



House of Commons
Treasury Committee

**The efficiency
programme in the
Chancellor's
departments:
Government Response
to the Committee's
Eighth Report of
Session 2006–07**

**First Special Report of Session
2007–08**

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The Treasury Committee

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First Special Report

The Treasury Committee published its Eighth Report of Session 2006–07, *The efficiency programme in the Chancellor's departments*, on 23 July 2007, as House of Commons Paper No. 483–I. The Government response to this Report was received on 26 October 2007, and is appended below.

Government response

Overview of targets

1. In view of the central role played by the Treasury and the OGC in the delivery of the overall efficiency programme across Government, we would have expected the Government to set stretching efficiency targets for the Chancellor's own departments. The process by which final targets were set for HMRC, the ONS, the Treasury itself and other offices and departments was internal to the Government, and the reasons for the differences between the individual departments are not readily apparent. The ONS was set the most ambitious efficiency targets, including a substantial emphasis on relocation, combined with reductions in its overall budget between 2005-06 and 2007-08. The targets for HMRC as well as the ONS placed a strong emphasis on headcount reductions as a source of efficiency savings. Across Government as a whole, savings based on headcount reductions have emerged more slowly than savings derived from procurement. (Paragraph 19)

Departmental targets for efficiency gains and headcount reduction were agreed as part of the SR04 Spending Review.

Sir Peter Gershon—who led the Government's independent review into public sector efficiency—agreed stretching headcount reduction and efficiency targets with every department, including the Chancellor's departments, as part of his work. Relocation targets were agreed as part of the independent review of public sector relocation, led by Sir Michael Lyons.

Agreed efficiency, workforce reduction and relocation targets reflect the forward business plans and positions of the departments.

HMRC is a large civil service employer with a relatively small programme (as opposed to administration) budget. As a result, efficiency savings were agreed to be found primarily in reforming and reducing HMRC's workforce. ONS agreed that substantial relocation alongside other efficiencies was an important component in restructuring of the department in line with its business planning to 2010.

Overview of reporting and monitoring

2. In view of the welcome availability of information on the classification of efficiency savings across central and local government as a whole as final, interim or preliminary, we regret that information about the classification of savings by the Chancellor's

departments on the same basis is not publicly available. We welcome the co-operation between the OGC and the NAO on classification issues. In future, we trust that co-operation between the Treasury—which is now assuming the monitoring role hitherto performed by the OGC—and the NAO will be constructive and productive. We were concerned to hear the Permanent Secretary to the Treasury wonder whether the NAO has adopted an “excessively purist” approach to measurement issues. It is important that any assessment of efficiencies achieved is underpinned by agreement between the Treasury and its Permanent Secretary, on the one hand, and the NAO, on the other, about how these achievements are measured. (Paragraph 26)

HMT and OGC have put forward their approach to measuring efficiency gains in the guidance available on the HMT website, building on the principles set out by Sir Peter Gershon in his review.

HMT, OGC and NAO have worked closely in the implementation of the SR04 Efficiency Programme and this has been both productive and constructive. NAO have been consulted on the drawing up of both efficiency measurement guidance and in the drafting of departmental Efficiency Technical Notes. NAO have provided useful review in their two reports into the Efficiency Programme.

HM Treasury has published since Budget 2007 a breakdown of the Efficiency Programme’s progress by department and by classification of gains (into the categories of ‘preliminary’, ‘interim’, and ‘final’. This information is available on the HM Treasury website. Departments are responsible for explaining the progress of their individual efficiency reforms, including the classification of gains reported. The Chancellor’s Departments will be including such a breakdown in future Departmental and Autumn Performance Reports.

3. At the heart of the Gershon efficiency programme lies the notion that efficiency gains can be achieved without an adverse effect on quality of service, and that monetary savings will therefore not be reported as efficiency savings unless quality of service is maintained. Witnesses raised concerns about the general adequacy of measurement of quality of service, the involvement of customer experience in such measurement, the extent of publicly available information about such measures, the rigour of validation of such measures within government and the possible role for external validation of such measures. Given these concerns, we urge the Government to reconsider its decision to reject our earlier recommendation that the Treasury undertake research into the quality of measures in place within departments to provide assurance that efficiency savings have not led to a reduction in the quality of services delivered or products provided, and that it publish the outcome of such research. In the absence of such research, we remain to be convinced that the current framework for measuring quality of service is adequate. Our concerns about the existing framework inform the following recommendations in this Report, which relate to particular departments. (Paragraph 33)

Measures of quality of service are already in place across the programme—every efficiency initiative is required to have in place measures of service quality. These are monitored as part of the programme to ensure that there is no decline in service quality attributable to efficiency programme reforms.

The recent NAO report found no conclusive evidence of service quality decline in their detailed survey of the programme and in fact noted that in many instances public services had improved significantly. Relating to HMRC specifically, the NAO noted that, according to the indicators agreed to monitor the impact of the Programme on quality of service in areas where headcount reductions are being made, performance had not been adversely affected during the period of headcount reductions. In some areas, performance had risen substantially, as shown in the latest 2006-07 results in the areas covered by the NAO report:

- the percentage of tax returns processed correctly first time has risen from 72 per cent (2003-04) to 78 per cent (2006-07);
- the percentage of calls handled correctly has risen from 80 per cent (2003-04) to 95 per cent (2006-07);
- the percentage of formal complaints handled within 15 days has risen from 88 per cent (2003-04) to 95 per cent (2006-07);
- additional VAT payments secured by HMRC staff have increased from £1,401m (2003-04) to £1,469m (2006-07).

The efficiency programme in the Office for National Statistics

4. We are concerned by the evidence we have received about the process by which targets for relocation within the ONS were arrived at and plans for meeting those targets developed. Official assessments about the costs and value of particular numbers of posts at particular sites appear to have been undertaken after targets were set and to have changed on at least two occasions. Targets up to 2010 had been offered by the ONS itself and then set by the middle of 2004, although the ONS has now admitted that relocation plans for the period from 2008 to 2010 were undertaken during 2006. Communication with staff and stakeholders about the relocation programme in its various phases and its rationale appears to have been haphazard and inadequate. We are also concerned about the apparent weakness of the human resources planning for the relocation, as well as weaknesses in the implementation of a consistent human resources strategy. These weaknesses in the planning process may have contributed to concerns about the effects of relocation on quality of service, an issue which we examine later in this Report. (Paragraph 42)

The work to consider the relocation of ONS posts which led to the submission to the Lyons review demonstrated clear financial savings as a result of moving work out of central London.

The detailed relocation planning carried out during the early part of 2004 identified the business areas which would relocate in the period up to April 2008. This reflected the 2008 target set in the 2004 Spending Review and was based on the Centres of Excellence site strategies announced alongside the plans in September 2004. The plans did not focus beyond this date given the uncertainties about the shape of the Office and new work it would be undertaking. Relocation and efficiency planning within ONS has needed to evolve to reflect the outcomes of its corporate and statistical modernisation programme. The re-engineering of the statistical and corporate systems has provided opportunities for

changes in working procedures and the overall structure of the teams delivering the statistical outputs and providing corporate support services. This has been essential in delivering business efficiencies.

ONS has learned lessons from the early phases of the relocation programme and has improved its strategy. The announcement of the subsequent strategy for delivering relocation made in September 2004 was well received and has been supplemented with regular corporate updates from the relocation programme team. At the lower level, development of the more detailed plans and their delivery has been managed through business specific project teams with an overarching Relocation Programme Board overseeing and assuring the integration of plans to ensure the delivery of relocation while minimising risk to ONS' statistical outputs. Communication plans within these teams have focused on the needs of individual members of staff and have facilitated close working with the HR support teams.

The overall monitoring of organisational change is undertaken by a workforce change team which integrates business planning for relocation, efficiencies and headcount reduction. Its role is to ensure adherence to, and monitor progress towards, corporate targets. Importantly the team seeks to promptly address the resulting people issues, such as effective and successful redeployment activity, union consultation, recruitment and supporting staff moving to the new location.

5. We recommend that, in its response to this Report, the Government set out the total efficiency savings originally expected to be achieved as a result of the ONS's online registration project, the costs associated with the delays to online registration, the latest timetable for successful completion of the project and the latest estimate for the effect of savings and costs associated with the project on the overall monetary efficiency savings to be reported by the ONS to the end of 2007-08. (Paragraph 46)

The Registration Online project (RON) aims to update and greatly improve the registration process. It is a necessary project to bring the Registration side of ONS business into the current age of computers and the internet, in order to offer the services that customers now expect. As such, the project was necessary in its own right, and was never expected to deliver significant efficiency savings in ONS. There will be significant benefits from faster access to data and provision of data (where law provides) including for Other Government Departments and Local Authorities (LAs).

It has been estimated that the whole RON project will contribute £200k efficiency savings per annum within ONS.

When the project was rolled out to the Local Authorities there were some teething problems, leading to delays in getting all LAs on to the new systems. It is estimated that resolution activities will cost in the region of £1m, so taking into account the £200k annual efficiency savings the net effect over 2007/8 is estimated to be costs of £800k.

Currently about half of Local Authorities are using RON to register Births & Deaths. ONS is aiming to rollout to 95% by March 08 but anticipate that it may take longer to resolve the technical issues with a few LAs. RON is being successfully used by all LAs to register Civil Partnerships.

6. The ONS has reported having achieved 90% of its monetary efficiency targets, while remaining little more than a third of the way towards its headcount reduction target, which was planned to account for around 72% of the ONS's efficiency savings. This indicates that the ONS's efficiency programme has not gone as planned. We recommend that, in its response to this Report, the Government:

- give an account of each revision of the ONS headcount baseline since the inception of the efficiency programme, explaining the rationale in each case;
- provide its latest estimate of the total monetary savings expected to accrue from reductions in ONS headcount over the period of the Gershon efficiency programme; and
- explain the reasons for continued adherence to the initial headcount reduction target or any subsequent revision of it in the light of the overall progress by the ONS towards its monetary savings targets. (Paragraph 49)

ONS's efficiency target of £25m is made up of £12.5m cash savings and £12.5m non-cash savings. As of December 2006 ONS had achieved £10.2m savings towards the cash target. 237 full time equivalent (FTE) staff had been released bringing a saving of £6m. Procurement savings contributed £2m towards the target, the rest being saved on general administrative expenditure including rationalisation of ONS's estate.

ONS's FTE baseline as of 1 April 2004 was 4,310. Changes to the baseline are shown in Table 1.

TABLE 1: ONS Baseline adjustments	FTE posts
2004 Baseline	4,310
Maternity Leave adjustment (baseline mistakenly did not include staff on maternity leave as advised by the Cabinet Office guidelines)	+ 32
Machinery of Government Changes	
Government Actuaries Dept for ONS Centre for Demography	+ 5
Cabinet Office for Civil Services Statistics	+ 7
Government Actuaries Dept for Occupational Pensions Survey	+ 2
<u>Controlled Expansions for new burdens</u>	
Extra posts for repayment work, migration task force and other new work	+ 45.5
Revised Baseline	4,401.5

Headcount reductions will contribute a large share towards ONS's efficiency programme. However, many of the headcount reductions will arise from efficiencies delivered towards the end of the period of the Gershon efficiency programme so will contribute little by way of cash savings within this period. Nevertheless, they will generate savings in subsequent

years that will release resources for enhancing the statistical and registration work programmes.

7. Evidence received by the Sub-Committee clearly indicates that the ONS is an organisation under intense pressure. That pressure arises from the combined effect of budgetary restraint, the requirement to meet stretching efficiency targets for monetary savings, headcount reductions and relocation, the ambitious modernisation programme including re-engineering of the National Accounts, the need to prepare for the 2011 Census and the preparations for legislative change, including the creation of a new Statistics Board. (Paragraph 61)

8. The overall quality of staff of the ONS and their commitment to maintaining the highest statistical standards are not in doubt, but the combination of demands creates an exceptional burden. The Treasury should therefore review the implementation of the efficiency programme in the ONS or the resources allocated to the department to achieve that implementation. (Paragraph 62)

The Government's response to these recommendations also includes the response to Recommendations 10 and 25.

ONS welcomes the recognition of the challenges it is facing. Many of these are challenges ONS has already been dealing with for a number of years, or has faced in the past. It is important that ONS meets these challenges while still focussing on its key priority: that of producing official statistics. Over the past year ONS published 100 per cent of market sensitive publications on time and 99 per cent of other releases.

It is natural for those who rely on ONS outputs to have concerns about the future and to voice those concerns, but the fact of the matter is that there has been no drop in quality of outputs. ONS still attracts praise for the quality of its work, and is regarded throughout the world as an example of a quality statistical office. Of course there will always be some problems: statistics are estimates based on available information and there is always scope for improvement. This is not an indication of poor quality, but rather of the need to prioritise.

It is simply not possible to meet all demand for statistics. The CSR provides a sound basis for ONS operations but nevertheless it will be vital to set priorities, and cuts to the programme have and probably will arise as a result of this prioritisation. ONS is currently carrying out an extensive 3-phase consultation exercise with external stakeholders in order to assess priorities for its work programme over the period 2008-2012.

ONS is in the process of strengthening senior management in Newport, recruiting two Directors General to support the National Statistician, enabling her to take a full role in governance following independence. The Statistics Board will inherit an organisation that consistently meets its publication targets; is recognised throughout the world as a producer of high quality outputs; is responsive to the challenges it faces; and is well-placed to continue delivering.

9. We have based our conclusions on the principle that efficiency targets, and the budgetary provisions that partially underpin them, should be open to revision in order to ensure the maintenance of quality of service. (Paragraph 63)

HMT maintains regular dialogue with all departments on their budgetary position and their delivery of key outputs and outcomes. Departments are expected to live within the budget allocated to them at the time of the relevant spending review and to deliver the performance and reform targets they agree to, including efficiency and relocation targets.

Where genuinely unforeseen and unexpected spending pressures arise, there is the possibility of budgets being adjusted in response. This is part of regular ongoing public spending management. Similarly, where specific performance and delivery targets no longer make sense (for example if there are significant Machinery of Government changes to departments) then these can also be reviewed.

No department has had its efficiency and relocation targets altered, other than to reflect Machinery of Government changes, where there is no net effect on Government's overall targets. Changes to departmental budget allocations, including access to the reserve, are explained in Budget and Pre-Budget Reports.

10. There is a disparity between progress by the ONS towards its overall monetary target set as part of the efficiency programme, in relation to which the ONS has reported significant advances, and progress towards the relocation and headcount reduction targets, which are far from being achieved. There is considerable evidence that the relocation programme in particular poses risks to the quality of statistics provided by the ONS. In addition, we note admissions from the ONS and the Treasury that there have been some shortfalls in the quality of the statistics produced by the ONS. The Minister denied any direct linkage between the problems with certain statistical series and the efficiency programme, but one of the lessons of our inquiry has been the difficulty of distinguishing the effects of the various factors exerting pressure on the performance of the ONS. (Paragraph 64)

The Government's response to this recommendation is included with the response to Recommendations 7 and 8 above.

11. Concerns about the programme for relocation from London to Newport lie at the heart of worries within and outside the ONS about its current and future operations. We have already argued that the relocation programme was inadequately planned. We recommend that, as a matter of urgency, the Treasury review the case for, and the consequences of, the current relocation programme of the ONS and the relationship between this and the wider efficiency saving targets. To facilitate that review, we further recommend that the business plans and cost-benefit analyses prepared as part of the relocation programme be made available to trade unions representing staff in the ONS to assist those unions in making an informed contribution to the review. We would also expect these documents to be made available to us. (Paragraph 65)

The relocation is well under way and recruitment in Newport is going well. ONS has attracted many good-quality senior staff from other Government Departments and the private sector to Newport. ONS is in the process of strengthening senior management in Newport, recruiting two Directors General to enable the National Statistician to take a full role in governance following independence.

Stopping the relocation programme midway, with work areas split between sites and staff leaving London as planned, would create uncertainty for staff, customers and the business and would give rise to greater risks to quality of service.

ONS has engaged fully with both staff and unions and shared information as its restructuring plans have been developed.

12. Our task in assessing the overall impact of the efficiency programme in the ONS in the face of contested and incompatible evidence has been rendered more difficult by the absence of broadly supported and readily understood measurements of quality of service. It seems ironic that the body charged with maintaining the standard of national statistics is unable to satisfy its users about its capacity to measure the quality of its own products. We recommend that the ONS undertake consultations about the formulation of agreed measurements of quality of outputs, based wherever possible on existing Service Level Agreements, which reflect the views and experience of users of those outputs, with the aim of establishing measurements to serve as a baseline for quality of service when new governance arrangements for statistics are put in place in Spring 2008. (Paragraph 66)

While there are significant risks to the quality of outputs, ONS has managed the risks effectively so far and, as a result, its outputs have been delivered on time with no drop in quality, and in some cases quality has increased. ONS regularly monitors the quality of its outputs. As well as seeking feedback from users, it provides quality analyses of its statistical releases—for example, all economic First Releases include general, generic quality statements and analysis of revisions. ONS also monitors the internal coherence of the national accounts estimates, their coherence with other data sets and with external surveys and plans to publish material on the quality of specific National Accounts data sets early next year.

Some users have the perception that quality might decrease in the future because of relocation. That perception is seemingly based on the prospect of ONS losing the expertise of staff who would not be relocating. The Government is confident that ONS will deal with this loss of expertise through effective management strategies, which will be adapted to changing circumstances. Recruitment policy is particularly important, with, for example, the relocation of National Accounts being phased over a longer time-scale than other areas and retention allowances being offered to National Accounts staff. This will allow time for expertise to be built-up in the Newport office.

The Statistics Board will want to take up the question of monitoring the quality of outputs, and ONS will continue to work towards implementing improvements.

The efficiency programme in HMRC

13. In terms of the numbers reported, HMRC appears to have made substantial progress towards its headcount target. However, it is noted that HMRC has discounted, for the purposes of its returns of headcount reductions, certain staff increases which, in the opinion of the NAO, are integral to the efficiency programme, and second, it has used a definition of “front-line” posts of which the NAO is not fully persuaded, calls into question the robustness of the figures. (Paragraph 73)

The Government is committed to robustness and transparency in reporting progress of the Efficiency Programme—a detailed breakdown of progress was published alongside the Budget 2007, and each department publishes information on all efficiency measures in their Spring Reports and Autumn Performance Reports. The Government notes that the NAO recognised that HMRC’s reported headcount reductions are robust in overall terms, but does not share the NAO’s specific concerns about the reporting of headcount reductions.

Controlled expansions for new policy burdens

The NAO expressed concern that the additional 1,325 staff recruited by HMRC to work in Contact Centres handling tax credit claims should not have been treated as a new policy burden, and excluded from the baseline for measuring headcount reductions. The NAO considered that the recruitment of staff to work in Contact Centres was a key part of the efficiency programme and was therefore related to an existing policy.

The Government does not accept the NAO’s view that it was inappropriate to treat the controlled expansion of staff in its Contact Centres as a new policy burden, nor that this means that the headcount reductions reported by HMRC have been overstated.

As explained in HM Treasury’s supplementary note to the Committee in June 2007, Sir Peter Gershon’s report in July 2004 recognised that the efficiency savings available from the integration of Inland Revenue and HM Customs and Excise, along with existing plans and proposed efficiency reforms, were on the basis of existing policy commitments and spend to save packages.

In 2006, the Government agreed—following an announcement of changes to the Government’s policy on tax credits in the 2005 Pre-Budget Report—that HMRC should expand its Contact Centre capacity by 1,325 posts to provide the improved level of customer service required to meet this new policy burden. These posts are effectively ring-fenced from the delivery and calculation of efficiency gains, and are outside the scope of HMRC’s target to reduce net full-time equivalent staff in post by 12,500 by 31 March 2008. (Indeed, the whole area of tax credit work is not affected by staff reductions in HMRC.) To achieve its target HMRC therefore has to reduce by a net 12,500 full-time posts from other parts of the department. HMRC expects to exceed this target.

Reallocations to the “front-line”

The Treasury Sub-Committee reflected two concerns expressed by the NAO about the robustness of the figures reported by HMRC on reallocations, or redeployments, to the “front-line”: that “the reallocations reported by HMRC do not always reflect actual staff in post”; and that “the reallocation data includes projections of staff numbers rather than the actual number employed in reallocated roles.

The Government believes that the NAO had misunderstood HMRC’s planning and reporting of reallocations. Departmental plans project the number of reallocations into business areas as an integral part of the overall planning process. These may not match the final and actual staff-in-post figures, but it is only the *actual* staff-in-post figure that is

scored as a reallocation. HMRC believes that overall they have the evidence, through activity monitoring, to support this contention.

The NAO was also not persuaded of HMRC's definition of a "front-line" post, though it is noted that the NAO had pointed out to the Treasury Sub-Committee that "there is no overall agreed definition of what constitutes a "front-line" role".

Sir Peter Gershon's Report and HMRC's Spending Review 2004 settlement made it clear that the reallocation of posts is designed to improve front-line services. Each department has been required to determine a definition of reallocations appropriate to its own business activities and circumstances, and HMRC agreed with HM Treasury a programme of reallocations to front-line areas covering clearly identified business strategies and initiatives. These include: VAT Compliance Strategy; Spend-to-Raise; Project Cyclamen (a counter terrorist initiative to detect and deter the illicit importation of radioactive materials entering the UK); Construction Industry Scheme; and other strategies, for example, to combat smuggling.

In its written evidence to the Treasury Sub-Committee, the NAO drew comparison between the Department for Work and Pensions' definition of the front line, as constituting certain customer-facing positions, and HMRC defining its front line with reference to certain business units. The NAO also noted that HMRC's practice on reallocations differed from DWP by including managers, administrative support and IT staff.

The Government considers that the best way for HMRC to conduct its wide ranging business portfolio is to continue to better target and focus resources, including greater reliance on improved intelligence and risk assessments to, for example, ensure the right amount of tax is collected. Posts reallocated into such activities will invariably not have direct contact with its customers, but provide an essential ingredient in developing a modernised tax collection system to help ensure society's financial wellbeing. Reallocations made include some managers, analysts, risk and intelligence officers, administrative support and IT staff, working directly on agreed initiatives, whose work is necessary to make best use of deploying limited resources and to increase HMRC's front-line effectiveness.

14. Not all of the information provided to the Sub-Committee in the course of its inquiry about the overall monetary savings by HMRC and the contribution of headcount reductions to those savings is clear. The Sub-Committee's work was made more difficult by the provision of substantive information after it had concluded taking oral evidence. We recommend that, in its response to this Report, the Government provide coherent and comprehensible answers to the following questions—

- i. **Are any of the financial savings from headcount reductions in 2004-05 being counted towards achievement of the overall monetary target of £507 million, and what is the rationale for the statistical treatment?**
- ii. **Are the 1,982 post reductions taking place in 2004-05 which it was not originally assumed would be taking place in that financial year treated differently for the purposes of calculating performance against the monetary**

savings target from the 1,610 posts that were planned to be saved in 2004-05 and, if so, for what reason?

In its Spending Review 2004 settlement, HMRC was set an efficiency target to reduce by 16,000 full-time equivalent posts over the 4 years 1 April 2004 to 31 March 2008, and to redeploy 3,500 of these to additional front-line posts.

HMRC was also set an SR04 financial savings target to be in a position to deliver at least £507 million in annual efficiencies, of which at least half must be cash releasing, on the basis of gross staffing reductions and non headcount savings measured over the 3 years 1 April 2005 to 31 March 2008.

Therefore, none of the financial savings from the 3,592 gross headcount reductions in 2004-05 count towards achievement of HMRC's overall monetary target of £507 million, although in practice HMRC will have benefited from any savings made in that year.

iii. Are HMRC's new plans to achieve a gross reduction of more than 16,000 posts by the end of 2007–08 related to the treatment of headcount figures for the purposes of calculating performance against the monetary efficiency target?

HMRC's revised workforce plans are not required in order to achieve the financial target. On current forecasts the Government expects HMRC to exceed its £507 million financial savings target through increased financial savings from non-headcount sources, in particular procurement.

However, HMRC's planning round 2007-08 identified opportunities to go beyond the SR04 12,500 net post savings by the end of 2007-08 through efficiency savings created by the Departmental Transformation Programme. This will put HMRC in a good position to meet the challenges of CSR07.

The additional posts to be saved in 2007-08 will form part of HMRC's announced CSR07 plans to save a further 12,500 posts by 31 March 2011 in addition to the original 12,500 target for SR04 (i.e. around 25,000 total net posts by 31 March 2011).

iv. Does the methodology used for calculating the monetary value of headcount reductions for the purpose of measuring progress against the monetary efficiency target in the case of HMRC differ from that used in the case of any other departments and, if so, why?

Departments are using different methods to calculate efficiency savings from headcount reductions, depending on their circumstances. Where HR systems allow, a post-by-post calculation is made based on actual pay. Where workforce reductions are too numerous and complex to make this practical (as in the case of HMRC) they are done on a weighted average cost. This average is subjected to monitoring and review to ensure that it is a robust reflection of actual costs.

v. What is the Government's latest estimate of the net monetary value of headcount reductions in HMRC (a) at the end of December 2006, (b) at the end of March 2007, (c) at the end of March 2008, and (d) at the conclusion of the efficiency programme, for the purposes of calculating performance against the monetary efficiency target?

HMRC has counted its efficiency savings in gross terms in accordance with the basis on which targets were set in SR04. Table 2 provides gross financial savings associated with headcount reductions and also provides the non-headcount financial savings. This shows that the Department expects to exceed its £507 million monetary efficiency target.

Table 2: Monetary value of headcount and non headcount reductions in HMRC

	31 Dec 2006	31 Mar 2007	31 Mar 2008 (estimated)	Estimated full year 2008-09 value of savings towards SR04 £507m total monetary savings target
Monetary Value of headcount reductions	£156,041,279	£194,437,930	£359,998,587	£394,914,058
Monetary Value of non headcount	£99,133,197	£116,145,825	£200,556,833	£208,450,294
TOTAL	£255,174,476	£310,583,755	£560,555,420	£603,364,352

15. We recommend that the Government, in its response to this Report, indicate the extent of income received by HMRC as a result of sub-letting and clarify whether such income can be scored as efficiency savings for the purposes of the Gershon programme. We further recommend that the Government state in its response whether it is satisfied that the STEPS PFI contract has not acted as a constraint upon the capacity of HMRC to obtain savings through estates rationalisation. (Paragraph 83)

Approximately 9.5 per cent of the HMRC estate not required by the Department is occupied by other Government Departments (OGDs), who pay estates running costs on a pro rata basis. The income received from existing OGD sub-let agreements, known as MOTOs (Memorandum of Terms of Occupancy), is not included in the estates contribution to HMRC efficiency targets. As part of the Estate Consolidation Programme and in support of the wider Government agenda on property management, HMRC is seeking new opportunities for OGDs to backfill additional space no longer needed by the Department. Where agreement is reached and new MOTOs are signed, the income received will qualify for scoring as efficiency savings as set out in the following example:

- HMRC occupies a three-storey office at a cost of £1.2 million per annum. An OGD occupies another building in the same town at £0.5 million per annum. The lease on this building is about to expire. Total Exchequer cost = £1.7 million per annum.
- HMRC does not fully utilise its office as a result of staff efficiencies and agrees to consolidate its activities on two floors of its office in order that the top floor can be sub-let to the OGD at a pro rata cost of £0.4 million per annum.
- The OGD moves into the HMRC office and ceases to pay for its former building. The HMRC net liability for its office is now £0.8 million per annum as it is receiving £0.4 million from the OGD.
- The overall Exchequer cost has reduced from £1.7 million to £1.2 million per annum, saving £0.5 million. The saving is scored as £0.4 million by HMRC and £0.1 million by the OGD in keeping with the change to their respective estate outgoings.

In the event that agreement with an OGD cannot be reached or there is no OGD interest in taking surplus space on the HMRC estate, in the majority of cases the surplus will be returned to Mapeley under the STEPS contractual vacation allowances. It makes sense to augment these allowances by sub-letting to OGDs where possible. If HMRC did not include new MOTO agreement income as efficiency savings, there would be a clear incentive to move straight to disposing of surplus space to Mapeley to support the Department's efficiency programme, rather than sub-let to other Government bodies, reducing the opportunity for the wider Exchequer benefits.

The Government is satisfied that HMRC's STEPS PFI contract does not impose a constraint on the capacity of HMRC to deliver estates efficiencies. The flexibility allowances within the STEPS contract enable HMRC to deliver up to £100 million in annual estate running cost savings by 31 March 2011.

The NAO report *PFI: The STEPS Deal*, published on 7 May 2004 explains, in Part 1 para 7, the application of nil cost vacation arrangements under the three designation headings of "Core", "Flexible" and "Intermediate". Approximately 70 per cent of the STEPS estate is designated as "Core", but that does not mean that it cannot be vacated within the agreed allowances at nil or small cost.

The STEPS contract flexibility has allowed HMRC the opportunity to tailor its estate portfolio to meet the best combination of customer need, operational priorities and HR responsibilities by surrendering space where and when it suits the Department to do so. Without the STEPS contract, HMRC's capacity for estate rationalisation would have been constrained by and limited to the terms of its legacy property leases. For example, buildings would have been vacated at fixed lease break or end dates, regardless of the fit with business needs. HMRC would also have been liable for exit costs and additional staff costs to manage any protracted negotiations surrounding dilapidation costs.

16. Evidence received by the Sub-Committee shows that the indicators used by HMRC to measure the quality of its services are not adequate to assess the experience of service users, and in particular are not adequate to measure the extent to which its services meet the very diverse needs of its different client groups, including both taxpayers and tax credit claimants. (Paragraph 109)

The Government accepts fully the importance of ensuring that efficiency savings are not delivered at the expense of impacting on service delivery. Within the Spending Review Efficiency Programme, HM Treasury agreed with HMRC a basket of 12 specific measures drawn from indicators which underpin its PSA targets which monitor service quality. These quality measures were selected as being the key performance indicators from areas within the Department most affected by headcount reductions, for example, processing, compliance, debt management and banking and customer contact, which accounts for more than 90 per cent of the headcount reduction.

The NAO recognised in their recent report on the Efficiency Programme (February 2007) that where HMRC's headcount reductions are being made performance has not been adversely affected, and in some areas performance has improved substantially. Furthermore, the Adjudicator for HMRC (Dame Barbara Mills) says in her 2006-07 Annual Report that there is nothing to suggest that the merger of the two former revenue

departments (one of the key drivers of efficiency) has so far had a negative impact on HMRC customers.

If HMRC used wider measures of customer satisfaction, it would make it more difficult to isolate the impact of the efficiency programme from the range of other factors influencing satisfaction levels. It is important to note that tax credit administration has not been affected by HMRC's headcount reductions. Indeed, there are now more staff working on tax credits than there were in 2004, and contact centre capacity has been expanded by 1,325 posts to provide an improved level of customer service.

HMRC has also established a Departmental Transformation Programme, which will manage investment of over £1 billion between 2007-08 and 2010-11 to deliver further efficiencies, increase revenue yield, and take forward the Department's ambition to achieve greater customer focus.

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)

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 per cent over 5 years;
- reduce the administrative burden on business of dealing with HMRC's audits and inspections, by 10 per cent over three years and at least 15 per cent 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.

The efficiency programme in the Chancellor's other departments

18. We recommend that, in its response to this Report, the Government clarify whether there is any scope for monetary efficiency savings from expenditure by the Treasury outside its administration budget and, if so, how such savings would be recorded. (Paragraph 116)

The main focus of the Treasury's efficiency plans is its administration budget. This is the largest part of the budget and is where costs are most controllable, and therefore where the biggest potential efficiencies exist. However, the Treasury's efficiency plans and recorded progress do also include its programme budget.

The two main elements of the Treasury's near cash programme budget are the supply of UK circulating coinage by the Royal Mint and the management of the UK's foreign exchange reserves by the Bank of England, both under service level agreements with the Treasury. The Treasury is aiming to achieve value for money in its negotiations of new service level agreements with the Mint and the Bank. Until those negotiations are concluded the Treasury will be cautious on the value of efficiency gains recorded from the programme budget.

Efficiencies are measured as the change in the real terms cost of output. In the case of coinage, the total cost to the Treasury is made up of manufacturing costs and distribution costs, at set prices per unit, and metal costs, at the market prices borne by the Mint. Together with the Mint, the Treasury is aiming to achieve efficiencies on the manufacturing and distribution costs. Changes in the market price of metal are uncontrollable and do not represent efficiency gains or losses.

Because the Treasury's capital budget is very small, the department does not record capital efficiencies, although efficiencies in capital spend are being realised from broader improvements in procurement practice.

19. We recommend that the Government, in its response to this Report, set out how the OGC's monetary savings baseline is calculated and how the OGC, OGCbuying.solutions and the Treasury contribute to achievement of the relocation targets. (Paragraph 120)

OGC's internal efficiency programme consists of several workstreams to generate efficiency savings. The baseline cost used to measure monetary savings in each workstream is the cost before efficiency savings initiatives in the workstream. The saving is the cost after the efficiency activity compared with the baseline cost. The principal baseline year is 2003-04 as most efficiency activity in the workstreams started in 2004-05; however, some efficiency initiatives started after 2004-05 and baselines for those were therefore 2004-05 costs.

In response to the Lyons review, OGC has relocated 10 posts from London to Norwich, of which 5 have subsequently become part of Group Shared Services. With the launch of *Transforming Government Procurement*, OGC has undertaken a programme of restructuring, with consequent staff reductions leading to a workforce target of 250 by April 2008. In keeping with the aspirations of the original relocation targets, our policy for the location of posts in the new OGC is to consider the business need of the location of individual posts, market availability and value for money.

Core Treasury has transferred 5 posts, as part of the Group Shared Services programme from London to Norwich. *OGCbuying.solutions* has relocated 22 posts from London. The posts have been transferred to Liverpool (15 posts) and Norwich (7 posts).

20. There is a risk that the practice of excluding certain categories of staff increases from calculations of headcount reductions for the purposes of the efficiency programme detracts from the overall credibility of the headcount statistics. We recommend that the Government explain the rationale for the exclusion of increases in the staffing of OGCbuying.solutions more fully in its response to this Report. (Paragraph 121)

OGCbuying.solutions is excluded from the calculations for headcount reductions because of its Trading Fund status and role as an enabler of wider efficiency savings across government. A headcount reduction target would have had a perverse impact on government's ability to achieve these wider savings, so *OGCbuying.solutions* agreed targets for financial efficiencies and relocation that contribute directly to the overall targets for the Chancellor's departments. The Treasury Group has agreed a headcount reduction target of 150 in support of its overall efficiency targets, and this is being met by HM Treasury. *OGCbuying.solutions* is entirely responsible for generating sufficient sales income to cover its costs and generate a 6.5 per cent Return on Capital Employed. Since its formation in 2001 from a number of smaller procurement organisations, *OGCbuying.solutions* has more than tripled its procurement influence in Government and the wider public sector, consistently delivering 25 per cent year on year growth in terms of savings, which has been in excess of its ministerial targets. Following the publication of the Treasury report

‘Transforming Government Procurement’ (January 2007), *OGCbuying.solutions* is seen as a key player to help both Government and the wider public sector enjoy even more efficiency savings through its approach to collaborative procurement.

Efficiency and the 2007 Comprehensive Spending Review

21. We recommend that, in advance of the announcement of the outcome of the Comprehensive Spending Review, the Government clarify how it intends to monitor the reporting of efficiency gains by departments such as HMRC, the Treasury and the GAD that will be required to make monetary savings beyond the efficiency target. (Paragraph 126)

The current Efficiency Programme has demonstrated the importance of public accountability as a powerful driver for improved value for money. In the CSR07 period departments will therefore continue to measure and monitor their savings against departmental targets and report them in public so that they can be held to account for any gains claimed. Reflecting the higher level of ambition in the CSR07 programme, the new monitoring and reporting framework will put more emphasis on mainstreaming value for money into core departmental business, including through stronger integration with the PSA framework. Greater accountability will therefore be devolved to departments, with common requirements for reporting progress to the public to ensure rigour and consistency. The Government also expects that the National Audit Office will play an important role in reviewing reported savings, providing Parliament and the public with a further level of assurance.

22. The apparent centrality of further headcount reductions to HMRC’s budgetary plans for the period from 2008-09 to 2010-11 is an understandable source of concern to staff, and carries with it potential risks to the quality of service provided by HMRC. We recommend that the Government clarify whether the possibility that HMRC might exceed its headcount reduction target of 12,500 before 1 April 2008 affects HMRC’s assessment of the scope for further reductions thereafter. We further recommend that HMRC prepare plans for budgetary savings from 2008-09 onwards which are transparent about the overall budgetary savings from headcount reductions on the same basis as for other planned measures. (Paragraph 131)

HMRC’s budgets for 2008-09 to 2010-11 reflect a year on year reduction of 5 per cent in real terms, as required by its early CSR07 settlement. To make the necessary savings across the CSR07 period it is inevitable that levels of staffing will need to be reduced, as paybill makes up some 60 per cent of the Department’s total budget. HMRC will also look to achieve savings within other operating costs, such as Estates, Information Technology and procurement of goods and services. If HMRC exceeds its SR04 efficiency target of reducing by 12,500 Full Time Equivalent staff-in-post before 1 April 2008, any additional or early savings will be taken into account when setting the plans for the further savings required in the CSR07 period. Any potential risks to the quality of service provided will be mitigated by enabling the staffing reductions through the Departmental Transformation Programme (DTP). The DTP represents a major investment designed to transform Departmental processes, reduce workloads, improve the customer experience, and deliver productivity and value for money benefits.

HMRC is in the process of preparing plans for budgetary savings from 2008-09 onwards, covering both headcount reductions and other expenditure. These will be transparent, and, in line with Treasury guidance, will be published by the end of the year.

23. Earlier in this Report, we examined the challenges associated with the efficiency programme for the ONS and recommended that the relocation programme in particular be subject to review. Responsibility for matters which are currently within the control of the ONS will pass to the new Statistics Board from April 2008 onwards. We consider it essential that the new independent Board is given the authority to make all dispositions within its budgetary settlement. It would be inappropriate for the Treasury to seek to apply any explicit efficiency or relocation targets which relate to the period beyond 1 April 2008, and we recommend that the Treasury make a clear public statement to that effect at the earliest opportunity, as well as detailing how it will ensure a smooth transition for financial planning and staffing. (Paragraph 134)

Planning for the period post-April 2008 has always taken into account the fact that responsibility for ONS will then fall to the Statistics Board and decisions on the future of ONS will be taken by the Board. It will be for the Board to decide how to distribute and allocate resources, within the limits of the CSR. It is anticipated that the Board will formally assume these responsibilities at the start of April 2008, following enactment of the relevant parts of the Statistics Act. However, the Chair designate, Sir Michael Scholar, has already been appointed and is being kept informed on these matters. ONS has existing targets like all Departments and a comprehensive plan for getting there. For now, those plans stand.

The Committee's conclusions

24. We accept the complexity of the process which led to the establishment of targets as part of the efficiency programme. We welcome evidence that the Government Actuary's Department, the Debt Management Office, the Office of Government Commerce and the Treasury seem set to exceed their efficiency targets. However, if the Treasury is examining why some targets have been exceeded as part of what Mr Macpherson termed "a learning process", it follows logically that the Treasury should also examine the lessons of targets which may prove to have been over-ambitious. (Paragraph 136)

The SR04 Efficiency Programme remains on course to achieve its overall efficiency and workforce reduction targets, alongside overachievement by many departments, including HMT, OGC, DMO and GAD. HMT and OGC have been working closely with departments from the beginning of the programme to monitor progress against targets and assess the impact of the programme. This has informed the preparatory work for the forthcoming CSR.

HMT has already set out its value for money ambitions for departments in the forthcoming CSR period, building on the success of the SR04 programme. Departments have agreed to identify annual net, cash-releasing savings equivalent to at least three per cent of their baseline spend by 2010-11, as well as significant real terms reduction in administration budgets.

25. In determining how the efficiency programme would apply to the Chancellor's departments as a group, we are concerned about the differential impact on those departments. In the case of the ONS, the organisation is facing a range of pressures. Unless action is taken to alleviate some of those pressures, there is a significant risk that the new Statistics Board will inherit an organisation which is unable to perform its tasks to the necessary standard because of structural weaknesses. In the case of HMRC, the success of that organisation in meeting its efficiency targets is highly dependent upon further headcount reductions. The role played by financial savings arising from headcount reductions within HMRC's efficiency programme appears to be greater than is warranted by the overall—and commendable—ambition to modernise that organisation and its capacity to serve taxpayers and claimants effectively, efficiently and economically. (Paragraph 137)

In respect of ONS, the Government's response to this recommendation is included with the response to Recommendations 7 and 8 above.

As also noted above (in response to Recommendation 22), headcount reductions in HMRC will be facilitated and enabled by the implementation of the Departmental Transformation Programme. This will support the Department's aim of delivering value for money through improving operational and organisational productivity and capability, as well as providing a modern and improved service to its customers. In planning to make savings HMRC does and will look at non-headcount budgets. Some of these involve contractual commitments (which of themselves have delivered improved VFM) or are essential for operational delivery. Although plans have yet to be finalised it is likely that over one third of the savings required during the CSR07 period will come from non-headcount budgets.

26. Significant financial savings have been reported as a result of the efficiency programme in the Chancellor's departments. The programme has imposed new disciplines upon management and encouraged new approaches towards securing value for money. It has paved the way for a substantially more ambitious efficiency project in the spending period covered by the 2007 Comprehensive Spending Review. The challenge now for the Treasury is to ensure that the benefits of the programme in the Chancellor's departments, and confidence in the value of the programme among staff and customers, are consolidated. (Paragraph 138)

The Government welcomes the Committee's recognition that the Efficiency Programme has secured new disciplines and approaches towards securing value for money. Departments will continue to implement their SR04 Efficiency Programme in the remaining months of the SR04 period.

HM Treasury is seeking to build on the success of the SR04 Efficiency Programme in the CSR period. Departments have already agreed to significant further cash-releasing savings, including reductions in administration budgets. All of the Chancellor's Departments (other than ONS) agreed an early settlement with HM Treasury that will see their budget decline by 5 per cent a year in real terms over the CSR period. This will consolidate the existing efficiency reforms, and ensure these departments go further in becoming even more cost effective.