



House of Commons  
Treasury Committee

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# Evaluating the Efficiency Programme: Government Response to the Thirteenth Report from the Committee

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**Ninth Special Report of Session 2008–09**

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## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

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### Committee staff

The current staff of the Committee are Eve Samson (Clerk), Andrew Griffiths (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jay Sheth, Helen Jackson and Aliya Saied (Committee Specialists), Phil Jones (Senior Committee Assistant), Caroline McElwee (Committee Assistant), Gabrielle Henderson (Committee Support Assistant) and Laura Humble (Media Officer).

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## Ninth Special Report

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The Treasury Committee published its Thirteenth Report of Session 2008–09, *Evaluating the Efficiency Programme*, on 28 July 2009, as House of Commons paper No 520. The Government Response to this report was received on 28 September 2009 and is published as an appendix below.

## Appendix: Government response

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This paper sets out the Government's response to the Treasury Select Committee's report, *Evaluating the Efficiency Programme*, published 28 July 2009. This is a response from both Her Majesty's Treasury (HMT) and the Her Majesty's Revenue and Customs (HMRC).

### 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)**

The Government agrees that accurate measurement and external scrutiny are important and has followed that principle both for Gershon and for CSR 07. The National Audit Office will be carrying out public audits of departments throughout the period.

**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)**

HMRC recognises that it was going through a period of uncertainty, where it had been unable to communicate effectively business priorities and plans for delivery. This may have led to increased uncertainty for staff.

HMRC has completed the workforce change review process. Staff have now been informed about proposals on office closures and there is greater clarity on how Workforce Change (WFC) will be handled in the future. This has been achieved by the implementation of a new approach to managing the WFC agenda, the main element of which is that it is now delivered in the business areas rather than at the centre of HMRC. This ensures decisions are made by those responsible for the people affected. This is coordinated through a Business Workforce Change Committee.

Each line of business has produced its business plan which provides details of the main priorities and targets going forward. These plans have been cascaded to staff and are providing clarity on what needs to be delivered and how this fits with the HMRC Vision and Way. This has been achieved by an overall HMRC Business Plan and local Line of Business and function Business Plans.

HMRC has prioritised investment in developing its staff and leaders. New Management and Leadership programmes are being delivered to ensure that all staff are equipped with the right skills to effectively manage change and lead teams through uncertainty. Over 500 managers have been through the programme since the beginning of 2009.

HMRC has increased activity in Employee Engagement at all levels of management. Executive Committee members are engaging and communicating directly with staff through Town Hall events, staff dial-in and Hot Seat questions. Following the People Survey issued to all staff in March 2009, (a pilot for a new "full census" to be rolled out across the Civil Service in the autumn) HMRC has created an Engagement Steering Group which is making sure that actions are being implemented at all levels in the business.

## 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)**

The government agrees with the Treasury Select Committee on the importance of cross-government cooperation.

The Operational Efficiency Programme laid out the scope for widespread savings and recognised the need to create the required structures to make these savings. Overall responsibility for implementing the Programme, including ensuring co-operation between departments, rests with the Treasury. A number of new mechanisms have been introduced to support this including the appointment of Value for Money Ministers to provide a top level forum for the Government's VFM agenda, supporting a cross-government approach.

To boost collaborative procurement, two new Collaborative Category Boards have been created to provide an oversight and quality assurance on the available deals and contracts in their respective areas, construction and food.

The "Building Britain's Future" report (June 2009) announced changes to the Shareholder Executive governance to enhance its accountability and strengthen its remit. This has seen the Shareholder Executive take a more formal and cross-Government role over the 'corporate assets' of Government (for instance the OEP Assets strand) and a new accountability to improve performance over public sector property. The two relevant OEP reviewers have taken up advisory roles to ensure that the benefits of their work and insight are carried through: Gerry Grimstone (Assets) and Lord Carter of Coles (Property).

## 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)**

All departments signed up to and agreed their additional Value for Money targets and the Government is confident that they are stretching but deliverable.

This sort of top down process can be an effective way of setting a level of ambition.

The Government shares the committee's view that a bottom up, business led approach is also vital to complement this strategic drive, which is why the two main vehicles for this are the Operational Efficiency Programme and the Public Value Programme.

**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)**

The Government agrees with the Treasury Select Committee over the importance of developing skills and capabilities within the public sector.

There have been areas of success in this regard. For example, The Government Procurement Service (GPS), leads a programme of activity including Procurement Capability Reviews to raise capability, increase capacity and raise the profile of the procurement profession across government. The Government Finance Profession has initiated a number of activities to improve financial management capabilities. These include: all departments using the CIPFA FM Model diagnostic tool to assess the quality of their systems, processes and ways of working; cross-government recruitment of finance trainees and qualified accountants; and implementing a knowledge management approach to identify and share good practice.

**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)**

The Government entirely agrees with the Treasury Select Committee on the importance of value for money and welcomes the appointment of Value for Money Ministers. We are considering a range of options to support VFM Ministers.

## 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)**

The Government disagrees that there have been repetitive failings to establish data collection systems. Consistent guidance, on data collection and scrutiny, was distributed to departments well before the start of the CSR 07 period and baselines agreed as part of departments' settlements.

Furthermore, both an internal and external auditing schedule was developed at the beginning of the period to ensure that savings would be scrutinised robustly.

The Operational Efficiency Programme (OEP) seeks to embed performance management and continual improvement at the heart of the management of operational expenditure. This includes the initial step of making full use of existing data sources, where they exist, to provide an objective baseline and basis for monitoring and benefits realisation. It also requires new management disciplines which will be embedded into public sector management for the future—most notably benchmarking, data analysis, and a system of organisation and cross-organisation ('operational') reviews.

The work of Inland Revenue and HM Customs & Excise was integrated with the creation of HMRC in April 2005, with the aim of improving customer service and compliance costs; effectiveness, through alignment of strategies and a coherent approach to information etc; and efficiency, through economies of scale and the impetus of transformational change. There was no efficiency savings target specifically related to integration. It was always envisaged that the main savings from the merger would be staff savings and these were taken into account in HMRC's 2004 Spending Review target to reduce by a net 12,500 full-time equivalent posts, which the Department exceeded. Around 3,000 posts were attributed to the merger. Both the costs and savings of the merger were addressed in the Government's evidence in January 2007 to the Committee's inquiry into this area, and in HMRC's Departmental Reports in the 3 years following the merger.

**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)**

Under the CSR 07 Value for Money programme all of the £35bn target will be measured net of costs.

The Government agrees that robust data systems should ideally be established before efficiency programme is established but delivery of VFM savings should be secured as early as possible. The Government has taken on board earlier feedback from the Treasury Select Committee and others and built on the capability developed within departments during the SR 04 to ensure that data collect systems are robust under CSR 07.

**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)**

In the CSR 07 period departments are responsible for achieving, monitoring and reporting on their Value for Money programmes. The NAO will provide external scrutiny, auditing claimed gains on a departmental basis. HM Treasury's guidance, issued at the start of the CSR 07 period, provides clarity of measuring process and VFM framework. Additionally, with HMT regularly discussing Value for Money progress and the opportunity for further savings with Departments we do not plan to return to the internal programme management used in the SR 04 period, which is no longer necessary given the capability developed with departments, and which itself may not be particularly efficient.

**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)**

The Government agrees that service quality should not be adversely affected as we strive towards efficiency targets. The Government, through the Prime Minister's Delivery Unit, monitors service quality through Public Service Agreements (PSAs).

The Operational Efficiency Programme is working with the Audit Commission to ensure that its recommendations are taken forward.

**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**

The Government will take on board this recommendation and consider options for providing greater cross-government clarity. However, under the CSR 07 Value for Money programme departments are at the centre of delivering savings and we would not want to detract from this.

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