



National Audit Office

Progress in improving government efficiency

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SUMMARY



1 This report assesses progress in achieving ongoing efficiency gains of some £21.5 billion a year by 2008 across central government departments and the wider public sector (which includes £6.45 billion to be achieved through local government). As part of our work we have examined how all the major departments are planning to measure their efficiencies and we carried out detailed reviews of 20 efficiency projects, covering six departments and £6 billion of the targeted annual gains.¹

2 In December 2005, the Government announced that £4.7 billion of efficiency gains had already been achieved². While our main fieldwork was completed before this announcement, the projects we have examined account for almost a third of these gains. Following the announcement, we carried out additional work to assess the reasonableness of the most recently reported gains.

3 Across the Programme, individual departments are responsible for delivering and quantifying the efficiencies achieved while the Office of Government Commerce, an independent office of HM Treasury, checks on the robustness of figures put forward and provides support to help departments deliver their gains. We have based our conclusions about what has been achieved so far on an assessment of the sample projects and our review of how the Office of Government Commerce is coordinating the overall programme. Our assessment is made against good practice in efficiency measurement, as well as looking at how efficiency improvements have been achieved elsewhere.

4 This report is intended to be constructive and forward looking by highlighting good practice in delivering better efficiency from which departments and the wider public sector can learn. From a number of sources, including the Confederation of British Industry, we have identified case examples of successful efficiency initiatives, including projects from the public, private and voluntary sectors, from the UK and overseas. These examples illustrate how Government could do more to enhance its capability to achieve ongoing efficiency improvements without undermining the quality of public services. The case studies are contained in a separate volume to this report which can be obtained from the National Audit Office website (www.nao.org.uk) and more detail on our overall methodology is provided in Appendix 1.

5 In August 2003, Sir Peter Gershon was commissioned to conduct a review of efficiency in the public sector. Better efficiency is ultimately only a means to an end. In commissioning the review, the Government's aim was to improve service delivery by releasing resources to 'front line' services that meet the public's highest priorities.

¹ The projects included in our sample provided £1.3 billion (29 per cent) of the £4.7 billion of efficiency gains reported in the December 2005 Pre-Budget Report and are forecast to provide £6 billion (28 per cent) of the £21.5 billion targeted gains.

² In the December 2005 Pre-Budget Report the Government also announced that 25,314 post reductions had been achieved (against a target of 70,600 by 2008) and 6,300 posts had been relocated out of London and the South East (against a target of 20,000 by 2010).

6 The Gershon Review was published in July 2004 to coincide with the Government's 2004 Spending Review. Having accepted the recommendations of Sir Peter's report, the Chancellor announced an Efficiency Programme from April 2005 designed to improve public service delivery by achieving £21.5 billion of efficiency gains a year across the public sector by 2007-08 (**Figure 1**).

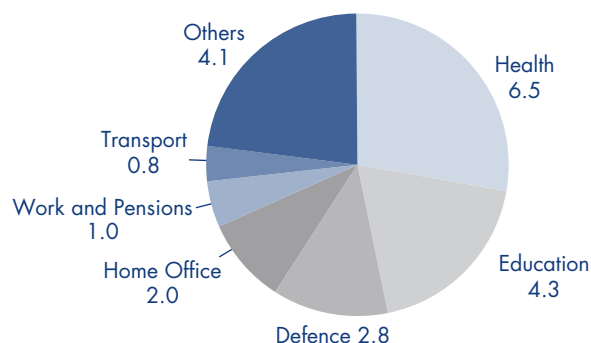
7 The target is a mix of cashable and non-cashable gains. Cashable gains consist of reductions in inputs which do not adversely affect the quality of outputs. Reforms which allow a hospital to purchase the same quantity and quality of medical supplies at lower costs would generate cashable efficiency gains. Overall, around two thirds of the £21.5 billion target is expected to release resources for 'front line' uses in this way. The remainder will be in the form of non-cashable gains where the quality of outputs increases while inputs remain the same. A job centre would be able to claim non-cashable efficiency gains if it introduced changes that improved the quality of service provided to jobseekers without needing any additional funding. Although no resources have been freed up, the job centre would be using its resources more efficiently.

8 The efficiency gains have been categorised into five key workstreams across departments, as set out in **Figure 2**.

9 On becoming Chief Executive of the Office of Government Commerce in succession to Sir Peter Gershon, John Oughton assumed responsibility for driving through the Efficiency Programme. He reports to the Prime Minister and the Chancellor every six months (**Figure 3**). Although the Team is responsible for coordinating the overall Programme, departments retain responsibility for delivering the efficiency targets announced in the 2004 Spending Review. Each department has apportioned its target across a portfolio of projects aiming to improve the efficiency of its operations. Most of these projects were already under development before the Efficiency Programme was launched. The major departments have established their own central efficiency teams to monitor the progress of the 300 projects that are expected to deliver the efficiency gains.

1 Health and education are the departments making the largest contribution

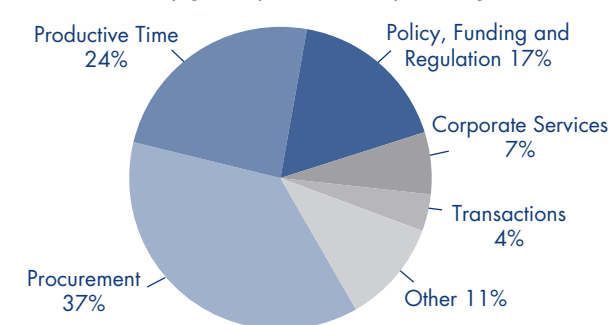
Efficiency gain targets by major departments (£ billion)



Source: Gershon Review

2 The most significant workstreams are procurement and productive time

Forecast efficiency gains by workstream (percentage)

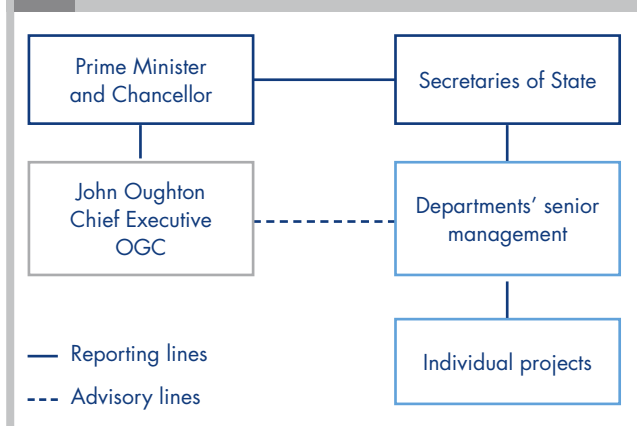


Source: OGC Efficiency Team milestone charts, December 2005

NOTE

For a description of each workstream, see Figure 7.

3 The Chief Executive of the OGC reports directly to the Prime Minister and the Chancellor every six months



Key findings

Progress has been made but the reported efficiencies of £4.7 billion should be regarded as provisional and subject to further verification

10 In many of the projects we examined we saw that good progress towards achieving efficiency gains is being made. As at 30 September 2005, the Government reported efficiency gains totalling £4.7 billion, of which just under a half were cashable, but the reported efficiency gains should be regarded as provisional and subject to further verification, given the degree of risk that efficiencies may not be measured accurately. At the same time lags in reporting of data mean that there could already be further gains achieved beyond what has been reported. While some reported gains are robust and greater confidence can be placed in the September figures than in the £2 billion of efficiency gains reported in March 2005, delays in obtaining data on service quality, other time lags in reporting and limitations in measurement methodologies mean caution must be applied to reported gains at this stage.

Measuring and validating the achievement of efficiency gains is proving a difficult challenge

11 We recognise the challenge departments have faced in measuring efficiency gains for the first time using information systems made for other purposes. However, for any given project, if a department is unable to satisfy the principles of good practice in efficiency measurement it would be prudent to look to an alternative activity as a basis for reporting efficiency gains. Our principles of good practice are outlined in paragraph 2.1. This is not to imply that if projects are unable to measure their contribution to departments' efficiency targets accurately they should be abandoned; in most cases contribution to the target for efficiency gains is only one of many intended project benefits. For instance, in the Transforming the School Workforce project, efficiency gains are a by-product of an ongoing focus by the Department for Education and Skills on raising standards and addressing teacher workloads. The aim is to enable schools to employ more teachers and support staff in productive roles.

12 Joint NAO and Audit Commission work in 2004 on the first round of Efficiency Technical Notes highlighted a number of concerns about the capacity of departments to measure efficiency gains, for example the well known and long-standing limitations in departments' data systems and the robustness of their management information systems. Although much progress has been made in a second round of updates to the Notes, further work to refine measurement methodologies is required. For instance, deficiencies in departments' management information systems mean that their ability to measure changes in output quantity and quality as well as inputs still lags behind the needs of a Programme that is aiming to deliver real efficiency gains rather than just spending cuts. Figure 25 in Part Two outlines our key findings on the updated Efficiency Technical Notes. A more detailed summary of our review of the Notes can be found in Appendix 4.

13 There is inconsistency over whether planned efficiency gains are net or gross of upfront capital investment costs and ongoing expenditure such as maintenance. In line with the Gershon Review, departments can report efficiency gains gross of additional costs incurred through efficiency projects. However, reported gains are more accurate when net of these costs. While departments are moving towards gains being reported on a net basis, most efficiency projects do not currently take account of additional costs.

14 The challenge of measuring efficiency gains is not restricted to central government. For local authorities, the Programme has had to make difficult decisions in striking the right balance between introducing additional reporting burdens and making sure reported efficiency gains are based on sound measurement principles.

The Programme is, and will remain, high risk

15 The Gershon Review has resulted in a demanding and publicly quantified Efficiency Programme, with further challenges for the longer term. Delivering the expected benefits requires a change programme that involves not only a diverse range of challenges across departments but also a number of structural, cultural and process reforms within central government. These challenges have to be met by departments alongside the wider public sector delivery agenda.

16 Given the ambition of the Programme to drive efficiency across the public sector, the biggest risk is that efficiency gains are accompanied by unintended falls in the quality of service delivery. Demonstrating that service quality has not been adversely affected is essential if the Programme is to be successful. The Efficiency Team recognises this and is assisting departments to develop appropriate service quality measures.

17 The achievement of the £21.5 billion target is dependent on a small number of departments and individual projects, as well as being highly reliant on two of the five workstreams (procurement and productive time). In addition, 15 per cent of the £21.5 billion of planned efficiencies depend on Information and Communications Technology projects, the risks associated with which are well known.

In many respects departments are managing their efficiency projects well

18 The Programme has been effective in encouraging senior management to focus on efficiency. The Permanent Secretaries in the Home Office and the Department for Work and Pensions, for example, chair the departmental boards set up to deliver their efficiency targets. Most projects we reviewed have clear objectives and appear well resourced. There has also been progress in recruiting high calibre project management professionals.

The OGC Efficiency Team has made good recent progress but is stronger on the monitoring side of its role than in supporting departments

19 The dual role of the Efficiency Team means that it has to win the trust of departments before it can perform a 'critical friend' function effectively. The Programme would have benefited from decisions about how the Gershon Review was to be implemented being taken at an earlier stage. This would have made it more likely that a stable OGC team could have been in place from the outset. The limited period of transition from the Gershon Review to the Efficiency Programme along with significant turnover of staff during 2004 and the time taken to recruit suitable replacements hindered the Efficiency Team in fulfilling its dual role of monitoring and supporting departments' progress.

20 The Team is now providing thorough monitoring and challenging of departments' progress. The process of reporting progress to the Prime Minister and Chancellor is ensuring that efficiency remains a priority for senior management in departments, but the Team recognises that more work is required in streamlining the process and to align departmental reporting systems so that data is up to date. In addition, the improvements made to how departments are measuring efficiency gains are, in part, due to the support and challenge provided by the Efficiency Team.

21 The Team's ability to provide relevant and timely support to projects has varied across the Programme. While procurement projects have been benefiting from the available guidance for some time, support for projects of other types has taken longer to develop.

The potential for reform goes well beyond the £21.5 billion target

22 While external commentators have said that 2.5 per cent a year efficiency improvements are unambitious, Sir Peter Gershon's report explicitly states that to go any further before 2007-08 would jeopardise service delivery. Although embedding efficiency into the public sector for the long term is a major objective of the Programme, activity to date has focused on delivering the 2007-08 targets. However, as the private sector and some overseas public sector experience has shown, there is potential to go a lot further than the targets set for the current Efficiency Programme, if deeper and more systematic changes are pursued.



RECOMMENDATIONS

To help the achievement of the 2008 efficiency targets

For departments

1 Senior management within departments must be actively involved in the delivery of efficiency targets throughout the life of the Programme. Achievement of the 2008 efficiency targets and, more importantly, the longer term embedding of efficiency into the culture of the public sector will only be possible if senior managers continue to demonstrate their enthusiastic involvement.

2 Departments need to do more to make sure that all staff are motivated to secure efficiency gains. For many, especially those at the end of complex delivery chains, the Programme is still perceived as more of an economy drive than one aiming to improve efficiency. While relying on existing budgets makes it more likely local bodies will be truly committed to the reform projects they introduce, Departments should recognise that local bodies can often only implement good practice quickly if priorities are clearly communicated and funded separately from existing budgets.

3 Departments need to improve their measurement of efficiency gains. Progress is being made in developing measurement methodologies but reported efficiency gains will only be fully credible if a department can clearly demonstrate that:

- baselines are in place that represent the situation before efficiency-related reforms began;
- methodologies capture all elements of efficiency: inputs (including any additional costs incurred as a result of a project) and outputs (including quality of service before and after an initiative); and
- data assurance is based on clear audit trails and independent validation (Appendix 5 'Guidance on data systems for efficiency projects' sets out some key principles for departments on the development and operation of effective data systems).

Once developed, robust measurement systems based on timely data will have a significant and ongoing impact on projects and departments. Project teams will become more motivated by efficiency targets if they believe progress is being measured accurately. Improved measurement systems will also allow project teams and senior management to take earlier corrective action to ensure delivery of targeted gains. In addition, the Efficiency Programme provides an opportunity to move towards integrating the measurement of efficiency with that of effectiveness and organisational capacity in the next Spending Review.



For the Office of Government Commerce Efficiency Team

4 To provide effective support across the Programme, the Efficiency Team should continue to strengthen relationships with departments. The Team should ensure the improved stability of relationship managers for departments is maintained through effective forward planning of staff. Any personnel changes should allow time for adequate briefings and handing over of responsibilities. While important, the reporting of progress on individual projects should, to a greater extent, accommodate departments' internal procedures and further changes should only be introduced if absolutely necessary.

5 The Team must only allow departments to report efficiency gains if they satisfy all aspects of good practice. With particular focus on the most important projects within the Programme, the Team should continue to develop its capacity to provide constructive feedback on measurement systems and needs to have a greater role sharing good practice across departments facing similar issues. (See paragraph 2.1 for good practice principles in measuring efficiency gains.) In January 2006 the Efficiency Team initiated a project to develop guidance for departments on how best to substantiate reported efficiency gains.

To help achieve the longer term goal of embedding efficiency into the culture of the public sector

6 Strategic leadership from the centre of government needs continual development. There is significant potential for public bodies to secure sustainable efficiencies through, for example, sharing support functions, such as human resource and finance departments. Strong strategic leadership at the centre of government is essential to ensure the most is made of opportunities for reform. Public bodies acting in isolation will not deliver the optimal outcome. The creation in April 2005 of a new cross-government team to promote shared services is a first step. To be fully effective, the new team should take on board the lessons learned so far by the Office of Government Commerce Efficiency Team and have full authority to drive progress across departments and other public bodies towards greater sharing of services.

7 The benchmarking of common activities should become standard practice. Successful private sector companies have long since demonstrated the benefits of benchmarking costs and performance against external comparators. The Government should place priority on establishing good practice, lessons learned from individual benchmarking initiatives and benchmarking data that will be readily available to the boards of public sector bodies. Departments should be required to compare the performance of functions such as procurement, finance and human resources against other organisations and to explain any inefficiencies identified.



RECOMMENDATIONS CONTINUED

8 Better data on efficiency and productivity is needed urgently. Too often in the public sector decisions have been made on the basis of old or unreliable data and lack of adequate data often hampers attempts to benchmark efficiency or make reliable assessments of productivity. In the short term departments should use separate diagnostic exercises to understand how current systems operate and what information providers need to manage services well. In the longer term, however, there is no substitute for investment in information systems that enable managers to base their strategies on clear and timely data that link input costs to specific outputs.

9 More needs to be done to acquire the right skills and capabilities to secure ongoing efficiencies. Only if there are appropriately skilled people, deployed in the right way, can significant improvements in efficiency be sustained. Progress has been made in recent years in investing in staff and in recruiting high calibre individuals with experience in introducing new ideas into complex environments, and by December 2006 all departments are required to have professional finance directors at board level. Specifically, there is a need for the wider introduction of commercially skilled directors at board level, as well as the greater professionalisation of all staff in roles directly influencing an organisation's efficiency. Progress is being made in this area through the government's Professional Skills for Government agenda, whereby financial management is a core skill for all senior civil servants.

10 Departments need to integrate efficiency into business planning and performance management systems. A culture of sustainable improvement will also depend on integrating efficiency into business planning and enhanced performance management systems. Efficiency should be considered in relation to all of a department's activities, not just in relation to projects within the Efficiency Programme.

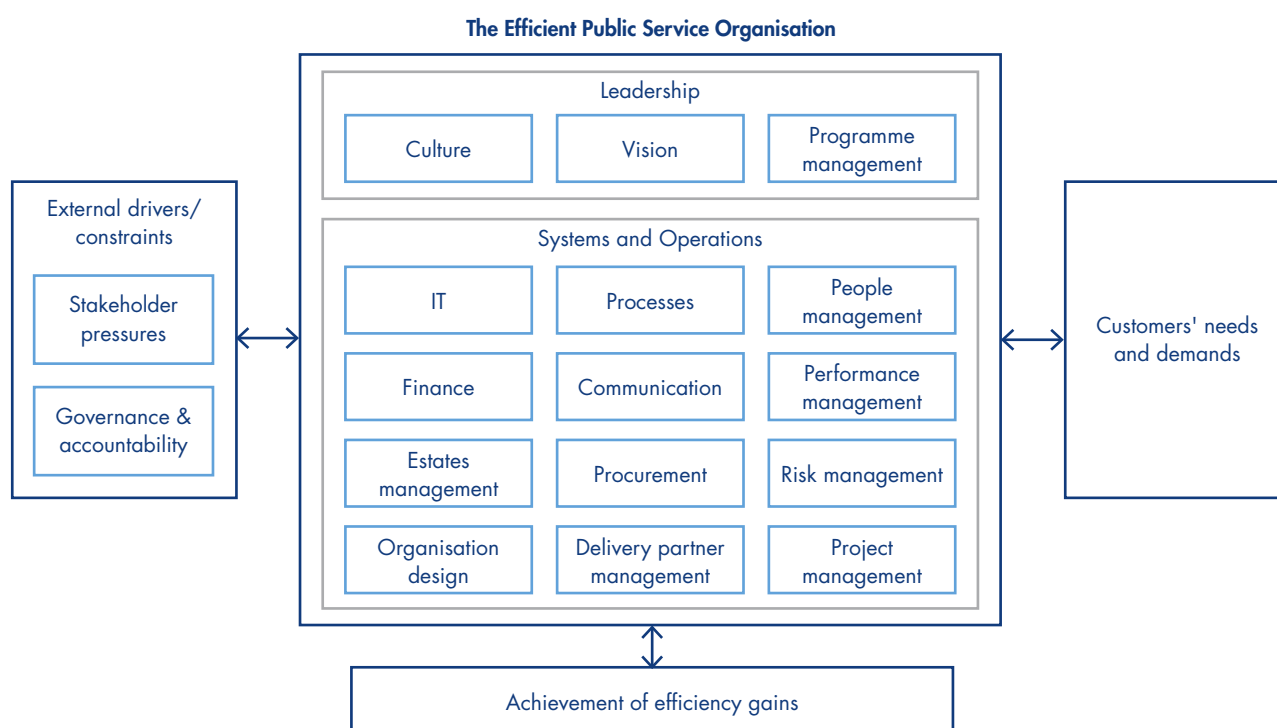
11 For their part, departments should be prepared to collaborate more with each other and with the wider public sector to take full advantage of the opportunities for reform. Where increases in the overall efficiency of the public sector are available, departments should be ready to commission joint efficiency projects with each other and with other parts of the public sector. Project teams should, as a matter of course, consult when facing challenges that may have already been experienced by others. Furthermore, different parts of the public sector delivery chain should work together to ensure projects are fully incentivised to deliver the maximum possible efficiency gains.

12 Public sector bodies need to understand better the drivers of costs and value within their organisations. As part of this they should review on a regular basis how well the different aspects of their organisation are contributing to overall efficiency. To help public bodies, the NAO is developing a toolkit that assesses an organisation's approach to achieving efficiency. **Figure 4** shows the areas under which the toolkit will provide a series of detailed questions designed to assess efficiency.

13 To sum up, efficiency is not an 'add on', a separate programme from 'core business'. Efficiency is the way 'core business' has to be delivered and improvements in the quality of public services secured.



4 The National Audit Office's emerging efficiency toolkit



The toolkit has been developed in conjunction with PricewaterhouseCoopers and draws on previous work by the National Audit Office on efficiency. The overall framework was developed in discussion with the Treasury, the Office of Government Commerce and the Audit Commission. It will provide a high-level assessment of an organisation's approach to efficiency in each of the areas in the diagram and the opportunities for improvement. The National Audit Office will apply the toolkit to help departments and other public bodies obtain better value for money. It will also be available on the National Audit Office website (www.nao.org.uk) and on CD-ROM to help public sector organisations perform self assessments. We are currently carrying out some final testing of the toolkit and plan to launch it in Spring 2006.