House of Commons
Treasury Committee

Evaluating the Efficiency Programme

Thirteenth Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The Treasury Committee

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Summary

Greater efficiency within Government departments has long been proffered as a solution to reducing public spending. Efficiency gains can not only reduce costs but also provide more efficient services. As part of the 2004 Spending Review, the Government launched a wide-ranging and ambitious efficiency programme that set demanding targets for Government departments to achieve monetary savings, headcount reductions and relocation of posts from London and the South-East. Our inquiry looked at the effects of that efficiency programme on the Chancellor’s departments, following the final report published in the 2008 Pre-Budget Report. We also examined the more recent programmes including the Operational Efficiency Programme and the Public Value Programme that were published alongside the 2009 Budget.

Gershon Efficiency Review

We note that the NAO interim report about Gershon efficiency savings highlights serious problems in measuring efficiency. We raise concerns that the NAO did not audit the final Gershon efficiency savings and that this has led to a lack of confidence on the part of some organisations in respect of the reported savings. We believe that, at a time when the public sector will be pressed to make further efficiencies, it is vital that any savings made are properly recognised and quantified. We call on the Government to continue to work with the NAO to ensure that future efficiencies are accurately measured.

Staff morale in HMRC

In respect of low staff morale in HMRC, we note that it has been caused, in part, by uncertainty about the future, a lack of understanding about the chosen efficiency targets, especially when service quality is perceived to have fallen, and increased pressure—having to do the same job with less resources. We note that HMRC senior management take the issue of morale seriously but we require greater communication between management and staff. We welcome the Government’s reassurance that training will not suffer as a result of the efficiency programmes.

Operational Efficiency Programme

In reviewing the proposals published in the Operational Efficiency Programme we recognise that they present significant scope for long term savings. Now, more than ever, efficiency savings that can be made in the public sector will be welcomed. However, we are concerned that these efficiencies will require considerable co-operation between departments to yield the full savings identified in the review. We question whether the necessary structures are in place to facilitate such co-operation and require the Government in its response to this Report to outline the practical steps taken to date.
Increasing the Value for Money targets

We are concerned that additional £5 billion added to the Value for Money target in the 2008 Pre-Budget report was the figure chosen by Ministers without prior consultation with the relevant Departments. We note that this lack of consultation does not inspire confidence. We recommend that the Government, in planning to put the public finances back on a sustainable basis in the medium term, considers a more business-led approach to cost cutting in the public sector than setting an arbitrary target and requiring the civil service to meet it.

Measuring Efficiency

Finally, we consider the evaluation of the costs and savings of major efficiency programmes, noting that it is currently unclear whether such programmes represent real value for money. We recommend the Government establish robust data collection processes at the start of future efficiency programmes.

To ensure that only true efficiencies are captured and reported, it is important that they are measured appropriately and accurately. We expect Government departments to have implemented the NAO’s recommendations concerning measurement. We also recommend that the Treasury monitor the progress of departments’ improvement in measuring efficiency. We will return to this issue after we have reviewed the Chancellor’s departments’ annual reports.
1 Introduction

1. In introducing his 2009 Budget the Chancellor of the Exchequer, the Rt. Hon. Alistair Darling MP, described it as being designed to “take Britain through the most serious global economic turmoil for over 60 years”. Projections set out in the Budget suggested that the UK public sector net debt would more than double from 36.5% of GDP in 2007–08 to 76.2% of GDP in 2013–14. Inevitably the severe strain placed on the public finances by the effects of the global financial crisis will cause the Government to review the scope for future efficiency savings within the public sector.

2. Greater efficiency within Government departments has long been proffered as a solution to reducing public spending. Efficiency gains can not only reduce costs but also provide more efficient services. In recent times, the Government has commissioned several reports to advance efficiency within its departments, including Sir Peter Gershon’s 2004 Efficiency Review, Sir Michael Lyons’ Public Sector Relocation Review (also in 2004) and, most recently, the Operational Efficiency Programme and the Public Value Programme published alongside the 2009 Budget. However, the efficiency programmes of the past have not always achieved their desired results and indeed some have questioned the extent to which these programmes actually achieved savings. It was within this context that we decided to review the recent efficiency programmes of the Chancellor’s departments.

3. The Gershon Efficiency Programme launched at the time of the 2004 Spending Review was wide-ranging and ambitious. It included demanding targets for overall monetary savings and individual targets for headcount reductions in the Civil Service. It also incorporated targets for the relocation of civil servants from London and the South East arising from the Lyons Review. As a Committee, we have reviewed the progress of the programme on several occasions, and made recommendations relating to its monitoring and reporting. We have also examined the prospects for efficiency savings in the spending period covered by the 2007 Comprehensive Spending Review.

4. Our previous work concentrated on efficiency across Government, and the central role of the Treasury and the Office of Government Commerce (OGC) in relation to the programme. This Report examines the efficiencies achieved under the Gershon programme within the Chancellor of the Exchequer’s own departments: evaluates the progress made to date by the Chancellor’s departments in implementing the Government’s subsequent efficiency programmes in so far as they affect those departments; and looks at
the effect of the programme on each departments’ levels of customer service and morale as well as future plans for efficiency and value for money savings.6

5. We announced our inquiry on 27 February 2009. Between 13 May and 9 June we held three evidence sessions. We took evidence from industry experts and consultants in the field of operational efficiency; officials from HM Treasury, the Office of Government Commerce and HM Revenue & Customs; and the Rt Hon Stephen Timms MP, Financial Secretary to the Treasury and Sarah McCarthy-Fry MP, Exchequer Secretary to the Treasury.7 We are grateful to those who submitted oral and written evidence. We should also like to thank our specialist adviser, Professor Colin Talbot of Manchester Business School, for his invaluable advice.8
2 Reviewing Gershon and Lyons

The Gershon Efficiency Review

6. The recent drive for improved efficiency commenced in August 2003, when Sir Peter Gershon, former chief executive of the Office of Government Commerce, was commissioned to conduct a review to identify the scope for making efficiency savings in public services. His objective was to release resources to “front-line” services such as schools and hospitals and deliver further improvements in the performance of the public sector as a whole.9 Prior to the conclusion of the Gershon Review, the 2004 Budget announced “a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5% a year over the three years of the 2004 Spending Review period, which would deliver gains equivalent to £20 billion a year by 2007–08”.10 The Gershon Report, Releasing resources to the front line: Independent Review of Public Sector Efficiency, was published at the time of the 2004 Spending Review.11 It set out proposals for efficiencies in public spending based on the principle that efficiency within the public sector involved “making best use of the resources available for the provision of public services”. The Gershon Report defined ‘efficiencies’ as reforms which achieved:

- reduced numbers of inputs (e.g. people or assets), whilst maintaining the same level of service provision; or
- lower prices for the resources needed to provide public services; or
- additional outputs, such as enhanced quality or quantity of service, for the same level of inputs; or
- improved ratios of output per unit cost of input; or
- changed balances between different outputs aimed at delivering a similar overall objective in a way which achieves a greater overall output for the same inputs (“allocative efficiency”).12

7. On the basis of the Gershon Review analysis of departments’ efficiency programmes, the Government revised its Budget 2004 forecasts projecting that the annual outturn level of efficiency savings across the whole of the public sector would increase to £21.5 billion by the end of the 2004 Spending Review period.13 In addition, there would be a reduction of 70,600 Civil Service posts and a relocation of 13,500 posts to front-line public services.14

11 Sir Peter Gershon CBE, Releasing resources to the front line: Independent Review of Public Sector Efficiency, July 2004, para 1.7, pp 6
12 Ibid., para 1.7, pp 6
13 Ibid., para 4.3
14 Ibid., p 31, table 4.2
Under Gershon, the overall efficiency programme was coordinated by the Office of Government Commerce.

8. The 2008 Pre-Budget Report provided a final report on the Gershon efficiency programme including a detailed breakdown by department showing the calculations underlying departments’ claims that they had delivered over £26.5 billion of efficiency savings, substantially exceeding the target of £21.5 billion; and over 86,700 civil service workforce reductions, significantly over-delivering against the target of 70,600 net reductions.15

The Lyons Review of Public Sector Relocation

9. Following Sir Michael Lyons’ Independent Review of Public Sector Relocation, also published alongside the 2004 Spending Review, the Government established targets for relocations by 2010 which were similar to, but distinct from, the proposals outlined in the Lyons Report.16 The Spending Review established a target for 20,028 relocations from London and the South East across the Civil Service as a whole to be achieved by 2010. The relocation targets, unlike the targets arising from the Gershon Report, went beyond 2007–08, although the relocation targets have been reported on and considered as part of the overall efficiency programme. Budget 2009 announced that, with 19,000 posts already relocated, the target would be increased to 24,000 posts by 2010.17

10. We asked Treasury officials how many Treasury staff whose jobs were relocated out of London and the South East, moved to follow their jobs. Ms Louise Tulett, Finance Director, Treasury Group, told us about a case where ten posts were relocated from London to Norwich. Ten new staff in Norwich were employed to fill the newly located posts and the ten staff in London were redeployed to other jobs, but remained in London.18 We asked Mr Timms whether HMRC had reduced staff numbers in London and the South East and he told us that he believed that numbers “must have significantly fallen”.19

11. Mr Andrew Hudson, Managing Director of Public Services and Growth at HM Treasury, reported on the Chancellor’s Departments’ progress in meeting the Lyons targets. He said that Treasury had over–delivered on the relocation target while HMRC’s target was to relocate 4,250 posts by March 2010 and in March 2009, 3,171 posts had been moved.20

15 HM Treasury, Pre–Budget Report 2008 Facing global challenges: Supporting people through difficult times, Cm 7484, November 2008, p 114
17 HM Treasury, Budget 2009: Building Britain’s future, HC 407, April 2009, pp 121-122
18 Q 126
19 Q 231
20 Q 227
Did the reported savings represent real efficiencies?

12. The Gershon definition of efficiency placed a constraint on the Government since efficiencies could not be recorded if service quality was adversely affected. It also permitted a degree of flexibility as efficiencies could be either cashable or non-cashable, and gains could be reported either gross or net of costs. Sarah McCarthy-Fry MP, Exchequer Secretary to the Treasury, told us that she was confident that Gershon savings represented real improvements in efficiency. However, she did concede that the National Audit Office had not audited the final Gershon savings.

13. Ms Louise Tulett said she was confident that the efficiency savings made within the Treasury Group were “sustainable”. She argued that cultural and structural changes had brought “considerable efficiencies”, citing the establishment of group shared services, where corporate services were moved away from the Debt Management Office, OGC and core Treasury and “pulled …together under the management umbrella of core Treasury”. The Treasury Group also “looked at work that we could stop doing” and reallocated 89 posts within the Treasury “towards new priority work”.

14. The NAO reported twice on this programme. Its second report commented on figures produced by the Government in September 2006. At that point public sector bodies were recording a total of £13.3 billion in efficiency savings against the target of £21.5 billion by 2007-08. The Government reported achievement of 45,551 (65%) of the targeted 70,600 headcount reductions, and 9,412 (70%) of the target for relocation of staff to front line public services by September 2006.

15. The NAO’s work to verify the accuracy of these reported figures showed that, although improvements had been made since the previous year’s report, there were still inaccuracies in reported financial efficiencies. Of the £13.3 billion claimed efficiency savings, it considered that only £3.5 billion were able to “fairly represent the efficiencies made”, just over a quarter of the savings reported. The NAO described half of the reported gains as being measured with error, as almost a quarter of the efficiencies were assessed to be “substantially incorrect” or yet to have occurred.

16. The Institute of Chartered Accountants in England and Wales told us that it was concerned about the lack of assurance in respect of the reported efficiency savings. It

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21 Where cashable gains involve reducing inputs without affecting service quality and non-cashable gains occur when output or service quality increases using the same level of inputs.
23 Qq 259-260
24 Q 84
25 Ibid.
28 Ibid., p 19, para 3.1
29 Ibid., p 13, Box 8
30 Ibid., p 13, Box 8
argued that a thorough independent audit process of the Gershon Programme’s announced savings would help to provide greater confidence in the figures.\textsuperscript{31} Dr Jennifer Law, Principal Lecturer, Faculty of Humanities and Social Sciences, University of Glamorgan, told us that efficiency was commonly defined as “the ratio of inputs to outputs”, a holistic measure taking account of the quality of the residual service as well as the savings achieved. She was concerned that the NAO had noted that whilst departments were making savings, some were unable to demonstrate that “they were still continuing to provide the same quality of output”. However, she was reassured that departments had made moves towards ensuring that they were “more accurately reporting the quality”.\textsuperscript{32}

17. Mr Andrew Hudson, pointed out that when the NAO had assessed the Gershon Programme the review “still had some way to run”. He argued that the NAO had recognised at that time “that over three-quarters of the savings did, indeed, represent efficiencies”.\textsuperscript{33} The Treasury had taken steps following the NAO review to ensure the measurement was properly rigorous and he remained confident that the £26.5 billion savings were “real compared to a target of £21.5 billion”.\textsuperscript{34}

18. The NAO interim report about Gershon efficiency savings highlighted serious problems in measuring efficiency. We are concerned the NAO did not audit the final Gershon efficiency savings. This has led to a lack of confidence on the part of some organisations in the reported savings. We heard from the Treasury Minister that using resources to check Gershon savings would not be efficient, but we believe it is important to check that efficiencies have actually been achieved. At a time when the public sector will be pressed to make further efficiencies, it is vital that any savings made are properly recognised and quantified. We want the Government to continue to work with the NAO to ensure that future efficiencies are accurately measured.

\textsuperscript{31} Ev 48
\textsuperscript{32} Q 4
\textsuperscript{33} Q 85
\textsuperscript{34} Ibid.
The 2007 Comprehensive Spending Review and Budget 2007

19. The 2007 Comprehensive Spending Review (CSR07), and Budget 2007 continued to require departments to make efficiency savings. The Government outlined its intention to increase the Value for Money (VFM) savings target to £26 billion by 2010–11. It increased this target further to £30 billion in the 2007 Pre–Budget Report and then finally to £35 billion in the autumn 2008 Pre-Budget Report. The Treasury agreed that some departments could “recycle” some of the additional target, that is, retain savings within the department to spend on other priorities.

20. VFM savings under CSR07 differ from efficiency savings under the Gershon Efficiency Programme in a number of important ways:

- VFM savings take account of upfront and ongoing costs whereas efficiency gains under Gershon could be reported gross;
- only cash-releasing savings will be recognised as VFM savings (up to 40% of Gershon efficiency savings were classified as “non-cashable”);
- VFM savings can be termed “allocative” i.e. savings from stopping or reducing low priority activities as long as there is no adverse impact on Public Service Agreements targets or Departmental Strategic Objectives;
- the Gershon Efficiency Programme allowed departments to reinvest savings in front line services. However, CSR07 removes the money saved from the departments’ resource allocations for the years 2008–09 to 2010–11 with the exception of HMRC, the Department for Work and Pensions, and the Ministry of Defence.

21. Departments have published Delivery Agreements outlining how they expect to secure their VFM targets. The Chancellor’s Departments are required to generate annual net cash-releasing savings of over £700m by 2010–11. The Treasury told us that this saving coupled with the provision of £330m in “modernisation funding”, would allow the departments to deliver their key priorities within budgets that fell “by 4.9 per cent per year in real terms.”

22. Mr Andrew Hudson, for HM Treasury, told us that the savings would be reported regularly in departments’ autumn performance reports and that the NAO would be

35 HM Treasury, Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review, Cm 6889, July 2006, p 5
36 HM Treasury, Budget 2007 Building Britain’s long-term future: prosperity and fairness for families, HC 342, April 2007, p 139
37 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, p 34, para 3.1
38 HM Treasury, Pre-Budget Report 2008 Facing global challenges: Supporting people through difficult times, Cm 7484, November 2008, p 122, para 6.32
39 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, p 36, para 3.38
40 Q 296
41 Ev 61
Evaluating the Efficiency Programme

23. We welcome the NAO’s role in auditing the work on the Value for Money Programme. The Government has increased the Value for Money target three times in the last two years, perhaps suggesting the calculation of the target was insufficiently robust in the first instance. In our future monitoring of the performance of the Chancellor’s Departments we will assess the extent to which these efficiencies have been achieved.

Staff morale in HMRC

24. Time constraints meant that it was not possible for us to collect evidence about staff morale from all the Chancellor’s departments. We therefore decided to focus on morale in HMRC.

25. The evidence we received suggested that morale in HMRC was low. The latest HMRC staff survey showed that only one quarter of respondents described themselves as “proud to work” for HMRC.43 The staff survey from Summer 2008 was the last to gauge the level of satisfaction with the department. Results showed that only 16% of staff agreed that they were “satisfied” with HMRC. Mr Lockhart, a Senior National Officer for the Public and Commercial Services Union (PCS), highlighted that morale in HMRC was currently lower than before the merger of the Inland Revenue and HM Customs & Excise in 2005.44 It is evident that the trend in morale in recent years has been decreasing.

Table 1: Staff morale in HMRC

<table>
<thead>
<tr>
<th>Percentage of HMRC staff who responded positively to &quot;considering everything, I am satisfied with the Department at present time&quot;</th>
<th>May-05</th>
<th>Nov-05</th>
<th>May-06</th>
<th>Nov-06</th>
<th>Jun-07</th>
<th>Nov-07</th>
<th>Jun-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>28%</td>
<td>26%</td>
<td>21%</td>
<td>21%</td>
<td>13%</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>

Source: HMRC Staff Surveys

26. When we questioned Mr Lockhart about the 16% satisfaction figure from the Summer 2008 staff survey, he told us he felt the results correctly captured the views of his union’s members.45 Mr Lockhart elaborated on reasons why morale might be low among members of PCS. He explained that they did not feel secure in their jobs and were frustrated that they were expected to undertake the same workload with fewer staff.46 He also implied that the public’s negative attitude toward HMRC staff had adversely affected their morale.47 Mr

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42 Q 79
43 HMRC Staff Survey, Spring 2009
44 Q 23
45 Q 22
46 Qq 22-23
47 Q 23
Timms stated that uncertainty about office closures also had a negative impact on HMRC staff morale.  

27. We asked Mr Lockhart whether morale could be expected to improve after a period of transition, HMRC having recently changed its senior management team and having only existed in its current form since 2005. In his view there was no evidence to suggest that staff morale would improve in the near future.

28. We questioned Lesley Strathie, the Chief Executive and Permanent Secretary for HMRC, about the relationship between morale and the Government’s efficiency programmes. She explained that where a programme will lead to headcount reductions, staff morale will suffer markedly if communication from management is poor. She went on to stress that involving staff by seeking their views about how to improve efficiency could boost morale.

29. Mr Timms, was confident that HMRC senior management would deal with the problem of staff morale. Indeed, he believed that in the medium term, efficiency programmes would in fact have a positive effect on morale.

30. Senior management at HMRC recognised that low staff morale was a serious issue and Ms Strathie acknowledged that management needed to engage with staff better to improve the situation. She attributed low morale in HMRC to uncertainty caused partly by the reduction of headcount through the process of natural wastage, rather than compulsory redundancy. Ms Strathie emphasised that leaders in HMRC would need to engage with staff using “honesty, cultural change and being clear” about the future.

31. Ms Strathie indicated that the efficiency programmes in HMRC could also be an opportunity to develop the skills of the workforce. She told us that a fit–for–purpose tax administration would require staff to be able to do different types of work. This flexibility was likely to require training. We asked the Treasury Ministers whether training budgets would suffer as a result of efficiency savings. Mr Timms insisted that “sufficient training” would be provided so that staff could successfully move between jobs.

32. Low staff morale at HMRC has been caused, in part, by uncertainty about the future, a lack of understanding about the chosen efficiency targets, especially when service quality is perceived to have fallen, and increased pressure—having to do the same job with less resources.

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48 Q 232
49 Biography of Mike Clasper, Chairman of HMRC and Lesley Strathie, Chief Executive and Permanent Secretary for HMRC, HMRC website, www.hmrc.gov.uk
50 Q 165
51 Q 233
52 Q 164
53 Ibid.
54 Ibid.
55 Ibid.
56 Q 240
33. We were assured that HMRC senior management take the issue of morale seriously but we would like to see more evidence of action taken to back these words. Communication is key: staff should hear about office closures and headcount reductions from their managers, not the media. We welcome the Government’s reassurance that training will not suffer as a result of the efficiency programmes.
3 Finding further savings

34. Last year the Government launched two further value for money programmes—the Public Value Programme and the Operational Efficiency Programme in order to “explore whether further savings could be achieved in the medium term”.

Public Value Programme

35. The Public Value Programme (PVP) was launched at Budget 2008 and focused on identifying “smarter ways of operating and key policy reforms” within major areas of spending. The 2009 Budget announced initial progress which included the identification of scope to improve utilisation of the NHS estate which could save up to £100m a year by 2013–14.

36. When we queried the role of the Chancellor’s Departments in the Public Value Programme, Ms McCarthy–Fry told us that they had not been included in the PVP at the time of our inquiry. When asked whether the Chancellor’s Departments were currently excluded because they already offered good value for money, the Exchequer Secretary commented that the PVP was an ongoing process. Mr Hudson added that some Chancellor’s Departments might be included in future within the PVP.

Operational Efficiency Programme

37. The Operational Efficiency Programme (OEP) was launched in July 2008 in order to learn from “best practice in the private sector and spread best practice in the public sector”. The Programme comprised five independent reviews each led by a senior external advisor:

- back office and IT, led by Dr Martin Read, former Chief Executive of international IT services company Logica;
- collaborative procurement, led by Martin Jay, Chairman of Invensys since 2003;
- asset management, led by Gerry Grimstone, the Chairman of Standard Life;
- property, led by Lord Carter of Coles, a Labour Peer who has advised the Government many times; and
- local incentives and empowerment, led by Sir Michael Bichard, Director of the independent Institute for Government.

57 Ev 61
58 Ibid.
59 Q 330
60 Q 331
61 Ibid.
62 Ev 61
38. The detailed final recommendations identifying significant potential for additional savings were published alongside Budget 2009 in *Operational Efficiency Programme: Final Report*. The Government accepted the recommendations in the OEP report in full and announced that all departments would be “working to implement and deliver the additional value for money savings identified through the Programme”.

39. Where appropriate, the advisors had quantified the level of savings that the Government could achieve if their recommendations were to be implemented. These estimated savings were indicative, given limited management information and current market uncertainty, but included savings that could be made both during and beyond the 2007 CSR period. In total, the efficiency savings identified amounted to £15 billion a year compared to 2007–08. The Treasury estimated that nearly £6 billion per year of these savings could be delivered by 2010–11 as part of plans for the Government’s existing efficiency target. It was estimated that in the next Spending Review period up to £9 billion of additional savings could be achieved each year.

40. When we questioned if there was further scope to improve efficiency beyond the targets set out under the Comprehensive Spending Review in 2007, Ms McCarthy-Fry told us that this was the case and that the Treasury had estimated that some of the savings identified by the OEP could be made within the CSR period. But she cautioned that it was “ongoing work”.

41. Budget 2009 also set out how further VFM savings would be delivered in the next Spending Review period, by implementing OEP recommendations and expanding the scope of the PVP to cover a minimum of 50% of each department’s budget.

42. When asked if the new efficiency targets set out in the OEP were realistic, Dr Martin Read, former Chief Executive of Logica and co-author of the Operational Efficiency Final report, told us that in terms of the back office and IT strands of the programme there was “significant scope for savings over a period of time”. Mr Jon Sibson, Government and Public Sector Leader, PricewaterhouseCoopers, (PwC) agreed that these savings were realistic but cautioned that PwC’s work had shown that whilst such savings were achievable they required a different approach than in the past—the usual series of tactical efficiency savings would not provide the required results. What was needed was the simplification and standardisation of some processes and also greater co-operation between organisations within government.

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67 Q 221
68 Ev 61
69 Q 2
70 Q 3
43. Now, more than ever, efficiency savings that can be made in the public sector should be welcomed. The Operational Efficiency Programme Final Report presents significant scope for long term savings. However, we are concerned that these efficiencies will require considerable co-operation between departments to yield the full savings identified in the review. We have yet to see evidence that the necessary structures are in place to facilitate such co-operation and ask the Government in its response to this Report to outline the practical steps taken to date.
4 Generating efficiency in a recession

Finding an additional £5 billion

44. In his Budget 2009 speech, the Chancellor defended his plans to find an additional £5 billion of efficiency savings in 2010–11, on top of a total of £30 billion in the spending review period. He told the House that it would be wrong to “cut public services immediately, rather than invest and grow our way out of the recession”.71

45. The Budget confirmed that the early findings of the OEP and PVP coupled with the “over-delivery” achieved against the Spending Review 2004 efficiency targets, would allow the increase of the existing cross-Government VFM target for 2010–11 to £35 billion, releasing an additional £5 billion of additional recoverable savings in 2010–11.72

46. When we questioned how the total of the additional £5 billion of savings had been calculated Mr Hudson, Managing Director, Public Services and Growth, HM Treasury, admitted that “an overall judgment” had been made by Ministers which in part reflected “the need to also make progress on the public finances”. It was deemed that £5 billion was “an achievable number” and, following the decision, the subsequent discussions with departments established how that judgement would be delivered.73

47. In its written evidence, the Treasury highlighted its commitment to supporting the economy through the downturn and equipping it for the upturn. It reported that the Treasury Group had been able to “commit significant additional resources to support new pressures” in managing the current economic conditions by “releasing savings from its core areas of work”. Through realising further VFM gains and the commitment of new resources “where necessary”, the Government would “ensure that the Treasury has the resources it needs to meet these new pressures in the remaining years of the CSR period”.74

48. Mr Hudson reassured us that the Value for Money update document that was published on Budget day had made some “very clear statements” fleshing out detail of the additional £5 billion, and that the document was clear that these were “genuine value for money savings”.75

49. We note that additional £5 billion added to the Value for Money target in the 2008 Pre-Budget report was a figure chosen by Ministers without prior consultation with the relevant Departments. As such, it does not inspire confidence. We recommend that the Government, in planning to put the public finances back on a sustainable basis in the medium term, considers a more business-led approach to cost cutting in the public sector than setting an arbitrary target and requiring the civil service to meet it.

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71 HC Deb, 22 April 2009, col 245
72 Ev 61
73 Q 244
74 Ev 61
75 Q 79
Dealing with Public Sector Net Debt

50. There are many potential options to reduce Public Sector Net Debt. During our inquiry we were told that, if the public sector was to make the kind of efficiencies needed during the current financial crisis, then a different approach to that taken in the past would be required.76 We set out below a number of options we explored with our witnesses.

Public sector pay

51. A number of private sector firms have looked at ways of trying to reduce their costs. Some, including KPMG, have introduced a four-day week.77 When we asked Mr Timms if the Treasury would consider such radical action, he told us that it was up to individual departments to manage headcount reductions. He suspected that most departments would try to make “a more gradual shift to, say, using more part-time staff rather than full-time staff” rather than placing staff on a four-day week, but acknowledged that should a particular department decide that this approach was an appropriate way of containing its costs, consistent with delivering services to customers, then he was not aware of any obstacle to this happening.78

Headcount reductions

52. UK unemployment rose by a record 281,000 to 2.38 million in the three months to May according to the Office for National Statistics.79 The jobless rate increased to 7.6%, the highest in more than 10 years. The claimant count increased in June by 23,800 to 1.56m.80 With that in mind we asked whether the Government had considered the macroeconomic implications of pushing through further headcount reductions at this time. Ms McCarthy-Fry replied that the current efficiency programme would not “necessarily lead to headcount reductions” and where it did it was possible that “there may be the opportunity for redeployment”.81 We were also concerned that the current economic climate might lead to redundancies of experienced staff. When we raised this with the Minister, she emphasised that the overriding priority was to “deliver best value for the taxpayer, but particularly in the current economic climate I think we have an even greater duty”.82

Spending cuts and tax rises

53. Two stark alternatives we considered were put forward by PricewaterhouseCoopers in its publication, Dealing with debt: Reforming public services and narrowing the fiscal gap.83

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76 Q 3
77 “Four-day week spreads to the City as firms prepare for recession”, The Times, 11 February 2009
78 Q 255
80 Ibid.
81 Q 252
82 Q 251
83 PricewaterhouseCoopers, Dealing with debt: reforming public services and narrowing the fiscal gap: Executive summary, April 2009
The first focused on real spending cuts with no increase in taxes, whilst the second assumed a real spending freeze alongside additional tax rises. PwC argued that the Government should aim to restore the current budget to balance by 2013–14, a year earlier than projected in the Pre-Budget Report (PBR) projections.\(^8^4\) It estimated a fiscal gap of over £40 billion, which is close to 3% of GDP, and set out PwC’s options to balance the budget by 2013–14.\(^8^5\) PwC observed that all tax and spending options for closing a fiscal gap of this scale would involve painful choices. The two options PwC considered were:

- a real reduction in total public spending of 1.4% per annum in the three years to 2013–14; avoiding the need for additional tax rises, but requiring unprecedented public spending restraint; and

- a real freeze in public spending in the three years to 2013–14, supplemented by around £25 billion of tax increases over and above those announced in the PBR.\(^8^6\)

PwC believed that “a phased programme of transformational efficiency and productivity improvements in the public sector could deliver around £20 billion of additional savings by 2013–14 over and above the plans set out in the PBR”.\(^8^7\) Such an efficiency drive would fill half of the estimated fiscal gap, and PwC suggested that the remainder could be covered by tax rises, as in its second option, or additional spending reductions to the extent these could be identified. PwC admitted that achieving such savings would be challenging.\(^8^8\)

Mr John Hawksworth, Head of Macroeconomics at PwC, said that the Treasury’s key role in the efficiency programme would be “trying to take a plan, which is realistic and achievable, to achieve at least £9 billion in efficiency gains and actually to make sure it is delivered”.\(^8^9\)

**A culture of efficiency**

56. Since 2004 the Government has engaged in a seemingly continuous process of reviewing and reporting on efficiencies. Dr Martin Read emphasised the evolutionary nature of operational efficiencies. In his view, an efficiency programme should not be a discrete exercise to be undertaken occasionally, but should become “part of the DNA of the system”. The quest for efficiency gains would become a continual process. He believed that companies did not reach a “promised land” of full efficiency but that when companies completed one stage the organisation should “look again and … see what else can be done”.\(^9^0\) Ms Louise Tulett, Finance Director, Treasury Group, reported that there was “a

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\(^{8^4}\) Ibid.

\(^{8^5}\) Ibid.

\(^{8^6}\) Ibid.

\(^{8^7}\) Ibid.

\(^{8^8}\) Ibid.

\(^{8^9}\) Q 6

\(^{9^0}\) Q 3
constant detailed examination” of resource distribution, enabling the Treasury group to reprioritise and point resources at the priorities.91

57. The Exchequer Secretary to the Treasury also believed that the efficiency programme should be “an ongoing process”. She pointed out that the process of making efficiencies under the Gershon Review had been refined under the Comprehensive Spending Review in 2007 and the Treasury continued to examine “better ways of tracking, better ways of management” and ensuring that “savings that we bank now” were cash releasing, net of cost.92

58. Ms McCarthy–Fry explained that the Public Value Programme provided a fresh challenge as it would focus on department-specific areas across 50% of the departmental expenditure limits. Departments would have to “really hone in and look at where they can make savings”. The programme was part of “a refinement of the process, an ongoing process”.93

59. The Government has recently taken steps “to ensure delivery of the potential savings identified” in the OEP, by establishing a Value for Money Review Group; considering the role of Non-Executive Board members in respect of value for money; designating a Minister responsible for championing value for money within each department; and establishing a key leadership role for the Ministerial Committee on Public Services and Public Expenditure.94

60. When we asked how the Treasury Group managed to motivate its staff throughout the vicissitudes of the many efficiency programmes, the Financial Secretary to the Treasury told us that the Treasury was “going to be using some of the support from the private sector” and was keen to adopt a private sector principle that whilst the “direction comes from the top” it was important to “involve your frontline staff at the bottom because they are the ones who know what is happening”.95

61. While the private sector has much to offer in exercises of this kind its assistance is often poorly specified and procured. We note the claims that skills are developing among public sector professionals in leading initiatives of this kind. The evidence of previous programmes suggests an uneven picture at best. The Government should set out where capabilities have been developed, where there are shortages and how capacity may be increased so that private sector support is procured in a strategic context.

62. It is vital that all opportunities to deliver greater value for money within the public sector are explored. We welcome the appointment of Ministerial Champions of value for money within each department. Bearing in mind the limited experience of most politicians of programmes of this kind, training is essential. We also recommend that

91 Q 84
92 Ibid.
93 Q 225
95 Q 226
the Government provides guidance to each Minister to encourage a culture of efficiency within their departments and place a greater emphasis on empowering staff throughout the organisation to identify where savings could be made and working practices modernised.
5 Measuring and reporting efficiencies

Measuring efficiency

63. To establish whether any Government efficiency programme is effective, it is necessary to measure efficiencies correctly. Dr Jennifer Law, Principal Lecturer, Faculty of Humanities and Social Sciences, University of Glamorgan, told us that it was vital for organisations undergoing efficiency programmes to have accurate information so they could account for differences in their figures. She warned that collecting this information could be costly, but emphasised the importance of having access to it.\(^{96}\)

64. Dr Read supported Dr Law’s arguments. He told us that regular data collection did not happen in the public sector while in the private sector the provision of such information would be routine.\(^{97}\) He emphasised that this data collection must take place on a “consistent, auditable and transparent basis, and it has to be reviewed at senior level”.\(^{98}\) Dr Law also explained that efficiency results could be manipulated by choosing a low baseline from which to compare progress. Her advice on making sure this was not done was to consider past performance as opposed to simply looking at a single baseline.\(^{99}\)

Efficiency in the future?

65. We questioned the Treasury about its role in scrutinising each department’s efficiency savings. Mr Hudson informed us that the Treasury would “keep an eye on this [net savings] department by department” and that it would return to this issue in the Autumn when it had reviewed the department’s annual reports.\(^{100}\)

66. Advice to Government departments about measuring efficiency was included in the 2007 NAO report, which reviewed the Gershon efficiency programme. The NAO stressed that Government Departments “must improve the measurement of efficiency gains”.\(^{101}\) The NAO recommendations included:

- choosing baselines that are representative of past performance;
- having evidence that service quality is maintained where there has been a reduction in inputs;
- reporting any increases in workforce size when publishing headcount reduction figures; and

\(^{96}\) Q 59  
\(^{97}\) Q 45  
\(^{98}\) Q 61  
\(^{99}\) Qq 36-37  
\(^{100}\) Qq 277-278  
• including costs of agency staff/outsourcing when reporting headcount reduction figures.

67. Ms McCarthy-Fry told us that the NAO was focusing on verifying savings made in the CSR value for money programme.\textsuperscript{102} Mr Hudson added that the NAO would check whether savings satisfied the Government’s tighter definition in being net of cost, cash releasing and sustainable.\textsuperscript{103} The Treasury told us that, following the NAO report which reviewed the Gershon efficiency savings, departments had clarified the definitions of efficiency savings to ensure that savings were net of costs and cash releasing. We heard evidence that information was not yet available to assess the relative efficiency of Government departments.\textsuperscript{104}

68. It appears that, time and time again, the establishment of data collection systems needed to validate savings is being initiated after efficiency programmes are launched. This order is illogical. For example, Mr Bowles, Chief Finance Director at HMRC did not know how much the merger between the Inland Revenue and HM Customs and Excise had saved Government.\textsuperscript{105}

69. If Government does not evaluate the costs and savings of major efficiency programmes, then it is unclear whether such programmes represent real value for money. We want the Government to establish robust data collection processes at the start of future efficiency programmes.

70. To ensure that only true efficiencies are captured and reported, it is important that they are measured appropriately and accurately. We expect Government departments to have implemented the NAO’s recommendations concerning measurement. We expect the Treasury to monitor the progress of departments’ improvement in measuring efficiency. We will return to this issue after we have reviewed the Chancellor’s departments’ annual reports.

**Can efficiency occur without the quality of service provision deteriorating?**

71. It is very important that the quality of services provided by Government departments does not suffer as a result of efficiency savings. Under the Gershon definition of efficiency, savings had to demonstrate that they did not adversely affect service (see paragraph 6 above). When discussing future efficiency savings, Mr Hudson assured us that ministers and permanent secretaries were committed to maintaining service quality and that progress would be reported on.\textsuperscript{106} However, he also insisted that the Treasury would not be

\textsuperscript{102} Q 278
\textsuperscript{103} Q 281
\textsuperscript{104} Q 290
\textsuperscript{105} Q 207
\textsuperscript{106} Q 80
checking how the efficiency figures were calculated in detail, saying it would not add significant value for “the Treasury to get into adding these things [efficiency costs] up”.

72. Despite Government commitments to maintain quality, throughout the inquiry we heard various organisations express concerns about the impact of efficiency on service provision. The Institute of Chartered Accountants in England and Wales (ICAEW) stated that in March 2009 over 60% of its members surveyed believed that the time and costs of dealing with HMRC service problems had increased in the past 12 months. Evidence from the PCS Union contended that the implementation of shared services in the OGC (in human resources, finance and procurement) had resulted in a reduction in the quality of services, especially in human resources. The Chartered Institute of Taxation and the Low Incomes Tax Reform Group suggested that a reduction in the availability of front–line help had occurred and noted that tax advisors sensed a reduction in experience and expertise of HMRC staff.

Service quality measurement

73. Departments’ performance is measured against Departmental Strategic Objectives (DSOs) and Public Sector Agreements (PSAs). Ms McCarthy–Fry was keen to stress that departments had to make savings while delivering their DSOs and PSA targets. However, the NAO explained that using PSAs or other high–level indicators may not be representative of the actual effects on service quality. The NAO found that, where projects had aimed to reduce inputs, there were few measures which allowed them to check whether inputs had fallen because of improved efficiency or whether fewer inputs were needed because demand for a particular service had fallen.

74. In written evidence, the ICAEW emphasised that HMRC service standards were “still a cause for concern”. The Treasury’s evidence however, pointed to the NAO’s acknowledgement that according to the 12 quality measures that the HMRC had selected to measure service quality, performance had not worsened under Gershon.

75. We welcome the Government’s assurances about maintaining service quality in light of the drive for efficiency savings. However we are concerned that reported measures of service quality are inconsistent with some of the evidence we have received. We acknowledge that creating new measures may incur costs, but ensuring that service quality is not adversely affected by efficiency savings should be a priority. The fact that departments can select their own measures of service quality may lead to a biased
selection of measures that do not give a representative picture of service quality. Departments should work with the NAO to define adequate service quality measures preferably using data drawn from users.

**Reporting efficiencies**

76. Mr Hudson, for the Treasury, told us that departments will publish efficiency costs and savings in their annual reports.\(^{116}\) He said that departments, not the Treasury, would decide how to split their efficiency savings by workstream.\(^{117}\) We questioned Mr Hudson about possible issues of comparability, given that departments had so much independence with respect to efficiency reporting. For the sake of consistency, we explained to the Treasury ministers that we would like to see a clear methodology for assessing savings for example, setting out how to deal with preliminary assessments about savings.\(^{118}\)

77. We were interested to know which were the most and least efficient departments. Mr Hudson explained that it was difficult to compare efficiency across departments as their tasks were very different.\(^{119}\)

If you compare just within the Chancellor’s departments, we have got the Treasury, relatively small, focusing on policy for the most part; and we have got HMRC, one of the biggest departments there is with very large processing functions. Where we can compare like with like we do…\(^ {120}\)

78. Mr Hudson informed us that staff numbers across the Civil Service will be published in the Whole of Government Accounts.\(^ {121}\) We were concerned that while efficiency may lead to headcount reductions in some areas, job numbers may have been expanding in others and it was therefore important to be transparent about what was going on. Mr Hudson told us there was more transparency in the current VFM programme than ever before.\(^ {122}\)

79. Each department will publish its own figures for the costs of efficiency programmes and the savings they produce. It would be more useful if all information relating to efficiency, including total staff numbers in the civil service, was published in one document. We understand that Government departments are different but it would be useful to compare efficiency measures where possible. Publishing total numbers of civil service staff would put the efficiency savings through headcount reductions in context. Having one annual efficiency progress document compiled on methodologies applied consistently across departments would enable best practice to be identified and comparisons made between different programmes.

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116 Qq 265, 270
117 Q 335
118 Q 338
119 Q 289
120 Q 289
121 Q 344
122 Q 79
Conclusions and recommendations

Reviewing Gershon and Lyons

1. The NAO interim report about Gershon efficiency savings highlighted serious problems in measuring efficiency. We are concerned the NAO did not audit the final Gershon efficiency savings. This has led to a lack of confidence on the part of some organisations in the reported savings. We heard from the Treasury Minister that using resources to check Gershon savings would not be efficient, but we believe it is important to check that efficiencies have actually been achieved. At a time when the public sector will be pressed to make further efficiencies, it is vital that any savings made are properly recognised and quantified. We want the Government to continue to work with the NAO to ensure that future efficiencies are accurately measured. (Paragraph 18)

2. We welcome the NAO’s role in auditing the work on the Value for Money Programme. The Government has increased the Value for Money target three times in the last two years, perhaps suggesting the calculation of the target was insufficiently robust in the first instance. In our future monitoring of the performance of the Chancellor’s Departments we will assess the extent to which these efficiencies have been achieved. (Paragraph 23)

3. Low staff morale at HMRC has been caused, in part, by uncertainty about the future, a lack of understanding about the chosen efficiency targets, especially when service quality is perceived to have fallen, and increased pressure—having to do the same job with less resources. (Paragraph 32)

4. We were assured that HMRC senior management take the issue of morale seriously but we would like to see more evidence of action taken to back these words. Communication is key: staff should hear about office closures and headcount reductions from their managers, not the media. We welcome the Government’s reassurance that training will not suffer as a result of the efficiency programmes. (Paragraph 33)

Finding further savings

5. Now, more than ever, efficiency savings that can be made in the public sector should be welcomed. The Operational Efficiency Programme Final Report presents significant scope for long term savings. However, we are concerned that these efficiencies will require considerable co-operation between departments to yield the full savings identified in the review. We have yet to see evidence that the necessary structures are in place to facilitate such co–operation and ask the Government in its response to this Report to outline the practical steps taken to date. (Paragraph 43)

Generating efficiency in a recession

6. We note that additional £5 billion added to the Value for Money target in the 2008 Pre-Budget report was a figure chosen by Ministers without prior consultation with
the relevant Departments. As such, it does not inspire confidence. We recommend that the Government, in planning to put the public finances back on a sustainable basis in the medium term, considers a more business-led approach to cost cutting in the public sector than setting an arbitrary target and requiring the civil service to meet it. (Paragraph 49)

7. While the private sector has much to offer in exercises of this kind its assistance is often poorly specified and procured. We note the claims that skills are developing among public sector professionals in leading initiatives of this kind. The evidence of previous programmes suggests an uneven picture at best. The Government should set out where capabilities have been developed, where there are shortages and how capacity may be increased so that private sector support is procured in a strategic context. (Paragraph 61)

8. It is vital that all opportunities to deliver greater value for money within the public sector are explored. We welcome the appointment of Ministerial Champions of value for money within each department. Bearing in mind the limited experience of most politicians of programmes of this kind, training is essential. We also recommend that the Government provides guidance to each Minister to encourage a culture of efficiency within their departments and place a greater emphasis on empowering staff throughout the organisation to identify where savings could be made and working practices modernised. (Paragraph 62)

Measuring and reporting efficiencies

9. It appears that, time and time again, the establishment of data collection systems needed to validate savings is being initiated after efficiency programmes are launched. This order is illogical. For example, Mr Bowles, Chief Finance Director at HMRC did not know how much the merger between the Inland Revenue and HM Customs and Excise had saved Government. (Paragraph 68)

10. If Government does not evaluate the costs and savings of major efficiency programmes, then it is unclear whether such programmes represent real value for money. We want the Government to establish robust data collection processes at the start of future efficiency programmes. (Paragraph 69)

11. To ensure that only true efficiencies are captured and reported, it is important that they are measured appropriately and accurately. We expect Government departments to have implemented the NAO’s recommendations concerning measurement. We expect the Treasury to monitor the progress of departments’ improvement in measuring efficiency. We will return to this issue after we have reviewed the Chancellor’s departments’ annual reports. (Paragraph 70)

12. We welcome the Government’s assurances about maintaining service quality in light of the drive for efficiency savings. However we are concerned that reported measures of service quality are inconsistent with some of the evidence we have received. We acknowledge that creating new measures may incur costs, but ensuring that service quality is not adversely affected by efficiency savings should be a priority. The fact that departments can select their own measures of service quality may lead to a
biased selection of measures that do not give a representative picture of service quality. Departments should work with the NAO to define adequate service quality measures preferably using data drawn from users. (Paragraph 75)

13. Each department will publish its own figures for the costs of efficiency programmes and the savings they produce. It would be more useful if all information relating to efficiency, including total staff numbers in the civil service, was published in one document. We understand that Government departments are different but it would be useful to compare efficiency measures where possible. Publishing total numbers of civil service staff would put the efficiency savings through headcount reductions in context. Having one annual efficiency progress document compiled on methodologies applied consistently across departments would enable best practice to be identified and comparisons made between different programmes. (Paragraph 79)
Evaluating the Efficiency Programme

Draft Report (Evaluating the Efficiency Programme), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 79 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Second Report of the Sub-Committee to the Committee.

Ordered, That the Chairman make the Report to the Committee.

[Adjourned to a day and time to be fixed by the Chairman]
Formal minutes of the Treasury Committee

Tuesday 21 June 2009

Members present

John McFall, in the Chair

Nick Ainger
Mr Graham Brady
Jim Cousins
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
John Mann
Mr James Plaskitt
John Thurso
Mr Mark Todd
Mr Andrew Tyrie
Sir Peter Viggers

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Evaluating the Efficiency Programme

Draft Report from the Sub-Committee (Evaluating the Efficiency Programme), brought up and read.

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

Paragraphs 1 to 79 read and agreed to.

Summary read and agreed to.

Resolved, That the Report, be the Thirteenth 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 (Select committees (reports)).

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 13 May.

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[Adjourned till Tuesday 15 September at 9.30 am]
Witnesses

Wednesday 13 May 2009

Dr Martin Read, former Chief Executive of Logica and co-author of the Operational Efficiency Programme final report, John Hawksworth, Head of Macroeconomics, and Jon Sibson, Government and Public Sector leader, PricewaterhouseCoopers, Dr Jennifer Law, Principal Lecturer, Faculty of Humanities and Social Sciences, University of Glamorgan, and Peter Lockhart, Senior National Officer, PCS Union

Wednesday 3 June 2009

Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury, Louise Tulett, Finance Director, Treasury Group, and Nigel Smith, Chief Executive, Office of Government Commerce

Lesley Strathie, Chief Executive, Simon Bowles, Chief Finance Officer, and John Keelty, Director Departmental Transformation Programme, HM Revenue & Customs

Thursday 9 July 2009

Rt Hon Stephen Timms MP, Financial Secretary to the Treasury, Sarah McCarthy-Fry MP, Exchequer Secretary to the Treasury, and Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury

List of written evidence

1. Chartered Institute of Taxation and the Low Incomes Tax Reform Group Ev 43
2. Intellect Ev 46
3. The Institute of Chartered Accountants in England and Wales Ev 46
4. Public and Commercial Services Union (PCS) Ev 59
5. HM Treasury Ev 60, Ev 72
6. HM Treasury, HM Revenue & Customs and Office of Government Commerce Ev 68
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Oral evidence

Taken before the Treasury Committee (Treasury Sub-Committee)
on Wednesday 13 May 2009

Members present
Mr Michael Fallon, in the Chair
Nick Ainger Mr George Mudie
Mr Graham Brady John Thurso
Ms Sally Keeble Mr Mark Todd
Mr Andrew Love Sir Peter Viggers
John McFall

Witnesses: Dr Martin Read, former Chief Executive of Logica and co-author of the Operational Efficiency Programme final report, Mr John Hawksworth, Head of Macroeconomics, and Mr Jon Sibson, Government and Public Sector leader, PricewaterhouseCoopers, Dr Jennifer Law, Principal Lecturer, Faculty of Humanities and Social Sciences, University of Glamorgan, and Mr Peter Lockhart, Senior National Officer, PCS Union, gave evidence.

Q1 Chairman: Can I welcome you all to this first session of our inquiry into evaluating the Efficiency Programme. Could I ask you formally to identify yourselves for the shorthand writer, please, perhaps beginning with Mr Lockhart?
Mr Lockhart: My name is Peter Lockhart. I am from the PCS (Public and Commercial Services) Union. I am one of their Senior National Officers.
Dr Read: I am Martin Read. I led one of the work strands on the Operational Efficiency Programme and my background is in business.
Mr Hawksworth: I am John Hawksworth. I am Head of Macroeconomics at PricewaterhouseCoopers and I write regular reports on the public finances.
Mr Sibson: My name is Jon Sibson; I am a partner of PricewaterhouseCoopers and I am the Government and Public Sector leader for the practice.
Dr Law: My name is Dr Jennifer Law. I lecture in public services at the University of Glamorgan and my area of expertise is performance management and accountability.

Q2 Chairman: Thank you, and thank you for sending the evidence you have sent it, which is extremely useful to us in this short inquiry. Two procedural points. We are expecting divisions in the House very shortly and throughout the afternoon. If that happens, we will simply adjourn for ten minutes—it is not a reflection on the quality of your answers—and we will resume as quickly as we can. Secondly, please do not feel that all five of you have to answer each question. We have got quite a bit to get through, so if you can rotate the answers it would be appreciated. Perhaps I could begin with a general point. Is the announcement in the Budget that there could be another £9 billion of additional savings on top of the original target really realistic?
Dr Read: I led one of the strands, and there were several, but certainly in the back office and IT I believe there is significant scope for savings over a period of time. The amounts that we quoted for back office and IT I am pretty confident are in the right ball park.

Q3 Chairman: It does beg the question of what the Gershon exercise over all these years has been doing if suddenly the Government can turn round and say there is another £9 billion out there to be saved. What had been going on before?
Dr Read: I think there is a really important point here which is it is important to note. All my experience of business has been about operational efficiencies. It is not something you do once, it actually is part of the DNA of the system and the constant striving to do better. You never reach the promised land, all you do is reach the next stage and you look again and you see what else can be done. I am not an expert on Gershon, but I would stress the point that this is actually a journey, a process, something that needs to be gone into. The culture of running organisations is not something you do and maybe you did right, maybe you did wrong: you learn from what you did and you move on.

Q4 Chairman: Dr Law, perhaps I could ask you: what is the difference between an efficiency saving and a value for money target?
Dr Law: Efficiency is commonly defined as the ratio of inputs to outputs, and one of the things that was really important that the National Audit Office outlined in their 2007 Progress Report was that lots of departments were making savings, and so on, but
what they needed to do was to make sure that they were still continuing to provide the same quality of output. Unless they could demonstrate that, then they simply could not demonstrate efficiency. I get a quite strong sense that departments make quite significant moves towards ensuring that that measure is there and that they are more accurately reporting the quality.

Chairman: We will adjourn for exactly ten minutes until 2.42. Thank you.

The Committee suspended from 2.32 p.m. to 2.42 p.m. for a division in the House

Q5 Chairman: Let us resume. We may have another division, but we will try to make a bit more progress. Who has not had a turn? Mr Hawksworth and Mr Lockhart, you may be able to wrap the answers to previous questions into this one. Looking at the Chancellor’s Department, Revenue and Customs and the other departments of the Treasury, how do they compare generally across the public sector with other bits of Whitehall?

Mr Hawksworth: I can only speak with a degree of assurance on HMRC and the members I represent, the 80,000 members in HMRC. At the risk of not answering the question you have asked me, I did want to say, you asked a lead question about the realism of the £9 billion. I do feel quite strongly that we need to point out that the billions that have so far been brought out in inefficiencies have resulted immediately in job cuts from members. We are reminded by Gershon’s initial report when he said that if you go beyond the recommendations, as he mooted, it would cut the Civil Service to its core, the very fabric of the Civil Service. When we see in HMRC that 18,000 jobs have so far been cut in the period since 2004, we cannot say with any assurance that further cuts, as they equate to job cuts, will be of benefit to the public service sector whilst they are delivering. In that respect HMRC are no different proportionally, in relation to your question, to other areas of Whitehall. Each department has taken a hit, proportionately, in relation to your question, to other departments as being the key ones doing that: so you are talking about Health, you are talking about DCSF, you are talking about the Ministry of Defence and areas like that ultimately. HMRC’s key role in closing the fiscal gap is more on the tax side than anything on the spending side, and obviously the Treasury’s key role was in trying to take a plan, which is realistic and achievable, to achieve at least £9 billion in efficiency gains and actually to make sure it is delivered. That is its key role rather than, if you like, anything Treasury will do to cut its own spending. That is my perspective as a macroeconomist anyway.

Q7 Ms Keeble: I wanted to ask a bit more about the report, *Dealing with Debt* which PwC produced. You spelt out two particular options: one is a real-term reduction of public spending of 1.4% a year that is unprecedented in its consequences, and the other is a freeze in public spending and tax increases. Which of those two would you recommend to government? What would the results look like in terms of the public: loss of hospitals, cuts in public spending?

Mr Hawksworth: I think, ultimately, as we say in the report, that is a political decision more than an economic decision.

Q8 Ms Keeble: Yes, but what would you advise? What does it look like?

Mr Hawksworth: Certainly, if you look at the option where you try to do everything on the spending side and, as you say, a reduction of 1.4% per annum in real terms, that is unprecedented going back to the period when data exists in a comparable form.

Q9 Ms Keeble: What does it look like? One point four per cent does not sound like a lot, but what does it actually look like in terms of loss of hospitals, and so on?

Mr Hawksworth: I think, in relation to our report, you can illustrate what that would actually require. It might require, firstly, health and education budgets to be frozen in real terms, whereas they have been going up very significantly. It might require all other departments to be cut by more than 6% a year. The reason for that is that, obviously, debt interest is going to be going up very sharply, so within that minus 1.4% a large chunk of spending is going to be going up quite sharply and, obviously, a lot of social security benefits are either things which are effectively fixed, like pensions benefits—the companies that we chose that you would not want to have chosen in the short-term—or like unemployment benefits that are sensitive to the economic cycle.

Q10 Ms Keeble: So the real-term cut in services might look at something like 5% then, if you take into account increased interest charges, debt and increasing social security.

Mr Hawksworth: I think the total departmental expenditure limit in that scenario might decline by more than 3% a year in real terms. So over three years you are talking about a 10% cut in all types of spending. In practice that would amount to, I think,
Q11 Ms Keeble: You also mention efficiency savings, which you identify, of £37 billion. How robust are those figures? The £8 billion I think we have dealt with on IT, but where did the other figures come from? How robust are they?

Mr Sibson: I think the first thing to say (and I guess that the OEP team from the Treasury would say the same) is that they are indicative because a lot of the baseline data is hard to get hold of. On the back office and IT costs, where, as you pointed out, we were pretty similar to the OEP team’s projections on, actually we supplemented the evidence used by the Treasury by our own benchmarking processes. For the savings on the operation of property, that was pretty judgmental, but again, I see, interestingly we have come up with precisely the same number as the OEP team. The area where we have come up with a different number from the OEP team is on procurement, because we are measuring a slightly different thing. They came up with, from memory, projected savings of about £6 billion. We came up with a range of between £9–23 billion, and the top end of that range, of course, is a far larger number than the OEP. The thing is, we were looking at a slightly different thing. They were looking specifically at savings from collaboration in procurement practices between different public buyers: we were also taking account of the management of demand within individual buying organisations.

Q12 Ms Keeble: Thinking about how that might look to the public, in my own area we have got a county council on one side of the road, a borough council on the other, both with head offices, both with personnel functions, both with IT functions. Combining those, although it might look very logical, has so far defied anyone to be able to achieve. If we want to achieve these kinds of savings instead of the ones that John Hawksworth was talking about, how far do politicians have to take some fairly tough decisions and phase down what has so far been insuperable political flack?

Mr Sibson: I think you make a very fair point. I think to achieve the kind of radical savings that are talked about in the OEP, you need to simplify and to standardise processes, and certainly in locally delivered services you will need collaboration between different organisations within a particular area across organisational boundaries, and that, I think, requires huge political will. If I may say so, although big savings have been made as a result of the Gershon process, I am not really sure that this has ever been a matter of very evident collective ministerial will right at the top of the agenda and, I think, for the next tranche of savings to come out of the OEP process, one of the preconditions for that will be sustained very visible ministerial political commitment.

Q13 Ms Keeble: One of the other issues is that public services have, in particular, to look at the needs of the most disadvantaged.

Mr Sibson: Sure.

Q14 Ms Keeble: If you make these kinds of cuts, savings, whatever you want to call them, you have to check what the impacts are.

Mr Sibson: Yes.

Q15 Ms Keeble: Would these cuts be regressive or would it be possible to find ways to mitigate the impact on the poorest and most hard to reach?

Mr Sibson: Stepping back a bit, I think if you look at the fiscal pressures which will be coming our collective way as a result of the kind of analysis that my colleague John Hawksworth and others have done, there will be pressure on public spending and, if that pressure is to be deflected from the front line, which will be your very legitimate concern about your constituents, then that pressure needs to be absorbed in the back office. So I think the way of mitigating the impact on the disadvantaged is precisely to get very tough and very determined about the efficiency agenda.

Q16 Ms Keeble: But you would have to build those requirements into the new service design to make sure that you maintained services for the most hard to reach?

Mr Sibson: And certainly you can organise your shared back office in such a way that you do not harm employment in areas of otherwise high unemployment. All those things can be done.

Dr Read: I was just thinking, the issue here is not just what the targets are but the delivery of those and that those require cultural change. People were talking about the idea of efficiency reviews driving cultural change and the continual search for efficiency. I think there is a question around the implementation of all of this. One of the strategies for obtaining efficiencies has been procurement, and certainly the OEP team were looking at collaborative procurement, but if you look at some of these broader ideas about procurement that the Office of Government Commerce identify, it was quite interesting that they did a procurement capability review of the Treasury and, indeed, found the Treasury’s own procurement function to be less than ideal—not that it did not have some good elements to it, but that it was less than ideal—that there was not someone senior enough in relation to procurement, that there were not strong enough approaches to managing suppliers. The supply relationship/management was an area where there were causes for concern. It is interesting to see that procurement is identified as a strategy to enhance efficiency, yet there are also questions about savings identified in the procurement plan and it was not actually identified clearly what those savings would be.

Dr Read: Can I make one point on the ground that you have covered? I think it is important to make the point that spending less does not necessarily mean that you do not do things as well. In fact, it can be...
quite the contrary. One of the things we looked at was a number of issues where public sector organisations had got best-in-practice examples of doing things well. They not only saved money but, because they standardised and simplified, they had actually been able to produce better results in terms of outputs than they had before.

Q17 Ms Keeble: Can you give an example?
Dr Read: I will give you three examples: the Prison Service. Not very long ago each Prison Service, effectively had its own HR system and payroll system; it had its own accounting system. They have now put in a back office system which deals with 128 prisons. Unsurprisingly, the HR system for one prison is not so very different from another one; so it was a good example of where shared services ought to deliver a result. So you go through a process of, “What is it that we really need to support front line services?”; you have a process of standardisation and simplification, you move on to one shared service centre, you not only get the benefit of lower costs (and in this case there was about a 30% reduction in running costs) but, because you have got common standardised simplified processes, you are actually delivering a better service. You can see that with what has happened in DWP with some of the work they have done around their IT subcontracting and also what they have done around their shared-service centres. I just want to stress the point that, coming at this in a proper disciplined way, it is possible both to save money and to deliver a better output.

Chairman: Thank you. We are going to turn to the specific issue that Mr Lockhart raised about HMRC and staffing now, but that should not preclude the other four of you from coming in as well.

Q18 Sir Peter Viggers: Mr Hawksworth, just following your earlier questioning: Dealing with Debt—this publication—when was it finalised for publication?
Mr Hawksworth: I think, in terms of the numbers, effectively it was completed in February and then it was published in early March.

Q19 Sir Peter Viggers: So it pre-dates the Budget?
Mr Hawksworth: It pre-dates the Budget, yes.

Q20 Sir Peter Viggers: And it points out that the Government finances are under severe strain, heading for record levels, and it goes on to say that the current Government has a responsibility to outline a recovery plan now to put public finances back on a sustainable basis in the medium term. Do you think they have done that?
Mr Hawksworth: I think that they have gone part of the way in the Budget to do so. Certainly they have recognised the scale of the problem, and it is quite interesting to note that when we talk about the fiscal gap, that is shorthand for the cyclically adjusted current Budget balance, which is an awful piece of jargon, we estimated that would be 3% of GDP in 2013–14. The Government’s new estimate is 3.2%. They have effectively come into line, broadly speaking, with our line of thinking as to the size of the problem; so at least they have recognised in a more realistic way the size of the problem. I think they have begun to put in place the measures, but, obviously, they are saying they are only going to close that gap in four further years after 2013–14, they have not yet specified what measures will be taken in those four further years, and I guess there is also an issue as to whether the market will wait another four years for the fiscal gap to be closed. So I think they have certainly gone some of the way. I guess also one would have to say that, in terms of the measures announced so far, there is quite an emphasis on reducing capital spending as a way of getting down the short-term budget deficit, but that does not actually help to close the fiscal gap in the longer term; that is a short-term expedient. It is a good first step, but there is more to be done, would be my summary.

Q21 Sir Peter Viggers: Of course they have made assumptions on the tax take, assuming a recovery in the economy.
Mr Hawksworth: Yes, although, to be fair, I think they have been quite cautious about the starting point in terms of the initial budget deficit in the current financial year of 12.4% of GDP. That was above our estimate, or that of most other people like the IMF and the IFS and so on. So I think they have built in an element of caution for the starting point, even though subsequently, perhaps, they are then assuming quite a strong recovery; but actually we have seen in past cycles that often public finances are more cyclical than many people expect, and so, just as you get a bigger deficit in a downturn, tax revenues are quite elastic with respect to economic growth, and so, although their growth forecasts look a bit optimistic, I am not sure that their public borrowing forecasts are necessarily optimistic. I think they are a bit more realistic than their growth forecasts.

Q22 Sir Peter Viggers: Turning to morale issues, Mr Lockhart, according to the most recent staff survey by HMRC itself, only 16% of staff are strongly satisfied with the department. How does this compare with the messages you are receiving from your members?
Mr Lockhart: I do not want to be the harbinger of doom, but I think you are right, that HMRC’s own surveys do the job for us, I think they adequately convey what our members are telling us, and the reason members are fed up is because there are simply fewer of them to do the same jobs expected of them. My colleagues make the more erudite points, but for us it comes down simply to the fact of how do you measure these efficiencies? How can it be that our line of thinking as to the size of the problem; so at least they have recognised in a more realistic way the size of the problem. I think they have begun to put in place the measures, but, obviously, they are saying they are only going to close that gap in four further years after 2013–14, they have not yet specified what measures will be taken in those four further years, and I guess there is also an issue as to whether the market will wait another four years for the fiscal gap to be closed. So I think they have certainly gone some of the way. I guess also one would have to say that, in terms of the measures announced so far, there is quite an emphasis on reducing capital spending as a way of getting down the short-term budget deficit, but that does not actually help to close the fiscal gap in the longer term; that is a short-term expedient. It is a good first step, but there is more to be done, would be my summary.

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measure of efficiency is how much are the departments spending on their pay bill, how many people are they deploying to certain areas, but it seems to us to be a rather crude measure and does not take into account always where there are, to our mind, clear shortfalls.

Q23 Sir Peter Viggers: Most managers across the piece would expect morale to suffer a bit when changes are introduced and then later, of course, morale recovers when people realise that the changes are working. Is that happening in HMRC?

Mr Lockhart: HMRC, as we know, came into being formally in 2005 and we are now, as we also know, in 2009, and you have rightly referred to the latest staff survey, and I think the latest staff survey indicates that it is morale by that measure. We accept that it is not the only measure, but morale is worse than it ever was back in 2005, and that is the simple crude statistic. We fully accept there is a period of transition, a period of change, and that is unsettling, but the people in PCS have had to deal with the almost constant axe hanging over them that their office may close at some point in the future: no job is safe in HMRC. They are harangued by members of the public who say, “You are not doing a good job”, in simple terms, and that clearly has an impact on the way the staff feel about doing their work and, on that basis, there is not a great deal of evidence to indicate that that will be resolved in the near future.

Q24 Sir Peter Viggers: Do you see management undertaking training or dialogue to seek to improve the situation?

Mr Lockhart: In fairness, HMRC have introduced a new tier of management in the last year, including a new chief executive officer and a new chair in fact, and we reserve judgment, as you would expect, about their performance and the way they intend to turn things round at HMRC. To some extent we have received the right soundings from those individuals. We certainly feel that we are more engaged in the process with senior management to improve staff morale, for one thing, but the real issue is about how we get through this period where it appears that the cuts that are being proposed are arbitrary and lead to a decreased level of public service. That is really the issue that we all grapple with.

Q25 Nick Ainger: Mr Lockhart, in your memorandum you state, “We remain convinced that the job cuts are counter-productive, as many of the jobs being cut bring in far more than is being spent on staffing costs.” In other words, there is no value for money here. Far from it, it is actually a negative. What evidence have you got for that?

Mr Lockhart: Operationally, if I talk about one area that I have touched on around debt, the way the department have decided to support the collection of debt is through the creation of a risk and intelligence team, and they, in turn, provide information to local compliance officers who then, in turn, talk to their debt collector colleagues about how that debt might be collected. In each of those areas the numbers of staff have gone down, have decreased, the presence of each of those local compliance officers has decreased in local communities, but the debt that remains uncollected, i.e. the debt that HMRC knows has been assessed as being due. It now stands at £25.8 billion: so that is an increase in the last year of just under £4 billion.

Q26 Nick Ainger: Can I stop you there and query that figure. That figure does not appear in your memorandum. Is this an update?

Mr Lockhart: It is an updated figure.

Q27 Nick Ainger: I think it is the January figure that is quoted in your memorandum.

Mr Lockhart: The updated figure, as we have it, is £25.8 billion. We accept that some of those are planned debts, as it were, that work is going on to collect that, and we understand the way that the P35 system works. Nevertheless, there is a huge amount of debt there, but by having people, in simple terms, to collect that, you could bring that money in and it could be more usefully deployed.

Q28 Nick Ainger: In your discussions with HMRC management, presumably these points are being made: because at the end of the day that is the job of HMRC. Their vision statement, I am sure, refers to the fact that they are there to collect taxes. You appear to have got evidence to show that, in fact, their main raison d’être is not being met because of these staff cuts. What does management say to that? If you have got evidence that says the situation is getting worse, we are actually collecting less than we were in the past and we have got this serious problem with the public finances anyway, what do they say to that?

Mr Lockhart: The department, again, to be fair, are looking at new systems to ensure that their IT networks can communicate with one another, that they make sure of the accuracy of their own figures, and networks can communicate with one another, that in simple terms, that work is going on to collect that, and we understand the way that the P35 system works. Nevertheless, there is a huge amount of debt there, but by having people, in simple terms, to collect that, you could bring that money in and it could be more usefully deployed.

Q29 Nick Ainger: Your memorandum also says that you have seen an internal HMRC document which states that they do not have the resource to pursue debts under the amount of £10,000. Have you got a copy of that document?

Mr Lockhart: We can provide a copy to the committee.

Q30 Nick Ainger: I think that would be very helpful. Bearing in mind the announcements that have been made in the Budget of further reductions, making
the total cuts in HMRC up to 25,000 from the original 16,000, and your evidence to us today, how can you see HMRC meeting its new value for money target?

Mr Lockhart: On the basis of the experience we have had so far, we are struggling to understand how the department will continue to make further cuts and deliver their targets. It just seems to us that there is now an opportunity for at least a period of reflection to have a look at the impact so far and to really truly assess what cuts have meant to service. I think, wherever we turn in HMRC, it is difficult to see that having fewer staff has truly proved to be the way to improve the service, and certainly stripping tax offices out of local communities, I think, has a knock-on to the way that we, tax professionals, members of the public view the level of service that has been offered. They have set on a course of action like the proverbial tanker that I think is pretty unstoppable but is not necessarily workable, and I think now is an ample opportunity to have a look at where they have got to.

Q31 Nick Ainger: I wonder if anyone else would want to comment on this value for money aspect. If there is evidence that the tax take is falling, or is at least static, what measure should be put in place by HMRC to ensure that they are delivering value for money? Has anybody got a general comment on that?

Dr Read: The brief for the bit of the Operational Efficiency Programme I did was around back office operations and IT, but I think what one is trying to get here is a better result, and it is the best business result that one is looking for, so in anything that one does in balancing staff and efficiency and cost aspects one has got to look at the effectiveness of doing the actual service as well.

Dr Law: It is not really an efficiency gain if the output is not of the same quality. The other thing to look at, of course, is customer satisfaction, which there is increasing bits of evidence around. So, yes, they need to be collecting the right amount, but they also need to be keeping their customers happy, and there is increasing evidence about some customers remaining happy, other segments of the customer base being less happy. I think it is important to consider that as well.

Q32 John Thurso: I would like to continue on that theme of customer service and how this is impacting on taxpayers and their advisers. Can I come back to you, Mr Lockhart, first of all? The President of the Association of Revenue and Customs, Terry Cook, is on record as saying that there is no dead wood left and further cuts threaten our capability to deliver, which is very much the evidence that you have been giving. Is it your contention that any further cuts can really only be achieved by a reduction in service?

Mr Lockhart: That is quite simply our contention. Our more generous offer is: let us at least establish what the impact has so far been before we go headlong in pressing ahead with what seem to us to be, as I say, fairly arbitrary figures plucked out of the air—five billion, nine billion—and let us reduce the service by that amount. The biggest cost is paying the wages of the members that deliver the service, so let us assess the damage or what results, positively or otherwise, come out of that and cut staff. There does not seem to be a sense that has really happened.

Q33 John Thurso: Mr Hawksworth, can I come to you? If you look at any efficiency programme in any business, you are basically looking at, broadly, one of a combination of three things: either re-engineering a process so that it becomes more efficient, procuring the elements of the process so that they are less costly, or reducing the outcome so that it is not such a costly process to deliver. In your memorandum you suggest at one point that it is time to have a zero-based look, which goes to zero-based budgeting, which basically is a re-definition of the whole thing and building up. Do you believe that HMRC needs to undertake that level of in-depth analysis—perhaps this is to Mr Sibson—in order to actually effectively answer the question Mr Lockhart has asked as to what is actually happening rather than lots of big numbers being banded around by ministers?

Mr Sibson: Again, going back to the earlier part of your question, your three ingredients of how you can save money, I would agree that it is really the first two that should be the priority—that is to say looking at the process and looking at the cost of the input—and between those two I think the big scope for gains lies in the first of those two: looking at the process. In particular, within government, standardising and simplifying, I think Martin Read’s example of about 126 prisoners with their own HR department and now one HR department for the Prison Service is a very telling one, and I think it is an absolutely typical one. I think you would find many other Prison Service type examples across the public sector. Coming on to your point about zero-based budgeting, I do not think I would want to apply this comment to HMRC particularly but more generally to make the point that, I think, if you look at the fiscal pressures that we will be under as a country, then I think the kind of efficiency measures that are outlined in the OEP Programme’s final report will help mitigate those pressures and, hence, deflect the pressure from the front line: because I think, inevitably, we are going to be under pressure to make further savings. If those are to be made in an organised way rather than the most convenient ways, then it will require zero-based budgeting, or whatever you call it, going back to basics and finding out what we are trying to do with every pound of public expenditure, and I think a very big item on the agenda for anyone managing public expenditure over the next few years will be to introduce a disciplined rational process to do exactly that.

Dr Read: One of the recommendations of the back office and IT review was exactly that; that within two years each department should have actually carried out a fundamental review of what it is doing and the systems and processes it needs to support that.
Q34 John Thurso: The back office one is the easier one and the obvious one in any business, and the more technology develops the easier it becomes. Dr Law, I am actually more interested in the impact on the customer, and I have previously asked people from HMRC when they have been in front of us how they measure that. I define the customer as the person going into the office; not the mutual customers within government but the actual taxpayer and their advisers. Have they got robust systems for actually measuring that the service delivered at least remains consistent with what they have had in the past? Have they got ways in which they can reliably measure that?

Dr Law: They are getting better at it. They are making some increased moves to measure customer satisfaction in ways which make sense to the customer. So they are getting better at that. They have got a series of research reports available on their website, not especially clearly, and the interesting thing from that is that you can take different customers, or different types of customer of HMRC and compare their satisfaction in different sorts of ways, and what you get is quite clear differences between different groups. So some customers are satisfied; others less so.

Q35 John Thurso: You know as well as I do that, if you do a customer satisfaction survey, if you get the questions right you get the answers you want. If you actually want to know really what is happening so you can manage your business more effectively and if you go down something that is ISO 9000, or whatever, you actually come up with a very different way of doing it. Are they really committed to it, or are they just trying to tick the box?

Dr Law: I think they are increasingly answering the right questions, that they are looking at drivers of customer satisfaction, which is something which has been going on across a whole range of government departments. There is much more awareness of what are the sort of things that drive customer satisfaction—is it being able to contact somebody easily, is it getting the right answer, is it getting accurate information, and so on. I think government in general, and this department as well, is much more aware of the drivers of customer satisfaction, there has been a huge amount of work done on that, and they are about to have a customer satisfaction survey, which we have a baseline figure for now, which will be reporting in autumn 2009. They have got a target of plus three on the baseline. It is unclear to me why plus three. Why not plus five? Why not plus two? It is unclear that they have compared with past performance. So they have a baseline, but I am not sure what the performance was the year before that.

Q36 John Thurso: To be clear on that, the point is the baseline could have been taken at the nadir of the service, well below what people used to get?

Dr Law: Absolutely.

Q37 John Thurso: So anything going up looks quite good, but in fact it is still well below where it was five years ago?

Dr Law: That is right, and that is why it is good not just to have targets from the baseline but also to look at past performance—is our target a sensible one, is it challenging—because you could just create it.

Q38 Mr Todd: Mr Lockhart, the reality process that HMRC are using for their savings programme: if they are reducing the floor occupancy of a building and giving up leases, in current market circumstances that is likely to yield a significant penalty, and any savings that may be generated from relocating to another office are likely to be delivered only over a very long period of time if the lease is quite long. Are you finding examples of that?

Mr Lockhart: Yes. One thing, in fact, that this committee, I think, asked HMRC for was some transparency about savings that were being made through the giving up of offices. Again, it comes down to how you measure what you have saved and what you have lost and how you offset those things, but by our calculations in some of the offices you have got a bunch of people in there who simply cannot move anywhere else. If the option is you are going to have to pay those people off to move from the office and you counter that against the cost of flogging off the said office, it is going to take you between 12 and 20 years to recoup that.

Q39 Mr Todd: I do not want to detain us on this, but could you prepare for the committee a note of some of the local examples of that kind, because I am sure we are going to be able to ask a little more information from HMRC on exactly those sorts of things.

Mr Lockhart: I am more than happy to do that if that would be helpful.

Q40 Mr Brady: Mr Sibson, the OEP estimate that 15 billion of annual efficiency savings can be found from back office, IT, collaborative procurement, asset management, and so on, property, local incentives and empowerment: how credible is that?

Mr Sibson: We think it is pretty credible. We published, I believe, in either December or January, I cannot remember which, our own attempt at the Government set out in July 2008, and we have our own answer to those questions. As I said in answer to an earlier question from Ms Keeble, for the back office, IT and property we came up with very similar numbers, and in some cases we produced additional evidence from our own proprietary benchmarking data. I would be happy to send the committee a note on that and a copy of our response, if that would be helpful.

Q41 Mr Brady: Thank you. One of the criticisms that is often made of these kinds of projected efficiency savings is that they are found from future programmes rather than from current programmes.
How much of this relates to current activities actually being done more efficiently rather than future programmes being remodelled?

**Mr Sibson:** On the approach that we looked at, it was by taking the current state of support services—what is done today—and doing those as well but for less. We were not saying: there will be some new functions in future and let us see if we can do those less expensively than they might otherwise have been done. So I think it was actual, in your sense, rather than hypothetical.

**Dr Read:** That was the fundamental approach that we took for the back office operations and IT part of the OEP.

**Q42 Mr Brady:** None of it relates to future programmes?

**Dr Read:** For clarity, we looked at the costs of running the operation today—in fact, actually because we were working on historical data, it was a bit back—and we looked at several different approaches to try and make a judgment on how much money could be saved on that operation, and that is how we came up with the savings. In very rough terms, at the end of three years we expect to be able to get the running costs down by something of the order of 20%. There is some other activity that has happened over the course of the last year or so which has already started to attack those numbers, and the Treasury did make some allowance in putting together its overall report—okay, that is historical numbers, some action has already been taken, therefore some of the “savings” are going to happen anyway—and that is why it was a smaller number than the totality of what we put in here.

**Q43 Mr Brady:** Looking aside from the back office recommendations, which of your OEP recommendations do you think are the most important?

**Dr Read:** I only did back office and IT.

**Q44 Mr Brady:** Do you have a view on that?

**Dr Read:** On the other ones?

**Q45 Mr Brady:** Yes.

**Dr Read:** Yes. From what I have seen, I would say that certainly we have got the rough order of magnitude about right, and I think these are deliverable savings, but there is one really important point which I think I would like you to take away from today about how I have felt as an outsider about reviewing this. I would like to make a couple of points which you might want to take on board. The first thing is we do not have, we just do not collect regularly and we do not review regularly the sorts of data which you would expect, if you were running a business, to be able to use as the basis for comparing trends, making comparisons, trying to judge where you come against other organisations and actually reviewing the importance of senior people. If there is one thing that will make a difference coming out of this OEP work, it is changing the culture, the DNA, of the way the public sector and the Government works, which is that operational efficiency is something that managers are there to do in a way, but they are there to do other stuff as well, and, if that is going to happen the information has to be available on a regular, consistent, auditable and transparent basis and somebody senior in the organisation—ministers, top civil servants—have to be asking the questions: why are you in the bottom quartile for delivering your HR services? What is it about your organisation that means it so is HR intensive? Should we not be looking at what is your plan for improving? By the way, when we have a discussion in six months’ time, what do you think you will have achieved? All this is not just about cutting costs, as I said earlier on, it is about getting the same or better result with less through being smarter. In business you have to do that, it is a way of life, because at the end of the day you are being judged on profit number, but the effectiveness of the way that the public’s spending is looked at and reviewed, if you could get that one big change coming out of this, I would have felt that the year that I had put into this would have been worthwhile.

**Q46 Mr Brady:** To what extent are those senior people in the organisations in need of retraining themselves to change their mindset, or do we need different senior people in those organisations?

**Dr Read:** In any organisation where you are on a change of culture, it is a mixture of things. It is about winning hearts and minds about why people understand it is important and it is about self-improvement; it is about getting help and advice from people who have done it in different walks of life; sometimes it is about bringing in a few outsiders who have got that experience; but if you go down those paths, the core team of what you have already got will understand, adapt and get motivated to pursue these things. I had a finance director once who said: “What interests my boss interests me greatly.” I think the issue is ministers, senior Civil Service, need to get more interested in operational efficiency.

**Mr Sibson:** Can I pick up very briefly Martin’s point about hearts and minds? I absolutely agree that benchmarking comparable data is an important ingredient to making change. Another ingredient in this case is to set out a vision and objective for what good support services would look like, and I think the objective cannot simply be stated in terms of a financial number for savings, because nobody gets up in the morning to save a billion pounds; that is not what gets people out of bed. You can articulate a vision of what the essential back office should look like, what kind of support services people at the front line need: I think that would be motivation. I think that is not something I have yet seen in this body of work. We had a go at it in something we produced called *Freesing the Front Line*, but I think that and some ministerial endorsement of that would be very powerful.

**Q47 Mr Todd:** Back office is bit of a pejorative term, is it not?

**Dr Read:** Yes, it is.
Q48 Mr Todd: A particular rather easy target as well, and rather poorly defined sometimes?

Dr Read: I am not sure it is poorly defined, because I think the functions we all know and understand. We know that you always need an HR function; that someone has got to run the payroll, and so on and so forth; we know we need an accounting system.

Q49 Mr Todd: If you do not have these, the front line does not work at all.

Dr Read: Absolutely. I do agree with you. I think corporate services, maybe, rather than back office, but doing this stuff effectively is every bit as important to the front line.

Q50 Mr Todd: Any reason why one cannot deliver front line services more efficiently?

Dr Read: Of course.

Q51 Mr Todd: Let us use some language here which makes it sound—

Dr Read: You have got a bound survey. This was a big scope thing, so you can only focus on one thing, but I think the lessons that are in here, most of them are directly relevant to what I would call transaction-based services, which is a lot of what the big departments do.

Q52 Mr Todd: Is there anything we have learnt so far, from the exercise that has been done through the Gershon Review, of the methodologies that actually work in delivering savings with a retained quality or even an enhanced quality? There is no reason, as someone said, why you should not do it better.

Dr Read: I am not an expert on what Gershon did and what came afterwards, but in terms of my business experience and general experience, this all comes back to, firstly, it is a clear vision and set of objectives about what you are trying to achieve; secondly, it is about communicating that effectively and getting your workforce on side.

Q53 Mr Todd: Can I summarise that? Perhaps critical is high quality leadership of any of these exercises.

Dr Read: No organisation is going to be effective without good leadership; so you are right.

Q54 Mr Todd: Should not the leadership of these organisations have the capacity and ability to do the tasks that you are saying lie ahead of them?

Dr Read: It is hard to talk in general terms.

Q55 Mr Todd: Because it is a completely different skill.

Dr Read: Yes. Let me make a number of points. I would emphasise again that one of the things that I was taken with in doing this review is that I did see some really excellent examples of what I would consider best-in-class practice, and I do not believe they could have been achieved without real leadership. So there is nothing that tells me that this is something you cannot do in the public sector and only the private sector can do that. I just do not think that is right. I think it is also true that in a lot of other areas these sorts of efficiency questions and approach is not something that people are focused on very much, and I would come back to this point I made earlier on that what interests my boss interests me very greatly. If they are not being challenged or asked in these sorts of areas, they are going to spend their time worrying about the things that they are challenged or asked about.

Q56 Mr Todd: If one is looking at political leadership, there is very little experience of any of this within the political leadership of any of the major parties.

Dr Read: Again you are asking me to respond to something that I do not claim to be an expert on, but it would not be difficult to work that out.

Q57 Mr Todd: It is not what they do, is it?

Mr Sibson: No-one enters politics in order to save back-office costs. That is not the kind of thing that idealistic people enter politics for.

Q58 Mr Todd: I am trying to coax out of you some of the challenges that lie ahead here, because I am going to ask you what you think the big challenges in this exercise are. I have given you a hint or two as to what I think some of them are.

Dr Read: As a minister you do not have to be an expert on operational efficiency, but you have to care enough about it to have it on your agenda, to get your officials motivated, interested to attack the issue.

Mr Sibson: The motivating factor for any minister to take an interest in all that now is just looking at a few of the graphs and charts in Dealing with Debt and other similar analyses, because unless we do something on this agenda, it is Ms Keeble’s disadvantaged constituents who will bear the brunt.

Q59 Mr Todd: In the PwC report you have commented on benchmarking and stated that the HR function might be 85% less efficient than in the private sector. Just to see if I can start an argument amongst the panel: based on your knowledge of analysis in this area, does that sound like a bit of a speculative punt or is it based on some hard analysis? Benchmarking is a pretty tight subject in which you work from fairly closely defined data, having had to do it myself a long time ago.

Dr Law: It is something which is quite hard to do. I know that many public organisations some years ago spent a long time in meetings trying to decide what was counted and what accounted for the differences in their figures as compared to those of somebody else, so there are huge gains to be had from having accurate information and I think it is vital that organisations have that data. One word of caution: How much does it cost to collect it? I think it is really important to get that data—managers need to have it, it is vital, and they need to do systematic reviews—but it takes time and effort.

Q60 Mr Todd: A headline grabbing figure or something that is based on some tough analysis.
Mr Sibson: There is a lot of substance behind that number. I would be happy to send you a note about it. We bought an organisation called Saratoga a few years ago (and quite why it is called Saratoga I do not know) which has a huge volume of data, particularly about HR and finance, on back-office headcount in relation to frontline headcount in the similar organisations, and that is the database we draw on in that particular case study. I would be happy to send you a note on that.

Mr Todd: That would be helpful. Thank you.

Q61 Mr Love: Dr Read, I think you mentioned a figure of 20% for the annual savings and back-office services. It is quite a good deal greater than previously estimated by the Cabinet Office. How confident are you that you can deliver these?

Dr Read: I am not being asked to deliver them, I am asked to give you a view about its deliverability. I am pretty confident, and let me tell you why I am pretty confident about that. We looked at a number of different methodologies for trying to estimate this. One was based on benchmarking. There are, it should be said, a number of public sector organisations in the CIPFA benchmarking system. It is very easy to do, they are getting good data. Another was based on looking at private sector experience and another was looking at what was already happening in the public sector and taking that forward. They both gave the same answer. Twenty to 25% was the sort of broad picture in between. I have a lot of confidence that that number is achievable. Certainly from my business experience I would feel that in a business environment—and I know we are not in a business environment—you could probably save more than that. I do have a lot of confidence that it is possible to save it. If we are to save it, as I say, we need a different approach. That different approach is that we need to be able to collect information on a regular consistent auditable and transparent basis, and it has to be reviewed at a senior level, whereby people who are running organisations know they are going to be called to account for it. The bottom line is pay and promotion prospects depend on a number of things but one of the things is the ability to deliver efficiency savings.

Q62 Mr Love: You mentioned one of the areas about collecting information, and I think everybody would agree with that, but the other area that has been mentioned constantly is about winning hearts and minds.

Dr Read: Yes.

Q63 Mr Love: Changing the culture.

Dr Read: Yes.

Q64 Mr Love: We have heard that morale is very low currently.

Dr Read: Yes.

Q65 Mr Love: With successive programmes it is quite hard to see how morale will be changed around. Do you think that will lead to delays, perhaps even significant delays, in achieving what efficiency savings may be there?

Dr Read: Organisations perform best where there is a clear view of what an organisation is trying to do and people feel part of that process. I think the importance of winning hearts and minds on this matter, and we need to deliver it, is important, but that all comes back to leadership at the end of the day—leadership of the individual organisations.

Q66 Mr Love: Let me ask you about that, because we have touched upon what politicians need to do in relation to this but of course there has been a lot of publicity about the fiscal gap that exists. We have talked about how this could be one mechanism for at least plugging some of that gap. Will there not be some scepticism amongst employees that this programme is a surrogate way to take some tough decisions and, therefore, it will be difficult for politicians, perhaps, to give the leadership, and certainly to give the leadership to change the culture in some of these public sector organisations when they feel they are at the harder end of some tough decisions that politicians have to take.

Dr Read: I think ministers have to set the right overall objectives in individual departments. I think it is down to the leaders of those organisations to get the message across about why this matters. I do not despair over it. Lots of people in a private sector environment go into businesses that have failed, have problems, and they have to go through the same process of winning hearts and minds in difficult situations where money has to be saved. It happens. It can be done. That is what leadership is about.

Q67 Mr Love: We have talked a lot about bringing together human resources or finance sections and things like that, and I am sure there is still more that can be saved. Are you confident that there are new efficiencies out there that can be discovered that will lead to the sort of dramatic improvement?

Dr Read: Yes.

Q68 Mr Love: Can you give us an example of somebody you have come across in the year you have been there who perhaps nobody else has thought about.

Dr Read: There is the very simple example of the prisons I gave you, and you will find many other examples like that, where it is a relatively standard set of procedures that is undertaken in a large number of organisations where it could be put in one place and get the same benefits that the Prison Service got.

Q69 Mr Love: I do apologise, I have not read the PWC document, but I heard quoted from it: “We need to re-engineer public services.” There is the obvious example of bringing human resources capacity for a service like prisons, and I am sure for
lots of other public services, but which are the new areas that we are going to look to that will help us through re-engineering?

Mr Sibson: I think there is a mass of relatively mundane sounding things. In a sense Martin Read’s example about the Prison Service and its HR functions is a relatively mundane example, and there are many, many such examples. You would be surprised how many different ways there are of paying a bill in the public sector. You would think there would be a fairly standard process, but there are many different ways in which it is done and that absence of standardisation adds to processing costs, adds to IT costs and all sorts of things. I will give you a relatively trivial example which affects our own business, PwC’s own business. Each year we bid for lots of work from government and we often have to go through a pre-qualification process—which is fair enough. As part of that pre-qualification process, we have to demonstrate our financial standing, that we are robust and will not collapse halfway through the contract—again, fair enough. But we do this dozens and dozens of times each year. This morning I was signing off on a pre-qualification submission. That could be done once a year—or twice a year if you really want. That is another mundane example, and there are many, many of them.

Q70 Mr Love: I could go on to local government and housing benefit administration as being one of the real culture problems, but I would like to come on to Mr Lockhart, because I look on you, if I can put it this way, on the top table as the sceptic on some of the issues that we have been discussing. I think you would probably accept that some of the areas we have talked about are ones where efficiency gains can be made. How do we convince the employees of all these public services that this is not just in the interests of politicians or senior managers but in the interests of people working in the service itself?

Mr Lockhart: I think there are a number of strands—but we do not have all day. I think leadership of any sort, political or otherwise, demands, amongst other things, proper explanations and a clear rationale for why any decision is taken and why a route is embarked upon. It is difficult to see that there is certain poring over certain efficiencies. One area of efficiency we might suggest is you are all aware that there are 200-plus sets of pay bargaining negotiations that go on every single year across all the sets of departments. The tangible result of that is that over a short period of time, for people employed by the Crown, by the same employer, there are huge pay differentials. Nobody really looks at that. There are some things that seem to be political decisions. It comes down to the arbitrariness of the figures, plucked out of the air, and then departments go away and bid for their chunk of what they are prepared to do to contribute to them. If you are going to win hearts and minds, it is about a proper explanation of why these things are done.

Q71 Mr Love: I think everybody would agree that one of the major areas where we can discover new ideas of how to improve the efficiency of service is from the people working in the service themselves. They will come forward if they are convinced it is in their interests and in the interests of the service. How do we engender that positive value in employees to come forward and suggest major changes?

Mr Lockhart: You are right, it is about a mutual trust relationship. I think a lot of that mutual trust has been lost. With respect, HMRC missed an opportunity when they sought to implement a system called Lean Processing, and Lean in its purest form is about allowing the people who do the job to dictate the way the job is done. The way that it was rolled out in HMRC was precisely the opposite. It was about command and control. It was about managers telling individuals who had done the job for years precisely how they should do it, setting, again, arbitrary targets.

Q72 Mr Love: Dr Read, did you look at Lean? Did you think it had been mishandled?

Dr Read: I did not look specifically in the Treasury on this programme.

Q73 Chairman: We have ministers coming in front of us in two or three weeks. Could I ask each of you, finally, what you would like us to ask those ministers who are in charge of this particular area. Dr Law, what would you ask the minister?

Dr Law: I would ask them whether they felt that they had really secured efficiency and how confident they were of that, not just in terms of the input side of the equation but the output side of it. That is the issue we have been drawing on a bit here, not just that there is a drive to cut costs but that it is partly around service improvement. I think that staff would be engaged quite significantly if they felt that a lot of it was around service improvement. Indeed, there are many cases across the public sector where staff are at the forefront of designing processes themselves or having innovative ideas themselves about how to make services better, and sometimes for less cost. It is not that they cannot get an idea around innovation for less cost. They can. They are entirely able to do that.

Q74 Chairman: Perhaps one answer from PwC.

Mr Sibson: I think simply how they would demonstrate consistent ministerial commitment to this programme.

Dr Read: You should be encouraging them to put operational efficiency on the agenda, to cross-question and to encourage their departments to embrace it and make it part of their life, and to do this consistently. This is not something that is a one-off thing. It has to be regular and it has to be something that goes on and on and becomes part of life.

Q75 Chairman: Mr Lockhart?

Mr Lockhart: I would be interested to know the ministers’ response to the questions you have put to us here today. We would be truly interested in how
the targets, the monetary savings have been alighted upon and how they have been calculated. I agree with colleagues who talk about factoring in operational efficiency to the mix of measuring the effectiveness of those co-called efficiency savings. We would ask you to ask the minister whether there is now scope to review the programme of efficiencies as they have so far been rolled out and whether now is the right time for pause for reflection.

Mr Hawksworth: If I might add one different point, ultimately these efficiency improvements are going to take seven or eight years, according to the Government, to reduce the budget deficit. That is going to involve reductions in headcount. You cannot get round that. What is the Government going to do to ensure that people who no longer have jobs in the public sector are employable in the private sector? What sort of retraining programmes will it offer? It is one thing to achieve efficiency in the public sector, but if those people just cannot get jobs in the private sector, it will not be efficient for the country as a whole. One of the messages from things like privatisation of the utilities was that many of those people who lost their jobs never got back into the labour force. It did not improve our GDP growth, even though the efficiency of those companies was improved. I think it is absolutely critical that there is support for people who over the next eight years will have to transition from the public to the private sector, because there just will not be the jobs in the public sector that there have been during the boom years recently.

Chairman: Thank you all very much. You have got our inquiry off to a very good start. Thank you.
Treasury Committee (Treasury Sub-Committee): Evidence  Ev 13

Wednesday 3 June 2009

Members present
Mr Michael Fallon, in the Chair
Nick Ainger
Mr Graham Brady
Mr Colin Breed
Ms Sally Keeble
Mr Andrew Love

John McFall
John Thurso
Mr Mark Todd
Sir Peter Viggers

Witnesses: Mr Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury, Ms Louise Tulett, Finance Director, Treasury Group, and Mr Nigel Smith, Chief Executive, Office of Government Commerce, gave evidence.

Q76 Chairman: Ms Tulett, can we welcome you back to the sub-committee. Perhaps you could formally introduce yourself and your colleagues.

Ms Tulett: Indeed. Andrew Hudson is on my right, who is the new Managing Director of PSG within the Treasury, and Nigel Smith, who is the Chief Executive of OGC.

Q77 Chairman: Could we start off with this £5 billion figure that suddenly emerged in the Pre-Budget Report? Where did the £5 billion actually come from?

Mr Hudson: May I take that one, Chairman. This is a judgment that was reached, in the light of the early progress of the work of the Operational Efficiency Programme and of the Public Value Programme, as to what additional savings on top of the £30 billion that was already baked into the spending review settlements were possible to be delivered in the course of 2010–11. The Government’s approach to value for money has broadened and deepened over the years and this represented a further extension of that.

Q78 Chairman: Where did the figure of five come from? I can see the Government wanted to produce some more savings. It had the initial findings of the OEP and PVP programmes, but where did the calculation of five come from? It seems a rather convenient number.

Mr Hudson: A judgment had to be made. Clearly, the more value for money savings that can be secured the better, and this £5 billion was actually a reduction in overall spending, which helped the fiscal position. The judgment was how much could be achieved, given the time available, that were genuine value for money savings. They will be reported on regularly in departments’ autumn performance reports and in departmental reports and the NAO will be auditing the work. So, having worked on public spending for some time, on and off, over the years, it seems to me there is more transparency about what is being done than ever before in terms of this Value for Money programme.

Q79 Chairman: How can you be so sure that that kind of target does not impact on the quality of work that is being produced across the Civil Service?

Mr Hudson: The Government has published, in the Value for Money update document that was published on budget day, some very clear statements about the sort of thing which will be taking place, the sort of activities that will be taking place, partly to explain the additional £5 billion, partly to explain the original £30 billion, and that makes clear that these are genuine value for money savings. They will be reported on regularly in departments’ autumn performance reports and in departmental reports and the NAO will be auditing the work. So, having worked on public spending for some time, on and off, over the years, it seems to me there is more transparency about what is being done than ever before in terms of this Value for Money programme.

Q80 Chairman: I understand the transparency and the reporting, but how can you reassure us that these further savings will not impact on quality?

Mr Hudson: That is the very clear commitment of ministers and permanent secretaries, and the acid test will be: are departments delivering on their original targets in terms of quality? All that is reported on as well. The document I referred to makes very clear that the allocations to front-line services—to give some examples from health to PCTs, schools, police and so on—are exactly as planned, consistent with the ability to deliver the £5 billion savings.

Q81 Chairman: Will the £5 billion be harder to achieve than the original target under Gershon, or easier?

Mr Hudson: I think the programme goes on. As I say, there has been a development, and the process of delivering savings and value for money gains, in the broader sense, has both broadened and deepened over the course of the last few years. Gershon was the first comprehensive approach to delivering value for money savings across the public sector, looking at some specific work streams following Peter Gershon’s report. Since then the programme has developed and both broadened its focus, looking for value for money in a broader sense. The definition of efficiencies has become more rigorous, in that they now all have to be cash releasing, sustainable and net of both up-front costs and of on-going costs, and now we are moving on to the work of the Operational Efficiency Programme and other yet broader and deeper approaches.

Q82 Chairman: You said “broader and deeper” there a number of times, but my question was: is it easier or harder? Is it easier because you are becoming...
better at being more efficient, or is it harder because you have taken out the easier savings at the beginning?

**Mr Hudson:** I think it is possible, Chairman, that those two could net off. I recognise from experience that some people will say it gets harder because we have taken the low-hanging fruit, but at the same time experience, tools and techniques, approaches to delivering savings develop all the time, technology improves all the time and that creates further opportunities. As I think Martin Read said in his evidence to the committee last month, this is a process that goes on. I suspect it will vary from sector to sector, department to department, as to whether it is harder, depending on opportunities.

**Q83 John Thurso:** I am not sure if this is for Mr Hudson or Ms Tulett, but the memorandum that we have shows that the Treasury Group exceeded its efficiency targets by £11.2 million. Did you always expect to exceed the target?

**Ms Tulett:** We did not. We had quite a rigorous programme of efficiency in place and we were surprised, I think, in some instances, how successful we were. We were quite cautious in the early quarters of reporting not to over report, because we wanted to make sure that what we were reporting were genuine efficiency savings. So I think you will see in some of the final outturn adjustments there is a bit of a switch between what we have claimed in some of the lines, and some of that is around making sure that we had eliminated things, for example, fortuitous savings on the valuation of the building, non-cash savings—elements like that. The final reporting is properly sustainable, and we had under-reported in the early years because we did not want to over-grab savings that we were not then sure would actually be sustainable to the end. So it was quite a robust review.

**Q84 John Thurso:** How confident are you, or are your departments, that the final Gershon claims represent genuine efficiency savings?

**Ms Tulett:** I can speak for the Treasury domestic. If you want to broaden that out, then Mr Hudson will take the broader question. On the Treasury domestic, we are quite confident that these are sustainable. We have undergone a series of cultural changes. Also there are structural changes. For example, one of the initiatives was the group shared services. We took out corporate services from the DMO, OGC and core Treasury and pulled that together under the management umbrella of core Treasury, and we now provide shared services. So if the NAO look again, as I am sure they probably will, they would reflect that confidence.

**Mr Hudson:** Let me talk about the position more broadly. Obviously, I recognise the NAO report that you are referring to. The report was published in February 2007, so the Gershon Programme still had some way to run at that point. Putting the first two of your figures together, this meant that even at that mid-point, shall we say, the NAO were recognising that over three-quarters of the savings did, indeed, represent efficiencies and that there were some question marks over the measurement. Since then we took steps to make sure the measurement was, indeed, properly rigorous. Also each saving had to have a service quality indicator and the saving was not banked, if you like, or confirmed until the service quality indicator was signed off. Putting all those things together, at the end of the programme we are confident that the £26.5 billion savings are, indeed, real compared to a target of £21.5 billion.

**Q85 John Thurso:** The reason for my question is that the NAO, during its evaluation of the efficiency savings, said that, of the £13.3 billion claimed, only £3.5 billion was considered to fairly represent the efficiencies it had made, for £6.7 billion, it was concluded, the reported figures represent efficiencies but carry some measurement issues and uncertainties, and for £3.1 million it was considered there may be efficiencies taking place but the measures used either do not yet demonstrate efficiencies or the reported gains may be substantially incorrect. Does any of that apply to what you have reported?

**Ms Tulett:** Not to the Treasury domestic. It might be that Mr Hudson can pick up on the broader position.

**Mr Hudson:** I can speak for the Treasury domestic. If you want to broaden that out, then Mr Hudson will take the broader question. On the Treasury domestic, we are quite confident that these are sustainable. We have undergone a series of cultural changes. Also there are structural changes. For example, one of the initiatives was the group shared services. We took out corporate services from the DMO, OGC and core Treasury and pulled that together under the management umbrella of core Treasury, and we now provide shared services. So if the NAO look again, as I am sure they probably will, they would reflect that confidence.

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**Q86 John Thurso:** So if the NAO look again, as I am sure they probably will, they would reflect that confidence.

**Mr Hudson:** The NAO are welcome to look again, of course, if they choose to. I am pleased that they are looking forward, that they are actively involved in auditing the value for money work that is taking place now as part of the current spending review cycle.

**Q87 John Thurso:** One further point. You have talked about the quality of service, and it is a core issue and I am sure there will be other questions on it, but what evidence do your departments have that the staffing reductions made to date have not affected the quality of service? How do you evidence that assertion?

**Mr Hudson:** I think it comes back to progress. First of all, as I say, for the Gershon savings each indicator had to have a quality confirmation put to it. For the continuing work, the NAO will clearly look at that in their audit, and I am sure other stakeholders, including select committees, as they look at departments’ performance over the years, will look closely at not just what is happening to costs and
particular value for money measures but what is happening to the service that is being delivered. I would say departments have clearer targets in terms of their departmental strategic objectives, clearer targets probably than ever before—performance is reported against those regularly—and so stakeholders have the opportunity to judge for themselves, based on that information, whether these value for money gains are indeed real, as we are determined that they should be.

Q88 John Thurso: You listed earlier three criteria. I think they were net of costs, sustainable and cash?

Mr Hudson: Cash releasing.

Q89 John Thurso: Cash releasing. What, if any, percentage of the efficiency gains were offset by unreported costs? What, if any, was netted off there?

Mr Hudson: I do not have the answer to that immediately. I am afraid.

Q90 John Thurso: Perhaps that is something you could let us have.

Mr Hudson: If we do have information on it, then I will happily let the committee have a note.1

Q91 Mr Breed: You indicated some of the differences between the nomenclature of Gershon efficiency savings and value for money savings, because that is what they were. Can we drill down a bit more into that? Under Gershon there were important controls in respect of service quality to ensure that these efficiency improvements were not simply going to be cuts in public services, but that seems to have been relaxed under the CSR07. Why was that?

Mr Hudson: I do not think it has been relaxed. These value for money initiatives have been scrutinised very carefully to make sure that they are precisely value for money measures rather than just cuts, and I have talked about the level of scrutiny that will be available. The measures, or major examples of them, have been set out in this document, and there is every opportunity for stakeholders to scrutinise that and satisfy themselves that these are, indeed, value for money gains.

Q92 Mr Breed: So you do not say there was any relaxation; they are just as robust, just as rigorous in terms of the original Gershon—

Mr Hudson: I think, overall, the programme is more rigorous, because, as I say, the savings are cash releasing, net of costs, both up-front and on-going costs, and sustainable.

Q93 Mr Breed: How can the departments demonstrate adequately to you and, indeed, to us that the savings that they have claimed in parts of the report represent the fact that they have done things in a new way, that they have really vigorously looked at these things and made these savings and are not just rolling out previous efficiencies and calling it the fact that they are doing something new?

Mr Hudson: First of all, the £30 billion value for money savings are baked into the spending review settlements alongside the strategic objectives, and so that is already baked into the base on top of assumptions that will have been made about what was achieved under Gershon, I imagine that was before I was in this post. So the savings are already baked into the base and a lot of detail has been provided in this document, for instance, about the value for money measures on which departments will be held to account, as I say, not just by the Treasury but by the NAO.

Q94 Mr Breed: So somebody had actually gone and looked at the facts and identified that they are doing things in a new way and that these have produced savings, not just looking at the figures and saying, “Oh, that looks good.”

Mr Hudson: As I say, the NAO will be auditing this value for money work.

Q95 Mr Breed: So they audit not only the figures but the processes which produce the figures?

Mr Hudson: Yes.

Q96 Mr Breed: What about the charge that you are encouraging short-termism to the long-term detriment of public services? The most obvious thing in more recent times is that you do not mend the roads, so you are not spending any money on that, but, of course, you are stacking up major problems in the future because you will have to resurface the whole lot. Therefore, you get short-term savings but you are not balancing that against long-term detriment. That is just an example. How are you stopping that in what you are doing or demonstrating that you are not encouraging short-termism?

Mr Hudson: One move over time that has encouraged longer-term planning is moving to longer-term budgeting. I can remember a time when there was more short-termism, because budgets were set year on year on year. Now we have longer-term planning, departments are better—

Q97 Mr Breed: What is long-term in your budgeting?

Mr Hudson: Typically the spending reviews have operated over a three-year cycle in recent years.

Q98 Mr Breed: That is not very long, though, is it?

Mr Hudson: So departments have been able to plan. It is, again, down to scrutiny, down to good management across departments about how they plan their work. On maintenance, one of the examples of savings that has been achieved is through the Highways Agency getting improved cost-management of maintenance contracts.

Q99 Mr Breed: So you are confident that there is no encouragement of short-termism to long-term detriment in that sense.

Mr Hudson: Yes.

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Q100 Mr Breed: Okay. Why did you decide against introducing specific staffing targets under CSR07? There is a suggestion that the advances, such as they were, made under Gershon are now potentially being reversed?

Mr Hudson: As part of developing the approach to value for money, it was felt that it gave departments more scope for how to deliver these savings if it was looked at in terms of an overall efficiency gain which might well be reflected in changes to staffing but did not have to be. So rather than add an additional constraint, it gives more scope for genuine exploration of where the best value for money can be gained to focus on what is being achieved for the funding that is available; how the department can best achieve its objectives within that funding that is being agreed without having a specific sub-objective, if you like.

Q101 Mr Breed: So the original idea of staffing targets was probably not a very good way to go.

Mr Hudson: I talked about the way that the Government’s approach had developed over time, and this may be an example of it, in that, as part of getting this process underway on a comprehensive basis, the head count reductions were judged to be the right thing to do in the early to middle part of this decade when the approach to delivering value for money, and the culture, if you like, was less well entrenched than it is now. Having over delivered on the Gershon staffing reduction targets, as well as over delivered on the financial targets, the judgment was that it was now more appropriate to specify value for money in the way that I have described. It does not mean that administrative savings, if you like, are not an important part of the approach, because each department is having to reduce its administrative costs by 5% a year over this period as well.

Q102 Mr Breed: So having got rid of too many people, the service to the public having declined substantially, you had to go out and re-employ them, and now we call it something different under value for money savings. Is that it?

Mr Hudson: I explained earlier that I do not accept that the service to the public has declined, and there is plenty of evidence—

Q103 Mr Breed: You do not sit in our surgeries, then, at appropriate moments. In the Budget 2009 HMRC was given an additional recyclable target of £80 million. Where do you expect these additional savings to be found and what is the Treasury looking for HMRC to do with these recycled funds, should they arise?

Mr Hudson: As far as the details of HMRC’s work is concerned, I would have to refer the committee to Lesley Strathie, who I think is giving evidence later this afternoon. The judgment on HMRC was that, although they have, as you say, identified further value for money savings that they can make, given the pressures on the department overall, it was appropriate for that to be redirected to priority work areas within HMRC rather than, as with most departments, reflected in a reduction in their spending level.

Q104 Mr Breed: So they are being let off then, are they?

Mr Hudson: As I say, the details, I am sure, will be covered by Lesley Strathie, but I am confident she will not regard herself as let off the drive for value for money; far from it. Having been part of HMRC until a couple of months ago, I can confirm that they have got their foot as firmly on the value for money pedal as others have.

Chairman: We will check in a few minutes time.

Q105 Mr Love: Can I press you a little further on the staffing reductions? In the final report on the Gershon Efficiency Programme, the table in that report showed that across the Chancellor’s Department, although there had been a gross reduction of 19,000 odd, the net reduction was 16,000, about three and a half thousand lower. What happened to those three and a half thousand members of staff? Where were they reallocated to?

Mr Hudson: Are we talking about headcount reductions or reallocations?

Q106 Mr Love: It is on table 3.A of the Treasury final report on the Gershon Efficiency Programme. It shows in there, if you look at it, a gross reduction of 19,718 and a net reduction of 16,218. That is a gap of three and a half thousand people who must have been reallocated somewhere. Just give us some idea where those people went?

Mr Hudson: I am sorry for the interruption. I have got the point now. These were 3,500 staff, all within HMRC rather than the other Chancellor’s departments, who were reallocated to other work. So, as the table brings out, for the vast bulk of departments the gross and net figures are the same. For I think just Work and Pensions, and the Chancellor’s Departments (and here meaning HMRC), the staff were redirected. The difference between the two is staff who were redirected to other roles.

Q107 Mr Love: Perhaps at some point you could give us more information on that?

Mr Hudson: Again, in terms of speed, Mr Love, Lesley Strathie may have the details of the redeployment of those three and a half thousand staff.

Q108 Mr Love: I can see the second part of our session may be a bit longer than the first part, as you appear to be passing on quite a lot to her! You mentioned earlier, in answer to questions from Mr Breed and Mr Thurso, the controls on service quality that were part and parcel of that Gershon process. Obviously, it is a significant number, the 16,000 odd net reduction figures. We heard extensively from the trade unions that this was having a very adverse effect on particularly HMRC. This question will
undoubtedly come up again, but I wanted to get your view in relation to how confident you are that the controls on service quality contained in Gershon were adequate to the task.

**Mr Hudson:** It was a serious requirement for permanent secretaries, I think I am right in saying, to sign off these controls formally, so, yes, I am confident.

**Q109 Mr Love:** Let me ask you a very specific question. Again, this will come up in the second part. It was put to us that the amount of tax outstanding had gone up considerably, and the trade unions believed that that was at least partially the responsibility of the net reduction figure in staffing. Was there any concern that the effect of the net staffing reductions would have an impact on the tax figure, the tax gap, if I can call it that?

**Mr Hudson:** That is clearly something which we need to keep an eye on, though I note that the actual tax collected went up year on year through 2006–07 and 2007–08. So, although I recognise the concerns that have been expressed, I think that is the outcome and, again, I am sure HMRC will expand.

**Q110 Mr Love:** Can I ask you about redundancy payments for the people who were released from their employment? Do you have any idea of what the overall redundancy payment was for the reduction in staff?

**Mr Hudson:** I do not, I am afraid. I do not know whether we collect this.

**Q111 Mr Love:** We will come back to that. Finally, we talk about gross and net figures. Would the redundancy payments have been netted off your final efficiency savings as a matter of principle, if you do not know the practicality of it?

**Mr Hudson:** I do not know. Again, rather than give an answer straight off, perhaps we can let you have a note on the detail of that.³

**Q112 Chairman:** There is a principle here. Either you include the figure in your final savings or you do not.

**Mr Hudson:** I am advised that Gershon allowed both gross and net figures. I think this is one of the differences between the Gershon approach and the approach to the £30 billion savings. For the £30 billion, those savings have to be net of both on-going and up-front costs. For the Gershon savings, they did not have to be.

**Q113 Mr Todd:** When we saw Dr Read, he impressed on us that efficiency programmes do not have an end; they become a part of the skill-set of the organisation involved. To what extent has that actually happened?

**Mr Hudson:** I think it is happening more and more, and the value for money is more deeply embedded in the culture certainly than when I was last working on public expenditure issues ten years ago. It is more entrenched, for instance, in the process of capability reviews, and that is going to be taken further following the document on Working Together which was published back in March, saying that future capability reviews will give much greater weight to value for money. I think it is a bigger part of people’s daily work, and that is down to working on things like Gershon and the initiatives we have been talking about.

**Q114 Mr Todd:** There is an argument for saying that the initial programme was focused on relatively incremental change and some low-hanging fruit on procurement, for example and that the next stage would involve a substantial organisational change and repurposing, which demands a completely different skill-set. First, would you agree with that and, secondly, if you do, does that skill-set exist within the departments who will have to carry out these programmes?

**Mr Hudson:** Whether we are moving to a totally different type of change will vary from department to department and service to service. As to the skill-set, one thing that we are very keen to do is to learn from best practice that is already in place in the public sector and to spread that. One of the points that came out of Martin Read’s report is that he found some excellent practice within the public sector, and one of the things we are trying to do through the Public Value Programme, for instance, is to identify people who have already delivered major value for money improvements within particular departments, or particular sectors, and make sure that we are learning from their success, and, as we get better benchmarking data on the HR and IT areas that Martin Read looked at, we will be still better able to identify who those people are and spread and use that skill-set.

**Q115 Mr Todd:** The work that he did focused very substantially on back office, IT and shared resource issues, in relation to which we have a track record of at best patchy in achieving. It involves substantial cultural challenge of working across departments, for example, or in local government working across completely different organisations. To be honest, is that skill-set there to carry out those sorts of tasks: because that is well beyond the function of simply saying that we have got to find a way of making 10% savings here?

**Ms Tulett:** Perhaps Mr Smith could help us on this.

**Mr Smith:** You mentioned procurement. I would say, quite clearly, on procurement, having had a look at it, a lot of the increases or savings have been, in the past, tactical, if I can call it that. Looking forward, I think you have to go to a more strategic approach. It will require more sophisticated systems—there is no question about it—and, on procurement in particular, the heart of OEP is about collaborative procurement. Of course this hits the other issue that you raise, which is a problem: how do you get government to work together for a common cause, which committees have many times talked about? On collaborative procurement that is what this is about. Later on, you may want to ask about the collaborative procurement part of OEP, but certainly in setting that up we have now got

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collaborative boards in place on six categories; we are going to extend it by a further three categories. That is not just for central government: we have got representation from the wider public sector and we have strategies being developed, or which have been developed, for each of those categories. So the answer is, yes, I think it does require a more strategic approach and a new process in order to get these savings, certainly on the procurement side.

Q116 Mr Todd: Can I query the balance between top-down and bottom-up to the culture of this?

Mr Smith: Yes.

Q117 Mr Todd: The two recent programmes, the OEP and the Public Value Programme, appear to be substantially top-down programmes: this is what must be done. Whereas other programmes started in the last CSR exercise appear to be more bottom-up and departmentally led. Is there a difficulty there?

Mr Smith: I will certainly take it from the procurement point of view. I do not want to sound too trite, but I think it is both.

Q118 Mr Todd: It cannot be both in accountability terms.

Mr Smith: It can, but accountability is a joint accountability based on and driven by the collaborative boards concerned. The process and structure of collaborative boards comes from the top with involvement and information provided to those boards coming from the bottom, if I can call it that. I feel uncomfortable calling the bottom the people that deliver out of the departments or the wider public sector, but, in my experience on the collaborative programme there have been as many benefits coming from understanding, for example, what is going on in local government—framework agreements, good ways of buying, procuring particular categories. So actually getting people in the collaborative boards to develop the strategy and then saying, “Right, we are now jointly going to follow the strategy and comply with it as a group.” That is not me at the top mandating compliance. So, I think it is both: top-down in designing the process and bottom-up in developing the strategy and then implementing it through collaboration.

Q119 Mr Todd: One last point. The Public Value Programme does not appear to touch the Chancellor’s departments. Is that correct?

Ms Tulett: I think we are still waiting to find out, actually, how that will be impacted on the Chancellor’s departments.

Q120 Mr Todd: It may do, but it has not been one of the items that have been separately identified to date?

Ms Tulett: Yes. That is my understanding.

Chairman: Let us move on and hear a little more about the OGC. Graham Brady.

Q121 Mr Brady: How profound an effect has the introduction and development of e-auctions had on public sector procurement?

Mr Smith: I would not describe it as profound. In fact, one of the recommendations of the OEP is that we should actually look at the possibility, the feasibility, of setting up a centre of excellence for e-auctions. I would say, quite openly, that was one which I basically pushed to be included in the report. We have had some success on e-auctions; there is no question. OGC itself has been almost pump priming and marketing e-auctions. We have run ten. The spend covered about £150 million, and average savings against last bought cost against that ten is 31%. So, in terms of the volume, we have saved £43 million on those ten e-auctions. Could we do more across government on e-auctions? Of course we could. I would just make the point, though, that e-auctions are not appropriate for many parts of procurement of third party goods and services. So it is not a panacea which you can say: “We spend £175 billion. Let us get everything done by e-auction.” It will be a small part of that, but we do not do it and use it as much as we should. It has got a tremendous opportunity. In my private sector career, one of my US businesses, half of its total business, something like $500 billion, was subject to e-auctions.

Q122 Mr Brady: Do you have an estimate of the total savings that have already been achieved in the Chancellor’s departments?

Mr Smith: I do not. I can give you the total savings for OGC and also Buying Solutions. The total saving over the last three years is about £60 million, just from around about 20 e-auctions. There are many, many more e-auctions happening in local government and in the wider public sector. The issue is that e-auction is all about how can you get common specifications that you can go to market with a commonly assessed quality of service coming back from the supply base? So actually this collaboration in procurement presents a tremendous opportunity. For the first time we can collect the requirement from across government, we can see how that would be appropriate for e-auctions and then we can go to market, but, I have to say, e-auction will take, on average, about six months—five months to set up—because it requires qualifying the supply base, getting the right specifications. So all of the participants agree the specification, the service, the delivery and the quality; it is not just about price.

Q123 Mr Brady: Could you perhaps write to us with an estimate of the total savings which have been achieved in the past in the Chancellor’s departments, or the closest you could get to them?

Mr Smith: I can give you an estimate, yes.4

Q124 Mr Brady: Also, you said that, whilst it is not a magic bullet, there is more that could be done and that it could be used in more places than it is at the moment. Do you have particular thoughts about where it should be rolled out to?

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Mr Smith: I think it is appropriate right across the wider public sector. In terms of categories, I think it is more appropriate to procurement of product than it is to service, but I would have to say, I have got personnel experience of large service contracts being put to e-auction successfully. If you look at the history of government, I was reading about an e-auction that took place three years ago, two and a half years ago, in the Ministry of Defence, which was actually about refitting. I think it was, part of their service fleet, repairing and refitting. So you can do some complex stuff, but it is mostly about product—for example, product with service around it: so tinware, if I can use that expression, for IT, so for laptops, for multifunctional devices; those are the classic sort of pieces of product which lend themselves to e-auction.

Q125 Mr Brady: Can I move you on to relocation of staff? What proportion of the OGC’s £5.7 million of efficiency savings was achieved through staff relocation?

Mr Smith: In terms of the OGC, the £5.3 million, just for clarity’s sake, was split between OGC at £3.5 million and £1.8 million from Buying Solutions. Buying Solutions is not part of OGC. Buying Solutions does report to me, but it is not part of OGC. There was a small part associated with relocation—Buying Solutions transferred 22 posts out of London (15 staff out of London back to Liverpool and seven staff to Norwich). In terms of Buying Solutions the savings actually came out at £2.2 million not £1.8 million. As far as OGC is concerned, virtually none of the savings came from posts relocated; it was primarily associated with better procurement before it went into shared services and got rid of a number of corporate services which had been duplicated across a number of departments. So it was a small amount of money from a number of areas.

Q126 Mr Brady: How many of those staff did move to follow their jobs and how many appeared to balance that?

Mr Smith: I have not got that information. Certainly there were five posts relocated and 22 for Buying Solutions.

Ms Tulett: I can talk to the core Treasury relocation. There were ten posts which moved from London to Norwich, and they were genuine posts, and they were actually under the group shared services. So where I described earlier that we had actually corralled all the corporate services, in doing that what we actually did was identify ten posts that could be done perfectly well in Norwich and grew the population of corporate service staff that we had in Norwich which we had inherited from the previous OGC corporate services. So we identified ten new staff there and we redeployed the staff who were then free from that work in London.

Mr Brady: Thank you.

Q127 Ms Keeble: This efficiency programme is also then returning the public finances back on to a sustainable basis. I am not sure if you have seen the PwC report, which spelt out three options: year on year cuts in spending of 1.4%, a freeze in tax increases or very substantial efficiency savings. I wondered if you had looked at those and could comment on the plausibility, or possibility of each of them?

Mr Hudson: I think the Government set out its plans for fiscal consolidation in the Budget. It remains committed to ensuring sound public finances over the medium term and has set out consolidation measures that will halve the deficit within four years and reduce borrowing by a total of £50 billion, and that is the Government’s judgment on the appropriate pace of consolidation, which is, I think, the issue that PricewaterhouseCoopers were addressing there.

Q128 Ms Keeble: I do not remember seeing options specifically around spending cuts, because 1.4% was more than the restrictions that we had from 1996 to 1999; I also do not remember seeing anything substantial about tax increases and I also do not remember seeing anything substantial about efficiency savings either, not on the £37 billion scale.

Mr Hudson: I think the efficiency savings that PricewaterhouseCoopers were talking about when we got behind the headline figures, their figures turned out to be fairly similar to those which the Government is driving through, through the operational efficiency programme. Nigel Smith may be able to say more about it.

Q129 Ms Keeble: Your figures go up until 2011, do they not, and the PwC figures are going up until about 2013, 2014. So they are incremental, are they not?

Mr Hudson: The operational efficiency programme figures that are in the budget, the total of £15 billion worth of savings from back office and so on, do go up to 2013–14.

Q130 Ms Keeble: But £15 billion is less than half of what the PwC proposals are; they are £37 billion, are we not?

Mr Hudson: We are talking about slightly different things and, again, the big difference is about the procurement figures. Nigel Smith will be best able to explain that particular element.

Mr Smith: In fairness to PwC they did put a fairly heavy caveat on this. This was not exactly the back of a fag packet but this was not with any in-depth study, but having said that the figures that were quoted were for 2015–16 and we have got comparable figures on procurement for 2013–14. The range of PwC savings on procurement—

Q131 Ms Keeble: They said that you should aim to restore the current budget back to balance by 2013–14 instead of 2015–16.

Mr Smith: Sorry, I was just talking about the procurement element where they were talking about the potential for savings from procurement. I cannot really comment on the overall government budget side. On their range for procurement, the range they gave was between £9 billion and £24 billion. The Government’s OEP programme only talks about procurement in respect of the collaborative programme; there will be other procurement efficiency benefits within the departments where they
are not doing things through collaboration, where they are purely doing things about improving their procurement on things that they only buy for themselves. If you look at the way that PwC split it down, the first is e-commerce benefits, the second is renegotiation of contractual spend, which is largely the departments on their own, and the third is the buying landscape. If you look at where the equivalents are to the OEP, most of it is actually on the buying landscape and here they expressed a view that between £1.5 billion and £3 billion of benefit could be achieved by 2015–16. Actually in the OEP for collaborative procurement there is £7.7 billion of collaborative procurement benefits built in to 2013–14, so we are actually comparing a bit of apples and pears, certainly on the procurement side, I cannot talk about the others.

Q132 Ms Keeble: You seem to be as a group very complacent if I might say about the prospects for getting the budget back into balance, whereas from what we have seen and heard in this and other reviews and certainly in our visit to the States where we heard very similar kinds of figures and projections to what we have got here, the prospects look much more difficult and I really wonder how you think you are going to manage to get the public finances back into balance in a very difficult time.

Mr Hudson: As I say, the Government set out its fiscal plans in the Budget and that takes a judgment on the appropriate pace of consolidation, recognising uncertainty around the prospects given the exceptional nature and strength of the global downturn, the need to support the economy through the earlier stages of recovery and the need, of course, to deliver sustainable public finances. That is the judgment that has been reached.

Q133 Ms Keeble: You say that you have not got particular projections for the job losses that will come out of this or the head count reductions, but how can that be when you must know roughly what the public sector or the civil service employment—central government employment—projections are going to look like. You must have some projections about the number of jobs that you expect to go as a result of this. Out of the Gershon savings you lost 86,000 jobs head count so it is going to be upward of that, is it not, looking at the kind of spending cuts you have got?

Mr Hudson: These are value for money savings rather than spending cuts and over the period up to 2011 we have got increases in spending in the Comprehensive Spending Review, after that again the Budget publishes the forward figures for current and capital spend, so we are talking about value for money gains and the implications for headcount will vary depending on how departments choose to deliver those gains. Nigel Smith talked about the scope for procurement gains, for instance, and whether there are net head count reductions will then depend on whether staff who are not needed for one purpose may actually be redeployed to another purpose.

Q134 Ms Keeble: In the last round of savings you had 86,000 head count reduction and that was at a time when people could easily find other jobs. Now it is completely different, we have rising unemployment, and if you are making efficiency savings of greater value then you are going to be doing it at a time when we have got high unemployment. You must have looked at the impact of the loss of civil service jobs on overall unemployment figures.

Mr Hudson: As I say, these savings, value for money improvements, are delivered department by department, the impacts will vary considerably and I do not think it is possible to generate a single net figure for the impact overall.

Q135 Ms Keeble: You must also have looked though, given that we are in the middle of very difficult times, at the impact that public sector spending has on the overall shape of the economy and the impact, given that we are going to have these efficiency savings and other savings to get the budget back into balance. Have you done any projections as to what the impact on the overall shape of the economy will be of making that kind of contraction of public spending at a time when the private sector might not have expanded to take up the slack?

Mr Hudson: What happens to the overall shape of the economy will depend on a number of factors and this is only one. The decisions taken by private sector employers—clearly there are other measures in the Budget, there are plenty of measures to support the economy and to foster the recovery through these difficult times, and that will have a much bigger impact on the overall shape of the economy than what we do in the public sector.

Q136 Ms Keeble: Finally, have you ruled out any efficiency savings for example from things like offshoring?

Mr Hudson: How departments deliver is a matter for them—I do not know whether anybody wants to add to this. If there were to be proposals for offshoring then the department in question would want to consider that very carefully in the light of all the circumstances.

Q137 Ms Keeble: Have you looked at it yet or not?

Mr Hudson: It is not something I have looked at.

Mr Smith: If I could just make one comment about outsourcing, because offshoring is a part of outsourcing, outsourcing is legitimate to look at but it should not be deemed to be the preferred route. You have basically got to look and see where value is going to be created, and if I can just say, looking around the areas in government where, for example, shared services have been created, there have been some bad ones and there have been some good ones. The issue is getting benchmarks on what good looks like and then assessing whether or not it could be achieved in-house or through outsourced services. We have a number of initiatives at the moment which I am involved with which are effectively outsourcing but within government, if you know what I mean—outsourcing from a department but within government. There is a tremendous amount that can be done within the
procurement landscape on actually getting a more efficient process for procurement. The idea that we are going to duplicate—for example on energy we spend £3.5 billion a year, we are far and away the largest buyer of energy in the UK, almost the largest buyer of energy in Europe, yet we procured energy 250 times out of the wider public sector in the last 18 months. That cannot be efficient, this is duplication on a commodity product, so that is why on the collaborative agenda—I am sorry to keep coming back to this, but this is what I am interested in—we have got everybody together and next year we will go from dealing in the retail part of the market. This year we are dealing in the wholesale part of the market and next year we will look at common single point procurement from government with generators. That is what I was saying before about the sophistication of the systems that are needed. It is not tactical, it is strategic, so there is undoubtedly a shared service opportunity for government inside government.

**Chairman:** All right. Peter Viggers.

**Q138 Sir Peter Viggers:** I did not hear a clear answer to Sally Keeble’s main point. The PwC report *Dealing with Debt* points out that the Government’s plan in the Pre-Budget Report was to return the current budget to balance in 2015–16 and of course since the PBR the situation has deteriorated significantly. PwC says “We think the Government should aim to restore the current budget balance in 2013–14 rather than waiting until 2015–16.” Do you agree with that?

**Mr Hudson:** I do not think I have got anything to add to the previous answer, Sir Peter, in the sense that the Chancellor set out the plan for ensuring sound public finances over the medium term in the Budget in the light of the factors that I described.

**Q139 Sir Peter Viggers:** Very well; that question obviously needs to be addressed to somebody else. Turning to Gershon, which of course resulted in a jobs reduction of some 86,000, we then moved on to CSR07 which had rather different parameters and that was focusing on value for money rather than on the number of jobs. I wonder whether the Government has lost the plot because in fact public sector employment has increased significantly in each of the last three quarters. Public sector employment increased by 15,000 (seasonally adjusted) in the fourth quarter of 2008 for instance and employment increased by 15,000 (seasonally adjusted) in the fourth quarter, so we are getting more public sector employment and less private sector employment; I just wonder whether Gershon was simply squeezing the balloon and the Government rather lost the plot at this point.

**Mr Hudson:** Not at all in terms of value for money. What the Government is doing is investing in public services, bringing out a number of improvements in public services, some of which will involve more staff—I understand that civil service numbers are actually down this year, so the extra staff must be elsewhere. Overall the Government is investing in public services in parallel with, as I say, taking a very stringent line on value for money so as to get the maximum out of that investment.

**Q140 Sir Peter Viggers:** Then PwC puts forward two very stark choices and I suppose you are telling me that the Government is not proposing to address these stark choices because, as you explained to us, this is its policy.

**Mr Hudson:** I am saying that the Government has addressed the issue of the appropriate pace of consolidation of the public finances and set out its policy in the Budget.

**Q141 Sir Peter Viggers:** Turning to Gershon, which of course resulted in a jobs reduction of some 86,000, we then moved on to CSR07 which had rather different parameters and that was focusing on value for money rather than on the number of jobs. I wonder whether the Government has lost the plot because in fact public sector employment has increased significantly in each of the last three quarters. Public sector employment increased by 15,000 (seasonally adjusted) in the fourth quarter of 2008 for instance and employment increased by 15,000 (seasonally adjusted) in the fourth quarter, so we are getting more public sector employment and less private sector employment; I just wonder whether Gershon was simply squeezing the balloon and the Government rather lost the plot at this point.

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**Q142 Chairman:** We are going to leave it there, but just two final questions, Louise Tulett, on more general issues. You got into a tangle last year producing your report and accounts slightly late. Louise Tulett: We did.

**Q143 Chairman:** Are you going to be on time this year?

**Ms Tulett:** We are. We are producing a combined document this year which is better than last year where we had to split them, and that will be published pre-recess. We are currently on track to deliver that and are taking it to our own audit committee next week. Quite a lot of the audit work has already been done on it as well.

**Q144 Chairman:** The issues with the National Audit Office will not delay it.

**Ms Tulett:** No, we have been working closely with them actually since about last November, addressing issues as they have been arising.

**Q145 Chairman:** Finally the Line of Sight Project, which we take quite an interest in, would it be possible to have an update note on that, as to where they have got to?

**Ms Tulett:** Yes, surely. I will speak to my colleagues who are in charge of that.

**Chairman:** I would be grateful because we want to see them in October. Many thanks to all three of you for helping us today, and can we have the next witnesses please?

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5 Ev 70
Ev 22 Treasury Committee (Treasury Sub-Committee): Evidence

Witnesses: Ms Lesley Strathie, Chief Executive, Mr Simon Bowles, Chief Finance Officer, and Mr John Keelty, Director Departmental Transformation Programme, HM Revenue & Customs, gave evidence.

Q146 Chairman: Lesley Strathie, welcome to the Sub-Committee; could you briefly introduce your two colleagues and then I understand you have got a short opening statement.

Ms Strathie: Thank you very much, Chairman. On my left I have Simon Bowles, who is the new Chief Finance Officer for HMRC and who joined the department on 17 March of this year, and on my right I have John Keelty who was the Director of the Departmental Transformation Programme who worked on the governance of our change and who has only recently taken up the challenge of our latest efficiency board. I just simply want to say very quickly that whilst I did not live through the efficiency SR04 period in HMRC I did in my previous job as Chief Executive of Jobcentre Plus as part of DWP, but a lot has happened in the last year for HMRC. We have a new governance model, I am the Principal Accounting Officer and Permanent Secretary but occupying the Chief Executive role and we have a Non-Executive Chair. We have recruited six new non-executives to that board of governance and we have issued our Purpose, Vision and Way and our Business Plan for 2009–10 which shows our six new objectives and how we will measure them, so part of that of course is realising efficiencies.

Q147 Chairman: Thank you very much; obviously we will be seeing quite a bit of you, I think, as we get into the annual reports. Could you just tell me what you understand by the terms “efficiency savings” and “value for money”. Are they interchangeable for you?

Ms Strathie: Efficiency is inputs and outputs and it means reducing our costs at the same time as maintaining or improving service, and I absolutely do believe that if you drive efficiency from the customer’s perspective you can both reduce cost and improve service levels.

Q148 Chairman: The PCS have called for a period of reflection before you embark on further efficiency gains so that you can more properly measure the effect on customer service; do you have any sympathy with that?

Ms Strathie: I have a lot of sympathy with a trade union—

Q149 Chairman: Empathy not sympathy.

Ms Strathie: Yes, I think I choose the right word. I have empathy for trade union officials representing their members and, inevitably, technology, modernisation, new ways of doing business is a real balance for those employed in the organisation and the efficiencies that can be offered through new technologies versus what that means for redeployment of the workforce or potential redundancies. In many respects we are reflecting; we have spent about three months over the winter reflecting on almost every penny and certainly every pound, making sure that it counts, we have paused in our Workforce Change programme to look very hard at redeployment first rather than redundancy, first of all across lines of business within HMRC and then more broadly in the department, and we have had quite a bit of success in redeploying to other government departments—in fact we signed a memorandum of understanding with DWP and Jobcentre Plus in seeking out areas where people could move from one department to the other. I do think we are reflecting on how we realise our efficiencies.

Q150 Chairman: The PCS have also alleged to this Sub-Committee that you have given up on retrieving debts under £10,000, is that true?

Ms Strathie: No, it is not, but to be fair I would say I can see why it could be construed as such. We do not ever give up on debt and indeed HMRC has a very, very good record of collecting nearly all debt eventually, we only write off 1%. In terms of prioritising resource in debt management, priority one is those debts above £10,000 in terms of tax and indeed we have had a number of campaigns recently that have started on varying levels of debt that come down way below that figure. We are looking at new ways of collecting debt, including piloting some of the tougher and harder to collect stuff with private sector providers—that is just in its infancy, but there is no central policy not to collect debt under £10,000.

Q151 Chairman: Mr Pete Woodyatt wrote a paper for you on 18 February this year saying DMB—that is part of your organisation?

Ms Strathie: Yes.

Q152 Chairman: Currently do not have the resource to reach these debts under present privatisation methods.

Ms Strathie: Exactly.

Q153 Chairman: What do you mean “exactly”, is that true? Do you have the resource or not?

Ms Strathie: We have priority one and priority two. In terms of the amount of much larger debt that we are focusing our efforts on through new risk tools, new risk-based approaches, then most of that resource was targeted on much larger amounts. It is not acceptable to simply deal with the high value, nor would it be fair to the total taxpayer base, but to add capacity we said that we needed to focus on a number of risk-based campaigns. The reason that that has been construed as we have not got the resource is that we are fully committed on much bigger debt and we want to find new ways and test the market in new ways to deliver it, not least by learning from the work that DWP has had much success in doing and looking at a similar approach. This is very much debt which is about visiting people, often at home, but actually very much around the part of debt collection that our own staff are not very keen on doing.
Q154 Chairman: I understand your points about priority but I just want to be clear about the factual accuracy of this, this says “DBM currently do not have the resource to reach these debts”, is that true or false?

Ms Strathie: I would say that that was true. That was an internal audit terms of reference and we were making absolutely clear two separate strands of work. We have actually redeployed resources to debt management and in fact we have refreshed the whole debt management strategy.

Q155 Chairman: It was true but it is not true now.

Ms Strathie: Yes.

Q156 Chairman: How much debt is amounts under £10,000?

Ms Strathie: I do not know if I have got the actual number of individuals. If I can say at the moment we are running a very successful debt campaign for £20,000—

Q157 Chairman: I want the figures; if you have not got them now can you send us the figures, please, the percentage and volume of your debt that is under £10,000.

Ms Strathie: Yes, we will do that.6

Q158 Chairman: If you have got problems resourcing that kind of debt collection are you likely to outsource it?

Ms Strathie: As I said, we have already agreed with the Financial Secretary that we will look at new ways, much more modern ways of collecting debt, and that absolutely includes a mixed economy using providers that match our standards. We have already agreed that and started to test the market in that area.

Q159 Chairman: There is no hang-up about using private debt collection agencies.

Ms Strathie: Lots of people have hang-ups about debt—

Q160 Chairman: But do you?

Ms Strathie: No, but I would be very, very careful where I went to market. We had several experiences in my days in DWP and in different parts of the agencies and there were very few companies that matched the standard we were looking for, and rather than HMRC start from square one, we are starting from that learning. We are also working across the piece with DWP to look at our shared customer base over a period of time to see how we can collect each other’s debts as people move in and out of work, which will create much more capacity too.

Q161 Sir Peter Viggers: To move forward, of course, one has to establish where one is. How do you feel about the present situation because Dave Hartnett has said that HMRC contact centres are under pressure. “There’s more demand from people wanting to contact us than we’ve ever seen before …” How do you see the present situation?

Ms Strathie: HMRC has achieved a lot and come a long way but as far as our contact centre performance is concerned, which is an improving trend, it is nowhere near where I would like it to be on first contact. It is delivering very good satisfaction levels when people get through and their queries are resolved etcetera, but at the moment the number of peaks we have in business on the various taxes and tax credits renewals means we have a customer demand growing at just under 8% a year, and that presents an enormous challenge in moving a lot of that demand out, eradicating waste, so that we can reach my aspiration which is the industry standard, which is that we would answer 90% or more, of calls answered first time. At the moment outside of the peaks we are delivering 75% apart from about three weeks, but if you take the difficulty in the peaks of tax credit renewals and others it averages out at about 57% across the year. That is not the standard that we want to give in terms of customer service.

Q162 Sir Peter Viggers: Have you closed too many offices? How are you going to cope with the improvement and ensure you get improvement?

Ms Strathie: In terms of offices it is important to say that apart from where we had two offices very close together in one or two cases we have not closed any face to face service; our office closures or rationalisation of our estates and consolidation is around back office. We are still delivering face to face where we were, there is not anything like the demand that there was in the past and if you look at online filing, there has been a huge success this year where we increased the number of people doing that by 55%. It is showing that customers are choosing other channels and we really believe that most people want to engage through the internet or the telephone, and for us we want to focus our face to face services on our most vulnerable customers.

Q163 Sir Peter Viggers: Tax advisers have expressed concern that the additional efficiencies announced in the Budget could harm your services; do you agree?

Ms Strathie: If we do not manage it properly, yes, that could happen, but I do believe that there are real opportunities there for us and I also think that Treasury has recognised just how much HMRC has done, just how big our challenges were in SR04 and SR07 and, because of that, have agreed that we can recycle the additional £80 million we have taken on. We need that because we actually need to move people from back office to front office and we want to recycle to improve frontline service. We have plenty of opportunity to do our work differently and better.

Q164 Sir Peter Viggers: The most recent staff survey really was appalling in terms of staff morale with only 16% saying they are strongly satisfied with the Department. Why is staff morale so low and is it likely to improve?
**Ms Strathie:** The senior team take these results incredibly seriously and in fact we have already started taking action to address them. There are lots and lots of reasons why morale is low; one of them you could look at as an extension or as an impact of redundancy avoidance measures. We have taken a long time to reduce our head count, we have not made anybody compulsorily redundant, we have done lots of it through natural wastage and that inevitably means that people are left uncertain for a very long time about their future. It means that to be a fit for purpose tax administration in the 21st century many of our people need to move to different types of work and lots of people have had to move from one location to another, and they do not know what the end is yet. Right now we have three times as many people who want to stay in the organisation as would say it is a good place to work, and we have three times as many people who want to stay with us than would strive for the organisation’s success. It behoves us all, from me and the board and right through our leadership team, to engage with our people because it is going to be honesty, cultural change and being sympathetic to people who have some difficulty paying at that time versus being pretty tough and relentlessly pursuing those who we know could pay but are avoiding paying.

Q168 **Mr Todd:** It may help if you set out your standards and your performance and send them to us because I would find some value in that; I spend quite a lot of time on constituency issues relating to debt collection agencies and I am alarmed a little at the way they are used.

**Ms Strathie:** I can certainly say in going through the process, without going into any commercials, it came down to a very narrow number of companies that met our standard.

Q169 **Mr Todd:** Can I turn to the relocation programme? I have written separately about an office relocation issue in my area and, if I might use it as an example, there I wondered whether you had attempted to put some recession corrective to some of the assumptions that had been made in the original design of the programme. The marketability of office space that you are freeing up I would imagine has diminished dramatically over the last 12 to 18 months and any assumption that was made on the savings that might be achieved from giving up office space is likely to have been extraordinarily optimistic.

**Ms Strathie:** In principle for the country, yes, I agree with all of those. We are slightly more fortunate than the person who supplies to us here because the terms of our relationship with Mapeley are that once we have declared that we are moving out, 12 months later they have to take the estate back, so we can be pretty clear on when we would harvest those savings.

Q170 **Mr Todd:** Those savings are genuinely realisable.

**Ms Strathie:** Yes.

Q171 **Mr Todd:** And Mapeley have the unfortunate task of trying to find a home for the odd floor of office space in Burton, in my particular case.

**Ms Strathie:** Yes.

Q172 **Mr Todd:** Regardless. What about the cost of relocating staff? I believe there is a supported transport arrangement for people to deal with that, but can you set out the costs of that programme?

**Ms Strathie:** I cannot give you the total cost of what we have spent on that particular element; it is a small amount in the overall workforce change programme but basically what we have done is tried to create additional support for people who really want to stay with the organisation, are prepared to move to...
a location but without a bit of support we could not, either because there is no public transport or there are affordability issues.

Q173 Mr Todd: In my local case there is certainly a public transport network between the two locations you have chosen to shift staff between, Burton and Derby; I am assuming therefore that there is some sort of subsidy arrangement for staff which must cost some money.

Ms Strathie: Yes, exactly. We are striving to ensure within all of our rules around the benefits in kind that we can accommodate any additional costs and that for a period of time for adjustment.

Q174 Mr Todd: Could you provide us with some sort of breakdown of the staff who have been affected by this transformation programme? Is this a shooting the Indians exercise? Do some of the chiefs also bear some of the effects of this programme? Is there any difference in the gender balance, for example, in the impact that is taking place?

Ms Strathie: We could give you what the baseline was in terms of the diversity of our numbers and the grade mix.7

Q175 Mr Todd: That would be helpful.

Ms Strathie: And where we are now. We cannot do that here today but I can say to you generally that particularly where we redeployed about 3,500 of our SR04 savings there were a lot of managers in that redeployment because our effort was to push people from back office jobs that we did not need because of automation, but rather than recruiting we actually moved people to where we needed them for front line services.

Mr Todd: You have mentioned your relationship with Mapeley; what view do they take over dilapidations and that kind of issue in terms of vacating the space that you are freeing up?

Q176 Chairman: Perhaps we could bring in your colleagues to give yourself a rest.

Mr Bowles: If I can respond to that, we are responsible for turning over the property in good condition to Mapeley.8

Q177 Mr Todd: Presumably, again, there is a cost hidden in this exercise of that transfer to Mapeley.

Mr Bowles: If I can just carry on with what Lesley was saying, that was factored into the overall evaluation of the benefits of the workforce programme, so that was one element to it but overall the programme is planned to give substantial cash savings.

Mr Bowles: Yes, as part of the departmental transformation programme run by my colleague John Keelty we would review those benefits of those cases that were ongoing.

Q179 Mr Todd: Perhaps he would like to volunteer his thoughts on how we are actually doing in reality against the projections because I must admit the perception in my area from the offices affected is that this seems unlikely to produce savings at any time in the short term.

Mr Keelty: Because we can actually get rid of the property we do make the savings. Many people forget the Mapeley dimension and they just look at the current high street with the offices that are unoccupied and therefore we must be in that market, but we actually do realise the savings. We are currently making significant savings.

Q180 Mr Todd: I had not realised that that contract was quite as balanced towards us as that and I am relieved in some ways.

Mr Keelty: It does make quite a significant difference and we are making significant savings.

Q181 Mr Love: Has HMRC made any assessment of the head count reductions that will be necessary to achieve your value for money commitments?

Ms Strathie: If we go back to the SR04 there was an assessment over the longer period of 25,000 in total. We are clear from where we stand at the moment that most of our money goes on our people, our IT and our estate, so wherever we get the savings it is going to come from those areas and the head count numbers depend on the grade mix and the job design, so it is not as specific at this stage because the head count is just a cashed-up budget. We know that we have more to go, just as we have delivered more since the end of the SR04.

Q182 Mr Love: PCS, in a press release that they put out, suggested 25,000 jobs and 200 offices to close; does that bear any relation to the reality for you?

Ms Strathie: The 25,000 was always a planning assumption from the start of SR04 through the longer period over a five year period. I do not think it is far out but like any chief executive you constantly stop and review if you are delivering your savings where they are, and if you are not whether that is still the right way to do it. My view is that I went to do this recognising that the labour market
3 June 2009  Ms Lesley Strathie, Mr Simon Bowles, and Mr John Keelty

has changed, economic conditions have worsened, and to work with our workforce in terms of what is right for them over the period of time. We can never rule out compulsory redundancy but we will take every step we can to avoid it.

Q183 Mr Love: We heard about the morale difficulties in HMRC earlier and of course PCS appeared before us, but also the President of the Association of Revenue and Customs is on record as saying that there “is no dead wood left” to cut. Are they being over-dramatic in saying that there will be a very negative effect from any further cuts in headcount?

Ms Strathie: I would not use the term “dead wood” although I know Terry Cook did; I simply say that there is always another way to do things and if you are working efficiently and you simply take out the numbers we have taken out or more and carry on doing everything the same old way, then it would be terribly detrimental. The challenge is to keep moving on the journey and learning from others who have done things, exploiting technologies. I believe that the biggest stress and morale issue is where people are trying to hang on to the past. We are not short of good ideas of how to make it better, from our frontline staff all the way up, and the challenge for us is getting people to let go of the old ones.

Q184 Mr Love: Let me ask you about the mix in the headcount in the Gershon efficiency savings where you made more than the required target. Did you lose a lot of very experienced staff in that and are you happy with the balance that you reached in terms of the people who left your employment?

Ms Strathie: In an ideal world if I had been around I would have liked to right size, right shape the organisation, explain exactly how it was going to look by the end of the period and then work about moving. When an organisation embarks on natural wastage as its strategy, inevitably you will lose good people that you would like to have kept and you will not necessarily lose them in the right place. Contact centres, for example, as an industry have the highest attrition rates of any part of our administration; therefore you will constantly be changing people there, but in other areas of work there are people who have invested a lot in the organisation and would like to stay even though we do not have a demand for their particular skills in that location any more.

Q185 Mr Love: Under value for money it is net savings rather than gross as it were under Gershon; that means you have to take into account things like redundancy payments.

Ms Strathie: Yes.

Q186 Mr Love: What sort of level of redundancy payments did you have to make during Gershon and will the need not to have those sorts of levels of redundancy payments mean that there will be more compulsory redundancy rather than voluntary?

Ms Strathie: I would say first and foremost that for all the disadvantages of a natural wastage strategy HMRC has got probably the best record in Whitehall for low cost exit and people generally have had to apply several times. It has been the lowest cost of any severances of the three types of severance that civil servants would qualify for, so our numbers are reasonably low. Were we to make people compulsorily redundant then they would be very expensive.

Q187 Mr Love: But you could choose who to make compulsorily redundant.

Ms Strathie: We would comply with the law, we would determine that the jobs have gone, we would determine they are going into redundancy and then we would agree the method of selection, and we would do that alongside our trade union colleagues too. It is a stage that we may have to face but we need to recognise that there is a high cost to that too.

Q188 Mr Love: Can you let us have the figures and the numbers in Gershon and the cost to HMRC?

Ms Strathie: We have 4,913 staff who left under approved early retirement, which is the cheapest form of exit, at a cost of £237 million over the SR04 period.9

Mr Love: Thank you.

Q189 Sir Peter Viggers: What percentage of your costs are salaries?

Mr Bowles: About two-thirds of our cost is payroll.

Q190 Sir Peter Viggers: So any cost reduction impacts self-evidently upon jobs very heavily. What consultation was there with you before the announcement in the Budget that there was a money-saving target of £80 million? To what extent were you asked about this and had discussions about it?

Ms Strathie: Quite a lot over a period of weeks. Bearing in mind Simon was fairly new to his job and I had not been all that long there we spent quite a long time looking at how we might do that and how we would find a way of identifying savings that could be made, and it being desirable to make them, but of course there is the opportunity cost associated with change and being able to then move people to other jobs—because we always have turnover—rather than recruit. We eventually recommended that package to the Financial Secretary and to the Chief Secretary.

Q191 Sir Peter Viggers: It came as no great surprise to you and you were managerially accepting of it.

Ms Strathie: Yes.

Q192 Sir Peter Viggers: Very good.

Mr Bowles: Sir Peter, might I just clarify the comment that any cost reduction must affect salaries and people, because there is the remaining third of our cost base around property and around our IT
services, and clearly we will be focusing across all of the piece as we look at rebalancing from back office towards the customer end.

Q193 Sir Peter Viggers: You are submitting to us that this was a natural process. I was going to ask if the targets are realistic and achievable why were they not included in your original value for money savings target?

Mr Bowles: If I may pick that up, you are aware that in SR04 we over-achieved; part of that was some conservatism and part of that was that an efficiency culture was being embedded. By the same token as we look at the SR07 savings we feel that we can plan to deliver an additional £80 million; that was not planned originally because although it was before my time I understand that we wanted to take a reasonably prudent approach to the efficiency savings that were committed.

Q194 Sir Peter Viggers: Why did your revised value for money delivery agreement not provide a breakdown of expected savings by CSR year as with your original value for money delivery agreement?

Mr Bowles: I believe that is because we are working through how we will phase the achievement of those savings.

Q195 Sir Peter Viggers: I was going to ask if that was because you were unsure as to when these savings might be delivered, but you are turning them around in a more positive way and so you have not yet made that decision.

Mr Bowles: There is a choice in these situations because you can sometimes have a trade-off between a saving early in a process or perhaps taking a bit more investment and a longer time to secure a larger saving.

Sir Peter Viggers: Very well.

Q196 Mr Love: Can I turn to something that Mr Todd mentioned earlier and it relates to a revision in your estimates? You had originally suggested that you could make savings from estates consolidation of £110 million but then in the revised figures that fell to £70 million. We assume this is related to the marketplace for selling assets; is it sensible to be selling them now or in the near future, or should you not wait until the commercial property market may ultimately end up. Thirdly, our arrangements with Mapeley do insulate us to a good degree from that.

Mr Bowles: There is an argument which says that we should get on with this because we need to increase the pace of change, firstly, and secondly it is difficult to have a clear outlook on where the property market may ultimately end up. Thirdly, our arrangements with Mapeley do insulate us to a good degree from that.

Q197 Mr Love: You are confident that you can resist the criticism that you are not getting the best value for public assets.

Mr Bowles: Yes, I believe we can.

Q198 Mr Love: Okay. There are additional value for money savings of £80 million estimated by HMRC; what proportion of that is a direct result of the operational efficiency or the public value programmes? Is it all related to that or are there other activities in there that you can make savings from?

Mr Bowles: These are savings that we will deliver within HMRC. As you point out there are the public value programmes and the operational efficiency programmes and we have committed leaders within our organisation in a number of areas—in the estate area, in terms of Pacesetter (which is our organisational process model) and in other areas to help share the expertise that we exploit across government, but that is additional and separate from the £80 million value for money saving.

Q199 Mr Love: This £80 million is termed as being recyclable.

Mr Bowles: Yes.

Q200 Mr Love: A great word. What activities would you be thinking about recycling them to and is there any hint that there will be cuts as a result of this £80 million saving?

Ms Strathie: I go back to what I said about customer service and focusing our face to face efforts and our labour-intensive processes on those customers who most need our help or those customers where it takes most effort to collect tax. It is very difficult to do a transformation at no cost and therefore if we want to reduce the cost, increase the efficiency of our back office, our whole stewardship, all of our corporate structures and our support services, exploit shared services to a greater extent than we have already, then that is going to mean moving people either out of the organisation or moving them out of their existing jobs and moving incrementally forward. That is why there will be costs associated with those transfers, there will be costs of exits for that, but our overall approach is to push more onto customer service and more onto compliance effort. We spend about a quarter of our total budget on compliance and closing the tax gap.

Q201 Mr Love: Mr Bowles, you are confident that this money will be able to be recycled within HMRC and, in the wider context of the pressures on public expenditure, the commitments you have been given from the centre are ones that you think they will abide by?

Mr Bowles: That is my expectation.

Q202 Mr Love: We will hold you to that.

Ms Strathie: We offer very good value in terms of what we spend and what we collect.

Q203 Chairman: Finally can I ask whether any of the three of you can estimate for us the gross level of savings delivered as a direct result of the merger of Revenue and Customs?

Ms Strathie: Do you want to have a go at that one John?
Mr Keelty: The target that was thought to come out of the merger was about 3,200 staff savings and that is going to come from the corporate services where we do not need two finance sections as a result of the merger, and various other areas as well. From the estimates that we have had it looks as though we have delivered about 3,000 of those savings.

Q204 Chairman: Out of 3,200.
Mr Keelty: Yes.

Q205 Chairman: Was there a figure? Was there a cost?
Mr Keelty: A cashed-up figure? I do not have a cashed-up figure for that, there was never one set as far as I am aware.

Q206 Chairman: Right, so these two organisations were merged without any particular target figure for the savings that would result.
Mr Keelty: The reasons why they were merged were not just on cost savings. It was to actually give the customer a much better service through the integration of the two organisations and to give a much more effective service generally as well as make economies of scale. We are doing that through the departmental transformation programme. We have talked a lot about the relocation and the shutting down of offices—a lot of that is due to the fact that we had two offices often in the same area. We had about 550 offices in about 333 sites at the formation of HMRC so you can see from that figure that there was duplication of those offices, so that is something that we are driving out through the departmental transformation process. We have always seen that we would get those efficiencies but I am not aware that an immediate figure was put on them, although of course it was factored into the SR04/SR07 settlements that we had.

Q207 Chairman: What about the finance structure, is it possible now to look back and say, okay, what were the costs involved in merging these two organisations and what were the overall savings as a result?

Mr Bowles: I have not done that exercise in the two months that I have been at HMRC.

Q208 Chairman: But you came from the private sector.
Mr Bowles: Yes.

Q209 Chairman: In the private sector that would be done, would it not?
Mr Bowles: My focus since joining has been on how I can help move the efficiency agenda forward in terms of delivering what I think are some great scopes for improvement.

Q210 Chairman: I hope you do not misunderstand me; we were told there would be all these improvements, there was logic to merging the two organisations, a huge saving in offices and so on. What I am asking is now, four years later, how did the arithmetic pan out, what were the actual costs of the merger and what were the savings?
Mr Bowles: I have not looked at the arithmetic.

Q211 Chairman: Can you look at it?
Mr Bowles: I think it would be possible to look at it, yes.

Q212 Chairman: Perhaps you would let us have a note. Good, thank you very much.
Ms Strathie: Could I just correct one thing before you close, Chairman, just on the debt management issue when you were pressing me for was it a yes or was it a no in terms of resources. I just want to make clear on the record that was only specific to the debt management office, one element of our debt collection. We actually write to everybody and we use contact centres to pursue, so there is only the question about where the resources are in the organisation, not that any of the debt is completely ignored just because that part of the organisation is not doing it. We will provide you with the numbers but I just wanted to put that on the record.

Q213 Chairman: Fine, you have done that. Thank you very much to you and to your colleagues and we look forward to seeing you in the autumn with your chairman.
Ms Strathie: Thank you very much.
Thursday 9 July 2009

Members present
Mr Michael Fallon, in the Chair
Mr Graham Brady
Mr Colin Breed
John McFall
John Mann

John Thurso
Mr Mark Todd
Sir Peter Viggers

Witnesses: Rt Hon Stephen Timms MP, Financial Secretary to the Treasury, Sarah McCarthy-Fry MP, Exchequer Secretary to the Treasury, and Mr Andrew Hudson, Managing Director, Public Services and Growth, HM Treasury, gave evidence.

Q214 Chairman: Welcome back to the Sub-Committee, Mr Timms. Perhaps you could introduce yourself and your colleagues formally.
Mr Timms: Thank you. I am delighted to be here. I am accompanied by Sarah McCarthy-Fry, who has joined the Treasury very recently, and Andrew Hudson.
Mr Hudson: Managing Director, Public Services and Growth at the Treasury.

Sarah McCarthy-Fry: Yes, certainly. On the Operational Efficiency Programme within the Treasury we have estimated that we will get certain of them within this CSR period but it is ongoing work. Certainly we will be looking onward. Particularly with the work we are doing on shared services, the work through IT and particularly with the collaborative procurement project, those savings will be ongoing.

Q215 Chairman: Public Services and Growth.
Mr Hudson: Indeed.

Q216 Chairman: Public Services this morning, I suspect. Can we begin perhaps with a more general question about headcount. Were you understaffed when the banking crisis hit the Treasury?
Sarah McCarthy-Fry: We had reductions and under-spends. What we had managed to do was to transfer people from core activities to be able to meet the additional demands that were put on us.

Q217 Chairman: But were you understaffed at the time the banking crisis hit because of previous efficiency programmes? Had there been headcount reductions that left you weaker than you would have ideally wanted to be?
Sarah McCarthy-Fry: There were unfilled vacancies but that does not necessarily mean that we were understaffed and not able to meet our obligations, there is always a churn.

Q218 Chairman: How many have you hired since October 2008?
Sarah McCarthy-Fry: I do not have that figure.
Mr Hudson: I do not have the figure immediately, Chairman.

Q219 Chairman: Can you estimate it for us? Is it 50, 100, 200?
Mr Hudson: I am looking to see if a colleague can help. About 70 is the estimate.

Q220 Chairman: About 70.
Mr Hudson: Yes.

Q221 Chairman: Is there scope across the Chancellor’s departments for making savings in the Operational Efficiency Programme beyond what was already being done under CSR 07?
Sarah McCarthy-Fry: Yes, certainly. On the Operational Efficiency Programme within the Treasury we have estimated that we will get certain of them within this CSR period but it is ongoing work. Certainly we will be looking onward. Particularly with the work we are doing on shared services, the work through IT and particularly with the collaborative procurement project, those savings will be ongoing.

Q222 Chairman: So we can anticipate after the banking crisis has passed, if you like in peacetime, more headcount reductions?
Sarah McCarthy-Fry: It may be headcount reductions or it may be redeployment. As I think you are aware, under the OEP programme and under the VFM programme we are not saying that savings will necessarily be achieved through headcount reductions, there may be other ways of achieving those savings and it may be redeployment.
Mr Hudson: If I may, Chairman. The VFM delivery agreement which has very recently been revised and copies sent to the Committee—I do not know whether it has actually reached you yet—sets out for the Treasury how we plan to deliver these savings and puts the accent, as the Exchequer Secretary has been saying, on things like shared services, better use of the building and better procurement rather than on the staffing side. For the rest of the Chancellor’s departments, obviously with the much bigger spend in HMRC you may want to cover that separately.

Q223 Chairman: The head of the Audit Commission has suggested a more radical, pain-free way of achieving savings which is to freeze public sector pay. Do you agree with that?
Mr Timms: It is certainly the case that our pay policy needs to reflect the wider economic circumstances and the constraints under which we are operating. We will be deciding on pay policy over the next few weeks. The policy has got to be fair to people who work in the public sector, just as we have to be fair to everybody else. The suggestion that Steve Bundred has made is one that we will certainly reflect on, but the decisions about that will be made over the next few weeks.
Q224 Chairman: It is not something you have ruled out?
Mr Timms: It is not something we have ruled out or in.

Q225 Chairman: You have got a number of these programmes now, you have had Gershon, the Public Value Programme, the Operational Efficiency Programme and CSR 07. Would it not be more efficient to have just one ongoing programme rather than continually re-labelling these efficiency programmes?
Sarah McCarthy-Fry: I do not think it is necessarily re-labelling them, it is an ongoing process. Gershon was a process that we went through at that particular time. We have refined that process under CSR 07 and we are looking at better ways of tracking, better ways of management and making sure, in particular, if you look at the savings that we bank now that they have to be cash releasing, net of cost. I think that is a better way. We are refining things as we go forward. When we look specifically at the further work we are doing on OEP and PVP, OEP is very much looking at what we can do cross-cutting across Government, particularly with services that all Government departments use, and as we move forward to PVP that will be focusing in on a department-specific area, particularly on the major items. Now we are saying we are asking PVP to look across 50% of the DEL and a department is going to have to really hone in and look at where they can make savings. It is a refinement of the process, an ongoing process.

Q226 Chairman: Are you taking your staff with you?
Are the staff clear which targets they are actually aiming at now under all these initiatives?
Sarah McCarthy-Fry: Particularly as we are going to be using some of the support from the private sector, and if you look at some of the programmes the private sector have used for many years in continuous improvement, one of the things that comes out of that is the direction comes from the top but you have to involve your frontline staff at the bottom because they are the ones who know what is happening and those are the sorts of lessons we will be learning and the messages we will be taking through.

Q227 John Thurso: Can I turn to the Lyons relocation targets, if I may. The target for the Chancellor’s department by 2010 was 5,050 and the reported relocations as at June 2008 were 2,987. Where are we now on achieving that target?
Mr Hudson: Most of this will fall to HMRC. My understanding is that broadly we are on track to meet those targets. The Treasury has over-delivered on its relocation target. Obviously with bigger numbers in HMRC, the target there was to relocate 4,250 posts by March 2010 and to date the latest figure as of March 2009 was 3,171.

Q228 John Thurso: Of those 3,171, how many are people who have relocated so it is the same person in the same job in a different place, how many have left and how many are new recruits for the job in a new area?
Mr Hudson: I do not have that information immediately to hand, I am afraid, Mr Thurso.

Q229 John Thurso: What I am trying to get a handle on is how many people have chosen not to relocate and what success you have had in recruiting in that circumstance. Perhaps you could give me a general answer.
Mr Hudson: Unless somebody is able to help—

Q230 John Thurso: No inspiration is forthcoming.
Mr Hudson: The best thing is we will let you have a note on this.1

Q231 John Thurso: When Louise Tulett came before us she told us that some HMT relocations do not actually involve staff moving from London and the South East. Has HMRC reduced staff numbers in London and the South East or have job titles been changed for staff in the region?
Mr Timms: HMRC has very significantly reduced its overall staffing numbers. The target for Spending Review 04 up to 31 March 2008 was a 12,500 net full-time equivalents reduction and in fact, we achieved 15,332. The target for relocations for HMRC was 1,950 posts out of London and the South East and we actually achieved 2,492. The whole organisation has very significantly reduced its numbers of staff. I do not think I have the figures broken down by region for the number of employees but I am pretty certain that if you look simply at the number of people working in HMRC in London and the South East then that number must have significantly fallen.

Q232 Sir Peter Viggers: What is your assessment of the morale of the staff in your Department?
Mr Timms: I think the Committee will probably be aware of the people survey that was published in May and that showed a poor position as far as staff morale is concerned with some signs of encouragement, but overall there is no question that was a disappointing outcome to that survey. HMRC fully recognise there is a lot to do to improve staff morale and staff confidence in HMRC leadership. I think one of the difficulties the organisation has had is that there has been a lot of uncertainty about the office closures, the Workforce Change Programme, and we were able to announce just before Christmas which offices are staying open and which are closing. I hope that certainty about the future office locations will help and will allow us to rebuild morale. There is certainly a good deal of work to be done. HMRC is now focusing the level of attention to this that is needed and, given the certainty about the future office locations, I think there is a very good prospect of improving the position.

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Q233 Sir Peter Viggers: Morale is indeed dire with half as many people expressing satisfaction as at the time before the merger in 2005. Do you think that a formal consideration of the impact on staff morale is needed when considering efficiency opportunities? Do you think you have been driving through your changes and efficiency programmes to such an extent that you have not been taking proper account of morale issues?

Mr Timms: I think actually in the medium-term, not just the long-term, success with improving efficiency will be good for staff morale. We are certainly taking a knock, undoubtedly, in the short-term on morale but I think it is very clear the changes that are being made are the right ones for the organisation. Under the leadership that HMRC now has with Mike Clasper and Lesley Strathie we will see a very confident organisation going forward and that will deal with the problem of staff morale. If you are saying to me should one hold back from making necessary changes because of concern about morale, if one's view is—and my view is—that in the medium-term the changes that are being made are going to be good for staff morale, we should push those changes through.

Q234 Sir Peter Viggers: That is an optimistic point of view and it is not shared by the Institute of Chartered Accountants in England and Wales. In a survey in 2009, 62% believed that their time and costs dealing with HMRC service problems had become worse in the last 12 months with 33% believing that delays had increased considerably, so efficiency is going the wrong way too, is it not?

Mr Timms: No, I think efficiency is going the right way. The evidence that I have seen indicates that there has been a considerable improvement from the perspective of large businesses which HMRC is particularly focused on with the introduction of its Large Business Service. We are also now able to make improvements for smaller businesses, and I recognise there have certainly been some issues in the past but they are being dealt with. Some of the measures in the Finance Bill, that secured its third reading yesterday, will help with that as we have been having a fresh look at HMRC powers and the way that HMRC deals with its business customers. I recognise there have been things that have needed to be put right but I think they are now being put right and across the board, not just large businesses, other customers will see those improvements coming through.

Q235 Sir Peter Viggers: That is your view as a minister but the customer is the Institute of Chartered Accountants, they are the people who are most likely to know, and they do not share that view.

Mr Timms: I entirely accept that there have been problems, I do not want to disguise that at all, but what I am saying is those are being addressed and people like the Chartered Accountants will see the improvements coming through.

Q236 Sir Peter Viggers: Customer demand is growing at just under 8% a year. Did you take that into account when you set the efficiency targets?

Mr Timms: I am not sure which customer demand you are looking at. Are you looking there at calls to contact centres?

Q237 Sir Peter Viggers: The Chief Executive of HMRC said: “We have a customer demand growing at just under 8% a year, and that presents an enormous challenge in moving a lot of that demand out, eradicating waste...”

Mr Timms: I am not sure what the figure was at the time that we set the efficiency targets. There is certainly a very, very demanding programme of efficiency measures in HMRC and the organisation has to work hard to deliver them. What I am encouraged by, and I should have made this point in responding to your earlier question about the Chartered Accountants, is that the measures we have for tracking customer satisfaction are now on the up, they are moving in the right direction. I think that reflects the changes we have made that I have referred to which people will increasingly see. Perhaps I could just give you the figures on customer experience. On small and medium-sized enterprises, the most recent figure for March 2009 shows satisfaction of 82.8% compared with 78.3% in June of last year, and it has steadily—not spectacularly—gone up in the four measures that we have made since June of last year up to 82.8% in March. The other customers that we track satisfaction amongst, that is agents and individuals, both on personal tax and on benefits and credits, those measures are moving in the right direction as well, except there has been a slight slip in the satisfaction amongst individuals on benefits and credits. Generally, over the past 12 months for customer satisfaction the picture has been a positive one: we are showing that we can both improve the service that we are providing and also achieve the very demanding efficiency targets that have been set for us.

Q238 Sir Peter Viggers: Chairman, those figures are so out of line with the evidence from the Chartered Accountants that it would be very helpful if the Minister could let us have copies of the relevant information surveys and the basis on which they were carried out.

Mr Timms: I think the actual data has already been provided but I can certainly provide some of the background to what those figures represent.\(^2\)

Q239 Chairman: That series presumably goes back before the time of the merger, does it?

Mr Timms: Whether that particular survey goes all the way back to 2004 I am not sure, but I can make sure.

Chairman: You have heard what Sir Peter has asked for.
Q240 Sir Peter Viggers: The Chief Executive told us that some staff would need to move to different kinds of work. Have you planned for training to be included in your provisions? Are you ensuring that the training budget does not suffer as a result of efficiency savings?

Mr Timms: Yes, we are. There will be a lot of change in the organisation as, for example, people move from some of the smaller offices that are closing to larger offices. In some cases that will require a change in the nature of the work that people do and we will make sure that sufficient training is provided to allow them to do that move successfully.

Q241 Mr Brady: What effect has the economic downturn had on the Civil Service’s efforts to achieve value for money savings?

Mr Hudson: I will start and maybe one of the Ministers will want to add their perspective. I think people understand that this has intensified the importance of the impact on the public finances. As a result the Government has stepped up the drive for value for money through the additional £5 billion savings for 2010–11 and then through the Operational Efficiency Programme where the findings were announced at Budget time and we are now into implementation mode, and the Public Value Programme which is already delivering some findings. As I talk to colleagues across Whitehall they are extremely well seized of the importance of driving this agenda forward with real determination.

Q242 Mr Brady: So clearly it has become more of a priority because of the economic downturn, but has it become harder to deliver, easier to deliver, and in what ways?

Mr Hudson: Whether it is harder or easier will vary from department to department, depending on the circumstances, but my perspective is that this is something that you always have to keep working away at, looking for new techniques for improving value for money and learning from others. One of the things that we are keen to do in the Public Value Programme is to identify individuals and departments and teams who have already been successful in improving value for money—there are some good examples within HMRC, for instance, close to home for us—and make sure that the rest of the public sector learns quickly, as appropriate in the right circumstances, from those who have already achieved. New opportunities present themselves as new techniques emerge and as technology moves on—it is not always the answer but is sometimes helpful. So while I recognise the argument that some people say that we have already harvested the low-hanging fruit or whatever, I think experience in the best run organisations is that by moving on, by using your imagination about the right techniques, you can continue to make progress.

Mr Timms: Can I just comment on this question purely from an HMRC perspective? I do not think the programme has got harder as a result of the downturn. As you said, the premium of this work, the importance of it, has gone up in HMRC as elsewhere, more demanding targets have been set, but I do not think the task has become a more difficult one because of the downturn.

Q243 Mr Brady: Mr Timms, how do you set these targets? Obviously, the Pre-Budget Report increased the target by £5 billion. Is that set by ministers? Is it set in dialogue with each department?

Mr Timms: Yes, it is.

Sarah McCarthy-Fry: Obviously, we have to talk to departments and you have a look and you take an overview. It is by building on the work that has already been done that you can see that where we have seen some of the benefits coming through we can then see that that in those areas would be able to deliver that additional amount.

Mr Hudson: I think that sets out the position, that ministers reached an overall judgment as to what the extra target should be, the £5 billion figure. There were then discussions with departments and the outcome of that department by department was published on Budget day.

Q244 Mr Brady: So is it not a bottom-up process? It starts with the overall target coming from ministers?

Mr Hudson: In this case, yes, there was an overall judgment made in the light of the emerging experience on the Public Value Programme and the Operational Efficiency Programme, the early work, and given the need to also make progress on the public finances, that £5 billion was an achievable number, and, following discussions with departments, that is what was delivered.

Q245 Mr Brady: But, given that this is a top-down, arbitrary process fixing a target and then looking for where it can be achieved, why not pluck a different figure out of the air, why not £7 billion, £10 billion, and then find out how to achieve it?

Mr Hudson: As I say, there is always a judgment, not, I would say, an arbitrary one, but a judgment as to what the appropriate level of stretch is. Given that £30 billion of savings had already been baked into the base in the spending review settlements across departments, the judgment that a further £5 billion was appropriate was what was made.

Q246 Mr Brady: And in the current situation with the priority attached to this obviously rising, are ministers now considering increasing that target? Are you looking at revising it upwards?

Sarah McCarthy-Fry: No, not for the target that we set in dialogue with each department?

Mr Hudson: As I say, there is always a judgment, not, I would say, an arbitrary one, but a judgment as to what the appropriate level of stretch is. Given that £30 billion of savings had already been baked into the base in the spending review settlements across departments, the judgment that a further £5 billion was appropriate was what was made.

Q247 Mr Brady: So you think that the £5 billion target was clearly the right one and that there is no further scope for efficiency savings in the current period?

Sarah McCarthy-Fry: We will always look for further scope. We are not changing the number. We have identified £6 billion out of the £15 billion in the OEP that we can deliver in 2010–11 as we go
forward. If any of that can conceivably be brought forward then obviously we will bring it forward but we are not changing the target.

Q248 Chairman: If, as we discussed earlier, you did decide to freeze public sector pay, where would that score? Would that score as part of the Operational Efficiency Programme?

Mr Hudson: The total figures for the Operational Efficiency Programme are there and that is about value for money efficiencies.

Q249 Chairman: So it would score? If you froze public sector pay next year you would score that yourselves against your own efficiency target?

Sarah McCarthy-Fry: I do not think it would necessarily be in the OEP though.

Mr Hudson: It would not be in the OEP and the sorts of examples that we have used of value for money efficiencies are on the whole about doing things better rather than doing things at less cost, so we would have to consider it if that was the decision but the measures we have gone for on value for money, as I say, are on the whole about doing things better rather than simply about doing them at less cost.

Q250 Mr Breed: Mr Hudson, you referred earlier on to this value for money delivery programme, but on the delivery strategy and your table 2.1 it has got down there a phrase “counter-factual”. Can you explain to me what counter-factual is?

Mr Hudson: The counter-factual is what would have happened had we not implemented this delivery agreement, so, if you like, it is the benchmark against which we measure the achievements.

Q251 Mr Breed: That makes some sense. In the current economic climate is it sensible to push for more efficiency savings which could well lead to redundancies of experienced staff?

Sarah McCarthy-Fry: In our current round of efficiency savings we are not putting a target for headcount reductions. We are not saying that the efficiency savings will necessarily lead to headcount reductions. There are many ways in which we can achieve efficiency savings. If you look at the energy side of it, that does not touch staff numbers at all. We have a duty in any case to deliver best value for the taxpayer, but particularly in the current economic climate I think we have an even greater duty.

Q252 Mr Breed: So you can achieve the efficiency savings without making people redundant?

Sarah McCarthy-Fry: That is not what I said. What I said was that it does not necessarily lead to headcount reductions. If there is a headcount reduction in one area there may be the opportunity for redeployment. Certainly in DWP, to support people find jobs, there has been a recent increase in headcount.

Q253 Mr Breed: So you are probably making redundant experienced people which would affect the efficiency?

Sarah McCarthy-Fry: But that is the measurement we have to do because the fact that we are not setting a target for headcount reductions means that we can make that judgment as to say what is the best way to achieve our objectives and our PSAs and the DSOs whilst achieving the efficiency savings.

Q254 Mr Breed: As you are probably aware, a number of private sector firms have looked at ways of trying to reduce their costs. Some of them have introduced a four-day week which has been agreed. Is that something that you have considered, introducing a four-day week to reduce costs?

Sarah McCarthy-Fry: It is not something I have considered.

Mr Timms: Not in the Treasury and not in departments that I am aware of, though I cannot say for certain that there are not any examples of that going on in the public sector.

Q255 Mr Breed: Is that something you would look at?

Mr Timms: I think it is up to departments. I suspect that rather than do that as a sort of blanket approach the departments would make a more gradual shift to, say, using more part-time staff rather than full-time staff, but if a particular department felt that that was an appropriate way of containing its costs, consistent, obviously, with delivering the service to the customer, then there is nothing that I am aware of that stops them doing that.

Q256 Mr Breed: The PricewaterhouseCoopers report considered an option to balance the Budget with very harsh spending cuts, which might be just one way of achieving it, but, given the state of the public finances, is it not wise, Mr Timms, for the Government to consider public sector spending cuts anyway?

Mr Timms: We have taken a judgment about the right pace of consolidation of the public finances and we set that out in the Budget and that judgment recognises the uncertainty that there is at the moment about the prospects for the public finances, given the strength of the downturn across the world, the need to support the economy through to recovery and the importance of our living within our means as a country. All those factors have been weighed in the judgment that we set out at the time of the Budget and our view is that that judgment was the right one.

Q257 Mr Breed: So the original targets for value for money and all that sort of thing have not been revised at all in the light of the most recent projections of government borrowing as such?

Mr Timms: No. At the time of the PBR, as has been mentioned already, we added an additional £5 billion to the efficiency target for the current spending review. At the time of the Budget we published a series of reports setting out indications of what we thought could be achieved in the following spending review, and those assessments have been made in the light of the current economic circumstances, so it is
not true that things have not changed at all. My point is that the judgments that we set out at the time in the Budget about the pace of the consolidation, the need for us to halve the deficit over five years to return to current balance in the public finances by 2017–18, we think are the right ones.

Q258 Mr Breed: So in the context of the projected government borrowing mountain £5 billion is an appropriate response?

Mr Timms: £5 billion a year as additional efficiency savings in the current spending review period I think is an important contribution. Of course, we are doing other things as well. We have announced the 50p tax rate, for example, for those on the highest income, so there is a number of measures that we are taking and between them they contribute to the trajectory for the public finances that we have set out, as I say, for halving the deficit over five years and our view is that that is the right judgment.

Chairman: We are going to get into the detail of the efficiency programmes now.

Q259 John Mann: How confident are you that departments’ final Gershon claims represent real efficiency improvements?

Sarah McCarthy-Fry: We are confident. They were based on final data and we are comfortable that we met the requirements that were in there and we are using the experience of Gershon to inform our value for money progress going forward.

Q260 John Mann: What are the results of the NAO’s audits of the final results of their validity?

Sarah McCarthy-Fry: The NAO have not as yet audited the final delivery figures. We do not know whether they intend to. I know that their current plan is focused on auditing the CSR VFM programme going forward. Obviously, they are independent. We cannot instruct them to do a final audit on the Gershon figures. They did do the interim one.

Q261 John Mann: And they had some reservations in the interim report. On what criteria are you judging your statement that we can be certain that there are real improvements in efficiency and that they are accurately quantified?

Sarah McCarthy-Fry: Following the NAO’s report back the departments really worked to strengthen the methodology and tighten their approach. The £26.5 billion that we were due to meet was in the most robust data category, which was the final data category. The data the NAO looked at was not all in that final category.

Q262 John Mann: What percentages of efficiency gains have been offset by unreported costs, such as redundancy costs?

Sarah McCarthy-Fry: We did not go back and do that. You have to remember that originally Gershon was on implementing programmes on Sir Peter’s original report.

Q263 John Mann: But you said you would refine that over time.

Sarah McCarthy-Fry: In our new programme going forward we have a methodology that has set the targets net of costs and as cash-releasing savings. That was not the process that we used for Gershon. If we tried to go back now and unpick that we do not think that would be the most efficient use of resources. We want to make sure we have got that methodology going forward so that they are cashable and net of costs.

Q264 John Mann: In recent times, pick your own timescale, what costs are offset by unreported costs such as redundancy? Let us take the last year.

Sarah McCarthy-Fry: Do we have them?

Mr Hudson: We have not got that information, certainly not yet that I am aware of, in terms of the stage we are at in the cycle. If there is anything we can report further on that, I am happy to let the Committee have a note.

John Mann: Certainly on redundancy. What about unreported costs?

Q265 Chairman: Can we just pursue that? When you say “the cycle”, you must have the figures for last year.

Mr Hudson: That will be the first year of the current spending review period for which this approach to the savings has been in place and so those figures will be coming together as departments prepare their accounts and annual reports.

Q266 Chairman: So you will have the figures?

Mr Hudson: I think we will be able to make an emerging judgment in due course.

Q267 John Mann: But you will be able to make an accurate judgment on certain unreported costs. Redundancy is one. Losses in property, for example, quick fire sales or non-sales and on-costs from that or the costs of releasing rented properties back and early breaks of tenancy arrangements are another. There are a number of highly quantifiable specific costs. When can we get them and how far back will they go?

Mr Hudson: The approach to delivering savings net of costs applies to the current spending review period, the first year of which is 2008–09, and so that will come into place for that year. I think this is a strength. It shows the approach to value for money is becoming more rigorous.

Q268 John Mann: So we will have it by the autumn?

Mr Hudson: The sorts of points you have raising will no doubt be scrutinised both by this Committee and by departmental select committees.

Q269 John Mann: So we will have it in the autumn?

Mr Hudson: I am not able to put a date on when these will be—
Q270 John Mann: Why not?  
Mr Hudson: Each department will have to take responsibility for this. The natural time for these figures to be published is in a department’s annual report along with all the other information.  
John Mann: So we will get them in the departmental annual reports?

Q271 Chairman: That is the end of July.  
Mr Hudson: That is where I would expect to see these.

Q272 John Mann: So we are going to get them soon and you will be scrutinising those across all departments in advance, presumably, of the PBR, so you will be scrutinising that between July and, let us say, October/November? It is a guess on where the PBR is from my point of view, but that is a reasonable guesstimate?  
Mr Hudson: The Treasury works with departments on this agenda, yes.

Q273 John Mann: So you will be able to quantify the figures that they have given you between July and October/November?  
Mr Hudson: We shall certainly be looking at how that emerges. We do not seek to micromanage this in each department line by line.

Q274 John Mann: But this is not micromanagement, is it? This is about whether the efficiency costs are real and whether departments have got it right. There will be a loss in some departments.  
Mr Hudson: If it is a loss it will emerge in the annual report and that is something which will be discussed. The point which I am less sure would add value is for the Treasury to get into adding these things up.

Q275 John Mann: Sorry, add value to whom?  
Mr Hudson: Add value to the delivery of genuine efficiencies.

Q276 John Mann: It is to add value to the Exchequer if savings are real savings or if they are offset by other costs.  
Sarah McCarthy-Fry: It will be subject to internal audit and then again audit by the NAO, so it will be subject to scrutiny.

Q277 John Mann: Not if the costs are unreported in relation to the efficiency savings.  
Mr Hudson: But, as the Minister has just said, I am absolutely clear that it matters to the Exchequer that these are net savings and that is why we have moved the process on to this basis and that will be audited both by departments themselves through internal audit and through the National Audit Office and, yes, the Treasury will keep an eye on this department by department.

Q278 John Mann: So we could come back in the autumn and properly explore and quantify the efficiency savings more accurately, as could the NAO if it chose to do so?

Mr Hudson: In terms of the emerging picture from the first year, yes, I am sure that is something that we will be discussing in the autumn.

Sarah McCarthy-Fry: And there is also the point I made to you that the NAO’s current plan does focus very much on this CSR value for money programme and the exact point they will be auditing is that these savings are real.

Q279 John Mann: Will you, as part of the audit, be looking at whether the savings are sustainable savings?  
Mr Hudson: Yes, that is also part of the new approach.

Q280 John Mann: And will that incorporate environmental issues?  
Mr Hudson: As you know, the Government is very committed to making progress on the environmental agenda and that is a priority for each department, so that is something which they factor into all their plans, including efficiency savings.

Q281 John Mann: And so if there are new costs that emerge they will be properly quantified to demonstrate where departments have made what appear to be efficiency savings that could in fact be on-costs?  
Mr Hudson: As far as the audit in terms of efficiency is concerned, as I say, these are savings which are to be net and cash releasing and sustainable in the sense of sustainable savings, and that is what the NAO will be auditing. In terms of sustainability on the environmental front, I am not aware that that dimension of these will be audited in the same way but it is clearly an important part of a department’s activities.

Q282 John Mann: For some clarity let me give you an example. The city of Nottingham, where there has been a concentration of services under the guise of efficiency, is contemplating bringing in for every employee who enters the city, which will include all the civil servants relocated there, a specific charge on parking which could well be reset back against the employer. Will those kinds of costs be clearly quantified in demonstrating whether the changes made are efficiency changes made accurately or inefficiency changes made wrongly by not taking into account the wider long-term picture, including environmental issues?  
Mr Hudson: This particular exercise and the audit focus that will go with it is about making sure that the financial savings are genuine financial savings. I think departments will report in their annual reports and they are open to scrutiny in other ways about the environmental impact of what they do.

Q283 John Mann: But this is an attempt to mirror total quality models in industry. Any total quality model in industry would be looking at where relocation should be for ten or 20 years in terms of what the prevailing economic issues are, of which the environment is a critical one, so at exactly the same time as many companies are considering whether
they should be in city centres under efficiency savings there is a possibility that some departments have used an outdated model precisely to concentrate on existing buildings in city centres, in other words, going in the opposite direction from that which industrial total quality models would dictate. I am trying to clarify whether that sustainability is going to be analysed as it goes on so we can see which departments have made the right decisions and whether some have made the wrong decisions.

Sarah McCarthy-Fry: But they have to deliver these savings within the light of their PSAs and their own departmental strategic objectives which will pick up the overarching thing. It is not just, “We have to make these savings”. They still have to deliver the outcomes under the PSAs and DSOs and that will be measured across the departments.

Q284 John Mann: Yes, but the outcomes have to be the right ones and sustainable in the longer term.

Sarah McCarthy-Fry: But that is a different issue, to make sure that the strategic objectives have that—

Q285 John Mann: But in terms of quantifying efficiency savings it is not a different issue; it is the same issue. Let me ask some other questions. I am interested in the concept of total quality because every single system of total quality management in industry, whether it is called that or something similar, is based on a key premise of the operative level being crucial. How much additional time has been given at the operative level in each government department to discuss quality?

Sarah McCarthy-Fry: I do not know the exact number of times but you are absolutely right that it is a key part of it. As we move on, particularly with the OEP and the PVP, which is using the expertise from the private sector, that will be about embedding the concepts that you are talking about. As I said, you have to have the strategic level from the top because if you have not got the buy-in from the top level it is not going to work, but it has to start from the bottom down at the operator level. Certainly there are programmes that are working those through at the departmental level.

Mr Hudson: One of the themes of recent government publications from the Cabinet Office on Working Together is about drawing more effectively on the ideas and skills of staff at the front line for precisely the reason you give. I have seen some good examples in HMRC of where the process of involving staff has driven better quality and as new processes driven by staff bed in it will save time for the staff concerned, so the up-front investment of time and discussion will be repaid.

Q286 John Mann: But there is a big difference between public sector meetings and total quality discussions. I am asking whether any tools are in place to determine how much time in different departments is being spent at the operative level on discussing total quality. In other words, can you make an assessment?

Sarah McCarthy-Fry: That will be part of the process, particularly with the OEP and the PVP. They are developing.

Q287 John Mann: How do we know it will be part of the process? What are the tools for analysing how it will be part of the process?

Mr Hudson: Again, I come back to the point that I would not envisage gathering this particular piece of information centrally because one of the things we are trying to do is reduce the burden of reporting on departments as far as we can, so the sorts of tools that you mention can be very effective and, as I say, I have seen them in action in HMRC. I think it is for departments to decide, and quite often for smaller units within departments to decide, exactly how best to deliver the efficiency savings and, for instance, how much time to allow for the sort of total quality discussions that you are talking about. I do not quite see the value of adding it up right across the whole of the Civil Service.

Q288 John Mann: That is not what I am asking. I am asking what tools are in place. How will you determine the best examples of that?

Mr Hudson: That is one of the things we are trying to do under the Public Value Programme and we are identifying a group of what we are calling now VFM champions, who are people who have got a track record in improving value for money by a number of different mechanisms and inviting them to get involved on a broader front to spread their expertise.

Q289 John Mann: Can I ask two final questions? Which is the least efficient department in terms of efficiency savings across government?

Sarah McCarthy-Fry: I do not know.

Mr Hudson: It is very hard to measure overall efficiency on a consistent basis, given that you have departments and units doing very different things. If you compare just within the Chancellor’s departments, we have got the Treasury, relatively small, focusing on policy for the most part; and we have got HMRC, one of the biggest departments there is with very large processing functions. Where we can compare like with like we do and that is the key principle of the Operational Efficiency Programme, so, given that everybody has got back office services, everybody has got procurement services, there we are getting better data in place which will be published so that people can see who does things in the most efficient way. Where we are in a position to make those comparisons we do.

Q290 John Mann: So who is the least efficient then?

Mr Hudson: The data is not yet in place to look at this but it is coming into place.

Q291 John Mann: This process has been going on for a number of years, mirroring systems operating in the private sector that date back to the 1950s, so we are not talking about new techniques here; they are in widespread use because all sectors of industry routinely use different variations. Which is the least efficient department? If I ask that of any private
company they may not want to tell me but they can
tell me. Is it that you do not want to tell us or the
tools that you are using are not good enough?

Sarah McCarthy-Fry: I think the point was made
that we are not looking at like-for-like.

Q292 John Mann: But, with respect, in industry you
are never looking at like-for-like. By definition you
are not looking at like-for-like in one company. Let
me make it easier. Which is the most efficient
department?

Mr Hudson: I am tempted to say the Treasury but I
am not going to say that because I have not got the
data.

Q293 John Mann: Is the number of people you have
brought here because of your efficiency or is it a sign
of the importance that you give to efficiency?

Mr Hudson: It is a sign of the importance we attach
to the Committee and the breadth of the subjects
that we are covering. I realise that you want to move
on, Chairman, but could I say that when I was Chief
Executive of the Valuation Office, where I had a
number of different units doing similar functions, I
had the sort of information that you are looking for
and could compare, though, as always, you try to
improve the data. I do not think it is feasible to say
department against department across the board.
Where we can, as I say, we are now putting into place
statistics on a comparable basis for common
functions in the OEP.

Chairman: We must move on.

Q294 Mr Breed: Stephen Timms, you have been
Treasury Minister, I think, four times, so every time
they have moved you you have proved indispensable
and you have had to come back, and you probably
have a bit more of an overview of some of this. If the
additional £5 billion of savings promised in the PBR
are realistic and achievable then why did you fail to
identify them when you came up with the original
target?

Mr Timms: Let me have a stab at this and then Sarah
might want to comment as well. I think what has
happened through this process is that we have
learned as we have gone along and the Gershon
targets, when they were set, a lot of people said could
not be achieved. In fact they were and we did better
than those. Based on that we set the figure of £30
billion for the current spending review period but
then concluded that we could be more ambitious and
the need to be more ambitious, of course, became
clearer as the global downturn developed, so we felt
able to set the additional target in the Pre-Budget
Report and to set out at the Budget how that £5
billion was going to be made up between
departments. I do not think this is a static process,
and nor is there necessarily at any one point a right
answer. What we have to do is set targets that we
believe, however stretching, we can achieve and as
our experience and understanding develops so our
level of ambition develops as well.

Q295 Mr Brady: Do you think there is an element of
departments holding back some of the savings that
they think they might be able to achieve in case they
fail to deliver on the targets that have already been
set? Are they keeping something in reserve?

Sarah McCarthy-Fry: No, I do not think so. We are
moving towards a culture as we move forward that
starts to get embedded in the DNA across all
departments and that, as in industry, is a continuous
improvement. As Stephen said, as we have learned
and things are picked up and we have had successes
in programmes, people can start to see other ways in
which that can be used, and it is a continual process.

Q296 Mr Brady: So some departments are engaging
in this and coming back and saying, “Yes, we can see
where we might do this better and we might make
more savings”. Are there instances of particular
departments or particular programmes or types of
activity where there has been resistance to these
additional savings, where they have said, “No, we
really can’t do better”?

Sarah McCarthy-Fry: I have not been here long
enough to comment on that.

Mr Hudson: There is nobody saying that they cannot
do better in terms of improving value for money. In
the case of three departments the savings have been
recycled, so for HMRC, DWP and the Ministry of
Defence, in all three cases because of pressures but
obviously very different circumstances, the decision
was taken to enable them to recycle their savings to
new priorities.

Q297 Mr Brady: But have you had any difficulty
from any departments in relation to the additional
value for money savings that are being sought
following the PBR?

Mr Hudson: These things are about negotiation and
it was a pretty demanding target but what matters is
that every department has committed to making
these savings and is getting stuck in.

Q298 Mr Brady: Which departments negotiated
hardest?

Mr Hudson: All the details as to what people are
doing are in the value for money update that we
published at Budget time.

Q299 Mr Brady: That gives the outcomes to the
negotiations.

Mr Hudson: I think the outcomes are the important
thing here, are they not?

Q300 Mr Todd: Can I turn to the future of the OEP?
Have any of you seen the film Man of Iron? It focuses
on a bricklayer in Iron Curtain Poland who
performs marvellously well and is then sent out as an
exemplar to building sites and his fate. I was
intrigued by your reference to these champions of
efficiency who will venture out to deliver their pearls
of wisdom to those who may be less receptive to
them. Do you perhaps underestimate the cultural
differences that there are both between departments
and within the public sector to receiving the message
of efficiency savings?
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Sarah McCarthy-Fry: I do not think so and I can only go on my previous private sector experience.

Q301 Mr Todd: Did you see the film, by the way? Sarah McCarthy-Fry: No. I can only draw on my previous private sector experience of bringing in these total quality improvement processes within a hostile environment from people who really had seen so many programmes coming into their organisation that they were so cynical that they did not think they were going to make a difference, but if it is done properly I do know from experience that you can bring the staff along with you.

Q302 Mr Todd: I too worked in the private sector doing these things. The tools available are rather different, are they not? Many of the human resources tools that one can apply in a private sector environment are not readily available in a public sector context. Would you agree? Sarah McCarthy-Fry: I think the principles of involving the people who do the job,—

Q303 Mr Todd: That is fine. Sarah McCarthy-Fry:—of measurement—

Q304 Mr Todd: It is the reward systems that one can apply to help to secure the gains that you seek. Sarah McCarthy-Fry: But that reward system can also be the success of a common endeavour, the reward from working together towards a common goal.

Q305 Mr Todd: I am thinking of the monetary ones, Sarah. I was able to carry out large-scale change programmes with the help of a tool set which allowed me to pay quite significant sums of money to people to encourage them along a particular path, and certainly when Stephen referred to the potential morale benefits of change he was, of course, quite right, that in an organisation where the opportunities for progression are greater as a result of change, improved training that may well be available, better systems and cultural benefits are brought about. I just wonder how easy it is to do this in such a manner where the opportunities for those to apply are more constrained public sector environment in which many of these tools are simply not there to apply. Sarah McCarthy-Fry: I think that just means we have to work harder on the other tools we have got.

Q306 Mr Todd: Yes, okay. You referred to using the expertise of the private sector. What do you mean by that? Sarah McCarthy-Fry: Certainly on the PVP programme we have a scheme of VFM champions and these are people who are going to be—we have got a list of them? Mr Hudson: Not a final list yet but quite a number of them are within the public sector and where we can draw on private sector expertise we will do, which was one of the keys to the Operational Efficiency Programme where we brought in five expert reviewers from outside the public sector, with varied experience but predominantly private sector experience.

Q307 Mr Todd: The cynical view is that this is going to be a huge opportunity for folk in sharp suits and Powerpoint slides. That is why I was seeking a definition of this private sector engagement. Is it going to be a bunch of folk from McKinsey and other places turning up and impressing people with their graphics? Sarah McCarthy-Fry: Certainly for the OEP advisers we had Martin Read from Logica, Martin Jay, Gerry Grimstone, the Chairman of Standard Life, Lord Carter and Sir Michael Bichard.

Q308 Mr Todd: I do not think they are going to be doing this, no. Sarah McCarthy-Fry: Those were our advisers on the OEP programme that helped us come forward with the recommendations.

Q309 Mr Todd: So what is your budget for consultants in this area? Mr Hudson: We do not have a central budget. It will be up to departments whether to use consultants but this is monitored pretty carefully these days and departments will only use consultants where they are bringing in skills which they do not have—

Q310 Mr Todd: That will be commonly true. Mr Hudson:—and where there is a clear value for money case. That is what they have to demonstrate. Sarah McCarthy-Fry: One part of the OEP programme is looking at the costs of consultants and making the best value from consultants across all departments.

Q311 Mr Todd: There is certainly a procurement requirement which has been missed severely in the past. Purchasing from these sharp-suited young men has been pretty poor. You touched on some of the analytical tools and John was asking questions about this. I can remember an analysis which I prompted through questions to the Ministry of Agriculture on their regional centres in which they did precise comparisons of efficiencies across the various regional centres which were largely comparable. They were just shuffling agricultural claims in, and it demonstrated huge variances in performance. To what extent is this commonly applied across the departments? Sarah McCarthy-Fry: The OEP programme is exactly that, about where the same things are delivered across all departments.

Q312 Mr Todd: I am going to come to the shared services dimension which comes out of this but I just wonder whether this sort of analysis is commonly applied. Mr Hudson: Yes, indeed, and I think this is becoming more and more common. Certainly, talking to colleagues when I was an agency chief executive and I met them at networking events and so on, it is something which I would expect many of them to be
doing in the more operational side of the Civil Service. I think it is more difficult to do that across policy departments because the outcomes are harder to measure but, as I say, where we can do that for back office stuff, for instance, that is now coming into place.

Mr Timms: Call centres are a good example, I would think, where that can certainly be done and is done in HMRC and in other parts of government.

Q313 Mr Todd: Are the OEP savings that have been identified going to be built into the individual department settlements? In other words, that is going to be driven top-down with, “That is what we think you should be able to achieve”?

Mr Hudson: Top-down estimates which the reviewers have reached by triangulating, if you like, using a number of different techniques. The next step will be this business of getting the data in place so that we can say with more confidence who is already pretty efficient and who has got some way to go, and at that point we can judge—

Q314 Mr Todd: So it is not going to be the blanket, “That appears to be the sort of saving that can be achieved so you all should do it regardless of what you have achieved”?

Mr Hudson: No.

Q315 Mr Todd: When is that going to be done?

Mr Hudson: We need to see the data. So far these are top-down estimates which the reviewers have reached by triangulating, if you like, using a number of different techniques. The next step will be this business of getting the data in place so that we can say with more confidence who is already pretty efficient and who has got some way to go, and at that point we can judge—

Q316 Mr Todd: Turning to the shared services agenda, do any of you have any experience of shared service projects?

Sarah McCarthy-Fry: Only in using them, not setting them up.

Q317 Mr Todd: It is not commonly done across the public sector.

Mr Hudson: Personally, again, when I was in charge of—

Q318 Mr Todd: Sorry; I am glancing at the PAC report on shared services in the Department for Transport, which suggests that the planning of these and their execution was not always, on that very limited evidence, marvellous.

Mr Hudson: That is certainly an example where there are some lessons which the department has learned and which others going down the implementation route will be learning as well.

Q319 Mr Todd: That is a lesson of how not to do it.

Mr Hudson: I appreciate there were some problems there. Within the HMRC family we implemented an enterprise resource planning system first in core HMRC which was then rolled out successfully to us in the Valuation Office, so that was not the full shared services but it was a shared platform based on common standards and that went in smoothly, I am glad to say.

Sarah McCarthy-Fry: In the Treasury we have had success in the travel booking system on costs moving across, and there have been some successes in the Prison Service with finance procurement and HR shared services, and in the NHS joint venture with the private sector delivering 20–30%.

Q320 Chairman: May I just interject there? Does it not seem odd to you as a new minister that you are able to improve your travel booking system and save 17% of travel spend in the first year? Do you not wonder what was happening before?

Sarah McCarthy-Fry: As I say, it is building on what has happened before. I would actually celebrate that rather than—

Q321 Chairman: It is a big improvement, is it not?

Sarah McCarthy-Fry: It is a big improvement, yes, and I hope something that can be replicated across other departments.

Chairman: I just wonder why nobody looked at the travel spend system before.

Q322 Mr Todd: What I am slightly anxious about is the rather high level hope/aspiration in this area without concrete driven plans to achieve an outcome which I think all of us would accept is absolutely critical in the next few years. The evidence suggests hugely differential capabilities across departments. There is some evidence of the cultural impacts that change programmes have which are not always properly addressed. These are high level aspirations that came out of Martin Read’s work. I just wonder whether we are tooled up to manage this process competently.

Sarah McCarthy-Fry: We have got the tooling up for the practical side, if you like, and one of the things we do have to do is about the leadership role that I was talking about. I think there is a key role here for the value for money ministers who will be able to take it from the ministerial point of view into each department and really push that through, and I have just agreed to be the VFM minister with the Treasury.

Q323 Mr Todd: You have got some experience of this. Have any of the others?

Sarah McCarthy-Fry: I do not know. It will be for the ministerial team to decide, and certainly training is available for ministers.

Q324 Mr Todd: Yes, okay. There was a workstream on asset management and sales as well within this programme, was there not?

Sarah McCarthy-Fry: Yes.

Q325 Mr Todd: Are we in shape there, bearing in mind the economic circumstances, to proceed with
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some of the projections in that which in some cases appear to be a preparation towards the disposal of assets?

Sarah McCarthy-Fry: Obviously, we are not going to start disposing of assets in a depressed market, so we are not going to go down that route. The work that was being done would be looking at the assets, looking at whether disposal was going to be the best route, and if it was then it would be the preparation being put in place for when the upturn in the market comes.

Q326 Mr Todd: There are also substantial opportunities identified for increased income generation in many of the areas examined in that study. How are we set up to achieve those?

Mr Hudson: It is ongoing work and the Shareholder Executive are active here and Gerry Grimstone, who led that particular strand, as you know, will stay involved with this so there will be an external involvement to part help drive this—

Q327 Mr Todd: No targets have been set?

Mr Hudson:— and part hold us to account. No targets.

Q328 Mr Todd: Because actually, and I looked through it, there are no defined targets. It is all fairly gentle aspirational stuff.

Mr Hudson: It is important that departments follow through and it will be monitored closely but you are right: there are not any targets.

Q329 Mr Todd: How?

Mr Hudson: That will be part of the Treasury’s continuing discussions with departments about how the implementation goes, as well as Mr Grimstone’s continuing involvement.

Q330 Mr Todd: When I had some Treasury staff in front of me, I asked whether the Chancellor’s departments were within the PVP and at that time the answer was not at that particular point. Are they?

Sarah McCarthy-Fry: Not at this particular point.

Q331 Mr Todd: What does that tell us? Does it tell us that the programme is not really applicable to a department like the Chancellor’s, or maybe that where you are doing so marvellously well that there is not a need to apply it?

Sarah McCarthy-Fry: I think the PVP has been looking at some of the departments that do have major delivery areas first, and it is an ongoing process.

Mr Hudson: The list of expanded PVPs is still being worked up and some of them that are under consideration may well apply, let us say, to HMRC. Where there are completely cross-cutting things they can apply to the Treasury but the delivery agreement that we have already sent you sets out what we are doing in the Treasury, which is a pretty demanding value for money agenda in itself.

Q332 Mr Todd: John was touching on some of the measurement issues. Looking forward, because to some extent what he was doing was looking back at some of the difficulties of reconciling the reports of others with the claims that the Government has made, how are we going to ensure that the various programmes are reported back through to Parliament satisfactorily in a way that can be readily reconciled with the audit processes that are independently run?

Sarah McCarthy-Fry: Through the departmental annual reports and the audit processes of the NAO.

Q333 Mr Todd: Yes, but the departmental annual reports require a consistent methodology to be applied to them if they are going to deliver comparable data. Is that being directed to the departments as to how they present the various programmes that they are participating in so that we have precise like-for-like models?

Mr Hudson: That is something we will look into but we are committed to delivering these savings on the basis I have discussed and that they are properly audited by NAO, who I am sure will be ensuring that their methodologies are consistent. In terms of the method of presentation in departmental reports, I am happy to look into how we can make sure that the information is as clear as possible for select committees and others to scrutinise.

Q334 Mr Todd: We went through a process of classifying the efficiency programme into preliminary, interim and final gains at one stage, I think. Is that the sort of approach that is going to be taken on value for money savings so that we get an early picture and then gradually it evolves into something about which people can say whether the reality was confirmed?

Sarah McCarthy-Fry: I think the methodology under this is different from the previous one, so I would hope under the methodology we are using it will be easier to see.

Mr Hudson: I think that sort of process will happen as departments report year by year but we have not this time, I do not think, put in that sort of specific staging.

Q335 Mr Todd: The final report on the Operational Efficiency Programme showed the efficiencies delivered by workstream as it was looked at then, which was procurement, etc. Is that something that you can provide a similar table on for the value for money sales?

Mr Hudson: No. The 2004 approach was following the recommendations of Sir Peter Gershon. Given that we are now adopting a broader approach to value for money with the rigour that I have been
talking about, we have not split it into workstreams and so it will be for departments to do that. There will be a number of different strands, rather more than there were in the past because it is a broader programme.

Q336 Mr Todd: Just to return to the earlier question, if you are leaving it to departments to classify the various things they are doing and present them in their reports in the way they choose it is going to be rather difficult to work out what is happening on a comparable basis between different departments, particularly when we are talking about some of the shared service and other initiatives in which it is really rather critical to understand how different departments will approach broadly the same tasks.

Mr Hudson: I think that for the shared services and the back office staff we will have information on a consistent basis.

Q337 Mr Todd: Even though it will be reported at a departmental level, obviously?

Mr Hudson: Yes, but the aim is to get that on to a consistent basis so it will be relatively easy—

Q338 Mr Todd: I think it would be helpful if this Committee had, and I would be very surprised if Public Accounts did not want it as well, some sort of clear methodology as to how this reporting is going to be done, whether workstreams are included in it, how you deal with interim preliminary assessments of savings and so on. There should be a clear rule book because otherwise, much though one loves the individual departments that one sees, they will do it their own way and it will be rather difficult to work out what has happened in a reliable way. You will get exactly the same answer, of people saying, “These savings are already happening and being delivered”, so it is for your own good, I think.

Sarah McCarthy-Fry: We will take that on board.

Mr Hudson: I was going to say, we will let the Committee have something as you request.

Q339 Chairman: Just coming back to the value for money delivery agreements, will the National Audit Office be asked to scrutinise them as they did the efficiency technical notes, I think they were called, under the 2004 review?

Sarah McCarthy-Fry: Certainly the NAO Forward Programme is scrutinising the methodology that they are using so that they can then audit against the methodology.

Q340 Chairman: And they will audit the agreements, will they?

Mr Hudson: That is up to the NAO. We certainly want them to audit the outcome. Whether they audit the delivery agreement as part of that exercise is for them to judge.

Q341 Chairman: You are not inviting them to audit the agreements?

Mr Hudson: No. I think that is for the NAO to decide.

Q342 Sir Peter Viggers: The Government has stated that it intends to publish the first set of whole of government accounts in this financial year. Are you still on target to do that?

Mr Hudson: Perhaps we could let the Committee have a note on progress on that.

Q343 Sir Peter Viggers: That is a little surprising. When you do publish will you include numbers of civil servant staff in the whole of government accounts in the same way as a private sector company would?

Mr Hudson: I will see if a colleague can help.

Q344 Sir Peter Viggers: The publication of the whole of government accounts received quite a fanfare. I would be surprised if you have not got anything to show me.

Mr Hudson: The staff numbers typically go in individual department’s sets of accounts. I am not sure that we will aggregate them but I will let the Committee have a note on that as part of the wider note on timetable.3

Q345 Sir Peter Viggers: Very well, because I would think that the publication of such statistics would present as a positive step. The point that concerns me is that Gershon was very specific. It was rigorous and specific and focused really on headcount, whereas now the value for money is less specific, rather more subjective, and I am worried that jobs are coming in through the back door, having been reduced in the front door. For instance, the Office for National Statistics published figures showing that the number of civil servants increased by 15,000 in the last quarter of 2008, so the publication of such figures would be very helpful in the whole of government accounts.

Sarah McCarthy-Fry: But it does not necessarily mean that we have not delivered the value for money savings. I do not think you can just use headcount as an indicator. It could be one indicator, but under the new methodology that we are using departments still have to deliver their departamental strategic objectives against the public service agreements meeting the efficiency savings that they have signed up to.

Sir Peter Viggers: My point, of course is that at the end of the day a large proportion of government expenditure goes on jobs and jobs are a much more specific way of measuring than the other subjective outcomes.

Q346 Chairman: Just a couple of procedural points to finish with. You have promised us a number of notes this morning. We are on a very tight timescale for our report, so we really need those notes early next week if that is possible. Can that be done?

Mr Hudson: Yes.

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Q347 Chairman: Fine, and can you just reassure me about publication of the Treasury’s departmental report and accounts? Is that on schedule before the House rises on the 21st?
Mr Hudson: Yes.

Q348 Chairman: When are we expecting those?
Mr Hudson: We do not yet have a date but we are on schedule to do it this side of the recess.

Q349 Chairman: Good; we are going to leave it there.
Mr Timms: Can I just make one more point, just a caveat, if I may, to what I said right at the beginning in answer to your question about public sector pay. I ought to make it clear that in those public sector groups where there is an existing multi-year deal we are not looking at unpicking those existing agreements.
Chairman: Of course; I understand that. Thank you all very much.
Written evidence

Memorandum from the Chartered Institute of Taxation and the Low Incomes Tax Reform Group

This memorandum is submitted to the House of Commons Treasury sub-committee enquiry to evaluate progress made under the Gershon efficiency programme in the Chancellor of the Exchequer’s departments. It is made jointly by the Chartered Institute of Taxation (CIOT) and the Low Incomes Tax Reform Group (LITRG), and therefore makes points from the viewpoint of taxpayers (and non-taxpayer claimants), both those with agents and (especially) the unrepresented, and from the experiences of the agents and ourselves in dealing with the departments. Although most of our comments will be in relation to HM Revenue & Customs (HMRC), some also relate to HM Treasury (HMT).

EXECUTIVE SUMMARY

1. In general, we think the departments are to be commended for making progress in the required directions. Despite reductions in manpower, advances have been made in areas such as e-filing. There has been a lot of willingness to engage in consultations. The introduction of client relationship managers (CRMs) for large businesses and agent account managers (AAMs) for advisers is working well. But there has also been a clear reduction in the availability of front-line help, which particularly affects the unrepresented. Advisers sense a reduction in experience and expertise and a concentration on “closing the tax gap” rather than “customer service”: whilst both are vitally important, there has to be a balance.

2. As a general point to put matters into context, the UK’s tax system has moved significantly towards a self-assessment system in recent years. Taxpayers are expected to take responsibility for their own tax affairs; HMRC are there to set out policies (with HMT’s assistance), and then administer and police the tax system. In many ways this is sensible and in keeping with the Gershon ethos; our concern is that there needs to be an understanding that HMRC also have a real obligation to help their “customers”—who nowadays include many non-taxpayers through (for example) tax credits—as they try to comply.

3. We also think that the drive for efficiency savings at HMRC is too often made without full appreciation of the impact on taxpayers and, where relevant, their advisers. The full picture, which often means that a saving for HMRC translates to a greater burden for taxpayers or advisers, needs to be taken into account.

4. Many of our observations that we develop below are of particular concern for the unrepresented, low income taxpayer or tax credit claimant. These include:

   — The push towards e-filing risks disenfranchising those who are not e-literate and who cannot access the HMRC website for information.
   — The system for agent authorisation (‘64-8’ process) has shortcomings, but is still better than the limited way that HMRC allow others to act for or help tax credits claimants or disabled people.
   — Helplines are not an unqualified success.
   — HMRC office closures are significantly restricting the ability of taxpayers to get face-to-face assistance; does this fit with HMRC’s Vision that ‘we understand our customers and their needs’?
   — The availability of home visits for older or more vulnerable taxpayers is declining, resulting in extra burdens on the voluntary sector.
   — Delays in processing are increasing, with repayment claims a particular source of frustration.
   — The ever-increasing complexity of the tax system places burdens on all concerned—taxpayers and HMRC alike—and creates a huge need for education. The 10% savings rate is a classic example.

CHANGING THE TAX SYSTEM

5. We are not convinced that the “policy partnership” between HMT and HMRC is working as well as it should. Proposals do not always seem to have had the appropriate input from those with a real understanding of what happens in practice. Longer projects can be bedevilled by changes of personnel—and what seems to be a lack of institutional memory for what has gone before. It is hard to tell whether this is a product of the Gershon drive, with in some cases experienced and knowledgeable officials leaving the service, but we feel it must be a factor.

6. There is a great deal more consultation taking place than was once the case, and we applaud that. However, we question whether it is as effective as it should be. Effective consultation happens against a proper timescale and in multiple stages; at times, stages seem to be omitted, or the direction changes with little explanation, and we wonder whether the effort that we and other commentators put in is properly used or has a chance of influencing the shaping of the proposal. Feedback on submissions—comments on why particular routes were or were not chosen—is sometimes lacking; such feedback should be part of the “payment” for the effort expended by respondents. At times, we sense that time and resource shortages lead to consultation being seen as a box to tick rather than proper engagement.
E-enablement

7. Much progress has been made on the e-filing of tax returns, and this generally contributes to efficiency. Although HMRC have made significant strides over the last year to correct bugs which crept into the system on the last major upgrade, the fact the errors, which caused significant problems to users, were there in the first place may be indicative of resource issues. However, e-filing is not the universal answer, and it troubles us that the drive for savings and the push for universal e-filing will ignore the substantial numbers of individuals who are not e-literate.

8. We wonder if the push for e-filing has been at the expense of full preparation. For example, we are aware of a flurry of penalty notices issued in relation to trusts returns, despite those returns having been e-filed on time. The reason seems to be that HMRC systems are not yet ready to seamlessly accept e-filed trust returns, so that such returns had to be run off and reinput manually. Inevitably, human error and delays occurred, and so some returns filed on time were recorded as late.

9. For those—taxpayers and agents—who are happy to e-file and, indeed, prefer to communicate electronically, it is frustrating that more progress has not been made in enabling more routine electronic communications with HMRC. That should extend to an ability to review taxpayer’s records online. It is also unfortunate that the R40 (the form usually used to reclaim overpaid tax, and so often used by the unrepresented) cannot be completed and submitted online.

Agent Authorisation

10. If a taxpayer does want to appoint an agent, then, clearly, that agent has to be properly authorised. Agents are part of a significant multiplier effect, playing a key role in helping clients get their tax right. Security considerations are clearly very important (agents report frustrations with HMRC helplines over further security routines that have led to a refusal to discuss numerical information even with properly-authorised agents who have passed the phone-line security checks). But the authorisation process, dependent on efficient online agent authorisation or proper processing of the form 64-8, too often goes wrong, at considerable efficiency cost to taxpayer, agent and HMRC alike. Simple enquiries from an agent are too often met with refusals because authorisation has disappeared in the HMRC system. We appreciate that HMRC are reviewing this area, but think that significant funds should be made available to improve authorisation processes.

11. HMRC’s systems for dealing with agents authorised by means of a form 64-8 (mainly tax professionals) are nevertheless more efficient than for “intermediaries” with form TC689, who assist tax credits claimants. Such intermediaries experience delays in having their forms registered by the Tax Credit Office, lengthy delays in replies to correspondence and other inefficiencies in the way their relationship with HMRC is handled. This often results in problems that could, and should, have taken a matter of days to resolve by phone, being protracted over many months, at extra cost to HMRC, intermediary and claimant alike.

12. Informal representatives, such as other family members, or carers of disabled people or those with learning difficulties, do not appear on HMRC’s systems at all. This seriously hampers HMRC’s ability to deal efficiently with the very large part of their customer base claiming tax credits. By contrast, the DWP’s method of implied consent, whereby conversations may be had with informal representatives of a person if they can show their bona fides and sufficient knowledge of the person’s affairs, works well, and is reflected in practice elsewhere in the commercial world.

Helplines

13. Most routine enquiries, especially from the unrepresented taxpayer, now have to go to a helpline. LITRG and TaxHelp for Older People (TOP) find too many instances of difficulty in getting answers—either an answer to the call in a reasonable time or a proper answer to the query. Clearly, those on the helpline are working to scripts; we are not convinced that these are comprehensive enough, nor that the targets the helpline staff are given for turning round calls are reasonable. We also doubt whether there are enough resources to back up the front-line call handler: advertised procedures are that queries that front line staff cannot handle are to be referred to a supervisor who will, if necessary, phone the caller back. But this does not seem to happen as a matter of routine. There are also serious problems in the accuracy of advice given by helpline advisers.

14. It is also worth noting that the use of 0845 numbers for helplines is costly for taxpayers using pay-as-you-go mobiles—often the preferred tool of the low income claimant/taxpayer.

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1 We understand that there are some 17 million adults in this category, according to research published by the Department for Communities and Local Government.
HMRC Office Closures

15. The efficiency drive has led to a programme of HMRC office closures. This is a significant problem for many unrepresented people, especially if they are not able to use the internet and get information in that way. Many would be happy getting hold of a hard copy leaflet and studying it, at least as a first stage. But many people with a problem still want to talk face-to-face with someone and get it sorted out that way. Both solutions—meetings and leaflets—are becoming harder to obtain.

16. We note that the programme of office closures is often supported by comments about a reducing footfall of visitors. That may be the case; but it may be that the existing offices are not well positioned for potential callers. TOP report cases of callers to HMRC offices who, after a significant journey to the office, are asked to return another day for a formal appointment; more efficient for HMRC perhaps, but likely to lead to the individual not bothering to call.

17. We have previously recommended the use of more “market day” mobile offices, to increase coverage. We also think that there needs to be better coordination between government departments that interact with ordinary citizens which might produce, at no greater cost, “local advice and assistance centres”. That could include the DWP as well as HMRC; Local Authorities; the Ministry of Justice possibly (through its legal aid funding initiatives) and the voluntary sector.

18. There is, we believe, considerable scope for cooperation and joint working between HMRC and the DWP. For example, there should be general implementation of a “tell us once” regime—a notification to one arm of government should carry across to other areas. But we understand a shortage of funding may be delaying some initiatives, or leading to their cancellation.

General Delays

19. Whilst so much of what HMRC is trying to do is excellent, things can be let down in implementation at the coalface. This may be linked to cutbacks in manpower. For example, we are constantly told by members in practice that the speed of HMRC’s dealing with post has worsened in recent years. Surveys certainly show that there are problems, but we do not claim to have a complete picture.

20. We are seeing significant delays—typically up to 14 weeks—in processing of claims for child benefit, with consequent knock-ons to tax credits. The claimants will receive their benefits in due course but, of course, will often suffer hardship as a result of the delays. Again we wonder whether manpower shortages contribute to these delays.

21. A particular area of concern is the speed of processing of repayment claims. These often result from submission of an R40 (which, although downloadable from the HMRC website, cannot be submitted electronically). Taxpayers regularly express concern over their inability to hold HMRC to a timescale for making repayments; we have come across instances in practice when taxpayers have been told that their repayments have been made to their adviser before such payment has been issued. We appreciate that checks have to be made before repayments can be issued, but we feel that this part of HMRC’s service has suffered of late. (We note in passing that the current consultation on “Payments, repayments and debt”, part of the programme of review of HMRC’s powers, makes no mention of speeding repayments whilst proposing extensive tightening of the rules for paying taxes.)

Complexities of the System

22. HMRC, taxpayers and agents all suffer from the increasing complexity of the tax system. The ongoing review of HMRC’s powers presages a generally tighter regime for controlling taxes. Whilst much of this is perfectly sensible and appropriate, our concern is that cutbacks in HMRC manpower may mean less scope for taxpayer education—and, indeed, for HMRC to educate their own staff in the new rules. We think there needs to be an absolute commitment that proper resources will be devoted to education and general communication of the new regime and its implications. This is simply good investment—stopping people making mistakes in the first place is cheaper than having more compliance visits.

23. Increased system complexity is one thing; expecting the taxpayer to bear the brunt of HMRC’s inability to comprehend their own systems is another. Take the case of a taxpayer who fails to spot errors in his/her coding notice. The errors can be perpetuated for years before HMRC notice anything wrong, because the automatic processes that are supposed to match coding information with other data held on HMRC’s systems are inadequate, and HMRC do not have the resources to carry out exhaustive manual checks. When the errors are finally discovered, the taxpayer will normally be expected to pay the outstanding arrears of tax in a lump sum, or face interest charges. Those who experience this problem are mostly unrepresented, as advisers will generally spot errors of this nature before arrears have built up.

24. We could cite many individual changes that have added complexity to the tax system, but will focus on only one: the 10% savings rate. This can only be applied to a taxpayer in practice through completion of a tax return—a self assessment return or the R40—and will require a tax repayment in almost all cases. That adds a burden to HMRC; it also raises questions whether taxpayers, most of whom will, by definition, be on low incomes and mostly unrepresented, have been alerted to the possible tax reclaim. LITRG and TOP
will do their best; but we do not see HMRC have the resources to track eligible taxpayers. We have to question whether the savings rate is worthwhile and will be effective—and so return to our opening theme of a lack of practical consideration in devising changes to the tax system.

CONCLUSION

25. We acknowledge that there are always going to be constraints in what can be achieved by government departments. However, in the case of HMRC, we have consistently argued that cutbacks were proceeding too quickly, and that the drive for efficiency savings (a major factor in the merger of the Inland Revenue and Customs & Excise) meant manpower reductions preceded realisation of systems improvements that would pay the efficiency dividend.

17 March 2009

Memorandum from Intellect

Intellect, the UK trade association for the technology industry, is grateful for the opportunity to input into the Treasury Sub-Committee’s Evaluating the Efficiency Programme inquiry.

The Gershon Review clearly emphasised the important role that technology has to play in delivering more efficient and effective public services. Echoing many of the basic principles exhorted by Intellect and its members, the review established the foundations for a more mature and productive engagement between government and industry. Intellect has since been working closely with the government, under the auspices of the Supply Transformation Programme, to ensure that programmes and projects are not only delivered on time and to budget but also support a more strategic and joined-up approach that delivers savings to the tax payer while improving services to citizens.

Accelerating efforts to reduce the cost and time of public sector procurement has the potential to deliver enormous savings: not only in terms of the costs associated with the process, which we estimate to be around £200 million a year but also in setting the conditions for delivery failures which waste billions of pounds of tax payers’ money. The average time ‘to let’ a major ICT procurement in the UK is 15 months, compared to nine months in Europe and as little as three or four months in a crisis.

As part of the Supply Transformation Programme, a joint government-industry working group has identified the major critical success factors in public procurement, including effective leadership, experienced commercial support and the reuse of existing assets (including contracts). As a result of this work, and in close collaboration with industry, OGC has launched a Pre-Qualification Tool and Joint Statement of Intent. These tools have the potential to reduce procurement costs by many millions of pounds and will help reduce the average length of public sector procurement processes by several months.

While there has been progress in some areas, the major ‘cultural’ challenges remain: the disconnect between policy and delivery, the perception that procurement is not a role for senior civil servants and the fact that there are few incentives for collaboration and reuse which means that departments often prefer to develop their own solutions rather than act as service providers (rather than buyers). These are amongst the issues that we are currently discussing with HM Treasury as part of its Operational Efficiency Programme, particularly in terms of the back office operations and IT and collaborative procurement workstrands.

As the Treasury Sub-Committee examines the impact that the Gershon Review has had on efficiencies in public service delivery, we would urge you to explore the wider potential savings from public procurement improvements and look at how sustainable investment in technologies and process improvements can deliver back and front office efficiencies whilst simultaneously improving services to citizens and businesses.

March 2009

Memorandum from The Institute of Chartered Accountants in England and Wales

EVALUATING THE EFFICIENCY PROGRAMME

INTRODUCTION

The Institute of Chartered Accountants in England and Wales (ICAEW) welcomes the opportunity to submit evidence in response to this Treasury Sub-Committee inquiry.

The ICAEW is a world leading professional body working in the public interest. The ICAEW provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and business to uphold the highest technical and ethical standards.
This submission contains two major sections. The first section provides detailed information, based on a
March 2009 ICAEW Tax Faculty survey, about our member’s perceptions of HMRC efficiency and
customer service levels. We have compared our findings with a similar survey, produced in 2007, to provide
the Committee with a valuable insight into the development of HMRC customer service and efficiency
systems, within the context of the Gershon Efficiency Programme.

However, in the context of the current state of UK public finances, brought about partly as a result of the
financial crisis, coupled with increased demand for public services and reduced tax revenue, brought about
as a result of the economic downturn—the Gershon savings lack the necessary scale and ambition.

The ICAEW believes that, in this environment, a much more fundamental review of public sector
expenditure is needed, centred on radically changing the culture of public expenditure and improving root
and branch public sector financial management. The second part of our submission, ‘supporting a culture
of efficiency’, sets out recommendations that we believe will help achieve this.

EXECUTIVE SUMMARY

Gershon savings should be subject to a thorough and independent audit and assurance process.

Efficiency and HMRC service standards

With regard to HMRC, the ICAEW is very concerned that the efficiency programme has not delivered
improved levels of customer services. A majority of our members surveyed believed that the time and costs
dealing with HMRC service problems have increased over the past 12 months, with 33% believing that
they have increased significantly.

There has been a lack of progress in addressing many of the customer service issues raised by the ICAEW
in our response the Treasury Committee’s 2007 inquiry.

Our survey has raised concerns about HMRC customer service with regard to communication, both by
telephone and by postal service, data accuracy, and VAT registrations.

We believe that HMRC efficiency gains and customer service can be delivered through better trained
customer-facing staff; nominated staff having ownership of problems; and improved electronic systems
and support.

In particular, experience in other tax administrations suggests that there is considerable scope for
enhancement of HMRC e-services.

We encourage the Treasury Committee to review progress achieved in responding to the Committee’s 2007
recommendation for HMRC to develop measures of service quality which properly capture the experience
and needs of users.

Supporting a culture of efficiency

If substantial efficiency gains are to be achieved in the public sector, high-level cultural and incentive-
structure changes are required to shift the belief that ‘we must do more’ in public services, and replace it with
the principle that “we must do more with less”.

Political leadership is required to discourage the culture of spending entire budgets every year, by any
means necessary. Currently, political pressure tends to encourage just that.

Public sector finance teams need the resources and executive support to become meaningful business and
decision support levers, utilising comparative analysis to highlight performance across similar teams
internally as well as external benchmarks.

Finance teams in the public sector should be given the authority enjoyed by their private sector
counterparts to respond flexibly and swiftly to changing circumstances.

Public sector boards should be strengthened in order for them to meaningfully “challenge” whether their
organisation is delivering best value for its activities.

We do not believe that the Government is addressing the acute lack of financial management skills in the
public sector with the necessary vigour.

Given the lack of adherence to the Government’s fiscal rules, a new set of clear principles guiding financial
management in the public sector is now needed.

The ICAEW encourages the Treasury Committee to determine HM Treasury progress in delivering the
“clear line of sight” project.

We believe that the government should explore means of presenting concise summary financial
information to Parliamentary and public audiences, including examining proposals to register significant
single items of public expenditure on a public online database.

The ICAEW believes the move to use International Financial Reporting Standards (IFRS) throughout
government will improve comparability and transparency across departments, lead to better decision-
making in long-term contractual arrangements, and be a major factor in driving efficiency gains in the
public sector.
The ICAEW encourages the Treasury Committee to evaluate how much progress Departments have made as a result of the year extension of the IFRS implementation plan in developing their implementation plans. This should include whether proper systems, processes and internal controls have been put in place.

**Consultation Questions**

Assess the PBR announcement that the Government had over-achieved against the targets set by the Gershon Efficiency Programme, which included delivering £26.5 billion in savings and a reduction of 86,700 civil service posts between 2004 and 2007 and how this relates to Treasury departments results; how the Treasury has addressed the measurement problems raised by NAO reports on efficiency and how confident they are of their final savings figures.

The ICAEW is concerned about the lack of assurance of the reported efficiency savings announced by HM Treasury as part of the Gershon Efficiency Programme. A thorough independent audit process of the Gershon Programme’s announced savings, potentially including detailed cashflow analysis showing cash-releasing savings as evidence of cashflow benefit, would help to provide greater confidence in the figures. The issue of assurance and public trust will be even more important for future efficiency savings figures as, moving beyond ‘low hanging fruit’, the programme will seek to introduce savings where they are likely to be more difficult to achieve.

Examine the impact on customer service of efficiency measures taken to date; especially in respect of HMRC

March 2009 ICAEW member research into HMRC’s service standards

As part of the ICAEW submission to the Treasury Committee inquiry into HMRC service standards in 2007, the ICAEW undertook a detailed Tax Faculty member survey to monitor experiences of HMRC customer service standards. To support this submission, over the period 13-16 March 2009, we have undertaken an updated survey of Tax Faculty members. This year’s survey was more limited in scope than our 2007 survey, but we asked similar questions to those in 2007 so as to provide comparable results. At the time of writing, 109 responses have been received.

Most of our respondents are sole practitioners or work in small firms. Given the time constraints, the survey was not undertaken with a statistically selected population. However we believe it provides a useful snapshot of our members’ experiences and, notably, the messages coming through are broadly consistent with our 2007 survey.

**HMRC’s service standards: key conclusions**

The ICAEW is very concerned that the efficiency programme, taken as a whole, has not improved the level of customer service and in some areas has deteriorated:

- 62% of respondents to the March 2009 survey believe that their time and costs dealing with HMRC service problems have increased over the past 12 months, with 33% believing that they have increased significantly.

There has been a lack of progress in addressing many of the customer service issues raised by the ICAEW in our response the Treasury Committee’s 2007 inquiry. In particular, we noted that HMRC’s local office structure had been dismantled and that the new structures did not appear to provide adequate support mechanisms. Whilst we recognise that there have been some improvements and that HMRC staff are invariably seeking to do their best and are as helpful as they can be, we are still of the opinion that many of the concerns we set out in 2007 remain valid.

HMRC has moved largely to a ‘processing operation’ where manual intervention is kept to a minimum. Whilst this may work well for the majority of cases, it does not work well when problems develop that require the manual intervention of a member of staff. Currently, where things go wrong there are significant difficulties both in tracking down a qualified member of staff to discuss issues and resolving the issue.

However, we believe that both efficiency savings and improved levels of customer service can be achieved. The inability to effectively manage and respond to both customer service problems, and the minority of complex cases, wastes HMRC resources and imposes significant cost burdens on tax agents. In this submission and our full survey report (please see Appendix One), we set out specific recommendations for improving customer service—including better trained staff, nominated staff having ownership of problems, and improved electronic systems and support.

We also continue to support an HMRC customer charter as encouraging improvements in customer service, within a framework of efficiency savings. In this respect, we do not believe that the 2007 Treasury Committee recommendation has been taken forward with the appropriate urgency—namely that HMRC must develop measures relating to service quality which sufficiently capture the experience and needs of users (see paragraph 17 of the 2007 report, reproduced in the Appendix Two).,
**HMRC customer service issues: communication**

Respondents raised severe difficulties in communicating with HMRC. Our members communicate with HMRC using a variety of methods: telephone, post and, where available, email. Around a quarter of respondents believe that staff need better training to deal with issues raised. A large proportion of respondents also believe that customer service is disrupted owing to a lack of ownership linking HMRC staff to resolving emerging problems.

**Telephone contact**

Members continue to report difficulties when contacting HMRC staff by telephone; a frustration which is compounded by the fact that replies to letters often invite the agent/employer to phone the writer of the letter. Further noteworthy points include:

- Only 30% of respondents felt that when telephoning HMRC to discuss more complex client related queries, the technical knowledge of HMRC was sufficient to resolve the enquiry efficiently.

- Agents with more complex queries often have to wait for someone to call them back. Two years ago less than half of members’ queries were dealt with at the first attempt. Our survey indicates that little has changed, with only 40% having their query resolved at the first attempt.

- We received numerous reports from members that there were times during the weeks leading to the 31 January self-assessment deadline where it was not possible to get through to the Online Services Helpdesk.

- In our previous survey, only 56% of data change requests made by telephone were made at the first attempt, resulting in wasted time and costs (for taxpayers, agents and HMRC). Our current survey placed this at 61% which, although an improvement, is disappointing.

- However, since our last survey in 2007, HMRC has introduced Agent Priority telephone lines. Members have commented that Agent Priority telephone lines have generally made it easier to get through. This development has resulted in a slight reduction in the time it takes for a call to be answered. Two years ago, the average time taken for respondents to get through to HMRC was over one minute, but this is now around one minute.

**Post services**

The time taken to deal with postal queries is a great cause for concern. In recent weeks we have had numerous reports of post not being logged as received by HMRC on the exact date of receipt and that HMRC are not opening and/or dealing with post quickly, with reports of post backlogs running into months. Our survey indicates that:

- On average, members waited eight weeks before receiving a full answer to a written enquiry. The waiting time seemed to be the same for VAT and non-VAT queries.

- Members report that letters which are dated when they are written often appear not to arrive until three or four weeks later. Most recently, this has caused particular difficulty for taxpayers and agents in relation to self-assessment final demand letters received during March 2009 instead of February 2009.

- As for telephone requests, only 60% of data change requests made by post were actioned correctly at the first attempt. This is unchanged from 2007.

However, the technical knowledge of staff who respond to letters was felt to be considerably better than those who answered the telephone: 69% of respondents believe that this was usually sufficient to resolve their enquiry. Nevertheless, this percentage would not be acceptable in a customer-focussed commercial organisation.

**HMRC customer service issues: data inaccuracies**

An area where members have consistently reported problems is with incorrect PAYE coding notices.

- On average, our members estimate that 24% of PAYE coding notices they receive are incorrect.

- 79% of our respondents believe that in more than 50% of cases where an incorrect notice of coding has been issued, HMRC already possesses the information which should have enabled a correct code to be issued at the outset. Furthermore, 52% of respondents believe that in more than 75% of the cases where an incorrect notice of coding has been issued, HMRC already possesses the information to issue a correct notice.

**HMRC customer service issues: VAT registrations**

Our respondents estimate that it is currently taking five weeks for applications for routine VAT registration to be processed, as opposed to the stated time of 14 days. Whilst this is substantially better than the lengthy delays experienced in 2007, this figure suggests that performance has once again started to slide since HMRC managed to bring the situation under control in 2008.


**HMRC electronic communication and IT systems**

While the introduction of various online systems has delivered substantial improvements to the customer experience, the ICAEW believes that the use of email communication by HMRC is under-developed and several problems remain more generally with HMRC’s electronic systems.

Our members have reported a considerable improvement in the performance of HMRC’s self-assessment online filing systems. The system appeared to cope much better than in previous years with the 31 January filing deadline, even though the number of returns was far greater than in previous years. This was a welcome development and HMRC are to be congratulated. In addition, repayments are made considerably faster when tax returns are made electronically. This has become even faster during the past two years. However, the success of electronic return has emphasised the considerable disparity between electronic and non-electronic submissions (details of the vulnerable groups affected by this disparity can be found in Appendix One).

With the move to centralised processing, HMRC needs to ensure that taxpayers and agents have easy access to HMRC. Experience in other tax administrations suggests that there is considerable scope for the enhancement of HMRC e-services. (Specific form-level recommendations for improvement are laid out in Appendix One).

We believe that HMRC should explore the following IT solutions:

- **Greater use of email communication:** We believe that email could represent an effective supplement to agent help lines, enabling queries to be directed to—and to be responded to by—a suitably qualified person. This would also resolve the problem of agents having to keep a number of files to hand while waiting call backs.

- **Streamlining of processing systems:** We are also concerned about HMRC delays in processing information that has been submitted electronically. Lord Carter of Coles’ vision on the validation, checking and processing of return information, that should be instantaneous on the efilig of returns, is not being realised. Moreover we suspect that some data that is submitted electronically has then to be subject to separate processing at a later date.

- **Improvements to data handling and systematic updates:** Systematic updating of information submitted electronically would ensure that employee records are correct and obviate incorrect penalties, code numbers and NIC deficiency notices.

- **Re-energising planned IT improvements:** We suggest that HMRC needs to prioritise the need to ensure that HMRC back office systems work properly and data sent electronically is processed in accordance with Lord Carter’s proposals. We note that the updating of HMRC’s employer database and combining the income tax/PAYE database with the NIC database, which was to have taken place in October 2008, has been delayed—probably to summer 2009. This project needs to be prioritised if customer service issues are to be addressed.

**Service Standards Charter—Treasury Committee recommendation**

We stated in our written evidence to the Treasury Committee in 2007 that HMRC should commit to a set of service standards. The Treasury Committee recommended that HMRC develop measures of service quality which properly capture the experience and needs of users (see paragraph 17 of the 2007 report, reproduced in Appendix One).

The Government response in November 2007 stated that HMRC had drawn up a standard and had developed a toolkit that would form the basis for a new quarterly customer survey. We believe that these developments have potential. However, we are not aware that these developments have been progressed. The results of our latest survey confirm that HMRC’s service standards are still a cause for concern and that this issue now needs to be given a higher priority. HMRC should work with the professions to bring forward some concrete proposals for consideration and implementation this year:

Consider the likely effects of the efficiency programme beyond 2009, including whether the programme can be expected to create a “culture of efficiency” within the Chancellor of the Exchequer’s departments.

**ICAEW main points**

As a result of the financial crisis and the economic downturn, the current state of public finances is vastly different to the period when the Gershon Efficiency programme was launched. Public finances are stretched and there is substantial pressure for public sector cost reductions.

In this context Gershon savings are likely to be too modest. In addition, the economic downturn has delivered greater demands on government services across a range of departments including, but not limited to, Work and Pensions, and Children, Schools and Families. At the same time the Treasury faces downward pressure on tax revenues as a result of lower corporate profits and personal incomes. Furthermore, policy tension has been created between the government’s effort to stimulate the economy through job creation, and the job cuts that are likely to result from substantial efficiency savings.
The ICAEW believes that in this environment a much more fundamental review of public sector expenditure is required, centred on improving financial management and radically changing the culture of public expenditure. Our views are detailed below.

Financial management structures and culture

We believe that the existing incentive structures and budget frameworks in the public sector make it difficult for substantial efficiency savings to be realised. Sound financial management requires an effective structure of incentives at a personal, organisational and departmental-budget level.

The ICAEW recommends that effective mechanisms be introduced to reward budget underspend.

Underspending, where the budget holding department or body is given the authority to judge whether it has achieved its goals without spending an entire budget, should be encouraged and rewarded. The ICAEW believes that there is neither the appropriate financial frameworks nor a supportive culture in place to reward budget underspend.

For example, we observe the Ministerial statement from Jim Knight MP, Minister for Schools and Learners, on 24 February which criticises budget surpluses held by schools:

“The Government believe that the national total of revenue balances and in particular the level of surplus held by some individual schools is too high. While it is clearly sound financial management for schools to retain a small surplus from year to year, we expect revenue funding to be used for the salaries of staff at the school and on learning resources to support the education of pupils in school now, working towards raising attainment and narrowing the gaps in attainment between disadvantaged children and the rest.”

In the case of NHS Foundation Trusts, we understand that nationally over £1bn of budget surpluses have been generated but that those trusts are being encouraged to spend the surplus in health facilities and services.

If substantial efficiency gains are to be achieved, high-level cultural and incentive-structure changes are required to dismiss the notion that “we must do more” in public services, and replace it with a principle that “we must do more with less”.

However, Departments must avoid simply “clawing back” budget overspend as this would remove any incentive for the budget holder to produce a budget surplus. Cultural change and financial frameworks should combine to reward and recognise the value of underspend and also ensure that mechanisms are in place to ensure surplus funds are used properly and not wasted or left unused for long periods.

Political leadership and structural change is required to reward genuine efficiency savings and discourage the culture of spending the entire budget every year, by any means necessary. Currently political pressure is too often exerted in the opposite manner.

Achieving cultural change—a strong finance department supporting strong public sector boards

A critical element of cultural change in the public sector will be providing public sector finance teams with the appropriate organisational and executive support to become meaningful business and decision support levers. To achieve efficiency gains, within a culture of ‘more for less’, finance teams should be properly resourced to provide relevant, timely and accurate information to enable decisions to be made about where best to find efficiency and economy. This may require a more comparative form of analysis that highlights underperformance across similar teams internally, as well as the external benchmarking that is currently deployed.

A secondary element to cultural change will be to strengthen public sector boards so as to empower them to, firstly, meaningfully critique whether their organisation is delivering best value for its activities and, secondly, encourage their organisation to achieve gains in improving economy and efficiency as well as effectiveness. In order to fulfil this ‘challenge’ role, boards will require strong finance teams that can provide them with the necessary comparative performance data.

Public sector finance teams should also be given the decision making authority that exists in the private sector in order to be able to respond flexibly and rapidly to changing circumstances. For instance, a private sector organisation can take moves to cut first class travel or change expenses rules overnight. In the public sector, the ICAEW understands that this is not generally the case.

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1 The Minister for Schools and Learners (Jim Knight MP); Children, Schools and Families Written Ministerial Statement; Tuesday 24 February 2009, “School Revenue Balances 2007-08”—http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090224/wmstext/90224m0001.htm
**Need for more financial expertise in the public sector**

Within the public sector, as outlined above, there is insufficient financial expertise to deliver the wholesale change necessary to make substantial savings or to provide for a strengthened finance team role. We believe government must maintain its efforts to increase the number of qualified accountants in roles with financial or budgetary responsibility. As previously mentioned, these managers must be incentivised to spend efficiently, rather than encouraged to spend their entire budget allocation.

Financial management skills and a high level of prestige for the finance function in public sector organisations will be essential to delivering efficiency gains. The Cabinet Office “Civil Service Capability Reviews Tranche 3: Findings and Common Themes” (2007) report concludes that “performance and financial management data are often poor”. Further that, “The Department does not yet have sufficiently robust management information about unit costs, or a well-sourced understanding of value for money upon which to base decisions”.

The report suggests that “initiatives . . . including training in finance awareness” would seek “to address this”.

We do not believe that the government is addressing the lack of financial management skills in the public sector with the necessary vigour. Government needs to be much clearer about both its specific ambitions in this area, and its detailed plans for improving the level of financial management across central departments, non-departmental public bodies and local government.

**Importance of HM Treasury leadership and robust principles to govern public sector financial discipline.**

The ICAEW continues to support the HM Treasury “clear line of sight” project to align budgets, estimates and accounts by 2010–11, and update the language and terminology used in public sector reporting in order to bring it more into line with commercial practice.

However, since the announcement of the clear line of sight project, the public finance environment has changed dramatically. The project’s original stated objective was to allow the Treasury to control budgets in order to meet the fiscal rules—the golden rule and the sustainable investment rule. Given the government’s response to the financial and economic crisis from September 2008, the credibility of these fiscal rules have been undermined and the “rudder” to cross-government financial management has been lost.

The government should urgently seek to re-introduce clear principles guiding financial management in the public sector in order for the operational changes led by the ‘clear line of sight’ project to effectively realise efficiency gains. This needs to occur in advance of the next possible Comprehensive Spending Review period, potentially in 2010–11.

The “clear line of sight” project will require committed political leadership. Pressure must be maintained to emphasise the importance of addressing:

- The misalignment between the different bases on which public sector financial information is presented to Parliament and other stakeholders; and accordingly,
- The irregularity of publishing formats and cycles of government financial documents, which makes it difficult to understand the links between the bases on which financial information is presented.

**Transparency of financial information presented to Parliament and the public**

Linked to the ‘clear line of sight’ project, efficiency gains will, in part, be driven by accessible transparent financial information being made available to Parliament and for public consumption.

The government should explore means to present concise summary financial information to a Parliamentary and public audience, including examining proposals to register significant single items of public expenditure on a public online database.

We believe that the government has accepted this need, and in it’s “Governance of Britain” green paper, published in July 2007 states “A key role of Parliament, and of course the House of Commons in particular, is to hold the Government to account for expenditure. The Government intends to make it easier for Parliament to do so by improving the transparency and accountability of Government expenditure”. It goes on to state that “Although there are good historic reasons for the evolution of different systems, the current state of affairs can be confusing for users and consumers; restricts good financial management in Departments; is costly and inefficient for Government and makes it difficult for the House of Commons to track how resources are being used”.

However, we have yet to see the development of specific plans to improve the transparency and accessibility of financial information that would allow for effective Parliamentary and public pressure on examples of financial inefficiency.

The ICAEW encourages the Treasury Committee to determine progress in delivering the “clear line of sight” project.
**Importance of public sector use of International Financial Reporting (IFRS)**

The ICAEW believes the move to use IFRS throughout government will improve comparability and transparency across departments, lead to better decision-making in long-term contractual arrangements, and be a major factor in driving efficiency gains in the public sector.

In the 2007 Budget the then Chancellor, Gordon Brown, announced that the adoption of IFRS in the public sector would bring benefits to consistency and comparability between financial reports in the global economy and would emulate private sector best practice.

In the 2008 Budget, the government announced a one year delay in implementing IFRS across central government and the health sector. The delay for adoption is thought to have been caused by the amount of technical work needed, particularly the analysis of off balance sheet PFI projects. At a joint conference in central London the accountancy bodies the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Chartered Accountants in England and Wales (ICAEW) responded by urging relevant departments to continue their development plans to IFRS, to learn best-practice from the private sector and to ensure departments are compliant as soon as they possibly can be.

The ICAEW believes that the Government should redouble efforts to support the implementation of IFRS in the public sector. The ICAEW encourages the Treasury Committee to evaluate how much progress departments have made as a result of the year extension in the IFRS implementation plan in developing their implementation plans. This should include whether the proper systems, processes and internal controls have been put in place.

**APPENDIX ONE**

**MARCH 2009 ICAEW MEMBER RESEARCH INTO HMRC’s SERVICE STANDARDS**

In order to provide actual evidence of our members’ experiences to support our comments and recommendations for the 2007 inquiry, we undertook a detailed member survey. To support this submission, we have undertaken a further survey of ICAEW Tax Faculty member experience of HMRC service standards.

This year’s survey was more limited in scope than our 2007 survey. However, we sought to ask similar questions so that we could compare results. Most of our respondents are sole practitioners or work in small firms. Given the time constraints, the survey was not undertaken with a statistically selected population but we believe it provides a useful snapshot of our members’ experiences and note that the messages coming through are broadly consistent with our 2007 survey.

The survey focussed on the following key issues:

**Telephone and post:**
- HMRC response time.
- Accuracy of HMRC processing.
- Technical knowledge of HMRC staff.

**Key areas of practical concern raised repeatedly by our members:**
- We also asked our members what actions HMRC could implement to improve overall service standards.

**General Comments**

The ICAEW is very concerned that the efficiency programme, taken as a whole, has not improved the level of customer services and in some areas has deteriorated:
- 62% of respondents to the current survey believe that their time and costs dealing with HMRC service problems have increased over the past 12 months, with 33% believing that they have increased significantly.

In our written evidence in 2007, we noted that HMRC’s local office structure had been dismantled and that the new structures did not appear to provide adequate support mechanisms. Whilst we recognise that there have been some improvements and that HMRC staff are invariably seeking to do their best and are as helpful as they can be, we remain of the view that many of the concerns we set out in 2007 remain valid.

**Communication with HMRC by telephone and post**

Our members like to be able to communicate with HMRC using a variety of methods, telephone, post and, where available, email.

**Telephone**

Members continue to report difficulties in contacting HMRC staff. This wastes much time and results in considerable frustration. If a letter is sent, it will possibly reach the right person. However, replies often invite the agent/employer to phone the writer of the letter on a given number but attempts to do so are often unsuccessful because even if the number cited is working the person frequently cannot be located.
If telephoning HMRC on a new point, initial contact by telephone is routed to a Contact Centre and Contact Centre staff do not have access to the paper files so in many cases the query has to be passed on for another member of staff in a different office to call the practitioner back. This is inconvenient and wastes time.

A similar problem arises for employers. Although the 50,000 employers with more than 50 employees have Customer Relationship Managers, the remaining 1 to 1.5 million employers with less than 50 employees may encounter the same technical problems as the bigger employer yet they and their advisers have no dedicated contact point in HMRC.

Since our last survey, HMRC has introduced Agent Priority telephone lines for income tax issues. Members have commented that Agent Priority telephone lines have made it easier to get through, although this depends on the time of year. This development has resulted in a slight reduction in the time it takes for a call to be answered. Two years ago, the average time taken for respondents to get through to HMRC was over one minute, but this is now around one minute.

Our members report that there were times during the weeks leading to the 31 January self-assessment deadline when it was not possible to get through to the Online Services Helpdesk.

In our previous survey, only 56% of data change requests made by telephone were made at the first attempt, resulting in wasted time and costs (for taxpayers, agents and HMRC). Our current survey placed this at 61% which, although an improvement, is rather disappointing.

Agents with more complex queries often have to wait for someone to call them back. Two years ago less than half of members’ queries were dealt with at the first attempt. Our survey indicates that little has changed, with only 40% having their query resolved at the first attempt.

Only 30% of respondents felt that when telephoning HMRC to discuss more complex client-related queries, the technical knowledge of HMRC was usually sufficient to resolve the enquiry efficiently.

Post services

The time taken to deal with postal queries is a great cause for concern. In recent weeks we have had numerous reports of post not being logged as received by HMRC on the exact date of receipt and that HMRC are not opening and/or dealing with post quickly, with reports of post backlogs running into months.

Similarly, letters sent by HMRC appear to suffer long delays before they are posted. Members report that letters which are dated when they are written often appear not to arrive until three or four weeks later. Most recently, this has caused particular difficulty for taxpayers and agents in relation to self-assessment final demand letters received during March 2009 instead of February 2009.

On average, members waited eight weeks before receiving a full answer to a written enquiry. The waiting time seemed to be the same for VAT and non-VAT queries.

As for telephone requests, only 60% of data change requests made by post were actioned correctly at the first attempt. This is unchanged from 2007.

The technical knowledge of staff who respond to letters was felt to be considerably better than those who answered the telephone: 69% of respondents believed that this was usually sufficient to resolve their enquiry. Nevertheless, this percentage would not be acceptable in a customer-focused commercial organisation.

PAYE codes

An area where members have consistently reported problems is with incorrect PAYE coding notices. Although some members report that the percentage of incorrect notices is over 50%, on average, our members estimate that 24% of PAYE coding notices they receive are incorrect. Chartered Accountants will usually act for clients with more complex tax affairs, which may indeed be reflected by more complex PAYE codes. Nevertheless 52% of respondents believe that that in more than 75% of the cases where an incorrect notice of coding has been issued, HMRC already possesses the information to issue a correct notice. Furthermore, 79% of our respondents believe that HMRC already possesses the information which should have enabled a correct code to be issued at the outset in more than 50% of cases where an incorrect notice of coding has been issued.

Repayment processing

Repayments are made considerably faster when tax returns are made electronically. This has become even faster during the past two years. However, not all taxpayers can take advantage of this as they need to be within the self-assessment system to do so.

In 2007, we reported that less than 20% of tax repayment claims submitted by way of a tax return were received within a month, although there was a slight improvement where claims were made on R40s. Electronic submission of tax returns resulted in faster repayment, with over 60% being received within a month (in 2007).
In 2009, it remains that less than 20% of tax repayment claims submitted on paper are received within a month. Repayment following submission of a form R40 is received within one month in 45% of cases, whilst a repayment following submission of an electronic tax return is received within one month in 93% of cases.

The profession has asked repeatedly for an electronic system to be developed for submitting R40s. These forms are often used by lower paid and older taxpayers with the result that these groups of vulnerable people are being disadvantaged as compared to taxpayers who file a self assessment return.

**VAT registrations**

Our respondents estimate that it is currently taking five weeks for applications for routine VAT registration to be processed, as compared to the stated time of 14 days. Whilst this is substantially better than the lengthy delays being experienced in 2007, this figure suggests that performance has once again started to slide since HMRC managed to bring the situation under control in 2008. We also note that the position seems to have deteriorated since HMRC stopped publishing monthly statistics about VAT registration processing in 2008.

Concern has been expressed that non routine applications are taking too long. The survey suggested that members’ experience is that this is taking 12 weeks. This figure is better than some of the more anecdotal stories of such applications taking six months or more. Nevertheless, for bona fide applications that have been sent for further checking, three months is a long time to wait and we think that for lower risk cases it should be much lower than this.

**Resolving service issue problems**

HMRC has moved largely to a ‘automated processing operation’ where manual intervention is kept to a minimum. Whilst this may work well for the majority of cases, it does not work well when problems develop that require the manual intervention of a member of staff. Where things go wrong, it seems difficult to track down a member of staff to discuss it, let alone one who can resolve the issue.

62% of respondents to the current survey believe that their time and costs dealing with HMRC service problems have increased over the past 12 months, with 33% believing that they have increased significantly.

HMRC has a procedure for providing compensation in cases of HMRC error. Although this is reviewed from time to time, with input from the professional bodies including the ICAEW, the review process has so far been unable to implement a fundamental change requested repeatedly by agents. The current procedure requires an agent to invoice the client and be paid for the cost of the agent’s time which has been wasted dealing with HMRC errors. This causes a further unnecessary strain between the accountant and the client in circumstances where there will have already been problems. In practice, claims are rarely made except in extreme cases where the cost of correcting errors is very high. We believe that changes need to be made to the compensation scheme so as to provide effective redress to taxpayers and their agents and also provide a clear incentive to HMRC to get it right first time.

**Actions HMRC could implement to improve overall service standards**

We asked respondents to select from a list of possible actions which HMRC could implement to improve overall service standards. The list was made up of suggestions made by our members during recent months.

The three areas which received most votes were:

— Better trained staff.
— Nominated staff having ownership of problems.
— Improved electronic systems and support.

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ONLINE FILING

Our members have reported a considerable improvement in the performance of HMRC’s self assessment online filing system. The system appeared to cope with the 31 January filing deadline much better than in previous years even though the number of returns was far greater. This was a welcome development and HMRC are to be congratulated. However, a number of structural problems remain more generally with HMRC’s electronic systems, including the issue of wrong penalty notices and delays in processing information.

Wrong penalty notices

An unfortunate feature of HMRC’s online filing system is that incorrect penalty notices for late or non-filing of returns are being issued on a regular basis. For example in respect of employer end-of-year returns for 2007–08, penalty notices for returns that had been filed online on time were issued in Summer 2008 for forms P35 and in Autumn 2008 for forms P11D(b) (return of Class 1A NIC). When wrong penalty notices are issued, then HMRC normally seem to expect employers to contact HMRC to obtain confirmation that their penalty is cancelled. This wastes a lot of time for agents and for HMRC.

We understand that HMRC is still working on this problem. One area we have suggested that HMRC should investigate is that it should look at the connection between the government gateway and its website.

HMRC delays in processing information

We are also concerned about delays by HMRC in processing information that has been submitted electronically. We are particularly concerned that Lord Carter of Coles’ vision that validating, checking and processing of return information should be instantaneous on e-filing of returns is not being realised. We know that some data that is submitted electronically, such as trust tax returns, has then to be subject to manual processing at a later date.

Proper updating of all information submitted electronically would ensure that employee and employer records are correct and obviate incorrect penalties, code numbers and NIC deficiency notices.

We suggest that HMRC needs to prioritise the need to ensure that its back office systems work properly and that data sent electronically is processed in accordance with Lord Carter’s proposals. We note that the updating of HMRC’s employer database and combining the income tax/PAYE database with the NIC database, which was to have taken place in October 2008, has been delayed, probably to Summer 2009. This needs to be prioritised.

RECOMMENDATIONS

Agent helplines

We support the development of dedicated agent helplines which have result in an improved telephone support for agents. More also needs to be done to publicise the existing agents’ priority line.

Better training

One quarter of respondents recommended that there should be more investment into better training of staff.

Improved electronic services

With the move to centralised processing, HMRC needs to ensure that taxpayers and agents have easy access to HMRC. HMRC needs to develop the use of email and explore other IT solutions. We appreciate that HMRC is working on the use of email but progress needs to be speeded up. We believe that email could represent an effective supplement to agent help lines, enabling queries to be directed to a suitably qualified person who would respond directly. This could also resolve the problem of agents having to keep a number of files to hand while awaiting call backs.

Experience in other tax administrations suggests that there is considerable scope for further enhancement of e-services. Further electronic services should include as a matter of priority an electronic R40 repayment claim. Most agents who use commercial software input the information for both SA and R40 cases in exactly the same way and only select the format of the form at the final stage. Enabling agents to file R40 cases electronically would further drive e-service take up and reduce both HMRC’s and agents’ costs. As an alternative to creating an electronic R40, a special range of Unique Taxpayer References could be allocated to R40 cases so that they could simply file through the main SA online system but could still be distinguished from SA filers.

HMRC needs to prioritise integration of its electronic back-office functions in accordance with Lord Carter’s recommendations so that there is seamless and timely updating of records.
Dealing with problems

A continuing theme of the reorganisation is that HMRC has moved to an automated processing operation but, when things go wrong, it is not easy to speak to a member of staff let alone get them to put it right. This leads to costs for taxpayers, agents and for HMRC. HMRC needs to have systems in place to deal quickly and effectively with problems. This needs to include:

— nominated staff having ownership of problems;

— staff having sufficient skills to solve problems; and

— that measures of service quality should include the efficient and effective resolution of issues (see further below).

Large businesses and employers already have ready access to HMRC staff following the Varney review and the establishment of Customer Relationship Managers. This should be extended to cover all taxpayers and their agents. HMRC has been piloting the use of Customer Relationship Managers for smaller businesses and their advisers and feedback we have received is that this is working well. If this pilot was rolled out nationally we think it should help to address many of the problems arising and also provide a very useful “safety valve” and therefore improve relations between agents and HMRC.

A set of service standards

We stated in our written evidence to the Treasury Committee in 2007 that HMRC should commit to a set of service standards. The Treasury Committee recommended that HMRC develop measures of service quality which properly capture the experience and needs of users (see paragraph 17 of the 2007 report, reproduced in the Appendix).

The Government response in November 2007 stated that HMRC had drawn up a standard and had developed a toolkit that would form the basis for a new quarterly customer survey. We believe that these developments have potential. However, we are not aware that these developments have been progressed.

We had a number of discussions with HMRC about developing a set of service standards in early 2008 but progress on this issue seems to have slowed. We appreciate that development of a robust, reliable and helpful set of standards will take time to develop. However, the results of our latest survey confirm that HMRC’s service standards are still a cause for concern and that this issue now needs to be given a higher priority. HMRC should work with the professions to bring forward some concrete proposals for consideration and implementation this year.

Redress when things go wrong

Changes need to be made to the compensation scheme so as to provide effective redress to taxpayers and their agents and also provide a clear incentive to HMRC to get it right first time.

APPENDIX TWO

EXTRACT FROM THE TREASURY COMMITTEE REPORT THE EFFICIENCY PROGRAMME IN THE CHANCELLOR’S DEPARTMENTS PUBLISHED ON 23 JULY 2007 AND THE GOVERNMENT’S RESPONSE

RECOMMENDATION 17

17. We recommend that HMRC accord high priority to the preparation, in consultation with users of its services, of measures of service quality which properly capture the experience and needs of users, identifying separately those of taxpayers and tax credit claimants. Such measures, when finalised, should be used not only in monitoring the efficiency programme, but also in making policy relating to HMRC services—for example, to assist in formulating decisions relating to the geographical location of offices and to the form in which services are offered. We expect HMRC to ensure that there is proper consultation with users and with the NAO in formulating appropriate measures. Subsequent performance against the measures should be subject to consistent methods of measurement and regular publication. Furthermore, in order to underpin public and parliamentary confidence in these measures, we recommend that they be subject to external validation, in addition to the scrutiny work already undertaken in the course of the NAO’s regular programme. (Paragraph 110)
GOVERNMENT’S RESPONSE PUBLISHED ON 26 NOVEMBER 2007

HMRC’s extensive consultations have fed directly into the development of the Department’s CSR07 Departmental Strategic Objective to “Improve customers’ experience of HMRC and improve the UK business environment”.

Customer Experience Standard

Drawing on existing knowledge and research carried out by the legacy departments, and in consultation with business customers, agents and advisers, HMRC has drawn up a standard to describe the experience that customers should expect when interacting with the department:

- I know what I have to do.
- I feel you make it easy.
- I can contact you easily and get the answers I need.
- I can rely on you to get it right and am confident I have got it right.
- I feel well treated.
- I can rely on you to make sure individuals and businesses keep to the rules.

HMRC uses this standard when designing new products, processes and services to keep the designers focussed on the needs of customers and has developed a toolkit to help those designing new policies, processes and systems to do so in a more customer focused way. These customer statements will also form the core of a new quarterly customer survey that will be used as part of HMRC’s assessment against its customer experience objectives, replacing the current survey-based measures. In addition, HMRC is also committed to meeting specific targets to reduce the administrative burdens of the tax system, based on research undertaken in 2005 with business customers:

- reduce the administrative burdens on business of dealing with HMRC forms and returns by at least 10% over 5 years;
- reduce the administrative burden on business of dealing with HMRC’s audits and inspections, by 10% over three years and at least 15% over five years.

The implementation of the recommendations in Sir David Varney’s 2006 Review of links with large business also forms part of this objective. Key recommendations concerned large businesses’ need for certainty and consistency in their dealings with HMRC, which have led to HMRC planning to do more work with large businesses before they submit their tax returns, including the provision of “rulings” on significant transactions.

APPENDIX THREE

ICAEW—WHO WE ARE

1. The Institute of Chartered Accountants in England and Wales (ICAEW) is the largest accountancy body in Europe, with more than 132,000 members. Three thousand new members qualify each year. Our membership includes Financial Directors and Chief Executives across all sectors of the UK economy, from large multinationals to SMEs, including micro businesses.

2. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

3. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department for Business, Enterprise and Regulatory Reform through the Financial Reporting Council. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy, including taxation.

4. To find our more about the ICAEW, please call Nick Maxwell, Public Policy Manager on 020 7920 8617 or email nick.maxwell@icaew.com or write to Chartered Accountants’ Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

March 2009
MEMORANDUM FROM PCS

EVALUATING THE EFFICIENCY PROGRAMME IN THE CHANCELLOR OF THE EXCHEQUER’S DEPARTMENTS

INTRODUCTION

1. The Public and Commercial Services Union (PCS) is the largest civil service trade union, with a total membership of over 300,000 working in over 200 civil service departments, non-departmental public bodies and related areas. We represent staff in Her Majesty’s Revenue and Customs (HMRC), HM Treasury, and the Office of Government Commerce (OGC).

2. PCS welcomes this timely inquiry into the progress made to date by the Chancellor of the Exchequer’s departments in implementing the Government’s efficiency programme. We are happy to supplement this submission with any further written evidence and welcome the opportunity to provide oral evidence to the committee.

3. The areas we cover in this submission are the Office of Government Commerce (OGC) and HM Revenue and Customs (HMRC) where we have a combined membership of over 80,000 members.

4. We made a submission to the commission’s previous inquiry into the progress made by the Chancellor’s Departments under the Gershon efficiency programme in 2007. Many of our concerns, particularly in HMRC, remain the same and we have therefore made reference to that fact here.

OFFICE OF GOVERNMENT COMMERCE

5. At the time of our previous submission our members in OGC were experiencing a period of uncertainty. This was largely due to hurried nature of the headcount reduction programme which saw OGC move from 410 to 270 staff well ahead of their target date of April 2008. This was met without compulsory redundancies with the use of a voluntary early retirement/severance (VER/VES) scheme and the transfer of 75 staff to the HM Treasury as part of shared corporate services between OGC and HMT.

6. OGC is in a more stable condition compared to when we made our previous submission. The headcount has remained stable at 250 since 2007. There are no unallocated staff and there is a clear organisational strategy setting out key objectives. This is largely due to the new Chief Executive consulting on a regular basis with PCS and listening and responding in a positive way to most of our issues.

7. However, there are concerns around group shared services. This has been implemented for corporate services, such as human resources, finance and procurement, and has led to some reduction in the quality of services particularly in HR. PCS has welcomed assurances that there are no plans to privatise these shared services but remain concerned that this may yet be an overarching objective.

8. We welcome moves by the Chief Executive to introduce stricter controls around approval of consultancy spend and the use of interims. PCS believe that OGC should plan and use its existing resources more effectively and so we therefore welcome the forthcoming review of the use of fixed term appointments.

9. The latest regular staff survey has recently been issued and we are currently awaiting the results.

HM REVENUE AND CUSTOMS

10. Whereas the position has somewhat stabilised in OGC the same cannot be said in HMRC where the issues that we outlined in our previous submission remain disturbingly extant.

11. The issue of HMRC pursuing a headcount reduction target of 25,000 by 2011 has become even more of a concern for the union in light of the worsening economic situation. Workloads have significantly increased due to this downturn. We remain convinced that the job cuts are counterproductive as many of the jobs being cut bring in far more than is spent on staffing costs. For example the average member of staff in the Debt Management Business (DMB) brings in £310 for every £1 that they earn.

12. The pattern in HMRC since the Gershon efficiency programme commenced has been one of increasing workloads while staff levels decrease (16,000 headcount reductions since the merger of the old Customs and Excise and Inland Revenue into HMRC in 2005). This has led to rising levels in outstanding tax debts and an inability for the Department to pursue all tax debts. We believe that HMRC’s headcount reduction target of 25,000 jobs by 2011 is unsustainable.

13. Despite HMRC’s claims to the contrary, the Department is no longer pursuing all tax debts as it has done in the past. The Department admitted in an internal document that they do not have the resource to pursue debts under the amount of £10,000.

14. In the DMB staff in post has fallen from 7,915 full time equivalents (FTE) in February 2008 to 7,422 FTE as of February 2009. Workloads have substantially increased during this time.

15. As of January 2009 there were 17.9 million outstanding debt cases as opposed to 10.8 million 12 months ago. The HMRC debt balance—the amount of tax and duties assessed as being due but yet to be collected—currently stands at £21.7 billion compared to £19.3 billion in January 2008.
16. An initiative announced by the Chancellor in the pre-budget report which has been highly publicised is the Business Payment Support Service (BPSS). BPSS aims to provide assistance to businesses and the self-employed who are having difficulty paying their tax bill because of the economic downturn. To date the BPSS helpline has taken 141,000 calls and created 120,000 times to pay arrangements with taxpayers with a total value of £1.1 billion.

17. There have been difficulties in the operation of the BPSS helpline given that the staff do not have access to the range of IT systems used by DMB staff working in local offices. As a result the staff have to take on trust what callers tell them regarding their financial position and the tax debts they owe. The BPSS helpline has generated additional work for local offices and in order to cope HMRC are currently offering substantial amounts of overtime working. PCS find it alarming that overtime is being offered at a time when the HMRC are cutting jobs.

18. HMRC has diverted staffing resource from other call centre activity onto BPSS. PCS are concerned that this has resulted in the reduction in standards of service on other helplines, such as the one dealing with New Tax Credit (NTC) overpayments.

19. PCS are also concerned that HMRC are beginning to act on a recent National Audit Office report which recommended it sell off its harder to collect debts on to private debt collection agencies (DCAs). Recovery of new tax credit overpayments is a contentious area of work. PCS are therefore very concerned at the prospect of private collection agencies undertaking this work. HMRC has already announced its intention to pilot the use of DCAs who will receive commission on each case where they secure payment from the debtor.

20. HMRC staff handle debt collection in a professional manner, being firm with those who can pay but refuse to while being sympathetic and helpful to those in genuine difficulty. We believe that that the debt collection function should remain in-house and that more staff would ensure that debts were collected.

21. In addition to the job cuts, HMRC has also announced that just over 270 offices are to close. Apart from the loss of services to local communities and businesses we are concerned that any financial savings made from these closures will be at best negligible.

22. The Treasury Select Committee has already criticised the Department for its lack of transparency and recommended that HMRC publish its figures relating to the expected savings. These offices provide a valuable local presence. Many of them are in quite remote locations and the accommodation costs are not very high. For example a recent response to a parliamentary question revealed that the closure of the Aberystwyth office will only save £83,000 per year. PCS believes such slim cost savings would not be significant enough for the Department to justify the removal of local services.

CONCLUSION

23. PCS has now formally asked HMRC to halt the job cuts and office closure programme, to convert overtime use into permanent posts, and conduct a review of the impact of job cuts to date. Many of the concerns we made in our 2007 submission surrounding the efficiency programme in HMRC have been reiterated here. We believe it is time, particularly considering the current economic climate, for these cuts to be halted before the problems that have built up become irreversible. In short, it is our belief that these so-called efficiencies are not sustainable in terms of service delivery, neither do they offer financial viability.

March 2009

Memorandum from HM Treasury

EVALUATING THE EFFICIENCY PROGRAMME IN THE CHANCELLOR OF THE EXCHEQUER’S DEPARTMENTS

A. ACHIEVING VALUE FOR MONEY (VFM) IN THE 2007 CSR PERIOD

A.1 As part of the 2004 Spending Review, the Government set stretching efficiency targets for departments to deliver by March 2008 as recommended in Sir Peter Gershon’s Independent Review of Public Sector Efficiency. The 2008 Pre-Budget Report (PBR) provided a final report on the efficiency programme including a detailed breakdown by department showing how departments had delivered:

— over £26.5 billion of efficiency savings, substantially exceeding the target of £21.5 billion; and

— over 86,700 civil service workforce reductions, significantly over-delivering against the target of 70,600 net reductions.

A.2 In addition following Sir Michael Lyons’ Independent Review of Public Sector Relocation, as part of the 2004 Spending Review Government announced that 20,000 posts would be relocated out of London and the South East by 2010–11. Budget 2009 announced that having already relocated 19,000 posts, the target would be increased to 24,000 posts by 2010.

5 Civil service and military posts in administrative and support functions.
A.3 The 2007 Comprehensive Spending Review (CSR) built on the 2004 Efficiency Programme and went further, agreeing a more ambitious value for money programme to deliver annual savings worth £30 billion by 2010–11. In addition, by using the capability developed within departments over the previous three years, and having considered feedback from the Committee and other key stakeholders, it has been possible to tighten the methodology with all gains required to be cash-releasing and reported net of costs. Departments have already put in place significant reforms to deliver these savings and will report publicly on progress twice a year in Departmental Reports and Autumn Performance Reports.

A.4 Last year the Government launched two major value for money programmes—the Public Value Programme and the Operational Efficiency Programme—to explore whether further savings could be achieved in the medium term.

A.5 The Public Value Programme (PVP) was launched at Budget 2008 to focus on major areas of spending to identify smarter ways of operating and key policy reforms. Budget 2009 announced further progress including that the health PVPs have identified scope to improve utilisation of the NHS estate which would save £100 million a year by 2013–14.

A.6 The Operational Efficiency Programme (OEP) was launched in July 2008 to learn from best practice in the private sector and spread best practice in the public sector, looking at 5 cross-cutting areas each led by a senior external advisor:

- back office and IT, led by Dr Martin Read;
- collaborative procurement, led by Martin Jay;
- asset management, led by Gerry Grimstone;
- property, led by Lord Carter of Coles; and
- local incentives and empowerment, led by Sir Michael Bichard.

A.7 The OEP has succeeded in identifying significant potential for additional savings as set out in Operational Efficiency Programme: Final Report published on 21 April 2009.

A.8 Based on the early findings of the OEP and PVP and the over-delivery achieved against the SR04 efficiency targets, the 2008 Pre-Budget Report announced that the existing cross-Government value for money target for 2010–11 would increase to £35 billion, releasing £5 billion of additional recoverable savings in 2010–11. Budget 2009 set out the departmental breakdown of these additional savings together with further detail of how they would be achieved. Additional information can be found in the 2009 Value for Money update.

A.9 Budget 2009 also set out how further value for money savings would be delivered in the next Spending Review period, by implementing OEP recommendations and expanding the scope of the PVP to cover a minimum of 50% of each department’s budget.

VfM IN THE CHANCELLOR’S DEPARTMENTS

A.10 The Chancellor’s Departments play an important role in delivering the Government’s objectives of sound public finances, rising prosperity and a better quality of life. HMRC collects the revenue that underpins strong public finances, while HM Treasury Group (comprising the Treasury, the Office of Government Commerce and the UK Debt Management Office) develops and implements the Government’s financial and economic policy.

A.11 The Treasury Group is committed to supporting the economy through the downturn and equipping it for the upturn. Through releasing savings from its core areas of work, the Treasury Group has been able to commit significant additional resources to support new pressures in managing the current economic conditions and the Government’s interventions to maintain stability in the financial services sector. Through realising further value-for-money gains and the commitment of new resources where necessary, the Government will ensure that the Treasury has the resources it needs to meet these new pressures in the remaining years of the CSR period.

A.12 The 2007 CSR set out an ambitious value for money programme for the Chancellor’s Departments, generating annual net cash-releasing savings of over £700 million by 2010–11. Together with £330 million in modernisation funding, this would allow the departments to deliver their key priorities within budgets that fall by 4.9% per year in real terms.

A.13 The Chancellor’s Departments have been contributing to OEP and PVP, and Budget 2009 has set out details of additional VfM savings which can be achieved beyond those set out in the CSR. The Treasury Group and HMRC will now be able to achieve an additional £85 million of value-for-money savings by 2010–11.

8 www.cabinetoffice.gov.uk/media/203122/value_for_money.pdf
B. HM Revenue and Customs (HMRC)

Progress made by HMRC

B.1 HMRC has a proven track record in delivering revenue needed to help finance public spending and to help families and individuals with targeted financial support, whilst driving down its own costs and delivering greater efficiency.

B.2 HMRC has successfully delivered, and even exceeded, all of its Gershon efficiency targets up to 31 March 2008, and has improved performance and service delivery in a number of key areas. Over-achievement against these targets was planned, not least to enable the Department to deliver its investment and transformational agenda, but also to enable it to deliver services within its CSR settlement. This has put the Department in a strong position to build upon and deliver an ongoing efficiency agenda and further embed a culture of efficiency within HMRC.

B.3 HMRC is already making good progress on delivering VfM savings over the CSR07 period. HMRC aims to continue to deliver improved services both to citizens and to businesses.

Gershon Efficiency Programme

B.4 In the 2004 Spending Review, HMRC was set the following efficiency targets:

- a gross reduction of 16,000 FTE posts (12,500 net plus a further 3,500 redeployments to front-line areas) by 31 March 2008;
- annual efficiency gains of at least £507 million from 1 April 2008; and
- relocation of 1,950 FTE posts from London and the South East by 31 March 2008, with a further 2,300 posts to be relocated by 31 March 2010.

B.5 In its 2008 Autumn Performance Report (Cm 7509), HMRC reported final efficiency savings figures at 31 March 2008 of:

- a gross reduction of 18,832 FTE posts, of which 3,500 posts were redeployed to front-line areas, resulting in a net workforce reduction of 15,332;
- efficiency savings of £663.2 million; and
- the relocation of 2,492 FTE posts against the target of 1,950.

B.6 These efficiency savings were achieved in a number of ways; for example, through the merger of the former Inland Revenue and HM Customs & Excise, which produced economies of scale by rationalising corporate support and back office functions and operational activities. Efficiencies were also achieved through the Departmental Transformational Programme (DTP) (set up in autumn 2006), by modernising and re-engineering work processes, cutting out waste and enhancing leadership performance.

B.7 Specifically, significant staff efficiencies and improved customer service delivery have been enabled through programmes such as:

- Enforcement and Compliance programme: transforming the way in which the Department interacts with its customers, through, for example, better risk targeting. The programme has improved operational efficiency, generated staff efficiencies, improved compliance and will deliver sustainable and significant reductions in the tax gap;
- PaceSetter: one of the key ways in which HMRC is continually improving the performance of its business. A phased rollout helps HMRC take a fresh look at business processes from a customer perspective, introducing a new discipline of how to manage these processes and involving everyone in finding ways to improve. Primarily implemented in large processing areas so far, productivity increases of at least 30% have been achieved in areas where PaceSetter is operational; and
- Estates Consolidation and Transformation: delivering a more cost effective approach to HMRC office locations and delivering services that are more customer–focused and affordable. Savings continue to be made by reducing the size of HMRC’s estate through implementing new ways of working and disposal or sub–letting of buildings.

B.8 A key principle of HMRC’s SR04 efficiency programme was demonstrating that the efficiency gains were not made at the expense of service quality. To measure and monitor delivery and service quality alongside efficiency savings, HMRC agreed 12 “quality measures”. These were drawn from the performance indicators that underpinned HMRC’s SR04 PSA targets, and were selected as being the key indicators from the Department’s business areas most affected by staff reductions.

B.9 Overall, HMRC’s specific quality monitoring measures have shown improvement since the SR04 efficiency programme began. As part of its wider study on the progress of the Government’s efficiency programme, the National Audit Office acknowledged that according to these 12 indicators HMRC’s performance had not been adversely affected during the period of the headcount reductions, and in some areas performance had improved substantially.

9 The Efficiency Programme: A Second Review of Progress, National Audit Office, 8 February 2007 (HC 156).
B.10 Staff reductions resulting from HMRC’s SR04 efficiency programme were achieved through natural wastage, voluntary early departure schemes, public sector release schemes, management of fixed term appointments and a reduction in recruitment. No compulsory redundancies have been made, and HMRC remains committed to avoiding redundancies wherever practicable and will make every effort to do so.

Relocation Programme

B.11 By the end of March 2010, HMRC has a target to relocate 4,250 FTE posts overall outside London and the South East. HMRC has made strong progress towards achieving this target. As reported in HMRC’s Autumn Performance Report 2008, HMRC had relocated 2,492 FTE posts by 31 March 2008 (against a target of 1,950), to the following Government Regions:

- North East.
- North West.
- South West.
- East Midlands.
- West Midlands.
- Yorkshire & Humberside.
- Northern Ireland.
- Scotland.
- Wales.

B.12 As at the end of February 2009, HMRC had relocated around 2,890 posts. For example, Tax Compliance posts have recently been moved to strategic locations such as Birmingham, Bristol and Edinburgh. HMRC currently has plans to relocate a further 1,065 posts, and discussions are underway within the Department to identify up to 300 additional posts to be moved in order to increase business efficiency and contribute towards achieving the current target. HMRC will work with OGC to explore options for further increases in the number of HMRC jobs to be relocated out of London and the South East in the medium term, taking account of the recent Budget announcement about increased relocations beyond 2010.

VfM in the CSR period

B.13 In 2008, HMRC set out its Vision to close the tax gap, help customers feel that the tax system is simple for them and even-handed, and for HMRC to be seen as a highly professional and efficient organisation. By designing and delivering products and services that meet customers’ needs, and by addressing what affects how they behave, HMRC will improve how efficient and effective it is, increase compliance, and improve customers’ experience.

B.14 HMRC has made good progress in reducing the administrative burdens for businesses and individual taxpayers, and in understanding and being responsive to ways in which people find it easier to deal with it. HMRC has also made improvements in the understanding and targeting of the non-compliant. HMRC has also:

- made improvements in ensuring that customers get the help and information they need at the first point of contact;
- increased the accuracy and completeness of information provided; and
- revised forms to make them easier to understand and complete.

Work is also being taken forward, including looking at the opportunities to reduce avoidable contact, so that customers who do need to contact HMRC can do so more easily.

B.15 In the CSR, HMRC was initially committed to achieving further value for money (VfM) savings of £674 million by the end of 2010–11. Plans for achieving these savings were set out in a VfM Delivery Agreement, published in February 2008 on HMRC’s website, and revised in April 2009. The Agreement remains subject to ongoing review to ensure that changing circumstances, business priorities and decisions are properly reflected in the way these savings are to be achieved.

B.16 Significant VfM savings are being enabled by HMRC’s Departmental Transformation Programme. The DTP portfolio brings together programmes begun both before and after the creation of HMRC and aims to:

- improve management of revenue flows and reduce the tax gap;
- help create a customer focused organisation where it is easier for customers and HMRC to fulfil their obligations;
- improve the customer experience and reduce their costs;

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11 www.hmrc.gov.uk/about/reports.htm
— reduce running costs by improving processes and the management of HMRC’s processes, assets and people; and
— improve the security of sensitive customer records.

B.17 HMRC is working to deliver VfM savings in 2008-09 and will announce progress in its Departmental Report following validation. This will enable a checkpoint against the indicative trajectory towards the overall VfM savings target of £754 million, as shown in its revised VfM Delivery Agreement. VfM savings in 2008–09 have been achieved mainly through:

— additional savings from the change programmes described in paragraph B.7 above;
— the Carter Programme that facilitates and drives the take-up of on-line services for PAYE and Self Assessment;
— smaller programmes, including e-sourcing (procurement) and changes to the provision of payroll services; and
— non-DTP savings on bought-in goods and services, e.g. IT, post, print, office supplies, and from local efficiency initiatives within the HMRC business.

B.18 HMRC’s future plans to achieve its VfM savings target include:

— Enforcement and Compliance—including extending risk assessment methods to debt management;
— PaceSetter—extending this to other Departmental business areas and activities;
— Estates Consolidation—implementation of HMRC strategy on strategic site location, and the reduction of the overall estate;
— Carter Programme—extending on-line services to VAT and Corporation Tax (by April 2011);
— Government Banking Programme managed by HMRC to create a Government Banking Service for shared use between Government Departments and Agencies;
— PAYE Improvements (MPPC)—this will move PAYE data from multiple databases to the National Insurance database to provide a comprehensive view of employee data and a better way to handle casework; and
— non-DTP initiatives—to reduce the costs of IT services and other bought-in goods and services (such as post and print).

B.19 Following the 2008 PBR, HMRC has been exploring opportunities to deliver significant additional savings. HMRC is committed to maximising efficiency in its central and back office support functions. The Department is pursuing projects to optimise back office functions to establish where simplification and consolidation of activities can deliver lasting efficiencies. This forms part of a wider substantive efficiency programme that will allow the Department to increase its VfM savings from £674 million to £754 million, including £80 million recyclable savings to frontline activities, by the end of 2010–11 as its contribution to the additional £5 billion VfM savings across government.

B.20 HMRC is committed to maintaining, over the CSR period, at least the overall levels of performance set out in its SR04 PSA targets for 2007-08 for key areas, as well as delivering agreed new priority areas, especially reducing tax credit error and fraud. HMRC is aiming to achieve this target by 2010–11. VfM gains will be validated by HMRC’s Internal Audit function to ensure both that they give an accurate indication of progress and that they comply with the CSR VfM guidelines.

C. HM Treasury Group

C.1 HM Treasury Group includes HM Treasury, the Office of Government Commerce (OGC) and the UK Debt Management Office (DMO). Treasury Group achieved, and in some instances exceeded, its efficiency targets in the SR04 period. This put the Treasury Group in a strong position to capitalise on these savings subsequent years.

C.2 The Treasury Group continues to implement policies to support the economy and maintain stability in the financial services sector. Through realising further value-for-money gains and the commitment of new resources where necessary, the Government will ensure that the Treasury has the resources it needs in the remaining years of the CSR period.

Gershon Efficiency Programme

C.3 As part of the 2004 Spending Review, the Treasury Group agreed a target to achieve annual efficiency savings of £18.7 million by 2007-08. The Treasury Group Autumn Performance Report 2008 reports final savings of £29.9 million against this target.

C.4 HM Treasury saved £23.2 million, mainly by:

— establishing Group Shared Services from the previously separate corporate services of the Group bodies;
— realigning its organisational structure to fit better with policy objectives;
— reducing areas of overlap and increase synergies between teams;
— securing substantial efficiencies in staffing;
— reducing non-pay costs through reforms to its procurement strategy; and
— agreeing a new Service Level Agreement with the Royal Mint which has led to a real terms reduction in the manufacturing price of coinage.

C.5 OGC and Buying Solutions saved £5.7 million through:
— the use of smarter procurement methods, including shared contracts;
— streamlining central corporate services functions;
— more productive time through the effective targeting of resources and other initiatives; and
— relocation of staff in OGC and Buying Solutions.

C.6 The DMO saved £1.0 million by:
— securing better value for money in Procurement, including negotiating reductions in prices from suppliers in specific business areas and investment in new technology; and
— centralising some corporate service business activities, and migration of processes from legacy systems to the DMO’s core systems.

C.7 Table C.1 summarises these achievements against the Gershon efficiency targets, showing savings declared as achieved by 31 March 2008 for consistency with the Treasury Group’s Annual Report 2007–08 (Cm 7408), as well as final savings achieved at the completion of the efficiency programme. These have been published as an amendment to the Treasury Group’s Autumn Performance Report 2008. In this table, Cashable savings are those that reduce the costs associated with a defined activity or output, thereby releasing money to be utilised by other priorities in the department.

### Table C.1

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<td><strong>29.9</strong></td>
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**Relocation Programme**

C.8 The Treasury Group committed to relocating 26.5 FTE posts out of London by 2007–08. 37 posts had been relocated by 31 March 2008:
— 10 posts from London to Norwich in Group Shared Services (5 from HM Treasury and 5 from OGC);
— 5 other posts from OGC in London to Norwich; and
— 15 posts from Buying Solutions to Liverpool and 7 to Norwich.

**VfM in the CSR period**

C.9 Treasury Group published its VfM Delivery Agreement in December 2007, setting out how it expected to achieve £30 million of further savings over the CSR period. Further details of the Treasury Group’s value-for-money plans were given in the Government’s response to the Committee’s report on Administration and expenditure of the Chancellor’s departments, 2006–07. Budget 2009 has announced further plans to increase this to £35 million by 2010–11 through participation in the Operational Efficiency Programme and other initiatives.

C.10 The Treasury Group is publishing a revised VfM Delivery Agreement later this month, setting out how it will achieve its revised value-for-money plans by 2010–11. This will be available from the Treasury website, alongside the original VfM Delivery Agreement from December 2007.

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12 From April 2009, Buying Solutions is the new name for OGCbuying.solutions.
13 www.hm-treasury.gov.uk/dep_perf_reports_index.htm
16 www.hm-treasury.gov.uk/vfm_delivery_agreement.htm
C.11 Treasury Group’s Autumn Performance Report recorded strong progress towards these plans at 30 September 2008. Outturns for 2008–09 have not yet been finalised. In response to additional pressures during the second half of the year, the Group has reallocated resources to priority areas, including recycling cash savings made through value-for-money initiatives.

C.12 Considerable reforms already under way within the Group include:

— Core Treasury: after rationalising its Directorate structure in the SR04 period, HM Treasury is now re-organising teams within its policy directorates, to focus activity on priority work. This will release 89 full-time equivalent posts—over 16% of total staffing in those Directorates—to redeploy to new priorities by 2011;

— Shared Services: by investing in new IT to support the electronic submission of travel and other expenses claims, the Treasury Group will save 3 posts in its finance processing function by 2011. As a result, almost 100% of claims are now processed within 5 working days, and the Treasury Group now pays 92% of invoices within the Government’s 10-day target;

— Procurement: the Treasury Group will save £13.5 million from its spending on procurement contracts by 2010–11. It will establish a benchmarking process across its procurement activities, to assure that its major contracts—especially in ICT and consultancy—continue to deliver good value. It will also drive increased value from third party spend on consultancy and advice through tools such as OGC’s Consultancy Value Programme;

— Estates: The Treasury has been benchmarking its office workspace against the cross-Government standards set out by OGC’s High Performing Property Initiative. By optimising its use of space, it has increased the number of desks in its London headquarters by 53 (over 5%) during 2008–09. As part of this, the number of workstations occupied by other public sector bodies has risen by 29, producing annual value-for-money gains of more than £0.4 million. The Treasury is currently reviewing all of its workspace usage to seek further gains by 2011;

— IT services: Over the next 2 years, HM Treasury will be modernising its IT infrastructure and support services by implementing a change programme which will reduce the time and cost of delivering outputs from Treasury’s core policy teams, provide better value from the management and protection of information assets, and reduce the costs of out-of-hours support services. HM Treasury will be using the Cabinet Office framework IT contract to provide some of these savings, and as a benchmark for the provision of other in-house services; and

— Travel costs: The Treasury Group has changed the way staff book rail tickets and hotel accommodation online. This has produced savings of around £0.7 million in the first year, which are expected to continue over the CSR period, resulting in total overall savings of over £2 million by 2011.

Office of Government Commerce

C.13 In its core work OGC has demonstrated efficiencies in line with the original value for money plans set out in CSR07 through reduced spend on consultancy, lower staff costs resulting from the merger of back office functions, and a more streamlined top management structure.

C.14 However, OGC’s work programme has expanded beyond the remit originally set out in Transforming Government Procurement,17 to meet a number of new priorities and focus resource where it can deliver best value for money. For example, OGC has been working to improve:

— the performance of major projects through the Major Projects Review Group;

— the sustainability of the government estate through the creation of the Centre of Expertise in Sustainable Procurement;

— spend management, efficiency and performance reporting on property and procurement; and

— collaborative procurement in the additional categories of construction, food and facilities management.

C.15 Within the Treasury Group, additional resources have been allocated to fund these new priorities, alongside income retained by OGC from:

— recovery of costs associated with Gateway review teams since April 2008; and

— the successful exploitation of commercial products such as Prince2 and the IT Infrastructure Library.

C.16 OGC will also be integral to the delivery of the recommendations arising from the Operational Efficiency Programme on collaborative procurement and estates, and from the Glover Review of support for SMEs competing for public sector contracts.

17 HM Treasury, January 2007—available from www.hm-treasury.gov.uk/ent_services_procurement.htm
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**UK Debt Management Office**

C.17 Since December 2007 the DMO’s responsibilities have increased in scope, volume and complexity, mainly as a result of the changes in the financial markets and the economy. In 2008–09, gilt issuance work has sharply increased, and in the second half of the year, cash management activities are projected to average almost double 2007–08 levels. The DMO has taken on major additional responsibilities including the Credit Guarantee Scheme, the Special Liquidity Scheme, the Discount Window Facility and the Emissions Trading Scheme, and is preparing for the Asset Backed Securities guarantee scheme.

C.18 To support the Government’s response to market developments, the DMO has taken on additional resource. The DMO is a small agency and new activities are generally absorbed into existing delivery teams to utilise existing expertise and systems where relevant. Nevertheless, the DMO has continued to make progress achieving savings from its VfM initiative, including:

- investing in enhanced technology to further streamline processes and reduce support costs—completing major upgrades to its main systems, with plans to consolidate lending activity onto the central system in the near future, and continued automation of a number of operational processes;
- increasing the skills of staff and making targeted recruitments—although the DMO has also had to recruit more contractors to meet the unprecedented demands placed on it over the last 12 months;
- achieving better value from its estate by accommodating increased staffing levels within the same floor area.

**D. Government Actuary’s Department (GAD)**

D.1 GAD is almost entirely funded by fees charged to clients. The main driver of GAD’s costs is the level of demand for actuarial advice. GAD has published a commitment to quality of service that encompasses efficiency. GAD’s services should be correct, applicable, clear, on time, value for money and properly discussed at regular status briefings.

D.2 GAD operates in competition with private sector providers of actuarial consultancy. This competitive pressure means GAD must operate efficiently in order to win and retain business, by providing relevant services and value for money to its clients. Efficiency and effectiveness are imperatives for the Department’s continued competitiveness.

**Gershon Efficiency Programme**

D.3 In the SR04 period, GAD achieved efficiency savings of £467,000 against a target of £120,000. These savings were made through the following initiatives:

- re-allocation of staff and work to allow actuarial staff to spend a higher proportion of their time on chargeable work for clients (£96,000);
- better VfM through improved procurement (£184,000); and,
- providing shared services in IT, Finance, Facilities Management and payroll to GAD’s sub-tenants in Finlaison House (£187,000).

D.4 These efficiency savings have been targeted on back-office functions to ensure the quality of service to clients is maintained. GAD introduced a new client survey in 2008 as part of a strategic change programme. An average score of 7.9 out of 10 was given for GAD being highly valued by clients. This was the first time clients had been asked this question and GAD aims to improve the rating in the next survey.

**Relocation Programme**

D.5 GAD is currently based in one small office, Finlaison House, in London and cannot easily relocate due to the difficulty of recruiting and retaining a viable number of actuaries in any location outside London. On that basis, no target for relocation was set for GAD in the 2004 Spending Review.

**VfM in the CSR period**

D.6 GAD does not have a specific VfM target in the CSR period although GAD is subject to a 5% reduction per year in its Departmental Expenditure Limit. GAD is doing a number of things in order to live within this reduced budget and to meet client expectations, which can be seen as VfM in the broadest sense whilst not being subject to a VfM target explicitly.

D.7 GAD is currently experiencing a period of growth in actuarial staff in order to meet increasing demand from clients. The number of staff in post has increased from 100 at the beginning of 2008–09 and is expected to reach 140 in the summer of 2009. This rapid growth makes it essential that GAD review the efficiency of the way it operates.

D.8 There are four strands to the GAD’s VfM programme:

- reducing the cost of overheads such as back office activities;
- increasing the total amount of time that actuaries spend on chargeable activities;
— reviewing the way that actuaries work in that productive time to maximise value for money; and
— more efficient estate management by reviewing accommodation requirements.

Estate management

D.9 GAD is currently reviewing accommodation requirements and moved within Finlaison House in April 2009 to release a small amount of space which was let to a sub-tenant. GAD is working closely with the Office of Government Commerce in planning a move to vacant space within the Government Estate during 2010, transferring the remainder of the lease on Finlaison House to another government department.

D.10 Despite the increase in numbers, GAD reduced the office space it occupies by 13% in April 2009. With staff numbers of 140, GAD will occupy 9.8 square metres per person, below the benchmark target of 12 square metres. The accommodation move in 2010 will seek reductions in GAD’s rent costs.

Back office

D.11 The increase in staff has been entirely in the actuarial teams delivering services directly to clients, resulting in a sizeable increase in income. At the same time there has been a small reduction in staff in the central services teams providing back-office functions, despite increased workloads associated with overall increases in numbers. Further reductions in support costs will be sought through shared services following the accommodation move planned for 2010.

Procurement

D.12 A procurement exercise is currently underway to award a contract for the provision of pension valuation software for the next five years. The software that is used and the way internal processes are designed to work alongside the software will aim to be consistent with full delivery to meeting client demands, including demands for value for money.

Productive time

D.13 Utilisation rates of actuaries and total chargeable hours per working day are closely monitored and kept under active review to ensure that GAD maximises income relative to costs.

D.14 GAD is reviewing the way that it carries out the work of producing actuarial advice, and considering the way that teams are organised and work is allocated to seek better ways of doing so.

May 2009

Supplementary memorandum from HM Treasury, HM Revenue & Customs & Office of Government Commerce

FURTHER MATERIAL REQUESTED AT THE EVIDENCE SESSIONS ON 03 JUNE 2009

What percentage of the efficiency gains reported under Gershon has the Treasury estimated were offset by unreported costs.

The Gershon Efficiency Programme allowed efficiency savings to be reported gross of costs and the Government implemented the programme on this basis, recognising that at the time many large and complex projects had investment plans that pre-dated the Gershon Review. Unpicking this historical investment to determine the costs that relate solely to the efficiency saving would require considerable resource. Rather than carrying out this work retrospectively, Government has focused on strengthening the methodology for the current value for money programme. Following feedback from the Treasury Select Committee and other key stakeholders, and given the capability developed across Government over the SR04 period, we have been able to ensure that all savings reported in the CSR VFM Programme will be net of costs.

The 2004 Spending Review: Final Report on the efficiency programme, showed a gross reduction of staff in post in the Chancellor’s departments of 19,718. Of those staff 16,218 are classed as net reductions in post. Can you tell us where the other 3,500 staff were reallocated to?

HMRC was set the SR04 efficiency target to reduce by 16,000 full-time equivalent posts between 1 April 2004 and 31 March 2008, and to redeploy 3,500 of these to additional frontline activities. As at 31 March 2008, the Department had redeployed 3,500 full-time posts to the main front-line areas of work set out in the Table 1 below.
Table 1
HMRC REDEPLOYMENTS 1 APRIL 2004 to 31 MARCH 2008 BY FRONT-LINE INITIATIVE

<table>
<thead>
<tr>
<th>HMRC Initiatives</th>
<th>Redeployments (FTE posts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend to Raise (Direct Tax compliance)</td>
<td>911</td>
</tr>
<tr>
<td>VAT Compliance Strategy</td>
<td>891</td>
</tr>
<tr>
<td>Cyclamen(^a)</td>
<td>650</td>
</tr>
<tr>
<td>Construction Industry Scheme</td>
<td>500</td>
</tr>
<tr>
<td>Hand Rolling Tobacco Strategy</td>
<td>134</td>
</tr>
<tr>
<td>Asset Recovery (Criminal Investigation)</td>
<td>85</td>
</tr>
<tr>
<td>Alcohol Strategy</td>
<td>68</td>
</tr>
<tr>
<td>Deficiency Notices</td>
<td>61</td>
</tr>
<tr>
<td>Products of Animal Origin (Border control)</td>
<td>59</td>
</tr>
<tr>
<td>Money Services Bureau/High Value Dealers</td>
<td>59</td>
</tr>
<tr>
<td>Student Loans</td>
<td>31</td>
</tr>
<tr>
<td>Other</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>3,500</td>
</tr>
</tbody>
</table>

\(^a\) Programme Cyclamen is a counter terrorist initiative to install screening equipment at UK points of entry to screen all forms of incoming air and seaport traffic (including mail) for the presence of radioactive materials.

How much have the Chancellor’s departments spent in redundancy payments? Was this figure included in your final efficiency savings?

The Gershon Efficiency Programme did not require costs to be netted off reported efficiency gains. The information below does not include Chancellor’s Departments which were not included within the scope of the Committee’s current inquiry. The Government Actuary’s Department spent no money on early retirement or redundancy payments as part of its Gershon efficiency programme.

The Treasury Group has reported exit costs for the years 2005–06 to 2007–08 as set out in Table 2 below. These include staff exiting as a result of the Gershon efficiency programme as well as other staff exits during the period. The Treasury Group’s Autumn Performance Report 2008 reported final efficiency savings net of these costs, except for those relating to the Office of Government Commerce exit scheme.

Table 2
TREASURY GROUP EXIT COSTS 2005–06 to 2007–08

<table>
<thead>
<tr>
<th>£000</th>
<th>2005–06</th>
<th>2006–07</th>
<th>2007–08</th>
</tr>
</thead>
<tbody>
<tr>
<td>HM Treasury</td>
<td>973</td>
<td>1,140</td>
<td>2,079</td>
</tr>
<tr>
<td>Debt Management Office</td>
<td>8</td>
<td>4</td>
<td>149</td>
</tr>
<tr>
<td>Office of Government Commerce</td>
<td>1,030</td>
<td>3,358</td>
<td>10,387</td>
</tr>
<tr>
<td>Buying Solutions</td>
<td>116</td>
<td>1,138</td>
<td>486</td>
</tr>
</tbody>
</table>

Table 3 below shows the numbers of staff exits from HM Revenue & Customs, and the costs by exit scheme, for each year of the Gershon efficiency programme. HMRC achieved its reduction in staff numbers with no compulsory redundancies. The costs of schemes are shown for the year in which costs were charged to HMRC’s Resource Accounts.

Table 3
HMRC EXIT SCHEME 2005–06 to 2007–08

<table>
<thead>
<tr>
<th>HMRC Exit Scheme</th>
<th>Number of Exits (staff headcount)</th>
<th>Costs (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–06(^a)</td>
<td>Approved Early Retirement</td>
<td>1,866</td>
</tr>
<tr>
<td>2006–07</td>
<td>Approved Early Retirement</td>
<td>1,346</td>
</tr>
<tr>
<td></td>
<td>Public Sector Release Scheme</td>
<td>21</td>
</tr>
<tr>
<td>2007–08(^b)</td>
<td>Approved Early Retirement</td>
<td>1,173</td>
</tr>
<tr>
<td></td>
<td>Flexible Early Severance</td>
<td>396</td>
</tr>
<tr>
<td></td>
<td>Public Sector Release Scheme</td>
<td>111</td>
</tr>
</tbody>
</table>

\(^a\) 786 of the early releases in 2005–06 were from schemes agreed in late 2004–05.

\(^b\) 704 early releases were agreed in March 2008, who physically left HMRC in April, May and June 2008.

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18 Official Report, 26 March 2009, Column 629W.
Do all the Chancellor’s departments use e-auctions to procure goods and services and what estimate has been made of the savings made by the Chancellor’s departments.

E-procurement, including e-auctions, has an important role to play in supporting value for money strategies across Government. However, e-auctions are not appropriate for procuring all forms of third party spend—they are just one of a number of collaborative strategies that government can, and do, use to secure savings on public sector spend. E-auctions work best for commodities that can be easily specified and are used commonly across government—such as IT hardware, telecoms, office supplies, toner and printer cartridges, and office furniture. Furthermore, a judgement needs to be made on whether it is financially viable to run an e-auction (taking both set–up and operating costs into account) and whether the potential savings would be greater than using a collaborative deal.

Since 2005 HMRC has been using e-auctions as part of the procurement process. In 2008 HMRC implemented a full e-procurement platform (Emptoris) and in 2008–09 held four auctions that have delivered savings of £1.8 million. (Prior to 2008–09 HMRC did not keep records to show the amount of benefits directly attributable to the auction element of procurement but it is thought that such auctions can generally deliver savings in excess of 25%). Now that HMRC’s e-sourcing platform has been implemented, e-auctions will become a standard feature of procurements and plans are in place to hold significantly more events this year and in future years.

In addition, a Buying Solutions Framework has enabled 227 auctions in total; with an estimated £663 million savings. Buying Solutions has facilitated a further ten auctions for its customers and used two e-auctions for its own procurement, including one for IT hardware.

Using the Buying Solutions Framework, the Treasury Group ran two separate e-auctions in 2008, for:

— Laptop computers, where savings of up to £480,000 (32%) are expected over the period of the contract compared to the previous price; and

— Health Screening Services, which has resulted in a saving of £71,000 (38%).

The Office of Government Commerce has also led and co-ordinated 10 collaborative IT hardware e-auctions under this Framework since September 2005, involving 144 stakeholders from the public sector. These have resulted in savings of £43.8 million (31%).

The Government Actuary’s Department has not used e-auctions for any of its minimal procurement activities, relying instead on Buying Solutions Framework contracts wherever possible.

Update on the Alignment (Clear Line of Sight) Project

The Government welcomes the Committee’s continued interest in, and support for, the Alignment Project, which represents a major opportunity to secure the significant prize of simplifying and modernising the public expenditure system and improving accountability to Parliament through greater transparency and better scrutiny of government spending. The Government will continue to engage fully with Parliament and other key stakeholders in taking forward its proposals for a new, better aligned financial framework.

The Government’s detailed proposals for better alignment were set out in a second Parliamentary Memorandum (Cm 7567), which was laid before the House on 5 March 2009. Since March, the Government has continued with preliminary implementation planning, with a view to beginning a phased introduction of the new framework from April 2010, subject to Parliament’s approval. This process has included work to establish a revised structure and format for Supply legislation and Government spending publications under alignment, on which the Government is already in discussions with House of Commons and National Audit Office officials.

The results of these discussions, and of any further issues arising, will be reported to the Committee in the autumn. In the meantime, as noted in Cm 7567, the Government is looking forward to receiving the Committee’s comments on its detailed proposals, as outlined in the March Memorandum, by July 2009, in order to meet the April 2010 deadline for beginning a phased implementation of the new framework.

The percentage and volume of HMRC debts not exceeding £10k. What guidelines/terms of references do HMRC stipulate when commissioning the outsourcing of debt collection?

The information requested on the percentage and volume of debts not exceeding £10,000 is not readily available as it is not routinely required for HMRC’s operational purposes and is therefore not centrally collated. The requested data could therefore only be provided at disproportionate cost. However, a recent analysis of direct tax debt by value bands as at 31 March 2008 has been published in the National Audit Office’s recent report on HMRC’s management of tax debt.19

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<table>
<thead>
<tr>
<th>Amount (£)</th>
<th>0–499</th>
<th>500–999</th>
<th>1,000–4,999</th>
<th>5,000–19,999</th>
<th>20,000–99,999</th>
<th>100,000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of debts in each category</td>
<td>70</td>
<td>16</td>
<td>11</td>
<td>2</td>
<td>0.39</td>
<td>0.06</td>
</tr>
<tr>
<td>Percentage of debts by value in each category</td>
<td>9</td>
<td>11</td>
<td>24</td>
<td>18</td>
<td>15</td>
<td>23</td>
</tr>
</tbody>
</table>

Note: Data includes PAYE, Corporation Tax and self-assessed Income Tax debts. The Department does not have the percentage of debts by value for VAT.

HMRC has just begun a small scale six month pilot to explore the benefits and risks of using Private Debt Collection Agencies (DCAs) to recover some debts as recommended by the National Audit Office. The pilot involves a range of debts for both individuals and businesses. Debt Collection Agencies (DCAs) will act on HMRC’s behalf but the debts will remain HMRC’s and they will retain responsibility for the overall collection and management of the debts.

HMRC will require the DCAs to operate to the same standards in respect of Confidentiality, Data Security and Customer Service as the Department routinely does. The Department is putting in place robust arrangements to monitor DCA behaviour, handle any complaints received and to assure adherence to contractual requirements.

The DCAs involved are also regulated by the Office of Fair Trading and their guidelines on debt collection practices and the Credit Services Association Code of Conduct.

HMRC’s standards for dealing with customers and those facing payment problems are published on its website at the following locations:
— www.hmrc.gov.uk/about/corporate-responsibility
— www.hmrc.gov.uk/payinghmrc/problems

Where HMRC staff have relocated with their posts how much has been paid out in relocation expenses? Is there any breakdown by grade and gender of staff that have been able to transfer with posts?

Table 4 below shows figures for all new claims for daily travelling expenses relating to moves of staff within reasonable daily travel of their home, by grade and gender. The average is around £1,000 per claimant over the course of a 3 year claim. Total costs are not readily available centrally as they are paid from local budgets. Table 5 shows home move assistance claims and costs.

Table 4
HMRC DAILY TRAVEL ASSISTANCE 2005–06 to 2007–08

<table>
<thead>
<tr>
<th>Grade</th>
<th>2005–06</th>
<th>2006–07</th>
<th>2007–08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>SCS</td>
<td>–</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Grade 6</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Grade 7</td>
<td>3</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Band T</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>SO</td>
<td>8</td>
<td>15</td>
<td>36</td>
</tr>
<tr>
<td>HO</td>
<td>28</td>
<td>17</td>
<td>79</td>
</tr>
<tr>
<td>O</td>
<td>32</td>
<td>23</td>
<td>162</td>
</tr>
<tr>
<td>AO</td>
<td>22</td>
<td>11</td>
<td>179</td>
</tr>
<tr>
<td>AA</td>
<td>4</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>81</td>
<td>530</td>
</tr>
</tbody>
</table>

Table 5
HMRC HOME MOVES ASSISTANCE 2005–06 to 2007–08

<table>
<thead>
<tr>
<th>Grade</th>
<th>2005–06</th>
<th>2006–07</th>
<th>2007–08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>SCS</td>
<td>–</td>
<td>2</td>
<td>137.5</td>
</tr>
<tr>
<td>Grade 6</td>
<td>3</td>
<td>9</td>
<td>317.1</td>
</tr>
<tr>
<td>Grade 7</td>
<td>3</td>
<td>5</td>
<td>265.6</td>
</tr>
<tr>
<td>Band T</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SO</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>HO</td>
<td>1</td>
<td>3</td>
<td>76.5</td>
</tr>
<tr>
<td>O</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>AO</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>19</td>
<td>796.6</td>
</tr>
</tbody>
</table>

* Numbers in this table may not sum due to rounding.
What proportion of the staff included in HMRC’s achieved headcount reduction figures had more than ten years experience?

Table 6 below shows the length of service of staff who physically left HM Revenue & Customs in each financial year from 2005–06 to 2007–08. The total numbers of staff varies from the figures given in Table 3 above, which is based on when decisions were made to release staff, giving rise to a charge against a specific year’s budgets.

Table 6
LENGTH OF SERVICE OF HMRC STAFF LEAVING ON EARLY RELEASE SCHEMES IN 2005–06 to 2007–08

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of staff 10 years and under</th>
<th>Number of staff over 10 years</th>
<th>Proportion of staff over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–06</td>
<td>47</td>
<td>1,527</td>
<td>97.0%</td>
</tr>
<tr>
<td>2006–07</td>
<td>274</td>
<td>1,385</td>
<td>83.5%</td>
</tr>
<tr>
<td>2007–08</td>
<td>226</td>
<td>767</td>
<td>77.2%</td>
</tr>
</tbody>
</table>

Do you believe that you have got the balance right between reducing headcount and at the same time keeping those staff that had the experience to provide the required level of customer service?

HMRC has created strict eligibility and selection criteria around all their release schemes, meaning that business areas should only put forward applications from those staff whose skills they can either replace or are no longer required.

15 June 2009

Supplementary memorandum from HM Treasury

Of the 2,492 HMRC relocations out of London and the South East, how many were filled by new staff from the regions? How many people have chosen not to relocate and what success have you had in recruiting in that circumstance?

HMRC’s approach to implementing Lyons related relocations has been to move posts rather than the people. Therefore the 2,492 posts relocated out of London and the South East during SR04 have been filled mainly through internal redeployment of pre-surplus staff in the receiving locations, or to a limited extent by external recruitment. It would be very exceptional for staff to move with the work.

Has HMRC reduced staff numbers in London and the South East or just changed job titles of staff in this region?

Working from 1 April 2004 baseline, the total number of staff employed in London and the South East was 24,123. During SR04 this was reduced by 5,607 to 18,516. This was through a combination of natural wastage, voluntary release schemes and staff joining other government departments. During the current CSR07 period, HMRC has continued to manage down the number of pre-surplus staff in these regions has reduced by a further 1,348 to 17,168.

Where posts have been moved out of London and the South East, HMRC has managed this by giving affected staff pre-surplus status. This gives them priority for any vacancies within HMRC or other government departments. HMRC has encouraged voluntary transfers to other departments and the use of voluntary early release schemes in order to reduce pre-surplus numbers.

Regarding HMRC customer satisfaction surveys: could copies of the surveys be sent to the Committee along with an explanation of the methodology employed?

BACKGROUND TO HMRC’S CUSTOMER SURVEY

— The Customer Survey informs on customer experience and reputation. It measures progress against the SR07 DSO 2.1 target.

— It is a quarterly telephone survey, starting in March 2008. It is independently run by BMRB.

— The survey covers nationally representative samples of approximately 2000 SME businesses, 1,750 Agents and 2000 Individuals (Personal Tax and Benefits & Credits customers).
Quarterly performance against 12 parameters (known as Dimensions of Experience\textsuperscript{20}) is collected from customers who have dealt with HMRC over the previous three months.

- The survey is statistically robust. The margins of error for the March 2009 DSO 2.1 range between $\pm 1.2$ and $\pm 1.8$ percentage points.

- Reputation measures are also collected every six months (March & September), from those who have and have not had a recent dealing\textsuperscript{21} with HMRC.

**Publication**

HMRC publishes the results of its customer surveys against PSA/DSO objectives in its Departmental Report and has done so since 2004-05. The reports are available via the links below:

- http://www.hmrc.gov.uk/governance/reports.htm

Copies of the three Customer Service Survey questionnaires are attached at Annexes A–C (Individuals, Agents, SMEs).

What steps have been taken since the second NAO report to ensure that efficiency measurement was properly rigorous?

During the 2004 Spending Review Departments were allowed to report gains as “final” “interim” or “provisional” depending on the robustness of the underpinning data. Where data was rated “provisional” or “interim” Departments worked to challenge and strengthen the underpinning methodology and by the end of the programme in March 2008 Departments only reported “final” data.

To further improve the measurement of efficiency, during the 2007 Comprehensive Spending Review the Government sought to tighten the core methodology used. In particular, following feedback from the NAO and TSC, and by building on the capacity developed in Departments, CSR07 announced that all future gains would be cash-releasing and reported net of costs.

Departments are responsible for auditing savings to ensure that reported numbers meet this methodology. In addition we understand the NAO plan to audit savings on a departmental basis, providing further assurance.

The “Final Report on the Efficiency Programme” included a table showing the efficiencies delivered by work streams. Are you able to provide the Committee with a similar table for the proposed CSR2007 value for money savings, both for the Chancellor’s Departments and in total?

For the CSR07 period Departments, including the Chancellor’s Departments, have all published VFM Delivery Agreements that set out their plans for achieving their ambitious VFM targets, which include further reforms in all of the areas that Sir Peter Gershon identified (procurement, productive time, corporate services, policy funding and regulation, transaction and other). However the Government does not centrally monitor Department’s progress against these six categories. Partly this reflects the more devolved governance structures of the CSR programme, but it also builds on experience in the SR04 period where it was difficult to rigorously assign complex reforms a single label.

The Government intends to publish the first set of Whole of Government Accounts for this financial year. Are you still on track to achieve that? Have you considered including numbers of civil service staff in these accounts in the same way that the Annual Report of a large private firm would do?

Budget 2008 announced that Government would publish audited Whole of Government Accounts for the first time for 2009–10, in line with the implementation of international financial reporting standards for the central government sector. It is anticipated this account will be published in Spring 2011.

In the run up to publication, Treasury have taken steps to establish common processes and procedures for the collection of the data making up WGA. Dry run accounts, which are not audited, have been prepared to test the validity of these measures. We are currently on track to deliver an auditable set of Whole of Government Accounts statements for 2009–10.

\textsuperscript{20} The 12 dimensions: Started with how HMRC were thinking about experience in late 2007; Small scale qualitative research with customers to identify key aspects of experience; Further cognitive testing and piloting to ensure the way we framed the questions made sense to customers

\textsuperscript{21} The Customer Survey includes a module on HMRC reputation every six months. The Reputation module collects information from representative cross sections of individuals, SME businesses and agents, regardless of whether they have had recent dealings with HMRC. Each time we run the module (quarters ending March and September) we interview 1000 Individuals, 1000 SME businesses and 900 Agents about HMRC reputation.
When published, WGA will provide public sector staff numbers by sector (central and devolved governments, local authorities, national health sector and public corporations). The staff numbers reported will be the average numbers of staff employed, consistent with those reported in the statutory accounts of each entity.

14 July 2009

Annex A

HM REVENUE AND CUSTOMS CUSTOMER EXPERIENCE SURVEY
BMRB FINAL FOR INDIVIDUALS W5

Good morning/afternoon/evening, my name is ….., and I am calling on behalf of the British Market Research Bureau, the independent social research company. We are carrying out a survey for Revenue and Customs about the dealings people have with them.

IF NECESSARY—Revenue and Customs is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and protecting the UK’s borders against illegal imports and exports.

The findings from the survey will be used by Revenue and Customs to improve customer services in the future. We guarantee that all your answers will be kept confidential. Revenue and Customs will not be able to identify any individual from their answers.

Check how many adults in household aged 16 + and choose respondent by the Rizzo method. Reintroduce to selected person if necessary.

I would like to ask you a few questions about the taxes and benefits that you might have some involvement with. This should only take a couple of minutes. Is now a good time?

I just want to reassure you that this is confidential, voluntary market research. Thank you for agreeing to participate.

SECTION 1: SCREENING FOR DSO2 CORE ELIGIBILITY
ASK ALL

Q1. First of all which, if any, of the following have you had anything to do with in the last 12 months? Please choose all the ones that apply. We are only interested in anything to do with your own personal taxes.

RANDOMISE ORDER. READ OUT. MULTICODE OK
— Income tax or national insurance paid from your wages (also known as Pay As You Earn)
— Tax paid from your pension
— Paying National Insurance by Direct Debit
— Self assessment tax return or payment
— Inheritance Tax
— Capital Gains Tax
— Stamp Duties
— Declaring goods when returning from abroad, or paying duty on goods delivered from abroad
— Being stopped for a customs check at an airport or port
— Student Loan repayments through your employer
— Tax repayments
— None of the above
— Refused
— Don’t know

Q2. And which, if any, of the following have you had anything to do with in the last 12 months? Again, please choose all the ones that apply.

RANDOMISE ORDER. READ OUT. MULTICODE OK
— Child Benefit
— Working Tax Credit
— Child Tax Credit
— Tax Credits, but not sure which (ALWAYS TO COME AFTER THE FIRST TWO TAX CREDITS)
ASK ALL INVOLVED WITH ANYTHING AT Q1 OR Q2

Revenue and Customs is the government department responsible for all the taxes, credits and benefits that I have just read out to you, and a few others.

I would like to know whether you PERSONALLY have had any dealings with Revenue and Customs in the last three months about any of these taxes or benefits. For example, you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre or declared goods on return from a trip abroad.

The dealings I am interested in do NOT include taxes or loan repayments being taken automatically from your wages or pension, or a credit being paid into your bank account automatically. So …

IF DEAL WITH ANYTHING AT Q1

Q3. Which, if any, of the following have you had any dealings with Revenue and Customs about in the last three months? Remember this does NOT include any payments made automatically through your wages or your pension.

IF NECESSARY: For example, you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre, or declared goods on return from a trip abroad.

RANDOMISE ORDER. MULTICODE OK. REASSURE ABOUT CONFIDENTIALITY. READ OUT (LIST FILTERED TO THOSE GIVEN AT Q1). CODE ALL THAT APPLY

— Dealings about income tax or national insurance taken from your wages
— Dealings about tax taken from your pension
— Dealings about National Insurance by Direct Debit
— Self assessment tax return or payment
— Inheritance Tax
— Capital Gains Tax
— Stamp Duties
— Declaring goods when returning from abroad, or paying duty on goods delivered from abroad
— Being stopped for a customs check at an airport or port
— Dealings about Student Loan repayments through your employer
— Tax repayments
— READ OUT LAST FOR ALL: General query across a number of the taxes I have just read out
— None of these
— Refused
— Don’t know

IF DEAL WITH ANYTHING AT Q2

Q4. And now can you tell me which, if any, of the following have had any dealings with Revenue and Customs about in the last three months? Again this does not include any payments made automatically into your bank account.

IF NECESSARY: For example, you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre, or declared goods on return from a trip abroad.

RANDOMISE ORDER. MULTICODE OK. REASSURE ABOUT CONFIDENTIALITY. READ OUT (LIST FILTERED TO THOSE GIVEN AT Q1). CODE ALL THAT APPLY

— Child Benefit
— Working Tax Credit
— Child Tax Credit
— Tax Credit, but am not sure which
— Child Trust Fund voucher
— READ OUT LAST FOR ALL: General query across a number of the credits and benefits I have just read out
Q5. And have you had any dealings with Revenue and Customs about anything else in the last three months?

- Yes
- No
- Don’t know

If Yes at Q5:

Q6. Can you please describe for me briefly what your recent dealings with Revenue and Customs were about?

Probe and write in. Do not read out.

Note—If mention dealings to do with only one or more of the pre-codes then no need to record any further details. If mention any taxes or benefits outside of this list, probe further, and record full details under “other specify”.

Note—brief to probe fully for other specify

- Pension Credit
- Income Support or Jobseekers Allowance
- Any disability or incapacity allowance or benefit
- Carers allowance
- Housing Benefit
- Council Tax/Council tax benefit
- Road Tax/Car Tax
- VAT
- Company Tax/Corporation Tax
- OTHER (SPECIFY)
- Don’t know

If other:

Q6b. Thinking just about the dealings you have just described, that is [insert answer]. Can I just check that you had dealings with Revenue and Customs about this other than automatic payments?

- Yes
- No
- Don’t know

Programme to produce combined list of all dealt with in last three months. Use to produce list for next question. If none of these/Ref/DK at Q3,4 & 5 or none of these/Ref/DK at Q3,4 & not “other” at Q6 will skip question 7 and be defined as not eligible for DSO2 questions.

Q7. I am going to read out the list of [taxes, credits and benefits] you have told me you dealt with Revenue and Customs about in the last three months. For each one can you please confirm that you had dealings OTHER than just automatic payments.

Read out

- Income tax or national insurance paid from your wages (also known as Pay As You Earn)
- Tax paid from your pension
- Paying National Insurance by Direct Debit
- Self assessment tax return or payment
- Inheritance Tax
- Capital Gains Tax
— Stamp Duties
— Declaring goods when returning from abroad, or paying duty on goods delivered from abroad
— Being stopped for a customs check at an airport or port
— Student Loan repayments through your employer
— Tax repayments
— Child Benefit
— Working Tax Credit
— Child Tax Credit
— Tax Credit, but not sure which
— Child Trust Fund voucher
— A general query across taxes
— A general query across credits or benefits
— SET FROM Q6B AND NOT ASKED HERE: Some other dealing (from Q6)
— None of these

IF NOT HAD ANY DEALINGS WITH REVENUE AND CUSTOMS IN THE LAST THREE MONTHS (I.E. NONE OF THESE AT Q7, OR NONE/REF/DK AT ALL ASKED OUT OF Q3,4,5, & NOT ["OTHER:" AT Q6 AND YES AT Q6B]) EITHER SELECT FOR REPUTATION ONWARDS (1 IN N) OR SEGMENTATION ONWARDS (1 IN M), OR THANK AND CLOSE IF NOT SELECTED AT ALL—"IN THAT CASE I HAVE NO FURTHER QUESTIONS. THANK YOU FOR YOUR TIME"

ALL OTHERS (CORE DSO2 SAMPLE)
I would like to ask you some more questions about your experience of dealing with Revenue and Customs—it should only take around 10-15 minutes. Is now a good time to continue? (Yes, later, or refuse)

CATI TO SELECT ONE OF THESE TAXES/BENEFITS/OTHER ISSUES AT RANDOM TO CONTINUE.

INTRODUCTION
IF “OTHER DEALING” IS SELECTED:
I would like you to think now about the dealings you described to me a moment ago

ALL OTHERS:
I’d now like you to think about dealing with Revenue and Customs in the last three months about [topic selected at random].

LIST FOR TEXT SUBSTITUTION
— Income tax or National Insurance paid from your wages
— Tax paid from your pension
— Paying National Insurance by Direct Debit
— Self Assessment
— Inheritance Tax
— Capital Gains Tax
— Stamp Duties
— declaring or paying duty on goods from abroad
— being stopped at customs
— Student Loans repayments through your employer
— Tax repayments
— Child Benefit
— Working Tax Credit
— Child Tax Credit
— Tax Credits
— Child Trust Fund vouchers
— the general query across taxes
Section 2: Details of Dealing for Those Eligible for DSO2 Core

Ask all core except those selected for "Other Dealings"

Q8. Can you please describe for me briefly what your recent dealings on [issue selected] were about? Probe and write in

- Write in
- Don’t know

Ask all core

Q9. Still thinking about the last three months, which of the following happened when dealing with Revenue and Customs about [insert topic]? Please choose all that apply.

Read out. Randomise

- You made contact with Revenue and Customs
- Revenue and Customs made contact with you—for example, they sent you something you had to read, check or fill in
- You submitted a form or return
- You visited the Revenue and Customs website
- You made a payment (other than just an automatic payment)
- Something else (Specify)
- Don’t know

Ask all who contacted Revenue and Customs at Q9

If said website and made contact at Q9 use this wording instead:

You said earlier you had visited the website, but how else did you make contact with Revenue and Customs about [insert topic] in the last three months?

Q10. Which of the following methods did you use to contact Revenue and Customs about [insert topic]?

Multicode ok. Read out. Randomise responses. Code web automatically if said at Q9

- Internet/website (NOT ON "VISITED WEBSITE" VERSION)
- Telephone
- Visiting tax office/enquiry centre
- Letter
- Email
- Fax
- Through a third party (eg Citizens Advice or JobCentre Plus)
- Other (write in)
- None of these (ONLY ON "VISITED WEBSITE" VERSION)
- Don’t know

Section 3: Rating the Customer Experience (DSO2 Measures)

Rotate within and between all question units from Q11–Q15

Ask all core DSO2 sample as defined earlier

Please carry on thinking about your recent experience of dealing with Revenue and Customs about [insert topic]. If any of the following questions do not apply to your recent dealing then please say so.
Q11. Thinking about your recent dealings with Revenue and Customs about [insert topic], How easy or difficult was it to… READ OUT EACH STATEMENT Is that very or fairly [easy/difficult]? SINGLE CODE ONLY. ROTATE ORDER

1. understand what you had to do in your dealings with Revenue and Customs?
2. complete the processes, for example forms, payments, or checking information sent to you by Revenue and Customs?
3. get in touch with Revenue and Customs?
   — Very easy
   — Fairly easy
   — Neither easy nor difficult
   — Fairly difficult
   — Very difficult
   — Don’t know
   — Not applicable

Q12. Thinking about your recent dealings with Revenue and Customs about [insert issue], How good or poor were Revenue and Customs at… READ OUT EACH STATEMENT Is that very or fairly [good/poor]?
RANDOMISE ORDER SINGLE CODE ONLY

1. giving you all the answers you needed? .
2. providing a service designed with your needs in mind?
3. doing everything they said they would? .
4. keeping you well-informed?
5. getting things right?
   — Very good
   — Fairly good
   — Neither good nor poor
   — Fairly poor
   — Very poor
   — Don’t know
   — Not applicable

Q13. Thinking about your recent dealings with Revenue and Customs about [insert issue] How quickly or slowly… READ OUT EACH STATEMENT Is that very or fairly [quickly/slowly]? SINGLE CODE ONLY.
RANDOMISE ORDER

1. did they respond to you?
2. did they deal with your issue?

INTERVIEWER NOTE: if have not yet received a response, ask if they can make a judgement, otherwise code as Not Applicable.
   — Very quickly
   — Fairly quickly
   — Neither quickly nor slowly
   — Fairly slowly
   — Very slowly
   — Don’t know
   — Not applicable

Q14. Thinking about your recent dealings with Revenue and Customs about [insert issue] How well or poorly did staff treat you? Is that very or fairly [well/poorly]? SINGLE CODE ONLY.

— Very well
— Fairly well
— Neither well nor poorly
— Fairly poorly
— Very poorly
Q15. How flexible or inflexible was the service in taking your needs and circumstances into account? Is that very or fairly [flexible/inflexible]? SINGLE CODE ONLY.

- Very flexible
- Fairly flexible
- Neither flexible nor inflexible
- Fairly inflexible
- Very inflexible
- Don’t know
- Not applicable

Questions not randomised from this point on

Q16. How satisfied or dissatisfied are you with the final outcome of your recent dealings with Revenue and Customs about [insert topic]? Is that very or fairly [satisfied/dissatisfied]? SINGLE CODE ONLY.

- Very satisfied
- Fairly satisfied
- Neither satisfied nor dissatisfied
- Fairly dissatisfied
- Very dissatisfied
- Don’t know
- Not applicable

Q17. Putting aside the final outcome now, and thinking just about the service you received, overall, how would you rate your recent experience of dealing with Revenue and Customs about [insert topic]? Would you say that it was… READ OUT. SINGLE CODE ONLY.

- Very good
- Fairly good
- Neither good nor poor
- Fairly poor
- Very poor
- Don’t know
- Not applicable

Q18. And would you say your recent experience of dealing with Revenue and Customs was better than you expected, worse than you expected, or in line with your expectations? SINGLE CODE ONLY.

- Better
- Worse
- In line with expectations
- Don’t know

Q19. Now I want you to think more generally about dealing with Revenue and Customs. About how often do you deal with them about ANY issue? SINGLE CODE ONLY. READ OUT RELEVANT PART OF SCALE IF NECESSARY

- Daily
- At least weekly
- At least twice a month
- At least once a month
- At least every couple of months
- At least every 6 months
- At least once a year
- Less often than once a year
This is the first time I’ve dealt with them
— Don’t know

SECTION 4—REPUTATION TRACKER
ASK ALL SELECTED FOR REPUTATION TRACKER—1 IN N OF CORE AND NON CORE. ALL OTHER CORE GO TO SEGMENTATION QUESTIONS.

Reputation only: I would like to ask you a few questions about Revenue and Customs. It should only take around 10 minutes. Is now a good time? (Yes, later, or refuse)

DSO2: I would like to move away now from your most recent dealings and for you to think now more broadly about Revenue and Customs.

Q20. How much do you feel you know about Revenue & Customs? Please take into account any of the ways you have heard or learnt about them. SINGLE CODE ONLY Would you say you…?
— Know a lot
— Know a fair amount
— Know a little
— Have heard of them but know almost nothing about them
— Have never heard of them before today
— Don’t know

ASK Q21–Q25 TO ALL WHO HAVE AT LEAST HEARD OF HM REVENUE & CUSTOMS (CODES 1–4 ABOVE)

Q21. And how favourable or unfavourable is your overall opinion and impression of Revenue & Customs taking into account everything you think is important? Is your overall opinion or impression…..?. SINGLE CODE ONLY
— Very favourable
— Mainly favourable
— Neither favourable nor unfavourable
— Mainly unfavourable
— Very unfavourable
— Don’t know

Q22. Please can you rate Revenue & Customs in terms of how much you trust them to be fair? Please use a scale from 1-10 where 10 is completely fair and 1 is not at all fair. SINGLE CODE ONLY
— (Not at all fair) 1
— 2
— 3
— 4
— 5
— 6
— 7
— 8
— 9
— (Completely fair) 10
— Don’t know

Q23. The role of Revenue & Customs is to ensure that individuals and businesses pay the correct tax and receive the correct entitlements. Do you think they…?
ROTATE STATEMENTS. SINGLE CODE ONLY. READ OUT.
1. Make it as easy as possible for their customers to pay what they owe
2. Make it as easy as possible for customers to receive what they are entitled to
3. Protect society by dealing firmly with anyone who intentionally avoids their responsibilities
— Very well
— Fairly well
Q24. On a scale of 1 to 10 where 10 means you trust them completely and 1 means you do not trust them at all, how much do you trust Revenue & Customs to pay out benefits and credits to people who are entitled to them? SINGLE CODE ONLY

- (Do not trust them at all) 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- (Trust them completely) 10
- Don’t know

Q25. I’m now going to read out some statements about Revenue & Customs and for each statement I would like you to tell me how much you agree or disagree with it. [TEXT SUB—ALL WHO HAVE NOT SAID HAD DEALINGS AT DSO2—I understand that you might not have had any direct contact with them but if this is the case, I’m interested in your impressions of what you think they would be like]. IF NECESSARY: Is that strongly or slightly [agree/disagree]?

ROUNATE STATEMENTS. READ OUT STATEMENTS AND SCALE. SINGLE CODE ONLY FOR EACH
1. Revenue & Customs do a difficult job well
2. Revenue & Customs understand my needs
3. Revenue & Customs trust individuals to be honest
4. Revenue & Customs are honest and have integrity
5. Revenue & Customs protect my personal information
   - Agree strongly
   - Agree slightly
   - Neither agree nor disagree
   - Disagree slightly
   - Disagree strongly
   - Don’t know

ASK ALL SELECTED FOR REPUTATION TRACKER

Q26. Now I’d like you to tell me how much you agree or disagree with the following statements… IF NECESSARY: Is that strongly or slightly [agree/disagree]?

READ OUT STATEMENTS. ROTATE STATEMENTS. SINGLE CODE ONLY FOR EACH
1. It is hard for people to get away with paying less than they owe Revenue & Customs
2. It is hard for people to claim more than they are entitled to from Revenue & Customs
   - Agree strongly
   - Agree slightly
   - Neither agree nor disagree
   - Disagree slightly
   - Disagree strongly
   - Don’t know

IF DSO2 DO NOT ASK BUT CODE TO “WITHIN LAST THREE MONTHS”
Q27. When was the last time that you dealt with Revenue & Customs? For example you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre or declared goods on return from a trip abroad. This does not include automatic payments.

READ OUT CODES IF NECESSARY. SINGLE CODE ONLY.
- Within the last three months[AF1]
- Within the last six months
- Around six months to a year ago
- Less than three years ago, but not within the last year
- More than three years ago
- Never
- Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1–3 AT Q27)

Q28. And thinking about your experiences with Revenue & Customs or what you have heard about them, how would you rate them for … READ OUT SCALE? SINGLE CODE ONLY
1. Being customer focused
2. Being helpful
3. Being easy to contact
   - Very good
   - Fairly good
   - Neither good nor poor
   - Fairly poor
   - Very poor
   - Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1–3 AT Q27)

Q29. How effective or ineffectve do you think Revenue and Customs are at communicating with their customers? Is that very or fairly [effective/ineffective]? SINGLE CODE ONLY
- Very effective
- Fairly effective
- Neither effective nor ineffective
- Fairly ineffective
- Very ineffective
- Don’t know
- Not applicable

ASK ALL SELECTED FOR REPUTATION TRACKER WHO HAD HEARD OF HMRC AT Q20

Q30. And have you spoken to family, friends or colleagues about any of your experiences with Revenue & Customs in the last year? SINGLE CODE ONLY.
- Yes
- No
- Don’t know
- Not applicable

IF YES

Q31. And was what you said positive or negative, or neutral? Is that very or fairly [positive/negative]? SINGLE CODE ONLY.
- Very positive
- Fairly positive
- Neutral
— Fairly negative
— Very negative
— Don’t know

SECTION 5—SEGMENTATION

ASK ALL (INCLUDES ALL CORE, ALL NON-CORE SELECTED FOR REPUTATION AND
ALL NON-CORE SELECTED FOR SEGMENTATION).

IF SEGMENTATION ONLY: I would now like to ask you a few questions about taxes. It should only take around five minutes. Is now a good time? (Yes, later, or refuse)

IF REPUTATION OR DSO2: I would now like to move on to ask some more general questions about taxes.

INTRO:

Any answers you give will be treated in the strictest confidence, and Revenue and Customs will not be able to identify the answers given by any individual. Please be honest with your answers, we are not here to check on you and Revenue & Customs will not know what you said as we do not report anything individual people say.

Q32. Before today were you aware that Revenue and Customs … [READ OUT STATEMENT BELOW], RANDOMISE

G: Collect National Insurance contributions
H: Collect Income Tax
I: Pay out Tax Credit
A: Pay out Child Benefit
B: Collect student loan repayments
— Yes
— No
— Don’t know

Q33. I am now going to read out a series of statements focusing on your attitude to finances and taxation. Please rate on a scale of 1–9 where 1 is to disagree strongly and 9 is to agree strongly. RANDOMISE

— I actively plan my finances
— I try to keep myself up to date with tax issues that might affect me
— I am uncomfortable dealing with tax

Q34. RANDOMISE

A1: It’s OK to cheat on taxes
B1: I often need help understanding official forms
C1: I am very confident in dealing with my finances
D1: I am confident using a computer

Q35. And thinking about the last 12 months, which of the following have you done? RANDOMISE BUT DO NOT PUT E OR F FIRST.

G1: Bought a house or other property
E: Not declared small amounts I should probably have paid tax on?
F: Worked cash in hand?
G3: Travelled abroad from the UK on work or holiday
— Yes
— No
— Don’t Know
— Refused
SECTION 6—DEMOGRAPHICS

ASK ALL

Q36. Do you personally deal with Revenue and Customs, or does someone, such as an accountant, friend or relative, handle some or all of your tax, credits and benefit affairs?

IF SOMEONE ELSE PROBE—do they handle ALL of these dealings with Revenue and Customs, or do you still have some involvement?

IF RESPONDENT SAYS REVENUE AND CUSTOMS HANDLE THEIR TAX AFFAIRS ASK—Do you provide Revenue and Customs with the information, for example, do you fill in the forms and send them to Revenue and Customs, or does someone help you? SINGLE CODE ONLY.

— Handle own tax affairs
— Someone else handles SOME of tax affairs
— Someone else handles ALL of tax affairs
— DO NOT READ OUT No tax affairs to deal with
— Don’t know

ASK ALL

Q37. Could you tell me how many fixed telephone lines are available for incoming telephone calls to your household? Please only include those with different numbers and do not include mobile phones.

— ENTER NUMBER
— DK

Q38. Which of the following applies to you? I have or use… READ OUT. MULTICODE OK.

— Internet at home
— Internet at work, place of study or elsewhere
— None of these
— Don’t know

Q39. Record sex

— Male
— Female

Q40. How old were you on your last birthday?

— Enter number
— Refused

IF REFUSED

Q41. In that case could you tell me which of these age bands you fall into?

— 19 or under
— 20–29
— 30–39
— 40–49
— 50–59
— 60–64
— 65–69
— 70–79
— 80 or over
— Refused

Q42. Are you the parent or legal guardian of at least one child aged 18 or under who lives with you?

— Yes
— No
— Don’t know
Q43. **Which of the following groups do you consider you belong to?** SINGLE CODE ONLY. READ OUT CATEGORIES IN BOLD THEN PROBE WITH DETAILED CATEGORIES.

- White
- British
- Irish
- Any other white background (PLEASE WRITE IN)
- Mixed
- White and Black Caribbean
- White and Black African
- White and Asian
- Any other mixed background (PLEASE WRITE IN)
- Asian or Asian British
- Indian
- Pakistani
- Bangladeshi
- Any other Asian background (PLEASE WRITE IN)
- Black or Black British
- Caribbean
- African
- Any other Black background (PLEASE WRITE IN)
- Chinese
- Any other background (PLEASE WRITE IN)
- Refused

Q44. **What is your marital status?** READ OUT. SINGLE CODE ONLY.

**NOTE:** CODE DISOLVED CIVIL PARTNERSHIP AS DIVORCE AND CIVIL PARTNER DIED AS WIDOWED

- Single/engaged
- Married/living as married/in a civil partnership
- Separated/Divorced/Widowed
- Refused (DO NOT READ OUT)

Q45. **Do you have any longstanding illness, health problem or disability?** By longstanding I mean anything that has affected you over a period of time or that is likely to affect you over a period of time. SINGLE CODE ONLY

- Yes
- No

IF YES

Q46. **Does this illness or disability limit your activities in any way?**

- Yes
- No

Q47. **Which of these best describes your employment at the moment?**

- Working in a paid job (30+ hours)
- Working in a paid job (8–29 hours)
- Working in a paid job (Less than 8 hours)
- Self-employed
- Not in paid employment/looking after house or home
- Full time student at school
- Full time student at university/polytechnic/college
Treasury Committee (Treasury Sub-Committee): Evidence  Ev 87

— Unemployed
— Retired from paid employment

Q48. Collect postcode
   GOR/ACORN/deprivation/rural-urban from postcode

Q49. Revenue and Customs may be conducting some further research on these topics in the future. Would you be happy for someone from BMRB to re-contact you and invite you to participate in this research?
   — Yes
   — No

IF YES AT Q49

Q50. And would you be happy to allow BMRB to pass your contact details on to another research agency to re-contact you in relation to further research?
   IF NECESSARY—this would be research on behalf of Revenue and Customs
   — Yes
   — No

[AF1]Do not read

Annex B

HM REVENUE AND CUSTOMS CUSTOMER EXPERIENCE SURVEY
BMRB FINAL—AGENTS W5

Good morning/afternoon/evening, my name is ..., and I am calling on behalf of the British Market Research Bureau, the independent social research company. We are carrying out a survey for Revenue and Customs about the dealings businesses have with them.

Please could I speak to someone at your site who has responsibility for dealing with Revenue and Customs on behalf of clients? NOTE: PERSON HAS TO WORK AT SAME SITE. DO NOT ACCEPT REFERRALS TO HEAD OFFICE ETC.

If necessary—Revenue and Customs is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and protecting the UK’s borders against illegal imports and exports.

The findings from the survey will be used by Revenue and Customs to improve customer services in the future. We guarantee that all your answers will be kept confidential. Revenue and Customs will not be able to identify any individual or business from their answers.

Can I just check, are you the right person to speak to about dealings with Revenue and Customs on behalf of clients at your site?

IF NOT—find out who is the right person and arrange to speak to them. When you have the right person continue with interview

I would like to ask you a few questions about the taxes and duties that you might have some involvement with on behalf of clients. This should only take a couple of minutes. Is now a good time?

SECTION 1: SCREENING AND DEMOGRAPHICS

Q1. First of all, at your site, does your business employ anyone who deals with Revenue and Customs as a financial agent on behalf of clients?
   NOTE—this includes accountant, tax advisor, payroll agency, book-keeper, or auditor etc
   — Yes
   — No
   — DK

IF NO/DK TERMINATE INTERVIEW AS INELIGIBLE—BUSINESS NOT HMRC AGENT.

IF YES

Q2. Can I just check that you are a professional financial agent who personally deals with Revenue and Customs on behalf of clients?
   NOTE—this includes accountant, tax advisor, payroll agency, book-keeper, or auditor etc
   — Yes
   — No
   — DK
IF NO/DK INTERVIEWER TO ASK TO SPEAK TO SOMEONE WHO DOES (Q1 RAGEN IN SCRIPT) – RETURN TO CONTACT STAGE. ALTERNATIVE INTERVIEWEE SHOULD BE PART OF SAME ORGANISATION AT THE SAME SITE

ASK ALL

Q3. Which, if any, of the following do you personally deal with Revenue and Customs about on behalf of your clients? READ OUT. RANDOMISE ORDER [S1].

- Company Tax, also known as Corporation Tax
- Self assessment for the Self-employed
- Self-assessment for PAYE employees
- Payroll and National Insurance
- Construction Industry Scheme
- Tax credits
- VAT
- Imports and Exports
- Excise Duty
- READ OUT Anything else (specify)
- Nothing
- DK

IF NOTHING/DK — NOT ELIGIBLE FOR SURVEY — THANK AND CLOSE

IF ANYTHING AT Q3

I would like to know whether you have had any dealings with Revenue and Customs on behalf of clients in the last three months. For example you might have received a letter, filled in a form, spoken to them on the phone, visited their website, made a payment or visited a local tax office or an Enquiry Centre.

I am only interested in dealings you have had on behalf of clients, and not in your own personal tax affairs.

Q4. So which, if any, of the following have you personally had any dealings with Revenue and Customs about on behalf of clients in the last three months?

IF NECESSARY: For example you might have received a letter, filled in a form, spoken to them on the phone, visited their website, made a payment or visited a local tax office or an Enquiry Centre.

READ OUT. RANDOMISE ORDER.

[ONLY THOSE SAID YES TO AT Q3 BROUGHT UP ON SCREEN]

READ OUT. MULTICODE OK.

- Company Tax, also known as Corporation Tax
- Self assessment for the Self-employed
- Self-assessment for PAYE employees
- Payroll and National Insurance
- Construction Industry Scheme
- Tax credits
- VAT
- Imports and Exports
- Excise Duty
- READ OUT Anything else (specify)
- Don’t know
- Nothing

IF NOTHING/DK EITHER SELECT FOR REPUTATION ONWARDS (1 in n) OR THANK AND CLOSE IF NOT SELECTED AT ALL—“in that case I have no further questions. Thank you for your time”

ALL CORE DSO2 SAMPLE

I would like to ask you some more questions about your experience of dealing with Revenue and Customs on behalf of clients. Is now a good time to continue?

IF ASKED: it should only take around 10-15 minutes.

CATI TO SELECT ONE OF THESE TAXES/DUTIES/OTHER ISSUES AT RANDOM FROM Q4 TO CONTINUE.
INTRODUCTION

IF “OTHER DEALING” IS SELECTED:
I would like you to think now about the dealings you described to me a moment ago about [insert text from Q4 other].

ALL OTHERS IN CORE DSO SAMPLE:
I’d now like you to think about your MOST recent experience of dealing with Revenue and Customs in the last three months about [topic selected at random].

SECTION 2: DETAILS OF DEALING FOR THOSE ELIGIBLE FOR DSO2 CORE
ASK ALL CORE

Q5. Can you please describe for me briefly what your MOST recent dealing on [issue selected] was about? PROBE AND WRITE IN
— WRITE IN
— Don’t know

Q6. Still thinking about this most recent experience, which of the following happened when dealing with Revenue and Customs about [insert topic]? Please choose all that apply.
READ OUT: RANDOMISE
— You made contact with Revenue and Customs
— Revenue and Customs made contact with you—for example, they sent you something you had to read, check or fill in
— You submitted a form or return
— You visited the Revenue and Customs website
— You made a payment
— Something else (Specify)
— Don’t know

ASK ALL WHO CONTACTED REVENUE AND CUSTOMS AT Q6
IF SAID WEBSITE AND MADE CONTACT AT Q6 USE THIS WORDING INSTEAD: You said you had visited the website, but how else did you make contact with Revenue and Customs in your most recent dealing about [insert topic]?

Q7. Which of the following methods did you use to contact Revenue and Customs about [insert topic]?
MULTICODE OK. READ OUT: RANDOMISE RESPONSES
— Internet/website (NOT ON “VISITED WEBSITE” VERSION)
— [M2]Telephone
— Visiting tax office/enquiry centre
— Letter
— Email
— Fax
— Through a third party (eg Citizens Advice or JobCentre Plus)
— Other (write in)
— None of these (ONLY ON “VISITED WEBSITE” VERSION)
— Don’t know

SECTION 3: RATING THE CUSTOMER EXPERIENCE
ROTATE WITHIN AND BETWEEN ALL QUESTION UNITS FROM Q8–Q12
ASK ALL CORE DSO2 SAMPLE AS DEFINED EARLIER
Please carry on thinking about your most recent experience of dealing with Revenue and Customs about [insert topic] on behalf of your clients. If any of the following questions do not apply to your recent dealing then please say so.
INTERVIEWER NOTE: “NOT APPLICABLE” IS AN ACCEPTABLE ANSWER TO QUESTIONS IN THIS SECTION.
Q8. Thinking about your most recent dealings with Revenue and Customs about [insert topic], How easy or difficult was it to… READ OUT EACH STATEMENT Is that very or fairly [easy/difficult]? SINGLE CODE ONLY. ROTATE ORDER

1. understand what you had to do in your dealings with Revenue and Customs?
2. complete the processes, for example forms, payments, or checking information sent to you by Revenue and Customs?
3. get in touch with Revenue and Customs?
   — Very easy
   — Fairly easy
   — Neither easy nor difficult
   — Fairly difficult
   — Very difficult
   — Don’t know
   — Not applicable

Q9. Thinking about your most recent dealings with Revenue and Customs about [insert issue], How good or poor were Revenue and Customs at… READ OUT EACH STATEMENT Is that very or fairly [good/poor]? RANDOMISE ORDER SINGLE CODE ONLY

1. giving you all the answers you needed?.
2. providing a service designed with your needs in mind?
3. doing everything they said they would?.
4. keeping you well-informed?
5. getting things right?
   — Very good
   — Fairly good
   — Neither good nor poor
   — Fairly poor
   — Very poor
   — Don’t know
   — Not applicable

Q10. Thinking about your most recent dealings with Revenue and Customs about [insert issue] How quickly or slowly… READ OUT EACH STATEMENT Is that very or fairly [quickly/slowly]? SINGLE CODE ONLY. RANDOMISE ORDER

1. did they respond to you?
2. did they deal with your issue?

INTERVIEWER NOTE: if have not yet received a response, ask if they can make a judgement, otherwise code as Not Applicable.

   — Very quickly
   — Fairly quickly
   — Neither quickly nor slowly
   — Fairly slowly
   — Very slowly
   — Don’t know
   — Not applicable

Q11. Thinking about your most recent dealings with Revenue and Customs about [insert issue] How well or poorly did staff treat you? Is that very or fairly [well/poorly]? SINGLE CODE ONLY.

   — Very well
   — Fairly well
   — Neither well nor poorly
   — Fairly poorly
   — Very poorly
Q12. How flexible or inflexible was the service in taking your needs and circumstances into account? Is that very or fairly [flexible/inflexible]? SINGLE CODE ONLY.

— Very flexible
— Fairly flexible
— Neither flexible nor inflexible
— Fairly inflexible
— Very inflexible
— Don’t know
— Not applicable

Questions not randomised from this point on

Q13. How satisfied or dissatisfied are you with the final outcome of your most recent dealings with Revenue and Customs about [insert topic]? Is that very or fairly [satisfied/dissatisfied]? SINGLE CODE ONLY.

— Very satisfied
— Fairly satisfied
— Neither satisfied nor dissatisfied
— Fairly dissatisfied
— Very dissatisfied
— Don’t know
— Not applicable

Q14. Putting aside the final outcome now, and thinking just about the service you received, overall, how would you rate your most recent experience of dealing with Revenue and Customs about [insert topic]? Would you say that it was… READ OUT. SINGLE CODE ONLY.

— Very good
— Fairly good
— Neither good nor poor
— Fairly poor
— Very poor
— Don’t know
— Not applicable

Q15. And would you say your most recent experience of dealing with Revenue and Customs was better than you expected, worse than you expected, or in line with your expectations? SINGLE CODE ONLY.

— Better
— Worse
— In line with expectations
— Don’t know

Q16. Now I want you to think more generally about dealing with Revenue and Customs on behalf of clients. About how often do you deal with them about ANY issue? SINGLE CODE ONLY. READ OUT RELEVANT PART OF SCALE IF NECESSARY

— Daily
— At least weekly
— At least twice a month
— At least once a month
— At least every couple of months
— At least every 6 months
— At least once a year
— Less often than once a year
— This is the first time I’ve dealt with them
— Don’t know

Q17. Comparing your most recent dealings with Revenue and Customs with dealings you have had with them previously, how consistent or inconsistent would you say Revenue and Customs’ are?. Is that very or fairly [consistent/inconsistent]? SINGLE CODE ONLY
— Very consistent
— Fairly consistent
— Neither consistent nor inconsistent
— Fairly inconsistent
— Very inconsistent
— Don’t know
— Haven’t dealt with them for long enough to say

SECTION 4—REPUTATION TRACKER
ASK ALL SELECTED FOR REPUTATION TRACKER—FROM CORE AND NON CORE
Reputation only: I would like to ask you a few questions about Revenue and Customs. It should only take around 5–10 minutes. Is now a good time?

DSO2: I would like to move away now from your most recent dealings and for you to think now more broadly about Revenue and Customs.

Q18. How much do you feel you know about Revenue & Customs? Please take into account any of the ways you have heard or learnt about them. SINGLE CODE ONLY Would you say you…?
— Know a lot
— Know a fair amount
— Know a little
— Have heard of them but know almost nothing about them
— Have never heard of them before today
— Don’t know

ASK Q19–Q23 TO ALL WHO HAVE AT LEAST HEARD OF HM REVENUE & CUSTOMS (CODES 1–4 ABOVE)

Q19. And how favourable or unfavourable is your overall opinion and impression of Revenue & Customs taking into account everything you think is important? Is your overall opinion or impression…..?. SINGLE CODE ONLY
— Very favourable
— Mainly favourable
— Neither favourable nor unfavourable
— Mainly unfavourable
— Very unfavourable
— Don’t know

Q20. Please can you rate Revenue & Customs in terms of how much you trust them to be fair? Please use a scale from 1–10 where 10 is completely fair and 1 is not at all fair. SINGLE CODE ONLY
— (Not at all fair) 1
— 2
— 3
— 4
— 5
— 6
— 7
— 8
— 9
(Completely fair) 10
Don’t know

Q21. The role of Revenue & Customs is to ensure that individuals and businesses pay the correct tax and receive the correct entitlements. To what extent do you agree or disagree that they …?

ROTATE STATEMENTS. SINGLE CODE ONLY. READ OUT.

— Make it as easy as possible for their customers to pay what they owe
— Make it as easy as possible for customers to receive what they are entitled to
— Protect society by dealing firmly with anyone who intentionally avoids their responsibilities
— Agree strongly
— Agree slightly
— Neither agree nor disagree
— Disagree slightly
— Disagree strongly
— Don’t know

Q22. On a scale of 1 to 10 where 10 means you trust them completely and 1 means you do not trust them at all, how much do you trust Revenue & Customs to explain clearly what allowances and tax relief businesses are entitled to claim? SINGLE CODE ONLY

— (Do not trust them at all) 1
— 2
— 3
— 4
— 5
— 6
— 7
— 8
— 9
— (Trust them completely) 10
— Don’t know

Q23. I’m now going to read out some statements about Revenue & Customs and for each statement I would like you to tell me how much you agree or disagree with it. [TEXT SUB—ALL WHO HAVE NOT SAID HAD DEALINGS AT DSO2—I understand that you might not have had any direct contact with them but if this is the case, I’m interested in your impressions of what you think they would be like]. IF NECESSARY: Is that strongly or slightly [agree/disagree]?

ROTATE STATEMENTS. READ OUT STATEMENTS AND SCALE. SINGLE CODE ONLY FOR EACH

— Revenue & Customs do a difficult job well
— Revenue & Customs understand my needs
— Revenue & Customs trust customers to be honest
— Revenue & Customs are honest and have integrity
— Revenue & Customs protect my businesses’ information
— Agree strongly
— Agree slightly
— Neither agree nor disagree
— Disagree slightly
— Disagree strongly
— Don’t know

ASK ALL SELECTED FOR REPUTATION TRACKER
Q24. Now I'd like you to tell me how much you agree or disagree with the following statements… IF NECESSARY: Is that strongly or slightly [agree/disagree]?

READ OUT STATEMENTS. ROTATE STATEMENTS. SINGLE CODE ONLY FOR EACH

— It is hard for customers to get away with paying less than they owe Revenue & Customs
— It is hard for customers to claim more than they are entitled to from Revenue & Customs
— Agree strongly
— Agree slightly
— Neither agree nor disagree
— Disagree slightly
— Disagree strongly
— Don’t know

IF DSO2 DO NOT ASK BUT CODE TO “WITHIN LAST THREE MONTHS” AT Q2. TAKE FROM Q6b AT Q1

Q25. When was the last time that you dealt with Revenue & Customs on behalf of a client? For example you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre or declared goods on return from a trip abroad.

READ OUT CODES IF NECESSARY. SINGLE CODE ONLY.

— Within the last three months
— Within the last six months
— Around six months to a year ago
— Less than three years ago, but not within the last year
— More than three years ago
— Never
— Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1–3 AT Q25)

Q26. And thinking about your experiences with Revenue & Customs or what you have heard about them, how would you rate them for …

READ OUT SCALE? SINGLE CODE ONLY

1. Being customer focused
2. Giving consistent advice

READ OUT SCALE? SINGLE CODE ONLY

— Very good
— Fairly good
— Neither good nor poor
— Fairly poor
— Very poor
— Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1–3 AT Q25)

Q27. And still thinking generally about your dealings with Revenue and Customs how effective or ineffective do you think they are at communicating with their customers?. Is that very or fairly [effective/ineffective]?

SINGLE CODE ONLY

— Very effective
— Fairly effective
— Neither effectively nor ineffective
— Fairly ineffective
— Very ineffective
— Don’t know
— Not applicable

ASK ALL REPUTATION RESPONDENTS

Q28. And have you spoken to family, friends or colleagues about any of your experiences with Revenue & Customs in the last 3 months? SINGLE CODE ONLY.
— Yes
— No
— Don’t know

IF YES

Q29. And was what you said positive or negative, or neutral? Is that very or fairly [positive/negative]? SINGLE CODE ONLY.
— Very positive
— Fairly positive
— Neutral
— Fairly negative
— Very negative
— Don’t know

SECTION 5—DEMOGRAPHICS

ASK ALL (CORE AND REPUTATION)

Now I’d like to ask you a few questions to be used for analysis purposes only. First of all …

Q30. Are you self-employed? SINGLE CODE ONLY
— Yes
— No

Q31. And can I just check how many people work in your organisation [IF NOT SELF EMPLOYED: as a whole in the UK], besides yourself?[S3]?

IF RESPONDENT UNSURE ASK FOR ROUGH ESTIMATE. THE NUMBER SHOULD EXCLUDE THE RESPONDENT BUT INCLUDES EMPLOYEES AND PARTNERS
— 0 (ie Sole trader with no employees)
— 1–9
— 10–49
— 50–99
— 100–249
— 250 +
— Don’t know

ASK ALL NOT SELF-EMPLOYED (CODE 1 AT Q30),

Q32. Is this workplace…? READ OUT. S/C ONLY.
— One of a number of sites part of the same organisation?
— A single independent organisation not belonging to any other organisation?
— Don’t know
— Refused

IF ONE OF A NUMBER OF SITES AT Q32
Q33. Roughly how many people are currently employed at this site, besides yourself.

If respondent unsure ask for rough estimate. The number should exclude the respondent but includes employees and partners.

- 0 (ie sole trader with no employees)
- 1–9
- 10–49
- 50–99
- 100–249
- 250 or over
- Don’t know
- Refused

Q34. Approximately how many clients does your business represent?

Read out if necessary.

- 0–9
- 10–49
- 50–249
- 250–999
- 1,000+

Q35. Is your business [AF4] …? Read out. Single code only.

- An accountancy firm
- A bookkeeping firm
- A payroll bureau
- A Tax advisor
- A VAT Consultant
- Other (please specify)—Interviewer note: Please check “Other” cannot fit into code 1–5 first. If single coded “Other”
- Don’t know

Ask all but sole traders at Q31

Q36. Please can you tell me your job title? Do not read out, but probe to get detail.

- Finance manager
- Payroll clerk
- Payroll assistant
- Senior Payroll assistant
- Payroll manager
- Manager (no other detail)
- Article clerk
- Tax manager
- Junior partner
- Senior partner
- Senior tax Manager
- Other (please specify)
- Refused

Q37. Roughly, what is your firm’s annual turnover before tax?

Read out only if necessary.

- Less than £15,000
- Over £15,000 but less than £59,999
- Between £60,000 and £150,000
— Over £150,000 but not more than £250,000
— Over £250,000 but not more than £500,000
— Over £500,000 but not more than £660,000
— Over £660,000 but not more than £1 million
— Over £1 million but not more than £1.5 million
— Over £1.5 million
— Refused

Q38. How long have you PERSONALLY been dealing with Revenue and Customs on behalf of clients?
READ OUT ONLY IF NECESSARY.
NOTE—IF ASKED THIS INCLUDES ANY DEALINGS WITH INLAND REVENUE OR CUSTOMS AND EXCISE
— Less than one year
— At least 1 but less than 5 years
— At least 5 but less than 10 years
— At least 10 but less than 20 years
— At least 20 years
— Don’t know

Q39. Which of the following groups do you consider you belong to? SINGLE CODE ONLY. READ OUT CATEGORIES IN BOLD THEN PROBE WITH DETAILED CATEGORIES.
— White
— British
— Irish
— Any other white background (PLEASE WRITE IN)
— Mixed
— White and Black Caribbean
— White and Black African
— White and Asian
— Any other mixed background (PLEASE WRITE IN)
— Asian or Asian British
— Indian
— Pakistani
— Bangladeshi
— Any other Asian background (PLEASE WRITE IN)
— Black or Black British
— Caribbean
— African
— Any other Black background (PLEASE WRITE IN)
— Chinese or other ethnic group
— Chinese
— Any other background (PLEASE WRITE IN)
— Refused

Q40. Revenue and Customs may be conducting some further research on these topics in the future. Would you be happy for someone from BMRB to re-contact you and invite you to participate in this research?
— Yes
— No
IF YES AT Q40
Q41. And would you be happy to allow BMRB to pass your contact details on to another research agency to re-contact you in relation to further research?

IF NECESSARY—this would be research on behalf of Revenue and Customs

— Yes
— No

GOR/COMMERCIAL MOSAIC (from sample)

Annex C

HM REVENUE AND CUSTOMS CUSTOMER EXPERIENCE SURVEY
BMRB FINAL—BUSINESSES W5

Good morning/afternoon/evening, my name is ….., and I am calling on behalf of the British Market Research Bureau, the independent social research company. We are carrying out a survey for Revenue and Customs about the dealings businesses have with them.

MAIN SAMPLE

Please could I speak to the most senior person who has responsibility for dealing with Revenue and Customs? NOTE: ALTERNATIVE PERSON HAS TO WORK AT SAME SITE. DO NOT ACCEPT REFERRALS TO HEAD OFFICE/EXTERNAL ACCOUNTANTS ETC.

IF SAY HAND ALL OVER TO AN ACCOUNTANT/AGENT—ask to speak to the person that deals with the accountant/agent

IF NECESSARY—Revenue and Customs is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and protecting the UK’s borders against illegal imports and exports.

The findings from the survey will be used by Revenue and Customs to improve customer services in the future. We guarantee that all your answers will be kept confidential. Revenue and Customs will not be able to identify any individual or business from their answers.

Can I just check, are you the right person to speak to about dealings with Revenue and Customs at your site?

IF NOT—find out who is the right person and arrange to speak to them. When you have the right person continue with interview

I would like to ask you a few questions about the taxes and duties that you might have some involvement with at your site. This should only take a couple of minutes. Is now a good time?

INTERNATIONAL TRADE SAMPLE:

Please could I speak to the person who has responsibility for dealing with Revenue and Customs about import and export? NOTE: ALTERNATIVE PERSON CAN WORK ON A DIFFERENT SITE, BUT MUST WORK FOR THE SAME ORGANISATION. DO NOT ACCEPT REFERRALS TO EXTERNAL ACCOUNTANTS ETC.

IF NECESSARY—Revenue and Customs is responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and protecting the UK’s borders against illegal imports and exports.

The findings from the survey will be used by Revenue and Customs to improve customer services in the future. We guarantee that all your answers will be kept confidential. Revenue and Customs will not be able to identify any individual or business from their answers.

Can I just check, are you the right person to speak to about dealings with Revenue and Customs about import and export?

IF NOT—find out who is the right person and arrange to speak to them. When you have the right person continue with interview

I would like to ask you a few questions about dealing with Revenue and Customs about import and export at your site. Is now a good time?

IF ASK: This should only take around 15 minutes.

SECTION 1: SCREENING

INTERNATIONAL TRADE ONLY

EL1a. First of all, can I just confirm that your business deals with the IMPORT and EXPORT of goods to and from countries outside the European Union?
NOTE—IF IMPORT ONLY OR EXPORT ONLY CODE AS YES
— Yes
— No
— Don’t know
If No or DK, thank and close

EL1b. Which of the following does this business do?
READ OUT. CODE ALL THAT APPLY
— Export goods on your own account
— Import goods, either for your own use or for onward supply to a customer
— Supply services such as freight forwarding, transport, customs clearance to importers and exporters

EL1c. And have you personally dealt with Revenue and Customs about import or export since 1st January (Q1)/in the last 3 months (Q2 onwards)?
NOTE—IF IMPORT ONLY OR EXPORT ONLY CODE AS YES
— Yes
— No
— Don’t know
If YES ASK Q1 and Q2 THEN GO TO SECTION 2
If No or DK, ASK Q1 and Q2 THEN GO TO SECTION 5—IT QUESTIONS
ASK ALL

Q1. Are you self-employed? SINGLE CODE ONLY
— Yes
— No

IF SELF EMPLOYED AT Q1

Q1b. Do you run your business with a partner or partners, or do you just run it yourself?
— With partner/partners
— Run alone
— DK

ASK ALL NOT SELF-EMPLOYED AT Q1,

Q2. Is this workplace…? READ OUT. S/C ONLY.
— One of a number of sites part of the same organisation?
— A single independent organisation not belonging to any other organisation?
— Don’t know
— Refused

ASK ALL BUT INTERNATIONAL TRADE SAMPLE Q3—Q6b

Q3. Which, if any, of the following [has your organisation] [IF CODE 1 AT Q2: has your part of the organisation] [if self employed at Q1: have you] had anything to do with in the last 12 months? READ OUT. RANDOMISE ORDER. SINGLE CODE ONLY FOR EACH ITEM
— Company Tax, also known as Corporation Tax
— IF SELF EMPLOYED: Self Assessment for the self employed or partnership IF NECESSARY: This is where you complete an annual tax return
— VAT
— PAYE (payroll and National Insurance)
— Construction Industry Scheme
— Import/Export taxes
Ev 100  Treasury Committee (Treasury Sub-Committee): Evidence

IF DON'T KNOW—INTERVIEWER TO ASK TO SPEAK TO SOMEONE WHO WOULD KNOW
THIS INFORMATION—GO BACK TO Q1.

PLEASE NOTE THAT ALTERNATIVE INTERVIEWEE SHOULD BE PART OF SAME
ORGANISATION AND AT THE SAME SITE—THEY SHOULD NOT BE AN EXTERNAL TAX
ACCOUNTANT, AGENT ETC.

IF DON'T KNOW AND NO ALTERNATIVE INTERVIEWEE OR IF NOTHING—NOT
ELIGIBLE FOR CORE—EITHER SELECT FOR REPUTATION, OR IF NOT SELECTED THANK
AND CLOSE

IF DEAL WITH ANYTHING AT Q3

I would like to know whether you PERSONALLY have had any DIRECT dealings with Revenue and
Customs on behalf of the business in the last 3 months about any of these taxes or duties. For example you
might have received a letter, filled in a form, spoken to them on the phone, visited their website, made a
payment or visited a local tax office or an Enquiry Centre.

IF NOT SELF EMPLOYED, OR SELF EMPLOYED AND DO NOT DEAL WITH SA: I am only
interested in dealings you have had for the business, and not in your own personal tax affairs.

IF SELF EMPLOYED AND DEAL WITH SA: Other than your self assessment affairs, I am only
interested in dealings you have had for the business and not in your own personal tax affairs.

Q4. And which, if any, of the following have you personally had any dealings with Revenue and Customs about
[if not self employed: on behalf of the business] in the last 3 months (Q2 onwards)?

IF NECESSARY: For example you might have received a letter, filled in a form, spoken to them on the
phone, visited their website, made a payment or visited a local tax office or an Enquiry Centre.

READ OUT. RANDOMISE ORDER.
[ONLY THOSE SAID YES TO AT Q3 BROUGHT UP ON SCREEN]

READ OUT. MULTICODE OK.

— Company Tax, also known as Corporation Tax
— Self Assessment for the self employed or partnership
— VAT
— PAYE (payroll) and National Insurance
— Construction Industry Scheme
— Import/Export Taxes
— Excise Duties
— READ OUT LAST TO ALL: A General query across a number of these taxes or duties
— Some other dealings (Specify)
— Nothing
— Don’t know

IF SOME OTHER DEALINGS

Q5. Thinking just about the dealings you have just described, that is [insert answer]. Can I just check that these
included dealings with Revenue and Customs for the business and NOT just about your own personal affairs?

— Yes
— No
— Don’t know

PROGRAMME TO PRODUCE COMBINED LIST OF ALL DEALT WITH IN LAST 3 MONTHS
FROM Q4 AND Q5 (only include “other” where Q5 is YES). USE TO SELECT ISSUE AT RANDOM
FOR DSO2 QUESTIONS

— Company Tax
— Self Assessment for the self employed or partnership
— VAT
— PAYE (payroll) and National Insurance
— Construction Industry Scheme
— Import/Export Taxes
— Excise Duties
— A General query across taxes
— Some other dealing (from Q4/5)
— Nothing

IF NOTHING EITHER SELECT FOR REPUTATION ONWARDS (1 in n of the total of these people plus with those who had no dealings at Q3) OR THANK AND CLOSE IF NOT SELECTED AT ALL— “in that case I have no further questions. Thank you for your time”

ALL CORE DSO2 SAMPLE

I would like to ask you some more questions about your experience of dealing with Revenue and Customs on behalf of your business. Is now a good time to continue?

IF ASKED—it should only take around 10-15 minutes.

CATI TO SELECT ONE OF THESE TAXES/DUTIES/OTHER ISSUES AT RANDOM TO CONTINUE.

INTRODUCTION

IF “OTHER DEALING” IS SELECTED:

I would like you to think now about the dealings you described to me a moment ago

ALL OTHERS IN CORE DSO SAMPLE:

I’d now like you to think about dealing with Revenue and Customs in the last 3 months about [topic selected at random]. I only want you to think about any direct dealings you have had personally with Revenue and Customs.

INTERNATIONAL TRADE SAMPLE

I’d like you to think now about your most recent dealings with Revenue and Customs about import and export. I only want you to think about any direct dealings you have had personally with Revenue and Customs.

SECTION 2: DETAILS OF DEALING FOR THOSE ELIGIBLE FOR DSO2 CORE

ASK IT WITH DEALINGS AND ALL CORE

Q6. Can you please describe for me briefly what your most recent dealings on [issue selected] were about?

PROBE AND WRITE IN

— WRITE IN
— Don’t know

Q7. Still thinking about this most recent experience, which of the following happened when dealing with Revenue and Customs about [insert topic]? Please choose all that apply.

READ OUT. RANDOMISE

— You made contact with Revenue and Customs
— Revenue and Customs made contact with you—for example, they sent you something you had to read, check or fill in
— You submitted a form or return
— You visited the Revenue and Customs website
— You made a payment
— Something else (Specify)
— Don’t know

ASK ALL WHO CONTACTED REVENUE AND CUSTOMS AT Q7

IF SAID WEBSITE AND MADE CONTACT AT Q7 USE THIS WORDING INSTEAD: You said you had visited the website, but how else did you make contact with Revenue and Customs in your most recent dealings about [insert topic]?

Q8. Which of the following methods did you use to contact Revenue and Customs about [insert topic]?

MULTICODE OK. READ OUT. RANDOMISE RESPONSES

— Internet/website (NOT ON “VISITED WEBSITE” VERSION)
— [M2]Telephone
— Visiting tax office/enquiry centre
— Letter
— Email
— Fax
— Through a third party (eg Citizens Advice or JobCentre Plus)
— Other (write in)
— None of these (ONLY ON “VISITED WEBSITE” VERSION)
— Don’t know

SECTION 3: RATING THE CUSTOMER EXPERIENCE

ROTATE WITHIN AND BETWEEN ALL QUESTION UNITS FROM Q9—Q13

ASK ALL CORE DSO2 SAMPLE AS DEFINED EARLIER AND ALL IT SAMPLE WITH DEALINGS

Please carry on thinking about your most recent experience of dealing with Revenue and Customs about [insert topic]. If any of the following questions do not apply to your recent dealing then please say so.

INTERVIEWER NOTE: “NOT APPLICABLE” IS AN ACCEPTABLE ANSWER TO QUESTIONS IN THIS SECTION.

Q9. Thinking about your most recent dealings with Revenue and Customs about [insert topic], How easy or difficult was it to… READ OUT EACH STATEMENT Is that very or fairly [easy/difficult]?

1. understand what you had to do in your dealings with Revenue and Customs?
   — Very easy
   — Fairly easy
   — Neither easy nor difficult
   — Fairly difficult
   — Very difficult
   — Don’t know
   — Not applicable

Q10. Thinking about your most recent dealings with Revenue and Customs about [insert issue], How good or poor were Revenue and Customs at… READ OUT EACH STATEMENT Is that very or fairly [good/poor]?

1. providing a service designed with your needs in mind?
   — Very good
   — Fairly good
   — Neither good nor poor
   — Fairly poor
   — Very poor
   — Don’t know
   — Not applicable
Q11. Thinking about your most recent dealings with Revenue and Customs about [insert issue] How quickly or slowly... READ OUT EACH STATEMENT Is that very or fairly [quickly/slowly]? SINGLE CODE ONLY. RANDOMISE ORDER
1. did they respond to you?
2. did they deal with your issue?
INTERVIEWER NOTE: if have not yet received a response, ask if they can make a judgement, otherwise code as Not Applicable.
— Very quickly
— Fairly quickly
— Neither quickly nor slowly
— Fairly slowly
— Very slowly
— Don’t know
— Not applicable

Q12. Thinking about your most recent dealings with Revenue and Customs about [insert issue] How well or poorly did staff treat you? Is that very or fairly [well/poorly]? SINGLE CODE ONLY.
— Very well
— Fairly well
— Neither well nor poorly
— Fairly poorly
— Very poorly
— Don’t know
— Not applicable

Q13. How flexible or inflexible was the service in taking your needs and circumstances into account? Is that very or fairly [flexible/inflexible]? SINGLE CODE ONLY.
— Very flexible
— Fairly flexible
— Neither flexible nor inflexible
— Fairly inflexible
— Very inflexible
— Don’t know
— Not applicable

Questions not randomised from this point on

Q14. How satisfied or dissatisfied are you with the final outcome of your most recent dealings with Revenue and Customs about [insert topic]? Is that very or fairly [satisfied/dissatisfied]? SINGLE CODE ONLY.
— Very satisfied
— Fairly satisfied
— Neither satisfied nor dissatisfied
— Fairly dissatisfied
— Very dissatisfied
— Don’t know
— Not applicable

Q15. Putting aside the final outcome now, and thinking just about the service you received, overall, how would you rate your most recent experience of dealing with Revenue and Customs about [insert topic]? Would you say that it was… READ OUT. SINGLE CODE ONLY.
— Very good
— Fairly good
— Neither good nor poor
— Fairly poor
Q16. And would you say your most recent experience of dealing with Revenue and Customs was better than you expected, worse than you expected, or in line with your expectations? SINGLE CODE ONLY.

— Better
— Worse
— In line with expectations
— Don’t know

Q17. Now I want you to think more generally about dealing with Revenue and Customs. About how often do you personally deal with them about ANY issue on behalf of your business? SINGLE CODE ONLY. READ OUT RELEVANT PART OF SCALE IF NECESSARY [S3]

— Daily
— At least weekly
— At least twice a month
— At least once a month
— At least every couple of months
— At least every 6 months
— At least once a year
— Less often than once a year
— This is the first time I’ve dealt with them
— Don’t know

Q18. Comparing your most recent dealings with Revenue and Customs with dealings you have had with them previously, how consistent or inconsistent would you say Revenue and Customs’ are?. Is that very or fairly [consistent/inconsistent]? SINGLE CODE ONLY

— Very consistent
— Fairly consistent
— Neither consistent nor inconsistent
— Fairly inconsistent
— Very inconsistent
— Don’t know
— Haven’t dealt with them for long enough to say

ASK ALL CORE (NOT IT) UNLESS ANSWERING ABOUT GENERAL OR OTHER ISSUE:

Q19.a. I would like you to think now about the tax returns your business has to make for [insert DSO2 topic]. Do you …

READ OUT

— …use an external accountant or tax advisor to prepare and send off the return
— …prepare the majority of the return itself but asks an external accountant or tax advisor to finalise and/or check it before it is sent off
— …use a payroll agency (FOR PAYE ONLY)
— Or, does the business prepare and sends off the return itself
— Don’t know

ASK ALL CORE (NOT IT)
Q19.b. Now I would like you to think back to all the [other] tax returns your business has to make. I would like you to tell me for each one whether or not you use someone outside of your organisation, such as an external accountant, tax advisor or payroll bureau to help prepare or check the return. So, for [INSERT TAX, ONLY THOSE CODED YES AT Q3 EXCLUDING THE ITEM SELECTED AFTER Q5] does your business use someone outside of the organisation to help with the return? …

READ OUT OPTIONS AND ROTATE TAXES
- Company Tax
- Self Assessment
- VAT
- PAYE (payroll and National Insurance)
- Construction Industry Scheme
- Import/Export taxes
- Excise Duties

FOR EACH CODE ONE OF:
- Yes
- No
- DK

ASK IT SAMPLE—if import at EL1b

Q20. I would like you think now about the import return itself. Does your business…

READ OUT
- use an external accountant or tax advisor to prepare and send off the return
- prepare the majority of the return itself but asks an external accountant or tax advisor to finalise and/or check it before it is sent off
- Or, does the business prepare and sends off the return itself
- Don’t know

ASK IT SAMPLE—if export at EL1b

IF EXPORT AND NOT IMPORT AT EL1b INTRO:
I would like you think now about the export return itself.

IF IMPORT AND EXPORT
And for the export return …

Q21. Does your business …

READ OUT
- use an external accountant or tax advisor to prepare and send off the return
- prepare the majority of the return itself but asks an external accountant or tax advisor to finalise and/or check it before it is sent off
- Or, does the business prepare and sends off the return itself
- Don’t know

SECTION 4—REPUTATION TRACKER

ASK ALL SELECTED FOR REPUTATION TRACKER—FROM CORE AND NON CORE BUT NOT IT—IT GO TO SECTION 5 IT QUESTIONS

Reputation only: I would like to ask you a few questions about Revenue and Customs. Is now a good time? If asked: It should only take around 5-10 minutes.

DSO2: I would like to move away now from your most recent dealings and for you to think now more broadly about Revenue and Customs.

Q22. How much do you feel you know about Revenue & Customs? Please take into account any of the ways you have heard or learnt about them. SINGLE CODE ONLY Would you say you…?
- Know a lot
- Know a fair amount
- Know a little
— Have heard of them but know almost nothing about them
— Have never heard of them before today
— Don’t know

ASK OF REPUTATION ONLY RESPONDENTS WHO HAVE AT LEAST HEARD OF HMRC [N4](CODES 1–4 Q22).

Q17b  About how often do you personally deal with Revenue & Customs about ANY issue on behalf of your business?

SINGLE CODE ONLY. READ OUT RELEVANT PART OF SCALE IF NECESSARY
— Daily
— At least weekly
— At least twice a month
— At least once a month
— At least every couple of months
— At least every 6 months
— At least once a year
— Less often than once a year
— Never
— DK

ASK Q23–Q27 TO ALL WHO HAVE AT LEAST HEARD OF HM REVENUE & CUSTOMS (CODES 1–4 Q22)

Q23.  And how favourable or unfavourable is your overall opinion and impression of Revenue & Customs taking into account everything you think is important? Is your overall opinion or impression.....? SINGLE CODE ONLY
— Very favourable
— Mainly favourable
— Neither favourable nor unfavourable
— Mainly unfavourable
— Very unfavourable
— Don’t know

Q24.  Please can you rate Revenue & Customs in terms of how much you trust them to be fair? Please use a scale from 1–10 where 10 is completely fair and 1 is not at all fair. SINGLE CODE ONLY
— (Not at all fair) 1
— 2
— 3
— 4
— 5
— 6
— 7
— 8
— 9
— (Completely fair) 10
— Don’t know

Q25.  The role of Revenue & Customs is to ensure that individuals and businesses pay the correct tax and receive the correct entitlements. To what extent do you agree or disagree that they…?

ROTATE STATEMENTS. SINGLE CODE ONLY. READ OUT.
1. Make it as easy as possible for businesses to pay what they owe
2. Make it as easy as possible for businesses to receive what they are entitled to
3. Protect society by dealing firmly with anyone who intentionally avoids their responsibilities
   — Agree strongly
   — Agree slightly
   — Neither agree nor disagree
   — Disagree slightly
   — Disagree strongly
   — Don’t know

Q26. On a scale of 1 to 10 where 10 means you trust them completely and 1 means you do not trust them at all, how much do you trust Revenue & Customs to explain clearly what allowances and tax relief businesses are entitled to claim? SINGLE CODE ONLY
   — (Do not trust them at all) 1
   — 2
   — 3
   — 4
   — 5
   — 6
   — 7
   — 8
   — 9
   — (Trust them completely) 10
   — Don’t know

Q27. I’m now going to read out some statements about Revenue & Customs and for each statement I would like you to tell me how much you agree or disagree with each. [TEXT SUB—ALL WHO HAVE NOT SAID HAD DEALINGS AT DSO2—I understand that you might not have had any direct contact with them but if this is the case, I’m interested in your impressions of what you think they would be like]. IF NECESSARY: Is that strongly or slightly [agree/disagree]?

   ROTATE STATEMENTS. READ OUT STATEMENTS AND SCALE. SINGLE CODE ONLY FOR EACH
   1. Does a difficult job well
   2. Understands my needs
   3. They trust businesses to be honest
   4. Are honest and have integrity
   5. Protects my business information
      — Agree strongly
      — Agree slightly
      — Neither agree nor disagree
      — Disagree slightly
      — Disagree strongly
      — Don’t know

   ASK ALL SELECTED FOR REPUTATION TRACKER

Q28. Now I’d like you to tell me how much you agree or disagree with the following statements… IF NECESSARY: Is that strongly or slightly [agree/disagree]?

   READ OUT STATEMENTS. ROTATE STATEMENTS. SINGLE CODE ONLY FOR EACH
   1. It is hard for businesses to get away with paying less than they owe Revenue & Customs
   2. It is hard for businesses to claim more than they are entitled to from Revenue & Customs
      — Agree strongly
      — Agree slightly
      — Neither agree nor disagree
      — Disagree slightly
— Disagree strongly
— Don’t know

IF DSO2 DO NOT ASK BUT CODE TO “WITHIN LAST THREE MONTHS”
DO NOT ASK IF Q17 or Q17b = NEVER, BUT CODE TO “NEVER”

Q29. When was the last time that you dealt with Revenue & Customs? For example you might have received a letter, filled in a form, spoken to them on the phone, visited their website, visited a local tax office or an Enquiry Centre or declared goods on return from a trip abroad.

READ OUT CODES IF NECESSARY. SINGLE CODE ONLY.
— Within the last three months
— Within the last six months
— Around six months to a year ago
— Less than three years ago, but not within the last year
— More than three years ago
— Never
— Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1-3 AT Q29)

Q30. And thinking about your experiences with Revenue & Customs or what you have heard about them, how would you rate them for …

READ OUT SCALE? SINGLE CODE ONLY
1. Being customer focused
2. Being helpful
— Very good
— Fairly good
— Neither good nor poor
— Fairly poor
— Very poor
— Don’t know

ASK ALL WHO HAVE HAD CONTACT WITH HM REVENUE & CUSTOMS IN THE LAST 12 MONTHS. (CODES 1–3 AT Q29)

Q31. How effective or ineffective do you think Revenue and Customs are at communicating with their customers? Is that very or fairly [effective/ineffective]? SINGLE CODE ONLY
— Very effective
— Fairly effective
— Neither effectively nor ineffective
— Fairly ineffective
— Very ineffective
— Don’t know
— Not applicable

SECTION 5—INTERNATIONAL TRADE
ASK TO IT SAMPLE ONLY
I would like to read out a brief description about the role of Revenue and Customs at the borders of the UK that is relevant to the questions that follow. Briefly, Revenue and Customs is charged with ensuring the legitimate movement of goods, checking customs declarations and paperwork. It has policy responsibility for working against activities such as smuggling, counterfeiting, illegal drugs, organised crime and terrorism, and preventing plant and animal diseases entering the UK.
Q32. I am now going to read out a number of statements about UK customs border procedures. Please can you indicate how much you agree or disagree with each statement.

Please rotate ordering of questions
1. The UK’s customs border procedures protect legitimate UK businesses
2. The UK’s customs border procedures prevent unfair competition
3. The way Revenue & Customs operates assists my company with its import/export requirements
4. The UK Customs border procedures have a positive impact on the UK as a competitive place to do business

READ OUT SCALE
— Agree strongly
— Tend to agree
— Neither agree nor disagree
— Tend to disagree
— Disagree strongly
— Don’t Know

SECTION 6—DEMOGRAPHICS
ASK ALL (CORE AND REPUTATION AND INTERNATIONAL TRADE)

Now I’d like to ask you a few questions to be used for analysis purposes only.

Q33. Roughly how many people are currently employed at this site, BESIDES yourself.

IF RESPONDENT UNSURE ASK FOR ROUGH ESTIMATE. THE NUMBER SHOULD EXCLUDE THE RESPONDENT
— 0 (ie sole trader with no employees)
— 1–9
— 10–49
— 50–99
— 100–249
— 250 or over
— Don’t know
— Refused

ASK Q34 & Q35 IF CODE 1 AT Q2. OTHERS GO TO Q36

Q34. And can you tell me roughly how many people there are employed in the organisation as a whole in the UK?

IF RESPONDENT UNSURE ASK FOR ROUGH ESTIMATE
— 0 (ie sole trader with no employees)
— 1–9
— 10–49
— 50–99
— 100–249
— 250 or over
— Don’t know
— Refused

LOGIC CHECK IF NUMBER OF EMPLOYEES IN ORGANISATION IS SMALLER THAN NUMBER OF EMPLOYEES IN WORKPLACE
ASK IF CODE 1 AT Q2

Q35. Can I just check, is this workplace… READ OUT. S/C ONLY.
— A branch
— A division/subsidiary
— An area/regional office
— The head office
— A franchised organisation
— Or something else? (specify)
— Don’t know

QUADRANGLE SEGMENTATION QUESTIONS—
ASK Q36 AND Q37 TO ALL MAIN SAMPLE (ie NOT IT)
(ASSUMES SAMPLING SUCCESSFULLY REMOVED 250+)

Q36. Which one of the following five statements would you say best describes how you feel about your level of experience in dealing with taxation matters, including finding out what’s required, preparing returns, dealing with queries and so on: SINGLE CODE ONLY[AF7].
— I am uncomfortable dealing with tax. It all feels very complicated and a bit daunting.
— I’m concerned about my level of knowledge. I want help from those who know more than me.
— Dealing with tax is a routine part of my job, which I’m reasonably comfortable with.
— I’m confident that I’m up to speed, and have good systems in place to deal with tax.
— It’s my job to be as knowledgeable as possible about tax.

Q37. We would like you to think about your experiences of dealing with Revenue and Customs. How would you rate them at correcting any mistakes they make? Please use a nine-point scale where 1 is not delivering my minimum requirement and 9 is delivering the ideal requirement. SINGLE CODE ONLY.
— 1–9
— Don’t know

ASK ALL

Q38. For how long has this business been trading? CODE TO SCALE OR READ OUT IF NECESSARY. SINGLE CODE ONLY.
IF UNSURE, PROBE FOR ESTIMATE
— Less than 6 months
— More than 6 months up to a year
— More than 1 up to 2 years
— More than 2 up to 5 years
— More than 5 up to 10 years
— More than 10 years
— Refused

ASK OF IT AND SA SAMPLES ONLY—NOT IDBR SAMPLE.

Q39. Which of the following categories best describes the business or activities of your organisation? READ OUT. SINGLE CODE ONLY.
NOTE: ELECTRICIANS AND PLUMBERS CODE AS CONSTRUCTION
— Agriculture or fishing
— Mining, electricity or gas and water supply
— Manufacturing
— Construction
— Wholesale and retail trade
— Hotels and restaurants
— Transport, storage and communication
— Finance and insurance
— Real estate, Renting or Business Activities
— Education
— Health and social work
— Any other activity
— Don’t know

ASK ALL
Q40. *Roughly, what is your firm’s annual turnover before tax?*

**READ OUT ONLY IF NECESSARY.**
- Less than £15,000
- Over £15,000 but less than £59,999
- Between £60,000 and £150,000
- Over £150,000 but not more than £250,000
- Over £250,000 but not more than £500,000
- Over £500,000 but not more than £660,000
- Over £660,000 but not more than £1 million
- Over £1 million but not more than £1.5 million
- Over £1.5 million
- DK
- Refused

Q41. *Could you tell me what your position or job title is please?* DO NOT READ OUT. SINGLE CODE ONLY.

- Owner/proprietor
- Chief Accountant
- Chief Finance Officer
- Company Accountant
- Company Secretary
- Finance manager/Director
- General manager
- Human resources/personnel manager
- Management Accountant
- Payroll or Deputy Payroll Manager
- Supervisor
- Tax manager
- Other (specify)
- Refused

**ASK IF SELF EMPLOYED AT Q1 OR OWNER/PROPRIETOR AT Q41**

Q42. *Which of the following groups do you consider you belong to?* SINGLE CODE ONLY. READ OUT CATEGORIES IN BOLD THEN PROBE WITH DETAILED CATEGORIES.

- White
- British
- Irish
- Any other white background (PLEASE WRITE IN)
- Mixed
- White and Black Caribbean
- White and Black African
- White and Asian
- Any other mixed background (PLEASE WRITE IN)
- Asian or Asian British
- Indian
- Pakistani
- Bangladeshi
- Any other Asian background (PLEASE WRITE IN)
- Black or Black British
- Caribbean
— African
— Any other Black background (PLEASE WRITE IN)
— Chinese or other ethnic group
— Chinese
— Any other background (PLEASE WRITE IN)
— Refused

ASK ALL

Q43. Revenue and Customs may be conducting some further research on these topics in the future. Would you be happy for someone from BMRB to re-contact you and invite you to participate in this research?

— Yes
— No

IF YES AT Q43

Q44. And would you be happy to allow BMRB to pass your contact details on to another research agency to re-contact you in relation to further research?

IF NECESSARY—this would be research on behalf of Revenue and Customs

— Yes
— No