



# The Lyons and Gershon reviews and variations in civil service conditions

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Organisational changes to the Civil Service over the past thirty years have meant that the majority of civil servants now work in Departments and Executive Agencies in which the responsibility for pay and conditions are decided locally. Uniform pay structures and conditions of service have been significantly eroded. The Government have launched major reviews into the operation of the civil service, driven by an efficiency agenda. The Lyons review into the location of civil servants reported in March 2004, recommending significant dispersal from London and the south east. The Chancellor has planned for significant cuts in civil service manpower. The Gershon review examined a series of efficiency measures designed to reduce civil servant numbers and was published with the 2004 Spending Review on 12 July 2004. See also Research Paper 03/49 *whither the Civil Service?* Which gives a detailed analysis of Civil Service reform in recent years and Standard Note SN/SG/2224 *Civil Service Statistics*.

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## A. Delegating pay and conditions

Civil servants make up 1.7 per cent of the workforce. However almost three quarters of these civil servants now work in Executive Agencies rather than for Government Departments direct; and the recruitment, pay and conditions of the vast majority of civil servants have been gradually delegated over the past twenty years to departments or agencies themselves. The existence of a traditional homogeneous Civil Service is itself now in question.<sup>1</sup>

The turning point in the policy of promoting 'pay delegation' came with the Ibbs Report of 1987 (*Improving Management in Government: the Next Steps*) which recommended the extensive contracting out of the administrative functions of Government departments to executive agencies. The Ibbs report and subsequent reforms tended to be Treasury-driven to reduce costs. In the same year Anne Mueller<sup>2</sup> proposed a 'core' and 'peripheral' Civil Service with the latter encompassing a wide range of conditions of employment.

The Ibbs Report ushered in the Next Steps programme which ensured that 'agencies possessed the ability to recruit their own staff below the administrative level of Principal, without reference to the Civil Service establishment or the Civil Service Commissioners. They were also able, even at that early date, to alter the terms and conditions of service for their members of staff without reference to the Centre.'<sup>3</sup>

Another effect of the Next Steps programme was to open up the recruitment and appointment of the new agencies' chief executives to external influences, which resulted in levels of pay and conditions that exceeded those of their counterparts in the senior ranks of the Civil Service.

There had been other initiatives before 1987 which contributed to the strategy of dispersal of the workforce and delegation of Civil Service functions; including the amendment in 1982 of the Civil Service Order in Council, to divide responsibility for *selection* between the Civil Service Commissioners on one hand and Ministers on the other. The Commissioners retained responsibility for the selection of middle and senior level staff - about 15 per cent of the Civil Service. Departments (on behalf of Ministers) assumed full responsibility for selection at junior levels, constituting the majority of recruitment, subject to the principle of selection on merit on the basis of fair and open competition.

In 1991 two new Orders in Council were made (one for the Home Civil Service and one for the Diplomatic Service with parallel provisions as appropriate). These and the 1992 *Civil Service (Management Functions) Act* give delegated authority to:

- (a) Prescribe the qualifications...for the appointment of home civil servants in their respective departments or organisations

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<sup>1</sup> For a consideration of the future of the Civil Service see Library Research Paper 03/49 'Whither the Civil Service'

<sup>2</sup> *Working Patterns: A study document by the Cabinet Office* September 1987. Anne Mueller was Second Permanent Secretary at the Cabinet Office and the Treasury 1984-90

<sup>3</sup> Colin Pilkington, *The Civil Service in Britain Today* (1999)

(b) Determine in respect of home civil servants... then number and grading of posts outside the Senior Civil Service and the terms and conditions of employment

in relation to classification of staff, remuneration, allowances, expenses, holidays, hours of work, performance and promotion, retirement age and redundancy and redeployment.<sup>4</sup>

Radical changes to the Civil Service Commission followed, as it was replaced by two discrete organisations:

- an Office of the Civil Service Commissioners
- Recruitment and Assessment Services (RAS), an Agency independent of the Commissioners to provide recruitment, consultancy and related services to departments and agencies and other public sector bodies on a full repayment basis. (RAS became a private sector organisation under Capita Group plc on 1 October 1996.)

The White Paper of 1994 *Continuity and Change* and the follow up Command paper *The Civil Service: taking Forward Continuity and Change*,<sup>5</sup> while affirming the Government's commitment to a 'Civil Service based on the values of impartiality, objectivity, selection and promotion on merit' announced that the programme of delegation of pay and grading, the introduction of efficiency programmes to include performance reviews, recruitment through open advertising and arrangements for a new Senior Civil Service, in which individual service contracts would be negotiated with senior civil servants up to Permanent Secretary rank would be driven forward. The 1994-95 reforms, according to Colin Pilkington in *The Civil Service in Britain Today*, ensured that the process of delegated pay bargaining was extended to all civil servants below senior administrative levels.

As a result the centrally negotiated national Civil Service pay agreements, that in some ways had not been altered since the days of Whitley Council set up in the 1920 were now replaced with a more federal model which encompassed many diverse and autonomous arrangements. And a major factor in these arrangements, as stated in the Management Code, was that there should be 'a close and effective link between pay and performance.'

Between 1991 and 2000 the percentage of civil service staff working in Executive Agencies or Next Steps-like organisations increased from just over 30 per cent to nearly 80 per cent. This peak fell back slightly to 72.5 per cent in April 2002. On 1 April 2002 there were 88 executive agencies in the Home Civil Service. The offices of HM Customs and Excise, Crown Prosecution Service, Inland Revenue and Serious Fraud Office also operate on 'Next Steps' lines.

Standard Note SN/SGS/2224 *Civil Service Statistics* gives information on the trends in civil service numbers since 1997.

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<sup>4</sup> Civil Service Corporate Management and Reform, Delegation/Authorisation under the *Civil Service (Management Functions) Act 1992*, DEO(Del)(01) 1 20 August 2001

<sup>5</sup> Cm 2748, January 1995

## B. Trade union reaction

In the past few years there has been some trade union resistance to the development of differential pay across departments and agencies. In June 2001, following the outbreak of foot and mouth disease and the postponed general election, machinery of government changes resulted in the establishment of DEFRA (the Department for the Environment, Food and Rural Affairs) from offices within the former Ministry of Agriculture Fisheries and Food and Department of the Environment, Transport and the Regions. The reorganisation threw up anomalies of pay within the constituent parts of the new department. Former MAFF employees were receiving lower salaries than their DETR counterparts. Members of the Public and Commercial Services Union (PCS) in London and at regional DEFRA offices went on strike in August 2001. The action was suspended on 11 January 2002 following a pay offer and settlement.

Following the strike action, the PCS submitted several equal pay cases to the London South region Employment Tribunal. The case, *Robertson and others v DEFRA* was heard in November 2002 and the Tribunal ruled that all civil service departments and agencies are 'in a single establishment or service' for equal pay purposes under European equal pay law. However, the Employment Appeals Tribunal subsequently found that the tribunal had erred in holding that the Treasury had such material control over terms and conditions such as to be properly regarded as a single source, since individual departments fix terms and conditions.<sup>6</sup> The Court of Appeal upheld this decision in its judgment of February 2005.<sup>7</sup> The PCS, with the support of the Equal Opportunities Commission, has appealed to the House of Lords.<sup>8</sup>

In March 2003 the PCS announced the start of their campaign for a national pay framework for the Civil Service, which include discussions with representatives from the Treasury and Cabinet Office and other unions within the Council of Civil Service Unions.<sup>9</sup>

## C. The Lyons review

### 1. Background

The first major initiative on Civil Service relocation outside London followed the 1963 report by Sir Gilbert Flemming (The Flemming Report) which proposed the dispersal of 57,000 jobs to the regions. The report established a trend of geographic 'dispersals' in the public sector for many years. Initially the bulk of relocation was from central London into the South East, in order to avoid the high property costs of London, but also to avoid costly civil service travel back into London.

The policy was further reinforced in 1973 with the publication of the Hardman Review.<sup>10</sup> Hardman's motivation for such dispersals encompassed various issues including

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<sup>6</sup> UKEAT/273/03/DM

<sup>7</sup> *DEFRA v Robertson and others* [2005] EWCA Civ 138

<sup>8</sup> *Institute of Employment Rights* "Common employment: justification requirements: Background paper 27 April 2005

<sup>9</sup> See <http://www.pcs.org.uk/Templates/internal.asp?NodeID=882794>

<sup>10</sup> Hardman, *The Dispersal of Government Work from London*, Cmnd. 5322, June 1973

improvement in the cost-effectiveness of services. This would be achieved through the avoidance of 'London-allowance' payments and through lower costs for ancillary support. Other factors included the relief of congestion in London and the creation of jobs in depressed areas. However, the prime motivation was one of cost rather than the achievement of overt regional policy objectives.

Following the 1979 General Election, the incoming government proposed that justification for the programme of dispersals under the Harman Review no longer existed:

The present programme would cost over £250 million during the remainder of the present public expenditure survey period to 1983-84, and we should be well into the 1990s before the benefits from dispersal began to offset the costs [...]

[...] important considerations which led to the setting up of the Hardman study no longer apply. In 1973 the Civil Service was expanding and the Government faced the prospect of providing more offices at high London rents. The Government intended to reduce the size of the Service. Moreover, the gap between office rents in London and the in the provinces has substantially narrowed and the long-term financial benefits of moving people out of London are that much the less.

Having considered all these factors, the Government have reached the following conclusions. Three moves already in progress should continue. These are the moves of the Manpower Services Commission to Sheffield, the Export Credits Guarantee Department to Cardiff and the Council for Small Industries in Rural Areas to Salisbury involving a further 2,600 posts. There are two further small moves which would increase the efficiency of the departments concerned at very little cost. These are the laboratory of Her Majesty's Stationary Office to Norwich and a small group of about 60 Customs and Excise staff to Southend.<sup>11</sup>

The Minister also announced that a further dispersal of some 2,000 posts to Glasgow and Merseyside would still be justified to meet the pressing needs of the areas.

The question of dispersion of civil service activities was reopened in the late 1980s when it was viewed as a mechanism to improve departmental efficiency. The Ibbs Report<sup>12</sup> advocated a policy of introducing sub-contracting of government administrative functions to civil service agencies. Treasury-driven pressure to reduce costs resulted in pressure on these agencies to relocate away from the South East of England to take advantage of lower rents, salary costs and innovations in information technology, such as video-conferencing and electronic data transfer.

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<sup>11</sup> HC Deb 26 July 1979 cc902-922

<sup>12</sup> Dep 3640

A full discussion of the policy of Civil Service dispersals up to 1996 is provided in an article by Jefferson and Trainor.<sup>13</sup> Tables 1 and 2, below, report statistics on the number of civil service jobs located or relocated in each of the standard regions of Great Britain between the publication of the Flemming Report and 1993. The tables show that the North West, Yorkshire and Humberside and the West Midlands were the major recipients in terms of absolute numbers, although the size of total relocation since 1963 relative to total regional employment in the mid 1990s is probably largest in Wales, with the North West, the North and Scotland close behind. Consequently, Wales and the North had two of the three highest proportions of civil servants to total employment of all regions; the other being the South West during the 1990s.

**Table 1: Civil Service relocation from London to the regions**

	Number of posts dispersed, 1963-72	Number of posts in newly established offices, 1965-72	Hardman recommendations, 1973	Number of posts located or relocated, 1973-88
South East	6,222	2,782	12,098	..
East Anglia	1,192	..	737	780
South West	692	640	3,487	420
West Midlands	279	..	..	290
East Midlands	211	535	..	..
Yorkshire and Humberside	783	..	..	2,337
North West	4,176	1,821	6,276	3,145
North West	3,112	265	2,110	470
Wales	1,174	1,652	5,542	818
Scotland	4,684	1,797	1,177	2,092
Northern Ireland	..	..	..	20
Various	..	..	..	1,264
<b>Total</b>	<b>22,525</b>	<b>9,492</b>	<b>31,427</b>	<b>11,636</b>

Source: Jefferson and Trainor, Public sector relocation and regional development, *Urban Studies*, Vol 33 Number 1, February 1996, p42 Table 2

<sup>13</sup> Jefferson and Trainor, Public sector relocation and regional development, *Urban Studies*, Vol 33 Number 1, February 1996, pp37-48.

**Table 2: Relocations from the South East and new posts established in the regions**

	Number of posts relocated, 1989-93	Number of posts in newly established offices, 189-93	Planned relocations 1994 onwards, as at October 1993
East Anglia	295	11	640
South West	925	786	3,892
West Midlands	607	1,666	108
East Midlands	1,280	133	900
Yorkshire and Humberside	2,793	13	1,027
North West	2,847	740	249
North West	1,935	141	..
Wales	1,782	11	..
Scotland	994	767	60
Northern Ireland	515	650	..
Various	6	45	6
<b>Total</b>	<b>13,979</b>	<b>4,963</b>	<b>6,882</b>

Source: Jefferson and Trainor, Public sector relocation and regional development, *Urban Studies*, Vol 33 Number 1, February 1996, p44 Table 3

Since Jefferson and Trainer's article was published there have been no major reviews into the dispersal of Civil Servants away from the South East of England. However, from the Ibbotson Report, guidance was provided to departments regarding relocation alongside opportunities to "discontinue, privatise, or contract out work. Departments and agencies are expected to review these activities regularly with these possibilities in mind."<sup>14</sup>

## 2. Lyons Review Announcement

The Chancellor announced a new review of Civil Service dispersals during his Budget 2003 statement:

Successful relocation out of London by private sector companies suggests that public sector jobs transferred to regions and nations could exceed 20,000, to the benefit of the whole country.

Today, therefore, we are asking Departments to submit updated work force development plans and asking Sir Michael Lyons of Birmingham university to advise with a view to decisions on relocation by the next spending review.<sup>15</sup>

Some examples when recent dispersals have occurred are set out below. The first two are occasions where dispersals have occurred while the second two are occasions where the location of new agencies has been outside London and the South East:

- 1,760 staff of the Manpower Services Commission to Sheffield;
- 850 staff of the Patent Office to Newport;

<sup>14</sup> HM Treasury, *Guidance on Relocation of Work Initiative*, April 1994

<sup>15</sup> HC Deb 9 April 2003 c280

- 650 staff of the Contributions Agency in Newcastle; and
- 2,500 staff of the Child Support Agency in Dudley, Falkirk, Birkenhead, Belfast and Plymouth.

The *Guardian*<sup>16</sup> reported the day after the Budget statement, that it indicated that:

An exodus of civil servants from London is being planned on a scale not seen since Harold Wilson decreed large scale dispersal from Whitehall in the 1960s. The government wants to cut the number in the capital by a quarter of its 90,000.

As part of his pre-Budget statement in December 2003, the Chancellor said:

I can also confirm that, as a result of the Lyons review, we will relocate out of London and the south-east 20,000 civil service jobs—to the benefit of the regions and nations of the UK.<sup>17</sup>

Press reports the following day indicated that the report itself had been delayed:

The Treasury admitted the delay was to allow "close engagement" with Government departments that needed a "better understanding of the opportunities" of moving out of the capital.

At least three departments are believed to have received a terse letter from Sir Michael Lyons who is conducting the review. They were told the number of staff they planned to relocate was "disappointing" and ordered to think again. Some must double the number to hit their targets.<sup>18</sup>

On 18 December 2003 a *Comparative Assessment of Locations Review*, was published, undertaken by the relocation experts King Sturge.<sup>19</sup> It analysed 102 towns and cities in terms of unemployment, average earnings, catchment population and office stock.<sup>20</sup>

The Lyons report was published on 15 March.<sup>21</sup> Its main conclusions were as follows:

If the Government wishes to make a significant impact on the pattern of its locations it will need to take firm action. I have proposed ten recommendations as follows:

1. Departments have identified more than 27,000 jobs that could be taken out of London and the South East, including up to 20,000 jobs for dispersal as a first tranche. Plans for these dispersals should be taken forward urgently as part of Government's forthcoming spending review.

<sup>16</sup> David Walker and Peter Hetherington 'London exodus for civil servants', 10 April, 2003

<sup>17</sup> HC Deb 10 December 2003 c1066

<sup>18</sup> "Jobs relocation jobs delayed" 11 December 2003 UK Newsquest Regional Press

<sup>19</sup> Available at <http://www.hm-treasury.gov.uk/media/069B9/KingSturgeFinalRpt.pdf>

<sup>20</sup> "Towns snubbed over top jobs" *Northern Echo* 31 January 2004

<sup>21</sup> *Well Placed to Deliver? Shaping the Pattern of Government Service: Independent Review of Public Sector Relocation* March 2004

2. Major dispersals are unlikely to offer a quick payback and they incur considerable costs up front. The Government must be prepared to make the necessary investment. Equally, there is a strong case for sharper incentives to encourage departments to seek the benefits of locations out of London and to keep their presence in the capital to a necessary minimum.

3. Departments should implement their relocation plans alongside efforts to align their pay with local labour market conditions. My review has demonstrated that failure to make progress on locally flexible pay will limit the efficiency gains from dispersal, and could undermine the economic benefits for receiving locations.

4. Whitehall headquarters should be radically slimmed down, reflecting a clearer

understanding of what is really needed in London, and of the distinction between policy and delivery.

5. There should be a strongly enforced presumption against London and South East locations for new government bodies and activities; for functions such as back office work and call centres which do not need to be in London; and for bodies and functions whose effectiveness or authority would stand to be enhanced by a location outside London.

6. Cabinet needs to give continuing political impetus to the locational agenda. Leadership should be provided by a Cabinet Committee and, in the short term at least, a lead minister.

These arrangements should be supported by a small, short life unit at the centre, to act as a ginger group, to monitor and report on progress with dispersals, and to ensure that best practice is disseminated and embedded.

7. Permanent secretaries and other public sector chiefs are responsible for managing their departments' resources, accounting to ministers and to Parliament. Locational considerations must be an integral part of these responsibilities. The aim should be to mainstream the locational aspect of business planning.

8. The Government must take responsibility for the whole pattern of its locations, developing a strategic framework of guidance for departments and ensuring a mechanism for reviewing and where necessary challenging departments' locational preferences.

9. The Government office portfolio must be much more tightly managed. In particular, exits from London should be coordinated to ensure overall value for money and to strengthen individual relocation business cases.

10. The civil service needs a more coordinated approach if it is to minimise the costs and the adverse impacts on staff associated with relocation and redundancy.

These actions will help create a better pattern of government. By setting a good example, the Government may also promote more rigorous thinking about location in the wider economy, in the interests of UK competitiveness.

There is no need for legislation to implement the report's conclusions. The disposition of departments and executive agencies is a matter for the prerogative, exercised by the Government.

The Chancellor indicated in his Budget statement in 2004 the type of savings he hoped to achieve as a result of Lyons and the separate Gershon review into public sector efficiency:

While improving front office services, I have decided in the spending review on a budget reduction by 2008 of in excess of 5 per cent. in real terms.

The Inland Revenue and Customs and Excise are announcing today a gross reduction of 14,000 staff posts, a redeployment of three and a half thousand, and thus an overall reduction by 2008 of ten and a half thousand staff posts.

In these two Departments covering 40 per cent. of the civil service, there will be a gross reduction by 2008 of 54,000 posts, and after redeployment, an overall reduction of 40,500 staff.

And the Government have also decided that in the spending review all Departments will cut their administration budgets by at least 5 per cent. in real terms by 2008, and as part of his efficiency programme, the Secretary of State for Education and Skills is today announcing a 31 per cent. reduction in headquarters staff by 2008, which will enable him to direct more funds straight to schools and spend more cash per pupil in the classroom.

By cutting in real terms the administrative budgets of Departments, by reforming procurement both nationally and locally, by unlocking productivity gains from technology and work force improvements, Departments are to achieve—in the spending review period—annual efficiency savings of 2½ per cent. a year, boosting effective front-line service delivery by £20 billion a year by 2008.

Planned administration costs, which were an average of 5 per cent. of total spending in the 1980s and rose to 5.7 per cent. in the early 1990s, will fall to 4 per cent. and then to 3.7 per cent. by 2008—the lowest level since the running costs regime was introduced.<sup>22</sup>

There is likely to be a period of uncertainty about the extent to which the civil service is to be subject to relocation. There are several difficult issues to resolve:

- Central direction of relocations. The Lyons review expressed disappointment that most departments had not submitted more radical plans for reorganisation and relocation and called for more greater central direction
- Likelihood of regional pay rates for civil servants being introduced. The review saw this as essential in order to make significant savings
- The choice between promoting employment prospects in particular regions and areas, contrasted with clustering jobs in areas which have suitable labour markets

Press reports suggest that 20,000 civil servants could move out of London in the next few years, but there was scepticism about the extent to which the Government would provide up-front investment to achieve the changes.<sup>23</sup> In contrast to the 2003 Budget, the Chancellor did not lay emphasis on the need to move to a system of regional pay.<sup>24</sup> Civil service union opposition was initially targeted at projected job losses.<sup>25</sup> According to Mark Serwotka of the

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<sup>22</sup> HC Deb 17 March 2004 c333

<sup>23</sup> 'Job cuts aimed at freeing £20bn to be spent on public services' *Financial Times* 18 March 2004

<sup>24</sup> 'Regional pay equality plans at impasse' *Financial Times* 22 March 2004

<sup>25</sup> 'Civil service unions angry at cuts' *Financial Times* 18 March 2004

CPSU the Cabinet Office told unions that further details would not emerge until July, when the Gershon review would be published.<sup>26</sup> As part of the Spending Review statement by the Chancellor, he announced a new target for asset sales:

As a result of this relocation and rationalisation, I can now make a further reform. I will also today set a new objective for the disposal of Government assets for the period from now to 2010. I have asked Sir Michael Lyons to work with each Department to rationalise its use of property and land and, where necessary, to arrange asset sales and disposals. I can tell the House that the objective that I am setting is an overall total of £30 billion of asset sales.<sup>27</sup>

Details about relocation plans for each department may be found on the Office of Government Commerce website at <http://www.ogc.gov.uk/relocation/>. Latest progress is set out as follows:

The Chancellor reported in the Pre-Budget Report on 2nd December 2004, that a total of 4,174 posts were confirmed as underway to deliver by the end of the financial year. The Budget (March 2005) revised this figure to 4,300 posts and announced a further 3,600 having been identified to be delivered by March 2008.

During this period, the OGC have been working with departments to identify and record the individual relocations that support both these published moves and others which have reached various planning stages. To date, some 204 separate relocations, both large and small, have been identified. Of these, 34 (representing c 4,600 posts) have already been delivered and a process of verifying these moves is currently being undertaken.

The Chancellor of the Exchequer stated in his Budget Statement on 16 March 2005:

I can report that following the Lyons report on public sector assets, £14 billions of asset disposals have already been identified, and £4 billions will be sold this year.

I can also report the first 7,800 civil service jobs to be relocated out of London—to Yorkshire, the south-west, the north-east and west, the midlands, east England, and Scotland and Wales.<sup>28</sup>

The OGC is the department with responsibility for implementing the Lyons proposals. The FAQs on the webpage gives further detail:

**Q. Who is responsible for implementing the Lyons Review recommendations?**

A. Departments are responsible for implementing their own commitments to relocate. Overall responsibility for coordinating Lyons implementation rests with the Office of Government Commerce as an integral part of the Efficiency Programme. This responsibility includes monitoring progress by departments in meeting commitments and co-ordinating the separate workstreams involved (e.g. the property aspects of relocation and the effective use of workspace; workforce / HR issues; location choices and regional regeneration). Progress is reported to the Efficiency Programme Executive Group.

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<sup>26</sup> 'Government is prepared to sack civil servants' *Guardian* 19 March 2004

<sup>27</sup> HC Deb 12 July 2004 c1132

<sup>28</sup> HC Deb 16 March 2005 c260

**Q. Who is leading on these separate workstreams?**

A. OGC leads on property and effective workspace utilisation. The Cabinet Office leads on workforce / HR issues. The Office of the Deputy Prime Minister leads on location and regional regeneration. The Treasury leads on delivery of Spending Review commitments.<sup>29</sup>

**D. Merger of Customs and Excise with Inland Revenue**

In his 2004 Budget speech the Chancellor Gordon Brown announced that the Government would merge HM Customs & Excise with the Inland Revenue into a single department: Her Majesty's Revenue and Customs.<sup>30</sup> This followed the recommendation of a review chaired by Gus O'Donnell, permanent secretary to the Treasury,<sup>31</sup> which had been set up in July 2003 to review the three organisations dealing with tax policy and administration: Customs, the Revenue and HM Treasury.<sup>32</sup> The *Commissioners for Revenue and Customs Bill* was passed in 2005, before the general election. Full details are in Research Paper 04/90. A new single department named HM Revenue and Customs (HMRC) has therefore been formed. The *Explanatory Notes* to the Bill stated that the merger would enable the new department to meet its demanding Public Service Agreements and realise efficiency savings, with integration contributing 3,000 posts towards total savings in HMRC of 16,000 posts by 2007/08.

**E. The Gershon Review**

The Prime Minister and Chancellor of the Exchequer agreed earlier in 2003 to an Efficiency Review covering the whole of public services. This was announced in the Chancellor's budget speech. Sir Peter Gershon was asked to personally lead the next stage of the Review and to report in the summer of 2004 on his final conclusions.<sup>33</sup> According to press reports, Sir Peter submitted a report to the Prime Minister which made recommendations in relation to procurement policy. This report was not published, but the *Financial Times* and other newspapers covered the main findings. The *Financial Times* 21 February 2004 carried extensive details:

Over the past couple of months Sir Peter Gershon, head of the government's efficiency review, has dangled a tantalising vision in front of Tony Blair and Gordon Brown.

It is a vision of a country of leaner but far more effective government. One in which not just Whitehall departments but the National Health Service, local government, schools and the police would get far better value for money for the Pounds 120bn that they collectively spend annually on purchasing goods and services.

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<sup>29</sup> <http://www.ogc.gov.uk/relocation/index.asp?id=1002915#1>

<sup>30</sup> HC Deb 17 March 2004 c 331

<sup>31</sup> HM Treasury, *Financing Britain's future: review of the revenue departments*, Cm 6163 March 2004. It is available at: [http://www.hm-treasury.gov.uk/budget/budget\\_04/associated\\_documents/bud\\_bud04\\_odonnell\\_index.cfm](http://www.hm-treasury.gov.uk/budget/budget_04/associated_documents/bud_bud04_odonnell_index.cfm)

<sup>32</sup> HM Treasury press notice 78/03, 2 July 2003; HC Deb 2 July 2003 cc 270-1W

<sup>33</sup> See *Efficiency Review* webpage at <http://www.civil-service.gov.uk/reform/documents/ERconsultation.doc>

A land where Britain's citizens would find government in all its forms much easier to deal with - with online transactions and one-stop access points. Where dealings with officialdom more closely mirrored the public's experiences of online shopping, banking or booking travel.

A country in which companies found it easier to do business, less loaded down by regulation, bureaucracy and inspection. Where junior and middle-ranking back-room staff could be freed from drudgery and instead become productive health workers, classroom assistants or police case managers. And where doctors, school heads and senior police officers were no longer drowning in a sea of government e-mail or surrounded by armies of inspectors demanding information and reassurance - to the point where caring for patients, teaching children or tackling crime was being impeded.

Such are the dreams prompted by Sir Peter's review - the interim conclusions of which were leaked to the Financial Times this week. But can the dreams become a reality? And how does the UK compare with other countries in how well or badly it already does these things?

For the prime minister and the chancellor, the political need to achieve at least some of Sir Peter's proposals is great. Government revenues are disappointing and spending is rising. Tens of billions of pounds have been injected into public services, but - while improvement is evident - few believe that the returns have yet matched the investment. A general election is expected next year. And the Conservative opposition has "waste and bureaucracy" in its sights - offering the electorate the promise of tax cuts without any reduction in services by cutting billions of pounds of redundant government spending.

The fact that this claim has some credibility is partly thanks to the work that Sir Peter and the Treasury are doing. For the first time, government has abandoned the approach of past efficiency reviews such as Baroness Thatcher's Rayner scrutinies in the 1980s. Whereas these looked at particular issues - staff recruitment in the NHS, for example - Sir Peter's review has looked at the entire public sector.

Sir Peter has established that of the Pounds 460bn the government spends, Pounds 120bn goes on buying everything from office supplies and schoolbooks to hospitals, battleships, roads and social care.

Setting policy for the public sector, distributing funds, and inspecting and regulating its work costs Pounds 8bn - the cost of the whole of the work of the Foreign Office, trade and industry and culture departments combined. It costs the government a further Pounds 7bn to do the same task for the private sector - with a compliance cost to business many, many times greater. Some Pounds 8bn has been invested, centrally and locally, in e-government but with a limited return so far.

The figures are as yet imprecise: Sir Peter stresses that "the evidence base is still subject to change". But six months ago, neither the UK government - or any other government - could have provided even this precise an answer.<sup>34</sup>

Following the review, the Prime Minister made a major speech on the future direction of the civil service on 24 February 2004. He described the challenges of reform as follows:

It means the following:

- a smaller, strategic centre;
- a Civil Service with professional and specialist skills;

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<sup>34</sup> 'War on waste: can the Government cut spending, set staff free and change the way it treats the public?'

a Civil Service open to the public, private and voluntary sector and encouraging interchange among them;  
more rapid promotion within the Civil Service and an end to tenure for senior posts;  
a Civil Service equipped to lead, with proven leadership in management and project delivery;  
a more strategic and innovative approach to policy;  
government organised around problems, not problems around Government.<sup>35</sup>

The Cabinet Office released *Civil Service Reform: Delivery and Values* the same day, which sets out more detailed proposals for reform.<sup>36</sup> As part of the budget package, the Treasury and Cabinet Office also published the results of the Devolving Decision-Making Review.<sup>37</sup>

## 1. Publication of the Gershon report

*Releasing resources to the front line: Independent Review of Public Sector Efficiency* was published on 12 July 2004, as part of the 2004 Spending Review. The report may be found at [http://www.hm-treasury.gov.uk/media/879E2/efficiency\\_review120704.pdf](http://www.hm-treasury.gov.uk/media/879E2/efficiency_review120704.pdf) Library Standard Note SN/EP/3131 *The 2004 Spending Review* is also relevant, to be found at <http://hcl1.hclibrary.parliament.uk/notes/epas/snep-03131.pdf>

The Chancellor announced in the Spending Review efficiency targets agreed with each department and Sir Peter Gershon to enable the Government to meet the 2004 Budget target of £20 billion in annual efficiency gains by 2007-8 across the public sector He said:

**Mr. Brown:** It is because the public sector has invested £6 billion in new technology, modernising our ability to provide back-office and transactional services, that I can announce, with the detailed plans that Departments are publishing for the years to 2008, a gross reduction in civil service posts of 84,150, in order to release resources from administration to invest in the front line.

With the devolved Administrations in Scotland and Wales and the Northern Ireland Office having also announced that they are engaged in efficiency and evaluation exercises as ambitious as those in England, with reductions also in back office and related areas; and with the 2.5 per cent. efficiency savings applied also to the settlement for local government in England, this allows for—in addition to the 84,150 posts—a reduction of a further 20,000.

Following further detailed work, the merged Inland Revenue and Customs and Excise are announcing today that the gross reduction in their posts, which was provisionally set at 14,000, is now set at 16,000. And because of the scale of the overall reductions, I can tell the House that in each area of the country, public servants who are asked to change jobs will be offered support with retraining, and we are ready to work with the work force and their unions to provide that help.

Today, I am publishing Department-by-Department plans to relocate further civil service jobs out of the south-east, including 5,000 staff posts relocated from the Treasury's departments, 4,000 to be relocated from the Department for Work and Pensions, 3,900 from the Ministry of Defence, and just under 1,000 each from the

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<sup>35</sup> Speech by the Prime Minister to Civil Service Reform: Delivery and Values Event 24 February 2004

<sup>36</sup> Cabinet Office 2004

<sup>37</sup> *Devolving Decision-Making: 1Delivering better public services: Refining targets and performance management* HM Treasury/Cabinet Office March 2004

Department of Health, the Department for Education and Skills, and the Department of Trade and Industry. I can already announce the first sites for location, including 600 jobs from the Office for National Statistics moved to south Wales or Bristol, 250 posts from the Department for Environment, Food and Rural Affairs moved to Yorkshire, and just under 100 from the Department for International Development moved to East Kilbride. I know that for the remainder of posts being relocated, towns and cities across the country will want to make their case for being selected.

I can also announce that for all Departments making future decisions, our policy will be a presumption in favour of location in the regions. And I can tell the House that after Departments make their announcements today, the numbers of posts relocated to the regions will add up to a total of 20,030 civil service jobs.<sup>38</sup>

The Gershon report listed the savings:

**Table 4.1: Public sector efficiency savings**

**Agreed efficiency target (£ million) 2007–08**

<b>Department</b>	
Education and Skills	4,350
Health	6,470
Transport	785
Office of the Deputy Prime Minister	620
Home Office	1,970
Constitutional Affairs	290
Law Officers' Departments	40
Defence	2,830
Foreign and Commonwealth Office	120
International Development	310
Trade and Industry	380
Environment, Food and Rural Affairs	610
Culture, Media and Sport	260
Work and Pensions	960
Northern Ireland Office	90
Chancellor's Departments	550
Cabinet Office	25
Smaller Departments	20
Local Government	6,450
<b>Total forecast efficiency savings<sup>39</sup></b>	<b>21,480</b>

Further details are given in Table 4.2 which lists civil service workforce reductions and relocation plans, by department. Appendix C of the report provides the detailed departmental plans. An Efficiency Team, under John Oughton of the Office of Government Commerce, was established following the Budget and is now implementing the proposals. Further details are available from the OGC website

**Departmental progress examples cited in [Budget 2005 White Paper](#) (Chapter 6)**

<sup>38</sup> HC Deb 12 July 2004 c1131

<sup>39</sup> Table 4.1 notes 'Total forecast efficiencies are the sum of the agreed efficiency targets, less forecast overlaps of £5,650million efficiencies across central and local government'

**The Home Office** has made £600 million of efficiency gains during 2004-05. These include gains from better use of police time, smarter procurement and greater collaboration between police forces, improvements in the National Offender Management Service, and a substantial reduction in the cost of asylum.

**Her Majesty's Courts Service** will be operational from April 2005, meaning that for the first time all magistrates, Crown, and County courts will operate together creating a more effective organisation which will deliver £14 million of efficiencies in 2005-06.

**The NHS** has negotiated a better deal for licensing of its desktop products, saving £112 million over the next three years and in excess of £330 million over the length of the contract. DoH has signed a joint venture to use centralised corporate service centres, saving over £220 million over the next ten years.

**DWP** is paying the benefits and pensions of 90 per cent of its customers directly into their bank accounts. The move to direct payment will save the taxpayer in excess of £1 billion over the next five years.

**The Office of the Deputy Prime Minister (ODPM)** will deliver efficiency gains of £274 million in social housing in 2005-06. The gains will be delivered in four areas: new supply, capital works, commodity procurement and management and maintenance. Money saved will be used to provide more social housing and ensure higher standards throughout the sector. Fire and Rescue Authorities will benefit from £105 million efficiency gains by 2007-08. For example, by April 2005 all authorities will have introduced Integrated Risk Management Planning action plans, providing greater flexibility and more productive use of time and resources. These plans are aimed at saving more lives by re-investing efficiency gains.

**Local Authorities** reported efficiency gains in 2004/05 of £123 million at Budget '05. Since then they have been able to update that figure to over £750 million of actual efficiency gains - see [ODPM press release](#). Local Authorities have published their Backward Look Annual Efficiency Statements which detail their efficiency gains and these can be found at on the [ODPM website](#)

In 2004-05, **Defra** made efficiency gains of £41 million. This includes better contract management, procurement and corporate services in the Environment Agency; improved e-transactions in the Rural Payments Agency; and efficiencies resulting from the reorganisation of the Rural Development Service.

**The Department for Education and Skills (DfES)**, through its lead agency for information and communication technology (ICT), has negotiated a software licensing deal which will deliver £50 million of efficiency gains over the next three years. Framework contracts have led to greater price visibility and competition, bringing down prices and saving schools and Local Education Authorities (LEAs) £14 million in 2004-05 on laptops and interactive whiteboards.

Through smarter procurement **Inland Revenue and HM Customs and Excise** have delivered efficiency gains of £12.7 million in 2004-05.

**Transport for London** will deliver £107 million of efficiency gains in 2004-05 from better procurement, improved communications infrastructure and shared services in finance and human resources.

## 2. Central Government Efficiency

Each Department has prepared an Efficiency Technical Note (ETN) which sets out how the planned savings will be achieved. The Treasury Select Committee summarised recent developments as follows:

68...Detailed long-term plans are being developed for the whole spending review period up to 2008 and departments have published Efficiency Technical Notes, explaining how efficiency gains will be measured."[\[174\]](#) The Pre-Budget Report also detailed the progress departments have already made in delivering efficiencies including:

savings on branded and generic medicines for the NHS of £1bn per year from 2005-06;

value for money gains of £2bn in central civil government procurement; and

a total of around 4,000 posts moving out of London and the South east by the end of 2004-05.[\[175\]](#)

69. The 2004 Spending Review required each department to set out in Efficiency Technical Notes (ETNs) the precise measures and methodologies that they would use to assess efficiency gains and, to ensure confidence in and the credibility of the measures, the Government invited the National Audit Office (NAO) and the Audit Commission to scrutinise departmental ETNs before publication. In the absence of any indication on the face of the published ETNs that they had been subject to such a scrutiny,[\[177\]](#) we asked the Treasury for details of the NAO and Audit Commission's involvement in the process. The Treasury told us that the purpose of ETNs was to set out how departments would measure progress against their agreed efficiency targets and that the documents were designed to provide the public and Parliament with greater clarity on efficiency measurement, thereby increasing the Efficiency Programme's transparency and accountability. The Treasury considered that "ideally, ETNs should describe efficiency measures in a simple way that is easily understood, covering issues such as baselines and the data that will be used. Balancing the need for clarity and simplicity with the need to provide an appropriate amount of detail on data and measurement is challenging. The role of the NAO and the Audit Commission in advising departments on ETNs was designed with this purpose in mind."[\[178\]](#)

70. The Treasury noted that the NAO and Audit Commission had been "asked to examine drafts of departments' ETNs against agreed criteria—clarity of savings, measurement methods, data quality, service continuity, and readability... The NAO and Audit Commission co-ordinated their efforts and jointly produced advice on the draft ETNs to departments via a scrutiny panel comprising Office of Government Commerce and HM Treasury officials. The advice assessed the strengths and weaknesses of the drafts, highlighting areas where improvements were desirable. The risks to efficiency measurement, and ways to mitigate them, were subsequently discussed at meetings of the panel with the auditors. It was then for departments to take this advice into account before publishing their ETNs."[\[179\]](#)

71. The Department for Education and Skills' ETN is 55 pages long and covers programmes as detailed as the installation of interactive whiteboards in schools. In contrast, the ETN for the Home Office is three pages long and provides little more detail than that contained in the Gershon review. We asked the Treasury who was responsible for ensuring that ETNs were to an acceptable standard and questioned why some proposals, which appeared to be changes in policy, were classified as efficiency savings, such as:

the Ministry of Defence's proposal to cut the number of attack submarines from 10 to eight;

the Department of Transport's proposal for fixed penalties applicable to Heavy Goods Vehicle and Passenger Services Vehicle operators under future legislation; and

the Department for Education and Skills' proposal for savings from the modernisation of the Teachers pension scheme, including raising the retirement age. .<sup>40</sup>

All current ETNs can be found on the Treasury website. Each department is due to review its Note by the end of 2005.<sup>41</sup>

The 2004 Pre-Budget Report said:

At least half of these savings must be cashable, which will allow resources to be recycled to fund priorities at the front line. Other efficiency gains will lead to increases in public sector outputs including improvements in quality.<sup>42</sup>

It is apparent from oral evidence to the Treasury Committee that that individual departments keep the savings made – they do not go into a central pot.<sup>43</sup>

### 3. Local Government Efficiency

As part of the local government efficiency agenda, all local authorities in England are required to submit Annual Efficiency Statements to the ODPM, which are formed of two parts; the Forward and Backward look statements.

The **Forward Look** is for authorities to set out their strategy and planned actions to achieve efficiency gains and an estimate of what will be achieved in the forthcoming financial year.

The **Backward Look** is for authorities to set out the amount of efficiency gains actually achieved in that financial year.

The most recent statements for each authority may be found on the ODPM website at [http://www.odpm.gov.uk/stellent/groups/odpm\\_localgov/documents/divisionhomepage/039603.hcsp](http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/divisionhomepage/039603.hcsp) together with spreadsheets illustrating total efficiency gains. An ODPM press release issued on 9 August noted:

Publication of councils' Backward Look Annual Efficiency Statements show actual efficiency gains of more than £750 million in 2004-05.

All the indications are that, combined with what they expect to achieve during this year, councils will exceed the 2005-06 target of £1.0 billion, with total efficiency gains of £1.9 billion.

These figures encompass efficiencies from all areas of local services, excluding schools, fire and police which are subject to separate monitoring arrangements.<sup>44</sup>

The ODPM has issued guidance to local authorities on implementing efficiency savings, at [http://www.odpm.gov.uk/stellent/groups/odpm\\_control/documents/contentservertemplate/odpm\\_index.hcst?n=7748&l=3](http://www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=7748&l=3)

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<sup>40</sup> HC 138 2004-5

<sup>41</sup> [http://www.hm-treasury.gov.uk/Documents/Public\\_Spending\\_and\\_Services/publicservice\\_performance/pss\\_perf\\_table.cfm](http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/publicservice_performance/pss_perf_table.cfm)

<sup>42</sup> HM Treasury, *Pre-Budget Report 2003*, December 2004, Cm 6408, para 6.15

<sup>43</sup> See Q117 HC 138 2004-5

<sup>44</sup> "Councils on track to meet and beat efficiency targets" ODPM PN 9 August 2005

#### 4. Commentary on Gershon

There was some comment that new civil service posts were being created at the same time as the proposed reductions were announced. The Gershon report noted that there was a planned growth in the public sector of 360,000 between 2003-2006.<sup>45</sup> Commentators considered that there was insufficient detail in the report to indicate whether the efficiency savings would actually be achieved, citing earlier efficiency drives which had not reached their targets.<sup>46</sup> The Treasury Committee took oral evidence on the Spending Review, at which Professor Colin Talbot drew attention to the fact that reviews from the Rayner efficiency reviews of the first Thatcher administration had tended to deliver about half the planned savings.<sup>47</sup>

According to the *Independent* confidential talks between senior ministers and trades union leaders took place, designed to avert controversy at the Labour Party conference in September.<sup>48</sup> The Head of the Home Civil Service wrote to all civil servants on 19 July 2004 in which he stated that Permanent Secretaries would give ample opportunity for consultation, including with trade unions.<sup>49</sup>

There was some concern in Scotland and Wales that the autonomy of devolved executives was being threatened by their inclusion in the Gershon targets. Details of relocation projects in Scotland are available at <http://www.scotland.gov.uk/Topics/Government/Relocation/GershonRev>

This concern has been echoed in local authority circles. A Treasury spokesman commented: "it is for devolved administrations and local authorities to determine how they derive the efficiencies they have signed up to delivering."<sup>50</sup>

The CBI questioned in December 2004 whether some of the measures presented as efficiencies should not more properly be regarded as policy changes:

The CBI employers' organisation yesterday said the plans government departments have produced on how they would hit the £21.5bn in efficiency savings by 2008 were "confusing and vague", writes Nicholas Timmins. Some changes in policy "are being dressed up as efficiency gains and could impact on front line services", the CBI said, after analysing the voluminous "efficiency technical notes" from departments explaining how they would measure their savings. For example, the Ministry of Defence has argued that reducing the number of attack submarines from 10 to eight, and removing three of the Northern Ireland patrol vessels, counts as an "efficiency" gain. Likewise, the Department for Education and Skills is counting a cut in spending on senior teachers' pay and a cash freeze on earmarked grants to local authorities as "efficiency", arguing that will produce "the same or better output" for a "reduced input".<sup>51</sup>

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<sup>45</sup> "Cuts across the board yet questions remain" *Financial Times* 13 July 2004.

<sup>46</sup> "Unrelenting economy starts the year after next" *Times* 16 July 2004

<sup>47</sup> [http://www.parliament.uk/parliamentary\\_committees/treasury\\_committee/tc060704\\_38.cfm](http://www.parliament.uk/parliamentary_committees/treasury_committee/tc060704_38.cfm)

<sup>48</sup> "Blair in union talks to quell civil service jobs action" *Independent* 14 July 2004

<sup>49</sup> *Letter to all civil servants* 19 July 2004 from Sir Andrew Turnbull KCB CVO

<sup>50</sup> "Brown backs down over Scots job cuts" *Scotsman* 14 July 2004

<sup>51</sup> "Employers' organisation criticises departments' plans to hit £21.5bn target as 'confusing and vague'", *Financial Times*, 9 December 2004

The Work Foundation (formerly the Industrial Society) produced an analysis in 2004 which concluded

While there is real scope for efficiency improvement the extent of the possible gains must be assessed with some care. Big improvements in productivity followed the privatisations of the 1980s and 1990s and at first sight one might argue that similar efficiency gains might be found in public services today. But there are real questions whether the situations are comparable and measuring productivity in public services is problematic.

- Successful delivery of the efficiency programme demands that further consideration is given to:
  - A clearer articulation of the vision for public services.
  - A better alignment between organisational goals and operational policies and strategies.
  - Building management capacity – particularly in the fields of procurement and HR.
  - Forging a more constructive relationship with public service unions.
  - Developing a new “implicit contract” between public service employers and workers.
  - Providing all employees with appropriate skills to improve public services and manage costs
  - Developing more sophisticated measures of public service productivity and performance.<sup>52</sup>

The Conservative Party issued the James report in January 2005.<sup>53</sup> This identified £35 billion of savings (around £13bn more than identified in the Gershon Review). The Conservatives said they would reinvest £23 billion of this in public services leaving £8 billion to reduce government borrowing and £4 billion for tax cuts. There was considerable overlap between the savings identified in the two reports. In evidence to the Public Administration Committee, Sir Peter Gershon said:

The thing about the David James report is that it is totally silent on deliverability and therefore I cannot comment. He has claimed the bulk of the £20 billion I identified but, in my view, my £20 billion are only achievable if you accept my delivery recommendations. He has said nothing about how his recommendations would be delivered and therefore it is impossible to comment.<sup>54</sup>

Commenting on the James and Gershon reviews, Professor Colin Talbot of Nottingham University said:

The efficiency savings set out in the Gershon Review are unrealistic and unachievable, as indeed are many of the alternatives and additions proposed by opposition parties. All parties are playing ‘fantasy efficiency savings’.<sup>55</sup>

A Nottingham University news release said:

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<sup>52</sup> *The Gershon Review: Public Service Efficiency and the Management of Change* Work Foundation 2004 at [http://www.theworkfoundation.com/pdf/Gershon\\_response.pdf](http://www.theworkfoundation.com/pdf/Gershon_response.pdf)

<sup>53</sup> <http://www.conservatives.com/pdf/TheJamesReport.pdf>

<sup>54</sup> Sir Peter Gershon, Oral evidence to Public Administration Committee inquiry into Civil service Effectiveness, 3 February 2005, Q18.

<sup>55</sup> University of Nottingham News Release, *Parties battle over fantasy efficiency savings*, 15 April 2005. <http://research.nottingham.ac.uk/NewsReviews/newsDisplay.aspx?id=149>

The James Review includes about £12 billion which Professor Talbot argues are not efficiency savings but cuts from departments, quangos and programmes which are direct cuts of specific functions. Where, he says, the James Review seems much less secure is in some of the proposed efficiency savings in areas such as education and health.

Professor Talbot said: "Efficiency savings can, of course, be made. Large, complex, organisations — whether public or private — always have a tendency to become sclerotic and always require attention to reduce inefficiencies. But such programmes need to be realistic."

"What we have at the moment is a fantasy efficiency savings competition — politically-driven, unrealistic and mostly unrealisable targets for savings from all the main parties."

The Conservatives have set up a group, under the leadership of David James, to scrutinise the government's progress in achieving the Gershon savings. An article in the *Financial Times* said:

The Conservatives will today launch a watchdog to monitor whether the government delivers its promised £21.5bn of public sector savings. Michael Howard, the party leader, has commissioned David James, the corporate troubleshooter, to head the new body.

George Osborne, the shadow chancellor, said the new body was needed to hold the Treasury properly to account. "The government will say it's doing it (achieving the savings) but seeing whether it's happening in practice is an expert job," Mr Osborne told the *Financial Times*. He promised that "the findings of what will effectively be a watchdog for taxpayer value for money will be freely available to everybody, including ministers".

The opposition party hopes its initiative will tap into corporate scepticism about the speed and pace of public sector reform. Most businesses believe the government will miss the £21.5bn target for efficiency savings set by the Gershon review, according to a recent survey by the CBI, the employers' body. This week it warned of industry's "growing intolerance" for bearing the brunt of public spending increases.<sup>56</sup>

## F. Recent developments

The Pre-budget Report, issued on 5 December 2005 stated:

**6.12** This Pre-Budget Report can confirm that departments and local authorities have reported annual efficiency gains totalling £4.7 billion by the end of September 2005, with further gains achieved since then. The Government is therefore on course to meet the 2004 Spending Review target. Box 6.1 sets out the key areas in which gains are being achieved.

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<sup>56</sup> "Tories to monitor government savings", *Financial Times*, 8 June 2005

Departments are also publishing updated Efficiency Technical Notes, which set out the

measures and methodologies for assessing efficiency gains. The following departments in particular have made significant progress up to September 2005:

- the Department of Health has made £1.7 billion efficiency gains, over 25 per cent of its 2007-08 target, including significant gains from better admissions management and reduced drugs costs;
- the Home Office has made total efficiency gains worth £834 million, building on the £600 million of gains reported at Budget 2005, including £300 million from improvements in the police service; and
- local authorities delivered more than £750 million of efficiency gains in 2004-05, and are expected to achieve annual efficiency gains of £1.9 billion by the end of this year, exceeding their target of £1 billion.

**6.13** The Office of Government Commerce (OGC) will continue to support departments in achieving their efficiency targets, actively challenging organisations across the public sector to obtain best value for money and improve their efficiency delivery. Additionally, the OGC has a specific remit to work with central civil government to improve value for money in procurement programmes. Strong progress continues to be made in this area. Following the 2000 Spending Review gains of £1.6 billion and the achievement of nearly £2 billion in 2003- 04, the OGC has reported further gains of £2.3 billion in 2004-05. This means that the Treasury's 2002 Spending Review target of £3 billion of value for money gains in central civil government procurement has been exceeded by over £1 billion, a year early.<sup>57</sup>

The Pre-budget Report also noted:

**6.15** The 2004 Spending Review set out plans for a gross reduction of 84,000 civil service posts by 2007-08. Budget 2005 reported that a reduction of over 12,500 civil service posts would be achieved by the end of March 2005. As shown in Table 6.1, an additional 12,800 posts had been removed by the end of September 2005, and over 5,700 had been reallocated to front-line services. Workforce reductions are being achieved through natural wastage and reallocations to the front line, with departments avoiding compulsory redundancy wherever possible. Civil service numbers published by the Office for National Statistics on 30 September 2005 provide further evidence of the Government's progress on workforce reductions, once factors such as machinery of government changes and other definitional alterations are taken into account.

**Table 6.1: Workforce reductions across departments**

Department	Reductions	Reallocations to front-line roles	Total reduction
Department for Work and Pensions	14,215	4,211	18,426
HM Revenue & Customs	3,246	1,560	4,806
Other departments	7,853	0	7,853
<b>Total</b>	<b>25,314</b>	<b>5,771</b>	<b>31,085</b>

**6.16** The 2004 Spending Review announced that the Government accepted the

<sup>57</sup> See [http://www.hm-treasury.gov.uk/media/FA6/3F/pbr05\\_chapter6\\_154.pdf](http://www.hm-treasury.gov.uk/media/FA6/3F/pbr05_chapter6_154.pdf)

recommendations made in Sir Michael Lyons' reports to relocate 20,000 public sector posts out of London and the South East. A total of 6,300 posts have already been relocated by the end of September 2005, representing strong progress towards this target. Plans for an additional 1,500 relocations by the end of 2005-06 are being implemented, so that over 7,800 posts will have been relocated by April 2006. Relocations completed so far include:

- the DTI has moved over 190 posts, including 70 to the Tees Valley and 50 to Cumbria;
- the Home Office has relocated 430 posts to locations including Birmingham, Bristol, Glasgow, Leeds, Leicester, Manchester and Sheffield; and
- DWP has relocated over 600 posts in the first six months of 2005-06, including 80 to Taunton, 60 to Derby and 40 to South Wales.

The Treasury Select Committee commented that that different departments were using different starting dates for measuring workforce reduction in its analysis of the Gershon and Lyons aspects of the Pre-Budget Report:

71. At the time of the 2004 Spending Review, the Government published an independent review of public sector efficiency by Sir Peter Gershon.<sup>[187]</sup> The Gershon review identified £21.48 billion of efficiency savings which could be secured by the end of 2007-08 by central government departments and local government and these savings were incorporated in spending plans within the 2004 Spending Review. Some savings were intended to be cashable and to allow resources to be recycled to fund priorities at the front line; others were intended to lead to improved outputs for the same level of inputs. The savings were to be retained by departments; they were not intended to represent cuts in departmental funding.<sup>[188]</sup> The 2005 Pre-Budget Report outlined the progress that has been made so far in identifying and securing these efficiency savings. It indicated that departments and local authorities have reported annual efficiency gains totalling £4.7 billion by the end of September 2005, with further gains achieved since then. Local authorities are reported to have delivered more than £750 million of efficiency gains in 2004-05 and are expected to achieve annual efficiency gains of £1.9 billion by the end of 2005-06. The Pre-Budget Report cites some examples of savings achieved or in prospect within departments.<sup>[189]</sup>

72. Professor Colin Talbot of Manchester Business School was sceptical about the progress reported by the Treasury. He pointed to the lack of detail about savings by department and to the difficulties in measuring the non-cash savings arising from claims of improved outputs.<sup>[190]</sup> In response to concerns about the lack of a breakdown indicating how the total of £4.7 billion of savings reported in the Pre-Budget Report was arrived at, Treasury officials indicated that departmental figures were scrutinised and held by the Office of Government Commerce and were measured in accordance with departmental Efficiency Technical Notes which were developed with advice from the National Audit Office.<sup>[191]</sup> The Treasury also indicated that the NAO would be reporting on the efficiency programme in the spring of 2006.<sup>[192]</sup> The Chancellor of the Exchequer told us that detailed departmental figures would be available in departmental Autumn Performance Reports.<sup>[193]</sup>

73. An initial analysis of the Autumn Performance Reports—which, despite their name, were largely published between 7 and 20 December 2005—by the Scrutiny Unit within the House of Commons suggests that around £4.6 billion of the reported savings can be accounted for in those departmental reports. However, there appears to be some confusion about local authority savings, because an overall total is reported on by the Office of the Deputy Prime Minister while some elements of that

overall total are also reported on separately by the Department of Health, the Department for Culture, Media and Sport and the Department for Environment, Food and Rural Affairs, leaving it unclear whether or not there has been double-counting. The quality of the information on efficiency savings varies considerably between departments. Treasury guidance on 2005 Autumn Performance Reports stated that "departments should ... set out the efficiency gains achieved to date—i.e., the amount achieved in monetary terms—both in 2004-05 and in 2005-06".<sup>[194]</sup> Some departments fail to do this, including the Treasury itself.<sup>[195]</sup> The absence of efficiency targets and achievements broken down by financial year hinders the ability to assess a department's performance and verify that efficiency gains achieved in one year are sustainable in the next. Some departments fail to provide any detailed information to substantiate the headline figures provided by relating them to particular programmes.

**74. Delivering the efficiency savings identified in the Gershon review represents an integral element in ensuring the effective deployment of public money during the planning period covered by the 2004 Spending Review. The headline figure of savings of £4.7 billion reported by the end of September 2005 presented in the Pre-Budget Report is encouraging, but the information in support of this figure should be enhanced in order to strengthen parliamentary and public confidence in the progress achieved. We recommend that future Budgets and Pre-Budget Reports include a breakdown of reported savings by department and by financial year, as well as an analysis of local authority savings which distinguishes savings by sector and by whether or not they are cashable. We further recommend that departments be required, in future departmental annual reports and autumn performance reports, to set out targets by financial year and by programme or theme for meeting their overall targets and to report on progress in relation to such intermediate targets.**

75. An important and integral element of the Gershon efficiency programme is the proposed reduction in the Civil Service workforce. The Gershon review estimated that there would be a gross reduction in Civil Service numbers in consequence of the efficiency programme of 84,150 posts between April 2004 and April 2008; the net target for reductions was 70,600, the difference representing re-allocations to front line roles in the Civil Service.<sup>[196]</sup> The aim is to secure a gross reduction in posts of 84,000 compared with what would be the case if the efficiency programme were not being implemented; there is no guarantee that other factors will not lead to off-setting increases in Civil Service numbers.<sup>[197]</sup> The Pre-Budget Report stated that, by September 2005, a gross workforce reduction of 31,085 had been achieved, including 5,771 posts re-allocated to front line roles.<sup>[198]</sup> The updated Efficiency Technical Notes published by departments in December 2005 indicate that different departments are using different starting dates for measuring workforce reductions: for example, the Department of Health baseline is March 2003, the Department for Education and Skills uses October 2003, HM Revenue and Customs uses April 2004 (the original Gershon starting point) and the Office of the Deputy Prime Minister uses June 2004.<sup>[199]</sup> If different starting dates are able to be used, departments might seek to choose a time when their workforce numbers were at their highest, thus exaggerating the extent of decline from the Gershon review starting point. **We recommend that, in Budgets and Pre-Budget Reports, the Treasury report on progress towards the Gershon workforce reduction targets from a single baseline in April 2004 and ensure that information is readily available to enable**

**departmental reductions reported on different baselines to be reconciled with such totals.** <sup>58</sup>

The most recent parliamentary answer is as follows:

**Dr. Cable:** To ask the Chancellor of the Exchequer if he will provide a break down by (a) Department and (b) activity of the £4.7 billion efficiency savings as a result of the Gershon Review announced in the pre-Budget report. [37150]

**Mr. Des Browne:** This information is available in departmental Autumn Performance Reports that have been published and in forthcoming Departmental Reports which all departments are required to publish by April.

<b>Table 2: Efficiency Gains Reported to September 2005, by workstream</b>	<b>Total gains reported (£ million)</b>
<b>Workstream</b>	
Procurement	1,978
Productive Time	894
Policy, Funding and Regulation	520
Corporate Services	288
Transactions	113
Other <sup>(6)</sup>	942
<b>Total</b>	<b>4,735</b>

<sup>59</sup>

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<sup>58</sup> *The 2005 Pre-Budget Report* HC 739 2005-6

<sup>59</sup> HC Deb 23 Jan 2006 : c1734W