National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 818
SESSION 2010–2011

11 MARCH 2011

Managing staff costs in central government

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National Audit Office

Managing staff costs in central government

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

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In 2009-10 the public sector, excluding public corporations, directly employed 4.4 million full-time equivalent staff at an estimated cost of £164 billion. This represented 23 per cent of total government expenditure, including sectors such as the National Health Service, Education and the Police.

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Contents

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Summary

1 In 2009-10, the public sector, excluding public corporations, directly employed 4.4 million full-time equivalent staff at an estimated cost of £164 billion. This represented 23 per cent of total government expenditure, including sectors such as the National Health Service, education and the police. Around 500,000 or 11 per cent of public sector staff were employed in the central government departments and agencies that constitute the civil service. Staff costs in the civil service in 2009-10 totalled £16.4 billion. Salaries of £13 billion were paid, including performance-related pay, with around three quarters of civil servants earning gross annual pay of £30,000 or less.

2 This report provides a high level review of how staff costs have been managed in central government. It does not attempt to assess whether value for money has been achieved in any one organisation, or to conclude on overall value for money. Part One of the report sets out the recent trends in civil service staff numbers and costs. Part Two of the report examines central initiatives to control staff costs across the civil service, and challenges for the centre in managing staff costs in central government. Part Three of the report examines actions within departments and agencies to identify opportunities to reduce staff costs. Our analysis draws on the expectations set out in our report *A framework for managing staff costs in a period of spending reduction* (**Figure 1**), published in August 2010.

Key findings

Recent trends in civil service staff costs

3 There were 493,000 full-time equivalent civil servants in March 2010; a 1 per cent decline on numbers at March 2001. This number had fallen back from a peak of 538,000 in March 2004. Since March 2010, numbers have fallen further with the most recent figures reporting 479,000 as at September 2010. Comprehensive data on the wider central government workforce including consultants, interim staff and outsourced capability is not available.

4 Over the same period civil service staff costs rose by 10 per cent in real terms. Accounting for the slight decrease in numbers, staff cost per full-time equivalent civil servant was 11 per cent higher in real terms than in March 2001. Across the whole public sector, where staff numbers have increased by 13.7 per cent over the decade, staff costs have increased by 40 per cent.

Figure 1

A framework for managing staff costs in a period of spending reduction

1 Identifying and appraising options for staff cost reduction

- Using information to establish a clear understanding of staff costs
- Using information to identify staff cost reduction opportunities:
  - across existing business model
  - through changes to business model
- Using information to appraise options for staff cost reduction

2 Planning staff cost reduction

- Mapping future needs and current capability
- Building capability to address gaps
- Understanding the full costs and wider impacts of reducing capability
- Assessing the overall value for money of the cost reduction programme

3 Delivering staff cost reduction

- Setting strong direction for the change programme
- Implementing the change programme
- Learning from the change programme

4 Embedding a business as usual approach to staff cost management

- Using information to provide ongoing challenge to staff costs
- Expanding the ownership of staff cost management

Source: Comptroller and Auditor General, A framework for managing staff costs in a period of spending reduction, August 2010

5 **The increasing proportion of higher-grade staff in the civil service is the principal cause of the cost increase.** Between March 2001 and March 2010, the number of administrative grade staff declined, consistent with the expectations of savings to back office and processing functions intended by the 2004 Efficiency Programme. All higher grades grew in number, with civil service management grades 6 and 7 showing a 67 per cent increase (around 14,000 posts). We estimate that this change in grade mix across the civil service accounts directly for 50 per cent of the 10 per cent real terms cost increase recorded over the decade.

6 **Although some of the change in grade mix can be attributed to an intended reduction in administrative activity, the increase in higher grades has not been a planned growth.** Some central government organisations have recognised 'grade creep' – the uncontrolled migration of work up to higher pay grades – taking place. The centre's advisory capacity on pay grading has diminished in recent years but there has been some limited action within organisations to review grading structures. There is no central control of grade mix and promotion outside the top 200 Senior Civil Service posts.

7 **We estimate that 35 per cent of the real terms increase in staff costs is due to increases in salaries and performance-related pay.** Levels of performance-related pay have increased from virtually zero in 2000-01 to around £200 million in 2009-10, or 1 per cent of the total paybill. The total paybill has grown approximately 1 per cent above inflation on average each year through the period April 2001 to March 2010. The remaining 15 per cent of total staff cost growth over the decade is attributable to increasing employers' pension and National Insurance contributions. Changes in the grade mix also indirectly affect these costs, with higher grades and associated higher salaries leading to increases in performance-related pay and employers' pension and National Insurance contributions.

Central control of staff costs

8 **The delegated pay system is not designed for central control of the overall paybill.** However, the Treasury aims to control overall spending through setting departmental budgets and administrative spending limits within the Spending Review process. It also sets the parameters for annual civil service pay increases within which departments have the freedom to set their pay. The Treasury does not scrutinise all departmental pay plans in detail, or have specific processes to monitor actual expenditure on staff costs.

9 **The system of delegated pay setting has resulted in pay divergence across the civil service.** The Treasury's objective is to allow departments to set pay in alignment with market rates. While variation may be legitimate, for example due to conditions in the market, wide divergence in pay scales for similar jobs in different departments can lead to inflationary pressures when there are government reorganisations. Concerns have also been raised about a potential future risk of financial liabilities under equal pay legislation.

10 **The centre of government has announced a range of immediate central actions in response to spending pressures, including time-limited freezes on cross-government recruitment and pay.** These are blunt mechanisms for controlling costs in the short term. There are also some longer-term actions in progress including reform of the Civil Service Compensation Scheme to reduce the costs of staff leaving the civil service under voluntary or compulsory terms.

11 **It is too soon to evaluate the consequences that may arise from central action, including risks to staff engagement and retention.** 'Grade creep' may continue as a means of retaining staff who cannot be offered pay increases. Actions which increase central control may increase the risk of government being identified as a 'single source' of pay, broadening the scope for potential equal pay claims.

12 **The 2010 Spending Review period will see a reduction in the Human Resources profession across central government from over 8,000 to 4,000 staff.** The Cabinet Office and the Treasury are also facing cuts in their administration budgets.

Departments and agencies' management of staff costs

13 **Departments and agencies will be responsible for delivering the sustainable reductions in staff costs required by the 2010 Spending Review.** Actions to reduce spending on overtime and reductions to rates of allowances and travel-related costs are already underway, though these remain minor and can require agreement with staff and trade unions. Reforms including closer alignment of pay with regional employment markets have also been considered. Most departments nevertheless expect to further reduce headcount over the coming period.

14 **Organisations do not have a comprehensive understanding of their own staff costs in order to support staff cost reduction activity.** Lack of staff time recording constrains an organisation's assessment of the cost and value of its activities, risking poor decisions around prioritisation or stopping of activities. Departments and agencies have reported some success in freeing staff capacity through improving business processes and fundamentally changing ways of working, including through information technology, but weaknesses remain in the information required to realise the full potential of this activity.

15 **The required headcount reductions in the civil service will not be achieved by the natural turnover of staff.** Recent trends in declining staff turnover suggest funded redundancies and early retirements will be required, increasing the up-front costs involved in realising savings. Such programmes can have a negative impact on staff morale; a risk heightened by the backdrop of a cross-government pay freeze.

16 **Staff skills risk being underutilised or lost due to poor management information in this area.** Departments reported concerns over the completeness of information on staff skills. Poor information risks sub-optimal deployment of talent, unnecessary use of contracted labour and potential loss of key capabilities through the redundancy and early retirement schemes that may be required over the Spending Review period.

Conclusion

17 Total expenditure on central government staff costs has increased by 10 per cent in real terms over the ten years to March 2010. The majority of this change is attributable to increases in higher grade staff. This shift in grade composition has not been a planned process, with variable practices across departments and agencies and an absence of central control. There is evidence of poor control over the numbers and roles of higher grade staff, inadequate management information to support effective staff cost management including a lack of time recording systems and skills information, and a lack of a structured approach to staff cost reduction. Work on identifying potential savings has begun but risks to value for money will remain if the above weaknesses are not addressed.

Recommendations

18 Controlling staff costs and delivering staff cost reduction across central government presents a broad range of risks. We recommend that these risks are identified and managed collectively by the Cabinet Office, the Treasury, and individual departments and agencies. This is particularly important in the current environment of budget reductions, and when roles and responsibilities are set to change. While our report has focused on managing staff costs in the civil service, these risks and recommendations will have wider application in the management of staff costs across the whole public sector.

For the centre of government:

a **The system of delegated pay places responsibility for pay setting with departments, and the Cabinet Office and the Treasury are not attempting to exercise overall control of the paybill, other than through general controls on departmental budgets.** This system has resulted in pay divergence and an upward drift in staff employed at higher grades. While some of this change and the resulting increases in cost may be justified in terms of the business needs of departments, we recommend the centre of government reviews its ability to understand and challenge the management decisions that drive increases to the civil service paybill.

b **Centrally mandated measures such as the public sector pay freeze are intended to reduce departmental costs in the short term.** They carry risks to staff engagement and retention and to the civil service's ability to recruit in the longer term. They also risk encouraging a 'stop-start' approach to pay growth and we recommend that the centre is quick to establish a more sustainable approach. The centre should also identify and manage the risks involved in using such measures and monitor whether cost savings have been achieved.

c **The respective roles of the centre of government and departments on staffing issues are changing.** There is a risk that uncontrolled reform of the Human Resources capability across government will lead to gaps in controls and accountability for staff costs. The centre of government will need to ensure that controls are not weakened as the system undergoes reform.

d **There is a lack of comprehensive information on the total civil service workforce, including the costs of external capability.** The Cabinet Office should build upon earlier data collection exercises to collate workforce costs and provide integrated resource information, including consultants, interims, temporary staff and outsourcing.

For civil service departments and agencies:

e **The growth in staff costs has mainly been driven by increases in staff in higher grades.** Greater discipline is required over the creation of posts and the management of promotions to prevent any further inflationary effects that increases in grade can have on staff costs. Departments and agencies should make better use of pay benchmarking data and existing good practice to ensure that grade distribution is appropriate for departmental workforces.

f **Delivering future reductions in staff costs will require departments to demonstrate an improved understanding of the cost of staff time.** Good quality information on the cost of staff time will support cost savings through process improvement, and prioritisation of activities. Organisations should improve their understanding of workforce costs and staff allocation to specific activities, utilising established costing techniques.

g **Organisations do not have adequate information to understand the skills they have, the skills they need to retain and the skills they require.** Poor information compromises any evaluation of existing skills against future resource requirements, and risks loss of key capabilities through redundancy and early retirement schemes. Organisations should conduct activity to map levels of skill and experience across the workforce.

h **Despite changes proposed to the Civil Service Compensation Scheme, the up front costs of voluntary or compulsory redundancy schemes and early retirements will be significant.** Further costs may be incurred if capabilities are unintentionally lost through these processes and have to be subsequently replaced. Organisations need to plan and target these schemes in line with future capability requirements to minimise these risks.

i **There is a risk of falling staff morale as departments and agencies go through organisational change to deliver challenging budget reductions over the Spending Review period.** Against the backdrop of pay freezes and promotion limitations, there is a risk of declining staff engagement and a resultant effect on organisational performance. Departments and agencies need to plan, resource and control cost reduction programmes as major change management programmes.

Part One

Civil service staff costs

1.1 This Part analyses recent trends in civil service staff numbers and costs, within the wider context of public sector staffing.

Scope of staff costs

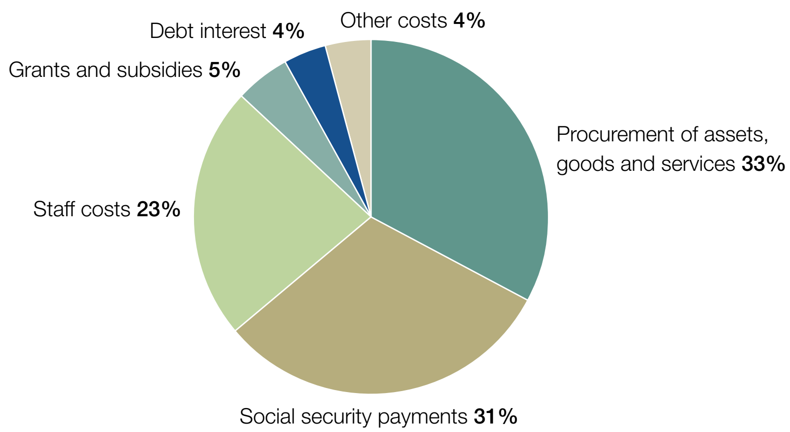
Public sector staff

1.2 Staff costs represent a significant proportion of total public spending in the United Kingdom. The Treasury estimates that in 2009-10 public sector payroll staff costs were £164 billion, representing 23 per cent of total public spending (**Figure 2**)[1], or just under 12 per cent of GDP in 2009-10. At March 2010, the public sector, excluding public corporations[2], employed 4.4 million staff[3] on a full-time equivalent basis[4] with the two largest sectors, the National Health Service and education, contributing over 50 per cent of the total. (**Figure 3** on page 12). By September 2010, the figure remained unchanged at 4.4 million.

1.3 These figures represent the numbers and direct costs of staff employed by public bodies and paid from the organisation's payroll. The total people resource available to the public sector also includes the different types of contracted labour shown in **Figure 4** on page 13. While there is no single estimate of the cost of this external resource, it will be included under the procurement of goods and services costs shown in Figure 2.[5] The Cabinet Office commissioned an information collection exercise in June 2010 on the total number of people working for central government, including the numbers of consultants, contractors and agency staff. The data collected was not complete[6] and there is still a lack of data on the numbers and costs of outsourced staff.

1 HM Treasury *Public Expenditure Statistical Analyses 2010*, February 2011. Data excludes public corporations. Costs include: salary; performance related pay; employer National Insurance contributions; and employer pension contributions.
2 Public corporations have a number of characteristics: they are mainly trading bodies; they are owned or controlled by central government, local authorities or other public corporations; and they have substantial day-to-day operating independence. An example is the British Broadcasting Corporation.
3 Office for National Statistics, *Public Sector Employment Statistics.*
4 Full-time equivalent is a measure of staff numbers which makes adjustments for part-time workers, compared with headcount which measures the physical number of staff. For example, two part-time workers working 50 per cent of full time hours would count as one staff member on a full time equivalent basis but would count as two staff members on a headcount basis.
5 Recent data on professional services was published in Comptroller and Auditor General, *Government's Use of Consultants and Interims*, Session 2010-11, HC 488, October 2010.
6 Cabinet Office Press Release, *Government gets a grip on numbers of non-payroll staff*, June 2010.

Figure 2
Main categories of public spending in 2009-10



NOTES

1. The percentages are calculated using gross government expenditure of £726 billion. Net total managed expenditure in 2009-10 was £670 billion including income of £57 billion.
2. The data excludes public corporations.
3. Staff costs includes: salary; bonuses; employer pensions contributions; and employer national insurance contributions.
4. Procurement of assets, goods and services includes: buildings; IT; consultancy; and other purchasing across government including the National Health Service and Defence sectors.
5. Grants and subsidies include all non-social security transfers including grants to education, enterprise and housing organisations.

Source: HM Treasury, Public Expenditure Statistical Analyses 2010, comprising data as at March 2010

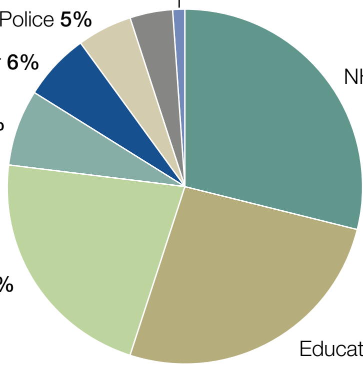
Civil service staff numbers and costs

1.4 The civil service employed 493,000 staff on a full-time equivalent basis as at March 2010.[7] This represented 11 per cent of public sector employees, excluding public corporations. Numbers have since fallen to 479,000 in September 2010. The Cabinet Office estimates that civil service staff costs were £16.4 billion in 2009-10[8], with £12.8 billion spent on salaries and a further £200 million on performance-related pay. The funding available for increases in civil service pay is allocated between annual pay increases and an element of performance-related pay. It is not an additional cost, nor does it count towards pensionable pay.

1.5 The figure is the total paybill or direct staff costs, including employers' National Insurance and pension contributions as shown in **Figure 5** on page 13, but excluding overtime and other indirect elements of staff costs such as training or travel expenses. Data provided by the Department for Work and Pensions, HM Revenue & Customs and the Ministry of Defence[9] indicates that overtime contributes on average an additional 2 per cent of total staff costs in these organisations, with travel expenses adding a similar amount.

7 Office for National Statistics *Public Sector Employment Statistics*.
8 Cabinet Office estimate based on Office of National Statistics data from *Public Sector Employment Statistics*.
9 Civilian staff only.

Figure 3
Total public sector staff by employment sector



NOTES

1 The percentages are calculated using headcount figures as a full breakdown of sectors is not available on a full-time equivalent basis.

2 Staff employed by public corporations have been excluded to bring them in line with Treasury data on staff costs which also exclude public corporations. They have been subtracted from the 'other public sector' total.

3 Civil Servants (11 per cent of overall total) are included within 'Public Administration' sector.

4 'Other Public Sector' includes bodies such as Royal Mail, housing associations, transport and leisure bodies.

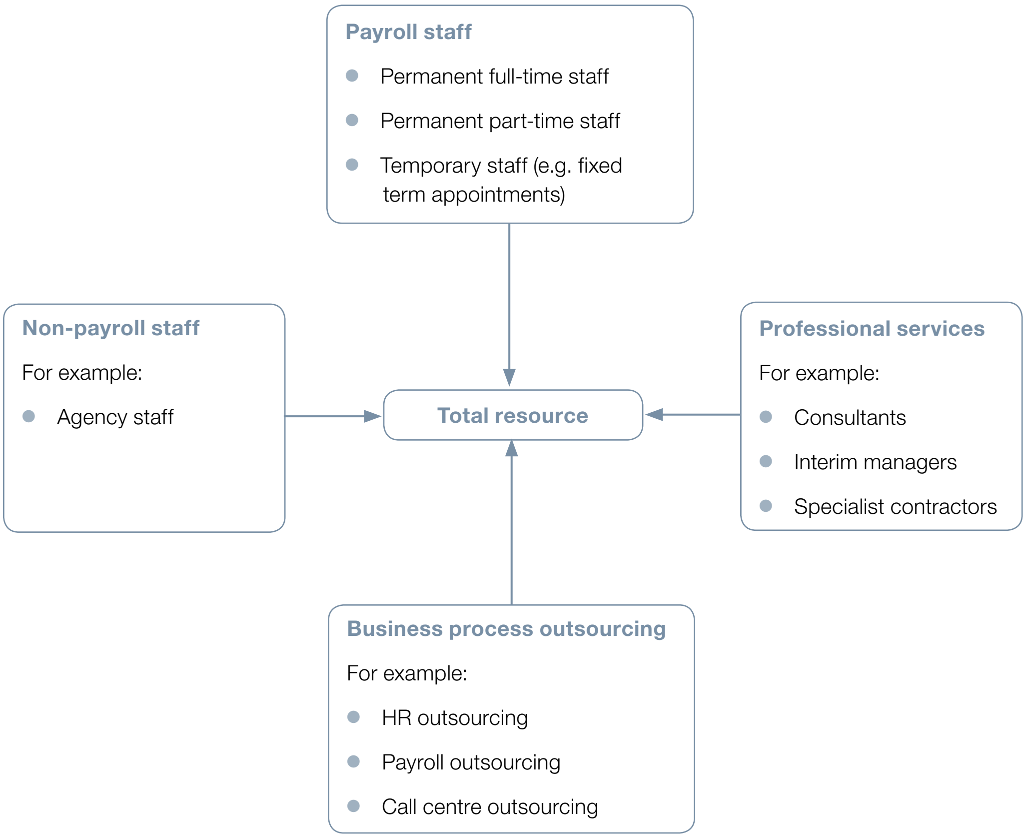
Source: Office for National Statistics, Public Sector Employment Statistics

Civil service staff by organisation

1.6 The majority of civil servants are concentrated in a few large employers. Four organisations – Jobcentre Plus, HM Revenue & Customs, Ministry of Defence and the National Offender Management Service – employed over 50 per cent of the 493,000 full-time equivalent civil servants at March 2010.[10] **Figure 6** on page 14 shows 2009-10 resource account expenditure on staff numbers and costs for the ten largest employers of civil servants.[11] There may be legitimate reasons for the variations shown in cost per full-time equivalent employee, such as a different mix of grades and pay levels relating to the type of work conducted by each organisation. Conclusions on cost-effectiveness of staff cannot be drawn from this measure in isolation.

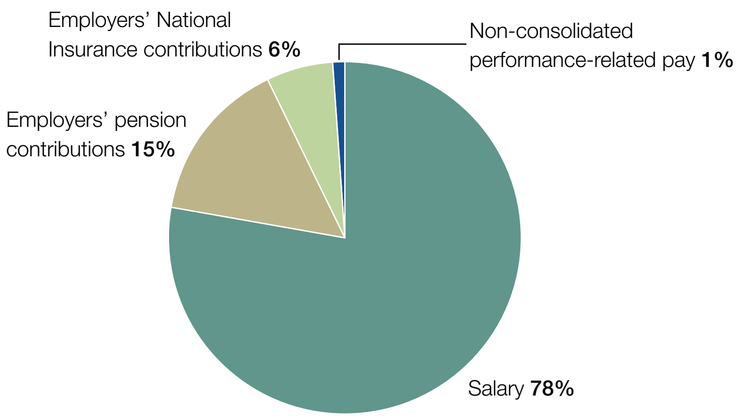
10 Office for National Statistics, *Public Sector Employment Statistics*.
11 Based on Office for National Statistics data for departmental headcount at March 2010.

Figure 4
Categories of public sector people resource



Source: National Audit Office

Figure 5
Breakdown of £16 billion civil service direct staff costs for 2009-10



Source: Cabinet Office

Figure 6

Staff numbers and costs in ten largest civil service employers 2009-10

Name of organisation	Average staff numbers (full-time equivalent)	Total net staff costs (£m)	Net cost per full-time equivalent employee (£)
Jobcentre Plus	78,626	2,161	27,485
Ministry of Defence	76,400	2,750	35,995
HM Revenue & Customs	73,695	2,305	31,278
National Offender Management Service (including the Probation Service)	71,482	2,563	35,855
UK Border Agency	23,652	919	38,855
HM Courts Service	18,291	556	30,397
Pensions and Disability Carers Service	14,948	401	26,826
Department for Work and Pensions Corporate and shared services	12,311	524	42,564
Child Maintenance Enforcement Commission	8,924	240	26,894
Crown Prosecution Service	8,562	385	44,966

NOTES

1 Full-time equivalent figures are based on average figures for the financial year 2009-10 as published in resource accounts. The average figures will differ from the Office for National Statistics actual year end figures used elsewhere in the report, but are used here to provide a more accurate comparison with staff costs for the financial year 2009-10.

2 Ministry of Defence staff numbers are civilian staff only, and exclude Royal Fleet Auxiliary staff, staff employed in Trading Funds and locally employed overseas civilians.

3 15,475 average full-time equivalent staff employed by the Probation Service (part of National Offender Management Service) in 2009-10 are excluded from the 493,000 figure of total civil service staff quoted in paragraph 1.4 due to them not being defined as civil servants by the Office for National Statistics.

Source: Departmental Resource Accounts 2009-10

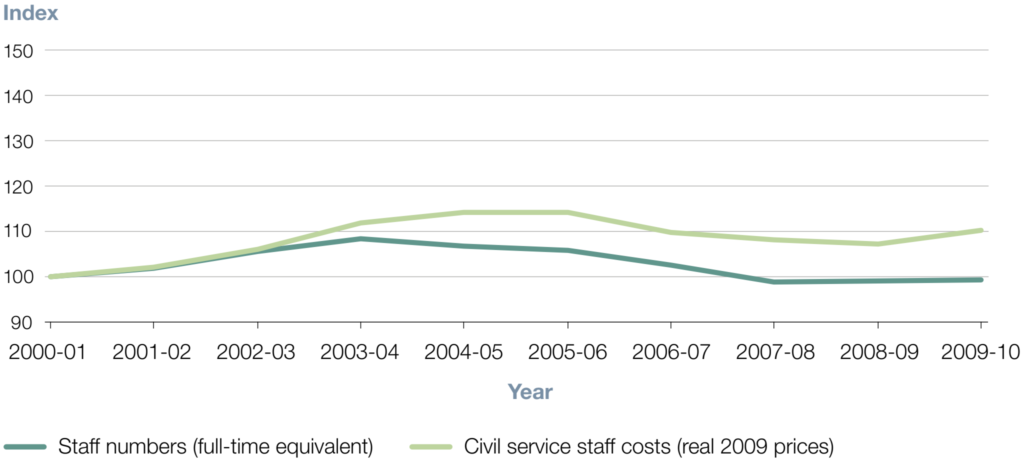
Recent trends in civil service staff costs and numbers

Changes in overall staff numbers and costs

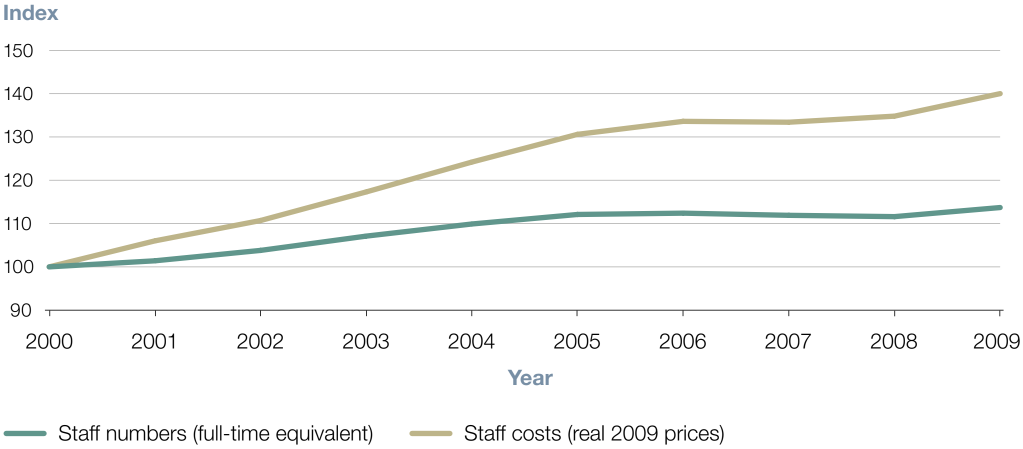
1.7 Between the financial years 2000-01 and 2009-10, the civil service paybill increased by just over 10 per cent in real terms, compared to 40 per cent across the whole public sector in the same period. (**Figure 7**) The civil service paybill increased between 2000-01 and 2005-06, before falling in the period to 2008-09. Costs rose again in 2009-10. Across the decade this represents an average increase of around 1 per cent a year above inflation.

Figure 7
Trends in staff numbers and staff costs 2001 to 2010 indexed from 2001 levels

Civil Service



Whole Public Sector



NOTES
1 Staff number index uses full-time equivalent.
2 Staff costs include salaries, bonuses, employer National Insurance contributions and employer pension contributions.

Civil Service
3 Staff numbers are for end of March in each financial year.
4 Staff costs are for the financial year.

Whole Public Sector
5 Data on staff costs and staff numbers exclude public corporations.
6 The staff cost figures are calendar year figures.
7 Staff numbers are for mid-calendar year (June of each year).

Source: Civil Service – Office for National Statistics, Public Sector Employment Statistics (staff numbers), Cabinet Office (staff costs); Whole Public Sector – Staff costs: Office for National Statistics, UK National Accounts; Staff numbers: Office for National Statistics Public Sector Employment Statistics

1.8 Over the same ten-year period, full-time equivalent staff numbers fell by 1 per cent. After an initial period of growth, numbers fell back from a March 2004 peak of 538,000. These reductions were the result of initiatives such as the Efficiency Programme for the 2004 Spending Review which targeted back office and processing functions and which reported a net reduction in full-time equivalent posts of 86,700 by 2007-08.[12] Across the total public sector, staff numbers grew by 13.7 per cent between June 2000 and June 2009.

1.9 Taking into account the slight decrease in staff numbers, the cost per civil servant rose by 11 per cent in real terms. The Cabinet Office and our own analysis directly attributes approximately 50 per cent of paybill growth in real terms to changes in the grade mix, 20 per cent to salary increases, 15 per cent to increased performance-related pay, with the remainder (15 per cent) due to increased employers' pension and National Insurance contributions. Much of the increase in performance-related pay and employers' pension and National Insurance contributions will also be costs associated with increased salaries linked to an increase in higher grades.

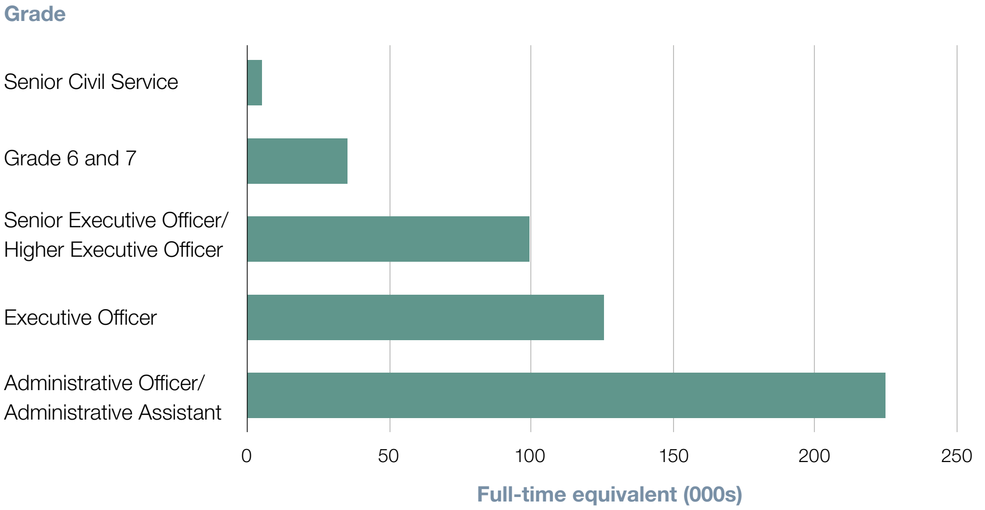
Changes in grade mix

1.10 The majority of the reduction in full-time equivalent numbers took place among staff in the lower grades (Administrative Officers and Administrative Assistants), although these continued to make up the largest proportion of civil servants – 46 per cent in March 2010. All higher grades grew in number with civil service management grades 6 and 7 showing a 67 per cent increase, around 14,000 posts. This has increased the number of higher paid staff in the civil service (**Figure 8**). Data from the Cabinet Office shows that an increasing proportion of the civil service paybill is made of the salaries of higher grades (**Figure 9** on page 18).

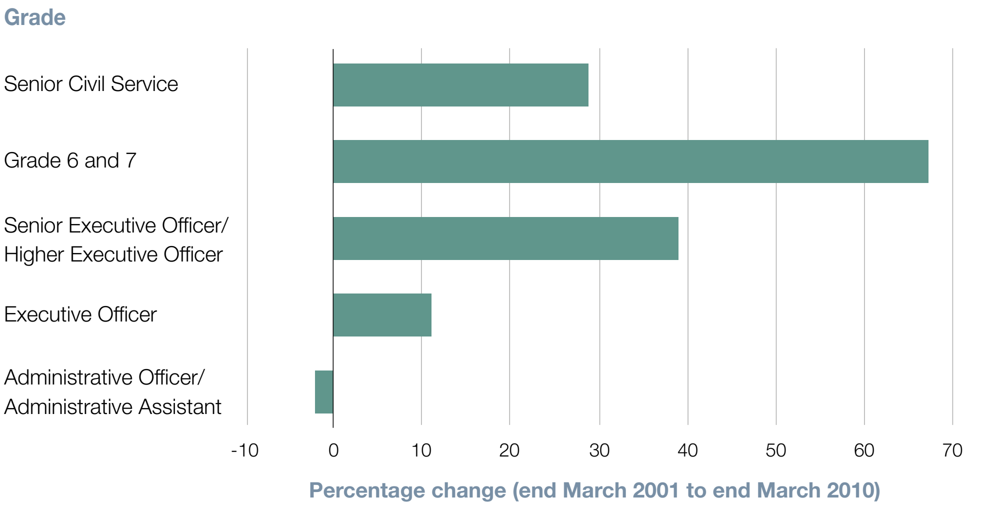
12 HM Treasury, *2004 Spending Review: final report on the efficiency programme*, November 2008.

Figure 8
Total civil service by grade and change in staff composition

Full-time equalivalent staff at 31 March 2010



Percentage change in staff from 31 March 2001 to 31 March 2010

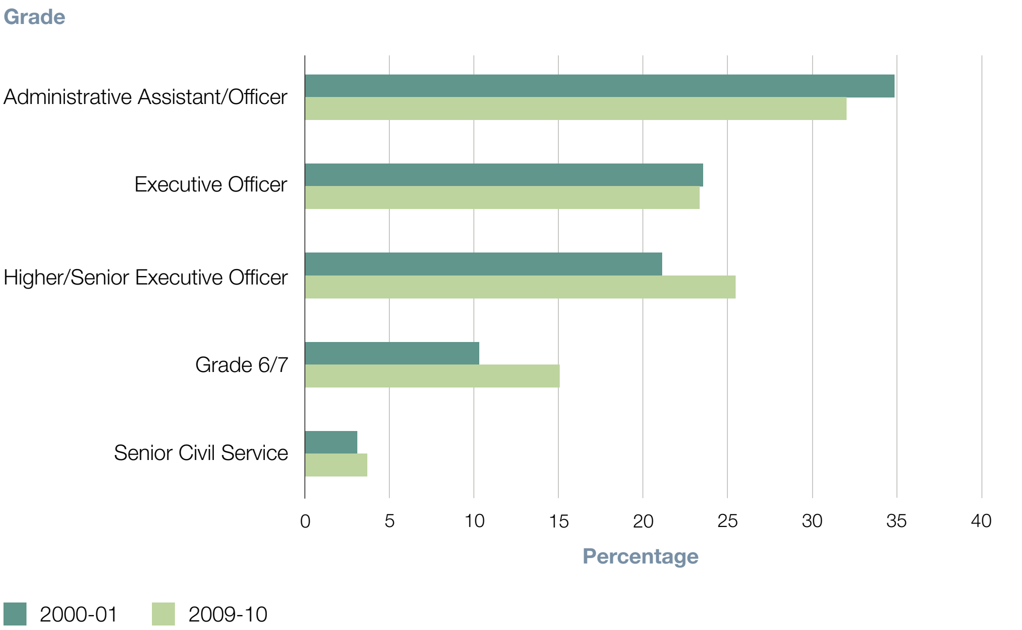


NOTES

1. The percentage change should be viewed as approximate as data quality deteriorates in the earlier years.
2. Approximately 29,000 'Industrial' staff were reclassified during the period. Analysis of salaries indicates that the majority of these staff are likely to be in lower grades. This would, therefore, have the effect of increasing the percentage reduction in staff numbers in lower grades over the period.
3. The data excludes numbers for staff with an 'unknown' grade. In 2001, there were approximately 15,000 staff classed with an unknown grade with approximately 3,000 in 2010. Analysis of salaries indicates that the majority of these staff are likely to be in lower grades. This would, therefore, have the effect of increasing the percentage reduction in staff numbers in lower grades over the period.
4. The graph of full-time equivalent staff at 31 March 2010 does not include the 3,000 staff classed with an unknown grade.
5. Changes based on full-time equivalent staff numbers.

Source: Office for National Statistics, Civil Service Statistics 2010 Statistical Bulletin

Figure 9
Civil service paybill by grade composition



NOTE
1 The graph excludes civil servants of unknown grade.

Source: Cabinet Office Review of Pay and Terms and Conditions

1.11 This changing pattern of staff numbers across grades is consistent with initiatives under the 2004 Efficiency Programme to reduce the number of administrative staff. However, there is also evidence of unexpected 'grade creep' across the civil service, where work that had previously been undertaken by lower grade staff has since been done by more expensive staff in higher grades (**Figure 10**). Interviews with Human Resources professionals suggested that this migration can be due to:

- poor job evaluation when posts are created;
- a desire to promote individuals and to retain them even if there is no role into which to promote them; and
- promoted staff retaining responsibilities from their previous roles and therefore diminishing the responsibilities of the posts they leave behind.

Figure 10
Identifying 'grade creep' in the civil service

'Grade creep' is where work previously done by lower grades is taken on by higher grade staff. In 2008, the Ministry of Defence undertook a job evaluation exercise to examine the grading structure in place for the majority of its civil servants and establish whether any 'grade creep' had occurred. A total of 781 posts out of some 56,000 were sampled. This work suggested that between 8 and 33 per cent of jobs in broader bands below the Senior Civil Service should belong to lower pay bands.

Source: Ministry of Defence

1.12 The risk of 'grade creep' is increased by the variation in grading standards which has arisen under the delegated pay system (paragraph 1.17). Staff transfers due to reorganisations and restructuring can expose this divergence and lead to upward pressure on pay levels. Central coordination of grading has weakened with the decline in the centre's job evaluation capability, and the absence of control on grade composition and the number of promotions outside the Top 200 Senior Civil Service appointments. Commenting on the increase in the number of Senior Civil Servants, the Review Body on Senior Salaries attributes part of the trend to an increase in the quantity of policy work, changes in classification of posts, and technological development. However, it has also stated that the increase has been unintentional[13], and related to departments being able to create Senior Civil Service posts subject only to budget constraints.[14]

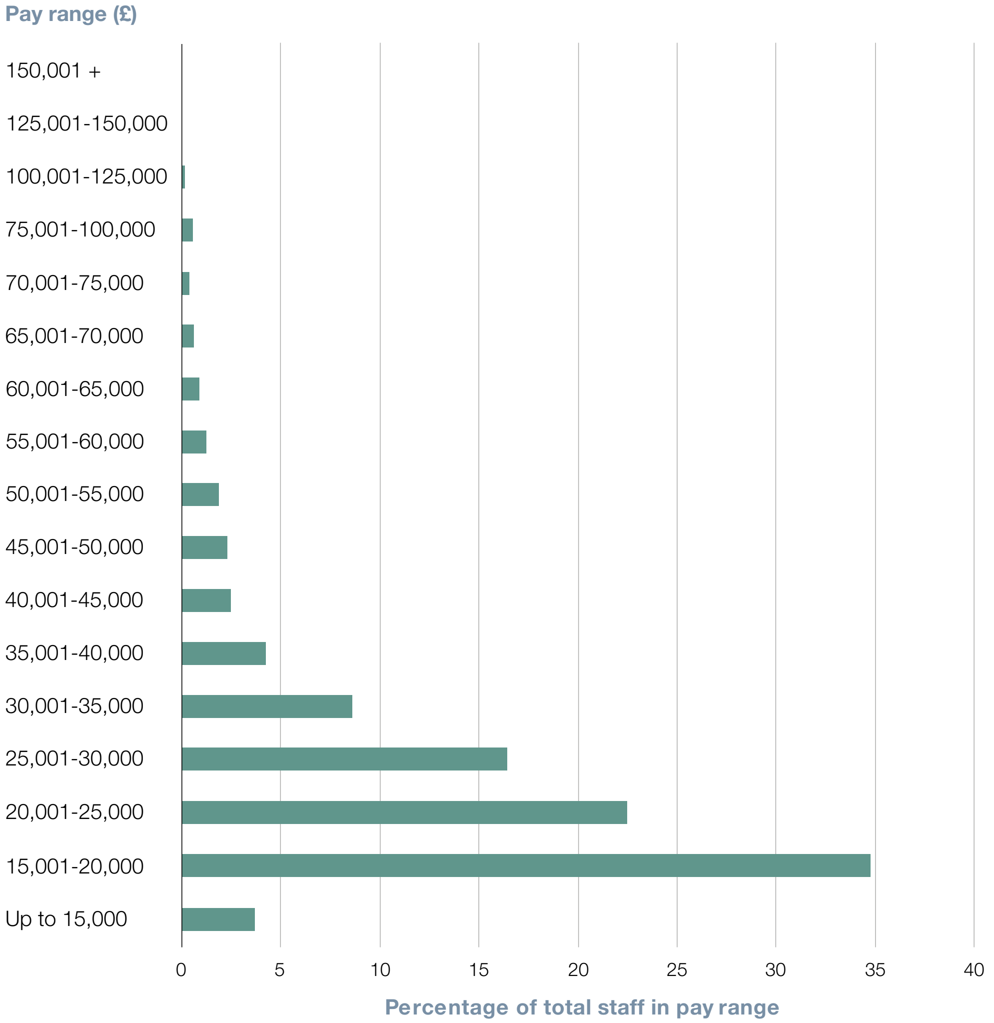
Changes in civil service pay

1.13 In 2009-10, 77 per cent of civil service staff earned a gross salary of £30,000 or less a year.[15] The median salary across all staff was £22,850 during 2009-10. Just over 900 staff earned over £100,000 a year, making up less than 0.2 per cent of total staff numbers (**Figure 11** overleaf). Over the last ten years, median salaries in real terms have remained relatively flat, with only the lowest grades (Administrative Officer and Administrative Assistant) showing approximately a 5 per cent real terms increase.

1.14 Reorganisations of central government bodies often require increases in pay when staff transfer between bodies and their pay and other terms and conditions are harmonised. Our report *Reorganising central government* estimated that the cost of pay harmonisation across the 51 reorganisations covered in the report was £94 million.[16]

13 Review Body on Senior Salaries, *Thirty-Second Report on Senior Salaries 2010*, Report 73, March 2010.
14 Review Body on Senior Salaries, *Thirtieth Report on Senior Salaries 2008*, Report 65, June 2008.
15 Gross salary is the annual salary inclusive of basic pay and pay-related allowances such as regional and skills allowances. It does not include non-consolidated performance related pay.
16 Comptroller and Auditor General, *Reorganising central government*, Session 2009-10, HC 452, March 2010.

Figure 11
Percentage of staff by gross salary range



NOTES
1 Based on headcount staff numbers.
2 650 staff were recorded as not reported.
3 230 staff were recorded in the £125,001-£150,000 category, and 130 in £150,001 and above.

Source: Office for National Statistics, Civil Service Statistics 2010 Statistical Bulletin

Increase in performance-related pay

1.15 Performance-related pay is not part of gross salary and has grown from almost zero in 2000-01 to approximately £200 million, or 1 per cent of total civil service staff costs, in 2009-10.

Changes in employers' pension and National Insurance contributions

1.16 The cost of employers' pension and National Insurance contributions increases as salaries increase due to both changes in the grade mix and annual pay awards. In addition, contributions have risen due to changes in the rates of employer contribution. Employers' National Insurance contributions increased from 11.9 per cent in 2001-02 to 12.8 per cent in 2009-10. Employers' pension contributions increased from an average 13.3 per cent of pensionable pay[17] in 2001-02 to 18.9 per cent in 2009-10.

Roles and responsibilities in managing civil service staff costs

1.17 Under the system of delegated pay in place since 1996, departments and agencies are each responsible for setting their own pay levels and structures. The centre of government provides two principal functions:

- The Cabinet Office provides advice to departments on their pay and reward strategies.
- The Treasury sets the overall parameters for annual civil service pay increases within which departments have the freedom to set their pay (paragraph 2.4). Departments must manage their paybills within the overall departmental budgets which are agreed with the Treasury as part of the Spending Review process.

1.18 **Figure 12** overleaf provides an overview of the key stakeholders and their current roles in the pay setting process and in managing other staff costs. Some of these processes are subject to change from April 2011.

17 Pensionable pay generally includes only permanent elements of pay. Its precise composition depends on individual circumstances but generally excludes bonuses and overtime.

Figure 12
Key responsibilities in managing civil service staff costs 2000-2010

Civil service staff costs	Indirect staff costs	Direct staff costs – Total paybill	
	Civil service	Civil service (excluding Senior Civil Service)	Senior Civil Service (SCS)
Government Department	Controls indirect costs such as: • travel, subsistence • training • benefits – e.g. health insurance	**Responsibility for own workforce policies** Secretary of State approves business case for pay remit unless Treasury approval is required. Annual increases in pay should fall within Treasury limits Sets salaries, allowances and pay bands Pays bonuses, overtime, employers' National Insurance and pension contributions	Creates Senior Civil Service posts Pays Senior Civil Service paybill
HM Treasury		**Responsibility for defining upper and lower limits for departments' annual pay increases, published in *HM Treasury Pay Guidance*** Chief Secretary signs off business cases for pay increases on previous year for some departments, those in multi-year deals and where required to by law	
Cabinet Office	Provide best practice guidance to departments in managing non-pay terms and conditions	**Provides advice to departments on their pay and performance strategies** Advises HM Treasury on whether business cases are in line with civil service reward principles Provides risk assessment including value for money evaluation Scrutinises business cases of some of larger departments before HM Treasury sign-off Sets levels of civil service pension contributions	Responsible for workforce planning and strategy for Senior Civil Service, including recruiting future talent through Fast Stream Submits evidence to the Senior Salaries Review Body (SSRB)
Prime Minister			Sets pay award based on SSRB advice
Pay review body			Senior Salaries Review Body Advises Prime Minister on SCS pay award Receives evidence on pay award
Unions		Negotiate pay settlement with department after remit agreed with HM Treasury	Submit evidence to the SSRB

Source: National Audit Office

Part Two

Central control of staff costs

2.1 This Part examines the role of the centre of government in guiding and reforming staff cost management, and the challenges it faces.

Central action to deliver staff cost savings

Immediate actions with an impact on civil service staff costs

2.2 Since May 2010, the Government has announced a set of short-term actions to reduce costs both in the civil service and the wider public sector. For example there has been:

- a restriction on the proportion of Senior Civil Service staff receiving performance-related pay to the highest performing 25 per cent only;
- an immediate freeze on civil service recruitment, except in important front line and business critical areas, and action to cut the number of temporary staff. Recruitment into posts with pay above that of the salary received for the post of Prime Minister (£142,500) requires Ministerial approval from the Treasury;
- a cut in spending on civil service expenses, including restrictions on first class travel and on the number of government cars; and
- A two-year pay freeze from April 2011 for all public sector workers including civil servants earning over the full-time equivalent of £21,000. Those earning under £21,000 will receive a flat rate increase of at least £250. A minority of civil servants without pay deals in place when the freeze was announced entered the freeze immediately, but will also exit a year early. Performance-related pay will continue to be paid, although the total amount available has been frozen. Incremental increases to pay will continue where there is a contractual entitlement.

These measures are intended to reduce costs in the short term to contribute to reducing the fiscal deficit. However, they may also carry longer-term risks for civil service recruitment and retention, as well as creating further potential divergence in pay and risking further ‘grade creep’ (paragraph 1.11).

Longer-term cross-government reforms

Redundancy payments

2.3 To control the cost of staff leaving the civil service, the Cabinet Office has revised the terms of the centrally controlled Civil Service Compensation Scheme, setting out new terms for voluntary and compulsory redundancy pay for civil servants. The new terms came into force in December 2010. The new voluntary redundancy terms allow for one month's pay per year of service up to 21 months for those below pension age, while new compulsory terms offer up to one month's pay per year of service up to 12 months. **Figure 13** illustrates how these changes will affect redundancy costs. All staff who may face compulsory redundancy will first have had the opportunity to exit under voluntary terms. Voluntary terms are now equal to or more generous than compulsory terms, which was not previously the case.

Figure 13
Comparison of old and new Civil Service Compensation Schemes

	Compulsory Scheme		Voluntary Scheme	
Example staff member	**Old Scheme**	**New Scheme**	**Old Scheme**	**New Scheme**
Example A Salary: £19,000 Service: 2 years Age: 25	£3,167	£3,833	£1,462	£3,833
Example B Salary: £25,000 Service: 10 years Age: 32	£25,000	£20,833	£12,019	£20,833
Example C Salary: £80,000 Service: 20 years Age: 48	£240,000	£80,000	£124,615	£133,333

NOTE

1 Staff already above normal pension age will receive one month's pay per year of service up to a maximum of six months. Staff who have reached minimum pension age (either aged 50 or 55) can choose to opt for early retirement on their current pension entitlement, but will be asked to surrender some or all of their severance payment to meet this cost.

Source: National Audit Office analysis

Central mechanisms to control staff costs

2.4 While government departments have delegated responsibility for setting rates of pay, the centre of government has oversight of total pay increases through the pay remit process. The Treasury sets the parameters for levels of pay increases, and departments and agencies develop business cases for pay awards within these limits. In the period covered by this report, the Treasury approved business cases for the largest five departments plus others which it was required to by law or which were in receipt of multi-year pay deals. The Cabinet Office also reviewed the business cases of some of the larger departments.

Features of the delegated pay system

2.5 The system of delegated pay described in paragraph 1.17 was not designed to control the civil service paybill from the centre of government. Features of this system include:

- **The Treasury does not attempt to control the total paybill through the pay remit process.** The limits set by the Treasury are on the overall increase applied to a department's or agency's pay scales (basic award), and the increase in pay driven by staff remaining in their current grades but progressing up the pay scale (increase for staff in post). These are elements of paybill growth rather than total paybill, and they do not include other drivers of paybill growth such as changes in workforce size and grade composition.[18]

- **The Treasury does not provide direct oversight of all pay remit business cases or actual departmental spending on staff costs.** While the Treasury approves the business cases of some of the largest departments and agencies covering over 70 per cent of civil service staff, the relevant Secretaries of State in departments sign off the remainder (see Figure 12).[19]

2.6 The Treasury's objective has been to allow departments to set pay in alignment with local market rates, appropriate to the specific circumstances of individual businesses. The level of discretion given to departments under this system has resulted in divergent pay scales across government, with jobs of a similar grade attracting markedly different rates of pay both within and across central government organisations. **Figure 14** overleaf presents the largest variations in pay bands found in London. There may be legitimate operational reasons for such divergence, however, it can also drive inflationary pressures, in particular where government reorganisations move staff between departments, and pay and conditions in the new organisation need to be harmonised to the higher levels. Concerns have also been raised that divergent pay bands can potentially increase the risk of financial liabilities arising under equal pay legislation.

18 HM Treasury, *Improving Pay and Workforce Data*, October 2009.
19 HM Treasury, *Pay Guidance 2010-11*, December 2009.

Figure 14

Variation in civil service pay bands and median salaries across departments and agencies in London

Pay band variation	Difference between highest and lowest (%)
Variation in pay band minimum Largest variation found in Administrative Assistant grade: Lowest: £14,809 Highest: £21,185	43
Variation in pay band maximum Largest variation found in Senior Executive Officer grade: Lowest: £38,980 Highest: £49,144	26
Variation in median gross salary Largest variation found in Grade 7 grade: Lowest: £46,148 Highest: £58,070	26

NOTE

1 Data from December 2009.

Source: Cabinet Office

Future developments

Role of the centre

2.7 The role of the centre in supporting staff cost management is set to change from April 2011. The *Treasury Pay Guidance* for 2011-12[20] sets out a more strategic role for the Treasury which will only review pay remit information for departments where it is legally required to do so or where there is no relevant Secretary of State. The Treasury intends to monitor improved information on departmental pay forecasts and actual spending.

2.8 The role of the Cabinet Office is also planned to change under implementation of its Next Generation HR programme. This will locate cross-government provision of key activities to centres of expertise hosted within specific departments, for example:

- Human Resources Policy – Department for Work and Pensions
- Civil service recruitment and deployment – HM Revenue & Customs
- Civil service learning and development – Home Office

20 HM Treasury, *Civil Service pay guidance 2010-11*, February 2011.

Best practice set out by these departments will then be adopted across government, with the intention of reducing duplication. The Cabinet Office will take on the role of a strategic centre and will define the system's overall priorities. The programme expects to halve the total number of Human Resources staff across central government from over 8,000 to 4,000.

2.9 The functions providing central support on staff costs in the Cabinet Office and the Treasury are expected to reduce in size, with the organisations facing budget reductions of 35 and 33 per cent respectively.

Risk of equal pay liabilities

2.10 Equal pay liabilities arise when male and female staff undertaking work of a comparable nature receive different levels of pay from their employer without reasonable justification. Within an organisation the risk of discriminatory and unjustifiable pay differentials can increase where departments have lengthy pay bands. The courts have ruled that if the use of length of service as a factor in pay increases has a discriminatory impact on one gender compared to another, it needs to be justified. The number of years it takes to become competent in the specific role will be a relevant factor. The risk of equal pay claims across central government also arises if a tribunal were to identify the centre of government as the 'single source' of pay for the whole civil service. However, under the current delegated arrangements, each department is its own independent source of pay for its staff, and equal pay liabilities between different departments can therefore not arise.

Part Three

Reducing staff costs in departments and agencies

3.1 This Part examines the actions departments and agencies have been taking to identify staff cost reduction opportunities, including the potential to reduce the cost of existing staff and to reduce staff numbers.

The context for staff cost reductions

3.2 As staff costs represent a significant proportion of central government spending, departments and agencies will have to reduce staff costs in order to meet current spending challenges. All respondents to our survey of central government departments and agencies expect to run voluntary redundancy schemes in the coming spending period. A total of 17 out of 26 respondents expect to use compulsory redundancy schemes, increasing from the nine who reported their use in the previous spending period.

3.3 While the central initiatives set out in paragraph 2.2 were intended to deliver short-term savings, longer-term strategies for delivering staff cost savings of the required magnitude require action by departments and agencies. Throughout summer 2010 government departments and agencies were preparing plans for these reductions. We used our *Framework for managing staff costs in a period of spending reduction* (Figure 1) to examine how they were conducting this exercise. We undertook our examinations before the Spending Review business plans were published in November 2010. Therefore our findings focus on how departments and agencies were identifying opportunities for staff cost reduction.

Using information to identify staff cost reduction opportunities

Understanding the composition of staff costs

3.4 All organisations responding to our survey reported collecting basic information on staffing such as headcount figures, grades and salary costs. Information is typically stored on financial and Human Resources management information systems, and a number of organisations reported concerns about their ability to fully integrate the data and present 'one version of the truth'. A total of 14 out of 26 survey respondents reported a single integrated system for staff-related management information.

3.5 Information on skills was the principal area of concern reported by our survey. In all, 12 out of 26 respondents identified skills as an area where management information was weak. This was a particular concern of the Ministry of Defence where evidence of key skills gaps has only recently become available to central staff planners. Information from one business unit within the department also suggested 58 per cent of staff had not completed the required skills information on the Human Resources system. **Figure 15** gives details of how the Foreign and Commonwealth Office is making improvements to its systems in this area.

3.6 Poor information on skills can create risks for optimising value from staff costs including:

- inability to deploy skills of existing staff to best effect;
- inaccurate assumptions for longer-term workforce planning, increasing the risk of unnecessary recruitment, training or consultancy costs; and
- poor decisions on staff leaving through severance schemes resulting in avoidable and potentially expensive loss of valuable skills.

Figure 15
Improvements to information on staff skills

Foreign and Commonwealth Office

The Foreign and Commonwealth Office has been conducting a phased project to improve its information systems relating to staff skills to support better workforce planning. The project began with specialist professions such as legal and finance, before then moving information on language skills onto the main management information system. In both cases the skills information is tiered to allow identification of basic, intermediate and advanced skills.

The Foreign and Commonwealth Office is also planning to bring this approach to more general skills such as project management and crisis management. Staff experience in these areas is currently reported on a searchable intranet system though this depends on staff keeping the system up to date. A scoping exercise is underway to explore objective assessment and grading of these skills and to move the information onto the main management information system.

Source: Foreign and Commonwealth Office

Understanding the costs of services and outputs

3.7 The ability to attribute accurate information on the cost of staff time to particular services, activities and outputs is essential for understanding opportunities for cost reduction. Evidence on the effectiveness of this capability across government is mixed. Our recent report on *Progress in improving financial management in government* found that organisations do not understand fully the costs of their activities, and rarely have good information on the unit costs of outputs, measures of productivity or the value of outcomes.[21] Organisations responding to our survey reported weakest information on understanding staff time spent on policy work, with 9 organisations from 26 reporting no information. On frontline activity 6 out of 26 respondents reported a lack of time recording information.

Opportunities to reduce staff costs

Reducing indirect staff costs

3.8 In delivering short-term savings beyond the centrally mandated pay freeze set out in paragraph 2.2, departments and agencies have enacted increased controls on overtime, and reductions to rates of allowances and travel and subsistence costs (see **Figure 16**). While reductions to these costs offer immediate savings, they remain only a small proportion of the paybill. Departments and agencies may also require the agreement of staff and unions to amend any entitlements that form part of contractual terms and conditions.

Figure 16
Example of action to control the cost of allowances

Ministry of Defence

As part of the 2010 Strategic Defence and Security Review, the Ministry of Defence has examined the scope for savings in its allowances policies for civilian staff. Total allowances for the 55,000 civilian staff on its standard pay grades were £216 million in 2009-10, representing 9 per cent of total civilian staff costs. Under the current regime there are more than 600 separate allowances in total.

In 2009-10, the department put measures in place to reduce spending across key allowances. Overtime was restricted to business critical activity only reducing payments from £61 million in 2008-09 to £54 million in 2009-10. Similar restrictions on out of hours travel delivered reductions from £8 million to £6.2 million. The department sought to restrict non-essential travel though overall costs have remained broadly static across 2008-09 and 2009-10 at £50 million.

NOTE
1 Allowances include overtime, travel and subsistence, additional duties payments, recruitment and retention, relocation, overseas cost of living expenses, travel time and other expenses.

Source: Ministry of Defence

21 Comptroller and Auditor General, *Progress in improving financial management in government*, Session 2010-11 HC 487, March 2011.

Reforming pay structures

Reducing the length of pay scales

3.9 Lengthy pay scales for grades of jobs in government organisations currently reward staff for both work done and experience gained through length of service. As a member of staff accrues experience they move along the points of the pay scale, increasing the cost of their reward package until they reach the top of the scale. In 2006, the Ministry of Defence began a process of reform to standardise and narrow its civilian pay scales. It has reduced the time to progress to the maximum level from 26 to 32 years in some cases down to 5 to 7 years, with no automatic progression up the scale. This will limit future cost increases through staff working up long pay scales.

Market-related pay

3.10 Departments and agencies have traditionally set their pay scales at national rates, with some additional payments or weighting to cover higher living costs for those working in London. The Treasury's *Civil Service Pay Guidance* in 2007 asked departments and agencies with operations nationwide to differentiate between pay levels across regional pay markets in order to take into account variations in employment markets outside London.

3.11 The Ministry of Justice implemented this kind of model in the former Department for Constitutional Affairs, HM Courts Service and the Tribunal Service in 2007-08, saving a reported £25 million per year or just under 4 per cent of the paybill. The organisation now varies its pay scales across five regional ranges (see **Figure 17** overleaf). The opportunities for further significant savings through regional pay may, however, be limited. The Department for Work and Pensions, a major regional employer, already has a regionalised pay structure comprising five pay ranges, and is satisfied its pay is not in excess of local markets. HM Revenue & Customs accepts its rates of pay for junior staff are typically higher than local markets and is considering its options as part of its wider reward strategy, once it exits the pay freeze. It argues that low staff turnover and high proportions of staff at the top of their pay ranges may make achieving savings a slow process, and will be considering this against the cost and disruption of such a change.

Figure 17

Market-related pay in the Ministry of Justice (including HM Courts Service and the Tribunal Service)

HM Courts Service was formed in 2005, bringing together the administration of courts services together for the first time. On its formation, HM Courts Service employed staff on over 50 sets of existing terms and conditions.

The Ministry of Justice was formed in 2007, bringing together 97,000 staff from the Department for Constitutional Affairs, HM Courts Service, the Tribunal Service, parts of the Home Office and the National Offender Management Service. On moving to a harmonised pay structure for 26,000 former Department for Constitutional Affairs, HM Courts Service, and Tribunal Service staff in 2007-08, the Ministry of Justice implemented a new regionally-based pay structure.

The department examined the pay practices of major national employers in the private sector, finding they generally set their pay rates across four to five geographical areas. Analysis of regional and sub-regional employment data led to the Department agreeing five geographical pay ranges. The table below shows an example of the variation in pay across each of the five ranges:

Band C
(Civil service equivalent grade: Higher Executive Officer)

Pay Range	Minimum	Maximum
1 Inner London	£29,495	£36,061
2 Outer London	£27,346	£34,515
3 South East and National Hotspots	£25,392	£31,939
4 National Plus	£22,951	£29,879
5 National	£21,096	£29,879

On implementing the system there were some anomalies, particularly where more competitive city locations had to be accommodated alongside proximate but less competitive surrounding regions. There were challenges around industrial relations but by the end of 2007-08 over 95 per cent of staff had migrated to the new system. Subsequent monitoring of recruitment and turnover rates showed no adverse effects of the change on recruitment and retention.

Source: Ministry of Justice

Performance-related pay

3.12 As set out in Figure 5, the non-consolidated performance-related element of civil service pay is estimated to be around 1 per cent of total direct staff costs. Based on their review of the evidence, the Cabinet Office view is that more effective use of performance-related pay could have a significant effect on performance and productivity. Evidence remains inconclusive, however. The Department for Work and Pensions believes its performance-related pay scheme provides recognition for good performance but does not lead to productivity gains (**Figure 18**). There is also an administration cost associated with managing performance-related pay schemes.

Figure 18
Existing performance-related pay structures

Department for Work and Pensions

The Department for Work and Pensions currently has a performance-related pay scheme worth 1.9 per cent of total paybill (an estimate of £55 million for 2010-11 pay year, relating to performance in the previous year.

At the time of the pay award staff at Administrative Officer grade (representing approximately 47 per cent of the workforce) who earned between £15,615 and £21,530 (average £17,563) were paid an end of year performance award of £365 for consistently good performance or £725 if performance was deemed exceptional. Workforce planners consider this effective in recognising sustained or immediate good performance but not providing the incentives to productivity that more substantial awards might.

Workforce planners also noted the effectiveness of spot bonuses in providing recognition for particular instances of high quality work. The department awards vouchers for high street shops and modest cash awards; for example Jobcentre Plus awards spot bonuses (vouchers) to staff for such things as scoring full marks in mystery shopper exercises.

Source: Department for Work and Pensions

Opportunities to reduce staff numbers

Process management and organisational design

3.13 Conducting existing tasks more efficiently presents opportunities to deliver outputs with reduced need for staff input and costs. A number of approaches are being taken to this work across central government, including:

- benchmarking costs of activities across an organisation or between similar organisations, enabling management to scrutinise comparative performance and identify opportunities for improvement;
- reviewing end-to-end processes and identifying opportunities to innovate in ways that reduce the time or effort needed to be spent on processes and tasks; and
- examining the structures of accountability and decision-making within an organisation and identifying opportunities to streamline processes and remove unnecessary layers of management and review, particularly at senior levels.

3.14 Experience of these techniques appears widespread across government, with 22 out of 26 organisations reporting use of external benchmarking in the current spending period (April 2008 to March 2011), alongside 20 using process review techniques and 22 using organisational design. Examples of this work are shown in **Figure 19**. Further work is expected in the next Spending Review period.

3.15 There is evidence that the full value of process management is yet to be realised across government. Our recently published maturity assessment highlighted three gaps in performance.[22] These are:

- understanding the level and type of customer demand and implementing a planned response to changes in demand;
- creating an environment where staff have an obligation to improve business process performance; and
- making the case for change and proving the benefits.

Departments have also reported concerns relating to the cultural change necessary to bring about different ways of working.

Figure 19
Savings through process management and organisational design

Process Management

During the 2007 Spending Review period Jobcentre Plus implemented business process management techniques to improve national and local processes, identify efficiency savings and roll these out across the organisation.

Examples included simplifying the process regarding part-time work for Job Seeker's Allowance customers. Changes to the appeals and reconsiderations process for Employment and Support Allowance customers were also made, introducing telephone calls to customers to explain decisions in more detail and, where appropriate, gather additional information.

Using these techniques Jobcentre Plus reports headcount savings in excess of 5,500 as part of a total efficiency target for the 2007 Spending Review period of 11,500. These efficiencies helped to reduce the underlying costs of Jobcentre Plus services although surplus staff were retained for redeployment across the higher workload demanded by the recession.

Organisational Design – Delayering

The Ministry of Defence commissioned an external review of its organisational design to identify opportunities to improve the efficiency of its management structures. The initial review identified a 12 grade hierarchy in areas of the business, though the consultants reported that only eight layers of management were justified. Delayering will form part of the organisational design work being taken forward by the department following the Strategic Defence and Security Review. In-house assessors have been trained in delayering methodology and techniques and will be deployed to help business areas with design and restructuring.

Source: Jobcentre Plus; Department for Work and Pensions; Ministry of Defence

22 Comptroller and Auditor General, *Maturity of Process Management in Government*, December 2010.

Changes to the business model

3.16 Departments and agencies may be able to realise more significant and sustainable staff cost reductions by changing their business model. Using information technology is one way of achieving this, such as HM Revenue & Customs' move to online tax returns in 2003.[23] Our survey results show that 22 of 26 organisations had used technology to change channels of service use over the past three years, with 21 stating that it had been either very or fairly effective in identifying opportunities to reduce staff costs.

3.17 Of the 17 departmental business plans for the coming Spending Review period, 15 include IT-enabled business change projects or programmes. These include the Department for Work and Pensions moving applications for Jobseeker's Allowance and the State Pension online, and HM Revenue & Customs enabling online registration for new businesses. Information technology also offers opportunities to make existing processes more efficient. The Cabinet Office will develop a plan for a Whitehall-wide shared service for back office functions.

Reducing workload

3.18 An organisation's workload or demand for its services is a key determinant of the number of staff it employs. Opportunities for staff cost reduction therefore exist through departments and agencies lowering demand for their services by, for example, narrowing eligibility or increasing charging. Our survey results show that 14 of 26 organisations had reduced the demand for their services in this way, of which ten stated that this had been either very or fairly effective in identifying opportunities to reduce staff costs. **Figure 20** illustrates a number of examples of reduced activity identified in departmental business plans.

Figure 20
Examples of action to reduce costs through reducing departmental activities

Department for Business, Innovation and Skills: Reduce public funding for a range of arm's-length bodies with the number reduced from 57 to 33 with a further nine bodies under review.

Department for Communities and Local Government: Abolish the Comprehensive Area Assessment of local government services.

Department for Culture, Media and Sport: Stop the sponsorship of museums which are judged to be the responsibility of local communities.

Department for Transport: No longer fund and support arm's length transport bodies where their activities are judged to be no longer required or can be better provided by other means.

Source: Departmental Business Plans, November 2010

23 Comptroller and Auditor General, *Filing of Income Tax Self Assessment Returns*, Session 2005-06, HC 74, June 2005.

Delivering headcount reduction

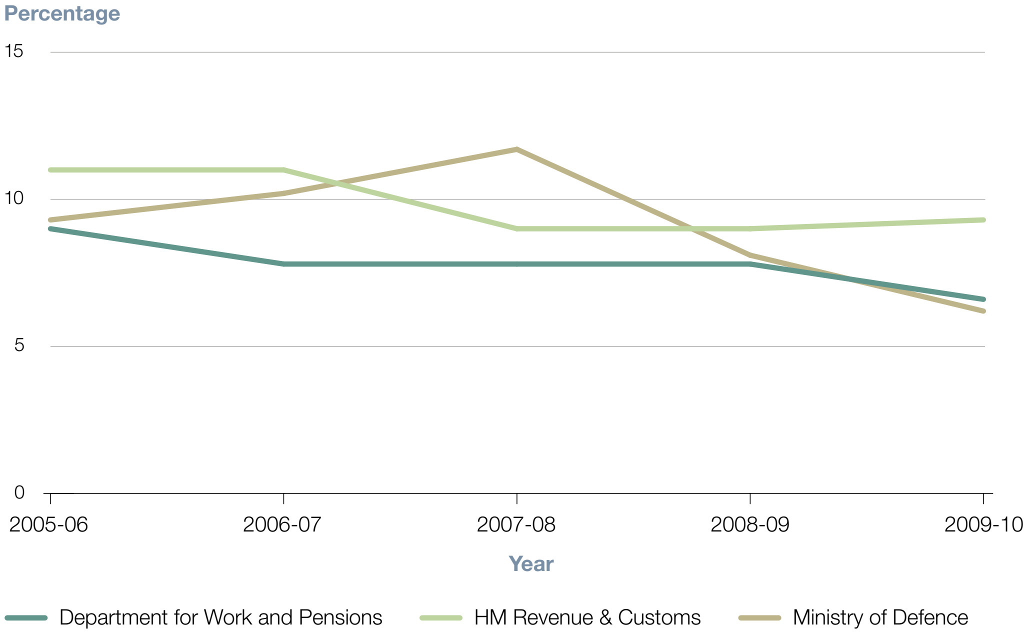
3.19 The techniques described above can support structured approaches to identifying opportunities to reduce the staffing requirement across government, but delivering the savings requires organisations to remove surplus staff from the payroll. While a proportion of these reductions are likely to be delivered by staff leaving the civil service and not being replaced, evidence that natural turnover has reduced over recent years (see **Figure 21**) suggests redundancy or early retirement programmes will be required. The removal of the default retirement age in 2011 will also reduce the predictability of staff turnover.

3.20 Funded exit schemes will incur high up-front costs. From 2005-06 to 2007-08, the 2004 Spending Review period, the Department for Work and Pensions has reported spending over £400 million on redundancy and early retirement schemes comprising nearly 8,500 staff exits. HM Revenue & Customs have reported spending over £84 million on exit schemes in 2009-10, covering 1,400 staff. These figures relate to the period before the Civil Service Compensation Scheme was reformed (paragraph 2.3).

3.21 Aside from securing the funding for up-front severance costs, departments and agencies report wider concerns around managing anticipated exit schemes including:

- the time requirements for consultation;
- inability to incentivise voluntary departure over more lengthy compulsory schemes for staff with less than 12 years experience;
- risk of loss of higher performers and key skills under voluntary schemes;
- managing morale of staff during periods of uncertainty; and
- fewer opportunities to redeploy staff to other public sector employers.

Figure 21
Trends in staff turnover



NOTE

1 Turnover rates exclude the effects of large scale machinery of government changes where over 1,000 staff were moved to other government departments.

Source: National Audit Office

Appendix One

Methodology

The main elements of our fieldwork, which took place between June and September 2010, were:

Method	Purpose
1 Document review We reviewed relevant documents relating to a variety of aspects of managing staff costs, including management information outputs and workforce strategy documents.	To gather evidence, inform and support our findings across the different areas of our study scope.
2 Interviews with officials in departments and agencies We interviewed key officials from the Foreign and Commonwealth Office, Home Office, Ministry of Justice and National Offender Management Service. We had more detailed engagements with staff across the Human Resources, Finance and Planning functions in the Department for Work and Pensions, Jobcentre Plus, HM Revenue & Customs and the Ministry of Defence.	To gather evidence, inform and support our findings across the different areas of our study scope, and to create case examples of how departments are managing staff costs.
3 Interviews with officials in the centre of government We interviewed key officials from the Cabinet Office and the Treasury.	To gather evidence, inform and support our findings on the role of the centre in managing staff costs.
4 Survey We surveyed 32 of the largest central government organisations representing around 90 per cent of the civil service. 26 organisations responded, which represented 87 per cent of the civil service.	To gather evidence to inform our findings across the different areas of our study scope.
5 Quantitative analysis We analysed data from a variety of sources (including the Office for National Statistics, Cabinet Office and the Treasury) relating to civil service employment, pay and overall government spending.	To assess and understand trends in staff costs and how well positioned government is to manage a period of cost reduction.

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