costs of care in the community have been taken in to account when measuring efficiency savings

In measuring efficiency savings the Department of Health (DH) are netting off the costs of care associated with the provision of extra community matrons. These specific new resources contribute directly to reduced hospital admissions for which efficiency savings have been claimed. The NAO report notes that the department ‘has gone further than required to by the Gershon Review’ in accounting for these extra costs (paragraph 2.22 of the NAO report).

There are no other significant specific extra costs relating to the efficiencies being claimed. The department is not able to attribute the use of all Primary Care Trust resources to specific initiatives and activities, and cannot therefore wholly discount the possibility of there being other minor costs, nor indeed other local efficiency savings.