



National Audit Office

The Efficiency Programme: A Second Review of Progress

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SUMMARY

1 In 2004, the Government accepted the recommendations of a report on public sector efficiency by Sir Peter Gershon.¹ As a result, each department was set a series of efficiency targets to be achieved by March 2008.

2 According to the September 2006 figures, departments have reported considerable progress towards these targets:

- £13.3 billion (62 per cent) of the targeted £21.5 billion of annual efficiency gains.
- 45,551 (65 per cent) of the targeted 70,600 headcount reductions.
- 9,412 (70 per cent) of the targeted 13,500 reallocations of posts to the 'front line' of public services.

While there is clear evidence of positive change across the public sector, some reported efficiency gains still carry a significant risk of inaccuracy

3 The Efficiency Programme has made an important contribution in a number of ways. As a result of the Programme there is now a greater focus on value for money issues among senior staff. More specifically, within our sample of projects we saw many examples of improvements in the way public services are being delivered. For example, the Department of Health has achieved £1.2 billion of annual efficiencies by reducing the price at which it reimburses pharmacists and GPs for some of the NHS drugs they dispense. These prices were reduced by negotiating with manufacturers directly, as part of the Pharmaceutical Price Regulation Scheme. In another part of the Programme, the Home Office has secured more than £200 million of efficiencies through procuring asylum accommodation more effectively.

¹ *Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, July 2004.

4 In our last report, published in February 2006, we concluded that reported efficiency gains should all be treated as provisional. Since then some good progress in addressing measurement issues has been made. For instance, all projects across the Programme have now established baselines against which to measure efficiencies. Much of the progress is due to the measurement guidance issued by the Office of Government Commerce in June 2006.

5 As a result of our most recent examination we conclude that of the £13.3 billion now reported:

- £3.5 billion (26 per cent) fairly represent efficiencies made;
- £6.7 billion (51 per cent) represent efficiency but carry some measurement issues and uncertainties; and
- £3.1 billion (23 per cent) may represent efficiency, but the measures used either do not yet demonstrate it or the reported gains may be substantially incorrect.

6 Many of the measurement problems arise from long-standing weaknesses in departments' data systems and from trying to measure savings in areas of the public sector where there are complex relationships between inputs and outputs. It is also important to note that problems with measurement mean that it is possible that in some areas of the Programme efficiency gains are being understated. However, the risk of inaccurate reporting could be reduced in some cases by making straightforward adjustments, such as using more appropriate baselines or not reporting savings that will only be achieved for a limited period.

7 We assessed reported efficiency gains against NAO best practice criteria for efficiency measurement (See Appendix 2). The NAO criteria include the need to net off additional ongoing costs arising from efficiency initiatives. The Gershon Review set Departments' targets on the basis that efficiency savings could be reported gross of costs.

There is greater focus on measuring service quality and in some cases it has improved, but some projects are unable to demonstrate fully that it has been maintained

8 The new reporting process introduced by the Office of Government Commerce embeds the need for reporting quality indicators alongside the efficiency gains. There are many examples across the Programme where service quality

has been maintained or has actually improved, although in a number of instances projects are finding it hard to demonstrate fully that quality has been maintained.

Headcount reductions reported are broadly robust

9 Departments have reported significant progress towards the headcount reduction targets. On the basis of our review of the Department for Work and Pensions and HM Revenue & Customs, we can give substantial assurance on the headcount reductions. The reductions are based on sound information systems and use consistent definitions for headcount over the reporting period. However, while not significant relative to the total reported figures, across the Programme a small minority of reductions arise from departments using early baselines, partly diminishing confidence in what has been achieved.

Headcount reallocations are less reliable

10 Only partial assurance can be given on the reallocations to the front line, partly because reported figures include projected rather than actual numbers of staff transferred. There is also no overall agreed definition of what constitutes a 'front-line' role.

The Office of Government Commerce is fulfilling its role in coordinating the Programme well, but departments' reported gains should be subject to greater challenge

11 Over the past year, the Office of Government Commerce has improved its relationships with departments, in some cases offering significant assistance. For instance, on the basis of recommendations from the first NAO report on the Programme, the OGC issued comprehensive measurement guidance to departments. The OGC has also initiated a new reporting system which requires senior management in departments to sign off on the accuracy of reported efficiencies, provide assurance that service quality has been maintained and indicate how finalised reported numbers can be regarded. Departments, themselves, currently rate the majority of gains as offering a reasonable degree of robustness. The system represents an improvement to how departments – and the public sector – are able to understand the nature of their efficiency gains. However, whether through challenge from the OGC or from internal audit functions within departments, in the NAO's view the measurement of reported gains would have benefited from greater review.

Recommendations

For the Office of Government Commerce

1 Make progress across the Programme more transparent. One option would be a scorecard, published on a central website, providing information on significant projects or workstreams within departments, including:

- the nature of the work;
- whether the efficiencies are cashable or non-cashable;
- how the efficiency gains are being measured;
- how the levels of output or service quality are being maintained; and
- contact details for others interested in replicating the success.

2 Enable stronger challenge to departments on whether their efficiency gains meet good practice.

Efficiency gains would benefit from greater review before they are made public. As individual departments are ultimately responsible for the measurement of their efficiency gains, the challenge could be provided either through stronger use of internal audit functions within departments, or by the OGC.

For Departments

3 Departments must improve their measurement of efficiency gains.

For each reported efficiency gain, Departments should ask:

- Are baselines for inputs, outputs and service quality representative of past performance?
- For efficiencies based on a reduction in inputs, is there evidence that levels of output and service quality have been maintained?
- Have all additional costs been taken into account?
- Is the efficiency sustainable beyond March 2008?
- Is evidence supporting all aspects of the efficiency easily available?

4 Departments should report headcount reductions with greater transparency. When reporting headcount reductions, departments should disclose:

- any progress which occurred prior to the standard baseline of 1 April 2004;
- any expansions in headcount which are excluded from headcount numbers; and
- any significant increases in expenditure which act as a substitute for staff included in headcount figures, e.g. the cost of agency staff or the outsourcing of staff to the private sector.

5 Departments should focus on the efficiency of all aspects of their business, not just those covered by efficiency projects. As part of this they should aim to develop productivity measures, reflecting changes in the unit cost of delivering key outputs over time. For example, the Department for Work and Pensions is doing this through its development of a productivity index. The Department of Health also has an overall cost efficiency measure based on the total inputs and outputs of the NHS. The Department is developing complementary measures to adjust reported efficiency to take account of changes in service quality, as recommended by the Atkinson Review.²

6 Departments should do more to encourage staff to put forward ideas for improving efficiency. Operational staff are often best placed to identify ways to improve, and senior management must create a climate in which ideas come forward and are rewarded. The Ministry of Defence has a formal system in place for doing this which has led to some substantial savings.

² Atkinson Review: *Measurement of Government Output and Productivity for the National Accounts*, Sir Tony Atkinson, January 2005.