



National Audit Office

# Progress in improving government efficiency

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 802-I Session 2005-2006 | 17 February 2006

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National Audit Office

# Progress in improving government efficiency

This volume has been published alongside a second volume containing the Case Studies –  
Progress in improving government efficiency: lessons from case studies of efficiency initiatives  
HC 802-II, Session 2005-2006

LONDON: The Stationery Office  
£13.25

Ordered by the  
House of Commons  
to be printed on 13 February 2006

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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**13 February 2006**

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## PREFACE



As part of the Government's Efficiency Programme government departments are responsible for implementing efficiency projects which are designed to achieve efficiency gains of £21.5 billion a year by 2008. The Office of Government Commerce is responsible for the delivery of the Programme overall, which it does by supporting departments and monitoring progress. As the external auditor of government departments and the Office of Government Commerce, my role in relation to the Efficiency Programme is to report to Parliament on progress and this report will be the first in a series on this subject.

In carrying out our work we saw many examples of good progress being made towards achieving efficiency gains though as yet it is too early to tell whether the Programme overall will succeed. Beyond the immediate targets, to achieve longer term and sustainable efficiency we think that the public sector needs to make further improvements in six key areas:

- **Strategic leadership from the centre of government.** Strong strategic leadership at the centre of government is essential to ensure the most is made of opportunities for reform. For example, in respect of corporate services, public bodies acting in isolation will not deliver the optimal outcome.
- **Staff professionalism and expertise.** More needs to be done to ensure that staff in key roles have the right skills and expertise, and the freedom to use them.
- **Quality and timeliness of data on efficiency and productivity.** Public sector managers need to be able to base their decisions on clear and timely data which link costs to specific outputs.
- **Integration of efficiency into day-to-day thinking and systems.** Staff in the public sector need to think about 'efficiency' constantly as they go about their activities.
- **Use of comparisons of efficiency between organisations.** Management boards of public bodies should demand clear information on how their organisation's efficiency compares to others, and act on the results.
- **Collaboration between public sector organisations.** Different parts of the public sector need to be more willing to learn from the experience of others and to work jointly to achieve efficiencies.



## 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.<sup>1</sup>

**2** In December 2005, the Government announced that £4.7 billion of efficiency gains had already been achieved<sup>2</sup>. 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](http://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.

<sup>1</sup> 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.

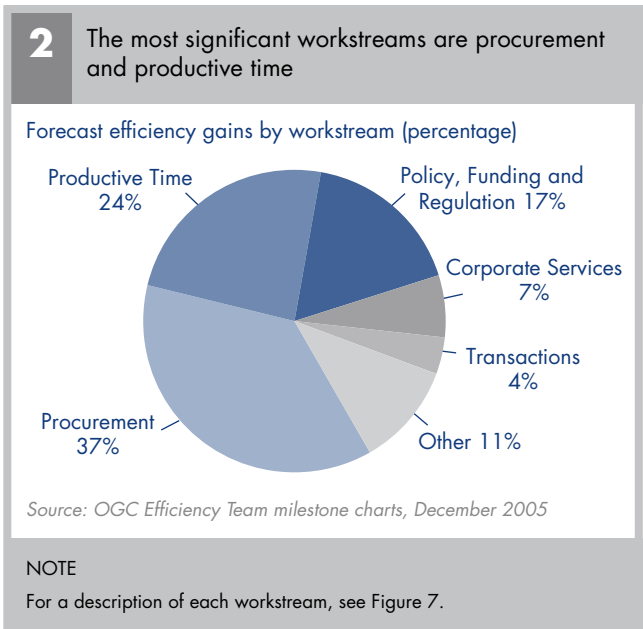
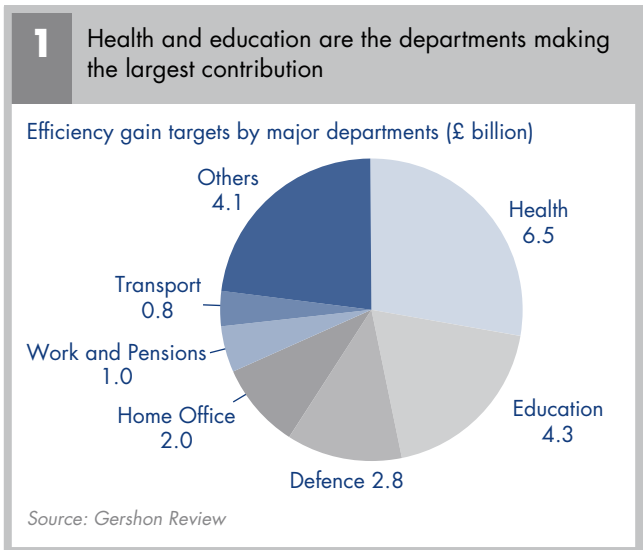
<sup>2</sup> In the December 2005 Pre-Budget Report the Government also announced that 25,314 post reductions had been achieved (against a target of 70,600 by 2008) and 6,300 posts had been relocated out of London and the South East (against a target of 20,000 by 2010).

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).

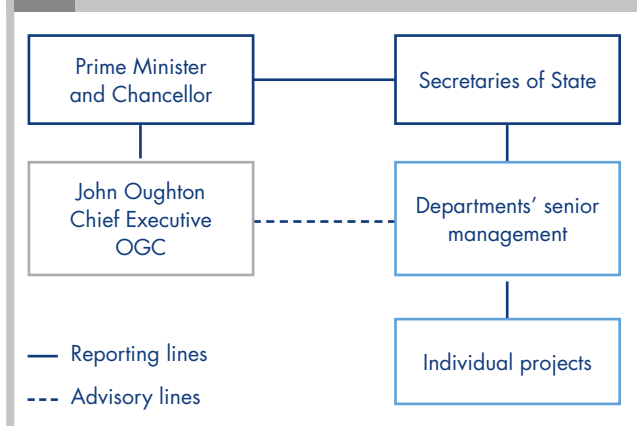
7 The target is a mix of cashable and non-cashable gains. Cashable gains consist of reductions in inputs which do not adversely affect the quality of outputs. Reforms which allow a hospital to purchase the same quantity and quality of medical supplies at lower costs would generate cashable efficiency 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.



**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.

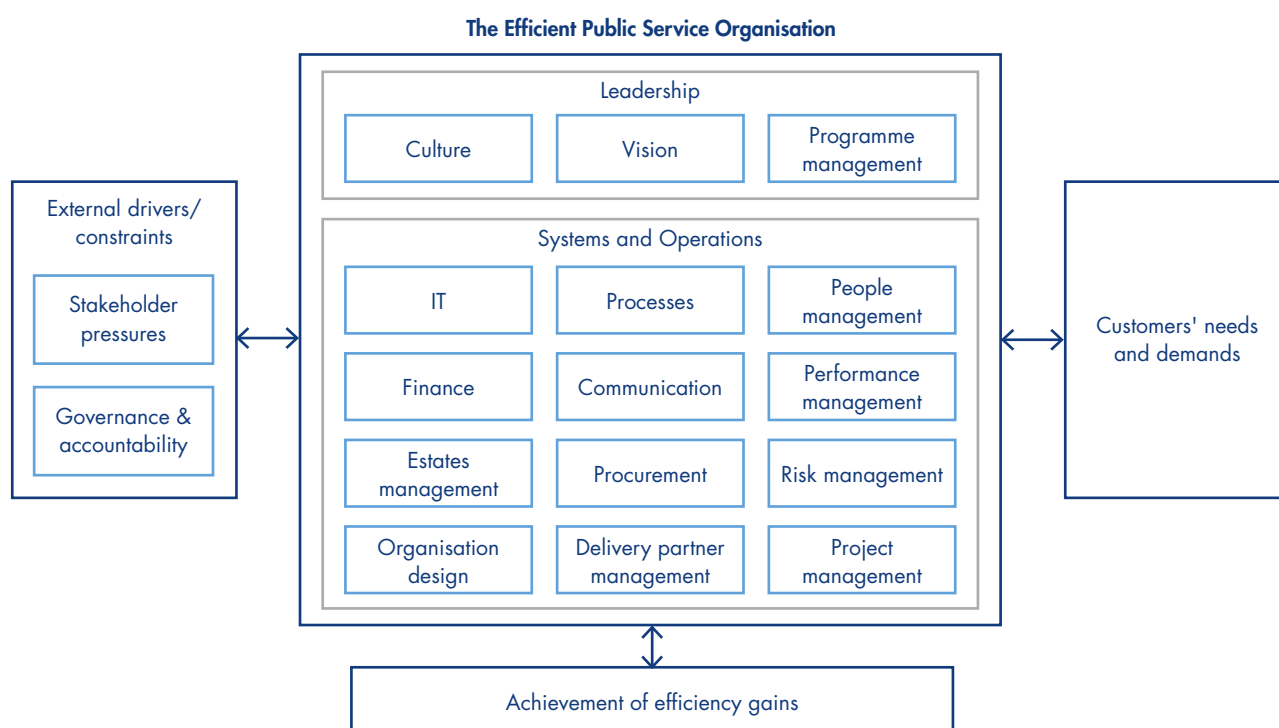
**11 For their part, departments should be prepared to collaborate more with each other and with the wider public sector to take full advantage of the opportunities for reform.** Where increases in the overall efficiency of the public sector are available, departments should be ready to commission joint 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](http://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.

## PART ONE

# How the Efficiency Programme has been designed

*This part of the report sets out the background to the Efficiency Programme, a high-level analysis of the key targets, our findings on its design and structure and the main risks to delivery.*





**1.1** In August 2003 the Chief Executive of the Office of Government Commerce, Sir Peter Gershon, was invited by the Government to lead a cross-cutting review of efficiency in the public sector. The Gershon Review<sup>3</sup> was published in July 2004 to coincide with the Government's 2004 Spending Review. The Spending Review set out a commitment over three years to deliver ongoing efficiency gains in excess of £20 billion a year by 2007-08, in line with Sir Peter's recommendations. The commitment also included a gross reduction of more than 80,000 civil service posts and the relocation of 20,000 public sector posts away from London and the South East. The administrative budgets<sup>4</sup> of most departments were capped during the Spending Review period to ensure that the reduction in Civil Service staff numbers would be achieved. Spending Reviews are a key element in the control framework for public expenditure and Appendix 2 provides a summary of the process.

**1.2** In July 2005, the Government announced that a Comprehensive Spending Review<sup>5</sup> would report in 2007. One element of the Comprehensive Spending Review will examine how the public expenditure framework can best embed and extend ongoing efficiency improvements.

**1.3** Detailed planning by departments on how to implement the Gershon Review indicated that ongoing efficiency gains of just under £21.5 billion a year were achievable by the end of the Spending Review period in 2007-08 and this higher figure has been publicly cited as the target for the Efficiency Programme (**Figure 5 overleaf**).

**1.4** Under a new Chief Executive, John Oughton, the Office of Government Commerce assumed responsibility for driving through the Efficiency Programme and has assembled an Efficiency Team which, in partnership with HM Treasury, has responsibility for:

- a** monitoring progress by departments against their individual efficiency targets for the years to 2007-08;
- b** providing support to departments to help them deliver their efficiency plans;
- c** promoting further improvements in efficiency through more radical reforms and process re-engineering; and
- d** helping to introduce a longer-term culture of efficiency within the wider public sector.

3 Sir Peter Gershon, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004.

4 The 2004 Spending Review set the administration budget for each department for 2006-07 and 2007-08 at or below the 2005-06 nominal level, with the exception of the Security and Intelligence Agencies and the Foreign and Commonwealth Office.

5 This will be the Government's second Comprehensive Spending Review, the first concluding in July 1998. It will assess the effectiveness of Departments' existing spending in delivering the outputs to which they are committed, how long-term trends are impacting on public services and how the public expenditure framework can best embed efficiency.

## 5 The Gershon Review set efficiency targets for each department

Department	Efficiency targets	
	Gains (£ million)	Reductions in posts (net <sup>2</sup> )
Health	6,470	720
Education and Skills	4,350	1,960
Defence	2,830	15,000
Home Office	1,970	2,700
Work and Pensions	960	30,000
Transport	785	700
ODPM	620	400
Environment, Food and Rural Affairs	610	2,400
Chancellor's departments	550	13,350
Other departments	1,535	3,370
Local Government	6,450	–
<b>Total<sup>1</sup></b>	<b>21,480</b>	<b>70,600</b>

Source: *The Gershon Review*

### NOTES

1 The total for efficiency gains is £5,650 million less than the sum of the figures in that column because most of the gains to be delivered across local government are also included in the departmental targets.

2 The overall target for departments is to implement gross reductions of over 84,000 posts in the Civil Service and military staff in support roles by 31 March 2008, of which 13,500 posts are planned to be re-allocated to "front-line" activities.

**1.5** In addition to the central oversight and support provided by the Efficiency Team, other departments and teams (**Figure 6**) at the centre of Government are helping Departments deliver more efficient and effective public services:

**a** **HM Treasury** – oversees the delivery of efficiencies within the wider frameworks for resource allocation and financial control. In particular, HM Treasury monitors departments' progress towards Public Service Agreement (PSA) targets. PSAs are agreements between the Prime Minister, the Chancellor and the relevant Secretary of

State, setting out a department's high-level aims, objectives and key performance targets. Along with the Efficiency Team, the Treasury has overseen the development of departments' Efficiency Technical Notes (see Appendix 4). The **Public Services Productivity Panel** – a small group of senior public and private sector managers, established in 1998 and chaired by the Chief Secretary to the Treasury, is being deployed jointly by the Treasury and the Office of Government Commerce to identify ways to help improve the productivity of the public sector.

**b** **Office of Government Commerce** – is an independent office of the Treasury. In addition to the Efficiency Team, other parts of OGC support the Programme as 'Change Agents' for a number of the workstream areas identified by the Gershon Review. Although improving government efficiency is one of its top objectives, the OGC is also helping departments to improve the success rate of 'mission critical' government initiatives and delivering an additional £3 billion of procurement savings in central government civil procurement over the Spending Review period.

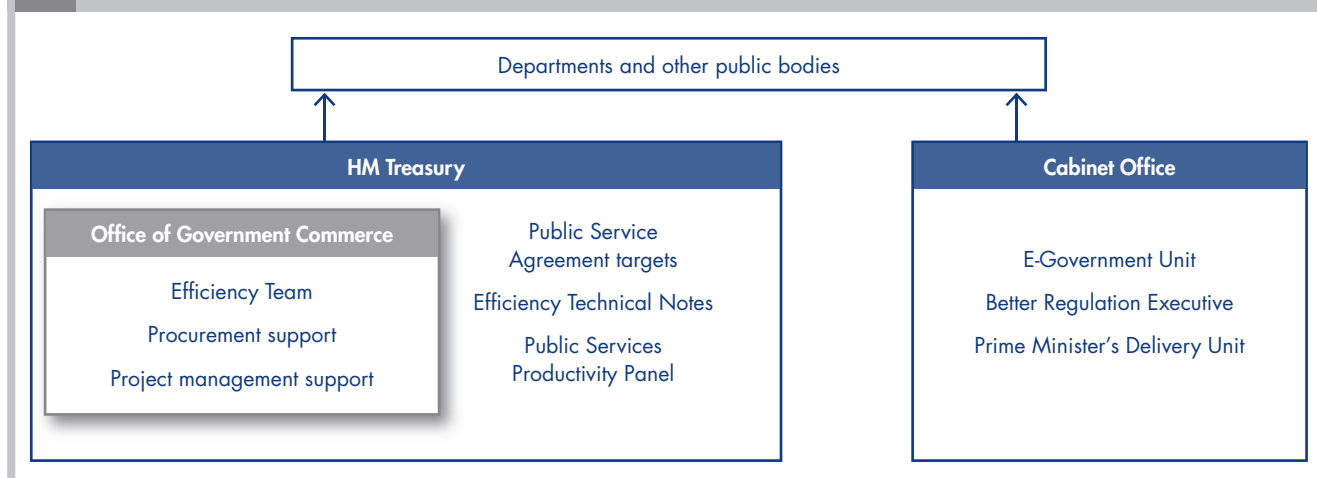
**c** A number of **Cabinet Office** teams are helping on specific workstreams and to embed efficiency for the longer-term:

■ **e-Government Unit** – established in 2004 to support departments in the use of Information and Communications Technology systems to provide better, more efficient, public services. The Unit is taking the lead in advising departments on developments in the shared services workstream.

■ **Better Regulation Executive** – established in 2005 to set targets for reducing the administrative cost of regulation and to rationalise the inspection and enforcement arrangements for the private and public sectors. From 2006, the Executive will work alongside the **Better Regulation Commission** – an independent advisory body sponsored by the Cabinet Office – to challenge departments to reduce the burden of regulation and its enforcement.



## 6 Departments' performance in delivering efficiency is supported and monitored by a range of teams at the centre of government



- In addition, the **Prime Minister's Delivery Unit** will be responsible for carrying out the recently announced Departmental Capability Reviews which will assess how well equipped departments are to meet their delivery challenges and will provide targeted support to make any improvements required.

**1.6** As the external auditors of central government the role of the **National Audit Office** is to report to Parliament on progress, including the extent to which efficiency gains have been calculated reliably, and to suggest how further improvements in efficiency might be achieved. In local government the **Audit Commission**, from 2005-06, will be reviewing the process used by local authorities to prepare their Annual Efficiency Statements. And while departments' internal audit services do not have a formal role, in practice some departments are using **internal audit** to check aspects of the systems for calculating efficiency gains.

## The Efficiency Programme is unlike previous attempts to improve efficiency in the public sector

**1.7** Over the years, particular aspects of government operations have been subject to review, for example the Rayner scrutinies launched in 1979 and the Levene Efficiency programme of the 1990s. Appendix 3 sets out a chronology of various initiatives to improve efficiency and effectiveness in central government since the 1970s. The current Efficiency Programme is the first to look at the efficiency of the public sector as a whole, including both central and local government. The creation of the Office of Government Commerce Efficiency Team and the publicly-identified targets within the Spending Review period to 2007-08, provide a more structured and potentially more transparent model for delivery and accountability than has previously been the case. In addition, unlike previous initiatives, the Programme requires departments to demonstrate reforms have at least maintained the quality of public services being delivered.

**1.8** Forecast efficiency gains have been categorised and divided into five key workstreams (**Figure 7 overleaf**).

## The Efficiency Team does not have authority to direct departments, it can only seek to influence

**1.9** Although the Efficiency Team is responsible for the overall programme, departments retain responsibility for delivering and measuring the efficiency targets announced in the 2004 Spending Review, around the five workstreams. As **Figure 8** shows, the Chief Executive of the OGC is the senior responsible owner of the Efficiency Programme and reports directly to the Prime Minister and the Chancellor on progress. The six-monthly progress reports are the product

of a self-assessment by each department, moderated by the Efficiency Team. Each of the major departments have therefore established their own central efficiency teams to monitor and provide information to the Efficiency Team on the progress of around 300 individual projects, which are expected to deliver their targeted efficiency gains. The Chief Secretary to the Treasury also takes a strong interest in the Programme given his overall responsibility for public spending. In November 2005, he announced the introduction of 'efficiency stocktakes' for each department on a similar basis to the stocktakes on delivery that the Prime Minister holds with departments and his Delivery Unit.

### 7 There are five main workstreams for the delivery of efficiency gains

#### Procurement

The public sector spends over £100 billion annually on procurement of goods and services. There is therefore potential for efficiencies through more aggregation of demand, and improved supplier management. Examples include:

- Shared purchasing strategies
- Greater use of electronic purchasing and e-auctions to get better procurement deals
- Development of capacity in contract management.

#### Productive Time

This workstream relates to activities that are integral to the delivery of improved front-line services, such as within schools, hospitals, policing and local government. Freeing staff from time spent on unproductive tasks could increase public sector outputs considerably. Productive Time efficiencies aim to:

- change roles and responsibilities within the public services workforce, so there is more effective use of people's skills and knowledge;
- streamline and reform processes associated with delivering services to the public;
- make better use of ICT – such as to help with communication at the front line, and improve the quality of information for management decisions; and
- reduce sickness absences.

#### Policy Funding And Regulation

The Policy, Funding and Regulation workstream focuses on the parts of government that set the delivery and financial frameworks that apply to the **public** and **private** sectors. The workstream includes, for example: developing policy and regulation, setting standards and targets, allocating revenue and capital funding or grants, inspection and compliance activity and seeking to influence quality through initiatives and national support. The overall objective is to reduce the cost to government of this activity while increasing its effectiveness.

*Source: Office of Government Commerce Efficiency Team*

#### Corporate Services

The Corporate Services workstream concentrates on the efficient delivery of Finance, IT, HR and property management services to all government organisations, on which almost £30 billion a year is spent. The aims of the workstream are to ensure:

- that the efficiency ethos is embedded in the fabric of the way in which government works;
- that the UK government is regarded as an exemplar performer in terms of corporate services effectiveness and efficiency; and
- that the process of implementing transformational change in corporate services is made easier and less risky.

#### Transactional Services

Transactional Services focuses on improving the efficiency of the delivery of services, which currently cost over £10 billion annually. These represent the most common interaction that citizens and businesses have with local and national government. The workstream will build on existing programmes across government to modernise service delivery, including:

- putting all services online;
- providing a single point of online access for citizens (e.g. Businesslink.gov and Directgov);
- increasing use of electronic processing; and
- process improvement.

#### Other

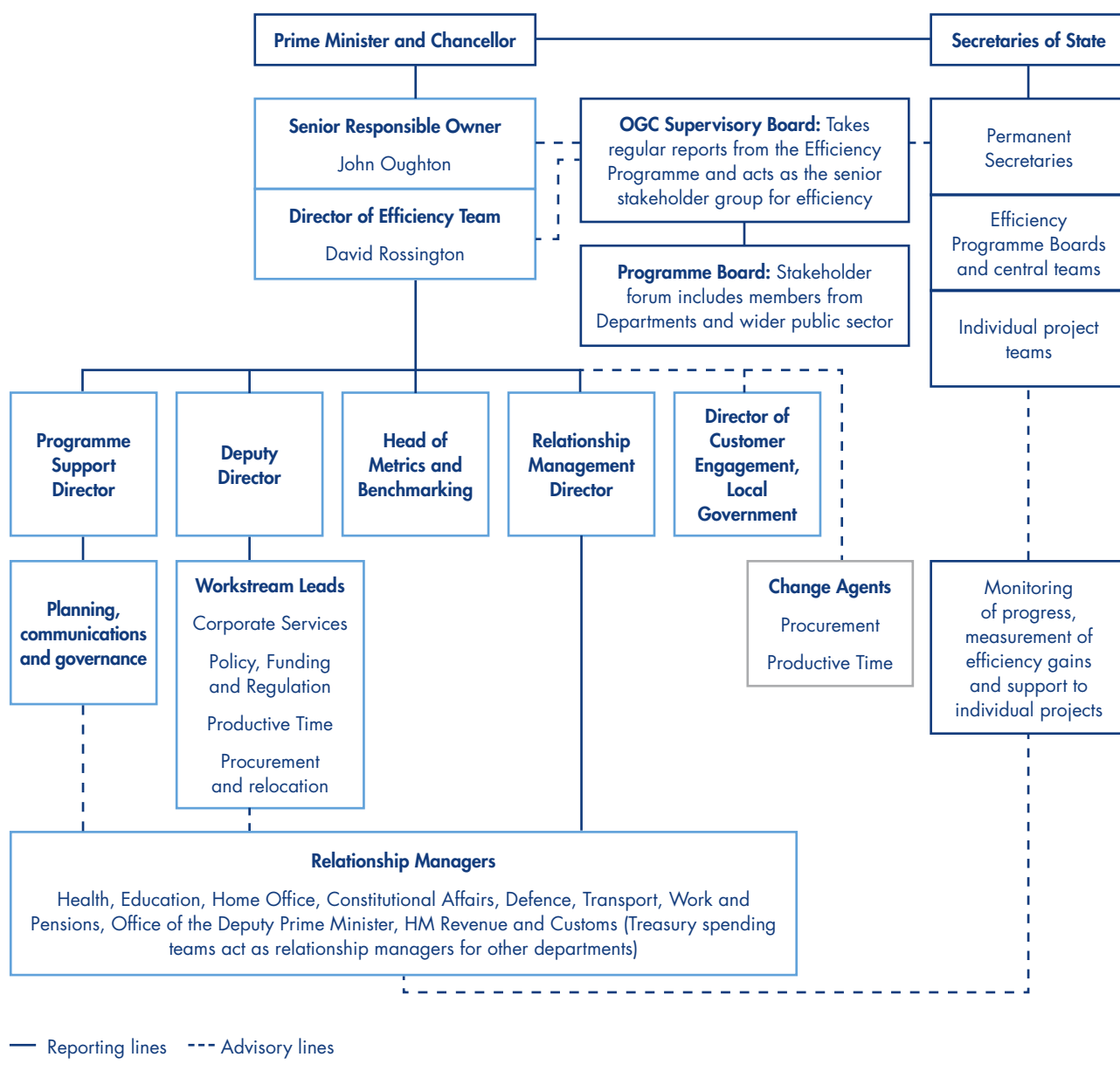
The Gershon Review workstream classification covers the vast majority of efficiency gains but is not exhaustive. Efficiency gains which do not fit easily into the workstreams are often department-specific in nature. For example, the Ministry of Defence efficiency programme includes efficiency gains resulting from the restructuring of the Armed Forces so that they can better meet the UK's defence needs at lower cost.

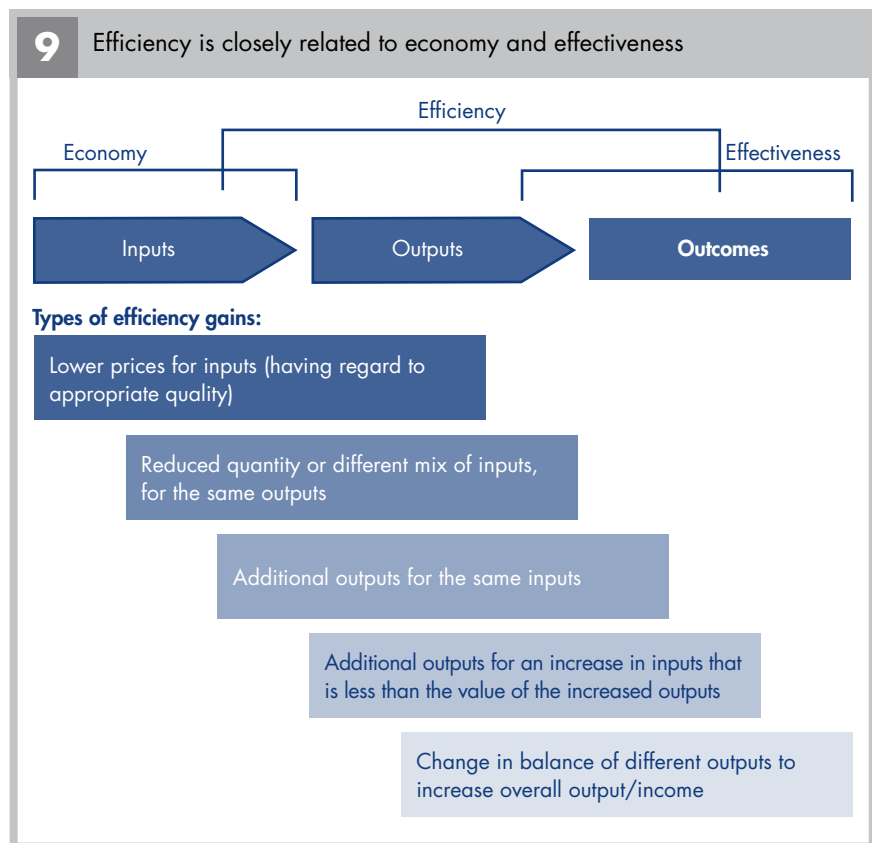
## The Programme was designed to minimise risks to public service delivery

**1.10** It is not unusual for commercial enterprises to seek ongoing improvements in efficiency of around 10 per cent per annum. While this was recognised by the Gershon Review it concluded that as yet the public sector did not,

in a sufficiently critical mass, have the capacity to deliver more than 2.5 per cent (equivalent to some £20 billion of cumulative annual gains by 2007-08). Sir Peter Gershon specifically stated “To go further or faster than the savings set out in my Review during the period 2005-06 to 2007-08 would put at risk the delivery of public services”. Nevertheless, aiming to deliver such a substantial change programme by 2008, without risking the delivery of public services, remains an ambitious objective.

### 8 The governance structure of the Efficiency Programme





## The Programme adopts a wide definition of efficiency

**1.11** In broad terms, efficiency is a measure of how well an organisation uses its resources (inputs) to produce goods and services (outputs). At the same time, efficiency also incorporates the concept of productivity, that is the rate at which inputs are used to deliver outputs. The Gershon Review defined “efficiencies” as those reforms to delivery processes and resource utilisation that:

- a** reduce the quantity of inputs while maintaining the same level of service provision;
- b** lower prices for the inputs needed to provide public services;
- c** lead to additional outputs, such as enhanced quantity or quality of service, for the same level of inputs;
- d** improve ratios of output per unit of input (in other words an increase in productivity typified by (a) to (c) above); or
- e** change the balance between different outputs delivering a similar overall objective in a way which achieves a greater overall output for the same inputs.

**1.12** An Efficiency Programme cannot be viewed in isolation from the other key aspects of performance, namely economy and effectiveness:

- **Economy** means minimising the cost of resources used for an activity, without reducing their quality.
- **Effectiveness** is the extent to which objectives have been achieved and the relationship between the intended impacts and actual impacts of an activity.

**1.13** Efficiency is closely linked to economy. The economic acquisition of resources contributes to efficiency by minimising the cost of inputs used. Efficiency also overlaps with effectiveness because it is an important factor in determining the most cost-effective method of achieving the intended aims and objectives of a public service.

**1.14** Given how efficiency has been defined within the Programme, departments should be able to achieve their efficiency gains without jeopardising other policy objectives. For example, there has been concern that efficiency targets in areas such as procurement will prevent departments from implementing policies which are environmentally sustainable. However, the environmental sustainability of a public body's procurement activity is an important aspect of the quality of that activity. Since an efficiency gain can only be reported if quality has at least been maintained, a public body should only be able to count gains from initiatives which have had no negative impact on sustainability. Indeed, any improvements in sustainability could potentially be reported as efficiency gains.

## The target excludes most investment costs and includes non-cashable gains

**1.15** Prior to the Gershon Review, the major Departments already had efficiency projects underway or planned and most of the targeted £21.5 billion of efficiency gains will come from these projects. The overall target for gains across central government was constructed without taking into account the up-front capital investment already made in individual projects or the ongoing costs of delivering efficiencies, such as depreciation on new IT systems, over the Spending Review period. The reason for this was that the Gershon Review sought to apply pressure on departments to factor into their efficiency plans the benefits expected from existing projects. In planning efficiencies, most departments have followed this approach, although local government plans did allow for such costs. As **Figure 10 overleaf** explains, the £21.5 billion target does not therefore reflect the net efficiency gains that may, in practice, be achievable.

**1.16** The target also includes a mix of cashable and non-cashable gains. Cashable gains represent those reforms which involve a reduction in inputs, e.g. staff costs, while the quality of outputs, e.g. the service provided, is at least maintained. Overall, around two thirds of the £21.5 billion target should release resources for other uses, although real efficiency will rely on cashable savings being used efficiently. Non-cashable gains occur when the quality of outputs increases, without a corresponding increase in inputs (**Figure 11**).

## The Efficiency Programme is and will remain high risk

**1.17** Delivering the benefits of the Efficiency Programme requires changes of a scale and degree of complexity that are probably as great as have ever been faced in the UK public sector or elsewhere. It involves not only a diverse range of challenges across departments but also a number of structural, cultural and process reforms within central government and across the wider public sector.

### One of the biggest risks is the impact on service delivery

**1.18** Given the ambition of the Programme to drive efficiency across the whole of the public sector, a key risk is that efficiency gains will be accompanied by unintended falls in the quality or quantity of service delivery. To avoid the additional costs of new data collection and reporting systems, existing processes are being used to measure efficiency gains. Existing systems were not designed to monitor or measure the impact of the large number of individual projects that make up the Efficiency Programme.

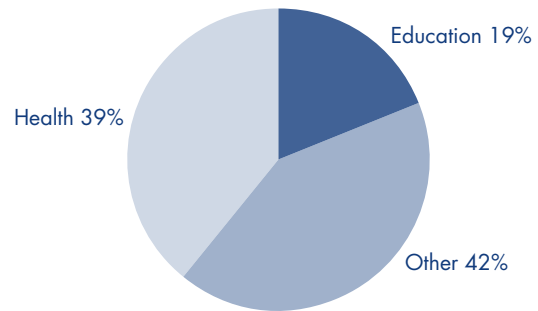
**1.19** Weaknesses in the quality and timeliness of data on inputs and outputs meant Departments were always likely to struggle to ensure they can monitor each efficiency project as it progresses, so that corrective action can be taken early if there is deterioration in service quantity or quality.

**10** The £21.5 billion a year target does not take account of the capital costs involved in delivering efficiency gains

The majority of efficiency projects within the Programme require additional investment. This investment includes capital costs, such as new IT systems, that will enable the delivery of greater efficiency over the Spending Review period to 2008 and beyond. To gain a complete picture of the success of the Programme, the additional costs should be matched against the efficiency gains delivered in each financial year. Without such matching of capital costs against gains, the £21.5 billion target overestimates the efficiency gains that will actually be achieved by 2007-08.

**11** Reforms in health and education account for more than half of the non-cashable efficiency gains

Non-cashable efficiency gains by department (percentage)



Source: National Audit Office analysis of December 2005 OGC Efficiency Team milestone chart

### The achievement of the £21.5 billion target is dependent on a small number of departments and individual projects

**1.20** Forecasts by Departments of efficiency gains to 2008 include a contingency element in excess of the £21.5 billion target. The success of the Programme is, however, highly reliant on:

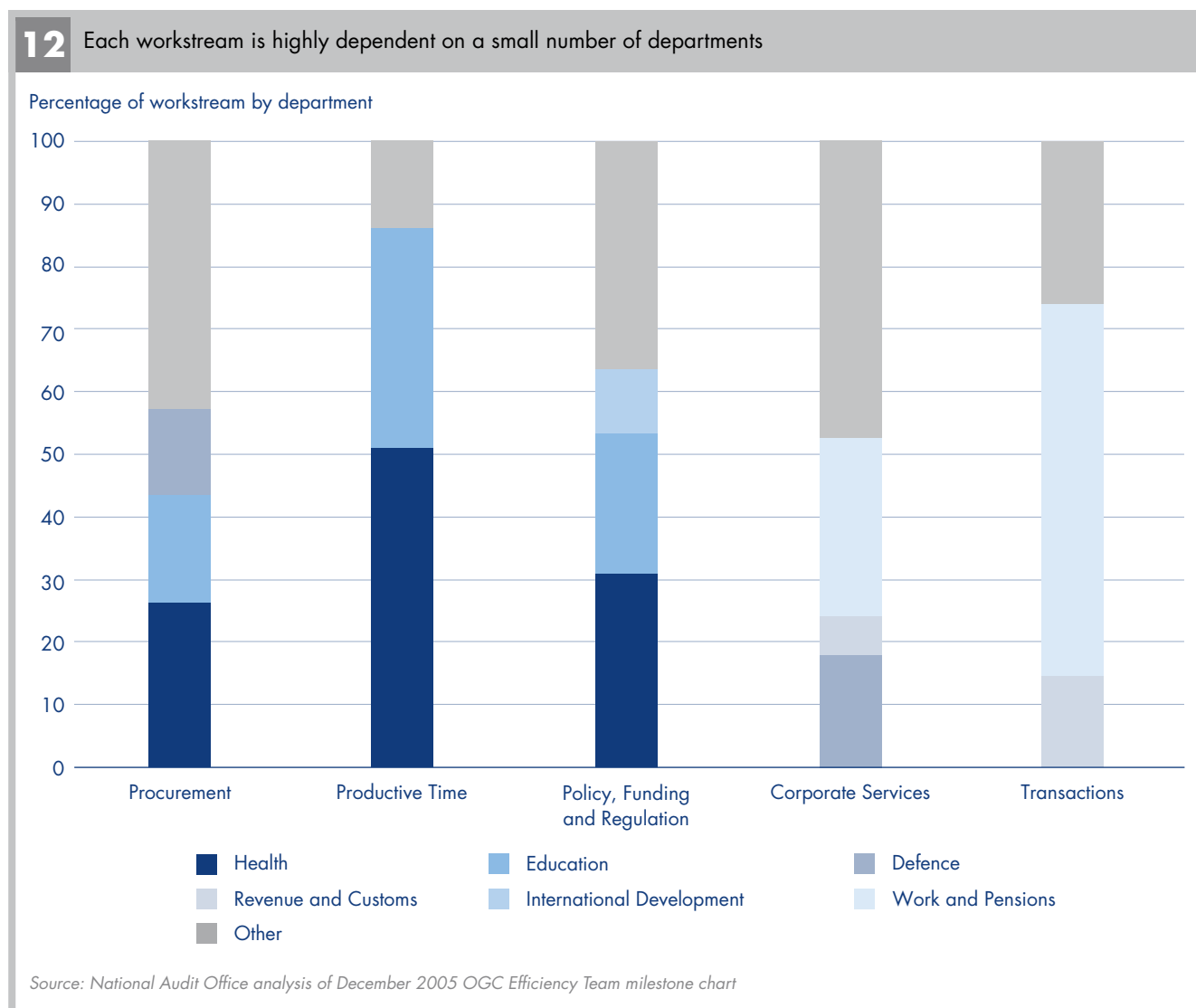
- **five departments:** the Departments of Health, Education and Skills, the Ministry of Defence, the Home Office and the Department for Work and Pensions will contribute or are taking the lead in delivering 77 per cent of the £21.5 billion target;



- **delivery of the top 50 of the 300 projects** currently underway. These projects are expected to deliver more than 80 per cent of the Programme; and
- **two of the five workstreams:** nearly two thirds of the forecast gains will be delivered by increased efficiency in procurement (37 per cent) and productive time (24 per cent). In turn, the two workstreams are to be delivered primarily by the Departments of Health and Education and Skills (accounting for nearly half of the procurement workstream and 87 per cent of productive time). An analysis of workstreams across the major departments is at **Figure 12**.

Complex delivery chains add to the management challenge faced by departments and the OGC

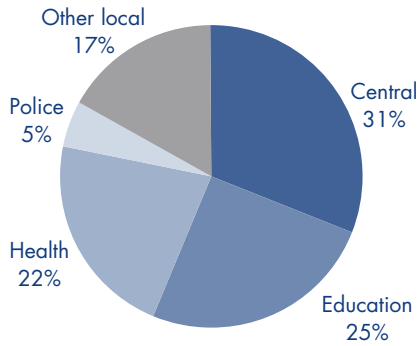
**1.21** Local authorities and semi-autonomous bodies, such as schools and hospital trusts, are making a significant contribution to the Efficiency Programme. Around 65 per cent of the projects, with a combined value of £13.5 billion, rely on delivery by local bodies.<sup>6</sup> This dependency is also present in the top 50 projects by value, where just under 70 per cent of the efficiency gains will be delivered locally (**Figure 13 overleaf**).



6 Recognising the increasing complexity of improving local public services, the Audit Commission and the National Audit Office are jointly producing three reports on chains of organisations delivering specific Public Service Agreement targets. The 2005-06 reports will address PSA targets for affordable housing, increasing bus use and, in conjunction with the Healthcare Commission, halting the rise in child obesity. A fourth report to be published in 2006 brings out issues of more general relevance to the ways that public sector delivery chains are constructed and how they can best operate.

**13** Around 70 per cent of gains from the top 50 projects will be delivered by local rather than central government services

Claimed gains by department (percentage)



Source: National Audit Office analysis of August 2005 OGC Efficiency Team milestone chart

**1.22** The challenge is particularly complex in central initiatives for which departments are accountable, for example the promotion of greater efficiency in the provision of adult social care is a project within the Department of Health’s efficiency programme but will be delivered by local authorities. Such projects must overcome the challenges of persuading local bodies to change their behaviour and of having access to limited information to help track progress.

A significant proportion of the planned efficiencies depend on additional expenditure on Information and Communications Technology (ICT)

**1.23** The Gershon Review stated that it had been careful to avoid proposals requiring large new ICT systems because such projects often involved significant risk, in terms of cost and time over runs. The public sector has yet to demonstrate that it can consistently deliver successful IT programmes of this magnitude.

**1.24** Nevertheless, at least £3.2 billion (15 per cent) of the efficiency gains target is dependent on projects needing new or upgraded ICT systems, including, for example, the NHS Connecting for Health project. The Efficiency Team is aware of the risks involved and, alongside the e-Government Unit, is seeking to monitor such projects closely as the Programme develops.



## PART TWO

### What progress has been achieved so far?

*In this part of the report we assess the progress of the Programme against its targets for achieving efficiency gains, including a review of how efficiencies are being measured. We also look at the management of the projects within departments and the performance of the OGC Efficiency Team in co-ordinating the overall Programme. We have identified a number of ways in which we think Programme management and measurement could be strengthened.*



## Measuring the progress of the Efficiency Programme

In this section we outline what we believe to be good practice in measuring efficiency gains. Using these principles, we review how our sample projects within the Programme are measuring progress towards their efficiency targets. On the basis of this sample, we comment on the robustness of reported progress to date and how well placed the Programme is to measure future efficiency gains.

**2.1** The Gershon Review stated that ‘auditable and transparent measures of performance are vital if departments are to be effectively held to account for their progress against their efficiency targets’. We have tested efficiency projects against three key principles which departments should adhere to if their efficiency gains are to be credible:

- **Early agreement of clear baselines** – efficiencies should be measured against clear baselines for inputs, outputs and service quality. Ideally, baselines should indicate actual levels of past performance. Counterfactual baselines, designed to estimate

what would have occurred if an efficiency initiative had not been put in place, contain inevitable uncertainties and should only be used if they can be clearly defined.

- **Comprehensive calculation methodologies that help sustain efficiency** – the methodologies should take account of all the components of efficiency; changes in inputs and outputs, as well as the quality of service delivery. They should be designed to avoid double counting and cost shifting between activities and become part of performance management processes to ensure gains are sustained.
- **Clear and reliable audit trails** – efficiency gains should be based on data from systems that are subjected to regular assurance processes and where clear audit trails are available to track data from collection through to processing and reporting.

Using these criteria we reviewed our sample of projects that cover £1.3 billion of the £4.7 billion reported in December 2005 and £6 billion of the £21.5 billion being targeted for March 2008. Our sample of projects is listed in **Figure 14 overleaf**.

## 14 Our sample 20 projects cover £6.1 billion of the £21.5 billion targeted annual efficiency gains

The forecast efficiency gains shown below represent current estimates of how our sample projects will contribute to departments' overall targets. In some cases, such as in the Department for Transport, the estimates represent internal stretch targets. Departments have full flexibility over how their overall targets are delivered.

Project title	Project description	Current forecast for 2007-08 efficiency gains £ millions
<b>Department of Health</b> (four projects representing 34 per cent of the Department's overall target)		
High Impact Changes	The 10 High Impact whose benefits have been proven by the Modernisation Agency. A central team has promoted their use by hospitals and PCTs across the country. The key aim is to increase productive time within NHS organisations whilst also improving patient care. Initiatives include increasing the proportion of elective surgery performed as day surgery and improving patient flow by increasing access to diagnostic tests. Released financial resources will be recycled within front-line services. NHS delivery of process improvement is now linked with ICT and Workforce Change as an integrated programme aiming to deliver efficiency and service improvement benefits.	1,000
Supply Chain Excellence	National and regional initiatives to improve the efficiency of procurement within the NHS. There are four key strands to this programme: <ul style="list-style-type: none"> <li>■ National contracts procurement – a programme to implement best practice procurement aiming to secure better value national contracts for high volume goods and services used by the NHS.</li> <li>■ Development of collaborative procurement hubs – regional centres for products which are best purchased regionally.</li> <li>■ Skeena – market testing of outsourced NHS logistics.</li> <li>■ Purchasing and Supply Agency – NHS reorganisation of the supply of products and how contracts are negotiated.</li> </ul>	500
Adult social care	The project is aiming to improve the commissioning of social care and secure other cash-releasing and non-cash-releasing gains from the design of social care processes by local authorities. Initiatives include the use of direct payments, better demand forecasting, improving block purchasing contracts and efficient home care monitoring.	684
Shared service centres	Project aiming to deliver more efficient support functions across the NHS. In March 2005 the NHS launched two shared service centres in Leeds and Bristol as a joint venture with a private sector partner. The project seeks to provide efficiencies through economies of scale and improved management information allowing better decision-making. The service covers financial transactions and payroll and has the potential to be expanded to cover HR services.	25
<b>Department for Transport</b> (three projects representing 59 per cent of the Department's overall target)		
Strategic roads procurement	Project aims to reduce cost and improve quality of services obtained through strategic Highways Agency road procurement contracts. There are four initiatives: <ul style="list-style-type: none"> <li>■ Re-negotiation of the cost of maintenance contracts</li> <li>■ Improvement in the quality of maintenance</li> <li>■ Improvement in the quality of major projects</li> <li>■ Improvement in the quality of framework contract work.</li> </ul>	200
Local authority roads procurement	Road procurement efficiencies through improved and collaborative methods of procurement e.g. sharing knowledge and joint contracts. Efficiencies will be achieved by local authorities through:	190



## 14 Our sample 20 projects cover £6.1 billion of the £21.5 billion targeted annual efficiency gains (continued)

Project title	Project description	Current forecast for 2007-08 efficiency gains £ millions
<b>Department for Transport</b> (continued)		
	<ul style="list-style-type: none"> <li>■ reduction in the cost and/or increase in the quality of roads related services, such as the management and maintenance of roads, footways, bridges etc.; and</li> <li>■ improvement in capital spend, for example greater than expected benefits compared to cost, or reduced maintenance cost of new or improved assets.</li> </ul>	
Increase in net tax yield on vehicle excise duty	Introduction of continuous vehicle registration aimed at reducing tax evasion by ensuring that all vehicles on Driver and Vehicle Licensing Agency's database are taxed. Vehicles are identified before their tax period expires, removing the need to rely on stopping vehicles on the road.	75
<b>Department for Work and Pensions</b> (four projects representing 59 per cent of the Department's overall target) <sup>1</sup>		
Resource Management	DWP are implementing new IT systems to integrate back office functions and develop improved procurement, financial management and HR services. This initiative is the foundation for other projects which will reduce the Department's headcount, as well as improve resource management functions by integrating the systems governing HR, Finance, Payroll, Procurement and Planning.	124
Human Resource Transformation	DWP are rationalising and IT-enabling the HR function to create a new HR Group that will provide a better service to its customers while delivering headcount reductions and efficiency gains. Savings will be achieved through headcount reductions as the HR function is rationalised from 26 centres down to two.	68
Estates Management	Aims to deliver efficiencies through improved space utilisation in DWP offices. The intention is to rationalise the number of properties occupied by the Department through a programme of acquisitions and disposals, as well as reducing overall running costs.	105
Payments Modernisation Programme	The Programme has reduced costs and headcount by making payments directly to benefit recipients' bank accounts. Previously, the payment of benefits had been mainly a paper-based process administered through the Post Office. The programme was completed in mid-2005 following extensive IT system upgrades.	270
<b>Department for International Development</b> (three projects representing 84 per cent of the Department's overall target)		
Increasing support to the World Bank through its International Development Agency contribution	Reallocation of aid budget towards the World Bank's International Development Agency funding programme. IDA is the arm of the World Bank that provides concessional loans to the poorest countries. Based on the Department's own research, as well as data from the World Bank, it has been estimated funding from IDA is 25 per cent more efficient than aid spent through bilateral projects. Each additional £1 provided to IDA will result in a £0.25 reported efficiency saving.	68
The need for continuous improvement in the performance of our portfolio	Improvement in the performance and management of DFID's bilateral portfolio of projects. All of DFID's projects are scored on a 1-5 scale on the expectations of them meeting their objectives, with scores of 1-2 being wholly or largely met. Through improved project management and support processes, the proportion of projects scoring 1 or 2 is expected to increase. Each percentage point increase in this proportion is assumed to lead to an efficiency saving equal to the same percentage of project funding e.g. on expenditure of £100m, a 1 per cent increase in the number of projects scoring 1 or 2 results in £1 million efficiency savings.	173
Transfer of funds from project to programmatic support	More UK aid is to be given directly to governments to support their own programmes. This initiative works on the assumption that financial support provided through national budgets is 20 per cent more efficient than aid given to individual projects. As with IDA funding, it calculates efficiency as being derived at the rate of £0.20 for each additional £1 spent on programme support.	111

## 14 Our sample 20 projects cover £6.1 billion of the £21.5 billion targeted annual efficiency gains (continued)

Project title	Project description	Current forecast for 2007-08 efficiency gains £ millions
<b>Department for Education and Skills</b> (three projects representing 38 per cent of the Department's overall target)		
Schools Capital and Building Schools for the Future	<p>Large scale building programme aiming to replace or refurbish every secondary school in England over the next 15 years. Benefits will be achieved from five areas:</p> <ul style="list-style-type: none"> <li>■ Asset optimisation, by allowing school numbers to better match demographics</li> <li>■ Lower project costs, through reducing professional fees, building costs and standardisation of design and construction processes</li> <li>■ Reduction in lifecycle replacement costs</li> <li>■ More efficient facilities management</li> <li>■ Reduction in bid costs through the standardisation of documentation, better management of market capacity and improved planning.</li> </ul>	1,648
Schools funding (procurement)	Reduction of the cost of general procurement by schools. Procurement under review includes that of classroom materials, ICT equipment, software and utilities. This will be achieved through the adoption of good practice and the use of nationally and regionally negotiated supplier contracts.	
Transforming Schools Workforce	<p>The programme aims to capture and re-release to schools the benefits of the January 2003 National Agreement on Raising Standards and Tackling Workload by freeing teachers to teach and deploying a wide range of support staff to work with teachers in improving standards of teaching and learning. This includes:</p> <ul style="list-style-type: none"> <li>■ using specialist cover supervisors in place of more expensive agency staff in covering teacher absence; and</li> <li>■ increasing the productive time of teachers by enabling them to delegate clerical and administrative tasks to support staff.</li> </ul>	
<b>Home Office</b> (three projects representing 42 per cent of the Department's overall target)		
Police Service – Force Level Efficiencies	Forces will deliver efficiency gains through locally-identified initiatives. Schemes range from the introduction of improved ICT systems to new rostering arrangements reducing the need for overtime.	422
Police Service – Front Line Policing	Efficiency gains will be secured by increasing the proportion of time spent by police officers performing front line activities. This is to be achieved through a number of measures, primarily through the reduction of bureaucracy and appropriate reallocation of tasks, currently performed by police officers, to non-warranted staff.	360
Prison Service – Shared Service Centre	The prison service is centralising the human resource and finance functions currently run separately across the prison network. A new shared service centre is being established in Newport. This rationalisation will result in reduced costs and headcount.	42
<b>Total</b>		<b>6,065</b>

Source: National Audit Office interviews with project teams

### NOTE

1 After the completion of our fieldwork, the Department changed the balance of forecast contributions being made by individual projects to its overall target. Consequently, the forecast efficiency gains for the Department for Work and Pensions are based on the position at June 2005.

## The efficiency gains announced in December 2005 should be viewed as provisional and subject to further verification

**2.2** In the 2005 Pre-Budget Report, the Government reported that the Programme was “on course” having achieved, by September 2005, £4.7 billion of the targeted £21.5 billion of efficiency gains. (For breakdowns of the reported efficiency gains by department, workstream and by central and local government, see **Figures 15, 16 and 17 overleaf**.) **Figures 18 and 19 overleaf** show, based on the figures reported, both central and local government are ahead of schedule, suggesting the Programme is on track to achieve the £21.5 billion target by 31 March 2008. Some 48 per cent of the £4.7 billion reported to September 2005 represented cashable efficiency gains.

**2.3** In many of the projects we examined we saw that good progress towards delivering efficiency savings is being made. However, on the basis of our review of projects and our wider work on Efficiency Technical Notes, we found that, at September 2005, there were still significant risks that efficiencies were not being measured accurately and in many cases departments could not be sure that service quality had not deteriorated as a result of efficiency-related reforms. We also recognise that in some sectors there are time lags in reporting where some data is collected only once a year, meaning that there could be further gains beyond the £4.7 billion reported. Given these difficulties we conclude that the £4.7 billion of efficiency gains should be considered provisional and subject to further verification. We acknowledge that improvements in measurement mean that greater confidence can be placed in this figure than in the £2 billion of efficiency gains that were reported in March 2005.

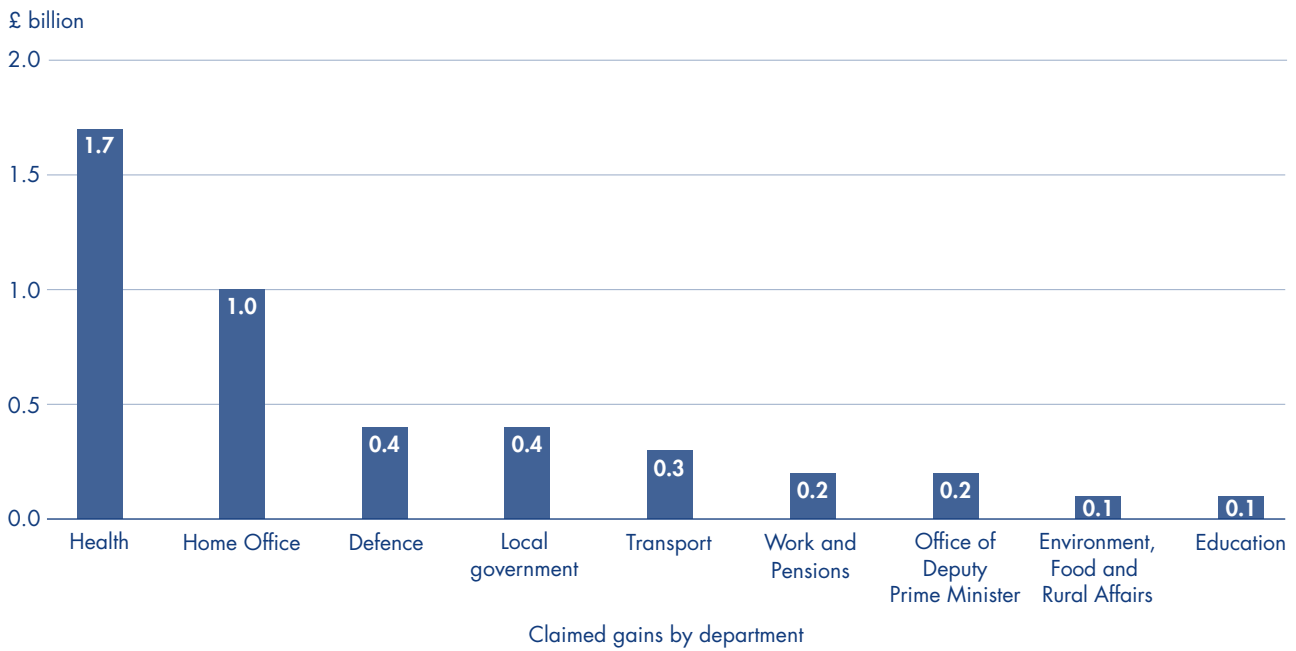
## Reductions of 25,000 Civil Service posts have also been reported

**2.4** The 2005 Pre-Budget Report also announced that a reduction of 25,314 posts had been achieved, representing 36 per cent of the targeted reduction of 70,600<sup>7</sup> to be secured by 31 March 2008. Of the reductions so far, 56 per cent are attributable to the Department for Work and Pensions (**Figure 20 overleaf**). In addition, the Report stated 5,771 posts have been reallocated to the ‘front-line’. The Department for Work and Pensions accounted for 4,211 of the reallocations.

**2.5** Given the proportion of the post reductions it accounts for, we have paid particular attention to the Department for Work and Pensions. The Department commissioned a review by its internal audit function to provide assurance on how progress towards the reduction target is being measured. Having examined how the review was conducted and its findings on the integrity of the systems from which the claims are made, we consider the work provides assurance on the robustness of claims to date. We also endorse its recommendations, especially the need to provide more detailed information on the numbers of agency staff and contractors employed by the Department. Agency staff and contractors are not accounted for within the Department’s staff figures.

<sup>7</sup> The overall target for departments is to implement gross reductions of over 84,000 posts in the Civil Service and military staff in support roles by 31 March 2008, of which 13,500 posts are planned to be re-allocated to “front-line” activities.

**15** The majority of the reported gains in September 2005 came from two departments

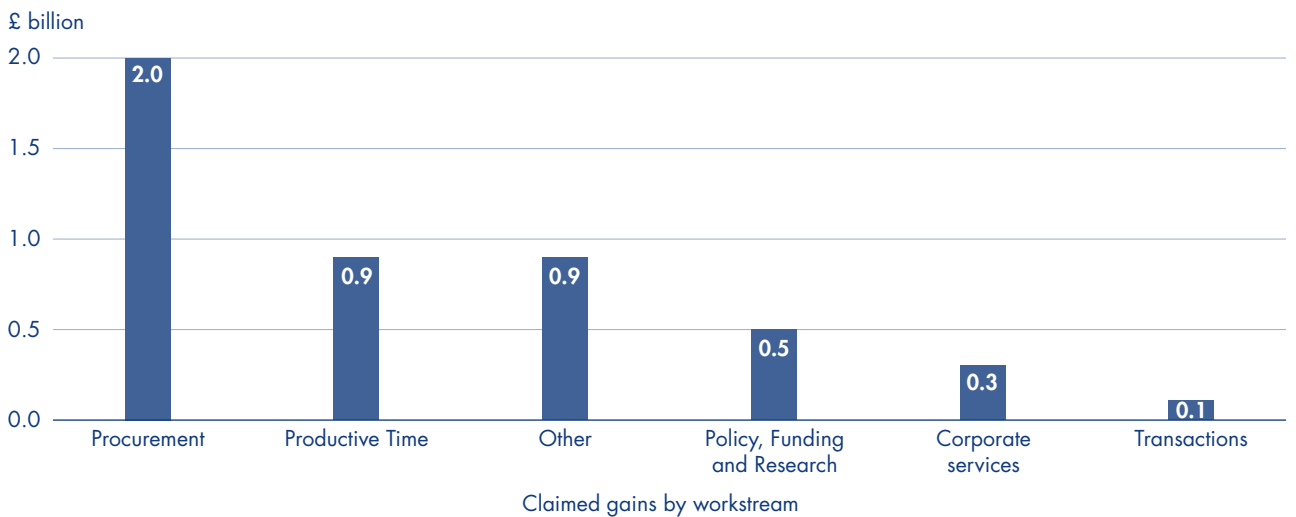


Source: National Audit Office analysis of December 2005 OGC Efficiency Team milestone chart

NOTE

Other departments claimed gains of £0.3 billion.

**16** The majority of the reported gains in September 2005 came from two workstreams



Source: National Audit Office analysis of December 2005 OGC Efficiency Team milestone chart

### 17 Reported gains by central and local government

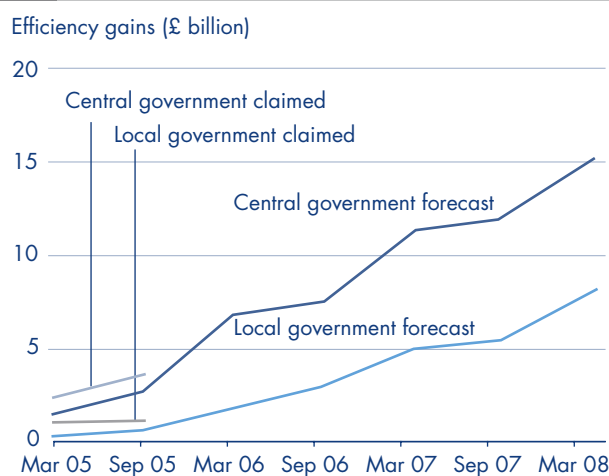
	Target by 2008 (£bn)	Reported at September 2005 (£bn)	Proportion of target reported (%)
Central government	15.0	3.6	24
Local government	6.5	1.1	17
Total	21.5	4.7	22

Source: National Audit Office analysis of OGC Efficiency Team milestone charts

#### NOTE

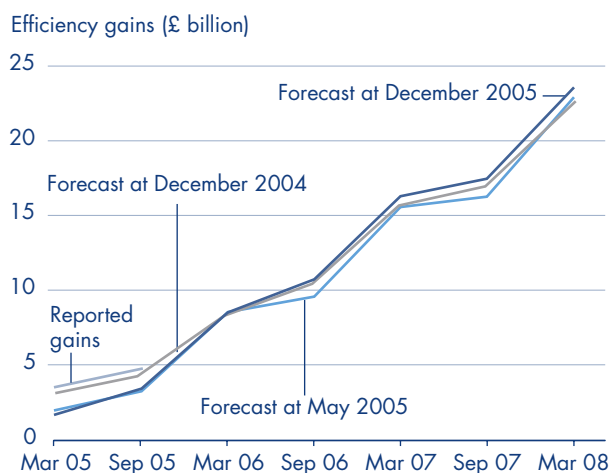
As set out in the Gershon Review, the local government target of £6.45 billion includes efficiency gains generated for services such as adult social care, police and fire services and schools which also contribute to central government department targets. The analysis above defines central government as total programme minus local government to remove this overlap in the sub-targets. Local government efficiency gains appear lower as they are reported annually in June, as detailed in Figure 26.

### 19 Based on reported efficiency gains both local and central government are ahead of schedule



Source: National Audit Office analysis of OGC Efficiency Team milestone charts

### 18 Based on reported efficiency gains the Programme is ahead of schedule



Source: National Audit Office analysis of OGC Efficiency Team milestone charts

#### NOTE

The March 2005 figure of £3.5 billion for reported gains updated the £2 billion previously announced in the Budget. The trajectories for the Programme tend to have a stepped appearance as most of the underlying forecasts are annual and carry forward unchanged to the interim (September) milestone.

### 20 Department for Work and Pensions accounts for over half of the reported staff reductions and reallocations

	Reductions in posts	Reallocation to front-line roles	Total gross reductions
Department for Work and Pensions	14,215	4,211	18,426
HM Revenue and Customs	3,246	1,560	4,806
Other departments	7,853	0	7,853
Total	25,314	5,771	31,085

Source: Pre-Budget Report 2005

**2.6** As **Figure 21** shows, most staff reductions have so far been achieved through natural attrition and by enforcing a policy of restricting recruitment and promotions to replace people who leave. The Department for Work and Pensions expects, however, that delivery of headcount reductions will become more difficult in 2006-07 and 2007-08 as the rate of natural attrition, particularly in more senior grades, will not be sufficient to achieve the target reduction of 30,000 posts by 31 March 2008. To offset this risk, the Department has introduced voluntary early retirement and severance schemes and has set aside more than £400 million from its administrative budget to meet associated costs. In addition, HM Treasury has provided £100 million in matched funding. Such ‘early exits’ account for 9 per cent of the headcount reductions reported to date.

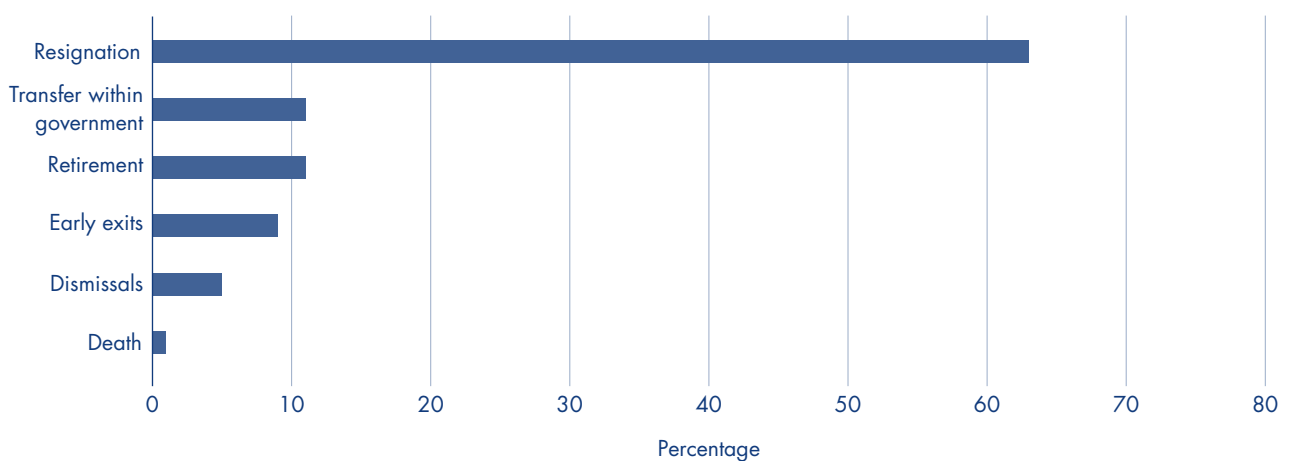
**2.7** Unlike the efficiency gains arising from most other central government efficiency projects, the Department’s planned gains of £960 million will be reported net of additional costs; the Department’s projects are reporting gains after taking into account the costs of any voluntary redundancies. (The issue of how the Programme accounts for additional costs arising from efficiency initiatives is covered in 1.15.)

**2.8** The headcount numbers reported by departments are not subject to the kind of formal review and challenge that the Office of Government Commerce applies to reported efficiency gains. We have therefore cross-checked the reported reductions against headcount data for the Civil Service collected by the Office for National Statistics.

**2.9** Data from the Office for National Statistics shows that the Civil Service accounts for around 10 per cent of total public sector employment and has expanded and contracted at a similar rate to the public sector as a whole since 1991 (**Figure 22**). Excluding the reclassification as civil servants of staff formerly employed by Magistrates’ Courts, the Office for National Statistics’ quarterly figures suggest staff numbers in the Civil Service fell by approximately 15,000 to 555,000 between 31 March 2004 and 30 September 2005. This is some 10,000 posts lower than the figure of 25,314 announced in the Pre-Budget Report. The reason for this difference is that the Efficiency Programme counts changes in posts in a different way to the Office for National Statistics. The key differences include:

- a** the setting of a baseline of 1 March 2004 for the Department for Work and Pensions to take account of early progress in reducing staff (a reduction of 2,200 posts not counted by the ONS but included in the Efficiency Programme target);

**21** Staff reductions in the Department for Work and Pensions have been achieved through natural attrition

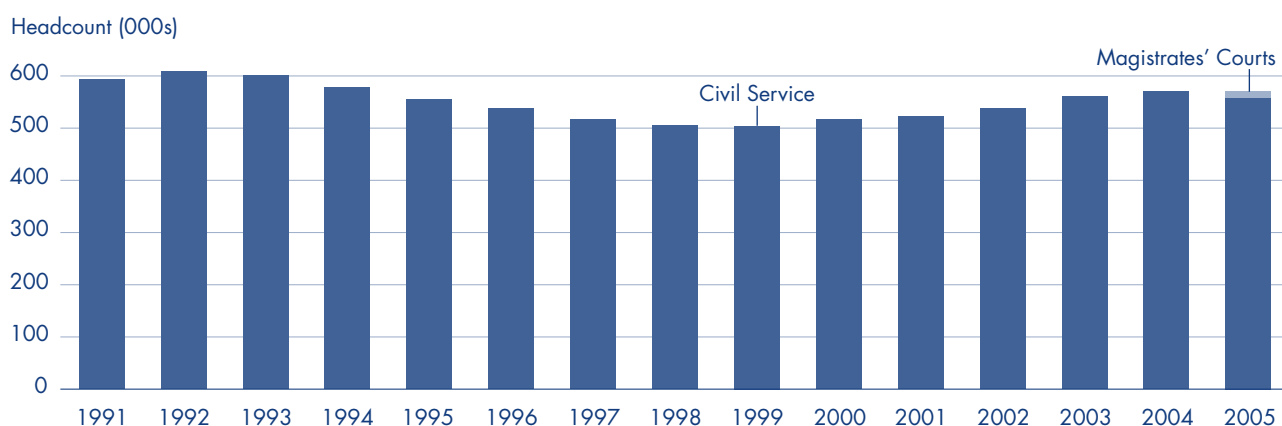


Source: Department for Work and Pensions

**NOTE**

The Department includes staff who have transferred to other posts within government because it has not replaced them. Changes in Civil Service staff numbers across departments, agencies and non-departmental public bodies are collated on a quarterly basis by the Office for National Statistics (see Figure 17). Early exits occur when employees receive a payment on leaving.

## 22 Overall staff numbers in the civil service have fallen marginally since 2004



Source: Office for National Statistics, Public Sector Employment Trends 2005

### NOTE

From April 2005 some 12,000 employees of the former Magistrates' Courts Service were reclassified from local government to the Civil Service, following the creation of HM Courts Service.

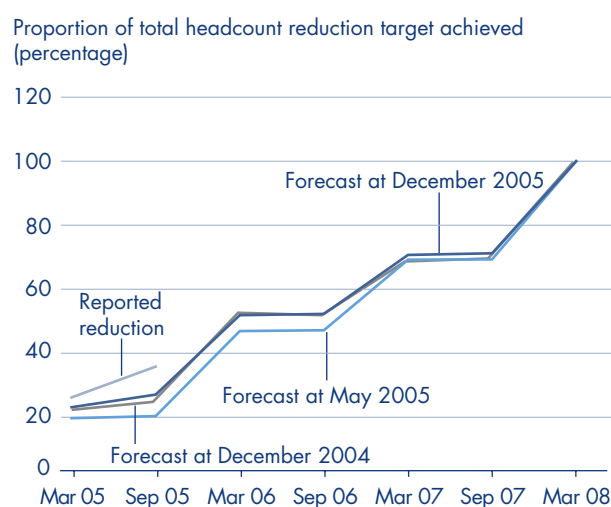
- b cuts in military posts in administrative and support functions (a reduction of 2,300 posts not counted by the ONS in figures for the Civil Service but included in the Efficiency Programme target); and
- c an expansion in front-line staff at the Highways Agency to take on responsibility from the police for dealing with minor roadside incidents (an increase of 1,500 posts counted by the ONS but not counted under the Efficiency Programme).

**2.10** The net reduction in posts across the Civil Service of some 70,600 by 2008 is expected to account for between £3 billion and £5 billion of the £21.5 billion target. Departments' forecasts for the extent of staff reductions over the first two years of the Efficiency Programme have moved down and then up, although they remain below reported reductions (**Figure 23**).

## Measurement of projects' efficiency gains

**2.11** Against our principles of good practice outlined in 2.1, we review below how well placed our sample projects are to measure progress towards their targeted efficiency gains. Although progress has been made since March 2005, as **Figure 24 overleaf** shows, we have significant concerns over whether the adopted measurement methodologies can be relied upon to substantiate efficiency gains effectively.

## 23 Reported reductions in posts to September 2005 have been above departments' forecasts



Source: OGC Efficiency Team milestone charts

We have also conducted a wider review of all departments' Efficiency Technical Notes (**Figure 25 on page 42**). As part of our work on efficiency measurement we have drawn up some guidance for staff responsible for developing and operating the data systems underpinning departmental efficiency projects (Appendix 5).



## 24 The robustness of efficiency gains is likely to vary across the Programme

This matrix illustrates the level of risk associated with measurement methodologies being used by our sample projects. We have reviewed each methodology on a Red-Amber-Green basis against three principles of good practice; robust baselines, comprehensive calculation methodology and adequate data assurance. The ratings indicate the risks of claimed gains not reflecting real efficiencies. Examples to support the ratings for each aspect of projects' methodologies are given in the relevant box within the matrix.

Department	Project (Reported efficiency gains September 2005) <sup>1</sup>	Objective	Baselines
Department of Health	High Impact Changes (£584m)	NHS organisations to be encouraged to implement ten process improvements validated by the Modernisation Agency.	● The Department has clear baseline figures set for each measure based on 2003-04 performance.
	Adult Social Care (£112m)	Improved commissioning and purchasing by local authorities of adult social care provision using ideas evidenced by a central team.	● While the cashable nature of the majority of local authority gains means baselines should be easily derived from budgetary systems, the Annual Efficiency Statements provide limited information on how authorities ensure costs have been accurately allocated against the particular activity being improved.
	Supply Chain Excellence (£78m)	National and regional initiatives to improve the efficiency of procurement within the NHS.	● The baseline for inputs is the product price prior to centrally-led negotiation of a discount for NHS purchasers. The additional use of Regional Procurement hubs mitigates the risk that local prices may be lower than nationally negotiated prices.
	Shared Services (£1m)	Joint venture between NHS and the private sector aiming to deliver more efficient support functions across the NHS.	● Organisations agreeing to services provided by the joint venture have baselines established as part of process to ensure new system delivers savings.
Department for Transport	Strategic Roads Procurement (£18m)	Project aims to reduce cost and improve quality of services obtained through strategic Highways Agency road procurement contracts.	● The 2004-05 budgets have been used as the baseline for maintenance contract costs. This creates the risk of allowing for the exaggeration of a budget to show greater efficiencies during the current year, as well as in future years as contracts are renegotiated. To reduce this risk, the Department has undertaken checks against 2003-04 actual spend to demonstrate they are realistic.

## KEY

- Low risk of any gains reported not reflecting real efficiencies
- High risk of any gains reported not reflecting real efficiencies
- Medium risk of any gains reported not reflecting real efficiencies
- Approach to measurement still being developed

**Calculation methodology**

- Despite the Department moving away from quantifying efficiencies achieved by the various initiatives independently, which could have led to double counting, to overall outcome measures, there is still a risk that changes in these outcomes could potentially shift costs onto other areas of healthcare. The Department acknowledges this risk in its Efficiency Technical Note and is currently establishing a practical approach to capturing possible cost shifting between these different activities.
- Local authorities can opt to use a single quality indicator to provide assurance on service quality, from a selection recommended by the Local Government Measurement Taskforce. If the selected indicator does not assess the broad range of services being provided, councils are required to provide further information. There remains a risk that using single indicators may not accurately monitor all the aspects of quality for a service. A more comprehensive quality measurement framework based on the Atkinson Review is currently being developed. Results from this process will be considered by the Measurement Taskforce.
- On a monthly basis, supplier statements provide details of volumes and prices of products sold. A Benefits Tracking Tool captures the sales to NHS Trusts, with savings based on the reduced cost per unit against the baseline.
- The quality of new services will be monitored through service level agreements for the new arrangements. Ideally, quality of the new systems should be formally compared to the systems in place before switching.

**Data assurance**

- The most significant outcome statistics are derived from existing hospital and Trust reporting systems. These are managed through Hospital Episode Statistics, a data warehouse which has published data collection and validation processes.
  - The Annual Efficiency Statements were designed to avoid overburdening local authorities with unnecessary bureaucracy. As a consequence, their summary nature makes the level of external review particularly important. Although the Statements have been subject to some external review, for example by the Office of the Deputy Prime Minister and the Department of Health, the primary assurance comes from sources internal to the local authorities. The Audit Commission will review how the Statements are prepared as part of each authority's Comprehensive Performance Assessment although this will not be fully undertaken until 2005-06. As the process of external review becomes more formal, it is possible the risk of inaccurately measuring efficiency gains will reduce. See Figure 26 for further information on the Annual Efficiency Statement process.
  - The Department currently uses an executive agency, the Purchasing & Supply Agency, to check data for any unexpected variances and follow up queries with suppliers.
  - Financial penalties for poor performance as part of service level agreements should incentivise close scrutiny of performance and costs.
- 
- Within our sample, the methodology is unique in measuring cashable and non-cashable gains. It will require further refinements to ensure the weightings of quality indicators accurately reflect the services provided.
  - Including and excluding certain quality indicators could result in large variations in efficiency gains. The Department has established processes to explain the effects of any changes to the indicators, but risk of manipulation remains.

## NOTE

<sup>1</sup> In December 2005, the Government announced that £4.7 billion of efficiency gains had already been achieved. The figures in brackets are the reported efficiency gains attributable to each project in our sample.

## 24 The robustness of efficiency gains is likely to vary across the Programme *(continued)*

Department	Project (Reported efficiency gains September 2005)	Objective	Baselines
Department for Transport (continued)	Local Authority Roads (£27m)	Road procurement efficiencies through improved and collaborative methods of procurement e.g. sharing knowledge and joint contracts.	● While the cashable nature of the majority of local authority gains means baselines should be easily derived from budgetary systems, the Annual Efficiency Statements provide limited information on how authorities ensure costs have been accurately allocated against the particular activity being improved.
	Vehicle Excise Duty (£77m)	Introduction of continuous vehicle registration aimed at reducing tax evasion by ensuring that all vehicles on Driver and Vehicle Licensing Agency's database are taxed.	● Baselines derived from credible roadside surveys of tax evasion levels.
Department for Work and Pensions	Resource Management (£0m)	DWP are implementing new IT systems to integrate back office functions and develop improved procurement, financial management and HR services, delivering headcount reductions and efficiency gains.	● Baselines agreed with each business unit for comparing the unit costs of new operations.
	Human Resource Transformation (£36m)	DWP are rationalising and IT-enabling the HR function to create a new HR Group that will provide a better service to its customers while delivering headcount reductions and efficiency gains.	● Savings are calculated against baseline headcount and training days from 2002-03.
	Estates management (£0m)	Aims to deliver efficiencies through improved space utilisation in the Department's offices.	● Baselines for the size and cost of the estate are in place.
	Payments Modernisation Programme (£58m)	The Programme is reducing costs and headcount by making payments directly to bank accounts.	● There are no baseline actual numbers. Savings are based on reduced costs associated with the introduction of the programme which are then removed from the budget.

### Calculation methodology

- Local authorities can opt to use a single quality indicator to provide assurance on service quality, from a selection recommended by the Local Government Measurement Taskforce. If the selected indicator does not assess the broad range of services being provided, councils are required to provide further information. There remains a risk that using single indicators may not accurately monitor all the aspects of quality for a service. A more comprehensive quality measurement framework is due to begin in 2006-07. Results from this process will be considered by the Measurement Taskforce.
- The roadside survey uses a statistically significant sample size, makes comprehensive use of sample weightings and demonstrates the minimal nature of possible sampling errors. Although not a requirement of the Gershan targets, the efficiency gains reported would be more accurate if additional costs were netted off.

### Data assurance

- The Annual Efficiency Statements were designed to avoid overburdening local authorities with unnecessary bureaucracy. As a consequence, their summary nature makes the level of external review particularly important. Although the Statements have been subject to some external review, for example by the Office of the Deputy Prime Minister and the Department for Transport, the primary assurance comes from sources internal to the local authorities. The Audit Commission will review how the Statements are prepared as part of each authority's Comprehensive Performance Assessment although this will not be fully undertaken until 2005-06. As the process of external review becomes more formal, it is possible the risk of inaccurately measuring efficiency gains will reduce. See Figure 26 for further information on the Annual Efficiency Statement process.
- The report produced follows the National Statistics Code of Practice, and the internal audit processes themselves are scrutinised by the Department's own Audit and Risk Management Committee.

- The quality of new services will be monitored through service level agreements for the new arrangements. Ideally, quality of the new systems should be formally compared to the systems in place before switching.

- Controls for auditing and adjusting allocations according to benefit realisation plans are in the Department's central finance function.

- Whilst quality indicators show that a certain level of quality is being maintained, as they are only available from April 2005 they are unable to verify that service levels have not been affected by the initiative.

- Given the nature of the gains, the Department's internal audit function should offer sufficient assurance.

- The Department will quantify efficiency gains on the basis of payments to its private sector partner, reducing as the size of the estate falls. Quality of accommodation is monitored through surveys of customers.

- Arrangements between the Department's estates team, its audit function and the private supplier are in place to provide data assurance.

- Whilst cost reductions have been adequately calculated and removed from the budget, no quality indicators are available to verify that service level has not been compromised.

- Good controls are demonstrated by Group Finance Directors reducing budgets once business units have presented 'benefit sign-up certificates' to ensure efficiencies are permanent.

#### KEY

- Low risk of any gains reported not reflecting real efficiencies
- Medium risk of any gains reported not reflecting real efficiencies
- High risk of any gains reported not reflecting real efficiencies
- Approach to measurement still being developed

## 24 The robustness of efficiency gains is likely to vary across the Programme *(continued)*

Department	Project (Reported efficiency gains September 2005)	Objective	Baselines
Home Office	Force level initiatives (£316m)	Forces deliver gains through locally identified efficiency improvements.	<ul style="list-style-type: none"> <li>● HM Inspectorate of Constabulary checks and agrees baselines with each police force.</li> </ul>
	Front line policing (£0m)	Aims to increase the percentage of police time on front line duties e.g. through the better use of technology.	<ul style="list-style-type: none"> <li>● Forces are asked to use activity sampling where their own management information systems cannot supply activity data. A survey is conducted by each force, following detailed central guidance on how to select periods which are not likely to be atypical. The survey uses an activity analysis based on a two-week sample period. There are potential problems if the period chosen is not representative of the average level of activities undertaken throughout the year, resulting in an artificially inflated or deflated baseline. Forces are advised, where they use activity sampling, to use the same period/s in each year – so year-on-year comparisons should not be affected.</li> </ul>
	Prison Shared Services (£0m)	The prison service is centralising the human resource and finance functions currently separated across the prison network. This rationalisation will result in reduced costs and headcount.	<ul style="list-style-type: none"> <li>○ Under development.</li> </ul> <p>The difficulty is in setting a baseline which captures all existing service centre activity, including the quality of outputs. In setting the baseline for this work, HMPS surveyed 5,500 administrative staff over 150 sites. Questions covered the hours of work and what functional activity they performed.</p>
Department for Education and Skills	Transforming Schools Workforce (£0.5m)	Initiatives include increasing teachers' time spent on core activities, reducing that spent on administrative tasks, e.g. through better use of support staff.	<ul style="list-style-type: none"> <li>● The "Teachers' Workloads Diary Survey" conducted by the Office of Manpower Economics (OME) in March 2004 established the baseline for reducing the amount of time teachers spend on administrative tasks. Since it is based on a one week sample period there is a risk the baselines will not be representative. OME manage this risk through follow-up questionnaires of teachers to ensure the data are as representative as possible and ensure the annual survey is run in a comparable week to support year-on-year consistency.</li> </ul>

### Calculation methodology

- Limited detail is available on individual police forces' claims and there are risks of double counting. Efficiencies relating to IT initiatives, for example, may contribute to individual forces' efficiencies and efficiencies from increasing the proportion of time spent by police officers performing front line activities. For 2005-06 onwards, the Home Office will require forces to supply greater detail on the composition of their efficiency gains.
- Limited detail is available to be assured double counting is not occurring. Efficiencies relating to civilianisation, for example, may contribute to the front-line policing efficiencies by freeing up police officers' time as well as the efficiencies derived from forces' other efficiency initiatives. For 2005-06 onwards, the Home Office will require forces to supply greater detail on the composition of their efficiency gains.

Under development.

Although the project has outlined how it will measure input reductions, it is still developing how it will ensure quality is maintained.

### Data assurance

- HMIC routinely monitors service quality and reviews whether poor performance is as a result of efficiency measures. Cashable efficiencies must be signed-off by the Police Authority Treasurer in the form of a certificate, and this value removed from the following year's base budget. It is possible that additions to the budget could be used to substitute such reductions. For most of the front line delivery organisations, expenditure is going to grow year-on-year so this is a common risk.
- Data on the proportion of time spent by police officers on core activities is collected by the forces themselves. Either a lack of knowledge, or the conflict of interest to demonstrate efficiencies, may result in inaccurate recording. The Home Office checks the figures for consistency and will raise queries if some forces are out of line with others.

Under development.

The programme is currently undergoing a value for money audit by HM Prison Services. Obtaining assurance on quality data will be difficult given the number of existing service centres.

- Rather than directly quantifying the improvements in teaching, the value of increased teacher productive time is assumed to equal the cost difference of administrative duties being performed by support staff instead of teachers. The Department is monitoring quality of output by a range of methods including forthcoming research on the impact of support staff on teachers and pupils.

- Diary surveys have the inherent risk arising from reliance on accurate self-reporting. To manage this risk, OME employs extensive data processing and quality checking procedures, including follow-up interviews with respondents. OME consider the quality of data provided by teachers to be good.

#### KEY

- Low risk of any gains reported not reflecting real efficiencies
- High risk of any gains reported not reflecting real efficiencies

- Medium risk of any gains reported not reflecting real efficiencies
- Approach to measurement still being developed

## 24 The robustness of efficiency gains is likely to vary across the Programme *(continued)*

Department	Project (Reported efficiency gains September 2005)	Objective	Baselines
Department for Education and Skills <i>(continued)</i>	Building Schools for the Future (£0m)	Large scale building programme aiming to replace or refurbish every secondary school in England over the next 15 years.	<ul style="list-style-type: none"> <li>○ Under development. The challenge in setting a counterfactual baseline, which hypothesises about the level of costs that would have been incurred under different circumstances, is that it can never be tested, and therefore needs to be carefully constructed. This issue is currently being addressed with a view to finalisation in February.</li> </ul>
	Schools Procurement (£36.6m)	Reduction of the cost of general procurement by schools, through support from regional centres of excellence.	<ul style="list-style-type: none"> <li>○ Under development. A fully comprehensive baseline is not available due to the relative lack of suitable data within the education system. Savings will be based on a baseline benchmark price of specific items where contracts have been negotiated.</li> </ul>
Department for International Development	International Development Agency (IDA) Funding (£0m)	Reallocation of aid budget towards the World Bank's IDA funding programme, considered by the Department to be 25 per cent more effective than bilateral projects.	<ul style="list-style-type: none"> <li>● Inputs have been baselined in the form of funds allocated through the World Bank. Although World Bank performance data is available on the ongoing quality of IDA aid, the approach does not include baselines for the quality of aid the additional funds would otherwise have delivered.</li> </ul>
	Diverting Project Assistance funds into Programme Support (£29.5m)	More UK aid to be given directly to governments to support their own programmes, considered to be 20 per cent more effective than bilateral projects.	<ul style="list-style-type: none"> <li>● Like the IDA project above, inputs have been baselined in the form of funds allocated through this funding stream. Ongoing quality measures, such as indicators on the robustness of countries' financial management systems, are likely to provide assurance on the quality of aid once funds have been switched. However, the quality of outputs cannot easily be baselined to enable a full comparison before and after the funding switch.</li> </ul>
	Bilateral projects (£24.9m)	Improvement in the performance and management of the Department's bilateral portfolio of projects.	<ul style="list-style-type: none"> <li>● The baseline of the proportion of projects achieving the highest performance ratings is clear.</li> </ul>

Source: National Audit Office review of measurement methodologies adopted by sample projects



### Calculation methodology

- Under development.

As part of the Asset Optimisation initiative there is a stated intention to report as efficiency a reduction in the number of premises needed (inputs), regardless of any change in the output as defined in the number of pupils educated. This may result in an efficiency being reported despite one definition of an output falling faster than the input – a situation which is currently predicted, with the number of pupils expected to fall by 10 per cent with only a 3 per cent reduction in the amount of capital, and yet a 3 per cent efficiency saving will be reported.

- Under development.

The reduction in input costs will be based on the take-up rates of negotiated contracts. Changes in quality will be based on feedback from stakeholders on the quality of provision, which specifications will make clear must not be below current standards. These deals will be cross checked by a representative sample of 30 schools which will be used throughout the Gershon period.

### Data assurance

- Under development.

Because savings are to be achieved from so many different effects of the programme, the process of data assurance becomes considerably more complex and therefore riskier. External validation of the measurement models are scheduled for February and April 2006.

- Under development.

Although some of the processes are auditable, the key risk to data quality here is that the Department is relying on the systems of third parties which are not directly under its control.

- The efficiency gains are based on funds being reallocated to what research collated by the World Bank shows are more productive aid channels. While there are firm grounds for believing that this initiative will improve value for money, the 25 per cent figure on the increased effectiveness of IDA is based on a judgement by the Department to quantify the degree of increased effectiveness.

- As with the IDA initiative above, the efficiency gains are based on inputs being reallocated to what research shows are more productive aid channels. While there are firm grounds for believing that this initiative will improve value for money, the 20 per cent factor selected is based on a judgement by the Department to quantify the degree of increased effectiveness.

- The calculation estimates the financial impact of a higher percentage of projects achieving the top performance ratings. Due to the varying nature and context of projects, it is difficult to produce a quality measure to mitigate the risk that projects could receive more funding than is necessary to meet their objectives.

- Although external to the Department, much of the data supporting the Department's rationale comes from the World Bank itself.

- Although based on external research, assurance on the 20 per cent efficiency factor remains internal to the Department.

- There is a high reliance on internal assessment of project performance. While a higher proportion of larger projects involve review by third parties there is no formal mechanism to record this. Overall data assurance would be enhanced if external review was used more extensively.

#### KEY

- Low risk of any gains reported not reflecting real efficiencies
- High risk of any gains reported not reflecting real efficiencies
- Medium risk of any gains reported not reflecting real efficiencies
- Approach to measurement still being developed

## 25 Key findings from the NAO review of revised Efficiency Technical Notes

In the 2004 Spending Review, HM Treasury set out how departments should explain their approach to measuring efficiency gains:

“Each department will be required to set out transparently in Efficiency Technical Notes (ETNs) the precise measures and methodologies that they are using to assess efficiency gains.”

In Appendix 4 of this report we set out the results from our review of the latest ETNs as published on HM Treasury’s website. Our key findings are:

- **all departments have improved their ETNs**, specifying more clearly how and where targeted gains will be realised. To a large extent, this reflects the greater certainty within departments about the content of their efficiency programmes;
- **departments have set out more clearly their measurement arrangements but gaps and inconsistencies remain**. Only a few departments recognise the potential risks from double-counting, cost-shifting, and additional operating costs;
- **most progress still needs to be made in measuring the quality of services provided by departments**. Many ETNs do not clearly elaborate the risks to the quality of services arising from efficiency savings, or the measures established to monitor quality levels. Where service quality measures are identified, the interpretation of the information is also generally unclear; and
- **weaknesses indicate wider limitations in departmental management information systems and measures**. Most measurement arrangements are *ad hoc*, project-based and make little use of unit cost measures. They are unlikely to provide a basis for measuring the ongoing organisational efficiency of departments beyond the lifetime of the individual projects.

### There is not always a justification for the baselines selected by projects

**2.12** The early agreement of robust baselines is a key element in measuring progress towards efficiency targets. A baseline must be representative of the situation before an efficiency project is initiated. For example, it should take account of any seasonality issues which may undermine the appropriateness of a “snapshot” approach. Across the Programme there have been difficulties in establishing baselines. In returns provided by departments to the Efficiency Team in June 2005, 180 projects (representing 58 per cent of the overall target for efficiency gains) did not include information on the baselines against which changes in inputs and outputs would be measured. By December 2005 the number of projects for which

the Efficiency Team had not been informed of proposed baselines had fallen to 108. Of these, almost 40 refer to initiatives being delivered by the wider public sector where each delivery body will have its own baseline. Others relate to new initiatives whose measurement methodologies are under development.

**2.13** Within our sample, we found that some projects were proposing to use baselines that did not reflect good practice. While there may have been no practical alternative given data availability, using a budget as a baseline makes reported efficiencies more open to manipulation than those measured against auditable actual figures. If budgets have to be used as baselines, then additional controls are needed to ensure that they are realistic. A good example of this is where the Department for Transport’s Strategic Roads Procurement project compares actual spend against the 2004-05 maintenance budgets, with additional checks against 2003-04 actual spends to demonstrate that they are realistic.

**2.14** The Department for Education and Skills is constructing a counterfactual baseline for its Building Schools for the Future programme. The programme aims to refurbish or rebuild every secondary school in England over the next 15 years. Unlike previously where a local authority might use different arrangements for each school-building project, building projects will be delivered through a new model of public-private-partnerships involving local authorities, central government and private contractors. Potential efficiency gains include savings through aggregating demand and standardising of design and construction processes across the country. For these gains to be valid, the Department will need to demonstrate how the selected baselines fairly reflect previous practice and improvements that would have been achieved anyway without the Building Schools for the Future initiative.

### There are inconsistencies in how effectively projects are measuring quality of output

**2.15** Quality of output measures are required across the Programme for two purposes:

- Projects need to develop measures of output quality to show that reforms are not at the expense of public service delivery. Such measures are required, for example, when efficiencies arise from reducing input costs. If no quality measures are in place, the reported efficiency might otherwise be simply a cut to services.

- If projects are reporting efficiencies from improving the quality of services without a proportional rise in inputs, they need to measure quality of output before and after any reforms to quantify the efficiency gain.

**2.16** Early agreement of baselines for the quality and quantity of outputs will facilitate the measurement of any changes to outputs as an efficiency project is implemented. Some projects are still in the process of developing adequate measures of output quality. The shared services initiative in HM Prison Service, which is consolidating support functions for individual prisons, should have addressed earlier how it will show that the quality of services available will not be adversely affected. A performance measurement expert has recently been appointed by the project team to develop indicators capable of demonstrating how well the system supports internal customers in the Prison Service.

**2.17** Of those projects with methodologies in place to measure quality of output there is variation in the relevance of selected measures. The Department of Health has made significant progress in determining how it will measure the quality of outputs for its projects within the NHS. The Department has a number of projects aimed at increasing the level of outputs using existing resources, for instance by updating IT systems and through workforce management reforms. Although the Department was able to demonstrate on what basis it will claim increases in activity volume, for the efficiency gains to be credible it also has to show that the extra volume does not put at risk the effectiveness of overall activity. Any gains reported, for example, following an increase in the number of operations performed will only be valid if the Department shows the quality of the operations is at least as good as before the reforms.

**2.18** To do this, the Department is relying on a range of quality measures. Where efficiency gains result from patients spending less time in hospital, the Department will show quality has been maintained by monitoring the number of patient readmissions. This represents a straightforward and relevant check which addresses a key risk involved with the reforms. More widely, the Department will use Public Service Agreement measures relating to waiting times, health outcomes and patient satisfaction to show quality of overall output has at least

been maintained. While the Public Service Agreement measures offer comfort that an efficiency initiative has not caused deterioration in overall service, they give less assurance on the direct consequences of a specific efficiency initiative. Any negative impacts of an efficiency project may become obscured in higher level measures that also include unrelated improvements elsewhere in the system.

**2.19** There are also differences in the level of completeness of quality measures. The Department of Health's Adult Social Care project follows guidance from the Office of the Deputy Prime Minister which aims to avoid overburdening local authorities with unnecessary reporting burdens. A local authority chooses a quality indicator to demonstrate the quality of a service is at least being maintained, e.g. percentage of older people helped to live at home. It can choose the indicator from a range recommended by the Local Government Measurement Taskforce<sup>8</sup> or, providing it explains why the recommended indicators are inadequate, develop its own.

**2.20** Councils are encouraged by the Office of the Deputy Prime Minister to provide additional information on service quality if indicators appear to only partially cover services affected by efficiency reforms. However, there remains a risk that using single indicators may not accurately monitor all the aspects of quality for a service and may even distort behaviour. The Department recognises this risk and is developing, in conjunction with the University of Kent, a measure of quality covering the full weighted range of adult social care services. The Local Government Measurement Taskforce is to consider this measure in its recommendations for the 2005-06 Annual Efficiency Statement.

**2.21** On the other hand, the Department for Transport's Strategic Roads Project uses a basket of 16 quality indicators. These indicators were originally developed as a management tool to promote continuous improvement within road maintenance contracts and were already in use before the Efficiency Programme began. Although it is likely to be more balanced than using a single indicator, there are also risks in combining such a large number of indicators. If the indicators are not given the right weightings, poor performance in critical areas may become obscured. The Department has plans to review

<sup>8</sup> The Local Government Measurement Taskforce consists of representatives from the Office of the Deputy Prime Minister, the Audit Commission, the Chartered Institute of Public Finance and Accountancy, Department for Culture, Media and Sport, Department for Education and Skills, Department for Environment, Food and Rural Affairs, Department of Health, Department for Transport, DWP, the Highways Agency, HM Treasury, the Local Government Association, the Office of Government Commerce, the Society of County Treasurers, the Society of District Treasurers, the Society of London Treasurers and the Society of Metropolitan Treasurers. Its recommendations feed into the Office of the Deputy Prime Minister's guidance for completing Annual Efficiency Statements.

the spread and weightings of the indicators to ensure that they accurately reflect the overall objectives of the services they provide.

**2.22** There is also a risk that methodologies adopted by some projects will underestimate the true efficiencies generated by reforms. The Payment Modernisation Programme in the Department for Work and Pensions is reporting 'cashable' gains arising from paying benefits directly into recipients' bank accounts rather than through the previous paper-based system administered by the Post Office. Ideally, the Department would also be able to report gains in respect of the anticipated improvements in service quality. Among other benefits, the Department considers the new service to be safer since benefit recipients, often the most vulnerable to street theft, no longer have to carry significant levels of cash after claiming their benefits. Indeed, within our sample, the Department for Transport's Strategic Roads Procurement initiative is the only project claiming 'cashable' and 'non-cashable' gains. Using existing quality indicators designed to encourage continuous improvement, the Department will quantify the value of service improvement as well as input reductions.

### The selection of adequate performance indicators has proved difficult for many projects

**2.23** Departments have made progress in developing appropriate performance indicators. However, there remain a significant number of projects for which the selected indicators are unlikely to be capable of demonstrating genuine efficiency gains.

**2.24** The Department for International Development, for example, intends to report efficiency gains through increasing the size of its donations to the World Bank's aid programmes. On the basis of a number of research studies conducted by independent experts, there are good grounds for concluding that aid programmes administered by the World Bank are more efficient and effective than alternative channels. However quantification of the scale of efficiency gains is more difficult; the efficiencies to be reported by the Department, at 25 per cent of the additional donations to the World Bank, represent its own best assessment of the average level of efficiency delivered. The indicator is defined in terms of inputs and is not able, on current evidence, to reflect the actual effects of switching funding. It is accepted that there is considerable difficulty in measuring relative cost effectiveness of aid, and that the Department is making genuine progress in ensuring its funding is being allocated more efficiently. However, the application of

a proxy efficiency factor of 25 per cent would be more robust if the Department's ongoing evaluation of World Bank practices was accompanied by independent research verifying this factor.

**2.25** The Transforming the School Workforce project in the Department for Education and Skills also risks not capturing its efficiency gains accurately. The project intends to realise for the school workforce the benefits of the National Agreement which aims to raise the quality of teaching by increasing administrative support to teachers. It is intended that teaching standards will benefit from teachers having a better 'work-life balance' and more time to spend preparing lessons. Efficiency gains from the project will lead to the employment of more teachers and more support staff, both working more productively to support standards of teaching and learning in schools. In order to avoid overburdening schools, the Department is taking a pragmatic approach to quantifying improvements in the quality of teaching. Rather than valuing improvements in quality of teaching directly by measuring the impact of additional time made available to teachers, the Department will report efficiency gains on the basis of the cost of teacher time freed up less the cost of extra support staff, supported by evidence from research studies.

### Some projects do not incorporate additional costs appropriately

**2.26** The overall target for gains was constructed without taking into account the upfront capital investment already made in individual projects or the ongoing costs, such as depreciation on new IT systems. Despite this, many projects are attempting to measure the efficiency gains net of ongoing costs to provide a better indication of the real benefits of reforms. Transparency of how this is being achieved varies significantly.

**2.27** Ideally, for instance, where IT systems are being introduced to free up labour for more productive activities, ongoing maintenance and replacement costs for the IT equipment need to be taken into account when reporting efficiency gains. Such transparency has been exemplified by the Department for Work and Pensions where each project must keep up to date an Investment Evaluation Model; a standard spreadsheet which tracks the progress and costs of key projects within the Department. On the other hand for example, in accordance with the Gershon targets, efficiency gains reported by the Department for Transport from reducing Vehicle Excise Duty evasion are gross of the additional cost of its Continuous Registration system. For further information on how the overall targets were constructed see paragraph 1.15.

## Calculation methodologies used by departments still carry some risks of double-counting gains and cost shifting

**2.28** Within the Productive Time workstream, there is a significant risk that departments are reporting multiple gains from the same improvement in efficiency. Some police forces are calculating the financial benefits derived from introducing revised operational procedures (in terms of time savings) whilst simultaneously calculating the increase in time spent performing front line activities (which will also capture the time saving benefits of these procedures). The measurement systems currently in place are not sufficiently detailed to guarantee that the risk of double counting is being mitigated. Unless departments employ fully transparent measurement models, the risk of double counting will remain. For police forces, the Home Office has asked the police service to provide more detailed reporting of the composition of efficiency gains from 2005-06 onwards.

**2.29** To reduce the risk of double counting, the Department of Health has recently moved away from measuring efficiencies from the individual projects within the NHS to focusing on overall outcomes. For example, the Department has multiple projects contributing to the reduction in the length of patient stay in hospitals. Originally, efficiency calculations used an assumed reduction in the length of stay attributable to each individual initiative. Now, to prevent the double counting which may have otherwise occurred, they will measure the actual average decrease in the length of overall stay. Besides improving the accuracy of the reported gains, the new methodology should encourage projects to work together to maximise improvements.

**2.30** Efficiency gains and headcount reductions arising from an initiative should only be reported if it can be demonstrated costs have not simply been transferred from one activity to another. For example, in the relationship between the programme of High Impact Changes in the NHS and the Adult Social Care project, there is a risk that early discharge from hospital may place additional burdens on after care services provided by local authorities if patients require follow-up care. The Department of Health acknowledges this risk in its Efficiency Technical Note and is currently establishing a practical approach to capturing possible cost shifting between these different activities.

## Reported gains are increasingly being supported by audit trails

**2.31** During the course of our fieldwork, departments made significant progress in providing audit trails for their reported gains. The most sophisticated audit trail we reviewed was that for the Department for Transport's Vehicle Excise Duty evasion project. The audit trail demonstrated how the project's efficiency gains are calculated all the way from the raw data collection process and underlying assumptions made, through to the processing, analysis and reporting phases.

**2.32** However, based on our sample of projects, we conclude that most of the efficiency gains announced in March 2005 were not based on clear audit trails and, from our understanding of the process through which the gains were collated, were not subject to adequate challenge by the Office of Government Commerce. Since March 2005 the Efficiency Team has become more effective in ensuring greater clarity for the basis of departments' reported gains.

## Departments need to improve the robustness of data quality assurance

**2.33** In the returns submitted to the Efficiency Team in December 2005, 134 projects (accounting for 40 per cent of the overall efficiency gains target) did not provide details of the data sources to be used. Within our sample, whereas most projects have identified the sources of data to be used, some projects have inadequate systems of assurance. While the Efficiency Team is now providing a thorough challenge to how departments are calculating their gains, the level of data assurance remains a challenge across the Programme.

**2.34** Our sample includes central initiatives aiming to persuade local authorities to take up ideas of good practice. The projects use local authority Annual Efficiency Statements to gather information on gains. The Statements provide summary information on the composition of reported gains and where future gains will come from. For example, the Department of Health is targeting £684 million of efficiencies through the promotion of good practice in the provision of adult social services in local authorities. According to the Backward Look Annual Efficiency Statements for the year ending March 2005, local authorities had achieved £112 million of efficiencies across adult social care.



**2.35** The Statements were designed to avoid local authorities diverting significant resources from providing services to meeting additional reporting burdens. As a consequence, their summary nature makes the level of external review particularly important. As **Figure 26** explains, assurance on the validity of the gains, while including elements of external review, is mainly derived from sources internal to a local authority. The primary

source of assurance comes from the Office of the Deputy Prime Minister's requirement for Statements to be seen and approved by an authority's senior management and political leadership. External assurance includes work performed by the Audit Commission. The Commission will review how the Statements are prepared as part of each authority's Comprehensive Performance Assessment although this will not be fully undertaken until 2005-06.

## 26 Local authority Annual Efficiency Statements

Local government is responsible for achieving £6.45 billion of efficiency gains by 2007-08. This total consists of four elements:

- Schools
- Police
- Fire and Rescue service
- Efficiency gains worth 2.5 per cent of a local authority's annual budget (excluding expenditure on schools, police and fire services).

The schools, police and fire services elements are reported directly through the relevant central government department, e.g. in respect of schools the efficiencies contribute towards the Department for Education and Skills' target of £4.35 billion.

The remaining efficiency gains are reported by each local authority to the Office of the Deputy Prime Minister in Annual Efficiency Statements. The Office of the Deputy Prime Minister publishes the Statements on its website and informs central government departments of any gains relating to their initiatives within the Statements, e.g. local transport gains reported in the Statements are forwarded to the Department for Transport.

The Statements consist of two parts:

**Backward looking** – setting out the amount of efficiency gains already achieved.

**Forward looking** – setting out the estimated efficiency gains to be achieved in the next financial year and the strategy for doing so.

Authorities have full flexibility as to how they secure their gains. In reporting progress, they are required to allocate their efficiency gains either across the different sectors of the Programme (e.g. housing, transport and environmental services) or to cross-cutting areas (e.g. corporate services, procurement, productive time and transactions).

For each category in which efficiency gains are reported, local authorities must select at least one 'quality cross-check' indicator. It is recommended that this quality cross-check be chosen from a list developed by the Local Government Measurement Taskforce.

The use of these indicators is not compulsory but if an unapproved indicator is used an explanation must be provided. Where the indicator only covers a part of the areas affected by the projects that have been undertaken, councils are requested to provide further information on service quality.

### Sources of assurance for efficiency gains

Assurance on the contents of the Statements is derived from three sources:

**Within local authorities** – The Office of the Deputy Prime Minister requires the contents of the Statement to 'have been seen and approved by the Leader of the Council, the Chief Executive and the Chief Financial Officer<sup>9</sup>.' Since a high proportion of local authority efficiency gains are 'cashable', visibility of efficiency gains in authorities' budgets also offers assurance on the gains.

**The Office of the Deputy Prime Minister** – The Office, in conjunction with relevant departments, provides feedback to local authorities where it feels greater clarification is required on how efficiency gains are being secured. The Office reserves the right to review the validity of an authority's declared gains and is commissioning a study on the data used to complete the Backward Look 2004-05 Statements which will feed into guidance for the 2005-06 Statements.

**Audit Commission** – The process of preparing the Annual Efficiency Statements will be reviewed by the Audit Commission as part of each local authority's Comprehensive Performance Assessment. The efficiency gains reported will be a source of evidence to inform a broader judgement on value for money within each local authority. The Audit Commission will not be formally validating the efficiency gains. Instead, the basis for the gains will be evaluated in light of accumulated knowledge of an authority's operations. For the 2004-05 Statements, the Audit Commission requested local authorities to send their Backward Look Statements to appointed local auditors. This process will be mandatory for the 2005-06 Statements.

9 Source: Office of the Deputy Prime Minister's template Annual Efficiency Statement.

**2.36** There are similar concerns over the efficiency gains being targeted within individual police forces. Police forces are only reporting efficiencies if they can demonstrate to Her Majesty's Inspectorate of Constabulary that quality of service is being maintained. Currently, however, the quantity of efficiency gains reported is only subject to a limited review by the central police efficiency team in the Home Office. For cashable efficiencies, a police authority's treasurer confirms savings have been removed from the core budget of the force they oversee.

**2.37** The reliance on self-assessment is also evident in projects involving only central government functions. The Department for International Development's Bilateral Portfolio initiative bases its efficiency gains on a primarily self-assessed rating of the likely success of each project. Data quality assurance comes from internal reviews, such as sample project inspections by the Department's Evaluation Team and controls on the accuracy of performance data carried out by the Department's most senior officer in each country. Although in larger projects performance evaluations are made after consulting other donors and stakeholders, for the efficiencies to be fully defensible we would expect to see a more independent review process.

## Management of the overall Programme by the Office of Government Commerce

**This section of the report examines the role played by the Office of Government Commerce Efficiency Team in overseeing the Efficiency Programme across government**

**2.38** In line with the Gershon recommendations, the Efficiency Team was given responsibility to "drive and co-ordinate implementation" of the Programme. While departments are responsible for delivering their targeted efficiency gains, the Efficiency Team manages the overall Programme. Its role is to challenge departments on their progress and to provide relevant and timely support where needed.

**2.39** In accordance with good practice, the Office of Government Commerce has now put the Efficiency Programme through two Gateway Reviews.<sup>10</sup> In both cases the reviews indicated that immediate actions were required in a number of areas. The most recent review, in July 2005, concluded that there had been an encouraging start but that there was no hard evidence yet of the likelihood of a successful conclusion.

### There was a difficult transition from the Gershon Review to the Efficiency Programme

**2.40** After being assembled in August 2003, the Gershon Review team worked with departments to establish realistic plans for making the public sector more efficient. The team's report was published in July 2004 to coincide with the Government's 2004 Spending Review. In announcing the Spending Review in July 2004, the Chancellor accepted the recommendations of the Gershon Review and formally launched the Government's Efficiency Programme, to be driven by an Efficiency Team within the OGC. By the time the report had been published, most of the Review team had left the project. Today, only one member of the Review team works full time on the Efficiency Team.

**2.41** While different skills are required during implementation from those which were needed during the Gershon Review, the Efficiency Team's task was complicated by a loss of knowledge during the transition from the Review and the need to rely heavily on temporary consultants in the early stages of the Programme. The difficulties encountered in equipping the Efficiency Team with adequate resources affected several core areas of the Team's activities in the early stages of the Programme, in particular measurement and relationships with departments.

10 These are reviews carried out at key decision points by a team of experienced people, independent of the programme or project team.



## 27 The transition from the Gershon Review to the Efficiency Programme

Aug 2003	Gershon Review begins
Mar 2004	Budget announces appointment of John Oughton as CEO of OGC and OGC's role as coordinating the Efficiency Programme
May 2004	Director of Efficiency Team appointed
Jun 2004	First relationship managers appointed
Jul 2004	Appointment of lead on corporate services, appointment of OGC as change agent for procurement and relocation workstreams
Jul 2004	Gershon Report published, Efficiency Programme launched in Spending Review 2004
Sep 2004	Deputy Director of Efficiency Team appointed
Oct 2004	Departments publish Efficiency Technical Notes
Nov 2004	Supporting Director from Prime Minister's Delivery Unit appointed
Jan 2005	Head of Metrics appointed
Feb 2005	Programme Support Director appointed
Mar 2005	£2 billion efficiency gains announced
Aug 2005	Appointment of productive time change agent
Oct 2005	Director of productive time workstream appointed
Dec 2005	£4.7 billion of efficiency gains announced and revised Efficiency Technical Notes published

Source: OGC Efficiency Team

### Support for departments is needed if the challenge of measuring efficiency gains is to be met

**2.42** As departments had not been required in the past to calculate efficiency gains associated with individual reforms, they have needed guidance and challenge. Although good progress has been made since resources became available, a permanent head of metrics was only appointed to the Efficiency Team in January 2005. The post was advertised within the Civil Service in August 2004 but, since no suitable candidate was available, it was necessary to run an external recruitment process. A full team of measurement specialists was not established until June 2005.

**2.43** As the approach taken by the metrics team has become more rigorous, its requirements for information from departments have increased significantly. This build up of information requested has put strains on the working relationships between the Efficiency Team and departments.

### Good working relationships between departments and the Efficiency Team are still developing

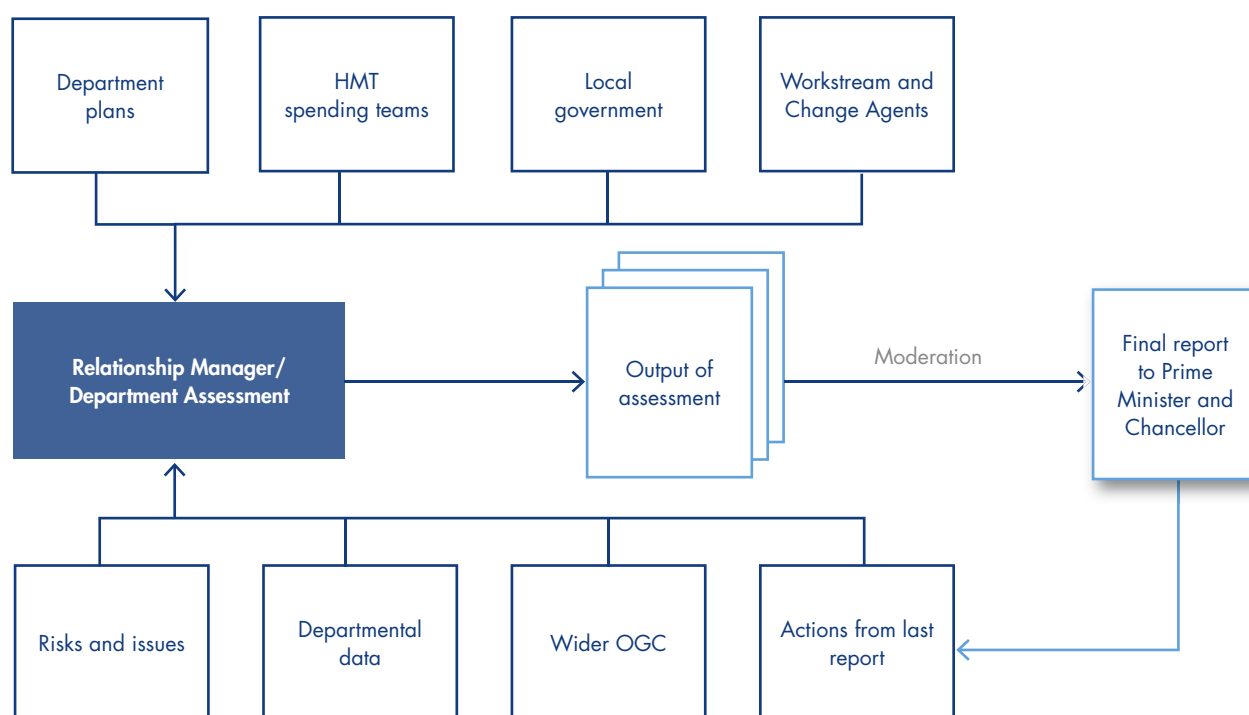
**2.44** 'Relationship managers' act as links between the Efficiency Team and the major spending departments. They are responsible for challenging departments' plans, communicating changes to the reporting system and facilitating the deployment of centrally-based expertise, e.g. from the eGovernment Unit. If the Efficiency Team is to succeed in driving the Programme effectively, it is essential relationship managers develop strong ties between the Team and departments.

**2.45** In the early stages of the Programme, this was impeded by the high turnover of relationship managers. Each time a new relationship manager was appointed, a department had to invest significant time bringing them up to date. One department's efficiency co-ordinator expressed the general feeling amongst departments when she observed, "At the beginning it seemed they were coming and going every month... It might just be a factor of the way they work, but it would be really helpful to have somebody with a consistent view of the old stories." During 2005, as relationship managers have tended to stay in their positions longer, the management of relationships with departments has become more stable.

### The Efficiency Team is now monitoring and challenging departments' progress against the efficiency targets

**2.46** Every six months the Chief Executive of the OGC reports to the Prime Minister and the Chancellor of the Exchequer. The report draws together the progress departments are making towards their targeted efficiency gains and headcount reductions. The departmental assessments aim to identify key actions required to reduce risk to delivery and provide a checkpoint to assess the need for any high-level or central support. As the diagram below shows, the assessments draw on a number of sources for information, including departments, Treasury spending teams and relationship managers. The proposed assessments are moderated by a central panel which, for the major spending departments, is chaired by John Oughton.

## 28 The six-monthly process of reporting to the Prime Minister and Chancellor



Source: OGC Efficiency Team

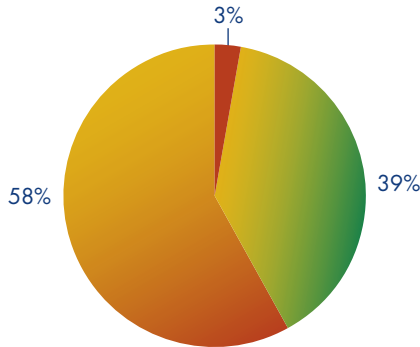
**2.47** Overall, the reporting process is having a positive effect on the Programme. The regularity of reporting to the Prime Minister and the Chancellor and attendance of departmental board members at moderation meetings is ensuring the Programme sustains its high profile. There was a general feeling among departments, however, that those sitting on the moderation panels could be better informed of the detail of their projects.

**2.48** In the moderation process, each department's efficiency programme is given a red, red-amber, amber-green or green rating according to the likelihood of delivering targeted efficiency gains. **Figure 29 overleaf** sets out how the overall likelihood of delivery across the Programme was rated during the assessments made in December 2004 and December 2005. It shows the OGC believes departments' efficiency programmes are now better placed to deliver against their efficiency gains targets than they were in December 2004.

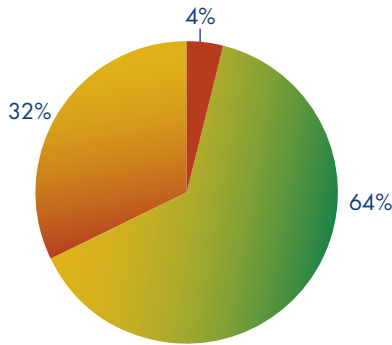
**2.49** In addition to the six-monthly reporting process, departments must now report their progress on a quarterly basis. Given the importance of the Programme and the risks involved, it is understandable why the Efficiency Team wants a clearer understanding of departments' progress. However, departments are concerned at the additional burden this involves, particularly when the process is not aligned with their internal reporting timetables. The Efficiency Team is currently reviewing departments' reporting burdens with a view to lightening demands insofar as it is possible without undermining the reliability of reporting efficiency gains. In addition, in January 2006 the Efficiency Team initiated a project to develop guidance for departments on how best to substantiate reported efficiency gains.

**29** The overall likelihood of delivery against the £21.5 billion target increased between December 2004 and December 2005<sup>11</sup>

December 2004



December 2005



- Key**
- Red ● Highly problematic – requires urgent and decisive action
  - Amber red ● Problematic – requires substantial attention, some aspects need urgent attention
  - Amber green ● Mixed – some aspects require substantial attention
  - Green ● Good – requires only refinement

Source: OGC Efficiency Team

The Efficiency Team has established a system of risk management and is continuing to build up its capacity in this area

**2.50** Supported by a Risk Steering Committee and full-time risk professionals, the Programme Board regularly examines the Efficiency Team’s awareness of risks and the actions needed to be undertaken. In April 2005, the Board dedicated a full day to formulating its strategy for handling risk within the Programme.

**2.51** The success of the Programme in mitigating risk depends heavily on the quality of information it has from departments. Only if the Efficiency Team has sight of what is happening at a project level can it be sure it is adequately prepared. Much depends on the relationship managers’ ability to build strong ties with departments. This task is made especially difficult given the need for relationship managers to challenge and support departments simultaneously. If relationship managers are perceived as only challenging departments, it is likely they will not have sufficient access to projects to be aware of all the relevant risks.

**2.52** The National Audit Office concluded in its report in October 2004 ‘Managing Risks to Improve Public Services’ significant progress has been made by departments in improving their risk management. This has meant departments have generally been able to make significant contributions to ensuring risk is being handled well across the Programme. Nevertheless, the Efficiency Team offers support where necessary to departments. For instance, the Efficiency Team’s risk manager meets with departments every two to three months to discuss their approach and to explore areas where the Team may be of more assistance.

11 The diagrams are based on the ratings of the 10 most significant central government departments and local government which account for over 90 per cent of the overall target.

## The Efficiency Team needs to ensure that timely communications with departments are developed

**2.53** Due to their number, keeping all stakeholders appropriately engaged was always going to be a difficult challenge for the Efficiency Programme. Through initiatives such as the quarterly Efficiency User Group where departments' efficiency representatives are able to question directly those at the centre of the Programme, the Efficiency Team has taken effective steps to establishing good communication across the Programme. By acting on feedback from departments the Team has demonstrated the credibility of the dialogue channels. For example, at the request of departments the moderation process has been extended to allow the departments more time to respond to the outcome of the moderation panel.

**2.54** There have been some instances where communication between the centre of the Programme and departments could have been better. In August 2005, for example, the departments attended workshops to develop their Efficiency Technical Notes. Although on the whole departments found the workshops useful, several departments felt more could have been achieved if they had been given more information on the format of the workshops beforehand through their central contacts within the Efficiency Programme. More generally, requests from the Efficiency Team have not taken account of how long departments have needed to prepare accurate information. This has put at risk the relationship between the Efficiency Team and departments. Furthermore, submissions are often rushed which impacts on the quality of information provided:

*"We get an e-mail saying 'I need it by tomorrow evening' and it's like, 'hang on, you can't tell me you've only just found out about this' and I think that, for me, is the biggest challenge".*

*(participant at NAO efficiency workshop)*

## The Efficiency Team is well-resourced

**2.55** The Efficiency Team's 2005-06 internal budget for staff and consultancy costs is £3.8 million. In addition the Efficiency Team is committed to having spent around £10 million of Efficiency Challenge Funding for the two-year period up to the end of 2005-06. The Challenge Fund money was made available for the Team's Change Agent activity to support departments deliver their efficiency gains. Funds have either been used to create central resources or have been allocated to specific projects at the Team's discretion. For more information on the Efficiency Challenge Fund, see **Figure 30**.

Support for departments and their projects has been more successful in some workstreams than others.

**2.56** Most of the efficiency gains are to be derived from two workstreams, procurement and productive time. Support for procurement initiatives has been available from the OGC since the beginning of the Programme. Most procurement project teams within our sample believed they had benefited from the resources made available to them by OGC. In particular, the major spending departments believe the appointment within OGC of a specialist procurement director for each major department has been a success.

### 30 Efficiency Challenge Fund

The Efficiency Challenge Fund consisted of £300 million made available by HM Treasury to help finance the upfront costs of the Programme. Departments were invited to apply for funding as part of the 2004 Spending Review on the basis that additional funds made available would be matched by departments. Awards by HM Treasury were in the form of extensions to Department Expenditure Limits and applied to settlements for the years 2004-05 and 2005-06.

Eleven central government departments and NDPBs received funding, including OGC. In addition, the Office for the Deputy Prime Minister received an amount to be allocated to local government. Priority for funding was given to those departments which were to derive significant proportions of their efficiencies through headcount reductions and relocations.

**2.57** Unlike guidance on procurement, which has been a key part of the OGC's remit since its creation, support for the productive time workstream has taken longer to materialise despite it being an area departments are keen to receive credible guidance on. A study by KPMG, commissioned by the Efficiency Team, highlighted the risks to delivering the gains allocated to the productive time workstream. One of its main recommendations was the creation of a small central team of senior experts to strengthen the Team's ability to monitor, report and take action towards achieving the targeted productive time efficiencies. Following the Productive Time Director taking up their position in October 2005, the central productive time unit is now in place.

**2.58** The remaining workstreams have received less attention because of their lower contributions to the overall target. However, corporate services and policy, funding and regulation, in particular, will become increasingly important as departments look beyond the projects within their programmes delivering the Spending Review 2004 gains. In the case of corporate services, the Efficiency Team has taken a lead in establishing a cross-government forum to discuss the use of shared services. As yet, such collaboration has not developed into significant shared services projects between departments. However, the e-Government Unit is now taking a lead in this area to help optimise the opportunities available across the wider public sector (see paragraph 3.19).

## Departments' management of projects contributing to the Efficiency Programme

**In this section of the report, we examine how effectively departments are managing the projects within the Efficiency Programme. We highlight areas of concern and but also good practice from aspects of projects which are being managed particularly well. We have also drawn out some key actions to ensure project success**

**2.59** The Efficiency Programme is dependent on the success of over 300 separate projects of varying complexity and scale. Despite the differences, all projects need to employ basic principles of good project management. This section looks at how the projects within the Efficiency Programme are being managed, highlighting innovative practices that will be of interest across the Programme as well as areas where project management can be improved. Through our analysis of good practice, we have identified six common characteristics of successful efficiency projects

and in the rest of this section we comment on how the projects we examined are performing against each of these. The six characteristics are:

- the active involvement of senior management;
- clear objectives with incentives to deliver;
- adequate resources;
- the ability to track and influence progress;
- sound management techniques;
- full engagement from all stakeholders.

### Senior managers are leading efficiency programmes within departments

**2.60** The Efficiency Programme has succeeded in making the delivery of the efficiency targets a priority for senior managers within departments. Each department we reviewed had established its own efficiency programme board attended by senior officials. In the Home Office, for example, the programme board is chaired by the permanent secretary, bringing together senior managers to discuss progress on individual projects, measurement issues arising and risk management.

**2.61** By raising the profile of efficiency projects, senior management involvement increases the likelihood of changes being taken seriously and thereby becoming sustainable. Furthermore, if actively part of projects, senior managers can apply their expertise to help teams overcome problems. The visibility of senior management's interest in projects has also created the feeling within departments that the Efficiency Programme is different to previous initiatives aimed at improving the efficiency of the public sector. At a project level, teams feel well supported by their senior managers. As one project manager said.

*"Actions speak louder than words... the whole management structure have not only been seen to be engaged but, more importantly, they're actually doing stuff".*

*(participant at NAO efficiency workshop)*

**2.62** Departments' programme boards have formalised the contribution of senior management to the running of projects and have looked to benefit from independent input. The Police Efficiency Group, for example, meets every two months to track progress on delivering the police contribution to the Efficiency Programme. Members include representatives from the Association of Chief Police Officers, Association of Police Authorities and the Home Office, as well as the Chief Operating Officer



of the BBC. Being subject to challenge from experienced external professionals should be common to the way in which all departments are looking to improve the efficiency of their operations.

**2.63** Active involvement by senior managers should be replicated further down delivery chains. Within police forces, for instance, a series of nationwide seminars has taken place through the Police Efficiency Group to engage local managers in efficiency work. The events encouraged those with strategic responsibilities to regard the efficiency agenda as more than a programme of savings and understand that efficiency reforms can improve service delivery. In conjunction with the Efficiency Planning Toolkit published by the Police Finance and IT Unit within the Home Office, the seminars raised the profile of innovative practices which could be employed by forces. For example, the seminars demonstrated the benefits of new rostering techniques that would enable each police force to deploy officers to activities which contribute most to the achievement of its goals.

**2.64** The Department of Health is also encouraging organisations across the NHS to build efficiency into their systems of accountability. Available on its website, the Department has published a briefing for NHS chairpersons and non-executive directors which suggests questions they could raise at board meetings to ensure their organisations are well placed to deliver services which are high quality and value for money. On productive time reforms, for example, such as the High Impact Changes initiative, the briefing suggests non-executive directors ask:

- Has the Board put in place the relevant processes to ensure that the Productive Time and broader efficiency agenda is integral to our organisation's business?
- Is the Board regularly receiving the relevant information allowing us to track continuous improvement?

If adopted across the NHS, the questions would help chairs and non-executive directors constructively challenge and contribute to the development of strategies that take account of efficiency issues.

#### Key action for project success

The efficiency agenda needs to retain the active and committed involvement of senior management. Such commitment should be regularly reinforced through questioning by the chairperson and non-executive directors of all public bodies.

Project objectives are well understood, although targets and incentives could be better aligned

**2.65** All projects are under intense pressure to succeed as a result of being part of the Efficiency Programme. We found that project teams understand their primary goals and are clear on how their initiatives fit into departments' strategies; the Department of Health has made this easy for management across the NHS through the creation of its Efficiency Map, see **Figure 31 overleaf**. However, most projects across the Efficiency Programme, as a whole, are not prioritising the monitoring of progress towards the specific efficiency gains they are expected to deliver. Indeed, in several cases, project managers have not been immediately aware of the quantity of either the targeted efficiency gains or the progress they have made towards that target.

**2.66** In part this is due to the difficulties in measuring efficiency gains and the time taken to develop reliable measurement systems. For projects already underway at the start of the Programme, significant effort was required to embed new reporting processes into existing performance management systems. In the Department for Work and Pensions, we found considerable differences between the information held at a project level on the targeted efficiency gains and information held by the Department's central efficiency team on how the £960 million overall departmental target is to be delivered.

**2.67** In some cases the goals of projects may not be fully incentivising. For instance, the Department for Transport is delivering cashable efficiencies through the introduction of continuous registration of vehicles. Following legislation, the Drivers and Vehicle Licensing Agency can now fine owners of vehicles its database indicates are untaxed rather than relying on catching owners of untaxed vehicles on the road. The new system has reduced the level of evasion and thereby increased the revenue collected for HM Treasury. However, the lower rate of evasion has also reduced the fines revenue the Agency receives from those caught not paying road tax. As the Agency does not benefit directly from the increased level of road tax revenue, it may not be fully motivated to reduce tax evasion to the lowest possible level, thereby potentially limiting the efficiencies secured.



**31** The Department of Health developed the NHS Efficiency Map to show how its efficiency projects fit together

The Department of Health is delivering efficiency gains through a large number of very diverse projects; from investment in ICT through the Connecting for Health project to the introduction of new contracts for consultants. The Department has produced an Efficiency Map to help people across the NHS understand how the different projects fit together.

For each project, the Map explains;

- its scope
- the potential benefits
- provisional indicators of performance
- how staff can access further information.

In addition, the Map sets out the context of the Department's plans against the backdrop of the Government's Efficiency Programme. It also clearly explains much of the jargon used within the Programme, such as 'productive time' and 'process change'.

The Map is targeted at management across the NHS but is publicly available on the Department's website for anyone to download.

**2.68** Departments must also do more to make staff aware of how efficiency should not conflict with other policy objectives. The National Audit Office report, 'Sustainable procurement in central government',<sup>12</sup> noted there is a common perception across central government that the efficiency agenda prioritises cost reduction over environmental sustainability. Yet, as explained in 1.14, the environmental sustainability of an organisation's purchasing policies is an aspect of quality which should be maintained if any efficiency gains are to be reported.

**Key action for project success**

Government must collectively ensure individual components of the public sector are appropriately incentivised to deliver the maximum efficiency gains possible.

Projects are well resourced within departments but this is less so further down delivery chains

**2.69** Each department has created a central efficiency team to lead the delivery of departmental efficiency gains. The teams are responsible for providing the OGC Efficiency Team with consolidated progress reports and act as a key liaison point between the OGC and individual projects. In the six departments we reviewed, the central efficiency teams are well resourced, understand the challenges their projects face and are motivated to coordinate securing the targeted efficiency gains.

**2.70** There is also considerable evidence that project teams have adequate resources to achieve targeted gains and have been able to secure external assistance where they have felt they do not have the capacity in-house. Many of the managers in our sample projects had impressive backgrounds in the private sector.

*"We have a very good programme manager from outside industry who came in and, I must admit, he is very good".*

*(participant at NAO efficiency workshop)*

**2.71** From our research of good practice in the implementation of efficiency initiatives, it is clear that change occurs sooner if those affected are helped to fund reform programmes, rather than having to use existing budgets. However, especially in those areas where there are complex delivery chains, additional funding is often not made available to deliver the reforms.

**2.72** In health, the High Impact Changes initiative encourages hospitals and primary care trusts to adopt methods that have been proven to make services more efficient. For example, the initiative highlights ways of avoiding unnecessary follow-up procedures for patients. However, as with other initiatives within the Efficiency Programme which are based on the recommendation of good practice, such reforms have to be funded locally. While relying on existing budgets makes it more likely local bodies will be truly committed to the reform projects they introduce, there is significant risk that full reliance on existing budgets to introduce initiatives may limit the resources available to implement changes. Organisations will need to have greater certainty that the proposed

12 National Audit Office report to the Environmental Audit Committee, 'Sustainable procurement in central government', September 2005.

benefits can be realised as they will need to make decisions to use money for the reforms which would otherwise have served another purpose. Circumstances may dictate that the resources required to take-up the ideas are unavailable for some time, delaying the realisation of the efficiencies.

#### Key action for project success

Additional funding, beyond existing budgets, often needs to be made available.

## Projects are employing sophisticated project management methodology

**2.73** During our fieldwork we found evidence that projects are:

- operating within clear reporting structures;
- employing effective strategies to handle risk;
- subjected to regular third-party scrutiny; and
- working to realistic timetables.

**2.74** For those projects of significant complexity within our sample, project teams demonstrated how they had established clear reporting structures through which the projects were being governed. A good example of reporting structures is the system of governance developed by the Resource Management project within the Department for Work and Pensions, see **Figure 32**.

**2.75** Projects are also employing good practice in developing risk management strategies. Poor management of risk has been responsible for many project failures within the public sector. However, the managers of the projects within our sample appeared to be taking effective steps to manage the risks associated with their initiatives. We found evidence of risk management tools, such as issue logs and risk registers, being given suitable prominence in the management of projects. In line with the recommendations in our report on Managing Risks to Improve Public Services, Project managers have had significant training in risk management, as one project manager observed:

*“It’s not just about mitigating against risks as they arise, it is actually getting yourself into the frame of mind that we have to be risk aware and not risk averse”.*

*(participant in NAO efficiency workshop)*

**2.76** Of the projects involving major procurement programmes, we found all were subject to regular review from sources external to the project team. Many of the projects had been subject to OGC Gateway Reviews; reviews of central civil government procurement carried out at critical stages in a project’s lifetime. The Department for Transport has pursued this approach with all of the major workstreams making up its programme, as well as its programme as a whole, being subject to regular Gateway Reviews.

### 32 The Resource Management project within the Department for Work and Pensions clearly defines the roles of each body within the project’s governance structure

The Resource Management project aims to improve the quality and timeliness of financial management information available across the Department. The new system will be the foundation for other initiatives in the Department aiming to embed efficiencies, ranging from procurement to human resource management. Consequently, a multitude of stakeholders need to be included in its development.

Only through effective communication of a clear governance structure to all parties, has the team successfully overcome the challenge presented by working with a wide range of stakeholders. The primary tool for this has been a document distributed to all parties called ‘Strengthening the Resource Management Project’s Governance Arrangements’. The document acts as a constitution for those working on the project. It ensures all parties, from suppliers to senior department figures, understand other parties’ responsibilities and how different issues are to be resolved.

For each body within the project, it outlines its:

- purpose – what the body’s overall objectives are;
- membership – who will attend;
- authority – what the body is responsible for and to whom it is accountable;
- frequency – how often it meets;
- members’ roles – what is expected of members; and
- communication – when and to whom minutes will be circulated.

**2.77** Some departments commission internal audit teams to carry out reviews following the principles of the OGC system of review. The Department for Work and Pensions, for example, takes advantage of the OGC Gateway Reviews but also builds on these through an internal governance system of ‘Gated Reviews’ for all projects. Feedback from project managers more widely across the Programme indicated a general enthusiasm for the OGC Gateway Process. One project manager we spoke to reflected the majority of opinion when she commented, “We’ve had four Gateway Reviews which have been immensely useful to make sure the programme’s happening”.

**Key action for project success**

Departments should continue promoting high standards of project management and recruiting high calibre project managers.

### Departments’ ability to track progress at local delivery level is limited

**2.78** An important element of good project management is being able to track the progress towards the projects’ objectives. Having visibility of how successful the project has been to date allows project managers to allocate resources to those areas needing corrective. In our case study on BT’s transformation of its HR services, the timely availability of good quality data is striking; monthly reports on use of services and customer satisfaction give management immediate sight of how changes to HR products are working.

**2.79** Over two-thirds of the Programme’s efficiency gains are to be delivered through bodies outside central government. However, in many instances delivery of these gains is supported by central government bodies providing specialist expertise and best practice guidance. In a significant number of projects we reviewed, information available to the central teams driving efficiency initiatives lacks sufficient detail and timeliness to give them a clear picture of progress and what could be done better.

**2.80** As explained in Figure 26, all local authorities are required to submit Annual Efficiency Statements to the Office of Deputy Prime Minister (ODPM) by mid-June following the year end. As well as setting out the efficiency gains achieved in the last financial year, the statements include local strategies to achieve gains in the future. The efficiencies are broken down across different activities, for example adult social services, culture and sport, environmental services and local transport. On the one hand, the Statements avoid overburdening local authorities and prevent them from having to redirect valuable resources from delivering services to reporting efficiency gains. On the other, those responsible within departments for co-ordinating the central initiatives have limited visibility through the Statements on what is happening at a local level.

**Key action for project success**

Projects working through local bodies need to develop more sophisticated ways of monitoring progress to ensure the most is made of available resources.

### Projects are having mixed successes in securing full engagement from all stakeholders

**2.81** If the changes being targeted are to be sustainable, projects need to engage all stakeholders with the reform process. Ideally, as in the case study on the reform of the German Federal Employment Agency, those impacted by the reforms at the end of delivery chains should be consulted and understand how their concerns have affected the strategy for change.

**2.82** Some projects have struggled to ensure all stakeholders understand their responsibilities within the Programme. In individual police forces, for example, it is not clear the efficiency agenda is being given adequate attention by senior management outside of finance functions. The Police Efficiency Group has addressed this issue through a series of high profile events for forces’ senior management.

**2.83** In the Department for Work and Pensions, the Payment Modernisation Programme developed a sophisticated stakeholder management plan to make sure all the relevant parties were suitably involved, see **Figure 33**.

**2.84** Some projects, such as the Transforming the Schools Workforce initiative in the Department for Education and Skills, have developed innovative strategies for engaging with individuals at the front line of service delivery. The programme has helped schools prepare for a range of reforms now part of the School Teacher's Pay and Condition Document, including a guarantee of 10 per cent timetabled time for planning, preparation and assessment to support personalised teaching and learning. This stems from the National Agreement, 'Raising Standards and Tackling Workload', signed by the Government, employers and the majority of school workforce unions.

**2.85** The central project team is working closely with the signatories<sup>13</sup> to the National Agreement to reach the 23,000 schools across the country it is seeking to influence. The unions concerned, who support the introduction of the new contracts, have been able to use their networks at a school level to help the central project team. Through this and support from a network of local authority-based workforce remodelling advisers, the central team has made progress in engaging with school management teams.

#### Key action for project success

Departments need to be creative and energetic in securing stakeholder buy-in.

**33** The Payments Modernisation Programme within the Department for Work and Pensions is an example of a highly successful efficiency programme. It engaged with those affected by the Programme using approaches tailored to individual stakeholders

The Payments Modernisation Programme achieved substantial financial savings by increasing the number of people receiving benefit payments directly into their bank accounts from 43 per cent to 97 per cent. The project team developed the Stakeholder Management Strategy to obtain the commitment of a complex web of stakeholders. It used different approaches to understand different parties' priorities and to generate confidence in the programme:

- **Involvement in Programme's boards was carefully customised to ensure stakeholders were involved in the right level of detail.** For example, the Conversion Operations Board, had a limited membership of parties that needed to be involved in day-to-day operations.
- **The Universal Banking Steering Group handled policy issues between paying departments** (Department for Work and Pensions, the Northern Ireland Social Security Agency, HM Revenue and Customs and the Ministry of Defence) and the Post Office, banks and the Department of Trade and Industry. The Payments Modernisation Programme Board ensured that activities relating to direct payment conversion were coordinated.
- **Service managers were appointed to develop relationships with specialist interest groups.** For example, Help the Aged were involved to help vulnerable clients understand the new process.
- **Independent research concluded 90% of the public thought the scheme to be a worthwhile initiative.** This provided an evidence base to convert stakeholders who doubted the potential success of the scheme.
- **Clear dashboards were used to report key information.** Graphical techniques were employed to present progress to date and to forecast likely outcomes.

13 Association of School and College Leaders (formerly known as the Secondary Heads Association), the Association of Teachers and Lecturers, the GMB, the National Association of Schoolmasters Union of Women Teachers, the Professional Association of Teachers, the Transport and General Workers Union, UNISON as well as the National Employers' Organisation for School Teachers, DfES and the Welsh Assembly Government.



## PART THREE

### What more needs to be done to strengthen capability to deliver ongoing efficiencies

*This part of the Report focuses on how the capability of central government and the wider public sector can be improved to deliver ongoing efficiencies. To demonstrate how this might be achieved, we have examined examples of success and good practice from across the public, private and voluntary sectors in the UK and abroad.*



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

**3.1** The long term goal of the Programme is to embed efficiency into the culture of the public sector. Activity so far has, however, focused on delivering the 2007-08 publicly-identified targets. More effort must now be invested in looking beyond 2008. The development of comparative Departmental Capability Reviews should help with this and we consider the potential for reform to be considerably greater than what the Programme is attempting to deliver in efficiency gains by 2008. This is the consensus of those delivering the projects within the Programme and follows from our analysis of good practice across the public, private and voluntary sectors.

**3.2** In considering efficiency, the management of public sector organisations need to ask themselves, on a regular basis, a number of key questions:

**a Are all the activities carried out still necessary?** Any activities that are not adding real value in terms of contributing to the achievement of the organisation's objectives should be stopped. The Canadian Government considered this question during a review of expenditure undertaken in 2004-05 (see Case Example 1).

### CASE EXAMPLE 1

#### The Canadian Government's Expenditure Review included the elimination of programmes which were no longer effective

As part of the expenditure review process, individual federal departments were asked to identify, as a point of reference, expenditure reductions of at least five per cent a year in their non-statutory, direct programme spending base, covering operations and transfer payments amounting to £21 billion a year.

The expenditure reductions were to come from improvements in the efficiency of operations, but departments were also required to undertake a rigorous assessment of current programmes and eliminate any that were no longer relevant or effective. The outcome of the review was that cumulative savings over five years will be £2 billion (nearly 10 per cent of the spending base) of which the elimination or reduction of programmes will contribute just over £0.5 billion.

- b Is the organisation best placed to carry out the activities?** If not, then consideration should be given to whether it would be appropriate and more efficient to outsource the activities to another organisation, from the public, private or voluntary sector.
- c Are the remaining activities provided as efficiently as possible?** Public sector management teams should always be open to use new ideas which have proved successful in other organisations.

## Public sector managers are keen to find new ways to embed efficiency

**3.3** All of the central efficiency teams and project managers we interviewed during the course of compiling this report were keen for the drive for efficiency across government not to end in 2008. There was a consensus that efficiency has not been considered a key driver for the delivery of effective public services in the way it should have been.

**3.4** Many project managers believed that embedding efficiency depends on targets being set for the long-term. Some project managers went further, suggesting that since targets for the three years to 2007-08 were set at a relatively low level to ensure they would be achieved, future targets should be made more challenging. This would help focus the minds of staff and make sure it is something they understand is here to stay.

*“I think we’re at the early stage and it’s really hard to tell whether...the next target is going to have to be a lot higher. Whether we can pass it down the organisation is a really tough challenge”.*

*(participant in NAO efficiency workshop)*

**3.5** Other project managers were keen to learn from the private sector to help embed efficiency. Some stated that, for too long, there had been little incentive for staff to track how efficiently they are working in the absence of a profit. Performance-related pay and increased competition is seen by some as a means of overcoming this as staff would be incentivised to take a more active role.

**3.6** Some project managers also stated that for efficiency to become embedded as a part of working practice there needs to be a culture that allows for innovative thinking and risk-taking. Only by allowing staff to implement different way of working will real progress be made.

*“When did you ever hear anybody in a public sector organisation say ‘we’re going to do this, we just want to see what will happen, we don’t know if it’ll work, we’re just going to try it’”.*

*(participant in NAO efficiency workshop)*

**3.7** Drawing on good practice in the public and private sectors, in the UK and abroad, the remainder of this part of the report sets out a number of key areas in which departments should continue to improve their capacity to deliver efficiency gains.

## Acquiring the right skills and capabilities to secure ongoing efficiencies

**3.8** How efficient the public sector becomes largely depends on its capacity for reform. Only if there are appropriately skilled people, deployed in the right way, can significant improvements in efficiency be achieved. The public sector has made significant progress in investing in existing staff and in recruiting high calibre individuals who are experienced at introducing new ideas into complex environments. However, public sector employees need to be encouraged to update their understanding of good practice and to be given roles which enable them to make use of their skills.

**3.9** Public sector employees need to be able to look to others for ideas of good practice. Through more effective methods of cross-government communications, staff should be encouraged to make the most of the experience of others within the public sector and effective practice in others sectors, from the UK and overseas. With regard to project management, for example, the Office of Government Commerce’s Programme and Project Management Specialism provides advice and support on how best to manage projects in central government. Meanwhile, the Department for International Development’s project management database shows what can be achieved by allowing project managers around the world to learn from each other, [see Case Example 2](#). In addition, public sector managers would benefit from more support on how to manage change effectively within an organisation. For instance, public sector managers would benefit from support on how new change management approaches widely used in the private sector, such as Six Sigma and Lean,<sup>14</sup> might be relevant to the challenges they face.

<sup>14</sup> **Six Sigma** is a disciplined, data-driven methodology for eliminating defects in any process. To achieve Six Sigma, a process must not produce more than 3.4 defects per million opportunities. A Six Sigma defect is defined as anything outside of customer specifications. **Lean** is an approach to improving processes which involve a supplier and a customer. The objective is to identify waste from the customer perspective and then determine how to eliminate it. Waste is defined as activities adding no value to the product or service.



## CASE EXAMPLE 2

### The Department for International Development's project management database is effective at helping project teams learn from the experience of others

Despite being scattered across the globe, project managers in the Department for International Development can access the accumulated experience of the Department through a simple projects database. The database, known as PRISM, acts as a window on the Department's management information system and is available through the Department's intranet site or via satellite communication.

As well as uploading key documents and details of a project's performance, each project team describes lessons learned across three categories:

- Working with partners
- Best practice and innovation
- Project management.

With lessons from the Department's 4,000 live projects and the 30,000 projects completed since 1992, PRISM has become a powerful tool for projects looking for guidance on how to overcome the challenges they face.

In 2003 the Department funded a roads project to support the relief effort in Mozambique, a country suffering severe drought. The project team had to decide whether to pay local workers cash or food in exchange for their labour. Rather than relying on theory to determine the most appropriate action, PRISM enabled the team to base its decision on what had worked in similar circumstances elsewhere.

To ensure entries are kept up to date, funding is frozen when projects miss submission deadlines and data quality has been made the responsibility of each region's head of office.

**3.10 Roles need to be designed to make the most of people's skills.** For example, those recruited from the private sector must feel they have the authority to challenge inefficiency, rather than being restricted by bureaucracy. Purchasing specialists recruited from outside the public sector can sometimes interpret European Union procurement rules over-cautiously for fear of being accused of running unfair tendering processes. This hinders interaction with suppliers. Only if it fully engages with suppliers can the public sector move from issuing prescriptive, input-based specifications to the more efficient scenario where suppliers demonstrate how they might meet an organisation's outcome goals.

**3.11** Specifically, there is a need for:

- a commercial director at board level. While some progress has been made since the Committee of Public Accounts recommended this,<sup>15</sup> commercial directors still need to become more widespread across government;
- finance directors clearly focused on controlling costs and 'sweating the assets', i.e. the efficient use of capital resources and intellectual property; and
- greater professionalisation of staff in roles influencing an organisation's efficiency. We welcome the requirement for departments' finance directors to be qualified accountants, although this does not start until December 2006.

## Making sure quality management information is available

**3.12** Suitably skilled individuals in appropriate roles must also have access to quality management information. Too often in the public sector decisions are made on the basis of old or unreliable data or long, complicated business reports containing too many indicators. In many cases, public sector organisations do not have a clear view of cost drivers, in part because in the absence of time recording systems they are rarely able to link the costs of staff inputs to specific outputs. It was, to some extent, in recognition of these weaknesses that the Government, in 2004, launched a review of the effectiveness of financial management in departments.

**3.13** The position in government contrasts with that in many private sector organisations where up to date and comprehensive reports on performance are routinely considered at board level. The best of these have a clear focus around a limited number of indicators that really drive cost and value and also show clearly how input costs relate to outputs produced. British Telecommunications, for example, monitors the performance of the human resource functions outsourced to Accenture through regular reports on services used and resulting customer satisfaction. For more details, see [Case Example 3 overleaf](#).

15 *Improving departments' capability to procure cost-effectively*, Committee of Public Accounts, 41st report 2003-04.

### CASE EXAMPLE 3

#### British Telecommunications ensures high performance of its outsourced human resource functions through regular monitoring

BT has outsourced all but the strategic elements of its human resources function to Accenture. In 1991 BT employed 250,000 people, of whom 14,500 worked in human resources. Today, BT's 100,000 employees are supported by just 1,000 human resources staff, including the outsourced roles.

To ensure Accenture is meeting its service commitments, BT has access to 'live' management information on Accenture's performance. BT's senior management routinely look at three key reports:

- **Billing;** shows costs at a granular level with each service given an individual price. This gives BT transparent financial charges for all HR services it consumes.
- **Service Performance;** outlines the volume of transactions and quality of performance delivered by Accenture against the agreed service levels and provides updates on service improvement activity.
- **Customer Satisfaction;** gauges customer satisfaction with services, indicating where improvements need to be made.

These reports give BT clear sight of inputs, outputs and quality of service. By monitoring this information, management can judge whether it is getting value for money from the outsourcing arrangements.

**3.14** One aspect of efficiency around which there is a particular lack of reliable data in the public sector is productivity. The main issue here is the difficulty in measuring changes in the quality of public sector output. The Office for National Statistics and the Department of Health are developing measures to track changes in the productivity of the NHS and the Department for Work and Pensions has work in hand to produce a productivity index (**Case Example 4**).

**3.15** In the short term departments should be ready to use diagnostic exercises to assess the scale of problems. Investing in understanding how the current system operates and establishing what information providers need to manage services well, increases the chances of securing an efficient outcome which is sustainable. As our case studies of reform projects within the German Federal Employment Agency, Merton Council and ASDA Wal-Mart show, this applies to organisations of any size, see **Case Example 5 overleaf**. In the long term, however, there is no substitute for developing information systems which allow managers to base their strategies on clear and timely data. For instance, as **Case Example 6 overleaf** shows, the Driver, Vehicle and Operator Group within the Department for Transport benefits from access to up-to-date analysis of consumer behaviour when developing policy.

### Establishing a rigorous challenge function

**3.16** Understanding how an organisation compares to its peers is a powerful tool to discover where it should look to secure efficiencies. Critics of benchmarking within public sector argue that for public bodies, especially those in central government, there are often no relevant organisations to compare performance against. However, even between the most dissimilar public bodies, there are common activities that can be compared:

- ICT support functions
- Human resources
- Asset management
- Procurement of common goods and services.

## CASE EXAMPLE 4

### Productivity of the NHS

The Efficiency Programme will provide an aggregate value of annual efficiency gains based on the contribution of known major projects over the next three years. This will not reflect total efficiency gains in the NHS. In particular, it will not reflect the cumulative impact of local efficiency initiatives that are not covered by the finite set of efficiency measures the Department is able to track.

As part of its financial efficiency strategy, the Department will measure efficiency using other measurement approaches. Each measure will inevitably provide a different value due to the nature and scope of its calculation. They will however enable comparison and correlation of trends in efficiency, productivity and value for money over the Spending Review 2004 period.

#### Health Productivity

The Office for National Statistics now publishes a series of Public Service Productivity articles, the first of which on health was published in October 2004, with a follow up article due to be published in early 2006. The ONS calculation of NHS productivity takes the ratio of NHS outputs to NHS inputs after separating out the impact of pay and price increases. For the period from 1995 to 2003, the Office for National Statistics calculated that NHS output has grown by 28 per cent and NHS inputs have grown by between 32 and 39 per cent. ONS calculations tend to be 1-2 years in arrears and do not capture any change (positive or negative) in the quality of service provided in terms of either patient experience or outcomes.

#### The Department's Cost Efficiency Measure

To measure progress against the 2002 Spending Review value for money PSA target, the Department developed an interim cost efficiency measure. The measure is calculated by comparing increases in NHS expenditure adjusted for both input cost inflation and increases in expenditure on improving the quality of NHS services, with increases in NHS outputs as calculated by the NHS Output Index. This latter index is derived using data published in the National Schedule of Reference Costs using over 1,900 activity categories. In 2003-4 the Department estimated that value for money through cost efficiency increased by around 2.1 per cent.

#### Accounting for Quality Change

The cost efficiency measure was always regarded as an interim measure to be used whilst further development work was undertaken. On 7 December 2005 the Department published 'Accounting for Quality Change' a technical paper which explains progress in developing more accurate methods of measuring healthcare output and productivity, including quality change. The paper builds on recommendations in the Atkinson Report on the measurement of government output and productivity, research by the University of York, National Institute of Economic and Social Research (NIESR) and by the Department. Accounting for Quality Change suggests that taking account of various quality adjustments, NHS productivity increased on average by 0.8 per cent a year between 1998-9 and 2003-4. The Department continues to work closely with ONS to share ideas and expertise in this challenging area of measurement.

### Department for Work and Pensions: development of a productivity index

In response to the Atkinson Report on the measurement of Government output and productivity, the Department is developing a productivity index. The Department's outputs will be measured by a cost-weighted index, where the unit cost of production is used as a proxy for the value of the output. In line with Atkinson recommendations outputs will be adjusted for quality where possible.

Indices currently available cover the Department's two main functions - benefit processing and job-broking - and together account for over 90 per cent of the cost base. The benefit processing index includes both the processing of new claims and the maintenance of existing claims and wherever possible will be quality-adjusted. Future job-broking output will be measured by job outcome points, where the point score reflects the relative priority attached to different customer groups and can be considered to be an indicator of quality or value. Output volumes will be derived from the Department's management information systems, which are linked to operational benefit and labour market systems. Unit costs will be obtained from an activity-based information system.

These measures will be supplemented by other information which the Department monitors and publishes on a regular basis in, for example, forward plans and performance reports. There will also be a continuation of the monitoring of service through "mystery shopping" (tests of our services performed by independent organisations replicating customer experience), surveys of customer perceptions and reviewing feedback received in other ways (for example, from voluntary/advisory organisations such as the Citizen Advice Bureau).

## CASE EXAMPLE 5

### Investment in understanding poor performance makes effective reform more likely

Most organisations are aware of areas in which they are underperforming. However, management often does not have sufficient detail of what is going wrong to be able to improve performance. The experiences of the German Federal Employment Agency, Merton Borough Council and ASDA Wal-Mart demonstrate how organizations of all sizes can benefit from investing in thorough diagnostic exercises. Such investment enables organizations to develop the best solutions.

#### German Federal Employment Agency

The German Federal Employment Agency administers unemployment benefits and provides advice to jobseekers and employers. Since 2002, it has been undergoing a radical review of operations.

Although it was clear staff, customers and the general public were dissatisfied with its performance, the Agency lacked a clear vision of what needed to change. According to Frank-Jürgen Weise, Chairman of the Agency's Board;

"We had an organisation through which EUR 50 billion passed, but had little clarity about the use of funds or results of our efforts".

To address the problem the Agency established The Academy, consisting of experienced employees and external advisers. Housed in its own complex for six months, it conducted in-depth research into how the Agency functioned. In the absence of adequate management information systems, Academy members conducted their own detailed observations of local agencies in practice. The Academy concluded:

- the Agency was not focused enough on needs of customers;
- costs for employment and training measures varied without reason across local agencies; and
- the layouts of local agency offices were neither functional for staff nor welcoming to customers.

Understanding the problem in this way has allowed the Agency to restructure how it worked.

#### Merton Borough Council

In 2001, like many local authorities, Merton Borough Council was suffering from poor employee attendance. According to the information gathered for its annual Comprehensive Performance Assessment, the average number of working days lost to sickness was 13.6 per employee. Management wanted to address this problem but had no more information below this headline figure.<sup>16</sup>

The Council invested in a new information system capable of producing regular reports. The reports provided clear analysis of the absenteeism problem. For instance, management were able to understand how absences rose with age; whereas the average number of days off per year was less than five for those under 20 years old, those over 60 had an average of 24 days off a year. Such detailed and timely information enabled management to develop a sickness management strategy tailored to the needs of employees. In 2005 the average number of absence days per employee had fallen to 8.4 per employee.

#### ASDA Wal-Mart

Demand for fresh food and prepared meals has increased in recent years. As a result, demand for frozen products has declined and customers are not prepared to pay as much as they may have done in the past. In addition, instability in the UK frozen vegetable manufacturing base was creating significant risks in terms of availability and rising costs. ASDA therefore decided to re-configure and manage the delivery chain, from the fields in which the vegetables are grown through to the frozen food sections of its stores. To do this, a complex value mapping exercise was undertaken:

- to understand customer trends and expectations as well as the supply base, in terms of quality, price and capacity;
- to understand ordering pattern and any inefficiencies therein;
- to decide whether there should be one national or a number of regional processing plants and warehousing sites and where they should be located; and
- to map all transport flows – from field to store, including all raw materials, packaging and waste.

Service level agreements were then put in place throughout the delivery chain that take account of dependencies in the following and preceding processes, giving ASDA the ability to view the chain and its links to ensure product flow and associated costs are as planned. The initiative took around two years to complete and, since the Summer of 2005, ASDA has:

- removed costs from the end product and realised environmental benefits from 120,000 fewer 'food miles' a year across the chain through the optimal positioning of one processing hub, which also doubles as the storage point; and
- a guaranteed supplier of frozen vegetables on a long-term contract. The supplier in return has been able to commit exclusively to ASDA, the processors and the farmers.

<sup>16</sup> The National Audit Office has developed an audit toolkit for carrying out an examination of attendance management in any government organisation. Previous National Audit Office examinations of attendance management have contributed to efficiency improvements worth many millions of pounds. The toolkit provides a wide range of information, for example absence data and good management practices and methods, interview questionnaires and focus group topic guides. The toolkit is available on CD-ROM. Please call 020 7798 5396 for a copy.

## CASE EXAMPLE 6

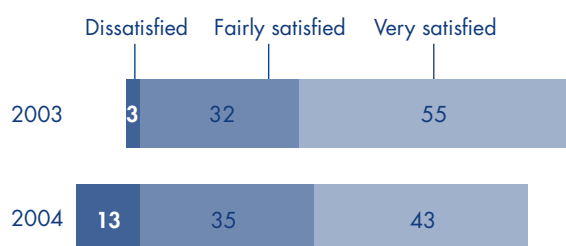
### The Driver, Vehicle and Operator Group develops policies using up-to-date analysis of consumer behaviour

The Driver, Vehicle and Operator Group's Customer Research Unit aims to:

- measure levels of satisfaction among private and commercial motorists;
- ensure any changes to customer services are researched prior to design and implementation; and
- share good practice and benchmarking information across the Department.

Analysing consumer behaviour enables DVO to develop strategies in the light of what concerns the consumer. For instance, in 2003, only 3% of private motorists were dissatisfied with the process of buying a tax disc. A year later, this had risen to 13%. Concerned by the sudden rise, the research team identified most of this dissatisfaction was connected with the closure of Post Office branches, motorists were often having to travel further to buy their disc. This precise knowledge means the Group is better placed to improve satisfaction levels going forward.

Satisfaction levels with the process of buying a tax disc among private motorists (percentage)



**3.17 Case Example 7** explains how the German Federal Employment Agency benefited from developing a system of benchmarking the performance of local job agencies in similar labour markets. Benchmarking different aspects of performance meant management knew which processes needed their attention. If management teams are aware of poor performing areas, they are more likely to seek out and implement good practice.

## CASE EXAMPLE 7

### The German Federal Employment Agency uses tailored benchmarking of local agencies to motivate staff and locate good practice

The Agency's new structure uses benchmarking to rate how local agencies are performing against a number of performance indicators. Local agencies are classified according to the nature of labour market conditions they face; whether the agency is in a rural or urban environment, whether there is high or low unemployment. By comparing agencies operating in similar environments, the regional and head offices have better visibility of how well local agencies are being managed given their particular circumstances. More importantly, the agencies themselves know where they need to improve performance.

At the employment agency in the Bavarian town of Würzburg, this added transparency is motivating staff to ensure their office compares well against its peers. Tables and graphs based on key performance indicators are displayed at the staff entrance. As Ernst Röhner, the agency's manager, explained, "This has made employees feel more involved in the success of the agency".

However, understanding how other agencies are performing also provides the opportunity to seek out ideas of good practice. With testing targets for his agency being agreed each year, Ernst Röhner welcomes any information available on what is working elsewhere. "Discussing the detail of performance each month with our regional office, focuses our attention on areas we can improve. They are in the position to put forward ideas of how to do things differently. We can then decide which reforms to adopt. But this can only happen if there is information on what is happening at our office and across the Agency as a whole."



**3.18** It is anticipated that Departmental Capability Reviews will encourage departments to take advantage of benchmarking common activities. Ideally, this approach will be adopted across the whole of the public sector and will lead to public bodies being challenged when they are not following good practice. In its efficiency programme, the Canadian Government has decided that all goods and services must be purchased through a central agency, the Department of Public Works and Government Services. Although aggregating procurement in this way will reduce local managerial flexibility, it is expected substantial savings will be made (for example, expenditure on office costs is forecast to fall by 34 per cent – see **Case Example 8**).

## Configuring support functions to optimise efficiency

**3.19** There is considerable potential for the public sector to reduce the costs and improve the quality of its support functions. Many public bodies are already planning how to reconfigure their business processes. Currently, there are more than 70 separate initiatives in the UK public sector designed to bring together corporate services, such as IT and finance, of various bodies into single service centres. It is unlikely that groups of public bodies acting in isolation will produce the optimal solution for the public sector as a whole. There is a need for co-ordination across government to understand what type of initiatives will work best in the public sector and to engage with suppliers to understand market capacity for different models of delivery.

**3.20** A Shared Services Programme Board, chaired by John Oughton, was established to oversee initiatives to build on the potential efficiency gains identified so far in the Efficiency Programme. A new cross-government team to promote shared services was set up by the Cabinet Office in April 2005 to drive progress to greater sharing of services. When funding is awarded to new projects for the development of corporate services, there will be a presumption that sharing such services with other organisations will deliver better value for money and that projects would normally go ahead on this basis.

### CASE EXAMPLE 8

#### The Canadian Government's Expenditure Review has secured savings through centrally negotiated, mandatory procurement contracts

In 2004, the Canadian Government undertook a detailed review of federal spending across government-wide activities and by individual departments, resulting in a package of measures designed to save \$10.9 billion over the five years to 2010.

Greater efficiencies in procurement amounting to just over \$1 billion will be achieved by consolidating purchasing government-wide, using a single buyer to negotiate the best possible price. The expected savings will be realised by making it mandatory for departments to use 'standing offers' negotiated by the Department of Public Works and Government Services, with any exceptions managed centrally. Although a move to coordinated bulk purchasing may reduce managerial flexibility, the Canadian Government considered that it was justified by the considerable savings available.

Potential savings through centrally negotiated contracts for selected goods and services

	Potential savings (per cent)
Office supplies	34
Maintenance, repair and renovation	24
Furniture	20
Commercial software	15
IT services, parcel delivery, audiovisual equipment	14
Printing, office equipment	12

**3.21** Estimates for the potential market for shared corporate services within the UK public sector range from £25 billion to more than £30 billion a year.<sup>17</sup> Public bodies acting together or in isolation need to address a number of fundamental questions about the services they want to develop:

- whether shared services will be delivered from within the public sector or outsourced to a commercial organisation;
- what kinds of services will be shared;
- how many organisations will use the shared services; and
- how standard these services will be across participating organisations.

<sup>17</sup> The Gershon Review team estimated that the UK public sector spends £25 billion a year on shared services. In November 2004, a UK Trade and Investment paper, 'Shared Service Centres', suggested the UK public sector market is worth more than £30 billion.

Learning from organisations which have introduced shared service initiatives will be vital if the public sector is to achieve the best possible outcome. **Case Example 9** profiles the approach taken by General Electric in developing its shared services.

## Creating a culture where public sector efficiency is part of day-to-day business

**3.22** Reviews such as that led by Sir Peter Gershon deliver occasional ‘shots in the arm’ for public bodies. For the longer term, it will be necessary to develop a culture of continuous improvement through which efficiency for the public sector as a whole is mainstreamed into day-to-day operations and fully integrated with existing business planning and performance management systems.

**3.23** When implementing change, public sector organisations should be incentivised to look for solutions which deliver the maximum benefit for the public sector. Our case study of Southwark Council’s Customer Service Centre (**Case Example 10 overleaf**) illustrates how a public body can design an initiative to allow other organisations to benefit from its efforts. For this to happen, better collaboration between organisations is essential. The voluntary sector has a proven record in successful collaboration and should be looked to for good practice (**Case Example 11 overleaf**).

### CASE EXAMPLE 9

#### **General Electric developed its shared services internally and made it mandatory for all of its businesses to use the full range of centralised corporate services**

With interest in markets as diverse as building power stations and personal finance, General Electric had operated separate support functions for its different businesses. By combining these functions, the company has been able to cut costs and improve the range and quality of support services available to GE businesses.

#### Internal capacity

In the absence of a credible third party offering the range of corporate services it wanted, GE invested in an in-house capacity through a new subsidiary, General Electric Capital International Services (‘GECIS’). GECIS, rebranded Genpact in 2005, now also provides services to organisations outside the GE group.

#### Mandatory for all GE businesses

Genpact provides standard services to all GE businesses. This has enabled GE to save around £200 million a year. To ensure early take-up, individual GE businesses were given one-off funding on top of annual budgets to help make the transition to sharing support functions.

#### Wide range of services

Developed using Six Sigma techniques (see paragraph 3.9), Genpact provides a global network of corporate services including:

- Finance and accounting
- Supply chain management
- Sales and marketing analysis
- IT
- Document management.



## CASE EXAMPLE 10

### **Southwark Council's Customer Service Centre: Introducing flexibility for other public bodies to enter into contracts with an existing supplier**

Over many years, Southwark Council had received poor reviews in independent customer satisfaction surveys of the way it responded to enquiries from residents. The Council decided to launch a project to improve the performance of its customer facing services through business process redesign. Following consultations with residents and staff the Council concluded that it needed a private sector partner to provide a service covering multiple access channels, including a contact centre, one-stop customer shops and Web site access, along with supporting IT infrastructure and business change.

Following a competition, the Council signed a 10 year contract with Pearson plc to provide a Customer Service Centre. In tendering the contract, the Council acted as Lead Borough on behalf of the London Contracts Supplies Group, a London-wide organisation made up of a number of other Local Authorities, universities, the Police, charities and other London bodies. The members of the Group work together and regularly use joint contracts to realise savings and thereby make greater use of resources.

Tendering the contract in this way will allow members of the Group to enter into separate contracts with Pearson plc under a framework arrangement, which forms part of Southwark's contract. The advantage to Group members is that they will avoid some of the procurement costs (estimated at £2 million) which Southwark Council has incurred. The advantage to Southwark Council is that it will receive two per cent of turnover for any contract let to another local body through the framework.

## CASE EXAMPLE 11

### **Charities use collaborative working to secure efficiencies**

From one-off joint campaigns to full scale mergers, collaboration between charities has become a common strategy for making the most of limited resources. Like public bodies, charities acting together are able to:

- share specialist expertise;
- reduce administrative costs through combining support functions; and
- align incentives for the benefit of common causes.

Terrence Higgins Trust, the HIV and AIDS charity, has demonstrated the benefits of collaborative working. Through 15 mergers since 1998 the Trust is now the largest HIV and AIDS charity in Europe. Public bodies considering working together could learn from the Trust's experience.

The Trust increases the chances of successful partnership by:

- carrying out due diligence work to understand potential partners;
- establishing a clear shared vision as early as possible;
- holding regular monitoring groups to track progress against the shared vision; and
- making clear from the outset how the partnership will be dissolved if it does not work.

# APPENDIX 1

## Study methodology

This report is based on:

- a review of a sample of 20 projects from six departments;
- interviews with the Office of Government Commerce Efficiency Team and analysis of Programme documentation;
- focus groups of project managers;
- a review of departments' revised Efficiency Technical Notes;
- consultation with a panel of experts; and
- case studies of successful efficiency initiatives.

### Review of projects

Between July and October 2005 we reviewed 20 projects across the Efficiency Programme. The sample was selected to:

- be representative of the relative importance of the different workstreams in contributing to the £21.5 billion targeted efficiency gains;
- cover a significant proportion of the forecast gains to be achieved by 2007-08 (sample projects account for £6.1 billion (28 per cent) of the £21.5 billion targeted gains); and
- cover a significant proportion of the reported gains to date (sample projects account for £1.4 billion (30 per cent) of the £4.7 billion of efficiency gains reported in December 2005).

The projects were selected from six departments; Department for Education and Skills, Department of Health, Department for Transport, Department for Work and Pensions, Home Office and Department for International Development. The departments primarily consist of the larger spending departments to take account of their relatively high contributions to the Programme's targets. For a full list of the projects, see Figure 14.

The projects were reviewed through semi-structured interviews with project managers and departments' central efficiency teams and analysis of project documents. Each review addressed a standard set of issues across four areas:

- Resources available to the project
- Project management techniques
- Support for the project from outside the project team, from the department and the OGC Efficiency Team
- Measurement of efficiency gains.

In respect of measurement of efficiency gains, we constructed our criteria of a good measurement system. The three principles of good practice against which approaches to measurement were judged were:

- Baselines fairly reflecting past performance.
- Calculation methodologies taking account of changes in inputs, outputs and service quality.
- Clear audit trails explaining the basis of the efficiency gains and how the accuracy of the data is assured.

Using these criteria we gave red, amber or green ratings to projects for each of the criteria according to the risk of efficiency gains being measured inaccurately. Our judgements are set out in Figure 24.

## Review of the role of the Office of Government Commerce Efficiency Team

To understand how the Programme was being co-ordinated we carried out interviews with the following:

- The Efficiency Team's management team
- The Efficiency Team's measurement specialists
- Relationship managers for each of our sample departments
- Members of the Programme's Change Agents, e.g. e-Government Unit
- Other stakeholders at the centre of government, e.g. Cabinet Office and HM Treasury.

We analysed data held by the Efficiency Team to monitor the progress of the Programme. The data, in the form of milestone charts, was based on returns provided by each department on the status of their efficiency projects.

In addition we attended:

- meetings of the User Group organised by the OGC Efficiency Team for departments' efficiency representatives; and
- efficiency Technical Note workshops organised by HM Treasury to assist the development of the revised Notes published in December 2005.

## Focus groups with project managers

We commissioned MORI to hold eight focus groups for project managers from across the Programme. The focus groups addressed how projects were designed and being managed, how project teams within departments interacted with other parties in the Efficiency Programme and what impact the Programme is having on the public sector. Group discussions took place between 20th July and 2nd August 2005.

The groups allowed us to understand how the Programme was progressing outside our 20 sample projects. The following central government departments were represented in the focus groups:

- Department for Constitutional Affairs
- Department for Culture, Media and Sport
- Department for Education and Skills
- Department for the Environment, Food and Rural Affairs
- Department of Health
- Department for International Development
- Department for Trade and Industry
- Department for Transport
- Department for Work and Pensions
- Her Majesty's Revenue and Customs
- Home Office
- Ministry of Defence
- Office of the Deputy Prime Minister.

## Efficiency Technical Notes review

We reviewed the latest Efficiency Technical Notes published by departments in December 2005. The Notes aim to explain how departments are measuring efficiency gains. Using the published Notes, we assessed the risk of departments inaccurately measuring efficiency gains. The review allowed us to understand how the approach to measurement by all departments had developed since the first round of Notes were published in October 2004.

Our judgements were made against three criteria:

- Clear and comprehensive measurement methodologies
- Appropriate methods for measuring service quality
- Clarity on how the data used is to be assured.

## Expert panel

We convened a panel of experts on 8th September 2005 to act as a sounding board for the development of the study methodology and to comment on our emerging findings. Given the diverse organisations represented, the panel challenged our thinking from different perspectives.

The members of the panel were:

### Charles Cochrane

Director of Policy, Research & Information Department, Public and Commercial Services Union and Secretary of Council of Civil Service Unions

### Charles Hughes

Vice President of the management consultancy firm AT Kearney

### Margaret Murray

Head of Policy, Public Services Directorate, Confederation of British Industry (retired)

### Professor Colin Talbot

Professor of Public Policy and Management, Manchester Business School, University of Manchester

### Tim Roberts

Principal of the management consultancy firm McKinsey & Company

## Case studies of successful efficiency projects

We consulted a large number of parties with an interest in the Efficiency Programme to find examples of efficiency initiatives from which the public sector could learn.

The case studies highlight areas of operations different organisations have looked to make more efficient and how changes were achieved. They are drawn from the public, private and voluntary sectors, from the UK and overseas.

The case studies cover the following initiatives:

- Canadian Government's efficiency programme
- General Electric's in-house shared services function
- Reform of the German Federal Employment Agency
- General Electric's in-house shared services function
- BT's outsourced HR function
- ASDA Wal-Mart's supplier partnerships
- Southwark Council's Customer Service Centre
- Merton Council's sickness management strategy
- Terrence Higgins Trust and collaborative working in the voluntary sector.

Extracts from the lessons learnt from the case studies can be found in Part 3. The full case studies are contained in a separate volume accompanying the main report and can be viewed on the NAO website ([www.nao.org.uk](http://www.nao.org.uk)).

Our case studies are based on interviews we conducted with key personnel within the organisations and reviews of relevant documents. The following organisations assisted in finding successful efficiency initiatives:

- Confederation of British Industry
- Public and Commercial Services Union
- Charity Commission
- McKinsey & Company
- Accenture
- PA Consulting.

## APPENDIX 2

### Public expenditure planning and control

1 In 1998, a Comprehensive Spending Review allocated substantial additional resources to the Government's key priorities, particularly education and health, for the three year period from 1999-2000 to 2001-02. The 1998 Review also changed the basis on which departments are allocated resources. In contrast to resources being allocated on a cash basis each year departments now receive a budget for a three year period and a separate budget for expenditure that has to be managed on an annual basis:

- The three year budget (or **Departmental Expenditure Limit**) includes two separate allocations of resources. One to meet the cost of departments' activities and administration, including provision for accruals based items such as the cost of capital and a separate allocation of resources for capital expenditure.
- The one year budget (or **Annually Managed Expenditure**) covers activities where it is less easy to estimate the level of resources that might be required over a three year period, particularly activities subject to short-term fluctuations in demand such as benefit payments. For these activities resources are still allocated on an annual basis, with separate allocations to cover the costs of departments' activities and capital spending.

2 The allocation of three year resource budgets to departments is intended to promote greater stability in financial planning to encourage longer term investment in resources and assets to deliver better services. Public Service Agreements, also introduced in 1998, are agreements between the Prime Minister, the Chancellor and the relevant Secretary of State, setting out a department's high-level aims, objectives and key performance targets. The agreements are revised on a biennial basis as part of the spending review process. The purpose of the targets is to focus departments on using their resources to achieve sustainable improvements in service delivery.

3 The total of resources allocated in any one year is known as **Total Managed Expenditure**. In 2006-07, of the total £549 billion planned to be spent by departments, £321 billion was allocated on a three year basis and £228 billion annually.

#### 34 The three year public spending, planning and control regime

- **The Treasury conducts spending reviews on a two year (biennial) basis.** Every second year the Treasury sets out the budgets to be managed by departments for the next three years. For example, the most recent spending review in July 2002 set out departmental budgets for the three years 2003-04 to 2005-06.
- The three year budgets include a separate allocation for resources (to be spent on administration and activities) and for capital expenditure. Collectively these determine a department's **Departmental Expenditure Limit**.
- Spending plans should provide a clear framework within which **departments establish three-year funding agreements with their agencies** which in turn enable three year business plans to be prepared by agencies.
- **Departments have flexibility to carry forward from one year to the next all unused provision from their Departmental Expenditure Limit.** The annual carry forward of unused provision is subject to Treasury approval. The Treasury may decide to not allow carry forward of all unutilised resources if new priorities emerge elsewhere. Departments can determine the extent of flexibilities for their executive agencies and non-departmental public bodies.
- Departmental activities that are difficult to predict or are demand-led, such as benefit payments, are still managed on an annual basis. In this case the department is allocated annual resource and capital budgets for these activities. Collectively these determine a department's **Annually Managed Expenditure**.
- Departmental Expenditure Limits and Annually Managed Expenditure equal a department's **Total Managed Expenditure**.
- **Parliament still approves departments' supply estimates on an annual basis.** The supply estimate sets out the resources to be used that year, differentiating between those that have been provided on a three year basis and an annual basis.
- **Public Service Agreements** set out a department's high-level aims, objectives and key performance targets. Departments also have to set out plans and targets for the use of funding for capital expenditure in Departmental Investment Strategies.

## APPENDIX 3

### Efficiency reviews in central government

Prior to Sir Peter Gershon's review of efficiency across the wider public sector, departments have been subject to a mixture of cross-cutting developments and discrete reviews, co-ordinated at the centre of government. A chronology is below:

#### 35 The chronology of Government Efficiency Reviews

1961	The Plowden Report 'The control of public expenditure' leads to the establishment of annual government expenditure reviews co-ordinated by the Public Expenditure Survey Committee.
1968	The Fulton Committee recommends the establishment of agencies through the subdivision of departments on a functional basis, the establishment of a civil service college, improving in-service training practices, and increasing the role of specialists. All centred on improving the quality of management in the civil service, as a means to increased efficiency and economy.
1970	The Programme Analysis and Review (PAR) is introduced in order to assess the efficiency and co-ordination of public policy. Although department-based, PAR also sought to assess the impact of policy on other departments.
Jul 1976	Treasury announces introduction of annual cash limits on departmental spending.
May 1979	Freeze on Civil Service (CS) recruitment to reduce costs by 3% and launch of options exercise to cut headcount by 20 per cent.
Oct 1979	Launch of Efficiency Scrutinies programme under <b>Derek Rayner</b> (Head of No 10 Policy Unit). Ministers responsible for nominating subjects with the aim of identifying ways in which work could be carried out "more efficiently or effectively and at less cost". ( <b>Public Accounts Committee report in Jun 1986</b> on the results between 1979 and 1983 – see below).
Jan 1980	Annual scrutiny of departmental running costs initiated to improve efficiency management.
Mar 1980	Announced that additional 15-20,000 CS jobs to be cut over next 12 months.
May 1980	PM announces target to reduce CS numbers to 630,000 by 1984 and launches Rayner's "Lasting Reforms" programme (leading to the Financial Management Initiative in 1981).
Jul 1981	Charging departments for common services signalled in White Paper on efficiency measures and savings (Cmnd 8293).
Sep 1982	Efficiency and Effectiveness in the Civil Service (Cmnd 8616) launches Financial Management Initiative designed to clarify departments' objectives, align structures, costs and responsibilities, define information needs and devolve management. Government Accountancy Service functional specialism inaugurated.
Jul 1983	<b>Robin Ibbs</b> appointed as PM's adviser on efficiency.
Jun 1986	Following Comptroller & Auditor General report, PAC take evidence and report on results of efficiency scrutinies undertaken from 1979 to 1983. PAC calls for faster implementation of recommendations and closer monitoring of actions by departments. Treasury Minute accepts PAC report.
Feb 1988	PM announces plans to set up Executive Agencies to undertake front-line functions previously discharged by departments following the Ibbs and Jenkins report, 'Improving Management in Government: The Next Steps'.
Apr 1989	<b>Sir Angus Fraser</b> appointed as adviser on efficiency to the PM.
Jul 1991	The Citizen's Charter: Raising the Standard white paper (Cm 1599). Competing for Quality white paper (Cm 1730) signalled market testing programme within government.



### 35 The chronology of Government Efficiency Reviews *continued*

Apr 1992	<b>Peter Levene</b> appointed as PM's adviser on efficiency (note: <b>John Oughton</b> appointed as Head of the Government's Efficiency Unit in 1993 and continues in this role after May 1997, when the Efficiency Unit works with No 10 and the Treasury on the new government's first comprehensive spending review – see Jul 1998 below).
Nov 1994	Continuity and Change white paper (Cm 2627) foreshadowed increased delegation to departments and agencies of efficiency measurement and announced that annual efficiency plans to be prepared by departments along with five-yearly reviews of agencies.
Jan 1995	Taking Forward Continuity and Change (Cm 2748) announced that tight grip to continue on costs of running CS and Citizens' Charter to be used to keep pressure to raise standards of public services.
May 1995	PM's Efficiency Unit scrutiny of management information and planning systems. Departments required to draw up action plans which will be monitored by Efficiency Unit.
Jul 1998	Modern Public Services for Britain (Cm 4011) published following Comprehensive Spending Review. Performance and Innovation Unit established within Cabinet Office.
Mar 1999	Modernising Government (Cm 4310) published and Public Service Agreements introduced. These set out objectives and measurable targets for all departments and are negotiated in conjunction with the Comprehensive Spending Review.
Dec 1999	PM agrees CS reform programme lasting 3-5 years aimed at better business planning and sharper performance management.
Oct 2000	Public Sector Benchmarking Service established.
June 2001	Introduction of the Prime Minister's Delivery Unit (tasked with ensuring delivery of the top public service priorities) and the Office of Public Service Reform <sup>18</sup> (tasked with facilitating the reform of public services, based on the Prime Minister's four principles of reform).
2002	Amalgamation of the Performance and Innovation Unit, the Prime Minister's Forward Strategy Unit, and parts of the Centre for Management and Policy Studies into the Prime Minister's Strategy Unit (tasked with providing government with the capacity for longer-term thinking, cross-cutting studies and strategic policy work).

18 The Office of Public Service Reform was abolished in January 2006.

## APPENDIX 4

# Summary of results from NAO review of departments' Efficiency Technical Notes

This appendix sets out the NAO's opinions on the departments' re-published Efficiency Technical Notes (ETNs). Whilst progress has been made by all departments in their approach to measuring efficiency gains, further improvement is still needed. It is important to note that these opinions are based purely on the information available in the published documents, and not on the actual calculation methods used by departments, which are addressed on a sample basis in the main body of this report. Our assessment of the risk of efficiencies being measured inaccurately is in [Figure 36 on page 78](#).

### Purpose of Efficiency Technical Notes

In its 2004 Spending Review report, HM Treasury sets out its rationale for Efficiency Technical Notes:

*"Each department will be required to set out transparently in Efficiency Technical Notes (ETNs) the precise measures and methodologies that they are using to assess efficiency gains."*<sup>19</sup>

As such, departments' ETNs should explain the approach taken to measuring efficiency gains, highlighting the risks involved and any strategies developed to mitigate these risks. They should be written in a way which is accessible to those not directly involved in the Efficiency Programme.

All departments' ETNs are made available to the public via HM Treasury's website.

### NAO role

The NAO was involved in two phases of the ETN development process:

- In 2004, together with the Audit Commission, the NAO provided written advice on ETNs to central government before the first round of publication in October 2004.
- In 2005 the NAO attended meetings between the Treasury and departments to discuss the content of their revised ETNs. The NAO then conducted an assessment of the final documents which were published in December 2005 to judge the risks of efficiencies not being measured accurately. The results of this assessment are summarised in Figure 35.

### Review of 2005 published ETNs

All Departments have improved the quality of their ETNs over the past 12 months. The main areas of improvement are clearer explanation of the nature of the efficiency gains being pursued, more clarity in the arrangements for achieving the efficiency gains, and greater detail on the methodologies to be used when measuring gains.

Each document was reviewed by the NAO against three key questions:

- Are the measurement methodologies clear and appropriate to efficiency?
- Is service quality appropriately accounted for?
- Is it clear how the quality of data is assured?

Each of these questions is addressed below.

19 2004 Spending Review. "Stability, security and opportunity for all: investing for Britain's long-term future". HM Treasury.

## 1 Measurement methodologies

In assessing methodologies, the NAO reviewed both the strength of the link between input and output measures, and the extent to which good practice in efficiency measurement had been applied.

There are three ways in which departments have linked inputs with outputs:

- The ideal method is one where the inputs and outputs are integrated into a single unit cost measure, as used by the Department of Constitutional Affairs in measuring the average unit cost of asylum and immigration appeals. This shows transparently any change in the ratio of inputs versus outputs.
- The second method is that of measuring both inputs and their related outputs, such as the Department of Health measuring the reduction in the number of day-case patients treated in hospital (output) and the cost per patient (input). In this case the input is a calculated standard cost which does not change over time, and therefore the efficiency calculation is derived purely on changes in the output.
- However the most common method is that of simply measuring a reduction in inputs whilst making an assumption that the output levels remain the same. This is most typically used when measuring corporate service efficiencies where the administrative burden of measuring the volume of output of an internal Human Resource or Finance function is outweighed by the fairly robust assumption that this volume will not alter significantly. Provided robust quantity and quality measures are in place this simple reduction in inputs would be sufficient to count as an efficiency saving.

Whether a Department is complying with good practice, for instance on selecting an appropriate baseline, removing any double-counting, cost-shifting and additional operating costs, cannot be judged conclusively from a document as high level as the ETN. However it is apparent that there is inconsistent treatment of these factors across Departments. Only a few departments recognise potential risks and include mitigating plans, others do not address them.

## 2 Service quality

The Government, in adopting the conclusions of the Gershon Review, has stated that proposed efficiencies will not be achieved at the detriment of the quality of service. There are three ways in which changes in service quality have been addressed in the ETNs:

- An integrated quality measure, such as the Productivity Index currently being developed by the Department for Work and Pensions, is the most robust method, as it does not separate the cost versus output calculation from that of service quality. Instead it uses a cost-weighted output index where the unit cost of the Department's goods and services is adjusted for quality where possible. If implemented appropriately it will incentivise the Department to ensure service quality is maximised, as any reduction in quality will have a direct impact on the index and therefore call into question any efficiency gains reported. However, it should be noted that this measure will not be used as a standalone indicator, but alongside other quality measures.
- A directly related quality measure, such as the Office of the Deputy Prime Minister's indicator of "number of deaths and injuries" for its Fire and Rescue Service initiative, should demonstrate whether the initiative has had a direct impact on service quality. The main difficulty with such an approach is that of interpretation, where it is unclear how efficiency savings are to be treated for any fluctuation in the quality indicator. For example if a department has achieved considerable efficiency savings, but one such indicator were to show a reduction in service quality, should none of the savings be counted, or should there be an element of judgement involved?
- An overarching quality measure, such as the achievement of Public Service Agreement (PSA) targets, is used by almost all departments as an indicator that general service quality has been maintained, but carries a number of risks. The first being that of attribution, where factors beyond the control of the department can affect achievement of the target, making it impossible to conclude whether the efficiency saving has directly affected service quality. Secondly there is also the problem of interpretation, as for directly related quality measures, discussed above.

These numerous approaches demonstrate the complexity of accounting for service quality within efficiency programmes and it would be impractical for departments to measure comprehensively every possible measure of quality related to an initiative. However there must be reasonable assurance that departments are measuring changes in quality and are in a position to identify and manage any adverse impacts.

### 3 Data quality assurance

For efficiency gains to be credible it is critical that the figures being used are shown to be correct. Due to the numerous data sources required to monitor changes across multiple efficiency initiatives, each Department should state in its ETN how it secures such assurance.

All department ETNs have improved their approach to data quality assurance, but have reached varying standards. Some departments identify the specific data quality risks and the validation methods to mitigate them, such as the Northern Ireland Office using the Procurement Unit to check potential double-counting in its Procurement workstream. However, most departments

follow a more general approach to quality assurance through existing management mechanisms, such as the Internal Audit function. Whilst such a general approach has the benefit of being integrated within the existing organisation structure, it does not specify the main risks to data quality, or how they will be managed.

## Conclusion

The challenge departments now face is in realising their proposed efficiencies, and embedding them for the long term. For this to be achieved, efficiencies need to be measured on an ongoing basis, with departments embedding these initiatives within their overall management information systems.

Figure 36 matrix assesses the level of measurement risk faced by departments' efficiency programmes based on their published Efficiency Technical Notes. It judges whether there may be 'few', 'some', or 'significant' risks, using a basic weighting to ensure weaknesses in smaller initiatives do not overshadow good performance in the larger.

### 36 NAO assessment of the risk of efficiencies being measured inaccurately

This matrix assesses the level of measurement risk faced by departments' efficiency programmes based on their published Efficiency Technical Notes. It judges whether there may be 'few', 'some', or 'significant' risks, using a basic weighting to ensure weaknesses in smaller initiatives do not overshadow good performance in the larger.

Department	Targeted Efficiency Gains by 2008 (£m) <sup>1</sup>	Sound measurement methodologies
Department of Health	6,470	<b>Few Risks.</b> Measurement has moved towards outcome, rather than project-centred measurement to provide a more robust link between inputs and outputs.
Department for Education and Skills	4,350	<b>Some Risks.</b> It is unclear how a number of projects intend to account for additional costs. Such concern arises where Information Communications & Technology systems are being implemented, as they are subject to ongoing operational, maintenance and depreciation costs.
Ministry of Defence	2,830	<b>Some Risks.</b> The greatest savings are to be achieved through the Procurement and Logistics workstream, where no specific calculation methodologies have been identified, only general approaches to efficiencies such as "rationalising" and "better asset utilisation".
Home Office	1,970	<b>Some Risks.</b> Due to the large number of initiatives, only some have stated publicly their measurement methodologies.
Department for Work and Pensions	960	<b>Few Risks.</b> All initiatives have clearly stated measures.
Department for Transport	785	<b>Few Risks.</b> All initiatives have identified robust measures.
Office of the Deputy Prime Minister (Central)	620	<b>Few Risks.</b> All initiatives have clearly identified calculations, linking inputs with outputs where appropriate.
Department for Environment, Food and Rural Affairs	610	<b>Some Risks.</b> There is a lack of clarity in the measures to be used, and a risk in using a budget as a baseline for Contracting and Procurement.
HM Revenue and Customs	507	<b>Few Risks.</b> Most of the savings are to be achieved through the reduction of staff, where measurement poses little risk.
Department for International Development	420	<b>Significant Risks.</b> Two areas of efficiency within the programme are based on an evidence base that is still subject to ongoing research.
Department of Trade and Industry	380	<b>Few Risks.</b> Good use is made of unit cost measures, linking the level of inputs directly with outputs.
Department for Constitutional Affairs	290	<b>Few Risks.</b> There is some good use of unit cost measures as well as other clearly stated efficiency measures.
Department for Culture, Media and Sport	260	<b>Some Risks.</b> Most of the gains are to be achieved through Non Departmental Public Bodies, and therefore the specific measures to be used are not stated explicitly.

NOTE

<sup>1</sup> Source: *Releasing resources to the front line – Independent Review of Public Sector Efficiency*, Sir Peter Gershon, 2004. Some of these figures differ from those published originally, as targets have been revised and agreed with the Office of Government Commerce and HM Treasury.

### Appropriate account of service quality

**Some Risks.** The use of Public Service Agreement indicators to assess overall quality may not provide a sufficient check of quality specific to a particular efficiency initiative.

**Some Risks.** The use of Public Service Agreement indicators to assess overall quality may not provide a sufficient check of quality specific to a particular efficiency initiative.

**Some Risks.** Not all initiatives have been given specific quality indicators, and there is considerable reliance on Service Level Agreements and Public Service Agreement targets, which may be too high level to provide sufficient focus on quality.

**Few Risks.** The police, prison and probation services have all established quality assessment frameworks to monitor changes in service levels.

**Some Risks.** Whilst reference is made to some quality indicators, such as “improved delivery specification”, these are not made explicit for all initiatives.

**Few Risks.** Other than for Local Authority efficiencies, most key initiatives have stated clear, relevant quality measures.

**Few Risks.** In all cases the efficiency savings have been linked with their own specific quality indicators, with one initiative embedding its quality indicator within its output component.

**Some Risks.** Although approaches to quality measurement, such as customer surveys, are mentioned they are very high level and not specific to the efficiency being measured.

**Some Risks.** The use of Public Service Agreement indicators to assess overall quality may not provide a sufficient check of quality specific to a particular efficiency initiative.

**Some Risks.** Risks to service quality have been addressed through international indicators on public financial management, but full quality comparisons before and after switches in funding channels are not possible.

**Some Risks.** Whilst there are some measures of internal service standards, there are few specific measures of quality of service to the public, other than broad Public Service Agreement targets.

**Few Risks.** There are clear links between efficiency savings and the relevant quality measures.

**Some Risks.** Because the efficiency measures are not clearly stated, no clear link between these savings and quality can be made.

### Sufficient data quality assurance

**Few Risks.** Risks from external factors and double-counting have been identified, along with plans to mitigate them.

**Few Risks.** In all cases risks to data quality have been declared, and where appropriate the plans to mitigate them. However there is a heavy reliance on the quality of data to be provided by schools.

**Some Risks.** No specific data risks have been identified, and the controls in place are at a general level. However because most of the savings are achieved through adjusted budgets, the savings are more likely to be enforced.

**Some Risks.** Although few specific data assurance processes are mentioned, the risks to headcount figures are being mitigated, and other savings are built into the budgeting process.

**Few Risks.** There is a combination of reviews by the Executive Team and Internal Audit.

**Few Risks.** All initiatives have stated their validation processes, and where a questionnaire is used to measure customer service, the risk to data quality has been declared.

**Few Risks.** Although not all initiatives have declared risks to data quality, how the gains are to be verified has been.

**Few Risks.** The critical initiatives have clear validation processes in place, although specific risks have not been identified.

**Few Risks.** Although no risks to data quality are identified, all gains are to be validated through internal audit and the financial accounting system.

**Some Risks.** Self-assessment of performance remains part of the efficiency programme, although this is complemented by an element of external input.

**Few Risks.** There is a mix of assurance processes from internal audit and validation by the Board, to independent annual studies.

**Few Risks.** Although no risks to data quality are identified, all gains are to be validated through internal audit and the financial accounting system.

**Some Risks.** No data risks or internal controls of data quality are given, only the validation to be performed by external bodies.



**36** NAO assessment of the risk of efficiencies being measured inaccurately *continued*

Department	Targeted Efficiency Gains by 2008 (£m)	Sound measurement methodologies
Foreign and Commonwealth Office	120	<b>Some Risks.</b> Some of the measures for the Information, Communication and Technology programmes are still under development.
Northern Ireland Office	90	<b>Some Risks.</b> The measures stated are fairly broad, making it difficult to judge their appropriateness, for instance how the recruitment of additional staff translates directly into an efficiency saving.
Cabinet Office	25	<b>Some Risks.</b> In general only the method of achieving efficiencies is stated, rather than how they will be calculated.
HM Treasury (Core)	12	<b>Some Risks.</b> Methodologies are vague, stating what will be measured rather than how it will be measured.

### Appropriate account of service quality

**Some Risks.** Only high level approaches to monitoring quality have been given, rather than specific quality measures.

**Some Risks.** All initiatives have identified balancing quality measures, although often only vague methods such as 'Benchmarking' and 'Crime Statistics' have been stated.

**Some Risks.** Almost all initiatives are to be judged through general customer surveys rather than directly relating performance indicators.

**Some Risks.** Other than for efficiencies in the Finance function, quality measures are generally vague, citing among others the use of Public Service Agreement targets, customer surveys, and management reports.

### Sufficient data quality assurance

**Some Risks.** Risks to data quality, such as the use of subjective questionnaires, are very clearly identified, but the controls to manage them are not.

**Few Risks.** For all initiatives potential data quality risks, such as double-counting, have been identified, as well as how the gains are to be validated.

**Few Risks.** Although no risks to data quality are identified, all gains are to be validated through internal audit and the financial accounting system.

**Few Risks.** All initiatives use financial management information which is reviewed monthly by the Treasury Finance Committee.

# APPENDIX 5

## Guidance on data systems for efficiency projects

To help departments to ensure that their efficiency gains are measured accurately and reliably we have prepared guidance for staff responsible for developing and operating the data systems underpinning departmental efficiency projects.

In considering the quality and integrity of departmental data systems, the National Audit Office addresses two fundamental questions:

- Whether departments have operated effective controls over their systems.
- Whether departments have been clear with Parliament and the public about any significant limitations in the systems.

We have amplified those questions by reference to the good practice criteria we and other central bodies signed up to as part of “FABRIC”, and to specific Treasury requirements for departmental reporting (**Figure 37**).

### Key questions for efficiency data systems

The following checklists comprise a series of questions for staff to aid their assessment of measurement risks within their data systems and to inform the development of effective controls. Such controls can include system-specific measures, but also corporate-level actions such as policies on risk assessment and data quality management, including the allocation of role and responsibilities for system oversight.

The checklists are grouped under the three basic elements of a data system:

- A Its design or specification
- B Its operation
- C The arrangements for reporting out-turn data from the system.

### 37 Good practice criteria for data systems

An effective data system should be:

- **relevant** to what the organisation is aiming to achieve. The data system should cover all significant elements of performance included in the objective;
- **well-defined** with clear, unambiguous definitions so that data can be collected consistently, and is easy to understand and use;
- **robust** with all known significant risks should be managed. A robust system has sound procedures for identifying significant risks to data reliability and effective and proportionate controls to address those risks. It is capable of producing data which are:
  - reliable – accurate enough for their intended use; and
  - comparable – with past periods.
- **verifiable** with clear documentation behind it, so that the processes which produce the data can be validated.

In addition a good data system will enable departments to produce clear, transparent and comprehensive public performance reports that:

- present latest out-turn data for all relevant aspects of performance; and
- describe the quality of data systems.

## A Specification of the data systems

Criteria: Relevant, Well-defined

Matching and defining data systems to the requirements of targeted efficiency gains and making sure that the data selected are “fit for purpose” are important initial steps in securing good quality data systems. Key questions include:

- Do data systems address all key aspects of the efficiency gains targeted, including both inputs and outputs (including incremental costs incurred to achieve the gains)?
- What risks to service quality are associated with the planned efficiency gain?
- Do data systems address all key aspects of service quality?
- Do data systems measure the relationship between inputs and outputs (and quality) directly?
  - if not, is the relationship understood?
- Is the “without project” scenario understood and appropriate baselines clearly established?
- Has the quality of data required for demonstrating defensible efficiency gains been determined and specified. For example:
  - The timely alignment of input, output and quality data
  - The accuracy of data – are data free from significant bias, does any bias vary over time?
  - The precision of data – are levels of sampling error or general variance understood?
- Where complex measures are used (e.g. indices or ratios), have these been tested to ensure that they provide a reliable indication of efficiency over time?
- Have the key elements in the data system been clearly and unambiguously defined in the Efficiency Technical Note – if the system is more complicated than can reasonably be set out in a public document, has it been fully documented in internal papers?
- Is the Efficiency Technical Note and other documentation up to date?

## B Operation of the data system

Criteria: Well-defined, Robust, Reliable, Comparable and Verifiable

Processes for collecting, processing and analysing data need to be designed and managed, to ensure that systems operate as intended. In practice, this means having clear basic processes, supported by controls which address known significant risks to system reliability. Key questions include:

- Are there effective procedures for identifying and assessing risks to data reliability?
- On the basis of this risk assessment, have appropriate, proportionate controls been designed and put in place to prevent errors? Controls may include:
  - clear guidelines and adequate staff training for data system operation;
  - controls over data capture, including reconciliations to ensure accuracy and completeness of database updates;
  - where possible use of IT to make sure data entered are complete, lie within plausible ranges of values, and are internally consistent with other data entered;
  - processing checks to ensure any calculations are accurately performed;
  - measures to safeguard the security of data systems, and avoidance of unauthorised amendments; and
  - work undertaken by internal audit or review teams, departmental statisticians/analysts or assurance that can be taken from the work of others, such as the National Audit Office, the Audit Commission and the Office for National Statistics.
- Are controls operated to detect errors? Controls may include:
  - cross-checks with alternative sources of data; and
  - use of trend data to test for congruence or reasonableness of out-turn performance.

The Department may need to vary the controls they operate to reflect the nature of individual data systems. For example:

- Where complex measures are used, are there agreed procedures for analysing, combining and adjusting data?

- For surveys and other specialist data collection processes, are experts involved in the management of the system?
- Where data systems use external data, does the Department have sufficient knowledge of the data source to assess whether there are significant risks to data reliability? For example, has the Department checked that the data are fit for purpose and is it aware of any limitations in the data? Has the Department considered the provider's experience and skills and has it put in place arrangements to ensure that it is informed of any data quality issues as they arise?
- For shared systems (within and across Departments) are the respective responsibilities for data collection and quality management agreed?
- Where contractors are employed to manage all or part of the data system, does the contract specify data quality requirements and quality assurance arrangements?

The Department should also ensure that controls are operated as designed. For example:

- Are responsibilities for operating controls clearly allocated to appropriate individuals or teams?
- Do managers monitor the operation of controls and remedy any identified system failings?
- Where significant weaknesses have been identified has the Department established a programme of action to strengthen data systems?

If data systems are to operate consistently over time, the main elements of the systems along with the operation of controls must be documented and verifiable. The key questions include:

- Are there desk instructions for staff, covering data collection, processing and analysis?
- Is there documentary evidence of the operation of key data system controls?
- Is there documentary evidence of management review of data systems?
- Have responses to control failures and any remedial action been documented?
- Are records held so that reported performance can be verified?

## C Reporting the results of data systems

Criteria: Clear, transparent and comprehensive

The out-turn data produced should also be controlled to make sure that the relevant set of data is provided, any important limitations on the data are disclosed, and the implications explained to internal and external readers.

Key questions include:

- Are there checks to ensure that all relevant measures (specified in the Efficiency Technical Note) are reported upon?
- Where aspects of targeted performance have not been measured or reported, are the reasons disclosed?
- Are latest out-turn data and the period covered clearly identified?
- Do data systems include controls to ensure that:
  - the correct data are extracted from systems for reporting purposes?
  - progress is compared with the right baselines?
- Is the quality of data systems described? Where there are data limitations, are these disclosed and are the implications for interpreting progress explained to readers? This might include:
  - Disclosure of sampling and non-sampling error where this is significant relative to reported changes in performance.
  - Disclosure of any gaps or limitations in Departments' controls procedures.
  - Disclosure of changes to data systems, and their implications for performance reporting assessed.
- Where input, output and quality measures are assessed separately, is it clear how contradictory movements in these measures will be interpreted and reported?
- Are cross-references made to Efficiency Technical Notes and other publicly available documents where this will help the interested reader get a clearer understanding of data systems?
- Has the Department complied with latest OGC and Treasury guidance?