HM TREASURY

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Dame Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
London
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Dear Dame Meg,

Efficiency in Government

I am writing to answer two questions from the Public Accounts Committee hearing on "Efficiency in Government" on 13 September.

1. **Sarah Olney MP asked Ms Little (Q2) to write to the Committee with a confirmed projection of how much the national insurance increase will cost Government Departments. Ms Little said it would be around £2 billion but agreed to write with precise numbers.**

The estimated amount of public sector employer contributions to the Levy are around £1.8 billion per year. As set out by the Prime Minister in the "Build Back Better: Our Plan for Health and Social Care" document, the Government intends to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the Levy and provide Barnett consequentials on this funding to the devolved administrations. If the Government did not take this step, then the spending power of public services, including the NHS, would be reduced.

As outlined in the technical annex, the gross estimated yield from the Levy is £16.4bn, which is then reduced by an estimated £3.2bn to account for indirect effects, and £1.8bn for estimated public sector contributions, to leave the total funding available to around £11.4bn a year. These estimates will be updated when this measure is formally scored at the Budget.

2. **James Wild MP asked Ms Little (Q85) to write to the Committee with a detailed breakdown of which 2015 efficiency targets were met within the 2015 Spending review period.**

As raised in the hearing, HM Treasury incorporated learnings from previous Efficiency and Savings exercises (2004-2017) into this year's exercise. The HM Treasury-led Efficiency

Review in 2015 identified £1 billion of savings and lower value spend that the Government reprioritised to fund new priorities (announced in the Autumn Statement 2016). Autumn Budget 2017 confirmed an additional £1.2bn of savings and reprioritised spend, but with new spending and administrative pressures faced by departments in 2019-20, the Government decided not to proceed with the remaining £1.1 billion reduction in spending in that year as set out in the Spending Review 2015 (SR15).

Alongside the Efficiency Review, 2015, the Public Sector Efficiency Group was created. This cross-departmental group of analysts identified major drivers of efficiency. They concluded that the biggest driver of productivity was hard budgetary constraints combined with spending flexibility. HM Treasury recognises the challenges departments may experience managing large projects and allows departments greater flexibility to carry forward capital DEL underspends related to significant investment programmes. HM Treasury has also focused future efficiency reviews around spending reviews. We ensured the initial phase of the 2021 exercise was conducted in the run-up to a spending review, and departments were supported in finding efficiencies by experts in the Cabinet Office functions.

In addition, following SR15, the Infrastructure Projects Authority has enhanced oversight of Major Projects on the Government Major Projects Portfolio, bringing in more standardised and regular central reporting to assess delivery confidence, including financial performance. To access benefits, the IPA undertakes Gateway 5 reviews as a project or programme exits the GMPP, assessing whether it has achieved its objectives and completed its core activity. For example, if a Project or Programme exits the GMPP with an Amber or Red Delivering Confidence Assessment, the Gateway 5 Review should explore the causes and what needs doing to fulfil its original purpose. In addition, all projects must capture benefits within a benefits register. This register should also indicate how those benefits are to be realised and assign clear responsibilities. The 2020-21 IPA annual report was the first to publish benefit data by project category, and the current GMPP is forecast to bring £830bn benefits.

We cannot track centrally all efficiency targets set at SR15 or any other spending review. Departmental budgets are revised in response to new priorities and exogenous circumstances, and the increased activity required to prepare for EU Exit meant that this was particularly the case following SR15. Settlement Letters set out this expectation regarding delivering efficiencies, and Accounting Officers should monitor and report on progress in relation to this. We review previous exercises and use functions and the IPA to evaluate benefits realised to ensure we continuously drive improvements to deliver efficiency.

Yours sincerely,

Catherine Little