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Dame Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
Palace of Westminster
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Via email

29 June 2022

Dear Dame Meg

EFFICIENCY IN GOVERNMENT – A RESPONSE TO THE COMMITTEE'S LETTER

Thank you for your letter of 30 May.

You asked for further detail on the outcome of the 'Efficiency and Savings' exercise undertaken ahead of the 2021 Spending Review; the plans departments have subsequently put in place to achieve efficiency savings; and how the government is ensuring the recommendations in the Committee's report will be incorporated into the implementation of those plans. You also asked us to set out more detail on the specific plans for delivering efficiency.

Efficiency and Saving Exercise 2021

HM Treasury undertook an Efficiency and Savings exercise before Spending Review 2021 (SR21) to consider RDEL and CDEL budgets to identify potential efficiency or saving areas. The approach was agreed by the PM and the Chancellor, and the process was set out for departments in April 2021. In broad terms, this was to identify areas of savings by stopping lower priority activity or by driving efficiency by reducing operating cost. We incorporated lessons learnt from previous exercises held in 2004, 2010 and 2015, mainly:

- The need for tight top-down budgets, incorporating a target with incentives to save money pushed down to the right level within departments.
- Functional input early on was essential to providing constructive support and challenge.
- The need to understand consequences of efficiencies on service users.

- Benchmarking where possible allowed for better insight into opportunities.
- Savings should be net of investment up front, and realistic about the time taken to deliver cashable results in practice.

Departments' savings and efficiencies proposals varied from department to department but the major drivers include:

- better use of property such as the Places for Growth programme which aims to move 22,000 civil service roles outside London by 2030 and realise cost savings.
- reducing reliance on consultants: across government found over £100m of savings on consultants over the SR period.
- Savings from commercial and procurement. For example, MoJ making £39m savings over the SR period on contractual reparations for PFI Exits and Shared Services.
- Increased digitisation of services. For example, HMRC's settlement provides £863m over the SR period to deliver the government's commitment to modernise the tax system including a total of £397 million over three years for Making Tax Digital (MTD). MTD will make it easier for businesses to get their tax right and, in doing so, is set to generate up to £1.6 billion in additional tax revenues by 2026-27.

As set out in the Spending Review and Budget document, SR21 confirmed aggregate savings of 5% against central departments' RDEL budgets in 2024-25 as the conclusion of this exercise. In April this year, the Cabinet Office published its guidance for a new programme of Public Bodies Reviews with the explicit aim of identifying RDEL savings of more than 5%. This continues the work on efficiencies and savings started at SR21.

The Treasury is tracking progress to deliver committed saving and efficiencies agreed as part of the spending review on a quarterly basis to ensure that departments are held accountable and to better understand what works to inform future exercises. The data is used for both Ministerial and senior official reporting. As I set out in the Public Accounts Committee hearing of September 2021, close cross-departmental collaboration ensured that the impact of what one department does on another was understood and captured. The Treasury will continue to understand cross system consequences and have the tools to ensure this happens – for example, through the work of the Evaluation Taskforce, a joint unit in the Treasury and Cabinet office.

Efficiency and Value for Money Committee

In the Spring Statement, the government set out the action it is taking to tackle waste and inefficiency across the public sector through a comprehensive efficiency agenda to protect the taxpayer. To deliver it the Chancellor is chairing a new Cabinet Committee on Efficiency and Value for Money. The work of the new Committee is focused on the

Chancellor's Plan for Protecting the Taxpayer which includes putting counter-fraud at the heart of decision-making through a new Public Sector Fraud Authority.

Specific Answers

Recommendation 1: Efficiency and ability to respond to emergencies

As part of our approach to in year budgets the Consolidated Budgeting Guidance states that all departments are expected to identify around 5% of their allocated DEL that could be reprioritised to fund unforeseen pressures in their area of responsibility, giving the flexibility to deal with emergencies, as outlined in your committee's report. This contingency is always found through delivering efficiencies and savings. The Treasury is constantly monitoring how we respond to emergencies and whether departments have sufficient resources to meet them.

Recommendation 2: Assessing the impact of efficiency programmes on service users

The Public Spending framework itself ensures there are measures in place to consider unintended consequences on service users. Managing Public Money is clear that Accounting Officers must consider value for the money for the Exchequer. For example, it is unacceptable for DHSC to seek to make savings in Adult Social care simply by pushing costs onto local government or other departments. Savings and efficiencies sought must be savings for the public sector as whole. The long-standing New Burdens doctrine means that all new burdens placed on local authorities (including parishes, police and fire and rescue authorities) by central Government must be assessed and fully and properly funded. The department leading on the policy giving rise to the new burden is responsible for ensuring that this is done, and that the necessary resource transfer is made. In addition, during last year's efficiency and savings exercise the Treasury asked departments to assess Value for Money and feasibility of each of their efficiency proposals. These were further challenged by central functional experts as part of the overall process. Throughout this assessment evaluation feedback loops are necessary to ensure we are improving our knowledge of what truly delivers for the public and that decisions have been informed by the quality of available evidence supporting potential options. This is being supported and driven by the evaluation taskforce.

Recommendation 4: Skills and capability to deliver efficiency programmes

Efficiency savings require commercial, digital and finance skills to be embedded in policy and delivery. The government is embarking on the next stage of this reform through the Civil Service 25 process, Initial work has been commissioned from departments for review over the summer, with decisions anticipated in the Autumn. Prioritising skills that enable efficiency and deliver our reform ambitions will remain a priority. The two recently published functional strategies Transforming for a digital future: 2022 to 2025 roadmap for digital and data and the Government Finance Function Strategy 2022-25 set out how this will happen in practice.

I am copying this letter to the Treasury Officer of Accounts, the Comptroller and Auditor General and Alex Chisholm.

Tom Scholar