Twenty-Eighth Report of Session 2021-22

HM Treasury and the Cabinet Office

Efficiency in Government

Introduction from the Committee

Government spending and borrowing has reached record levels since the end of World War Two. As part of its response, government is aiming to become more efficient in its management of the public finances. Improving efficiency in government means being able to spend the same or less to achieve the same or better outcomes. This year's Spending Review saw HM Treasury set resource and capital budgets for departments for the period 2022–23 to 2024–25—the first time it has set multi-year budgets since 2015. Ahead of the Spending Review, in April 2021 the Treasury asked government departments to set out where they might achieve efficiency savings of around 5%—a substantial amount. The Treasury worked with departments over the summer of 2021 to refine their plans. This follows a decade of previous efficiency drives, meaning departments are likely to have had to be more creative in how they attempt to improve efficiency. The multi-year component offers the chance to make plans which have more of a medium-term focus than a standard single year Spending Review.

Based on a report by the National Audit Office, the Committee took evidence on 13 September 2021 from HM Treasury and the Cabinet Office and published its report on 3 December 2021. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Efficiency in government – Session 2021-22 (HC 303)
- PAC report: Efficiency in government – Session 2021-22 (HC 636)

Government response to the Committee

1. PAC conclusion: The pandemic has demonstrated the importance of departments retaining sufficient capacity to respond to emergencies when identifying potential efficiencies.

1: PAC Recommendation: The Treasury and the Cabinet Office should set out what they have learnt from the COVID-19 pandemic about the relationship between perceived efficiency and dealing with unexpected events, and how this has been incorporated into the latest efficiency plans.

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The Government agrees that plans should be put in place to allow a response to crises; and that efficiency measures must be genuinely deliverable and not impede those plans. The pandemic demonstrated that the spending framework has sufficient flexibility to respond to crises by providing time limited funding at short notice.

1.3 For example, accessing the resourcing requirements for responses to unexpected events or emergencies are now part of the Outcome Delivery Plan guidance from 2022-23, ensuring that this is considered early alongside efficiency decisions. Cabinet Office (Civil Service Human Resources) works with government departments to ensure that robust and flexible departmental resourcing plans are in place, including a range of options such as redeployment, internal surge models and other flexible resourcing routes.

1.4 In addition, HM Treasury guidance requires departments to retain flexibility in their budgets to be able to respond to unexpected events: Consolidated Budgeting Guidance, requires departments to identify around 5% of their DEL budgets for the purpose of contingency planning. This can be in the form of an unallocated provision within their budget or a list of options to reprioritise resources if needed.

1.5 HM Treasury also recognised the need for deliverable efficiency measures. A savings and efficiency exercise was conducted ahead of the most recent Spending Review; HM Treasury and Government functions scrutinised deliverability of the plans put forward by departments. Appreciating the need for efficiency measures to be deliverable alongside maintaining service delivery, HM Treasury has incorporated this into efficiency planning. So, for example, when developing plans for headcount reductions to wind down staffing increases required to respond to EU Exit and the pandemic, the targets have been set excluding operational staff recognising their role in delivering essential services.

1.6 HM Treasury has been considering the lessons learnt throughout the pandemic. As the previous Chief Secretary to the Treasury set out in his letter to the Treasury Committee in April last year, responding to the pandemic required HM Treasury to use the spending control framework more flexibly than during 'normal' times. For example, the Treasury increased delegated authority limits to enable departments to respond more quickly than during ordinary business. And, of course, departmental budgets were significantly increased at short notice to respond to the unprecedented pressures placed on them.

1.7. In addition, the pandemic exposed different approaches taken to forecasting of expenditure across departments and the challenges of forecasting new, demand-led programmes. Given the importance of forecasting in ensuring resources are properly allocated, the Treasury has prepared a new forecasting framework to support departments. The Treasury also facilitated a review for the Civil Service Board of the application of the Accounting Officer (AO) processes during the initial phases of the pandemic which identified various lessons, including the need for more support to AOs and on the role of the Finance Function. Revised AO assessment guidance was published in December 2021. The Treasury has committed to writing to the Committee with a fuller assessment of lessons learnt, building on the former Chief Secretary's letter, later this year.

2. PAC conclusion: Past experience shows that attempts to improve efficiency can inadvertently reduce the quality of services or increase costs elsewhere – what this Committee has called cost shunting.

2: PAC recommendation: HM Treasury should ensure that, in their efficiency plans, departments consider what the potential impact might be on service users, and that data around user behaviour and sentiment is tracked as programmes are implemented.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 HM Treasury published at Spending Review 2021 (SR21) an updated set of Priority Outcomes and Metrics. The outcomes capture the real-world impacts for public service users that departments have committed to achieve with their SR21 settlements. Agreed metrics are being used to track these impacts and include metrics that measure user sentiment with public services. Departments are required to report on their progress against these metrics, which enables Ministers and officials to identify outcomes at risk of not being achieved and take prompt action to improve performance.

2.3 Treasury guidance also requires departments to consider the impact of their plans on the wider economy and service users. For example, the Green Book (2.3) requires departments to appraise social value, also known as public value, based on welfare economics principles and ideas and concerns overall social welfare efficiency, not simply economic market efficiency. Therefore, social or public value includes all significant costs and benefits that affect the welfare and well-being of the population (eg, carbon impacts), not just market effects.

2.4 The Green Book (2.12) also guides users to run stakeholder workshops to consider the longlist analysis and selection of the shortlist, including key experts and stakeholders. This method brings together the results of research, advice of experts, and knowledge of stakeholders

2.5 In addition, the Magenta Book (1.1) instructs users to include an evaluation that is useful, credible, robust, proportionate and tailored to the needs of various stakeholders, such as decision-makers, users, implementers and the public. The outputs should be usable and valuable by responding to potential users' needs.

2.6 And in its recent Efficiency and Savings exercise, HM Treasury required departments to demonstrate that their savings and efficiencies proposals were credible and deliverable. Starting before the formal launch of the Spending Review, HM Treasury commissioned departments to identify efficiencies and savings in line with Green Book principles. The proposals were then reviewed, where appropriate, by the Government functions.

2.7 The Chief Secretary to the Treasury led a process of engagement in summer 2021 to test departmental savings and efficiency proposals to test whether proposals were deliverable. This process also involved the Government Functions reviewing relevant efficiency proposals to ensure they were realistic and deliverable. These sessions agreed steps for departments, Government Functions and HM Treasury to further develop plans before being agreed at the Spending Review.

3. PAC conclusion: Previous efficiency programmes have over-promised and under-delivered.

3: PAC recommendation: HM Treasury need to ensure plans are subject to adequate challenge, testing the realism of departments' expected savings, and considering the use of pilots where appropriate.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 HM Treasury recognises the need to underpin the planned efficiencies and savings agreed through SR21 with departmental plans for delivery. SR21 confirmed savings of 5% against day-to-day central departmental budgets in 2024-25 from the Efficiency and Savings exercise ahead of Spending Review 21. The Chief Secretary to the Treasury led a process of engagement in summer 2021 to test departmental savings and efficiency proposals to test for deliverability. This process also involved the Government Functions reviewing relevant efficiency proposals to ensure they were realistic and deliverable.

3.3 HM Treasury tests, and reviews business cases and departmental benefits realisation plans in practice through the spending control process led by HM Treasury spending teams. Spending teams use gated approvals such as Major Project Review Groups (MPRG) or Treasury Approval Panels (TAPs) to review departmental projects or programmes to test whether they are suitably designed to deliver the desired outcomes. HM Treasury also works closely with the Cabinet Office to undertake performance stocktakes, jointly reviewing policy and financial performance. Spending teams' scrutiny is supported by enhanced financial reporting and management information (such as Finance Board Packs) developed by the Government Finance Function and delivered by departmental finance teams.

3.4 HM Treasury and Cabinet Office are also working with departments to develop Outcome Delivery Plans (ODPs) covering 2022-25, that will set out how each UK government department will use its resources to work towards the delivery of the priority outcome agreed at SR21. ODPs will test the deliverability of all of the government's spending plans, including plans for efficiency and savings. They will be published after the start of the next financial year on gov.uk.

3.5 HM Treasury plans to collaborate with Government Functions to share best practices across the Civil Service. The Government Functions will be encouraged to share departmental best practices to generate further opportunities for efficiencies across government based on these successful pilots in departments.

4. PAC conclusion: Skills shortages in the civil service could compromise departments' ability to achieve efficiency savings.

4: PAC recommendation: HM Treasury needs to work with departments to understand the skills and capability required to deliver plans successfully, identifying any specialist and technical skills needed. The Cabinet Office should ensure, through its workforce planning, that there are enough resources and skills available to teams to deliver efficiency programmes and must write to us in six months on its progress in implementing the key measures within the Declaration on Government Reform.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

4.2 The government is committed to building capability across the Civil Service. The Declaration on Government Reform, made a number of commitments, a number of which have already been delivered, including:

- **The creation of a new curriculum and campus** for training civil servants: £26 million was allocated to the Leadership College for Government at Spending Review 2021 to train public and Civil Service leaders. The first physical campus will be at Easingwold in York;
- **Improving functional skills and accreditation**, for example the Government Projects Academy provides professional training for delivery professionals. The number of skilled project delivery professionals captured on the Government Online Skills Tool is currently 8,870, against a target of 12,000 by March 2023;
- **The creation of the Government Consulting Hub**, which provides direct capability across government, and leverages wider Civil Service capability for single department assignments, through the new Advisory Network launched in 2021;
- **Increasing the number of science, technology, engineering and mathematics (STEM) graduates** in the Civil Service. Targets were set in Government Science and Engineering Profession Strategy;

4.3 HM Treasury is also upskilling spending teams and government finance professionals to deliver efficiency. The Government Finance Function (GFF) runs the **Government Finance Academy (GFA),** providing high-quality learning and development to help improve financial skills, capability and talent across the Government Finance profession, including sharing best practice, using a variety of communities and networks across the GFF. The Finance Career

Framework launched in 2021 sets out the skills, capabilities, qualifications and experience required for the finance roles across government at all grades. As part of the Public Spending Professionalism programme HM Treasury has undertaken work to improve skills among spending teams. This includes ongoing development of updated in-house learning materials for spending control, including new online training and resources suited to hybrid working.

4.4 The government will also be implementing capability-based pay for the Senior Civil Service, to incentivise senior leaders to build expertise in their policy area and in turn increase capability in the Civil Service.

4.5 More detail will be provided in a public report on progress against the Declaration's commitments. The Cabinet Office will write to the Committee with an update against the Reform Statement in May 2022.

5. PAC conclusion: Departments often struggle to track benefits as closely as they track costs

5: PAC recommendation: The Cabinet Office and Treasury should work together to ensure that the new system of departmental Outcome Delivery Plans is able to track the costs and benefits of efficiency plans for government as a whole.

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 Beyond the regular reporting on whether efficiencies are being achieved, Outcome Delivery Plans (ODPs) also enable government to track progress in delivering real outcomes for citizens, with agreed funding. Departments have been commissioned to produce updated ODPs, covering 2022-2025. To support greater transparency for how public money is spent, departments provide a breakdown of planned spend by priority outcome or business unit through these plans. Reporting on these plans will ensure the government has an ongoing picture of departmental performance for the rest of the Parliament. This will allow Ministers and officials to identify where delivery against priority outcomes may be under pressure, as well as which programmes are not delivering expected results.

5.3 ODPs are then implemented through individual proposals which are subject to the business case process in line with the Treasury Approvals Process guidance. Major projects are entered on to the Government Major Projects Portfolio and are assured by the Infrastructure and Projects Authority. Treasury spending teams monitor departmental financial information on a monthly basis, and the Chief Secretary to the Treasury will hold departments to account on outcomes as part of routine spending discussions and through the approval of business cases. Through these processes, the government will then be able to take prompt action to improve performance and make better-evidenced decisions on future spending.

6. PAC conclusion: Government efficiency drives tend to be one-off events rather than being embedded as a continuous priority.

6: PAC recommendation: HM Treasury and the Cabinet Office should work jointly from the centre of government to consider how best to instil a culture of continuous improvement across government that lasts beyond this Spending Review process.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

6.2 As part of the driving the agenda on efficiency, HM Treasury will continue to work closely with the Government Functions and other parts of the centre of government to drive the identification of further efficiencies. HM Treasury intends to do this through closer collaboration with the functions within decision making on programmes and ensuring functions are engaged to enable delivery. HM Treasury is also looking to regularise the links between functional experts and Treasury teams to improve scrutiny of all business cases. HM Treasury plans to go further in this space and will write to the Committee with plans to oversee the Efficiency Agenda at the beginning of the SR period in summer 2022.

6.3 The Declaration on Government Reform signed by the Prime Minister and Cabinet Secretary in June 2021 laid out a vision for reform and kickstarted its implementation across government via 30 initial actions. The Cabinet Office is capitalising on the momentum generated to mainstream reform across government, through reform Champions in each department (there are now more than 2,000), through the A Modern Civil Service vision, and through leadership from both Ministers and senior officials - both as sponsors of actions and in their day-to-day work. In this way, the Declaration will instil a culture of continuous improvement across government that will deliver greater efficiency and value for money across coming years.