House of Commons

Treasury Committee

# The efficiency programme in the Chancellor's departments

## Eighth Report of Session 2006–07

*Volume I*

HC 483–I

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## *Volume I*

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# Summary

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 the efficiency programme on the Chancellor's departments, which were set targets requiring them to achieve a monetary saving of £550 million and gross workforce reductions of 16,850 posts by the end of 2007–08, and to relocate 5,126 posts by 2010. Although we examine all of the Chancellor's departments which were set targets—the Treasury group, the Government Actuary's Department, HM Revenue & Customs and the Office for National Statistics—we find that the programme poses a greater challenge for HMRC and the ONS; consequently, it is on those departments that this Report focusses.

Over the Chancellor's departments as a whole, we examine the appropriateness of the targets, the balance struck between the different departments and the focus on headcount reductions. Taking into account the Treasury's new role as co-ordinator of the efficiency programme, we highlight the importance of a robust framework for reporting efficiency and headcount savings and for the measurement of ongoing quality of services provided by the Chancellor's departments. We again recommend that the Government undertakes research into the quality of the monitoring and reporting used by departments to provide assurance about the quality of service during and after the efficiency programme.

In respect of the ONS, we find that the relocation programme, in particular the planning of the process, has had a considerable impact on staff and users. Concerns about the quality of statistics in the future have arisen as a result of the combined pressures of the relocation programme, efficiency targets, and other key programmes. In view of the contested evidence presented about the potential risks and the extent to which they are being mitigated, we recommend the establishment of measurements of the quality of statistics, informed by users and publicly reported on by the ONS.

In reviewing HMRC's progress, we note the centrality of the headcount reductions to all areas of contention, particularly the reliance on headcount reductions to achieve the majority of HMRC's monetary efficiency savings and the consequential concerns about quality of service. We question the various methods used for reporting progress against the efficiency targets and recommend a greater level of clarity in HMRC's reporting. In relation to the Government's claim that quality of service is being maintained, we recommend that, for the purposes of clarity, and to improve public perception, HMRC develop quality of service indicators, in consultation with users of its services, that will be externally validated and publicly reported on.

Finally, we consider future challenges and opportunities presented by the early settlement under the 2007 Comprehensive Spending Review, in particular the budgetary settlement for the ONS's replacement national statistics body. We reiterate the call for further information on the plans for the efficiency programme's operation between 2008–09 and 2010–11 and for an improved framework for monitoring and reporting on the programme.

# 1 Introduction

## Purpose of the inquiry

1. The efficiency programme launched by the Government at the time of the 2004 Spending Review, following the publication of the Gershon Report, was wide-ranging and ambitious. It included demanding targets for monetary savings and distinct targets for headcount reductions in the Civil Service, and 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 previously reviewed the progress of the programme and made recommendations about monitoring of and reporting on its progress.[1] We have also examined the prospects for efficiency savings in the spending period covered by the 2007 Comprehensive Spending Review.[2] Our previous work concentrated on the efficiency programme across Government, and the central role of the Treasury and the Office of Government Commerce (OGC) in relation to the programme. This inquiry examined the progress of the efficiency programme in the Chancellor of the Exchequer's own departments—the Treasury itself, HM Revenue & Customs (HMRC), the Office for National Statistics (ONS), the OGC, the Debt Management Office (DMO) and the Government Actuary's Department (GAD). This Report examines the efficiency, headcount and relocation targets set for each of those departments or offices, the impact of the efficiency programme on quality of service and lessons from the current programme for efficiency measures in those departments and offices and the new statistics body beyond 2008.

## Conduct of the inquiry

2. This inquiry was undertaken by the Treasury Sub-Committee, which has previously examined the administration of tax credits by HMRC,[3] and Government proposals for a new independent statistics board to succeed the ONS,[4] and which undertakes regular scrutiny of the administration and expenditure of the Chancellor's departments. On 6 March 2007, the Sub-Committee announced its inquiry into the progress of the efficiency programme in the Chancellor's departments and set out the terms of reference for the inquiry.[5] The Sub-Committee held four oral evidence sessions, taking evidence from: representatives of stakeholders of HMRC and the ONS, including tax agents,[6] taxpayers and recipients of tax credits,[7] trades unions,[8] and statistics users,[9] from academic

1 Treasury Committee, Second Report of Session 2005–06, *The 2005 Pre-Budget Report*, HC 739, paras 71–76; Treasury Committee, Fourth Report of Session 2005–06, *The 2006 Budget*, HC 994–I, paras 71–79; Treasury Committee, Second Report of Session 2006–07, *The 2006 Pre-Budget Report*, HC 115, paras 40–58; Treasury Committee, Fifth Report of Session 2006–07, *The 2007 Budget*, HC 389–I, paras 70–77 and 86–87

2 Treasury Committee, Sixth Report of Session 2006–07, *The 2007 Comprehensive Spending Review: prospects and processes*, HC 279, paras 60–87

3 Treasury Committee, Sixth Report of Session 2005–06, *The administration of tax credits*, HC 811

4 Treasury Committee, Tenth Report of Session 2005–06, *Independence for statistics*, HC 1111

5 Treasury Committee press notice No. 34 of Session 2006–07, available at http://www.parliament.uk/parliamentary_committees/treasury_committee/tc060307pn34.cfm

6 Chartered Institute of Taxation (CIOT); Institute of Chartered Accountants in England & Wales (ICAEW)

7 CIOT Low Incomes Tax Reform Group (LITRG), Child Poverty Action Group (CPAG)

observers,[10] from John Healey MP, the then Financial Secretary to the Treasury, and from officials of the Treasury and the Chancellor's other Departments.[11] The Sub-Committee received a range of written evidence which is published with this Report, as well as receiving confidential information from the Treasury about the progress of the programme in individual departments arising from OGC reviews. In the course of the inquiry, the Sub-Committee visited the ONS office in Pimlico and an HMRC office in Euston Tower, London, where they met management and staff. We are most grateful to all those who assisted the Sub-Committee in the course of its inquiry.

## Structure of this Report

3. The next chapter of this Report provides background on the efficiency programme across Government. Chapter 3 gives an overview of the efficiency targets in the Chancellor's departments, while chapter 4 considers general issues relating to monitoring and reporting. Chapters 5 to 7 examine the progress of the efficiency programme within the ONS, HMRC and the remaining Chancellor's departments respectively. The final chapter suggests lessons to be learnt from the preceding analysis for measures to embed efficiency in the Chancellor's departments in the period covered by the 2007 Comprehensive Spending Review.

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8 Public & Commercial Services Union (PCS), First Division Association (FDA), Prospect Union

9 Statistics Commission, Royal Statistical Society (RSS), Statistics User Forum (SUF)

10 Professor Colin Talbot of Manchester Business School and Dr Jennifer Law of the University of Glamorgan

11 Nick Macpherson, Permanent Secretary to the Treasury, and Treasury officials, Paul Gray, Chairman of HMRC and HMRC officials; Karen Dunnell, the National Statistician and Office for National Statistics (ONS) officials; Chris Daykin, Government Actuary; Peter Fanning, Acting Chief Executive, Office of Government Commerce; and Jim Juffs, Chief Operating Officer of Debt Management Office.

# 2 Background

## The Gershon Report and the establishment of targets

4. In the 2003 Budget the Government announced a cross-cutting review to identify the scope for efficiencies in public services that would release resources to "front-line" services such as schools and hospitals and deliver further improvements in the performance of the whole public sector. The review was to be led by Sir Peter Gershon, former chief executive of the OGC.[12] In the 2004 Budget, partly on the basis of evidence gathered by Sir Peter Gershon's review, the Government announced its decision to set "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".[13] This overall commitment was fleshed out in the report by Sir Peter Gershon, published in July 2004 at the time of the 2004 Spending Review. The Gershon Report set out proposals for efficiencies in public spending, identifying annual savings valued at approximately £21.5 billion a year by 2007–08. That Report defined efficiencies as follows:

> Efficiency in the public sector involves making best use of the resources available for the provision of public services. This review has defined as 'efficiencies' those reforms to delivery processes and resource (including workforce) utilisation that achieve:
>
> - 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
> - changing the balance 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").[14]

Arising from this definition of efficiency was the principle that, if monetary savings were agreed to have resulted in a deterioration in the quality of service, those savings would not be recorded as efficiency savings for the purposes of the programme. As the Permanent Secretary to the Treasury, Nicholas Macpherson, stated: "if there are areas where it appears

12 *SR 2004*, para 2.5 and Introduction to chapter 2, pp 15, 13

13 *Budget 2004*, para 6.16, p 135; *SR 2004*, Introduction to chapter 2, p 13

14 Sir Peter Gershon CBE, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004, Table 4.1 and para 1.7, pp 30, 6–7

that performance has deteriorated … we would not accept those as efficiency savings; that would just be a cut".[15]

5. The Gershon Report gave rise to two sets of targets which were announced at the time of the 2004 Spending Review. The first set of targets related to the annual accumulated monetary value of savings to be achieved by each department or departmental group by the end of 2007–08. The second set of targets related to reductions in Civil Service headcount to be achieved by each department by the end of 2007–08. Both sets of targets were agreed on the basis of discussions between the Treasury, Sir Peter Gershon and the departments themselves.[16] Mr Macpherson was at pains to point out the importance of the discussion process in ensuring that departments took ownership of the targets, stating that

> in 2004, when we started this process, the whole Gershon Report … reflected a huge amount of dialogue with the departments in question … they were not imposed by Treasury whim.[17]

6. The monetary savings for which targets were set were not confined to cash-releasing efficiencies.[18] The Gershon Report stated that, of the targeted annual savings of over £20 billion by 2007–08, "over 60% are cash-releasing", thus implying that up to 40% of savings were not cash-releasing.[19] Efficiency gains were to be achieved from six different "workstreams" identified in the Gershon Report, namely: back office functions; procurement; transactional services; policy, funding and regulation; productive time; and "other". The mix of savings from each "workstream" varied from department to department, but there was an expectation that a sizeable proportion of savings across Government as a whole would come from efficiencies in procurement, which was identified as an area with considerable scope for improvement.[20]

7. The targets for reductions in Civil Service numbers arising from the Gershon Report were expressed in terms of the number of Full-Time Equivalent (FTE) posts that would be reduced as a result of the efficiency programme including, for some departments, distinct totals for reallocations to the "front-line".[21] The headcount reduction targets were not directly related to any single workstream identified in the Gershon Report. The targets for all departments combined were 70,600 FTE reductions, and 13,550 reallocations to the "front-line", totalling a gross reduction of 84,150. According to Jonathan Stephens, then Director of Public Spending at the Treasury, the headcount reductions across the whole of central and local government were expected to achieve approximately 10 to 15% of the overall monetary savings.[22]

15 Q 231

16 HC (2006–07) 279, para 66

17 Qq 262, 213

18 "Cash-releasing" was used as a general term in the Gershon Report to indicate savings that were not nominal, but actually released more money to the department.However, the Report did not provide any formal definition of the term.In departmental reporting, the word "cashable" is used as a synonymous term.

19 Gershon Report, para 3.5, p 23

20 *Ibid.*, para 2.10, p 13 and HC (2006–07) 389-II, Q 224

21 Gershon Report, para 4.4, p 30

22 HC (2003-04) 906-I and ii, Q84

8. At the time of the 2004 Spending Review, the Government announced that the role of monitoring the efficiency savings, and ensuring that claimed savings were in accordance with the Gershon definition of efficiency, was to be performed by the departments themselves and the OGC. Within the OGC, an Efficiency Team was established with responsibility for co-ordinating the programme.[23] Each department prepared Efficiency Technical Notes (ETNs) in which they set out their agreed efficiency savings targets, the "workstreams" in which these savings would be achieved, the process for making the efficiency savings, the baselines against which these were to be measured and the measurement process. The ETNs were then reviewed by the OGC. Departments were required to submit quarterly returns of efficiency savings to the OGC, including a statement signed by the Accounting Officer that there had been no deterioration in quality of service or outputs.[24] In the course of 2007, responsibility for central monitoring of the efficiency programme is being transferred from the OGC to the Public Spending Directorate in the Treasury.[25]

## The Lyons Report and relocation targets

9. In the 2003 Budget, the Government commissioned a study of the scope for relocating Civil Service and other public service staff from London and the South East to other parts of the country "to improve cost effectiveness and achieve a better regional balance of government activity". The study was to be led by Sir Michael Lyons.[26] In March 2004, Sir Michael produced his report on the geographical situation of government organisations, which identified up to 20,000 posts that could be dispersed from London and the South East, estimating that these moves could realise savings of £2 billion generated over 15 years.[27] These savings were based on the fact that "London remains the most expensive part of the UK for doing business, and an often difficult place to find employees", with little chance of this state of affairs changing in the future. The Lyons Report concluded that moving departments outside London would save the departments money, and stimulate growth in the areas to which they were relocated.[28] As with the Gershon Report, the Lyons Report was compiled through a dialogue with departments, in which departments made offers of what they felt could be achieved in terms of relocation.[29] The Lyons Report was concerned not only with the monetary benefits of relocation, contending that:

> new locations can provide the spur for new ways of working: adopting better business practices, processes and technology, and reforming organisational culture. The best relocations seem to have been pursued as part of a broader reform and re-engineering effort.[30]

23 NAO Report, *The Efficiency Programme: A Second Review of Progress*, Feb 2007, para 4.1

24 Qq 217, 273

25 HC (2006–07) 279, paras 73–77

26 *Budget 2003*, para 6.45, p 143

27 Sir Michael Lyons, *Well placed to deliver? Shaping the pattern of Government service: Independent Review of Public Sector Relocation*, March 2004, p. 1

28 *Ibid.*, paras 9, 16, pp 5–6

29 *Ibid.*, para 6.6, p 56

30 *Ibid.*, para 11, p 5

According to the Lyons Report, this called for comprehensive planning and forethought:

> Dispersal is never problem-free and there are particular issues facing split headquarters functions, for example the amount of senior time spent in visits to London. The research suggests that clear leadership and careful management can contain and reduce these problems … Careful attention needs to be paid to the impact on individuals. Modern family structures have created a complex context for location decisions. There are increasing numbers of dual income households and workers with caring responsibilities, and people are protective of their work/life balance … the impact … will be greater when dispersals maximise the business benefits to the organisation and where they are clustered in a limited number of locations rather than very widely spread.[31]

10. At the time of the 2004 Spending Review in July 2004, the Government announced that it was accepting the findings of the Lyons Report. It then established targets for relocation by 2010 which were similar to, but distinct from, the proposals outlined in March that year in the Lyons Report. The 2004 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.[32] The relocation targets, unlike the targets arising from the Gershon Report, go beyond 2007–08, although the Government has reported on the relocation targets as part of the overall efficiency programme.

31 *Ibid.*, paras 12–15, p 6

32 HM Treasury, *2004 Spending Review: New Public Spending Plans 2005–2008*, Cm 6237, July 2004, Table 2.2, p 20; Lyons Report, Table 6.1, p 59

# 3 Overview of targets

## The overall targets

11. The spending allocations for the Chancellor's departments for the period from 2004–05 to 2007–08 were announced in the 2004 Spending Review. The overall budget within Departmental Expenditure Limits of the Chancellor's departments was projected to rise by an annual average of 1.1% in real terms, compared with an annual average for Departmental Expenditure Limits as a whole of 4.2%.[33] The total budget of the HMRC was to rise, from £4,582 million in 2005–06 to £4,891 million in 2007–08. The budget of the Treasury was to stay almost static over the same period. The overall budget of the ONS was to fall in nominal terms over the same period, from £181 million in 2005–06 to £173 million in 2007–08. The overall combined administration budget of the Chancellor's departments was to remain static in nominal terms between 2005–06 and 2007–08.[34]

12. In order to ensure that services were maintained and improved during this period of relative budgetary restraint, efficiency targets were established for the forthcoming spending period. Within the 2004 Spending Review, the following overall targets were set for the Chancellor's departments taken together:

- to achieve savings with an annualised monetary value of £550 million by 2007–08, of which at least half were to be cashable;
- to secure a gross reduction in FTE posts of 16,850 by April 2008, comprising 13,350 actual post reductions and 3,500 posts reallocated to "front-line" roles;
- to relocate 5,050 posts away from London and the South East by 2010.

Tables 1 to 3 show the targets of different departments and offices among the Chancellor's departments in more detail. The figures in Table 3 are those contained within departments' 2005 Efficiency Technical Notes, rather than the earlier figures from the Spending Review.

33 *SR 2004*, Table A.4, p 185

34 *Ibid.*, Table 21.1, p 167

**Table 1: Monetary targets for the Chancellor's departments**

| Department | Annual value of monetary efficiency target to be achieved by 2007–08 |
|---|---|
| HM Revenue & Customs (HMRC) | £507 million |
| Office for National Statistics (ONS) | £25 million |
| HM Treasury | £11.9 million |
| Debt Management Office (DMO) | £1 million |
| Office of Government Commerce (OGC), including OGCbuying.solutions | £5.8 million(1) |
| Government Actuary's Department (GAD) | £0.12 million |
| **Total** | **£550.82 million** |

*Note: (1) includes OGCbuying.solutions target of £1.8 million*

*Source: HMRC ETN 2005, p 1;  ONS ETN 2005, para 9; HMT Group ETN December 2005, paras 2.4-2.5, 3.3, 4.7, 5.3*

**Table 2: Headcount reduction targets for the Chancellor's departments**

| Department | Gross reduction in posts(1) | Re-allocations to "front-line" posts(1) | Net reductions in posts after re-allocations(1) |
|---|---|---|---|
| HMRC | 16,000 | 3,500 | 12,500 |
| ONS | 700 | 0 | 700 |
| HM Treasury group(2) | 150 | 0 | 150 |
| **Total** | **16,850** | **3,500** | **13,350** |

*Note: (1) Financial Year averages for permanent staff, measured on a Full Time Equivalent (FTE) basis; (2) headcount reductions were expected from core Treasury alone*

*(2) HM Treasury Group is comprised of HM Treasury, OGC, OGCbuying.solutions and DMO. All these departments are included within HM Treasury's reporting on the efficiency programme.*

*Sources: HMRC ETN 2005, p 1; ONS ETN 2005, para 13; HMT Group ETN 2005, para 2.7*

**Table 3: Relocation targets for the Chancellor's departments**

| Department | Expected relocation 2004–08 | Expected relocation 2008–10 | Total expected relocation to 2010 |
|---|---|---|---|
| HMRC | 1,950 | 2,300 | 4,250 |
| ONS | 600 | 250 | 850 |
| HM Treasury group(2) | 26.5 | — | 26.5 |
| **Total** | **2,576.5** | **2,550** | **5,126.5** |

*Note: (1) Financial Year averages for permanent staff, measured on a Full Time Equivalent (FTE) basis; (2) Figure for relocations is not in Gershon. Figure of 18 relocations according to Lyons, and, figure of 26.5 relocations only found in Introduction to HMT 2005 ETN*

*Sources: HMRC ETN 2005, p 1; ONS ETN 2005, para 14; HMT Group ETN 2005, para 1.6*

## Comparisons between the Chancellor's departments

13. Although much of the analysis in this Report relates to a specific department or office, it is important at the outset to understand how the targets of the different departments compare. Tables 4 to 6 compare the various departmental targets as percentages of initial baselines set out in ETNs.

**Table 4: Comparison of monetary efficiency targets between Chancellor's departments[35]**

| Department | Monetary Baseline £ million | Savings target £ million | Savings target as a proportion of baseline % |
|---|---|---|---|
| HMRC | 4,191 | 507 | 12.1 |
| ONS | 177 | 25 | 14.1 |
| HM Treasury group(1) | 212 | 18.7 | 8.8 |
| GAD | 1 | 0.12 | 11 |

*Note: (1) comprises HM Treasury, OGC and DMO*

*Source: HMRC ETN 2005, p 1;  ONS ETN 2005, para 9; HMT Group ETN December 2005, paras 2.4-2.5; GAD Spring Departmental Report, 2006, p 11*

35 The baseline is the Departmental Expenditure Limit for the department in question in 2004–05.

**Table 5: Comparison of headcount reduction targets between Chancellor's departments[36]**

| Department | Headcount Baseline | Target for gross reduction in posts(1) | Headcount target as a proportion of baseline % |
|---|---|---|---|
| HMRC | 98,337 | 16,000 | 16.3 |
| ONS | 3,450 | 700 | 20.3 |
| HM Treasury group(2) | 1,720 | 150 | 8.7 |
| GAD | 106 | 0 | 0 |

*Notes: (1) Financial Year averages for permanent staff, measured on a Full Time Equivalent (FTE) basis; (2) comprises HM Treasury, OGC and DMO*

*Sources: HMRC ETN 2005, p 1; ONS ETN 2005, para 13; HMT Group ETN 2005, para 2.7.*

**Table 6: Comparison of 2010 relocation targets between Chancellor's departments[37]**

| Department | Headcount Baseline(1) | Target for relocation by 2010 | Relocation target as a proportion of headcount baseline % |
|---|---|---|---|
| HMRC | 98,337 | 4,250 | 4.3 |
| ONS | 3,450 | 850 | 24.6 |
| HM Treasury group(2) | 1,720 | 26.5 | 1.5 |
| GAD | 106 | 0 | 0 |

*Notes: (1) Financial Year averages for permanent staff, measured on a Full Time Equivalent (FTE) basis; (2) comprises HM Treasury, OGC and DMO*

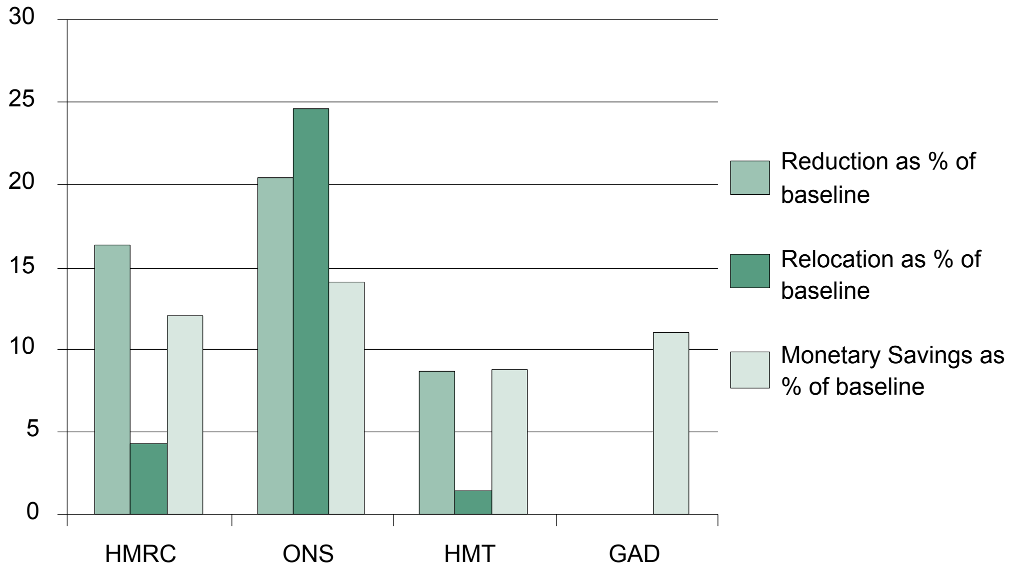
*Sources: HMRC ETN 2005, p 1; ONS ETN 2005, para 14; HMT Group ETN 2005, para 1.6*

36 The baseline is the headcount baseline for the headcount reduction programme.

37 The relocation targets in Table 6 are also shown as a percentage of each department's staffing baseline, as used for the headcount reduction, although it should be noted that this is a device utilised for the sake of clarity, rather than part of the actual process for planning the relocation programme.

Chart 1 summarises the figures in the concluding columns of Tables 4 to 6.

**Chart 1: Headcount targets of Chancellor's Departments as percentage of baseline**




14. Several trends are apparent from Tables 1 to 6 and Chart 1. First, at least by comparison with initial baselines, the efficiency targets for the ONS were more stretching than those for the other Chancellor's departments. Second, on the basis of the same baselines, the overall targets for ONS and HMRC both appear to be more demanding than those for HM Treasury group or GAD. Third, it is evident that relocation plays a far larger role in the efficiency programme of the ONS than in that of the other Chancellor's departments, a point which will become relevant when we consider the experience of the programme in the ONS in more detail.[38]

15. Dr Jennifer Law of the University of Glamorgan argued that "there was no real justification for particular targets"[39] and observed that:

> It is sometimes difficult to see how appropriate some of the targets are … for example, why some parts have particular targets and why their target was determined at particular levels. There are lots of good practice guidelines about how to set targets involving staff … but very little information to see how [the Government] came to this particular level for [the] targets.[40]

Mr Macpherson defended the proportionate differences between the targets for the ONS and HMRC and those for the Treasury group, referring back to his earlier statement that targets were reached on the basis of dialogue with departments:[41]

38 See paragraphs 34-42, 50-54.

39 Q 325

40 Q 324

41 See paragraph 5.

> It may be that if you look across the group we [HM Treasury] may have a marginally less challenging target … this was my point about not imposing across the board some flat rate thing, you have to look at the shape of the organisation.[42]

## Comparisons with the overall programme across Government

16. On the basis of the evidence taken by this Committee and its predecessors on the efficiency programme across Government as a whole and the evidence received during the Sub-Committee's inquiry, it is possible to compare the programme in the Chancellor's departments with the overall programme. Most Government departments devote much of their budgets within their own control—expenditure within Departmental Expenditure Limits—to programme expenditure, deploying their resources on the purchase of goods and services. Only a small proportion of the budget of most departments is spent on running the department itself: thus, in 2007–08, the administration budgets of the Home Office, the Department of Trade and Industry and the Department for Environment, Food and Rural Affairs were 4.5%, 5.4% and 8.0% respectively of their Departmental Expenditure Limits. In contrast, 95.3% of the total Departmental Expenditure Limit for the Chancellor's departments in 2007–08 was composed of administration budgets, so that the bulk of savings had necessarily to be secured from within the Chancellor's departments' administration expenditure.[43] Across central and local government as a whole, procurement accounted for 40% of efficiency savings reported by December 2006.[44] Mr John Oughton, the then Chief Executive of the OGC, told us in March that procurement had generally proved to be "the earliest area of gains" and the "easiest to measure".[45] For the Chancellor's departments, with their relatively small programme expenditure, procurement constituted only a small proportion of the overall targeted savings: procurement was expected to achieve 10% of savings in the ONS and 20% of savings in HMRC.[46]

17. The relatively low targets for savings from procurement and the high proportion of their budgets that the Chancellor's departments spend on running themselves explain the preponderance of headcount reductions in the efficiency programmes of the Chancellor's departments, and of HMRC and the ONS in particular. In 2004 our predecessors were told that the headcount reductions were expected to achieve between 10% and 15% of the overall monetary savings target across central and local government.[47] However, for the ONS and HMRC, headcount reductions were expected to account for 72% of achievement against their respective monetary efficiency savings targets.[48]

42 Q 249

43 *Public Expenditure Statistical Analysis 2007*, Tables 1.9 and 1.12

44 HC (2006–07) 389–I, Table 6

45 *Ibid.*, para 73

46 HMRC Efficiency Technical Note 2005, p 2; ONS Efficiency Technical Note 2005, para 10

47 See paragraph 7.

48 HMRC Efficiency Technical Note 2005, p 2; ONS Efficiency Technical Note 2005, para 10

18. We have previously noted evidence that headcount reductions have the potential to distort efficiency targets—for example, by encouraging a shift to the use of consultants.[49] Professor Talbot told the Sub-Committee that

> headcount targets … were dispensed with in most of the public sector in most of the OECD countries in the 1990s precisely because it was a fairly useless target for determining the efficiency of anything. One of the reasons you have seen reconfigurations of the workforce is … to introduce people on lower grades and lower pay rates to deal with some of the jobs they can deal with … you cannot do that if you have a headcount target.[50]

In evidence to us in March 2007, Mr Oughton indicated that, for some departments, there were "some remaining challenges" in achieving the headcount reductions by the initial target date of 1 April 2008.[51] The then Financial Secretary to the Treasury, John Healey MP (hereafter the Minister), accepted in evidence to the Sub-Committee that the high percentage of the overall budget of the Chancellor's departments taken up by their administration budgets meant that headcount reductions would be the main source of savings, but said that he was

> confident on the evidence so far that by the time we reach the target point on the SR04 headcount, the Chancellor's departments and the core Treasury group departments will achieve the targets that were set for them. In the end, that is the principal justification of the way it was set up in the first place.[52]

## Conclusions

19. **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.**

49 HC (2005–06) 994–I, para 79

50 Q 328

51 HC (2006–07) 389–I, para 76

52 Q 355

# 4 Overview of reporting and monitoring

## Introduction

20. As part of the framework for the efficiency programme established in the 2004 Spending Review settlement, the Government promised "measurable efficiency targets for which departments will be publicly accountable".[53] The precise measures and methodologies for assessing efficiency gains were to be set out transparently and other steps taken to facilitate "effective and continuing parliamentary and public accountability systems for the delivery of agreed efficiency targets".[54] In the successive examinations we have undertaken of the efficiency programme across government, we have highlighted continuing areas for improvement in the reporting and monitoring of the efficiency programme, most notably relating to the status of monetary savings and the monitoring of quality of service.

## Reporting monetary savings

21. The overall monetary gains reported under the efficiency programme across central and local government have seemed impressive, with total annual savings reported at £4.7 billion by September 2005, £6.4 billion by December 2005, £13.3 billion by September 2006 and £15.58 billion by the end of December 2006.[55] However, in our previous analysis of the efficiency programme we have emphasised the shortage of information that would reinforce confidence in such figures.[56] In February 2006, the National Audit Office (NAO) published a study of the efficiency programme which indicated that the savings of £4.7 billion reported at the time of the 2005 Pre-Budget Report "should be regarded as provisional and subject to further verification, given the degree of risk that efficiencies may not be measured accurately".[57] Following that study, the OGC worked with the NAO to develop a new framework for assessing and reporting efficiency gains, which required departments to classify gains as "preliminary", "interim" or "final".[58] In January 2007, we recommended that the Treasury publish overall gains across government according to their classification as "preliminary", "interim" or "final" and require departments to do the same in their departmental annual reports and autumn performance reports.[59]

22. In February 2007 the NAO published a further study of the efficiency programme which included its own assessment of the status of reported monetary savings:

> In terms of the £13.3 billion of efficiency gains reported [across government] at September 2006, we assessed their reliability as follows: £3.5 billion (26%) fairly represent efficiencies made; £6.7 billion (51%) represent efficiency but carry some

53 *SR 2004*, para 2.34, p 25

54 *Ibid.*, paras 2.35, 2.37, p 25

55 HC (2005–06) 739, para 71; HC (2005–06) 994–I, para 72; HC (2006–07) 115, para 40; HC (2006–07) 389–I, para 70

56 HC (2005–06) 739, para 74

57 National Audit Office, *Progress in improving government efficiency*, HC (2005–06) 802–I, para 10, p 5

58 HC (2006–07) 115, para 45

59 *Ibid.*, para 47

> measurement issues and uncertainties; and £3.1 billion (23%) may represent efficiency, but the measures used either do not yet demonstrate it or the reported gains may be substantially incorrect.[60]

23. Following the 2007 Budget, the OGC published the Government's own assessment of the status of the £15.58 billion savings reported by the end of December 2006, indicating that 68% of those savings were final, 22% were interim and 10% were preliminary.[61] In March 2007 we asked Mr Oughton to reconcile the classifications by the OGC and the NAO and he replied:

> I think the NAO Report is actually very fair about the Efficiency Programme. It has classified the efficiency gains under three headings, and of course I have agreed to the facts in the NAO Report. It talks about a proportion, about a quarter of the gains which are regarded as fairly representing the efficiencies made, just about a half representing efficiencies but carrying some measurement issues and uncertainties, and about another quarter where there may be efficiencies taking place but the measures used either do not yet demonstrate efficiencies or the reported gains may be substantially incorrect. The NAO is therefore saying that in three-quarters of the cases, what we have presented by way of numbers represents efficiency. That middle block of amber efficiencies is not "potential" efficiencies, "some" efficiencies, or "it might be" efficiencies, the NAO Report says very clearly that it represents efficiency. So I do not think there is very much between us, frankly, because the NAO is saying a very large proportion of this programme does fairly represent efficiencies; but there are measurement issues that still need to be resolved, and I agree with that.[62]

24. During the present inquiry, Mr Macpherson was asked how far he agreed with the NAO's classification of savings, with around 50% carrying some measurement issues and uncertainties and around 25% still to be demonstrated. He replied:

> You would expect the NAO to be extremely rigorous. I do wonder sometimes whether they may have been excessively purist in their pursuit of high-quality measurement. What is clear is that this is a very big programme starting pretty much from scratch in 2004. I think the measurement has improved as it has gone along, we actually welcomed the NAO's contribution to this debate. The vast majority of savings are clearly there and I have got a high level of confidence in the overall data, but there is still scope for improving it further and as we enter the next phase I hope we can build on the progress made on measurements to get even better data.[63]

Later in the same oral evidence session, we suggested to Mr Macpherson that his description of the NAO as "excessively purist" may have been unfortunate. Mr Macpherson responded: "I did not think I said it was 'excessively purist', I said, 'Some might say it was excessively purist'."[64] This attempt at clarification is contradicted by the

60 Ev 62

61 HC (2006–07) 389–I, para 74

62 HC (2006-07) 389-II, Q 225

63 Q 269

64 Q 315

record of his earlier statement. He subsequently explained that he had not intended to criticise the NAO, stating "The NAO is a good thing, and the Treasury and the NAO are allies … I may have been flippant and, if so, I apologise to the NAO unreservedly".[65]

25. Towards the conclusion of the Sub-Committee's inquiry, the departmental annual report of the Treasury was published.[66] This failed to implement our January 2007 recommendation that such reports should include an indication of whether reported savings have been classified as final, interim or preliminary.

26. **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.**

## Monitoring quality of service

27. As we have already noted, one of the key principles underpinning the Gershon efficiency programme has been the requirement that there could be no reduction in outputs, including quality of services, as a result of the efficiencies made.[67] This means that any "efficiency saving" which results in a reduction in outputs or deterioration in quality of service must be excluded from the recorded efficiency gains. Professor Talbot asserted that to adhere to this principle, it is therefore essential to have in place robust systems for measuring such quality, including effects which may not relate directly to the area in which the efficiency is being sought.[68]

28. A thread which has run through our previous examination of the efficiency programme across government has been the shortage of information about the impact of the programme on quality of service. In March 2006, Treasury officials acknowledged that further work was needed to ensure that quality of service was not affected by the programme and indicated an intention to undertake such work.[69] Subsequently, the OGC initiated a new reporting system which required senior management in departments to sign off on the accuracy of reporting efficiencies and provide assurance that quality of service had been maintained.[70]

65 Q 317

66 HM Treasury, *HM Treasury Annual Report and Accounts 2006–07*, HC (2006–07) 518, June 2007

67 See paragraph 4.

68 Q 326

69 HC (2005–06) 994–I, para 74

70 HC (2006–07) 389–I, para 75

29. In January 2007, we expressed concern that the Treasury and the OGC, in their oversight of and reporting on the Gershon efficiency programme, "may not have made sufficient allowance for the risk that claimed efficiency savings might not be delivered without a reduction in the quality of service".[71] We recommended that the Treasury undertake research into the quality of measures in place within departments to provide assurance that efficiency savings did not lead to a reduction in the quality of services delivered or products provided, and publish the outcome of such research no later than the 2007 Pre-Budget Report.[72] The Government rejected this recommendation, arguing that the way forward lay in continued monitoring of the quality of service measures already in place.[73]

30. In March 2007, Mr Oughton told us he thought that departments themselves were best-placed to measure the effect of efficiency measures on quality of service, although he emphasised that figures provided by departments were challenged and validated by the OGC and were open to audit by the NAO or the Audit Commission.[74] Mr Macpherson also emphasised the importance of the role of departments themselves in monitoring progress:

> The Treasury's position … is that we want sufficient confidence that departments have a plan for achieving their agreed efficiency savings; that they broadly know how they are going to do it and that they will then report to us … once a quarter … beyond that it is not for us to tell them how to do it.[75]

Similarly, the Minister pointed out that:

> We have been very clear that departments must, in their quarterly returns to OGC, confirm that there has been no deterioration in the quality of service in the areas to which they are also trying to record and then have validated the efficiency gains.[76]

The NAO's study in February 2007 argued that the OGC should ensure that efficiency gains were subject to greater challenge before they were reported than was currently the case.[77]

31. In evidence to the Sub-Committee, Dr Law questioned the overall quality of the Chancellor's departments' efficiency measurement, arguing that they were

> not as robust as I think would be appropriate. There are quite a lot of details about how different measures of efficiency are going to be used … in many cases there is lots of evidence about, 'here is how we are going to measure efficiency', but there is

71 HC (2006–07) 115, para 51

72 *Ibid.*

73 Treasury Committee. Third Special Report of Session 2006–-7, *The 2006 Pre-Budget Report: Government Response to the Committee's Second Report of Session 2006–07*, HC 423, p 8

74 *Ibid.*

75 Q 262

76 Q 356

77 Ev 63

> almost no evidence about, 'and here is how we are going to measure the quality of that service'.[78]

Professor Talbot added that:

> You can quite easily get system effects that are negative around specific targets which appear to be saving money. You can only tell if you have a robust set of measures for the way the whole system is performing, and I am certainly not confident that we have got that across any part of central government.[79]

Dr Law also drew attention to the value to be had from seeking input from customers and stakeholders in the measurement of quality of service:

> I think it is extremely good practice to involve service users in determining what they think service quality should be … there has been work done in the past on what sort of things consumers of general public services find important. It is not particularly difficult to do that [and] … it is highly significant in terms of providing public services that are improving.[80]

32. Dr Law considered that there were no indications that the Government would report publicly on efficiency measures. She argued that, in order to demonstrate progress on the efficiency programme and its effect on quality of service, the Government ought to specify a series of external objectives which were then reported against by each department.[81] A number of other witnesses, including the Chartered Institute of Taxation and the Institute of Chartered Accountants of England and Wales, also advocated the establishment of systems for the external validation of efficiency measurement specifically in the Chancellor's departments.[82] Professor Talbot pointed out that "quite a lot" of such external validation was "used in other Government departments. I am not aware of them currently being used in HMRC or any of the other Chancellor's departments, but they are used elsewhere".[83] Mr Macpherson argued that such an approach would be too costly and time-consuming and was therefore not warranted.[84]

33. **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**

78 Q 327

79 Q 326

80 Q 332

81 Qq 325, 329

82 Ev 92

83 Q 340

84 Qq 232–233

**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.**

# 5 The efficiency programme in the Office for National Statistics

## Introduction

34. As part of the 2004 Spending Review, the ONS was set ambitious efficiency targets, being required to secure annual efficiency savings of £25 million by 2007–08—equating to around 14% of is baseline budget—as well as a net reduction of 700 posts from its baseline staff complement by 1 April 2008 and the relocation of 600 staff by that date and a further 250 staff by 2010.[85] All these targets were to be met within the context of an overall budget that was falling in nominal terms between 2005–06 and 2007–08.[86] This chapter examines the formulation of these targets, performance against them and wider issues relating to the quality of statistics produced by the ONS. It seeks to analyse the separate strands of the programme and explore their interaction with each other and with wider changes affecting the ONS.

## Targets and plans for relocation

### *The ONS in 2004*

35. It is apparent from much of the evidence received by the Sub-Committee that relocation is central to the story of the efficiency programme in the ONS. In 2004, the ONS had offices at three main locations:

- Newport, South Wales, where approximately 1,200 staff were based;
- Titchfield, near Fareham, in Hampshire, where between 600 and 800 staff were located; and
- London, where approximately 1,000 staff were based.

The London office was based in two sites: the main office in Drummond Gate, Pimlico, and the Family Records Centre in Islington, which housed the Registration Service.[87] Ms Karen Dunnell, the National Statistician, stressed that Newport was already the largest office of the ONS at the outset of the efficiency programme, with a complement of 1,200 posts at that time. Relocation to Newport was not a case of movement to a new site, but represented the strengthening of an existing site which had, according to Ms Dunnell and Mr Macpherson, all the necessary facilities to accommodate additional staff.[88]

85 *ONS ETN 2005*, paras 9–10

86 See paragraph 11.

87 ONS website – "Recruitment: Where are we?". There is also a General Register Office (GRO) in Southport, which was not included within the plans for the relocation programme and was not affected by any of the changes to the relocation targets.

88 Ev 109; Q 255

## *The evolution of the relocation targets*

36. The relocation plans of the ONS have passed through several distinct phases since the start of the efficiency programme. Even in the course of 2004, it is possible to identify two distinct stages, the first concluding with the publication of the Lyons Report in March 2004 and the second concluding with the publication of the Gershon Report in July 2004. The plans set in 2004 have subsequently been subject to significant revision.

37. When the Lyons Report was published in March 2004, the ONS was offering 1,228 posts for relocation to Newport from London and the South-East by 2010. These relocation plans had two elements. First, the ONS had proposed "a radical restructuring of the department that would see the London head office of approximately 1,000 staff reduced to around 400 posts that have regular contact with ministers, and other key London stakeholders".[89] Second, the ONS proposed to move out of the Titchfield site altogether, resulting in that site's closure.[90] At that time, in March 2004, the ONS proposed to begin implementing the plan in 2007, although the Lyons review contended that "there is a strong case for bringing this work forward".[91]

38. By July 2004, when the Spending Review was finalised, the ONS had revised its plans. It now proposed to relocate fewer posts—approximately 800—by 2010.[92] Evidence from the PCS union suggested that the differences between the plans referred to in the Lyons Review and those referred to in July 2004 reflected a change of plan for the Titchfield site: in May 2004 the original plan to close that office was abandoned and a new plan was formulated, which envisaged that by 2010 approximately 550 posts would move from London to Newport and around 200 from Titchfield to Newport.[93] At this stage, in July 2004, there appeared to be a general expectation that a core of approximately 400 staff would remain in London.[94] Dean Rogers of the PCS claimed that a subsequent study by the ONS had concluded that "to go below 350 [staff] in London, particularly on the statistical side, was a critical number that provided critical risk to delivery of outputs".[95]

39. In the course of 2006, the ONS undertook further planning work on relocation, which led to a further change in the proposed balance of the sources of relocated posts. According to unions, these plans reflected a decision to abandon proposals to relocate 200 posts from Titchfield based on a finding that "Titchfield was actually cheaper than Newport".[96] Ms Dunnell gave the Sub-Committee a somewhat different account of the development of the latest relocation plans:

> During 2006, the relocation plans were extended to cover 2008 to 2010. This resulted in the development of an options paper, looking at the future of the London site. A

89 Lyons, Annex A – Departmental Summaries, pp 100–102

90 *Ibid.*, p 101

91 *Ibid.*, p 102

92 Gershon, *Ibid.*, Table 4.2, page 31 – the total for the Chancellor's departments is 5,050 – of which 4,250 posts were to be from HMRC.

93 Ev 130

94 Ev 133, para 6; Qq 88, 116, 128

95 Q 116

96 *Ibid.*

> business case was subsequently developed and considered by the ONS Board in December 2006. In January 2007, the ONS Board informed staff that it was recommending that all statistical work should eventually move out of London, with between 50 and 100 posts remaining in London at April 2010 and most of these to relocate subsequently.[97]

The justification provided by the ONS for the change in the London relocation target was that there were a range of monetary and operational benefits from the relocation which would be increased to the point at which they would outweigh the risks of closing down the London office. Ms Dunnell believed that "consolidation on two sites has many benefits" and that both the risks and the requirements of face-to-face contact with key customers in London were "manageable".[98] The benefits mentioned included those arising from having statisticians working on similar projects sitting alongside each other rather than being split between different sites, increased staff motivation due to greater opportunity for development and promotion, and the monetary benefits for the ONS arising from the fact that Newport's office space was five time cheaper than that of London.[99] The Minister emphasised that the change in 2006 had been to the source of relocated posts, not to the number of posts subject to relocation, arising from the conclusion that "the right way to approach this, [was] essentially to locate the bulk of ONS's professional staff and statistical work in two places rather than three—in Titchfield and Newport".[100]

### *Planning for relocation*

40. Mr Macpherson emphasised that the relocation targets for the ONS had not been imposed upon the Department, but had arisen from a process in which the ONS was fully involved:

> All I can tell you is that the target was agreed, there was extensive discussion, not least because I can remember being pleasantly surprised by the numbers which ONS were bringing to the relocation party and that was not us imposing, that was actually reflecting real dialogue and enthusiasm, potentially, for that agenda.[101]

The general thrust of evidence to the Sub-Committee from unions representing staff of the ONS, the Statistics Commission and representatives of statistics users was that they had not been invited to "the relocation party" and had not participated in a real dialogue on the process. Witnesses pointed to the lack of concrete information about the plans for the relocation programme, and sometimes even about what the official targets were.[102]

41. The unions argued that no business case for the relocation programme had been made available and that the information they had obtained was flawed and lacking in detail.[103]

97 Ev 109

98 *Ibid.*, para 12

99 *Ibid.*, Ev 108; Qq 139, 145, 185

100 Qq 362-3

101 Q 267

102 Qq 85, 93, 112

103 Qq 112, 116

Steve Newman, the Director of Finance and Planning at the ONS, rejected these suggestions, stating that

> the business case was built up on relocating a number of people, disposing of surplus property and all of those have been logged in the business case. So how they [the union representatives] can say it is flawed from a financial perspective I do not know.[104]

Following Mr Newman's evidence, the Sub-Committee requested and received a copy of the business case for the relocation, which comprised a two-page document setting out the main types of work to be covered at each site, spreadsheets showing the number of posts to be relocated for 2008, and the number of posts to be relocated to 2010. However, the document provided to the Sub-Committee did not include any narrative explaining the relocation process, the strategy for the relocation or how the relocation figures were arrived at.

### *Conclusions*

42. **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.**

## The monetary target and the modernisation programme

### *Reported savings*

43. As part of the 2004 Spending Review, the ONS was tasked with achieving efficiency savings with an annual value of £25 million by 2007–08. By the end of December 2006, the ONS had reported monetary savings with an annual value of £22.6 million, equivalent to around 90% of its overall target, and was on track to exceed its target by £10 million by the end of 2007–08.[105] The majority of these reported monetary savings arose from improvements in statistical outputs achieved through several "improvement projects", although "cash efficiencies have also been derived from a wide range of initiatives aimed at removing obsolete tools, systems and processes" and restructuring the business of the

104 Q 193

105 Ev 102, 106

ONS, "both organisationally and geographically".[106] Although the improvements in statistical outputs are non-cashable savings, £16 million of the savings reported—around two-thirds of the total reported savings—are considered to be cashable.[107] The ONS told the Sub-Committee that the £10 million of additional savings expected to be reported by March 2008 would be non-cashable, originating from the category of "statistical benefits".[108]

## *The modernisation programme*

44. In parallel with the efficiency programme, the ONS has undertaken a modernisation programme, including projects aimed at replacing its older computer systems, updating its processes to obtain the operational benefits of recent IT developments and re-engineering the National Accounts.[109] The Bank of England told us that the modernisation programme had

> … significant prospective benefits, in particular for the National Accounts. Modernisation will mean more reliable and coherent data that are less prone to revision, taking on latest information and improved methods on a much more timely basis. It will also increase the Bank's ability to relate supply and demand to each other.[110]

Several ONS stakeholders told the Sub-Committee that the modernisation programme, had not delivered on three of its projects.[111] The ONS did not dispute the general picture painted by other witnesses of the modernisation programme running behind schedule despite significant investment,[112] although Ms Dunnell assured the Sub-Committee that the ONS was in a constant process of monitoring and re-evaluating the programme.[113]

45. One project within the modernisation programme relates to the movement of the processes for statistical registration of births and deaths to a web-based national system. This project suffered a setback when it was rolled out on a nationwide basis and it was found that access to the system was not possible for 46% of registration offices. These offices have reverted to the old method of using their local network, and ONS officials stated that they were working hard to address all the issues and get all offices online as soon as possible.[114] The Sub-Committee was told that the weekly death statistics would be reintroduced from early May,[115] but this was later clarified by ONS in writing:

106 Ev 102

107 Q 209

108 Ev 102, 106; Q 208

109 Ev 108

110 Ev 143

111 Ev 123, 128; Qq 89, 124

112 Qq 89, 124, 207

113 Q 134

114 Q 195

115 Q 205

> The resumption of outputs is not straightforward because the existing systems for estimating weekly deaths depend on comparisons between data received in ONS for that week and data from the same register offices six weeks previously. We may therefore need at least six weeks of reliable data being received before we can make estimates that are sufficiently robust.[116]

At present, there are still no weekly death statistics available.[117]

46. We have noted earlier that the framework for reporting efficiency gains incorporates the key principle that financial savings will not be reported as efficiency savings if they result in a reduction of outputs.[118] Applying that principle, it would appear that any gains from web-based registration ought not to be reported as efficiency gains. The ONS Director of Finance and Planning suggested that such an exclusion would not affect forecasts for annual monetary savings by the end of 2007–08 of £35 million because "there is very little that was ever expected from the modernisation programme in our efficiency from day one so therefore it is not affecting our £35 million at all".[119] The senior management of the ONS also went on to say that, once the problems had been resolved, the costs of resolving these issues would be included within the calculations of the monetary efficiency gains.[120] **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.**

## Headcount reductions

47. Under the efficiency programme, departments are set a target for headcount reductions, progress against which is measured by scoring changes in post numbers attributable to the efficiency programme against a baseline. It is important to note that headcount reduction targets relate to changes in Full-Time Equivalent (FTE) posts arising from the efficiency programme. This means that there can be situations in which departments may increase or decrease their overall complement without that affecting measurement of progress against the Gershon headcount reduction targets, provided that the changes are not considered to have arisen from the efficiency programme. Under the 2004 Spending Review, the ONS was set a target to reduce its staff headcount by 700 posts. The 2005 ETN indicated that this reduction was from a baseline of 3,450. However, the baseline had increased by 860 posts to 4,310 in the 2006 ETN.[121] The Treasury stated:

> Although an increase in staff resource was required during the initial stages of the efficiency programme which was mainly due to a sharp increase in public demand

116 Ev 112

117 ONS Website – "Statistics Calendar"

118 See paragraph 27

119 Qq 207-208

120 Q 204

121 ONS ETN 2005, para 13; ONS ETN 2006, para 4.10

> for registration certificates, extra investment in ONS's statistical modernisation programme and preparing for the 2011 Census, ONS has made very good progress towards its headcount target. The workforce was reduced back to its original baseline and a further 200 FTE posts saved by December 2006 (last published figures) giving a total reduction of around 650 FTEs since March 2005.[122]

Without further information on the process ONS has used to score headcount reductions, and an explanation of the figures, we cannot reconcile the information in the Treasury submission with the ONS's 2005 and 2006 ETNs.

48. Taking account of the latest baseline, it was reported that by December 2006 the ONS has secured an overall net reduction of 237 FTE-equivalent posts, or 34% of its overall target for the end of 2007–08.[123] The Minister pointed out that "the pacing of the reductions will vary from department to department" and thought that there was "no reason to believe in the case of the Office for National Statistics that we should not see towards the end of the period covered by the 2004 Spending Review period an acceleration in the pace of the headcount reduction".[124]

49. In the ONS ETN promulgated in 2005, it was stated that the reduction of 700 posts would be equivalent in annual monetary value to £18 million.[125] It was thus expected that headcount reductions would account for around 72% of the overall monetary savings achieved by ONS. As we have seen, the ONS has already reported monetary savings of £22.6 million, equivalent to around 90% of its overall target.[126] **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.**

122 Ev 106

123 Ev 102

124 Q 346

125 ONS ETN 2005, para 10

126 See paragraph 43.

## Overall effects of the ONS efficiency programme

### *Effects of the relocation programme*

50. The Sub-Committee received a great deal of evidence relating to the effects of the ONS efficiency programme, including the potential effects on the prospective future quality of statistics. It has not proved easy to disentangle the various factors which are said to underpin effects and risks, but much evidence has centred on the possible effects of the ONS relocation programme. That programme is now well underway. By December 2006, the ONS had relocated 213 posts against a target of 600 by the end of 2007–08.[127] Both the Minister and Ms Dunnell assured the Sub-Committee that the relocation programme was progressing as planned, indicating that the pace of the relocation would increase as the transition process continued and that the targets would therefore be met.[128]

51. Relocation in the ONS appears to be about moving posts, rather than moving people. As Ms Dunnell explained, the expectation for the ONS relocation programme was that only 10% to 15% of London-based staff would transfer to the Newport office, with the balance of posts being filled by new applicants.[129] The current rate of staff choosing to move with their posts has so far been slightly higher than planned: of the 213 posts relocated by December 2006, 50 staff members have chosen to move.[130] Notwithstanding the high levels of loss of experienced staff, the ONS and the Treasury were confident of finding the necessary staff to fill the posts relocated to Newport.[131] Mr Macpherson and Ms Dunnell both asserted that there were a number of good universities in the area around Newport. They also noted that there were fewer rival employers for such specialist staff in Newport than in London, so that retention was likely to be less of a problem in Newport.[132] Mr Macpherson went so far as to say that he was "confident that not only will the accommodation be cheaper but also actually the quality of staff, not just in the short-term, but also over the medium and long-term will be significantly higher".[133]

52. Ms Dunnell explained that another action to counter the risk of losing the expertise of the staff who would not be relocating to Newport was the planned handover process. She referred to the RPI and CPI teams as an example:

> People are coming up from Newport to sit side-by-side with staff in London while the RPI and the CPI are produced, and gradually those skills will be transferred. We have in recent weeks appointed two Grade 7 statisticians to lead on the work in Newport … We have a very clear plan about how that work will gradually, over a matter of months, migrate from one place to the other and join up with this other

127 Ev 102

128 Ev 109; Q 346

129 Q 138

130 Ev 128

131 Q 146

132 Qq 255, 145

133 Qq 145–146, 255

> expert group. That is the way we have managed over the last two years, in exactly that same, planned way.[134]

The Minister also explained that the National Accounts team would be remaining in London until 2008, to ensure that the relocation did not pose a greater threat to the re-engineering process. [135]

53. Notwithstanding these measures and the confidence of official witnesses about the standard of staff to be recruited, both the Bank of England and the Royal Statistical Society (RSS) raised concerns about the loss of expertise and experience that could ensue if a large number of the London-based statisticians left the ONS as a result of the relocation programme. As the Bank of England stated:

> The relocation programme poses a serious risk to the maintenance of the quality of macroeconomic data. If substantial numbers of ONS staff are unwilling to relocate, the loss of skilled individuals could have a severe impact on a range of statistics, and possibly pose a risk to the successful implementation of National Accounts re-engineering. Hence it is vital that the relocation project is managed in a manner that does not pose a risk to either the quality of economic data or re-engineering.[136]

The RSS argued that:

> Of particular concern are areas of special expertise such as methodology and National Accounts. These are areas for which the Universities do not produce graduates or postgraduates with the required skills. Hence high quality statistical graduates and postgraduates must be recruited and then develop the advanced expertise through subsequent specialist training, professional development and work experience. Five years is the minimum period required to develop the skills of key staff in these areas and even longer periods for the future leaders.[137]

54. Trade unions representing ONS staff pointed to the risks associated with unplanned losses of staff in the course of the relocation programme. The FDA pointed to the results of a staff survey suggesting that "staff morale is disturbingly low", with only 11% of senior staff seeing themselves as well-managed and 92% of London-based staff seeing few prospects for improvement.[138] According to the FDA representative, "people are leaving … they are not waiting for the relocation; they are not waiting for the packages. Various quite senior civil servants have left willingly."[139] This has potential adverse consequences both for plans for retention of staff engaged in work that is not planned to leave London in the near future, such as the National Accounts project, and for the plans for parallel working prior to final handover to Newport. [140] Ms Dunnell admitted that she was worried by the low staff morale in the ONS. However, she pointed out that part of her strategy was to help all those

134 Q 139

135 Q 378

136 Ev 144

137 Ev 133

138 Ev 125

139 Q 127

140 Ev 111; Qq 135-136

who did not want to relocate to Newport to find jobs in other government departments in London, and to retain key National Accounts staff by paying them an extra 'London bonus'. The aim of these measures was to improve staff morale, and stop expert staff from leaving before they had had the chance to train the visiting Newport staff.

### *Wider concerns and the official response*

55. The concerns about the performance of and prospects for the ONS are not confined to issues relating to the relocation programme. In parallel with the efficiency programme, the ONS has also been undergoing a number of changes and undertaking a number of significant projects. In particular, submissions pointed to the importance of preparations for the 2011 Census, preparations for implementing the new statutory framework for statistics and the re-engineering of the National Accounts.[141] The RSS and the Statistics Commission expressed concern about the combined effect of the various programmes which the ONS was undertaking. The RSS submission argued that these programmes would

> consume an increasing amount of senior management attention in the coming years. Thus over the next four to five years ONS senior management face a very demanding set of conflicting challenges.[142]

According to Professor David Rhind, Chairman of the Statistics Commission:

> We think there are serious risks, which, of course, the staff are trying to manage … but it is the combinatorial [*sic*] effect of all of these: in our view, there is a heightened risk by one of these triggering another one. I cannot tell you what is likely to be the problem in two years' time but it would be an amazing achievement if ONS got through all of this period, with all of the changes that are going on, without something going wrong.[143]

56. The ONS's forthcoming work programme demonstrates some of the challenges that it already faces. The 2007–08 statistical work programme announced a number of cuts to sample sizes and surveys, which—according to the National Statistics Code of Practice—would usually have required twelve weeks' notice.[144] The issues relating to the National Accounts re-engineering and consequent temporary withdrawal of the Blue Book[145] have been discussed at length with the Bank of England and the Treasury.[146] However, Ms Dunnell admitted that all the other changes to the work programme, and the considerable cuts in sample sizes, had been carried out without any form of consultation and that the ONS had thus breached the National Statistics Code of Practice.[147] In mitigation, she

141 Ev 132; 134; Treasury Sub-Committee, *Preparations for the 2011 Census*, HC (2006–07) 326–i, Qq 18–19

142 Ev 132

143 Q 92

144 ONS, *2007-08 Statistical Work Programme,* section 2; ONS, *National Statistics Code of Practice*, Annex C, paragraph 5

145 The Blue Book presents the full set of economic accounts, or National Accounts, for the United Kingdom.They record and describe economic activity in the UK, and as such are used to support the formulation and monitoring of economic and social policies.

146 Q 133

147 Ev 143

pointed out that the ONS had explained the rationale for the changes to its stakeholders after announcing the cuts in the programme. However, this had not allayed all of the concerns of the Bank of England, which pointed out that

> the adjustments that have been made to other regular products in order to keep National Accounts re-engineering on track, such as reducing the sample sizes for earnings and service sector surveys, bring with them a sizeable risk of a reduction in data quality that will not be offset by planned improvements in methods—particularly at the disaggregated, or micro-data, level.[148]

The Bank of England also pointed to "the slower-than-expected progress on a number of statistical issues" and suggested that "measurement of prices in the services sector was still deficient".[149]

57. In response to concerns about the quality of outputs, Ms Dunnell argued that, "in terms of our outputs of statistics, we met our targets of time and quality 100% for our market-sensitive outputs and 99% for the other outputs".[150] Mr Macpherson appeared sceptical about the concerns expressed about the consequences of the move of further posts to Newport, asserting that "there has been quite a successful PR campaign around this whole issue of relocation".[151] Of the wider concerns, he said:

> Of course there are huge challenges going on with the statistical programme at present, not least because of exogenous forces … the organisation has big challenges. We all have an idea of a perfect set of statistics where we can always know what is going on everywhere, but the reality is you are never going to get quite to that point. The quality of British statistics is good but it can get better still and that is why we value the modernisation programme.[152]

58. The Minister contended that "the Bank of England … do not produce evidence or say that there has been deterioration in the quality of what the ONS is doing".[153] However, he went on to acknowledge that "the Bank of England has criticisms and concerns about the quality and the nature of some of the statistics the ONS is producing".[154] Among the concerns to which he referred was the disparity between the new Average Wage Index and the Average Earnings Index. The Minister made it clear that he felt the problem in that particular case was not linked to the efficiency and relocation programmes.[155]

59. Ms Dunnell assured the Sub-Committee that the ONS maintained risk registers for all of its ongoing projects, and that these registers were frequently monitored, updated and reported on within the organisation.[156] The Sub-Committee was not given access to any of

148 *Ibid.*

149 Ev 143

150 Q 130

151 Q 258

152 Q 256

153 Q 373

154 Q 375

155 Q 377

156 Q 159

these risk registers, but the ONS did provide a brief summary of the type of risks included within these documents. Professor Rhind told the Sub-Committee that the Statistics Commission had formulated its own risk register, which had been compared to the risk register of the ONS. [157]

60. Earlier in this Report, we referred to broad proposals for greater involvement of users and customers in the measurement of quality of service.[158] The Sub-Committee received suggestions of potential ways in which the ONS could demonstrate the progress of the efficiency and relocation programmes, and the monitoring of quality of its statistics. Dr Law noted that

> the ONS in its annual report talks about its key stakeholders, and that it has Service Level Agreements with key stakeholders, and they report in their latest annual report in the form of a narrative in terms of what a key stakeholder said … It would be fairly easy … to turn that into something a little bit more robust than just a narrative.[159]

Other evidence pointed to the value of formulating quality of service indicators with input from stakeholders.[160] A number of stakeholders expressed interest in involvement in the formulation of quality of service indicators and also supported the case for external validation of performance against such measures.[161]

## Conclusions

61. **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.**

62. Mr Macpherson acknowledged that the ONS was "an organisation that has to deal with a whole lot of changes and it is presenting challenges". He went on to say: "I am confident that Karen Dunnell and her team can deliver".[162] **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.**

63. According to the FDA's ONS representative: "at some of the meetings that we did have with the senior management … they admitted that the targets were too high and that they were going back to Treasury to try and get them reduced because they were really

157 Ev 110–111; Q 100

158 See paragraphs 31–33.

159 Q 329

160 Qq 332, 335-337

161 Qq 91-94, 113–115, 128

162 Q 258

concerned themselves about whether or not they could continue to reduce the output".[163] When we asked Ms Dunnell why she had taken on these targets with a high level of combined challenge, she stated that "all I can say is that every time we have had meetings with the Treasury to talk about our progress towards them, there is no let-up on these".[164] Mr Macpherson indicated that, if the ONS were having real problems with the efficiency and relocation targets, help would be provided:

> If we thought that things really had reached the point where there were real problems we would most definitely want to intervene … If it was ultimately that we had miscalculated the budget and actually they needed more money … then there are mechanisms for addressing that.[165]

There is an apparent difference in emphasis between the two witnesses. Ms Dunnell's words could be interpreted as implying that the targets were viewed by the ONS as non-negotiable, while Mr Macpherson seemed to imply that budgetary solutions were available. **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.**

64. **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.**

65. **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.**

66. **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**

163 Q 112

164 Q 141

165 Q 268

**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.**

# 6 The efficiency programme in HMRC

## Introduction

67. HM Revenue & Customs (HMRC) was set three main efficiency targets as part of the 2004 Spending Review—to secure monetary efficiency savings with a value of £507 million by the end of 2007–08, to obtain a gross reduction in posts of 16,000 by 1 April 2008 and to relocate 1,950 posts away from London and the South East by the same date.[166] These were to achieved with an overall budget that was rising by an annual average of 1.6% a year in real terms between 2004–05 and 2007–08, from £4,330 million to £4,891 million.[167] As we have seen, viewed as a proportion of baselines of budget and headcount, these targets were slightly less demanding than those imposed upon the ONS.[168] Mr Gray, who became Chairman of HMRC in September 2006, described his perception of the targets:

> You are right that these are not targets over which I have complete control. I have been content to sign up for the targets in discussion with the Treasury and which the Chancellor and the Paymaster General have set me. They are challenging targets achieving significantly more with significantly less. It is challenging … I am perfectly happy to operate within the framework of those targets.[169]

68. There appear to have been two main reasons why the Government judged the targets to be achievable at the time of the 2004 Spending Review. First, the Government had, earlier that year, committed itself to the merger of the Inland Revenue and HM Customs & Excise to form what was to become HMRC, and the merger was expected to bring improvements to efficiency "through economies of scale and the impetus of transformational change, particularly in transactional services".[170] Second, the Government was committed to further developing "electronic channels so that customers can seek the information they need, and discharge their responsibilities under the tax systems, in ways which are more convenient for them and more cost-effective for government, such as filing tax returns online".[171]

69. Our analysis of the efficiency programme in HMRC has two main elements. First, we disentangle the various threads of information from official sources about progress against the various targets. Second, we examine the impact of the efficiency programme on customer service. The unifying theme of our analysis is the central importance of headcount reductions to the experience of the efficiency programme in HMRC.

166 See paragraph 12 and Tables 1 to 3 and sources cited there. HMRC was also set a relocation target to be achieved by 2010, which is discussed in paragraphs 84–85.

167 *SR 2004*, Table 21.1, p 167 and our own calculations, using GDP deflators.

168 See paragraphs 13 and 14, and Tables 4 and 5.

169 Q 65

170 *SR 2004*, para 21.3, p 166

171 *Ibid.*, Box 21.2, p 167

## Progress against the headcount target

### *The overall figures*

70. HMRC was set an overall target to reduce its gross headcount by 16,000 posts, on an FTE basis, by 1 April 2008. This overall target was comprised of a target for a net reduction of 12,500 posts and a separate target for 3,500 posts to be redeployed to "front-line" activities.[172] By December 2006, HMRC had reported to the OGC a net reduction of 8,504 posts; HMRC's provisional estimate was that this total would have risen to 10,144 posts by 31 March 2007; these figures represent respectively 68% and 81% of the 2008 target of a net reduction of 12,500 posts. By December 2006, HMRC had reported to the OGC that 3,036 posts had been re-allocated to "front-line" posts, representing 86% of the 2008 target of 3,500 posts.[173] HMRC recently indicated to us that the latest provisional figure for gross headcount reductions was 14,547 posts, which constitutes 91% of the gross headcount reduction target of 16,000 posts by 2008.[174] The NAO's evidence to us indicated that the figures provided by HMRC to the OGC relating to the period to December 2006 were "robust" in overall terms, but the NAO had two specific concerns about the reporting of headcount reductions.[175]

### *"New policy burdens"*

71. The first issue raised by the NAO related to the statistical treatment of 1,325 new staff recruited by HMRC to work in the contact centre handling tax credit claims. HMRC had claimed that the role of these staff related to a "new policy burden", and therefore would not be included in the calculations of the baseline for measuring headcount reduction. This approach had been agreed with the Treasury, but the NAO disagreed with it. In the NAO's opinion, the recruitment of staff to work in call centres was a key part of the efficiency programme, and was therefore very much related to an existing policy.[176] Had the staff been counted as an existing policy burden, as the NAO contended they should be, progress towards the headcount reduction would appear to be significantly slower than is currently reported to be the case. Mr Gray stated that the classification as a new policy burden "reflected a judgment that the degree of capacity that we required to deliver our business, particularly the Contact Centre side of the business, was significantly greater than had been foreseen at the time of the Spending Review 2004 settlement".[177]

### *Reallocations to the "front-line"*

72. A sizeable proportion—22%—of HMRC's overall workforce reduction target is comprised of reallocations to "front-line" activities. The NAO has pointed out that "there is no overall agreed definition of what constitutes a 'front-line' role".[178] In its evidence to the

172 Ev 116, Table 1

173 *Ibid.*

174 Ev 121

175 Ev 64–65

176 Ev 65

177 Q 74

178 HC (2006–07) 156–I, Executive Summary, para 10, p 6

Sub-Committee, the NAO stated that "reallocations reported by HMRC do not always reflect the actual staff in post" and that "the reallocation data includes projections of staff numbers rather than the actual number employed in reallocated roles. Where projections are used, HMRC undertakes to reconcile these to actual staff numbers, but the data available contains insufficient detail to provide complete assurance."[179] Mr Gray defended HMRC's approach to the classification of re-allocations to "front-line" activities:

> There was never at the beginning of the Gershon process a definition of front-line that was either required or imposed; there is no definition within our Spending Review 2004 settlement. We have taken the view—and I recognise that the National Audit Office is not fully persuaded of this—that applying an overly narrow definition of frontline is not reasonable. If I can give you one example … where we are putting more effort into risk assessment intelligence gathering in order to target our efforts more efficiently, to make sure that more of our interventions are focused on areas we need to look into, then I think it is reasonable to regard that part of our front-line activity as a key contributor to business performance.[180]

### *Conclusions*

73. **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.**

## Progress against the monetary target

### *Introduction*

74. The overall monetary target that HMRC was set as part of the 2004 Spending Review was to secure monetary savings with an annual value of £507 million by 2007–08. We received evidence about three main sources of financial saving—headcount reductions, estates rationalisation and procurement. An understanding of the extent of overall progress has proved to be inseparable from the financial contribution of headcount reductions, and so we consider these two issues together before turning to estates rationalisation and procurement.

### *The financial contribution of headcount reductions and overall progress*

75. At the outset of the efficiency programme, HMRC was expecting to realise £363 million, or 72% of its total monetary savings, from headcount reductions.[181] As we have noted before, this is significantly above the general expectation that headcount reductions

179 Ev 65

180 Q 78

181 HMRC, ETN 2005, Annex A–1

will yield 10% to 15% of total efficiency savings in monetary terms across central and local government.[182] Mr Gray had previously explained to the Sub-Committee that the headcount reduction monetary savings were based on an average of £29,000 saving per FTE post reduced (including salary and employer national insurance contributions),[183] and this figure broadly equates with the notion that 12,500 post reductions will yield financial savings with a value of £363 million. However, it became apparent during the Sub-Committee's inquiry that the relationship between headcount reductions and efficiency savings was complicated by several factors.

76. In the case of HMRC, the headcount reductions were calculated from a baseline in April 2004 and the headcount reduction programme thus covered a four year period. In the case of monetary savings, the efficiency programme was considered to begin at the start of the spending period covered by the 2004 Spending Review—in other words, the financial year 2005–06. This was explained in written evidence submitted by HMRC after the Sub-Committee had concluded taking oral evidence:

> The 2004 Spending Review set HMRC the standard baseline for headcount as 1 April 2004, with the financial savings scoring from a baseline of 1 April 2005, i.e. a year later. In HMRC's original plan it was assumed that only 1,610 full-time equivalent posts would be saved in 2004-05, but 3,592 posts were actually saved. Proceeding ahead of plan meant a potential shortfall on the financial savings.[184]

77. HMRC went on to explain that "this potential financial shortfall is mitigated by expected increased non-headcount savings", including "the Department's plans to go beyond the gross reduction of 16,000 posts in 2007-08".[185] We find the contents of this submission, which arrived too late for us to be able to explore them with official witnesses further, surprising. The memorandum appears to indicate that, where posts were removed as part of the efficiency programme prior to 1 April 2005 and it had been previously planned that removal would take place after 1 April 2005, the financial value of those post reductions would not count towards the calculation of monetary savings for the purposes of the efficiency programme, even though the annual financial savings from post reductions prior to 1 April 2005 should logically endure throughout the period of the efficiency programme.

78. There are other timing complications relating to the monetary treatment of headcount reductions. Mr Gray has previously told the Sub-Committee that the savings from headcount reductions did not reach their full value until a year after the reduction had been made.[186] This time delay appears to explain the use of "two measurement methodologies for tracking the delivery of financial savings", as explained by HMRC:

> The £507 million is the HMRC efficiency target on an end-year basis as agreed at Spending Review 2004 and published in HMRC's Efficiency Technical Note, and in

182 See paragraph 7.

183 Oral evidence from Paul Gray, to Treasury Sub-Committee, 22nd November 2006 HC (2006-07) 51-i-22, Qq 27-28

184 Ev 121

185 *Ibid.*

186 Oral evidence from Paul Gray, to Treasury Sub-Committee, 22nd November 2006 HC (2006-07) 51-i-22

> Spring and Annual Departmental Reports. Given the spot date basis of measuring our headcount reductions (ie, over the period 1 April 2004 to 31 March 2008) it has always been clear that the full annual financial savings accruing from reductions in 2007–08 would only be realised from 1 April 2008, i.e. in 2008–09. Headcount reductions contribute the majority of financial savings towards the £507 million target … For consistency of measuring financial savings across all departments, the OGC introduced an in-year measurement methodology that monitors HMRC's progress on a different basis from our £507 million target.[187]

Table 7 shows the differences in reported savings using the two different methodologies.

**Table 7 – HMRC performance against monetary savings targets using in year and full year methodologies**

| Financial Savings £m | In Year | Full year | Target |
|---|---|---|---|
| 2006–07 (Q3 Actuals) | 255 | 320 | |
| 2006–07 (Q4 Forecast) | 300 | 354 | |
| 2007–08 (Q4 Forecast) | 505 | 581 | 507 |

*Source: Ev 116, Table 3*

The further submission from HMRC also contained updated information indicating that, by 1 June 2007, the department had achieved monetary savings of £410.5 million on the full-year basis (81% of target).[188]

79. The third complication in understanding the actual monetary value of headcount savings relates to the issue of gross versus net savings. As we have noted in an earlier report, much of the Gershon programme efficiency savings are reported in gross rather than net terms. The Government considers this appropriate, particularly because some of the savings in the programme arise from up-front capital investment.[189] The NAO pointed out that HMRC was planning to spend £258 million over the period from 2005–06 to 2007–08 in funding headcount reductions worth £363 million, through activities such as the voluntary redundancy programme.[190] Thus, the net value of headcount reductions over the period of the efficiency programme is likely to be less than half the gross value which is more frequently referred to in official information.

80. **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—**

187 Ev 117

188 Ev 121

189 HC (2005–06) 994–I, para 75

190 HMRC, *ETN 2005*, Annex A-1; Ev 65

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?**

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?**

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?**

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?**

## *Estates rationalisation*

81. Of the £106 million of the value of the initial efficiency programme in HMRC that was not attributed directly to headcount reductions, £30 million was expected to arise from savings in estates running costs.[191] HMRC's 2007 Spring Departmental Report stated:

> At 31 March 2007, we had closed or part vacated 79 properties … [removing] 68,428m$^2$ of office space from the Departmental portfolio worth £13.7 million in annual running cost savings … The Department is committed and on track to achieve £30 million in annual estates running costs savings by 31 March 2008.[192]

That Report did not contain any further information on the number of offices and properties that were intended to yield the £30 million expected, and what proportion the 79 properties were in terms of the total planned office closures. HMRC's submission to the Sub-Committee stated that its aim was to reduce its estates from the combined predecessor departments by 40%.[193]

82. All properties of HM Customs & Excise and Inland Revenue and, subsequently, of HMRC have, since 2001, been held under the STEPS contract with the Mapeley Group. The deal was structured so that, in return for the transfer of ownership and responsibility

191 HMRC, *Spring Departmental Report 2007*, p 54

192 *Ibid.*.

193 Ev 117

for some 600 properties to the Mapeley Group, the Departments received an upfront cash payment of £220 million, together with a further £150 million in the form of discounted service prices. As the then Sub-Committee learned during an inquiry in the last Parliament, under the contract the Departments would pay Mapeley a "Facilities Payment" in return for the provision of fully-serviced accommodation.[194] As the NAO explained in its report on the STEPS deal, there were three types of leases within the contract, with different penalty charges for early withdrawal in each case:

- Full flexibility, allowing vacation of the property at nil cost, within a specified allowance; this arrangement applied to 13% of the total HMRC estate;
- Time-dependent, allowing nil cost vacation to take place after a specified date (mostly 5 years); this arrangement applied to 16% of the HMRC estate;
- Penalty payable if HMRC leave before the end of the 20 year period; this arrangement applied to 71% of the HMRC estate.[195]

83. Thus, the terms of the PFI covering HMRC offices indicate that, in the case of 71% of its estate, HMRC could not secure direct savings from the closure of office space. According to HMRC's 2007 Spring Departmental Report, any savings would "be achieved principally by fully utilising flexibility provisions within the STEPS PFI contract and through subletting surplus accommodation to other Government departments".[196] **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.**

## *Procurement*

84. As we noted earlier, procurement has been a source of substantial and early efficiency savings across government as a whole.[197] Although procurement has provided 40% of savings across central and local government up to the end of December 2006, it appears to constitute a relatively small part of HMRC's programme. This may be related to the fact that HMRC has encountered significant problems with its procurement, including the EDS IT services contract which escalated from £1 billion to £2.5 billion, and its successor, ASPIRE, the costs of which have arisen from an initial estimate of £2.87 billion to the latest estimate of £8.5 billion.[198] In evidence to the Sub-Committee, HMRC implied that it expected the efficiency gains from procurement to exceed the original target.[199]

194 HC (2002-03) 184, para 3.

195 NAO, PFI: The STEPS Deal, HC (2003-04) 530, Chapter 1, figure 7

196 HMRC, *Spring Departmental Report 2007*, p 54

197 See paragraph 16.

198 Public Accounts Committee, Twenty-eighth Report of Session 2006-07, *HM Revenue and Customs: ASPIRE - the re-competition of outsourced IT services*, HC179, p 5, para 1; NAO Report, *ASPIRE: the re-competition of outsourced IT services*, HC (2005–06) 938, p 9, para 26.

199 Ev 121

## Relocation

85. In the Lyons Review, it was envisaged that HM Customs & Excise would relocate 500 posts away from London and the South East and that Inland Revenue would relocate 1,450 posts away from London and the South East.[200] Following the 2004 Spending Review, the proposed contribution by the new merged department by 2010 rose substantially from those earlier proposals. HMRC was expected to relocate 1,950 posts away from London and the South East by March 2008—equivalent in numerical terms to the proposals in Lyons for HM Customs & Excise and the Inland Revenue combined—and a further 2,300 posts between 2008 and 2010, leading to a total relocation target of 4,250 by 2010.[201]

86. By the end of December 2006, HMRC reported to the OGC that it had relocated 1,163 posts. The provisional outturn figure up to March 2007 was 1,501, representing 77% of its 2008 target.[202] Evidence received by the Sub-Committee on HMRC's efficiency programme tended not to focus on the relocation of HMRC posts from London and the South East. This may in part be because both HM Customs & Excise and Inland Revenue had developed regional structures before 2004. It should also be noted that the numerical target for relocation by HMRC is greater for the period between 2008 and 2010 than it has been for the period from 2004 to 2008, suggesting that the greatest challenges in the HMRC's relocation programme may still lie ahead.

## Effects of the efficiency programme on HMRC's quality of service

### *Introduction*

87. Much of the evidence the Sub-Committee received from outside organisations about the efficiency programme in HMRC related to its effects on the quality of service provided by the department. We consider the particular points raised by tax agents and representatives of tax credits recipients. We then turn to some common themes in evidence on HMRC service.

### *Tax agents' experiences of the effects of the efficiency programme*

88. Tax agents claimed to have been particularly affected by the efficiency programme. A survey of members of the Institute of Chartered Accountants in England and Wales (ICAEW) was summarised by the Head of its Tax Faculty as follows:

> 65% of our members feel that the merger of HMRC has not improved services and about 45% of those people seem to think it is getting worse … 79% feel that the lack of HMRC officers and contacts is making their job much harder than it was previously. All in all, our evidence so far is that on the ground the efficiency savings are resulting in a deterioration of service.[203]

200 Lyons Report, Table 6.1, p 59

201 HMRC, Efficiency Technical Note 2005, p. 1 – 'Background'

202 Ev 116

203 Q 2

89. One of the key factors in the claims of deterioration in quality of service has been the loss of experienced and expert staff at the point of contact as a result of the headcount reductions, decreasing staff morale, and office closures. The Chartered Institute of Taxation (CIOT) stated that, on the basis of anecdotal evidence from its members:

> … many experienced and respected staff have been leaving the department by natural wastage, taking early retirement or other release packages. From our perspective, therefore, the reduction in staff numbers has been unbalanced in some areas, resulting in a fall in the proportion of experienced staff amongst the ranks of employees of HMRC. It is with these staff that, in the past, our members had a significant amount of contact, and it is they who now seem thinner on the ground. The overall effect of the reduced headcount seems to be a deterioration in service.[204]

In the tax agents' opinion, the "front-line" staff seemed to lack the necessary training and expertise to deal with the issues raised. One example cited was that "queries that in the past could be resolved in a single telephone call often take several calls, plus correspondence, before they are cleared up".[205]

90. The tax agents asserted that this effect had been exacerbated by the closure of local offices where the agents had had regular contact with certain HMRC staff who were the experts in a particular area of tax or in respect of particular clients of the agents. Frank Haskew of the ICAEW explained what was most important to their members:

> What they really want is to be able to deal with somebody they either know or have regular dealings with who they can trust and feel they are going to get an answer from that is going to work, and I do not think they feel that any more.[206]

HMRC relied increasingly on call centres in order that taxpayers and agents could still have person-to-person contact and explanation. According to the CIOT submission, it was difficult to have calls answered or to get through to someone with the necessary expertise. They said that this affected tax agents particularly because of the nature and frequency of their interaction with HMRC staff:

> It is unsatisfactory for taxpayers, and also for an agent who may need to make several, if not numerous, calls to a single number throughout the week to speak to a person … In the past, many of the smaller area offices had dedicated agent priority numbers which agents could call … Now that much of this work has moved to call centres … members have to explain in detail minor technical issues before the HMRC staff member understands the issue, only to be informed that they need either to write in regarding the issue, or to wait for a more senior/experienced member of staff to return the call, often days later.[207]

91. The tax agent representative bodies made a number of recommendations which they considered could improve matters, including:

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204 Ev 73

205 *Ibid.*

206 Q 7

207 Ev 74–75

- Greater e-mail contact between agents and HMRC, to aid resolution of queries;
- The use of e-mail follow-up after electronic submission and filing, to facilictate record-keeping and ensure that there was a record of when the various tax forms had been filed;
- The development of dedicated phone lines for tax agents to connect them with specialist HMRC staff; and
- Better training for staff in call-centres to enable them to resolve more questions on first contact.[208]

### *Claimants' and taxpayers' experiences of the effects of the efficiency programme*

92. The main aspect of the efficiency programme which affected the other stakeholders who presented evidence—the Low Income Tax Reform Group (LITRG) and the Child Poverty Action Group (CPAG)—was the closure of offices. They said that the taxpayers and claimants with whom they were concerned were often those who had difficulty in travelling, little access to online services and who "find that the information can be quite difficult to understand, that is the written information but also oral communications"; face-to-face contact in local offices was therefore invaluable to such taxpayers and claimants.[209] Witnesses suggested that, although there was still an opportunity for face-to-face meetings with HMRC staff, the centralisation of a number of local offices into larger offices had created problems. There were cases where outlying offices had been replaced by offices which were not accessible by public transport from outlying areas. As Kate Green of CPAG explained:

> there is a real wish for greater provision of face-to-face advice … of course, HMRC was not originally designed around that concept of high street face-to-face advice. What we began with was a network of walk-in inquiry centres that were effectively the wrong kinds of offices in the wrong kinds of places … and that has particularly left some of the more geographically disadvantaged communities or, for example, rural communities particularly ill served by what was there anyway … The Revenue are doing their best to rationalise logically in a way that seeks to provide face-to-face advice … in the right places but [this] is going to take a situation that was not good to start with and, inevitably, make it rather worse.[210]

One suggestion from Robin Williamson of the LITRG was that HMRC ought to adopt the approach of the Pension Service whereby staff "are prepared to do a bit of outreach, to go out to local charities, local Age Concerns, for example, and give advice in the locations where their customers feel comfortable, rather than expecting them all to come to them".[211]

208 Qq 12, 20, 23

209 Q 3

210 Q 7

211 Q 15

93. The CIOT said that HMRC enquiry centres were increasingly operating on a "floor-walker" model, whereby those who entered were approached, rather than having to queue up, and directed towards an appropriate contact.[212] Robin Williamson explained the particular challenge that the new system of fewer offices and enquiry centres posed for some:

> If they are using an inquiry centre, then they face long journeys in rural areas sometimes getting to them. If that inquiry centre is closed down, then they might face an even longer journey getting to the next nearest one. When they get there, they might find that they are not able to join a queue and get the advice they wanted and leave having got an answer to their question, as they were previously: they might be encouraged to ring a helpline or go on the Internet. They might not be comfortable doing either. They might want actually to see somebody face-to-face, as they were able to previously, particularly in the better-run offices. They can no longer do that.[213]

94. In response to concerns about office mergers and closures, the Minister said that the Minister with responsibility for HMRC, the Paymaster General, had

> … given an absolute assurance, and this has been there from the start of the process, that any face-to-face advice functions that HMRC currently carries out will continue and will continue in the same place or, if necessary, in an office very nearby, but in essentially the same town and city. The value of face to face advice will continue and it is recognised in that way.[214]

### *Is HMRC shifting the burden?*

95. Many of the claims of deteriorating quality of service hinged on the contention that, as a result of staff reductions and office closures, additional administrative burdens were being borne by stakeholders.[215] The CIOT's members had told it that:

> very routine stuff … is taking longer … it is taking two, three or four more operations, it is taking longer to do the relatively simple things and, therefore … our members are spending more time [engaging with HMRC].[216]

Similarly, it was suggested that the problems arising in enquiry centres, the additional distances to travel and the increased reliance on telephone and online communications increased the burden upon individual taxpayers and claimants. HMRC stakeholder groups suggested that HMRC's efficiencies had in fact been achieved—probably unintentionally—by passing the burden of compliance on to taxpayers via the agents.

96. Mr Gray denied the suggestion that an additional burden was being imposed upon individuals as a result of the efficiency programme: "It is certainly not part of my

212 Ev 77

213 Q 8

214 Q 408

215 Q 18

216 *Ibid.*

philosophy and approach that we should be requiring them to undertake work on our behalf".[217] The Minister told the Sub-Committee that he did "not entirely" agree that the cost of compliance was being passed on to the taxpayer as a means of enabling efficiency savings for HMRC.[218]

### The effect of staffing issues

97. A unifying element in evidence about quality of service in HMRC was the stress on the importance of the human factor and the possible adverse effect of staffing problems. Several witnesses pointed to concerns about the morale, experience and expertise of HMRC's staff. The unions argued that the department's own 2006 staff survey provided evidence of what the unions termed "a decline in pride in HMRC and job satisfaction", noting that only 20% of staff were satisfied with the department.[219] The FDA also contended that these feelings had led to a number of staff leaving their jobs on an ad hoc basis, rather than under any planned, phased reduction, and that their posts had been left vacant due to the department's policy of not replacing staff losses.[220]

### The role of consultation

98. CPAG, the CIOT and the ICAEW all considered that the perceived deterioration in quality of service could be mitigated or reversed through a greater level of consultation. As Frank Haskew of the ICAEW said:

> I think it is more that we are being informed and asked to make the best of a situation rather than we are able to have much real input into where and when you might want to have offices opened or closed … I have no doubt any consultation has been patchy … there has not been a lot of direct, organised consultation on when and how an office might be replaced … about 88% of our [ICAEW] members … did not feel they had been adequately consulted in relation to effectively the re-organisation programme.[221]

While representatives of the tax agents saw signs of improvement in consultation, with a greater level of communication and co-operation between themselves and HMRC, they still felt that there was a considerable way to go.[222] This was acknowledged by Mr Gray who said: "We are committed to working increasingly closely with a whole range of agents, representatives of organisations that speak for the unrepresented. I believe that we can be more effective by deepening our partnership working with them."[223]

99. The union representatives acknowledged that Mr Gray had worked hard to ensure that there would be no compulsory redundancies before September 2007, but, like the

217 Q 79

218 Q 410

219 Ev 83

220 Ev 84

221 Q 11

222 Q 11

223 Q 79

representative bodies, felt that one of the key issues for their members was a lack of consultation by HMRC.[224] As the FDA submission explained:

> We welcome the repeated commitment to full and genuine consultation from HMRC. We have recently been disappointed at the time taken by HMRC to agree a formal consultation process … It is particularly unfortunate that to date the trade unions, who do have a holistic view, have, on occasion, been deliberately excluded from inputting into the decision-making process until after decisions have been made and announced. At a time when very difficult decisions have to be made and implemented, HMRC senior management would benefit from a more inclusive approach towards the Trades Unions who represent the majority of staff in HMRC.[225]

The unions acknowledged that there had been some consultation, but felt that it was more a process of informing them of what decisions had been made, rather than consulting them on the strategy involved: "what we do not feel we are getting is any consultation on how do you deliver the targets with less staff".[226]

100. Mr Gray disagreed with these claims and said that he was committed to consultation with the unions: "I am doing my best to meet my aims and obligations there. I am also completely committed to ensuring that I consult fully with all my members of staff … communicating, sharing with staff possible likely directions of travel."[227] He argued that there were problems with the expectations of the consultation process, in that he was having to deal with targets that were already decided while unions were seeking consultation on the appropriateness of the targets themselves, which was not a matter for him:

> As I have said to them both in our formal consultations and in informal consultation, we will make a lot more progress in that consultation programme if we can actually concentrate on consultations about how the Department best delivers the targets we have been set rather than focusing a lot of the conversations and consultations on whether we should meet the targets that we have been set.[228]

## Measuring the quality of service

101. In their response to the evidence and user surveys suggesting that there had been a deterioration in HMRC's quality of service, the Minister, Mr Macpherson and Mr Gray referred to monitoring of the quality of service as part of the process of recording efficiency gains. Mr Gray, in his defence of the department's levels of quality of service, explained the process of monitoring quality of service and told the Sub-Committee that:

> The key things by which I am being measured on the terms of service and outcomes are the PSA targets …In terms of the implications for performance and customer

224 Q 38

225 Ev 82–83

226 Qq 34-36, 46, 49

227 Q 67

228 Q 69

> satisfaction there are a number of key indicators in our PSAs which bear on this and I am cautiously pleased about the progress that we have made during this last year on a number of those indicators … I recognise that that picture I have painted gives a rather different point of emphasis than some of the earlier qualitative evidence that you have received … there are issues that we need to get a hell of a lot better at on our performance, but I do think overall I am … cautiously satisfied.[229]

However, good performance against such targets may not translate into improved service delivery. One of HMRC's targets, relating to accuracy in processing tax credits, reported a 97% accuracy level, yet 60% of transactions involved either under- or over-payment. The Minister explained that it was possible for there to be 97% accuracy in processing the award with only 40% of payments made correctly because "the nature of the tax credit system is that it is designed to be responsive to sometimes very significantly changing income levels". [230]

102. When the Sub-Committee asked the Minister about monitoring quality of service, he did not emphasise PSA targets, but instead referred to twelve service indicators:

> At each and every point that HMRC submit their returns on efficiency, the Paymaster General … signs to confirm that … there has been no deterioration in the quality of service. In HMRC there have been established 12 quality measures deriving directly from the overall public service agreement targets that the HMRC operates from, but concentrating particularly in the areas where the planned efficiencies may hit directly. On each and every one of those 12 measures, with the exception of one … HMRC has been able to demonstrate … that there has been no deterioration in service.[231]

103. The twelve service indicators and the details of HMRC's performance against them were provided to the Sub-Committee. As the Minister had suggested in oral evidence, all of the indicators, except that relating to the "VAT gap", showed a consistent or highly improved performance. In many cases, there had been a large improvement during 2006–07.[232] Four of the twelve indicators had been examined by the NAO, which found that there had been an improvement in HMRC's performance.[233] On the basis of his view that the decline in performance against the VAT gap measure was not the result of the efficiency programme, the Minister argued that there had been no deterioration in quality of service as a result of the efficiency programme.[234]

104. The VAT gap measure relates to liability from compliance activity. The Minister maintained that decline in performance under this measure was attributable to the scale of VAT Missing Trader Intra-Community fraud, a problem which we have explored as a Committee previously.[235] Such fraud has been a considerable problem for HMRC in recent

229 Q 64

230 Qq 389-392

231 Q 357

232 Ev 122

233 Ev 65

234 Q 380

235 HC 389–I, paras 66–69

years, due to the difficulties with identifying it and the amount of work required in gathering the necessary intelligence. The Minister pointed to the increase in HMRC staff assigned to VAT issues from other parts of HMRC to demonstrate that the VAT gap increase was not a result of the headcount reductions.[236] However, according to the NAO, there was an indirect effect:

> The VAT 'tax gap' is a complex area and is influenced by many factors, some beyond the control of the Department, but the areas from which headcount reductions have been made do contribute indirectly to this key target and therefore some account should be taken of it in assessing the impact of headcount reductions on service quality. It also illustrates the difficult choices that HMRC management face in trying to deliver headcount reductions at the same time as reducing the tax gap. Indeed, restrictions on a department's total headcount figures are a potential constraint on how the department responds to issues across all of its operations, not just those directly affected by headcount reductions.[237]

105. Some witnesses questioned the validity of the current measures of quality of service, particularly in their capacity to measure customer service for businesses and their agents. The tax agents' organisations had a number of suggestions for key criteria, based on the normal interactions experienced or desired by tax agents, taxpayers and the unrepresented:

> How many things are solved the first time? How many additional frustrations does perhaps somebody get with having to repeat a visit, repeat a phone call? It is relatively simply stuff, but I am not convinced that they are looking at these very simple measures.[238]

106. Dr Law pointed out that, when measuring the quality of service to customers, it was useful to involve them in the formulation of those criteria.[239] The ICAEW stated that "we would like to work with HMRC to develop ways to monitor customer service".[240]

107. Only four of the twelve indicators referred to by the Minister and provided to the Committee could be said to relate to stakeholders' experience of HMRC's operations. Those four indicators were:

- "Percentage of callers without an appointment attended to within 30 minutes (or appointment arranged)";
- "Percentage of formal complaints worked within 15 working days";
- "Percentage of external post worked within 15 working days dealt with correctly and completely"; and
- "Percentage of calls handled correctly and completely".[241]

236 Qq 380-382

237 Ev 66

238 Q 20

239 Q 332

240 Ev 92

These indicators have some common ground with those proposed by stakeholder bodies, but do not tackle some of their key concerns. Two are somewhat nebulous and not particularly testing – i.e. "callers … attended to within 30 minutes" and "calls handled correctly".

108. At present, as we have already noted, there is no external validation of HMRC quality measures. The reasons given by Mr Macpherson for this lack of validation related to the cost of the process and the time it took.[242] Some evidence pointed to the benefits of external validation in improving the perception of transparency of HMRC's monitoring of quality of service. Also, as Dr Law pointed out, these quality indicators are not publicly reported upon.[243]

## Conclusions

109. **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.**

110. **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.**

241 Ev 122

242 Qq 232-233

243 Qq 327, 338

# 7 The efficiency programme in the Chancellor's other departments

## Introduction

111. Compared with the efficiency programmes underway in the ONS and HMRC, the efficiency programmes in the Chancellor's other affected departments are small in scale. The programmes are also, as we have observed, less stretching, judged as a percentage of the initial baselines. The targets were set in two parts: one for the Treasury group, comprising the Treasury, the Office of Government Commerce (OGC) and OGCbuying.solutions and the Debt Management Office (DMO); and the other for the Government Actuary's Department (GAD).

## The efficiency programme in the Treasury Group

### *Overall targets and performance*

112. The overall monetary savings target set for the departments and offices which comprise the Treasury group was originally £17.7 million, but this was increased to £18.7 million following OGCbuying.solutions' increase of its contribution from £0.8 million to £1.8 million.[244] The internal allocation of monetary savings targets within the Treasury group changed in June 2006, combining the Corporate Service "workstreams" of each of the constituent members of the group within a Group Shared Services (GSS) category. That category was allocated a target of £1.5 million, comprised of £1 million from core Treasury and £0.5 million from the OGC's Corporate Services' workstream target.[245] Table 8 shows overall progress against the monetary targets.

244 HMT, ETN 2005, para 1.1

245 *Ibid.*, para 1.5 and Table 1

**Table 8: Treasury Group efficiency gains as at December 2006**

| Department | Original target | Adjusted target | Achieved |
|---|---|---|---|
| HMT | 11.9 | 10.9 | 8.0 |
| OGC | 4.0 | 3.5 | 3.5 |
| OGCbuying.solutions | 1.8 | 1.8 | 1.6 |
| DMO | 1.0 | 1.0 | 1.0 |
| Group Shared Services | 0 | 1.5 | 1.8 |
| **Total** | **18.7** | **18.7** | **15.9** |

*Source: Ev 114; HMT ETN 2005, 2006.*

113. Tables 9 and 10 set out the performance against headcount reduction and relocation targets. The only headcount reduction target in the Treasury group was that of 150 staff reductions for the core Treasury.

**Table 9: Treasury Group headcount reductions as at December 2006**

| Department | Target | Achieved |
|---|---|---|
| HMT | 150 | 122 |
| OGC | 0 | -6 / -40(1) |
| OGCbuying. Solutions | 0 | 0 / -47(2) |

*Notes: (1) 40 extra staff in Headcount as per Departmental Annual Report 2006; see section on OGC, below.*

*(2) 47 extra staff not counted by HMT as per Departmental Annual Report 2006; see section on OGC, below.*

*Source: Ev 102, Ev 104. HMT Departmental Annual Report 2005, Annex C, paras c31-c32; HMT ETN 2005, 2006*

**Table 10: Treasury Group relocations as at December 2006**

| Department | Target | Achieved |
|---|---|---|
| OGC/GSS(3) | 4.5 | 10 |
| OGCbuying.solutions | 22 | 22 |

*Notes:(3) It is unclear from where the original 4.5 FTE posts for relocation were expected – there is no clarification of this in the ETN.*

*Source: Ev 102, Ev 104. HMT Departmental Annual Report 2005, Annex C, paras 31-c32; HMT ETN 2005, 2006*

114. The 2004 Lyons Report contained a relocation figure for core Treasury of 18 posts, but this did not appear in the Chancellor's departments' total in the Gershon Report.[246] It appears that, subsequent to these two reports, the relocation target was either increased and taken on or allocated to OGCbuying.solutions.

246 Lyons, *Ibid.*, Annex A, pp 100-101; Gershon, *Ibid.*, Table 4.2, p 31

## Core Treasury

115. Mr Macpherson told the Sub-Committee that he was confident that the Treasury would manage to meet all its targets, and indicated that the Treasury was likely to hold back some of the savings made during the period up to and including 2007–08 in order to help meet the targets for the period covered by the 2007 Comprehensive Spending Review.[247] He acknowledged that Treasury had "a marginally less challenging target" in the relocation programme than departments such as the ONS and HMRC, but argued that his department needed to be in London:

> What I am saying is that different organisations have different scope for relocation. I do not think that the Treasury should be let off on relocation, but … if you want to discuss the spending round with a department it helps to be next door rather than 500 miles away. I am not saying that it is not impossible to relocate the Treasury; I am just saying it is a bit of a challenge.[248]

116. The Finance Director of HM Treasury, Mary Keegan, told the Sub-Committee that "core Treasury monetary savings are calculated in a very straightforward way: we take total administration costs as the baseline as it was in 2003-04, use the GDP deflator to inflate those and compare them with administration costs today".[249] This method has the advantage of ensuring that all monetary savings are reported on a net basis and that the reported amounts are closely related to the normal audit process. The method also appears to exclude from reported gains any savings made from expenditure outside the administration budget, although the Minister told us that it was not necessarily the case that all savings came "from within the administration".[250] One of the NAO's recommendations in its report in February 2007 was that, in order to maximise efficiency, "an organisation needs to develop approaches to looking at efficiency across all of its activities".[251] **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.**

117. The baseline for the Treasury's headcount reductions increased from 1,243 in the 2005 ETN, to 1,258 in the 2006 ETN.[252] Mr Macpherson explained that this was due to the Treasury taking on fifteen staff from the Cabinet Office, and warned that there would be further changes as a result of the movement of 68 members of the OGC Efficiency Programme team to the Treasury—a matter discussed earlier in this Report.[253] These adjustments to the baseline were felt to be warranted because, across government as a whole, there was no overall change to the baseline.[254]

247 Q 245

248 Q 249

249 Q 271

250 Q 350

251 Ev 67

252 HM Treasury, ETN 2005, para 2.7, and ETN 2006, para 2.6

253 Q 220; and see paragraph 8

254 Q 221

## *The Office of Government Commerce (OGC) and OGCbuying.solutions*

118. Based on reported savings, the OGC appears to be on schedule to deliver its share of the monetary savings target, having already reportedly achieved its target of £3.5 million. The savings have been achieved as a result of improved procurement, efficiency savings related to decreased spending on travel and subsistence and other aspects of maximising productive time. The OGC is also progressing towards its 2010 relocation target of 35 posts, of which 10 have already been relocated, within the GSS workstream.[255]

119. Two issues emerged from the Sub-Committee's inquiry relating to the transparency of the OGC reporting on its own targets. First, in the chapters of the ETN that relate to the OGC, there is no single baseline stated against which the monetary savings are to be measured. Instead the ETN states that "The baseline against which these efficiencies are then measured is the spend for the OGC for 2003-04 … or 2004-05".[256]

120. Second, there is a lack of clarity around the OGC's relocation targets. As noted above, the ETN did not indicate whether the 26.5 posts would be found from one or more departments within the Treasury Group. According to the Treasury's submission, there were 22 posts relocated by OGCbuying.solutions, with the remainder relocated by the Group Shared Services. However, according to the 2006 Departmental Report, the OGC was responsible for a target of 35 relocations by 2010, of which nine had been made by January 2006. In the latest Treasury departmental annual report, there is no mention of the 2010 target, and the GSS is named as the only other group making relocations, apart from OGCbuying.solutions.[257] Hence, the transition as a consequence of the setting up of Group Shared Services appears to have confused the issue of which departments were originally responsible for achieving the relocation target, and whether the original target to 2010 remains. **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.**

121. On the basis of reported savings, OGCbuying.solutions appears to be on schedule to meet its targets, having achieved £1.6 million of its £1.8 million monetary savings target, and relocated all 22 posts (15 to Liverpool, seven to Norwich) as planned.[258] However, the position of OGCbuying.solutions is somewhat ambiguous in that its performance appears to have been fully incorporated into the efficiency and relocation programme targets, but according to the Treasury's 2006 Departmental Report:

> OGCbuying.solutions is a trading fund, which is contributing to the Government's overall efficiency programme, so its staff numbers are not limited in the way numbers in the rest of the Treasury Group are. Its headcount is estimated to increase by 47 FTEs by 2007-08 … as at January 2006, it had increased by 18 FTEs.[259]

255 Ev 103, 105, HMT 2006 Departmental Report, C22

256 HM Treasury, *ETN 2005*, para 3.3

257 HM Treasury Annual Report and Accounts 2006-07, para 7.64

258 Ev 103, 105

259 HM Treasury, Departmental Annual Report, 2006, Annex C, para C21

Hence, OGCbuying.solutions appears to qualify as part of Treasury Group for the purposes of helping the group achieve its efficiency savings and relocation targets, but is not counted within the group for the purposes of headcount reductions. **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.**

### *The Debt Management Office (DMO)*

122. The DMO was set a target of securing efficiency savings with an annualised monetary value of £1 million by March 2008. The DMO had already met that monetary savings target by December 2006.[260] These savings came from improvements to procurement. Jim Juffs, the Chief Operating Officer of the DMO, told the Sub-Committee that, as a business organisation, the DMO already worked hard to obtain the best deals on procurement, but that, in the case of the efficiency savings,

> we took the opportunity on this occasion to make sure that we got the best value from our suppliers. We took the opportunity here to address specific suppliers and negotiate a sustainable tariff going forward that would not impact the underlying business … for example, we list gilt stock on the Stock Exchange … and given that we are very large issuers of stock that structure was very disadvantageous to HMG, so we negotiated a capped fee.[261]

Mr Juffs also claimed that DMO was careful to ensure that its quality of work was not deleteriously affected by the efficiency programme, and had its work and its efficiency savings internally assessed and audited by the organisation's internal auditors. According to Mr Macpherson:

> It is relatively easy to measure whether the DMO is maintaining the quality of its service because we give it a very clear remit to sell so much debt a year and as an organisation they have been incredibly successful in selling it at a very good value price.[262]

## The efficiency programme in the Government Actuary's Department

123. The GAD, according to its 2005 Annual Report, "offered" efficiencies of 11% of its baseline budget, equating to a monetary target of £0.12 million; it did not offer, and was not set, any headcount reduction or relocation targets.[263] GAD has reported savings of £389,000 by December 2006, thus achieving over three times its initial target.[264] The Government Actuary, Chris Daykin, said that the target "was very taxing but we are in a

260 Ev 103

261 Q 227

262 Q 226

263 GAD Spring Departmental Report, May 2006, p 11

264 Ev 107

competitive business so we are always looking for efficiencies and we do that all the time". On the issue of quality of service, he claimed that, as a commercial organisation, GAD was always seeking to maximise income through competitive fees and that any deterioration in quality would lead to customer complaints and a loss of income.[265]

265 Qq 225, 239

# 8 Efficiency and the 2007 Comprehensive Spending Review

## Introduction

124. The challenges arising from the quest for enhanced efficiency in government will not end with the formal conclusion of the Gershon efficiency period in March 2008. The efficiency challenges in the period from 2008–09 to 2010–11 may in fact be greater than those which have been taking place since 2004. First, the Gershon targets were based on an average saving on total budget of 2.5% across government, with the percentages per department varied to reflect the different circumstances of each. However, as the then Chancellor of the Exchequer announced in the 2006 Pre-Budget Report, "for the years to 2011, I have reached agreement with Secretaries of State for net efficiency savings in their overall budgets of 3% a year".[266] As we noted in our recent Report on prospects and processes for the 2007 Comprehensive Spending Review

> The targets set for the period covered by the 2004 Spending Review were varied to reflect an assessment … of each department's capacity to secure efficiency savings. The Government is now adopting a different approach, imposing a minimum requirement to meet an annual target of savings of 3% of total departmental budget on an across-the-board basis for all departments.[267]

125. Second, all the savings in the period from 2008–09 onwards will have to be cash-releasing, whereas under Gershon, only 60% had to be cashable.[268] Third, in contrast to the Gershon efficiency programme, any upfront investment in programmes designed to create efficiencies during the forthcoming spending period will need to be taken into account in reporting savings. As Mr Macpherson explained:

> The Gershon programme was very much a gross efficiency programme … We wanted to pump-prime efficiency, get it embedded and give people the incentives to get it embedded … [whereas] for the CSR period we will be looking in net terms.[269]

## The relationship with the spending settlements

126. In advance of the final outcome of the Comprehensive Spending Review, the Treasury, HMRC and the GAD have agreed early settlements which will see their budgets within Departmental Expenditure Limits fall by an annual average of 5% in real terms during the years from 2008–09 to 2010–11.[270] We asked the Minister how the general requirement for 3% net efficiency savings related to the overall budgetary provision. He responded:

266 HC Deb, 6 December 2006, col 314

267 HC (2006–07) 279, para 72

268 Gershon, *Ibid.*, para 1.9

269 Q 307

270 HC (2006–07) 279, para 50

> It means that in coming to the settlement the expectation that they would make 3% each year nominal savings on the baseline is factored into the overall settlement, so in effect HMRC will need to be making those on top of the 5% real.[271]

This suggests that the two targets will be added together for HMRC, and presumably the Treasury itself and GAD, rather than the efficiency targets being subsumed within the general budgetary reductions. We have previously identified the need for further information about how the efficiency programme will operate from 2008 onwards.[272] The Minister's answer reinforces the need for such clarification. **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.**

## HMRC

127. One of the key issues for HMRC in the period beyond 2007–08 relates to headcount reductions. Mr Gray told the Sub-Committee that he envisaged a need for further staff reductions in order to meet the requirements of the overall spending settlement:

> in relation to 2008/11 I have a very specific financial target; I do not have set for me or set by myself an explicit headcount target as well. I have sought to be open with the organisation, with our external counterparts that I envisage over the whole six-year period, that we will be looking at a headcount reduction of around 25,000, i.e. another 12,500.[273]

HMRC has already indicated that the number of posts reduced before 1 April 2008 is likely to exceed the original target of 12,500.[274]

128. Mr Gray suggested in evidence that he did not expect there to be a formal headcount reduction target for the period from 2008 onwards, stating that the figure of 12,500

> is not a target, that is my attempt to be open with people about the likely implications of the financial target. Obviously on a financial target I can achieve that by an appropriate balance between headcount and non-headcount reductions and the more I can drive out of non-headcount costs, the less I have to take out of headcount. That is not the degree of flexibility I have had between 2005 and 2008 where I have had to hit both concurrent.[275]

In December 2006, the then Chancellor of the Exchequer appeared to imply that there would be a new headcount target when he told us:

271 Q 416

272 HC (2006–07), 279, para 72

273 Q 63

274 Ev 121; Q 62

275 *Ibid.*

> … There will be more jobs to go. I can assure you that in the next spending round, once we meet the Gershon targets, we will have to reduce Civil Service numbers further … I can confirm that 84,500 was the jobs figure for Gershon and that another 12,500 jobs on top of that would be scheduled to go within the Inland Revenue [sic] in the next public spending period.[276]

When asked to reconcile the statements of the then Chancellor and of Mr Gray, the Minister said:

> The explanation of the Chancellor's evidence to the Committee is that HMRC are expecting, and they have begun to examine this and alert staff to it, that in the coming period in order to live within and make the improvements they want to make within the CSR07 period, then they may be looking at around 12,500 further post reductions. There are no headcount targets set so Paul Gray is also correct.[277]

129. Mr Gray acknowledged that there was a possibility that compulsory redundancies would be necessary to make the necessary savings.[278] According to PCS union representatives, HMRC has made internal announcements that "in addition, there will be over 200 offices closed in that same period".[279] Moreover, the department also has a further relocation target of 2,300 to achieve between 2008 and 2010.[280]

130. Part of the challenge in planning for the 2007 Comprehensive Spending Review is the possibility that the 12,500 further staff reductions will not actually yield enough in net terms. As noted above, the target of £363 million of headcount savings has not yet been fully realised, and is intended to be realised through investment of £258 million in voluntary redundancy costs, thus indicating a total net saving of £105 million. The challenge of securing substantial savings on a net basis may be mitigated to some extent by the provision of a £300 million "modernisation fund" to which HMRC has access that can be used by the department to help it in funding projects designed to transform its business.[281]

131. **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.**

276 HC (2006-07) 115, Q 385

277 Q 414

278 Q 72

279 Q 27

280 HMRC, *ETN 2005*, p 1

281 HMRC, *Spring Departmental Report 2007*, p 17

## Efficiency for the new Statistics Board

132. In the course of 2008, and probably from 1 April of that year onwards, the ONS will be replaced by a new Statistics Board. The arrangements for the Board were considered in a detail in our Report last year on Independence for Statistics, which arose from a Sub-Committee inquiry.[282] Since we reported, it has been decided that Ministerial oversight of the new Statistics Board will be a matter for the Cabinet Office, rather than the Treasury.[283]

133. At the time of the 2007 Budget, but outside the formal framework of the Comprehensive Spending Review, the Government announced a funding settlement for the new Statistics Board up to 2011–12. The Board's total budgetary limits will be £159 million in 2007–08, £216 million in 2008–09, £206 million in 2009–10, £303 million in 2010–11 and £321 million in 2011–12.[284] During the period covered by the Comprehensive Spending Review (up to 2010-11), funding for the new Statistics Board will increase by an average of 20.7% a year in real terms, but this increase does not necessarily reflect a longer term trend because of the substantial resource requirement associated with the 2011 Census. However, this increase will also include the extra costs of an enlarged and unified National Statistics body, the transition to that body and the significant costs of the preparations and execution of the Census. The lack of set limits for each aspect of expenditure would give the new Statistics Board an opportunity to consult with stakeholders on what its priorities are to be, and how it is intending to achieve those within the budgetary and operational constraints of the five-year settlement, according to Professor Rhind of the Statistics Commission:

> One of the good things about the legislation … is the way the funding situation is going to operate in the future, in so far as it is a five-year funding settlement, and let us assume … that the funding is adequate … it appears that there are no elements ring-fenced. So … it would be up to the Board to actually set priorities and a crucial element, in our view, is that the priorities are set after a widespread public consultation and discussions with many parties, not simply continuing on the existing lines and legitimated. So transparency will improve but it is up to the Board to reset those things. I would be astonished if there were not some pain in the future, and cutbacks because, after all, there will be many new demands as well as the existing ones.[285]

134. **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**

282 HC (2005-06) 1111

283 HC Deb, 2 July 2007. col 703

284 Letter from the Financial Secretary to the Treasury to the Chairman of the Treasury Committee, 21 March 2007

285 Q 91

**statement to that effect at the earliest opportunity, as well as detailing how it will ensure a smooth transition for financial planning and staffing.**

# 9 Conclusions

135. Mr Macpherson served as Managing Director of Public Services in the Treasury at the time of the 2004 Spending Review and in evidence he recollected the circumstances in which the efficiency targets were prepared:

> I was running the public spending side of the Treasury in 2004 when the Gershon and Lyons' reviews were going on and reaching a completion and I think at that time effectively we were trying to solve a set of simultaneous equations, whereby we were thinking of how much money departments needed, what they needed to achieve through the PSA framework in the coming period, and also how they needed to become more efficient. Inevitably the efficiency and relocation programmes provide challenges to all departments but that is what the government wants. These are ambitious but they are achievable targets.[286]

He went on to say with particular reference to the efficiency programme in the ONS:

> I had some dealings with the senior management of ONS in 2004 and sometimes you can agree targets which, with the passage of time, you realise may be a bit more ambitious than you thought, and vice versa—we have been discussing a lot of issues where we are overshooting our targets—and this is a learning process.[287]

136. **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.**

137. **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.** Mr Macpherson made the legitimate point that targets had to be set bearing in mind "the shape of the organisation".[288] **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.**

286 Q 213

287 Q 264

288 Q 249

138. **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.**

# Conclusions and recommendations

## 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)

## 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)

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)

## 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)

**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)

**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)

**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)

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)

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)

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)

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)

## 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)

**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?

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?

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?

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? (Paragraph 80.)

**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)

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)

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)

## 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)

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)

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)

## 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)

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)

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)

## 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)

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)

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)

# Formal minutes of the Treasury Sub-Committee

## Tuesday 17 June 2007

Members present

Mr Michael Fallon, in the Chair

Ms Sally Keeble
Mr John McFall
Mr George Mudie
John Thurso
Mr Mark Todd

***The efficiency programme in the Chancellor's departments***

The Sub-Committee considered this matter.

Draft Report (The efficiency programme in the Chancellor's departments), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 6 read and agreed to.

Paragraph 7 read, amended and agreed to.

Paragraph 8 read and agreed to.

Paragraph 9 read, amended and agreed to (now paragraphs 9 and 10).

Paragraph 10 read, amended and agreed to (now paragraph 11).

Paragraph 11 read, amended and agreed to (now paragraph 12).

Paragraphs 12 to 20 read and agreed to (now paragraphs 13 to 21).

Paragraph 21 read, amended and agreed to (now paragraphs 22 and 23).

Paragraphs 22 and 23 read and agreed to (now paragraphs 24 and 25).

Paragraph 24 read, amended and agreed to (now paragraph 26).

Paragraphs 25 to 32 read and agreed to (now paragraphs 27 to 34).

Paragraph 33 read, amended and agreed to (now paragraph 35).

Paragraphs 34 to 39 read and agreed to (now paragraph 36 to 41).

Paragraph 40 read, amended and agreed to (now paragraph 42).

Paragraph 41 read and agreed to (now paragraph 43).

Paragraphs 42 and 43 read, amended and agreed to (now paragraph 44).

Paragraphs 44 and 45 read and agreed to (now paragraphs 45 and 46).

Paragraph 46 read, amended and agreed to (now paragraph 47).

Paragraphs 47 to 59 read and agreed to (now paragraphs 48 to 60).

Paragraphs 60 and 61 read, amended and agreed to (now paragraphs 61 and 62).

Paragraphs 62 and 63 read and agreed to (now paragraphs 63 and 64).

Paragraph 64 read, amended and agreed to (now paragraph 65).

Paragraphs 65 to 71 read and agreed to (now paragraphs 66 to 72).

Paragraph 72 read, amended and agreed to (now paragraph 73).

Paragraphs 73 to 107 read and agreed to (now paragraphs 74 to 108).

Paragraphs 108 and 109 read, amended and agreed to (now paragraphs 109 and 110).

Paragraphs 110 to 131 read and agreed to (now paragraphs 111 to 132).

Paragraph 132 read, amended and agreed to (now paragraphs 133 and 134).

Paragraphs 133 and 134 read and agreed to (now paragraphs 135 and 136).

Paragraph 135 read, amended and agreed to (now paragraph 137).

Paragraph 136 read and agreed to (now paragraph 138).

Summary read and agreed to.

*Resolved*, That the Report, as amended, be the First Report of the Sub-Committee to the Committee.

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

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Sub-Committee be reported to the Committee.

[Adjourned to a day and time to be fixed by the Chairman.

# Formal minutes of the Treasury Committee

## Tuesday 17 July 2007

Members present

Mr John McFall, in the Chair

Mr Michael Fallon
Ms Sally Keeble
Mr George Mudie
John Thurso
Mr Mark Todd

***The efficiency programme in the Chancellor's departments***

The Committee considered this matter.

Draft Report (The efficiency programme in the Chancellor's departments), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 138 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report, as amended, be the Eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134 (Select committees (reports)).

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

*****

[Adjourned till Wednesday 18 July at 3.45 pm

# Witnesses

# List of written evidence

# List of Reports from the Treasury Committee during the current Parliament

## Session 2006–07

| | | Report |
|---|---|---|
| First Report | Financial inclusion: the roles of the Government and the FSA, and financial capability | HC 53 |
| Second Report | The 2006 Pre-Budget Report | HC 115 |
| Third Report | Work of the Committee in 2005–06 | HC 191 |
| Fourth Report | Are you covered? Travel insurance and its regulation | HC 50 |
| Fifth Report | The 2007 Budget | HC 389 |
| Sixth Report | The 2007 Comprehensive Spending Review: prospects and processes | HC 279 |
| Seventh Report | The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean | HC 569 |

## Session 2005–06

| | | Report |
|---|---|---|
| First Report | The Monetary Policy Committee of the Bank of England: appointment hearings | HC 525 |
| Second Report | The 2005 Pre-Budget Report | HC 739 |
| Third Report | The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve | HC 861 |
| Fourth Report | The 2006 Budget | HC 994 |
| Fifth Report | The design of a National Pension Savings Scheme and the role of financial services regulation | HC 1074 |
| Sixth Report | The administration of tax credits | HC 811 |
| Seventh Report | European financial services regulation | HC 778 |
| Eighth Report | Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower | HC 1121 |
| Ninth Report | Globalisation: the role of the IMF | HC 875 |
| Tenth Report | Independence for statistics | HC 1111 |
| Eleventh Report | The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentence | HC 1595 |
| Twelfth Report | Financial inclusion: credit, savings, advice and insurance | HC 848 |

| | | |
|---|---|---|
| Thirteenth Report | "Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion | HC 1717 |