



National Audit Office

The Efficiency Programme: A Second Review of Progress

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 156-I Session 2006-2007 | 8 February 2007

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National Audit Office

The Efficiency Programme: A Second Review of Progress

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5 February 2007

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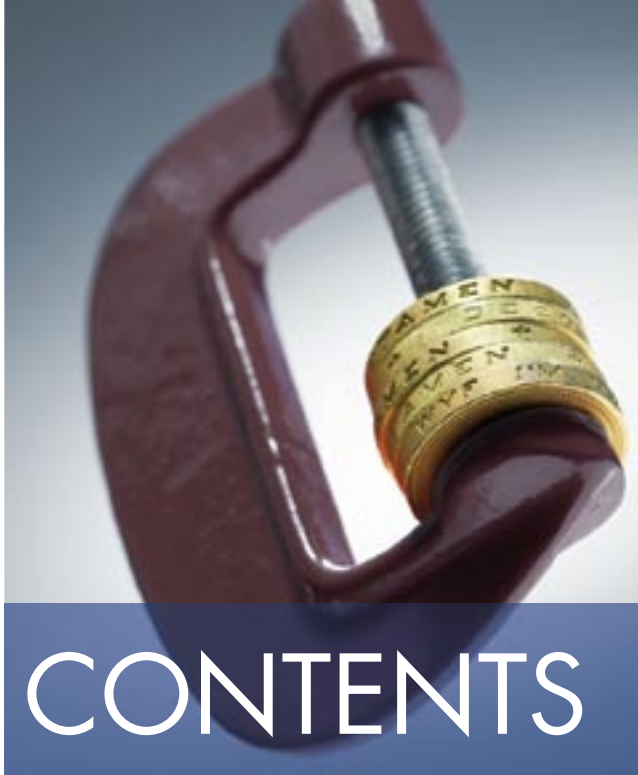
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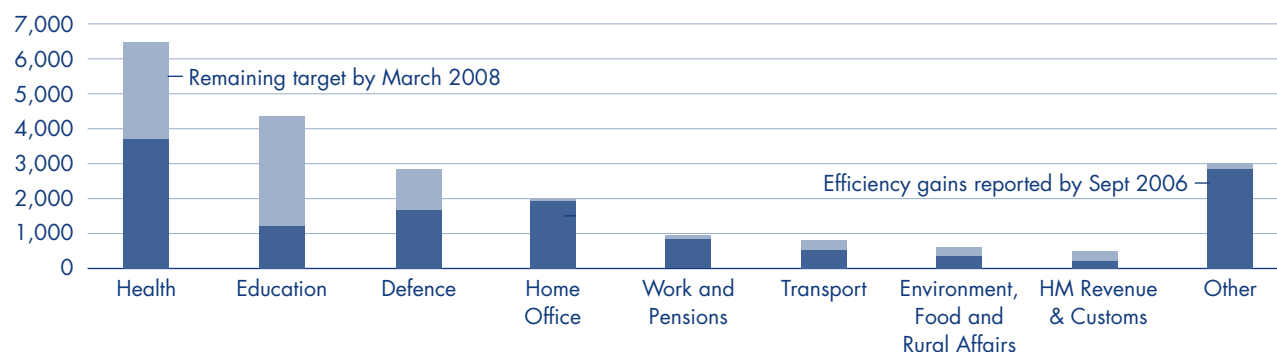
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KEY DATA

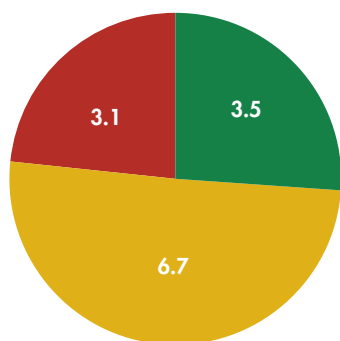
Key data on progress

Departments are reporting varying progress against efficiency gain targets

Reported savings (£ million)



Against the National Audit Office's criteria for assessing efficiency gains, we have rated three quarters of the £13.3 billion of reported efficiencies as Green or Amber, but have significant concerns over £3.1 billion¹



Green: The reported figures fairly represent the efficiencies made.

Amber: The reported figures represent efficiencies, but carry some measurement issues and uncertainties.

Red: There may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect.

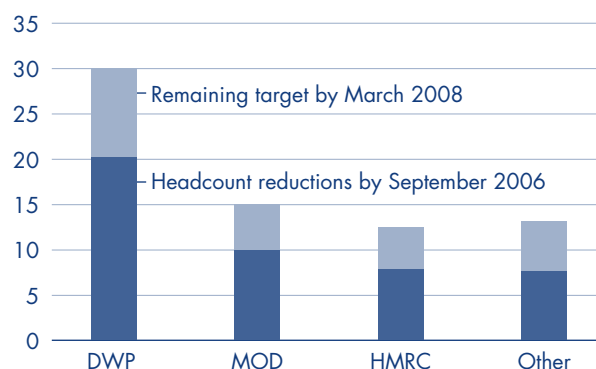
NOTES

¹ Our analysis of the £13.3 billion of reported gains to date is the sum of:

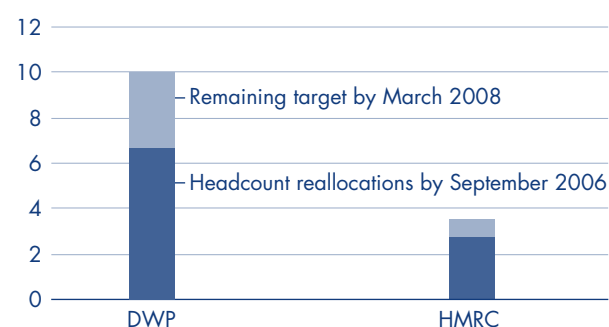
- the ratings of gains from the five largest projects by value (totalling £4.1 billion); and
- an extrapolation of the ratings of a further 20 projects selected randomly from the remainder of the Programme (£9.2 billion).

Departments have reported significant progress towards the headcount reduction and reallocation targets

Headcount **reductions** (000s)



Headcount **reallocations** (000s)





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.

PART ONE

What is the Efficiency Programme?

1.1 In the 2004 Spending Review, the Government accepted the findings of a review it had asked Sir Peter Gershon to conduct on public sector efficiency. In doing so, it launched the Efficiency Programme which aims, by March 2008, to:

- Secure £21.5 billion of annual efficiency gains.
- Reduce the civil service by 70,600 posts and reallocate 13,500 posts to the front line of public services.³
- Embed efficiency into the culture of the public sector.

1.2 Over the years, there have been many attempts to improve the efficiency and effectiveness of government operations. As **Figure 1** explains, the scope and nature of the current Efficiency Programme is different and, in many ways, more ambitious than earlier efforts. For more detail on what the Programme is aiming to achieve, **Figure 2** lists the targets each department was set in the 2004 Spending Review. **Figure 3 on page 10** defines 'efficiency gains', 'headcount reductions' and 'reallocations'.

1 The Efficiency Programme is different from previous efficiency initiatives

- Departments can only report efficiencies if they can demonstrate the quality of public services has not been adversely affected by reforms.
- The efficiency gain target extends to the whole of the public sector. For example, local government must deliver £6.45 billion of efficiency gains.
- At least 60 per cent of the £21.5 billion of efficiency gains were expected to release cash, known as 'cashable' gains. However, because departments are permitted to re-invest this cash in other services, in most cases cash that is released cannot be observed directly in reduced budgets.
- Departments can also include gains where the quality or quantity of outputs has increased relative to costs, known as 'non-cashable' gains.
- Departments can choose how they allocate the targets across their activities. They can include projects already underway when the Efficiency Programme began; 80 of the 200 projects reporting gains started before the Gershon Review was published, although the scope of some of these projects has subsequently been extended.

³ This report does not cover the Government's commitment to relocating 20,000 public sector posts away from the South East of England, which it manages as part of the Efficiency Programme. Progress is reported in the Budget and Pre-Budget Report, and by September 2006 10,574 relocations out of the 20,000 target had been reported.

1.3 The primary purpose of this report is to assess the reliability of the efficiency gains and headcount reductions reported to date. The report also examines how the Office of Government Commerce is coordinating the overall Programme and what more can be done to make efficiency an integral part of public sector management.

2 The Gershon Review set efficiency targets for each department

Department	Efficiency targets	
	Gains (£ million)	Reductions in posts
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	650
Communities and Local Government	620	400
Environment, Food and Rural Affairs	610	2,400
Chancellor's departments	550	13,350
Other departments	1,535	3,420
Local government	6,450	–
Total	21,480 ¹	70,600

Source: *The Gershon Review*

NOTE

¹ The total for efficiency gains is £5,650 million less than the sum of the figures in the 'Gains' column. This is because most of the gains to be delivered across local government are also included in the departmental targets. See Appendix 4 for a summary of how local government reports efficiency gains.

3 Definitions of key terms

Efficiency gain

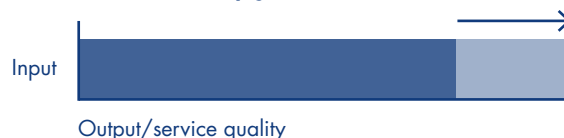
Efficiency gains represent lasting improvements in the way public money is spent. They are:

- **Sustainable.** Once secured they are sustainable beyond March 2008 for the foreseeable future.
- **Neutral to service quality.** Departments need to demonstrate reforms have not impacted adversely on the quality of public services.
- **Cashable or non-cashable.** Efficiency gains can either be cashable or non-cashable. Cashable gains involve reducing inputs without affecting service quality (A). Non-cashable gains represent increased output or service quality from the same level of inputs (B).

A. Cashable efficiency gain



B. Non-cashable efficiency gain



Headcount reduction

Headcount reductions are the removal of posts by Departments. They relate to:

- **Civil service posts.** The reductions impact only on the civil service and military posts in administrative and support functions, not the wider public sector.
- **Period since 1 April 2004.** The standard baseline for departments to begin recording headcount reductions is 1 April 2004.

- **Permanent and temporary employees.** Headcount reductions apply to full-time equivalent posts filled by employees with permanent or temporary contracts.

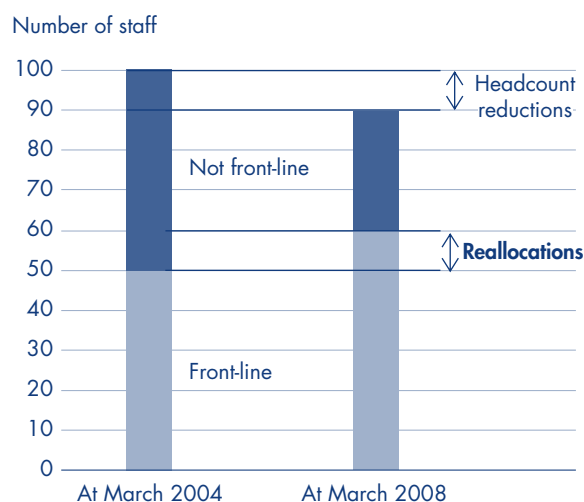
- **Posts not personnel.** Headcount figures from which reductions are derived relate to posts filled by civil servants or military posts in administrative and support functions. While some departments take the approach of reporting reductions in the number of employees on their payroll, others include reductions in consultants, interim managers and staff employed through agencies who are occupying posts otherwise filled by civil servants.

Headcount reallocation

In addition to their headcount reduction targets, the Department for Work and Pensions and HM Revenue & Customs have been set targets to reallocate posts to the 'front-line' of their businesses (C). Those working in reallocated posts are:

- **Front-line.** Headcount reallocations are new posts to fulfil 'front-line roles in the Civil Service'¹.
- **Often new to the departments.** Because reallocation refers to posts rather than individuals, employees filling the new roles may be existing employees or new to the department.

C. Headcount reallocations



NOTE

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

PART TWO

What progress has been made towards the £21.5 billion target?

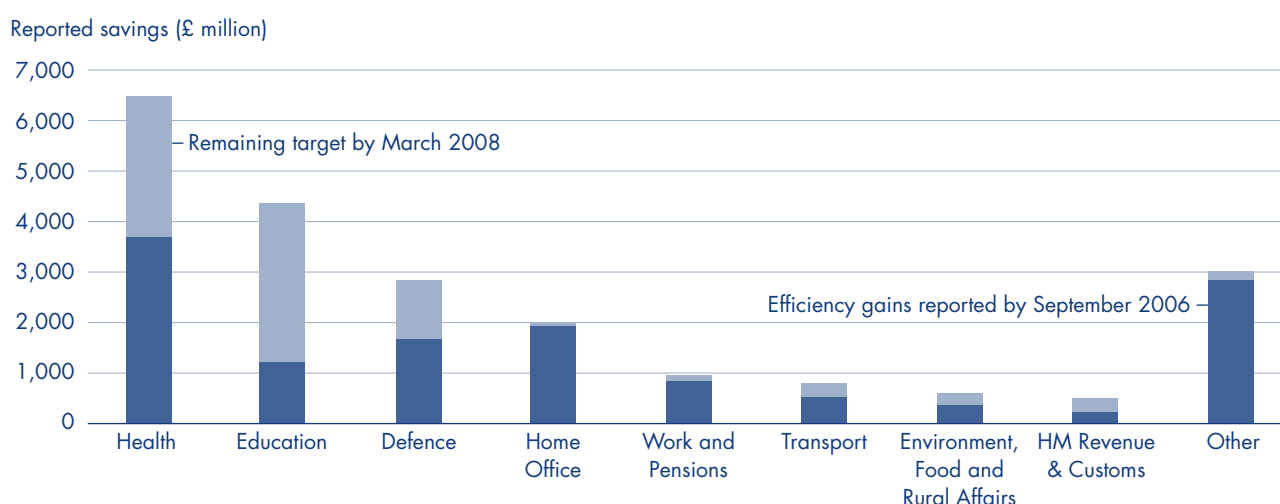
2.1 More than half way through the Efficiency Programme's 3-year reporting period, departments are reporting varying levels of achievement against their targets. **Figure 4** shows that while the Home Office and the Department for Work and Pensions have reported achieving more than 90 per cent of their efficiency gain targets, the Department for Education and Skills has only reported achieving around 28 per cent. Although this may be a result of the phasing of project benefits, as with the Department for Education and Skills which is ahead of where it expected to be at this stage of the Programme, it indicates that some departments still have more to deliver than others. For a full timeline of announcements on progress of the Programme, see Appendix 5.

2.2 The Gershon Review expected more than 60 per cent of the efficiency gains to release cash. Reported progress to date supports this expectation; as **Figure 5 overleaf** demonstrates, £8.1 billion of the £13.3 billion reported gains (61 per cent) is classed as cashable.

2.3 The Efficiency Programme identified five main approaches to achieving efficiencies, known as workstreams:

- **Procurement** – reducing the amount the public sector spends on procuring goods and services through more aggregation of demand and improved supplier management.
- **Productive Time** – freeing front-line staff from time spent on unproductive tasks, enabling them to increase public sector output.
- **Policy, Funding and Regulation** – reducing the cost of the parts of government setting delivery and financial frameworks that apply to the public and private sectors.
- **Corporate Services** – improving the efficient delivery of Finance, IT, HR and property management services to all government organisations.

4 Reported progress varies significantly across departments

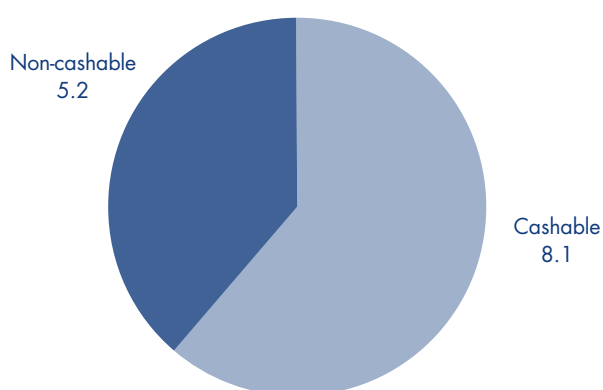


Source: National Audit Office analysis of OGC Efficiency Team data

- **Transactional Services** – improving the efficiency of the delivery of those services that represent the most common interaction that citizens and businesses have with local and national government.
- **Other** – efficiency gains which do not fit easily into the workstreams.

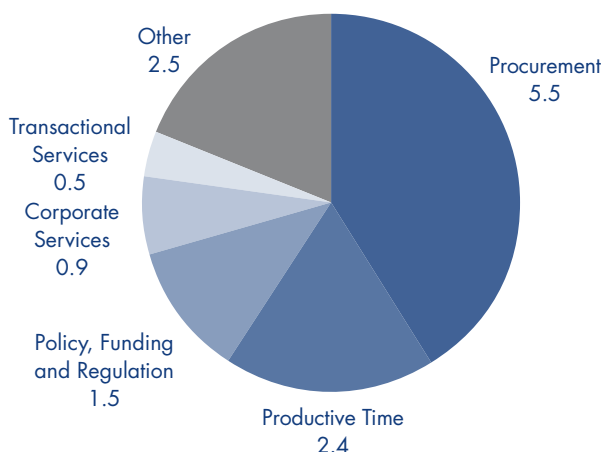
As **Figure 6** shows, the Procurement and Productive Time workstreams account for £7.9 billion of the £13.3 billion reported to date.

5 Around 60 per cent of reported efficiency gains are classed as cashable (£ billion)



Source: National Audit Office analysis of OGC Efficiency Team database. Calculation based on efficiencies report as at September 2006

6 More than half of the reported efficiencies have been achieved through the Procurement and Productive Time workstreams (£ billion)



The Programme has achieved some good results, but some reported efficiency gains still carry a significant risk of inaccuracy

2.4 Projects across the Programme are making significant improvements to the efficiency of public services. For example, the Home Office has secured efficiencies through procuring asylum accommodation more effectively (see **Figure 7**), and the Department for Constitutional Affairs is saving money by managing the length and pay costs of very high cost criminal cases more actively. This section of the report focuses on the accuracy of reported efficiency gains and identifies that many projects are finding measurement difficult. As **Figure 8** shows, we consider £3.1 billion of the £13.3 billion reported to date as carrying a high risk of not accurately capturing efficiency gains, i.e. there may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the gains may be significantly higher or lower than the figure reported.

2.5 Much of the risk comes from the complexity of measuring efficiency for projects which are typically not standalone initiatives; the many relationships between inputs and outputs of public services means that capturing the financial benefits brought about by changing one or more of these relationships is complicated. For example, in its Service Improvement project, the Department of Health measures efficiency gains arising from reforms to patient care. The methodology needs to take account of the dynamic and complex nature of the NHS; continuous changes to the levels and nature of demand for services, as well as on-going investment in staff, diagnostics and new treatments, make designing year-on-year efficiency measures difficult.

2.6 The problems with measuring efficiency gains are exacerbated by long-standing weaknesses in departments' data systems. Ideally, departments should have robust management information systems that measure all the key inputs and outputs, but in their absence there are some simple steps that projects can take to improve the reliability of their reported efficiencies.

2.7 Given the difficulties of measurement, our analysis aimed to gauge whether reported figures fairly, rather than precisely, represent the changes made by a sample of projects. We assessed a sample of 25 projects, covering 36 per cent of the reported efficiency gains (see Appendix 3). The assessment was made using a standard questionnaire (see Appendix 2) designed to verify the reliability of:

- the financial benefit reported; and
- assurances that projects have not adversely affected service quality.

2.8 Our assessment classified projects into three categories:

Green: The reported figures fairly represent the efficiencies made.

Amber: The reported figures represent efficiencies, but carry some measurement issues and uncertainties

Red: There may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect.

2.9 It is clear that departments are engaging with the updated measurement guidance published by the OGC in June 2006. This guidance introduced a new reporting process, embedding the need for service quality measures and robust data assurance, which departments agree has strengthened the reliability of their reported figures.

2.10 When reporting their efficiency gains, departments are required to undertake a self-assessment of their reported numbers against a measurement and data robustness framework developed by the OGC, in consultation with the NAO and the Audit Commission. The framework was published on the OGC's website in June 2006⁴ and uses many of the same principles as the methodology used by the NAO to rate efficiency gains in this study. It encourages departments to identify areas of measurement which need further work. Departments have been assessing their gains against the framework since Summer 2006.

2.11 However, specific measurement issues still arise when reviewing the detail behind the reported figures. While some projects apply good measurement practices, there are a number of common issues within our sample.

All projects now have baselines, although these are not always representative of past performance

2.12 All of the projects have now established baselines against which to measure efficiencies. This compares to the end of 2005 when 108 projects had not established their baseline positions. However, while the coverage of baselines has improved, there are still some problems regarding their appropriateness.

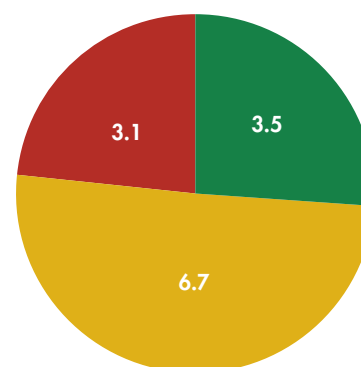
7 The Home Office's National Asylum Support Service has reported efficiencies of more than £200 million as a result of improved procurement of accommodation contracts.

The National Asylum Support Service (NASS) provides accommodation for asylum seekers who are destitute (or likely to become destitute)

The NASS acknowledges that because of the volatility of the number of asylum seekers, the contracts it let originally with accommodation providers in 2000-01 have not always proved to be value for money. According to records held by NASS, the number of destitute asylum seekers (including dependants) in their accommodation increased from 27,800 people in March 2001 to nearly 67,200 in March 2003; a 142 per cent increase. The subsequent initiative to improve efficiency means that the NASS has stopped paying for empty beds, and pays less for those beds that are occupied as a result of re-negotiating more competitive rates with the housing contractors.

Source: National Asylum Support Service: The provision of accommodation for asylum seekers. National Audit Office report, July 2005

8 Against the National Audit Office's criteria for assessing efficiency gains, we have rated three quarters of the £13.3 billion of reported efficiencies as Green or Amber, but have significant concerns over £3.1 billion



Green: The reported figures fairly represent the efficiencies made.

Amber: The reported figures represent efficiencies, but carry some measurement issues and uncertainties.

Red: There may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect.

Source: National Audit Office analysis of sample projects

⁴ http://www.ogc.gov.uk/efficiency_measurement_guidance.asp.

2.13 Most of our sample projects were initiated or conceived of prior to the Gershon Review of July 2004. Baselines for these projects have been agreed with the Office of Government Commerce depending on individual circumstances. For some projects, baselines have been agreed which predate the Efficiency Programme. As outlined in its Efficiency Technical Note,⁵ the Department of Health's initiative to streamline its central functions agreed a baseline of 2002-03 in order to capture the full benefits of the project. The Department's target set out in the Gershon Review reflected the agreement to use the early baseline for this project. The agreed baseline means that nearly £30 million was delivered prior to the formal start of the Efficiency Programme. Although becoming part of the Programme has increased projects' focus on delivering efficiencies, the use of different baselines reduces the clarity of what has been achieved as a result of the Programme.

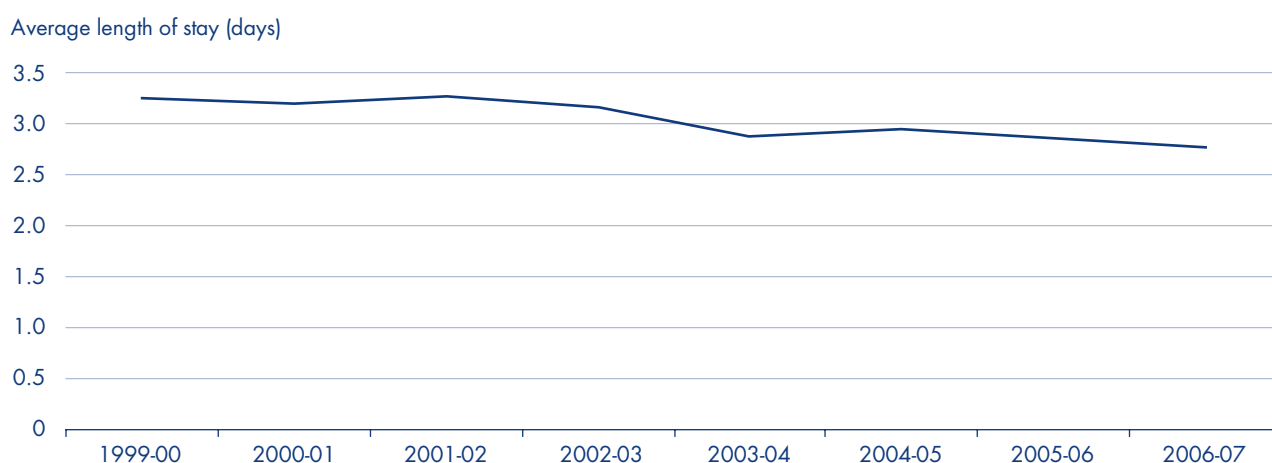
2.14 Another area of the Programme with a problematic baseline is the Department of Health's reduction in the average length of time patients stay in hospital. The efficiency gain quantifies the financial benefit from patients spending less time in hospital than they were at the beginning of the reforms. As **Figure 9** shows, since 2001-02, the average length of stay has followed a downward, yet volatile trend. Alongside other systematic problems with the data, the volatility makes it difficult to estimate accurately the efficiencies secured.

2.15 Because of this volatility, the Department made an adjustment to the 2003-04 baseline. However, this adjustment is not statistically sound and, following discussions with the NAO, the Department is looking to move to measuring the efficiencies on the basis of a three-year moving average. This approach would delay final reported figures for a year after the end of the Programme, but would be a more acceptable methodology providing it can be demonstrated that the unadjusted figures are inherently volatile and therefore not truly representative of performance in a given year. It is likely resulting efficiencies would fall between the unadjusted figure (£209 million) and the previously reported figure (£518 million). (Separately, the Department believes the way that hospital data are compiled may be leading to an understatement of gains, but recognises that it does not yet have the evidence to justify an adjustment on this basis.)

Some measures rely on estimates

2.16 Efficiency gains are more reliable when they use data that measures actual performance. Given the difficulties in quantifying some types of efficiency improvements, using estimates is sometimes unavoidable. However, robust analysis is still needed to ensure such estimates are as reliable as possible.

9 Average length of stay has been falling since 1999-2000



Source: Department of Health

⁵ Departments set out how they are measuring their efficiency gains in Efficiency Technical Notes (ETNs). ETNs are available on the HM Treasury website at <http://www.hm-treasury.gov.uk>.

2.17 The Department of Health has reported £93 million of efficiency gains from GPs carrying out fewer bureaucratic tasks, such as signing passports or writing repeat prescriptions. Having consulted a panel of GPs, the Department proposed eliminating or streamlining more than 40 tasks. Some of the savings will be fully realised as a result of changes made by the Department, for example £8 million relates to the Department no longer asking GPs to submit certain information. Procedures to secure the other efficiency gains range from non-mandatory guidance to formal regulatory changes. For these gains, the Department has assumed an average compliance rate of 50 per cent. To be sure of the value of these gains, the Department needs to provide more evidence that the 50 per cent estimate is reliable. Given the low value of the gains as a proportion of the Department's overall efficiency programme, and the resulting practicalities, costs and burden on GPs, the Department has not commissioned follow-up work to establish the scale of the efficiencies secured.

2.18 The Department for Communities and Local Government has centralised the purchasing of wide-area communication equipment for fire and rescue services. The increased purchasing power means that equipment is costing less than when fire brigades bought the equipment themselves. However, the £8 million of reported efficiency gains are calculated by comparing actual expenditure of £1 million to a budget of £9 million. The Department is unable to substantiate how reliable the budget was as an estimate of baseline expenditure when it was allocated to the project in 2003, and may be considerably overstating the efficiency gains.

There is inconsistency in the way costs are treated in efficiency calculations

2.19 To provide a true reflection of whether a project is delivering efficiency savings, it is necessary to reflect all the associated ongoing costs and benefits. Although the Gershon Review set no requirement for efficiency projects to report their efficiency savings net of ongoing costs, some projects have taken it upon themselves to do so, while others have not.

2.20 The Department for Work and Pensions is reporting nearly £300 million in efficiency gains by paying benefits electronically, as a result of an initiative started in 1999 with the Payments Modernisation Programme. However, not all customers were willing or able to make the changeover, and therefore in line with its objective of providing greater choice in public services, the Government asked HM Treasury to consider ways of improving financial inclusion. As a result, HM Treasury introduced the Universal Banking Programme, which gives customers greater choice in how they receive benefits and payments. As well as receiving payments directly into bank accounts, recipients can either continue to receive cheques or make use of the newly created Post Office Card Account. In 2003 the Department for Work and Pensions introduced its Direct Payment Initiative (DPI) to provide information to customers about the choices they had for receiving their benefits. The savings as a result of customers moving from more expensive methods of payment to less expensive methods are reported as efficiencies. As a standalone project, these efficiencies are reliable and, as such, the project represents good value for money.

2.21 Because the costs of running the Post Office Card Account are a cross-government cost, it was agreed by all departments concerned that these costs would be reported through the Universal Banking Business Case. However, the Universal Banking Business Case is not reported as part of the Efficiency Programme. Therefore, while the Efficiency Programme reports all the benefits from the Payments Modernisation Programme and Direct Payment Initiative, it does not take account of the costs of the Post Office Card Account, which were approximately £164m for DWP in 2005-2006. Reporting efficiencies gross of costs is in line with the 2004 Spending Review methodology.

2.22 The Department of Health has gone further than required by the Gershon Review by netting off £60 million of additional ongoing costs for community matrons from the reported gains of its Service Improvement project. These extra community care resources are employed to reduce emergency admissions and therefore contribute to the reduction in the number of emergency bed days.

2.23 However, in its reporting for the Efficiency Programme, the Department does not take account of other additional expenditure, such as increased staffing costs in hospitals. While the central initiatives driving the service improvements are not predicated on additional resources, and disaggregating the effect of the additional inputs on performance indicators would not be possible, the project illustrates the problem of reporting efficiencies on a project-by-project basis rather than addressing organisation-wide efficiency. The Department reports the efficiency of the NHS as a whole in its NHS Cost Efficiency Index.⁶ By considering total NHS costs against the value of NHS outputs, the Index incorporates the impact of the additional resources across all of the NHS key performance indicators, including those used to calculate the Department's efficiency gains. The Index is also more likely to reflect accurately the scope of local NHS efficiency improvements, some of which cannot be captured by national indicators used to calculate efficiency gains for the Efficiency Programme.

There are limits to how much assurance can be taken from the processes established to review efficiencies from wider public sector bodies

2.24 Departments that report efficiencies achieved by arm's length bodies do not calculate efficiencies themselves, relying instead on submissions from the bodies quantifying their efficiency improvements. Given the complexities of efficiency measurement, robust assurance processes are needed to ensure the reported efficiencies reflect good practice. The Ministry of Defence has established an assurance process that assesses, in detail, the efficiency measures used (see **Good Practice Example 1**). Other departments, however, rely on processes of reporting with more indirect forms of assurance, reflecting the nature of their relationships with the wider public sector.

GOOD PRACTICE EXAMPLE 1

The Ministry of Defence has established a comprehensive auditing framework to assess efficiencies arising from its Defence Logistics Transformation Programme

The size and complexity of the Defence Logistics Transformation Programme means that the Department's central efficiency team is unable to directly monitor and assess the reliability of reported efficiency gains. As a result the Department's internal audit organisation carries out an annual audit of the reported efficiencies. It uses a comprehensive set of criteria against which to assess a sample and inform the project team how reliable the reported efficiency gains are. The Department then uses the percentage of the sample gains that internal audit consider to be reliable, and extrapolates this across the entire programme for reporting purposes. Although the Defence Logistics Transformation Programme is not a separate public sector body, the auditing framework the Department has in place is an appropriate model for other departments' reporting structures which include arm's length bodies.

2.25 From our sample, the Department for Education and Skills and the Department for Culture, Media and Sport rely on efficiency gains reported by local authorities in their Annual Efficiency Statements. As we stated in our first report, the summary nature of the Statements makes the level of external review particularly important. Over the past year, the level of external review has increased; the Audit Commission is now reviewing the processes followed by each council in compiling their Statement and whether the Statement is consistent with the auditor's knowledge of the council as part of its Use of Resources assessment of each local authority. However, in order to avoid overburdening local authorities, the Commission is not auditing the figures reported.

2.26 In addition, the Department for Communities and Local Government has now set out the process to be followed where a council's Statement is reported to be unsatisfactory by the Audit Commission. This will involve appointing independent consultants to check the production of a rewritten Statement, and the deletion of any gains reported by that council if the Statement remains unsatisfactory. Appendix 4 outlines the full process of reporting local authority efficiency gains.

2.27 Police force efficiencies are reported on the basis of Annual Efficiency Plans rather than on actual achieved performance. To be confident that reported efficiency gains are reliable, the Home Office requires assurance that the individual efficiency initiatives identified in the Plans are implemented. In 2005 the Home Office devolved responsibility for providing such assurance to

⁶ The Department of Health explains the relationship between its NHS Cost Efficiency Index and the efficiencies reported as part of the Efficiency Programme in its Efficiency Technical Note, which can be found on the Department's website at www.dh.gov.uk.

Police Authority Treasurers. In respect of cashable gains, it is unlikely that Police forces will overstate gains as the amounts are removed directly from their base budget at the beginning of the year; overstating efficiencies would mean they would have less money to spend than they require. Further assurance that these new budgets have been adhered to and the efficiencies achieved comes from the financial auditing process. Non-cashable gains do not benefit from this level of assurance as they do not affect the budgets.

2.28 With respect to service quality, HM Inspectorate of Constabularies monitors the general performance of police forces through annual quality assessments. To avoid additional bureaucracy for police forces, specific assurance is not provided on the effect individual cashable efficiencies have on aspects of service quality. The reliability of non-cashable efficiency gains are only reviewed if performance in a related area has fallen.

A number of initiatives represent financial savings for a limited period only, and therefore in the NAO's view are not fully sustainable

2.29 A true efficiency gain should represent a fundamental change to the way in which a department behaves. Under the OGC's measurement guidance, an efficiency gain is sustainable if it can be reported for the current year and two subsequent financial years. In our sample, three projects are reporting financial savings which, while meeting the OGC's definition of sustainability, are for a limited period only. In the NAO's view, such savings can only represent sustainable efficiencies if it can be demonstrated that they are part of a programme of reforms which will generate the savings each year.

2.30 Around 20 per cent (£4.6 million) of the efficiencies reported by the Ministry of Defence's Fast Jets programme are achieved by decommissioning some of its fighter jets ahead of schedule. A number of Jaguar and Tornado jets were due to have been decommissioned by 2008-09 alongside the introduction of the Typhoon multi-role fighter. Early decommissioning means the Ministry has made genuine savings on servicing costs and these are being reported as efficiency gains, in accordance with OGC measurement guidance. However, these only arise up until the original decommissioning date, and in the NAO's view cannot therefore be considered sustainable.

2.31 The Department for Communities and Local Government decided in 2002 to replace the wide-area communications systems of Fire and Rescue Services (FRSs) in England and Wales. The new system, Firelink, is due to be implemented from 2008-09. To minimise the risk of failure of existing FRS radio systems, the Department is funding and centrally purchasing

replacement parts for those items that carry a high risk of failure. Financial savings have been achieved through aggregating the purchasing of replacement parts. However, because this arrangement is only for the period leading up to the introduction of Firelink, the reported efficiencies will be sustainable only until 2010.

There is increased focus on measurement of service quality and in some cases it has improved, but some projects are unable to demonstrate clearly that both outputs and service quality have been maintained

2.32 Most of our sample projects measure efficiencies based on a reduction in the cost of inputs. In order to demonstrate that true efficiencies have been achieved, measurement methodologies should contain measures of quality and output that show these have been maintained despite the reduction in input costs.

Where quality measures have been established, departments have not always been able to confirm that service quality has been maintained

2.33 The Department of Health's Service Improvement projects have reported more than £1.1 billion in total efficiencies. The Department uses a basket of quality indicators to provide assurance that reforms have not adversely affected the quality of care given to patients. The indicators include Public Service Agreement targets, patient surveys and mortality rates. Broadly, the measures indicate that overall quality of service has at least been maintained since the beginning of the Programme.

2.34 However, for the efficiencies reported, one of the Department's key measures suggests service quality may have deteriorated, although there is not conclusive evidence the deterioration has been caused by the efficiency initiatives. Since 2002, the earliest date for which figures are available, the proportion of emergency readmissions within 28 days of discharge has been rising year-on-year. This has continued during the period of the Efficiency Programme (see Figure 10 overleaf). The Department considers the most likely cause for this rise to be the higher proportion of patients in hospital who are seriously ill, and therefore more likely to be readmitted. This follows from an NHS strategy to treat less ill patients out of hospital where appropriate. The Department has produced data which indicate that the average patient age and case complexity of hospital admissions have risen over the same period. However, it has not yet completed detailed analysis to prove this as the causal link.

Some quality measures are too high-level, or not sufficiently linked to the changes made to provide assurance that quality has been maintained

2.35 To demonstrate that a project has not had a detrimental effect on service quality a measure should not only relate closely to the change being made, but be comparable to a baseline period. The new reporting process introduced by the OGC in June 2006 has increased focus on the need for quality measures. However, to avoid the cost of developing new measurement processes many departments rely on Public Service Agreement targets, or similar high-level indicators of department objectives as their service quality measures. While in some instances they relate directly to the outputs of the efficiency project, in others they are too high-level and therefore not representative of the effects on actual service quality.

2.36 One of our sample of 25 projects was the Home Office's headquarter restructuring project. The Department is making significant reductions in its headcount but has so far only used performance against its Public Service Agreement targets on crime reduction and asylum numbers, combined with more general key performance indicators as its means of verifying service quality. The Department is making efforts to link its quarterly performance reporting more closely with its headcount reduction strategies to address this shortcoming.

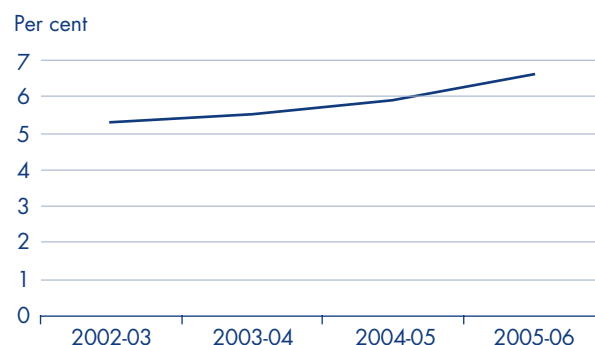
2.37 A number of projects, such as the Department for Work and Pension's Direct Payments Initiative, rely at least in part on customer surveys as a check that service quality is being maintained. Although customer surveys are not always directly linked to an efficiency improvement, or provide a comparison of service quality before and after the Efficiency Programme, they do provide some level of assurance that service quality has not been compromised. In the case of the Direct Payment Initiative, greater assurance is taken from the fact that 98 per cent of customers choose to receive their benefits directly into their bank accounts.

Some projects are reporting efficiencies which may be arising from changes in the demand for output rather than improvements in efficiency

2.38 For those projects that purely target input reductions there are few reliable measures available to check whether this has not simply been the result of fluctuations in the required output.

10 While the Department's overall measures demonstrate quality of service has at least been maintained, there has been an increase in the rate of readmissions since the beginning of the Programme

Rate of people re-admitted as an emergency within 28 days (as a proportion of total number of patients discharged)



Source: Department of Health

2.39 The Veterinary Laboratory Agency (an Executive Agency of the Department for Environment, Food and Rural Affairs) uses its financial accounts to demonstrate that overall expenditure in certain areas have reduced against the baseline. Although this demonstrates financial savings, there is a risk that reported gains represent short-term fluctuations in expenditure rather than sustainable efficiency improvements.

2.40 The Department of Trade and Industry is claiming reduced overall spending on consultants as an efficiency gain. While there are clear improvements in the way consultants are managed, such savings may also be achieved by the changes in the demand for consultancy work. Such a change could be a major consultancy project ending in one year that is not replaced by another project in the following year. Total expenditure in the second year may therefore be considerably lower than in the first, but simply as a result of a reduced output rather than an improvement in the ratio between inputs and outputs.

PART THREE

What progress has been made towards the headcount targets?

3.1 In September 2006, departments reported 45,551 headcount reductions and 9,412 reallocations of posts to the front line. As **Figure 11** demonstrates, this represents significant progress towards the March 2008 targets.

3.2 Our analysis is based on a review of reported headcount reductions and reallocations in the Department for Work and Pensions and HM Revenue & Customs. Together the departments account for 62 per cent of reported reductions and all of the reallocations of posts to the front line.

Reported headcount reductions are based on reliable information

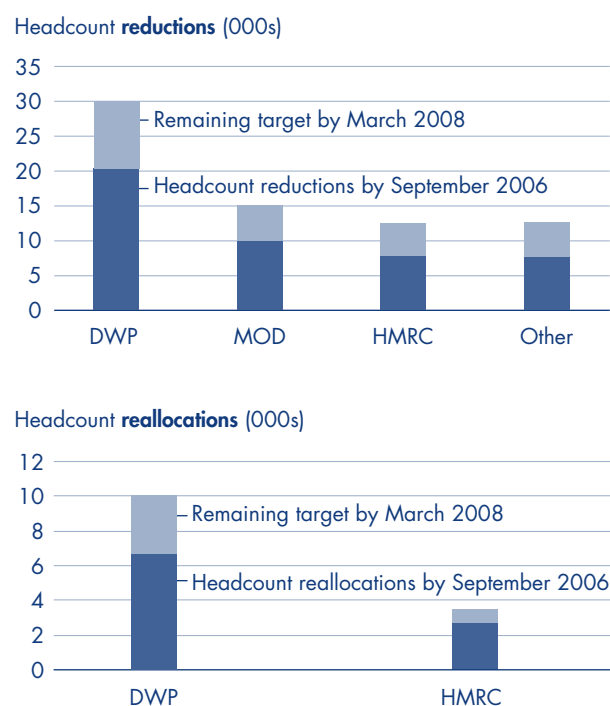
3.3 HMRC and DWP use information from their payroll systems to monitor headcount. We found reported reductions to be consistent with raw data from the Departments' payroll systems and the systems to be reliable for measuring headcount reductions.

3.4 Further assurance was taken from:

- work by the NAO in auditing the 2005-06 accounts giving rise to no significant issues on the accuracy of payroll data; and
- Departments' internal audit work on payroll systems indicating the payroll systems are fit for purpose.

3.5 HMRC and DWP include in their headcount figures all staff paid through the payroll systems. For example, staff members on paid maternity leave are included in the figures, whereas temporary members of staff paid through agencies are not. The Departments have applied this definition consistently during the period.

11 Departments have reported significant progress towards the headcount reduction and reallocation targets



Source: National Audit Office analysis of OGC Efficiency Team data

Replacement labour costs have not risen at a departmental level

3.6 In making headcount the focus for departments, a major risk for the Efficiency Programme is the possibility that departments are spending more on labour that is not accounted for in a department's headcount. The main potential substitutes are:

- Consultants not on the payroll.
- Other staff substitutes not on the payroll (for example agency staff, interim professionals).
- Overtime of existing staff on the payroll.
- Increased use of outsourced support services.

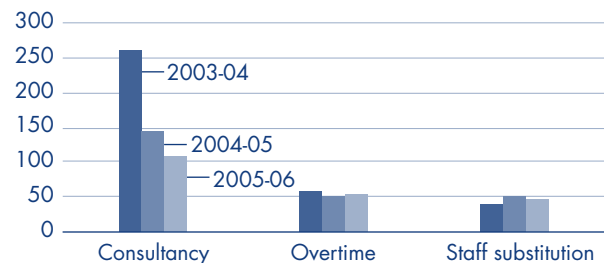
3.7 As **Figure 12** demonstrates, total expenditure for departments show there have not been significant increases in the use of consultants, overtime or other staff substitutes since the beginning of the Efficiency Programme. Where expenditure has increased it has tended not to be within areas affected by the headcount reductions. Within DWP, Jobcentre Plus has increased its spending on 'other staff substitutes not on the payroll' from £15 million (2003-04) to £26 million (2005-06). The increase has primarily related to additional temporary appointments in finance, HR, IT and procurement.

3.8 Another possible area of substitute expenditure which could contribute to headcount reductions is outsourcing arrangements. Headcount reductions which have arisen as a result of an activity being transferred to a third party are of less value to the taxpayer as the services still have to be paid for. In HMRC we found there to be no significant changes to outsourcing arrangements since April 2004 which would have a significant effect on headcount reductions. Included in the DWP reported headcount reductions are 285 staff transferred to Capita to provide record storage services. The transfers were made as part of the Department's strategy to select the best value for money way of delivering internal services. The cost of the contract is around £9 million per year.

12 Overall spending on consultancy, staff substitution and overtime has not increased

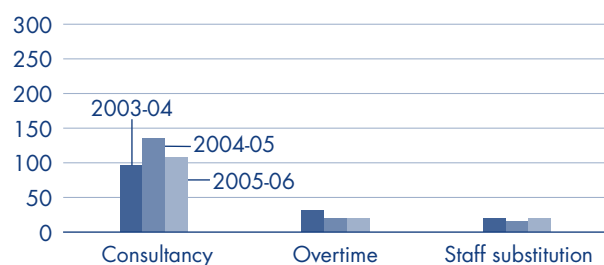
DWP expenditure

£ million



HMRC expenditure

£ million



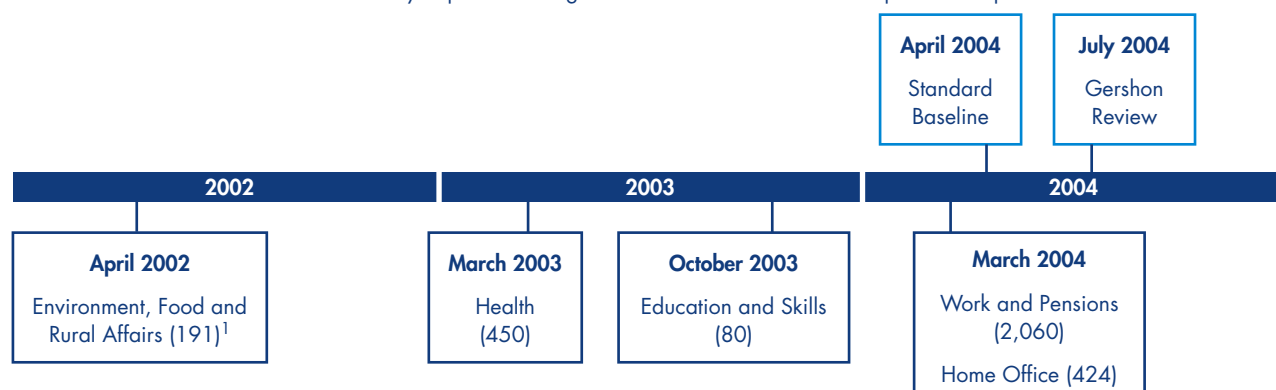
Source: National Audit Office analysis of data from the Department for Work and Pensions and HM Revenue & Customs

Approved expansions and baselines set at different dates reduce the significance of reported headcount reductions

3.9 The 2004 Spending Review set the standard baseline for headcount as 1 April 2004. Five departments, including DWP, agreed with HM Treasury to use baselines that are before 1 April 2004 (see **Figure 13**). DWP uses a baseline of 1 March 2004 as its headcount targets were announced in the March 2004 Budget. As a result, the Department includes an additional 2,060 headcount reductions secured before the standard baseline. Across the Programme 3,205 headcount reductions were delivered prior to 1 April 2004, representing seven per cent of reported progress. Using different baseline dates reduces the clarity of what has been achieved by the Programme.

13 Departments have reported early headcount reductions from before the Gershon Review¹

Dates shown are dates of baselines used by departments. Figures in brackets show reductions prior to 1 April 2004.



Source: Individual departments

NOTE

¹ As of September 2006, the Department for the Environment, Food and Rural Affairs is no longer reporting the 191 headcount reductions from before 1 April 2004. The reductions had related to the Rural Payments Agency (RPA). Whether these reductions will be included in the future announcements will depend on when the RPA is able to release the agency staff recruited on a temporary basis to cover the permanent posts.

3.10 Departments have been allowed to exclude increases in headcount in areas deemed to be new policy burdens. HM Treasury and the OGC, which monitor progress against headcount targets, agree on a case-by-case basis when a new area of policy justifies excluding any associated posts from headcount figures for the purposes of the Programme. By the end of the Programme 2,700 new posts will have been excluded in this way. To date, headcount reductions are gross of 2,300 new posts, representing 5 per cent of reported reductions (see Figure 14).

3.11 Both DWP and HMRC have been given approval to discount certain increases in their workforce. In the case of HMRC, reported reductions do not take account of 1,325 additional posts that have been created to increase contact centre capacity. However, given the new posts relate to improving the quality of service for existing activities, the expansion does not represent a significant change of business for the Department. In DWP, while the new posts relate to new services, they do not represent changes to the fundamental responsibilities for the Department; 610 of the expansions by March 2008 will relate to helping people on Incapacity Benefit back to work.

14 Departments are reporting headcount reductions gross of 2,300 posts in activities considered to be new areas of policy or frontline activities

Department	Additions to date	Additions by March 2008
HM Revenue & Customs	1,325	1,496
Work and Pensions	738	867
Constitutional Affairs	173	173
Transport	96	129
Total	2,332	2,665

Source: Individual departments

3.12 Alongside the Programme's headcount reductions, the size of the civil service can also be tracked by following data from the Office of National Statistics (ONS). The ONS data, based on returns from departments, also shows the Civil Service to be reducing in size but at a slower rate. Since 2004, the ONS full-time equivalent figures have fallen by 12,000 compared to the Programme's 45,551 net headcount reductions. There are a number of factors causing this difference, including:

- The Efficiency Programme headcount reductions make adjustments for transfers within the public sector that have led to more activities being classed as part of the Civil Service. For example, in April 2005, the Magistrates' Court Service was brought together with the Court Service to form Her Majesty's Courts Service. As a result, ONS reclassified 12,000 former Magistrates staff into the Civil Service from local government.
- ONS data is based on departments' reported total headcount figures whereas the Programme counts the reductions of full-time equivalent posts filled by departments. This means, for example, where departments can demonstrate appropriate staffing plans, the Programme allows departments to include reductions in the use of consultants filling posts which would otherwise have needed full time civil servants. These would not be reflected in the ONS figures.
- As identified above, the Programme allows certain departments to count approved expansions of frontline activity and progress before the 1 April 2004. To date, these account for 5,500 of the Programme's reductions.

Headcount reductions in DWP and HMRC have cost £327 million in early retirement and voluntary redundancies

3.13 Departments have primarily relied on natural wastage to meet their headcount targets; in DWP, 60 per cent of reductions are achieved by not replacing people who resign. To supplement natural wastage, departments have introduced voluntary early retirement and severance schemes. In the two years to March 2006, DWP incurred costs of £219 million on such schemes at an average cost of £57,000 for each employee. In the same period, HMRC incurred costs of £108 million at an average of £58,000 per person. Departments have met these costs from existing administrative budgets. By March 2008, DWP expects to have incurred a further £300 million to fund the number of early releases

expected to be needed to meet the headcount reduction targets. Subject to business requirements, HMRC has made further provision to spend up to £150 million by March 2008 on early releases and other HR initiatives to support workforce change.

Only partial assurance can be given to reported reallocations

3.14 In the 2004 Spending Review, DWP and HMRC were the only departments set targets to reallocate posts to front-line roles. For its reallocations, DWP has selected certain customer-facing roles across Jobcentre Plus. For example, additional posts in the Department's contact centres will count towards the reallocations target. For its reallocations, HMRC reports increases in the total number of posts in 13 of its business units; e.g. new posts created in its counter-terrorist units are classed as progress towards the reallocation target. However, given the processes developed for calculating the number of reallocations, only partial assurance can be given on the figures reported.

3.15 First, while DWP defines the front line as constituting certain customer-facing positions, HMRC has defined its front line with reference to certain business units. HMRC classifies all additional posts in the selected business units as reallocations to the front line. As such, reported figures include managers, administrative support and IT staff. For example, HMRC reallocations include 82 posts that were reallocated to 'VAT Operations', a unit which incorporates the Senior Management, Corporate Support and Web Management Teams. While this measurement basis was agreed as part of the Spending Review 2004 process, the inclusion of such staff reflects a different measurement basis to that followed by DWP.

3.16 Secondly, reallocations reported by both DWP and HMRC do not always reflect actual staff in post; underlying data includes projections of staff numbers rather than actual numbers employed in reallocated roles. At March 2006, 821 of 6,667 reallocations reported by DWP related to new personal advisers in Jobcentre Plus. These figures were projected rather than actual figures. The Department is introducing a new system which should eliminate the need for projected figures. Within HMRC there is limited consistency in data collection processes between the selected units, with some projects reporting only projected figures. Where projections are used, HMRC undertakes to reconcile these to actual staff usage data, but the data available contains insufficient detail to provide complete assurance.

In some areas assurance about the maintenance of service quality could be stronger

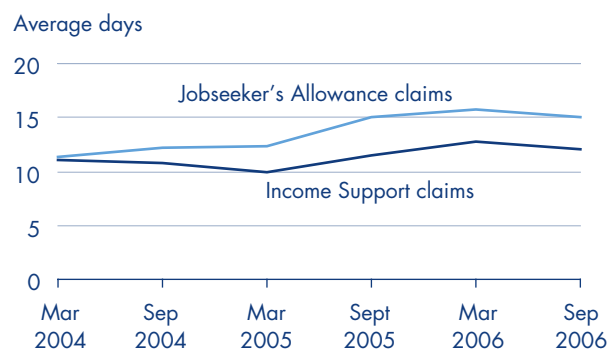
3.17 While in some aspects performance within the departments is being maintained or improving, other activities feel the strain of operating within the restrictions of the headcount targets.

3.18 To assess the impact of the headcount reductions on the Department, DWP is developing a new productivity indicator to measure overall performance of the Department and each of its agencies. In the meantime, each of the Department's agencies is considered against its overall performance targets. Customer service measures tracked by the Department broadly show the experience of the customers has been maintained since the start of the Efficiency Programme. In certain respects, for example the speed of service and the quality of buildings, customer experiences have been maintained or improved over the period.

3.19 However, there is concern over other key performance indicators, such as the average time Jobcentre Plus takes to deal with a benefit claim. As **Figure 15** indicates, the time taken to process claims for Jobseeker's Allowance and Income Support benefits has risen during the period headcount reductions have been made. In the case of Jobseeker's Allowance, claims took on average 16 days in March 2006 compared to 11 days in March 2004. Latest figures, from September 2006, show the average processing time has fallen to 15 days. A sample of DWP employees feel recent reforms which have enabled the headcount reductions, such as the increased use of contact centres as the first point of contact for customers, have lengthened the time taken to process claims.

3.20 In our focus groups, employees and benefit recipients expressed concern over the quality of service delivered through contact centres in DWP. They believe contact centres do not have adequate capacity to deal with the demand for services. Accessing contact centres was noted as an area where more progress is needed in a recent NAO report on the Department's use of contact centres.⁷ To this end, the Department has recently succeeded in increasing the percentage of calls answered; in July 2006, more than 90 per cent of calls were answered, compared to 60 per cent in July 2005.

15 The time taken to process benefit claims has risen since the start of the Efficiency Programme



Source: National Audit Office analysis of Department for Work and Pensions data

3.21 Our focus groups also showed that some employees had concerns at the level of training received by those who have been redeployed to the front line. For example, Jobcentre Plus employees redeployed to work with prisoners were concerned about a perceived absence of training for their new role to understand prisoners' needs and determine what kind of employment might be appropriate.

3.22 In HMRC headcount reductions have taken place across its operations, ranging from the processing of tax returns to work on compliance with VAT laws. According to indicators agreed by HMRC with the Office of Government Commerce to monitor the impact of the Programme on quality of service in areas where headcount reductions are being made, performance has not been adversely affected during the period of headcount reductions. In some areas, performance has improved substantially:

- The percentage of tax returns processed correctly first time has risen from 72 per cent (2003-04) to 76 per cent (2005-06).
- The percentage of calls handled correctly has risen from 80 per cent (2003-04) to 90 per cent (2005-06).
- The percentage of formal complaints handled within 15 days has risen from 88 per cent (2003-04) to 95 per cent (2005-06).
- Additional VAT payments secured by HMRC staff have increased from £1,401m (2003-04) to £1,840m (2005-06) (Figure 16).

⁷ Department for Work and Pensions: Delivering effective services through contact centres, National Audit Office, March 2006.

3.23 While performance against these indicators is encouraging there are other challenges facing the Department in the areas affected by headcount reductions. For example, in respect of VAT, alongside the task of securing additional payments is the broader challenge of trying to achieve the Department's Public Service Agreement⁸ (PSA) target to lower the 'tax gap'⁹ to 11 per cent of VAT due. Achieving this target would represent a significant performance improvement over the 2004 Spending Review period.

3.24 The latest figures suggest that the VAT 'tax gap' is now more than 14 per cent (**Figure 16**). The VAT 'tax gap' is influenced by many factors, some beyond the control of the Department, but the areas from which headcount reductions have been made do contribute indirectly to this key target and therefore some account should be taken of it in assessing the impact of headcount reductions on service quality. It also illustrates the difficult choices that HMRC management face in trying to deliver headcount reductions at the same time as reducing the tax gap. Indeed, restrictions on a department's total headcount figures are a potential constraint on how the department responds to issues across all of its operations, not just those directly affected by headcount reductions.

3.25 In HMRC the headcount reductions are taking place against the backdrop of a broader restructuring and transformation programme that is intended to achieve significant efficiency savings. At our focus groups HMRC employees expressed concerns over aspects of service quality and employee morale. In the case of HMRC it is difficult to be precise about whether perceived reductions in quality are a result of headcount reductions or broader changes.

16 Though additional VAT secured by HMRC staff has risen, this has not led to a reduction in the VAT 'tax gap'



Source: National Audit Office analysis of HM Revenue & Customs data

⁸ Public Service Agreements are agreements between the Prime Minister, the Chancellor and the relevant Secretary of State, setting out a department's high-level aims and key performance targets.

⁹ The VAT 'tax gap' is the difference between the amount of VAT which is due on a given volume of economic activity if taxpayers comply with the law and the amount actually collected.

PART FOUR

How well is the OGC coordinating the Efficiency Programme?

4.1 The OGC Efficiency Team drives and coordinates the overall Programme. While departments are responsible for delivering their targeted efficiency gains, the Efficiency Team aims to challenge departments on their progress and provide support where needed.

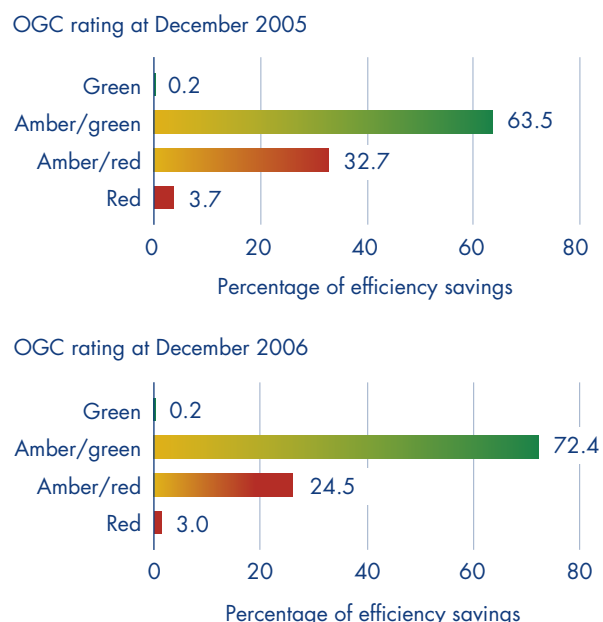
The OGC challenges departments' efficiency plans effectively but more should be done to scrutinise reported progress

4.2 Over the past year, in many respects, the challenge provided by the OGC has been more targeted and better informed:

- Every six months the Chief Executive of the OGC discusses each department's progress with its senior management. In our first report, there was concern about the relevance of discussions at these meetings. The July 2006 round of meetings was more focused on what matters to departments achieving their targets.
- At a working level, the OGC has influenced the make-up of departments' efficiency plans. The OGC worked with the Department of Health on a survey of how frontline staff members are engaging with the Department's productive time agenda. The survey's findings have shaped plans for future initiatives within the Department's efficiency programme.
- Through its challenge function, the OGC continues to follow closely the likelihood of delivery against the Programme's targets (see Figure 17). To this end, the OGC has identified a contingency of some £800 million of efficiency gains on top of the £21.5 billion target. On headcount, it is aware of the difficulties departments are facing in meeting the headcount targets. According to its assessment, 1,200 of the targeted 70,000 headcount reductions are at risk.

- In June 2006, the OGC took two important steps to improve the robustness of reported efficiency savings:
 - Issued comprehensive measurement guidance to departments on what constitutes efficiency gains.
 - Developed a new reporting process requiring departments' senior management to sign off reported progress.

17 In July 2006, the OGC considered more than 70 per cent of the Programme's targeted gains to be Green or Amber/Green according to its assessment of the likelihood of delivery by March 2008



Source: National Audit Office analysis of OGC Efficiency Team data

4.3 However, whether through challenge from the OGC or from internal audit functions within departments, the measurement of reported gains has required greater challenge. For example, departments have not been persuaded to go further than the letter of the Gershon Review in relation to reporting efficiency gains net of additional ongoing costs. Although OGC measurement guidance recognises that accounting for additional ongoing costs arising from reforms is best practice, only four out of the 10 departments contributing most to the £21.5 billion target try to subtract such costs from their reported savings.

4.4 The latest Gateway Review of the Programme, conducted by the OGC in September 2006, assessed the status of the Programme overall as Amber on a scale of Red, Amber and Green. An Amber rating indicates the Programme should go forward with actions on recommendations from the Review to be carried out before further key decisions are taken. This represents progress from the two previous Reviews which had given the Programme a Red rating on the basis immediate actions were required.

The OGC is providing better support to departments on managing their efficiency programmes

4.5 For each major spending department, the OGC employs a 'relationship manager' to liaise between the centre of the Programme and those responsible in departments for delivering the efficiency targets. In the early stages of the Programme, the relationships between the OGC and departments suffered due to high turnover of relationship managers. The continuity of relationship managers has improved significantly. At 31 December 2005, only three of the eight relationship managers had been in post for more than twelve months. At 30 September 2006, all bar one of the relationship managers had been in their role for more than a year.

4.6 All relationship managers demonstrate a thorough understanding of their department's programmes. In some cases, this has allowed the OGC to provide good support for managing the programmes of efficiency projects. For example, like other relationship managers, the relationship manager for the Department for Education and Skills sits on the Department's monthly Efficiency Review Board. Through this and other means, the OGC has made significant contributions to how the Department assesses the risks facing its efficiency projects and how it engages with schools on the drive for greater efficiency.

There is a need for more transparency across the Efficiency Programme

4.7 There are some perceptions that over the past year the Efficiency Programme has lost some of its profile across government. There is always a risk that following an initial period of intense focus, the prominence of a programme will decline as it matures. Departments are currently focusing their resources on the 2007 Comprehensive Spending Review, but there is a risk that this could be at the expense of the Efficiency Programme.

4.8 Maintaining the Programme's profile therefore needs effective communication of progress to those delivering efficiency improvements, and to the wider public. To date, the results of the Efficiency Programme have not been made as clear as they could have been. As one department's efficiency manager said:

"I don't see a coherent story across the government which basically says 'over the last N years we have managed to make these efficiencies and, as a consequence, we are now able to do this.'"

4.9 Although in 2006 the OGC provided a supplement to a magazine for public finance professionals which set out the achievements to date, and examples of efficiency gains are given in Budget and Pre-Budget Reports, in the NAO's view there is a lack of transparency about what has been achieved so far. In the 2006 Budget, details were given on only £962 million of the additional £1.7 billion gains reported on top of previous announcements. Anyone wanting to find out more must go to individual departments' annual reports and autumn performance reports. However, departments' disclosures vary substantially in the level of detail provided.

PART FIVE

What more can be done?

5.1 The Government is now carrying out a major review of public spending, the 2007 Comprehensive Spending Review (see Figure 18). This is an ideal opportunity to take forward what has been learned from various performance-related initiatives, from Public Service Agreement targets to Departmental Capability Reviews, and the Efficiency Programme.

5.2 Our first study on the Efficiency Programme¹⁰ identified a number of examples of what government as a whole should be doing to improve efficiency. Through this second study we have identified more examples of what individual organisations can do to embed efficiency into their culture.

18 The 2007 Comprehensive Spending Review will set departmental spending plans for the period from 2008-09 to 2010-11

In July 2005, the Chancellor announced the beginning of another Comprehensive Spending Review (CSR) to report in 2007. The CSR will set departmental spending plans for the period 2008-09 to 2010-11, and will articulate the Government's delivery priorities through a reformed Public Service Agreement (PSA) framework.

As part of the preparation for the CSR, departments are working up proposals to increase the efficiency and effectiveness of their business, for example through improving asset management, modernising services and making better use of information technology.

The Government intends to build on the Gershon framework in delivering efficiency improvements in the public sector. For the CSR period, the Government is aiming for baseline savings of at least three per cent per year across central and local government. The CSR value for money programme will focus on delivering net cashable savings in order to free up resources to meet new challenges.

Source: National Audit Office

How can departments improve the design of efficiency initiatives?

5.3 To deliver lasting improvements in public expenditure, efficiency needs to become embedded within departments' management. In thinking about efficiency, public sector organisations need to:

Consider all activities, not just a selection of projects. To maximise its efficiency, an organisation needs to develop approaches to looking at efficiency across all of its activities. To this end, the Department for Work and Pensions is developing a productivity index. The Department's outputs are measured by a cost-weighted index. Growth in this index is compared with growth in expenditure, so that changes between baseline and actual costs of production of key outputs can be reported over time. In line with the Atkinson Review¹¹, DWP is ensuring that outputs are adjusted for quality of service where possible. The Department for Constitutional Affairs has also developed a measurement model that looks at the effects of changes made on various stakeholders, including those outside the Department itself (see Good Practice Example 2 overleaf).

Take account of all costs when appraising an efficiency initiative. In accordance with the Gershon Review, public sector bodies reporting efficiency gains do not have to take account of investment costs. For example, the new communications system used by police forces, Airwave, needs forces to invest £280 million to provide the enhanced levels of performance which have enabled police officers' time to be used more effectively. This has not been taken into account in the annual efficiency gains that police forces have reported to date, although it should be noted that Airwave replaces an existing legacy system and provides benefits

¹⁰ Progress in improving government efficiency, National Audit Office, February 2006.

¹¹ Atkinson Review: Measurement of Government Output and Productivity for the National Accounts, January 2005.

beyond efficiency. To get a full picture of the real benefits of an efficiency improvement, public sector bodies need to consider all the costs which have gone into making an improvement in the quality of service possible. The Government has accepted this principle and is building it into departments' value for money targets in the 2007 Comprehensive Spending Review.

Use targets intelligently as a tool for delivering efficiency. In October 2006 the Department of Health adopted an alternative approach to setting efficiency targets for its NHS Trusts by publishing the key performance indicators of each Trust. The 16 indicators include measures relating to drug dispensing activities and the average length of time a patient spends in hospital. The resulting information allows Trusts to benchmark their performance against the NHS as a whole or against specific peers. In doing so, Trusts can identify opportunities for efficiency improvements. This method combines transparent performance reporting with competitiveness to encourage NHS Trusts to become more efficient.

Make sure efficiency savings are spent wisely. The pursuit of efficiency should not stop when an individual initiative is completed. Only if freed up resources are spent well can public sector bodies be sure the initiatives have been worthwhile. For example, the Tate museum routinely identifies what its savings have enabled it to achieve. In 2005-06, efficiency gains have allowed the museum to invest in an audit of visitor experience. The exercise will allow the museum to further develop the quality of its services.

How can departments motivate staff to help improve efficiency?

5.4 To embed efficiency for the long term, public sector organisations need to make more employees believe they can make a positive impact on how resources are used. Only 30 per cent of public sector employees believe they can make a difference to the efficiency of their organisation. This compares to 43 per cent in the private sector.¹² Across departments there are good examples of how efficiency can become an integral part of what public sector staff do:

GOOD PRACTICE EXAMPLE 2

The Department for Constitutional Affairs has developed a model reflecting the varying outcomes of trials in the Magistrates' and Crown Courts, and their effects on stakeholders across various departments

Stakeholders of the Criminal Justice System, including the Department for Constitutional Affairs, the Police, the National Offender Management System, HM Court's Service, the Crown Prosecution Service and the Legal Services Commission are all taking steps to reduce the proportion of trials that end up as 'Cracked' or 'Ineffective'. Such trials are concluded unsatisfactorily as a result of defendants pleading guilty late in the trial (rather than earlier) or even ending prematurely for various reasons, such as witnesses being unavailable or evidence being lost. They therefore incur unnecessary activities, and therefore costs, which can be avoided through improved systems and processes. The Department has therefore modelled the various trial outcomes and their associated costs on all stakeholders to help it make decisions as to where to devote resources. Although gaps still exist within the model, this is a good first step in modelling the effects a single project has across various stakeholders.

Source: National Audit Office

Departments can celebrate innovative ideas. The Ministry of Defence generates estimated savings of £10 million per annum from ideas submitted by staff to its award scheme. The scheme recognises staff members' ideas for ways to improve departmental performance, some of which have won "Idea of the Year" at the "ideasUK" Annual Awards in 2005 and 2006. For example, a change to how high pressure gas cylinders are inspected has led to checks being performed on board submarines. Previously, this was not possible. The idea is expected to save £2.3 million over the next three years.

HM Revenue & Customs has developed a new way of encouraging staff to come forward with ways of improving how its business works. The scheme, Angels & Dragons, is partly based on the BBC programme Dragon's Den. The process involves staff developing their ideas into business proposals. If successful, the proposals are presented to a decision-making committee called the Board of Angels. The Angels have the power to invest money in successful ideas.

¹² You Gov poll commissioned by the Office of Government Commerce, May 2006.

People can be more motivated to save money when it is also in the interest of the environment.

As explained in the NAO report on sustainable procurement¹³, assessing 'whole life costs' when making procurement decisions can demonstrate areas where sustainability and efficiency coincide. Whole life costs include running maintenance and disposal costs as well as initial purchase price. Seeking to minimise the whole life costs, thereby making efficiency savings, can simultaneously promote environmental benefits. For example, energy efficient computer equipment has lower running costs and represents environmental good practice.

Staff can be consulted on ways to improve efficiency.

To become more efficient, public sector bodies always need to be looking for new ideas. Those responsible for reform should be ready to consult throughout their organisation, as well as externally. In the Department of Health, for example, the Service Improvement project has benefited from carrying out major consultations of frontline staff to identify examples of good practice which can be repeated across the NHS. More than 90 per cent of public sector employees want to improve the efficiency of the way their organisation operates.¹⁴ However, in our focus groups of frontline staff, few participants had ever been asked to make a contribution to how their organisations work.

"I know we pay senior management a lot of money to make these decisions but it would be nice just every now and again for somebody to say, 'well what do you think about it?' instead of saying 'here it is, now do it'".

As **Figure 19** demonstrates, public sector employees have plenty of ideas they want to contribute.

Where else can departments look for ideas on efficiency?

5.5 As well as searching for ideas on efficiency from within a department, many external bodies have the knowledge and experience to contribute:

Customers, academics, think tanks and the private sector all have ideas on efficiency that are worth considering. **Figure 20 overleaf** summarises the ideas from contributors to a volume which accompanies this report. We invited individuals and organisations to suggest one change they would like to see made to improve government efficiency.

5.6 The NAO has developed an Efficiency Toolkit which departments and public bodies can use to assess themselves against various aspects of efficiency. The Toolkit helps identify opportunities for improvement and develop actionable recommendations. It is based on a framework which comprises the various factors that influence an organisation's efficiency, as shown in **Figure 21 on page 31**.

5.7 The Toolkit is distinctive in relation to other assessment frameworks because the relationship between inputs and outputs/outcomes is at its heart, and because its modules reflect the aspects of the business in which efficiency can most commonly be improved.

5.8 The Toolkit was launched on the NAO website (www.nao.org.uk/efficiency/toolkit) in June 2006 and we are currently using it with a number of public bodies.

19 Public sector employees are keen to suggest improvements to how their organisations work

Our focus groups with front-line staff generated many ideas for improving efficiency including:

- Staff from the NHS believed patients should be made more aware of how much services cost. Even if patients were simply issued with a receipt, staff thought this would have a significant impact on efficiency. For example, they thought it would reduce levels of missed appointments. As one consultant said, "It's doing something that means the patient has to take responsibility".
- As part of the reforms in HM Revenue & Customs, arranging visits for staff working on VAT compliance has been centralised. Currently, staff carrying out compliance visits believe too much time is spent travelling. In their opinions, those booking the appointments do not have adequate knowledge of travelling times. If visits were planned better, more visits could take place leading to more revenue being collected.
- Police officers in our groups welcomed the introduction of fixed penalty notices for minor misdemeanours. Officers were keen to see them applied more widely to further free up capacity in the court system.

Source: National Audit Office focus groups

¹³ National Audit Office report to the Environmental Audit Committee, *Sustainable procurement in central government*, September 2005.

¹⁴ You Gov poll commissioned by the Office of Government Commerce, May 2006.

20 Opinion pieces on improving government efficiency

Title and author

Good people trapped in bad systems

By Kevin Beeston, Executive Chairman,
Serco Group plc

Public procurement reform at the heart of government efficiency

By Dr. Neil Bentley, Director Of Public
Services, Confederation of British Industry

Managing for outcomes: how to make it work

By Prof. George Boyne,
Cardiff Business School

A social definition of efficiency

By Charles Cochrane, Secretary of
Council of Civil Service Unions

Efficiency Through Effective Outsourcing

By Andrew Haldenby, Director, Reform

Procurement by public bodies contrasted with private sector approaches to the purchase of contracted out services

By Alan Jones, Chief Executive, GSL Global

Why make when you can buy?

By Brian Kingham, Chairman,
Reliance Security Group plc

Role of Performance Dialogues in Improving Government Efficiency

By Alastair Levy, Sharon McKeown,
Tim Roberts & Jules Seeley,
McKinsey & Company

Gain-share systems and performance improvement culture

By David Reid, TAP Consultancy Limited

Summary of ideas

Serco's Executive Chairman, Kevin Beeston, says liberating front-line managers provides the key to unlocking efficiencies in government and public services. With the help of quasi-contractual arrangements and clear performance regimes that ensure accountability, Beeston feels front-line managers can harness the potential of autonomy to innovate, respond to user needs and make public services more efficient.

Arguing that efficiency is 'not a gimmick but an integral way to delivering continuous improvement in service delivery', CBI director of public services Neil Bentley calls on the Government to get more 'bang for its procurement buck'. Dr Bentley believes that better procurement rests on improving commercial capabilities in Whitehall departments. Proposed practical steps towards improved procurement include the introduction of project sponsors for each major project, and end-to-end plans for government purchasing.

Professor George Boyne feels that focusing on 'outcomes', not 'inputs' or 'outputs', is the key to driving efficiency, and outlines the criteria that need to be satisfied to make this a reality. Once the most important outcomes are identified, Boyne argues, outcome-based targets need to be developed and utilised. And, having established suitable indicators to measure progress against outcomes, policy-makers must be prepared to switch resources between different objectives.

According to the CCSU, the Government needs to consider the impact on society when managing the Efficiency Programme. CCSU argues that too often the Government adopts a market-oriented definition of efficiency that neglects social considerations that are often harder to measure. In particular, CCSU calls on the Government to put an end to what it sees as 'arbitrary job cuts' and instead base staffing levels on objective evidence of what is needed to deliver public services for all members of society.

Andrew Haldenby of independent thinktank Reform urges the Government to focus on outsourcing as a means of realising greater efficiencies. Haldenby addresses the potential of contracting-out and highlights the obstacles to its effective implementation. In particular, the Government is urged to strengthen local management to equip them to make the most of outsourcing.

GSL Global's Chief Executive, Alan Jones, puts forward his recent observations on government procurement policy and proposes some solutions for improved procurement as part of the efficiency drive. In particular, Jones articulates the important role information plays in the contracting process, the need to bring in suitable procurement personnel and the risks associated with expecting immediate benefits as a result of outsourcing. Jones concludes by suggesting that success in government procurement rests on 'genuine partnerships as well as smart procurement processes'.

Brian Kingham, Chairman of Reliance Security Group, feels that significant efficiencies can be achieved by contracting support staff as a means to liberate public sector professionals to concentrate on the jobs they were recruited to do. Citing the Prisoner Escorting and Custody Service (PECS) contract as a model of a centrally-managed, locally-delivered contract, Mr Kingham outlines his thoughts on how the public sector can save money, enhance operational delivery and create efficiencies.

The authors present McKinsey's account of why effective performance dialogues between managers and those reporting to them are a powerful tool in the drive to deliver efficiencies. They assert that effective performance dialogues can increase transparency, reinforce accountability, address all dimensions of performance and, by clarifying expectations of performance, change the way staff think and act. Their suggested approach rests on commitment from the top, sound integration into performance management systems, sufficient time and repetition to enable effective dialogues and a strong and committed team.

David Reid of TAP Consultancy Limited suggests that the creation of a deep-rooted performance improvement culture across the civil service is fundamental to achieving the efficiency agenda; a culture that can only be cultivated if everyone from the lower echelons through to the senior civil service shares the same vision. A mechanism is proposed to encourage this outlook with teams across organisations being rewarded for successful performance improvement suggestions via a gain-share scheme.

20 Opinion pieces on improving government efficiency *continued*

Title and author

Sustainable efficiency in the public sector
By Ann Rossiter, Director,
Social Market Foundation

Gershon, efficiency and public value
By Prof. Colin Talbot,
Manchester Business School

Turn on the Tap!
By John Tizard, Director of Government
& Business Engagement, Capita Group Plc
(Writing in a personal capacity)

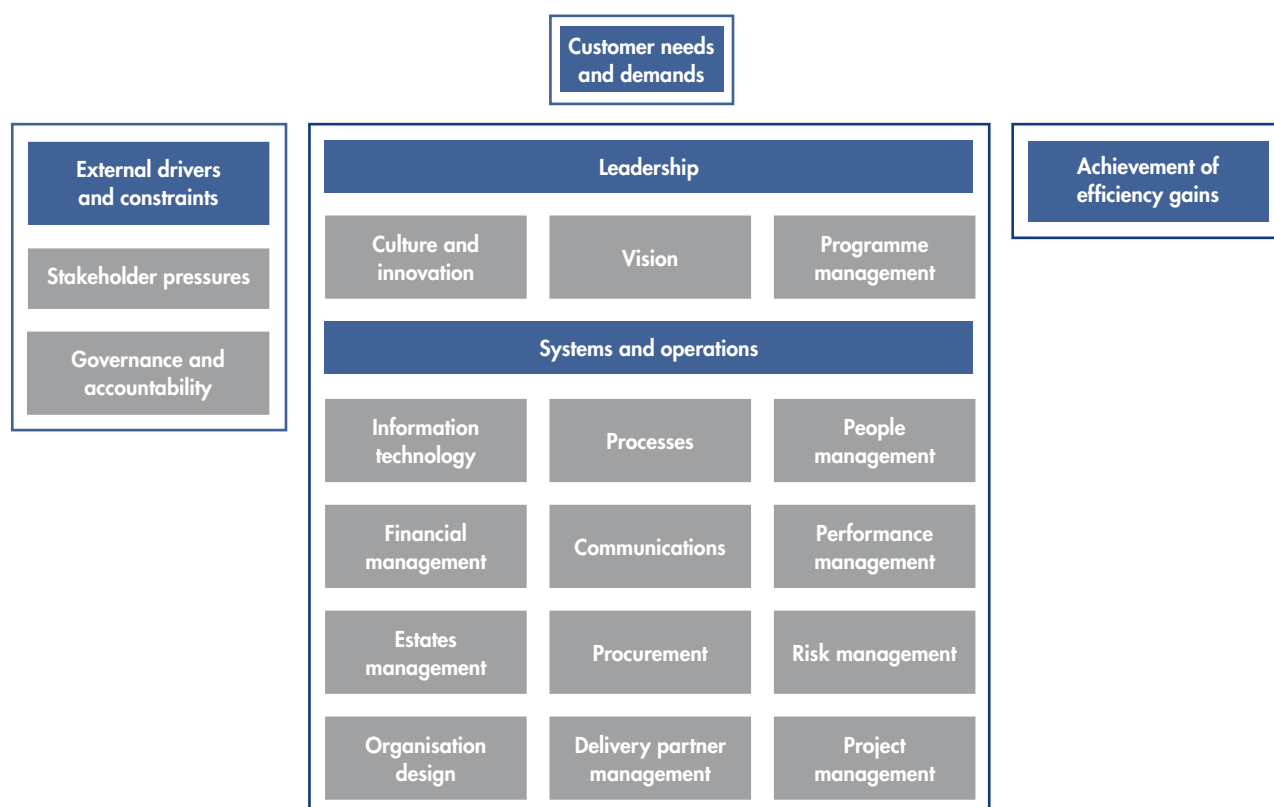
Summary of ideas

The Social Market Foundation argues that to 'embed efficiency in the civil service', there needs to be an alternative to 'attempts to drive efficiency through targets and monitoring [which] are running against the grain of embedded incentive structures'. Considering the civil service to be inherently risk-averse, Ann Rossiter proposes abandoning efficiency targets and incentivising efficiency by rewarding individuals and teams in departments with a share of the efficiency gains they have helped to achieve. Summary of ideas

Seeking efficiencies is nothing new for governments, with the present Efficiency Programme largely a product of the Government's concern to couple investment with reforms capable of generating savings, releasing resources to the frontline, and promoting trust in public services (Public Value). So asserts Professor Colin Talbot, who goes on to say that concerns over measurement undermine what could turn out to be the biggest round of efficiency savings ever achieved.

'Turn on the TAP!' urges John Tizard, citing transparency, accountability and performance as the three factors that must lie behind sustainable efficiency. According to Mr Tizard, public services should articulate their public contribution and strive towards measurable outcomes; those who fail to achieve best value for the community should be held to account; and, the Government should balance national targets with room for local discretion and responsiveness to local communities.

21 The framework for the National Audit Office's Efficiency Toolkit



Source: National Audit Office, www.nao.org.uk/efficiency/toolkit

APPENDIX ONE

Study methodology

This report is based on:

- a review of the efficiency gains reported by a sample of 25 projects from 14 departments;
- a review of the headcount reductions and reallocations reported by the Department for Work and Pensions and HM Revenue & Customs;
- interviews with the Office of Government Commerce Efficiency Team and analysis of Programme documentation;
- interviews with Finance Directors of the 14 departments with projects in our sample;
- visits to wider public sector bodies;
- focus groups of Departments' efficiency representatives, customer-facing department employees, staff responsible for service delivery, and members of the public; and
- structured submissions on public sector efficiency.

Review of reported efficiency gains

Between July and October 2006 we reviewed the measures used by 25 projects across the Efficiency Programme to report their efficiency gains. For a full list of the projects, see Appendix 3. The sample was broken down into two elements:

- the five projects reporting the highest gains to date, to ensure significant coverage of the overall reported gains; and
- a random sample of 20 projects, that would allow us to extrapolate our assessments across the rest of the Programme.

We assessed the reliability of the reported gains using the standard questions set out in Appendix 2. For each reported gain these questions address the two elements that need to be measured in order to report efficiency:

- the financially quantified benefit; and
- the measure of service quality.

Both elements are essential, as a financial improvement is not a legitimate efficiency if service quality has fallen, and likewise an improvement in service quality is not an efficiency gain if it has been achieved at a disproportionately higher cost.

These elements are further divided into two aspects of measurement that need to be satisfied for reported figures to be fully robust:

- the measurement methodology; and
- the quality of the data used.

Both aspects are important, as a robust measurement methodology is not sufficient if the quality of data used is poor, and good quality data alone does not make the measurement methodology robust.

Having reviewed these aspects of measurement, we assessed the likelihood of reported efficiency gains fairly representing a project's efficiency improvements. The assessment classified projects into three categories:

Green: The reported figures fairly represent the efficiencies made.

Amber: The reported figures represent efficiencies, but carry some measurement issues and uncertainties.

Red: There may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect.

Our judgements are set out in Appendix 3.

Calculating the effect of sampling error when extrapolating our findings

The use of random sampling introduces a risk of error when extrapolating results across the rest of a population. In this case, the population is the total value of the Efficiency Programme minus the five highest value projects, as these are assessed separately and are added on afterwards.

To understand the impact of this error we calculate a 95 per cent confidence interval for the results of the 20 randomly sampled projects. This means that for each rating there is a 95 per cent probability that the reported efficiency gains fall within the Lower and Upper Limits shown in the table below, with our findings represented in the "Most Likely" column:

Rating	Lower limit	Most likely	Upper limit
Green	£0.0 bn ¹⁵	£1.9 bn	£3.6 bn
Amber	£2.6 bn	£4.7 bn	£6.9 bn
Red	£0.6 bn	£2.5 bn	£4.5 bn

To calculate the confidence intervals for the programme as a whole, we added the known values of the ratings from the five largest projects:

Rating	Known value
Green	£1.6 bn
Amber	£2.0 bn
Red	£0.5 bn

For the programme as a whole, there is a 95 per cent probability that the reported efficiency gains fall within the Limits shown below:¹⁶

Rating	Lower limit	Most likely	Upper limit
Green	£1.6 bn	£3.5 bn	£5.3 bn
Amber	£4.6 bn	£6.7 bn	£8.9 bn
Red	£1.1 bn	£3.1 bn	£5.0 bn

Review of reported headcount reductions and reallocations

Between July and October 2006 we reviewed the headcount reductions and reallocations reported by the Department for Work and Pensions and HM Revenue & Customs. Together, the Departments account for 62 per cent of reported reductions to date and all of the reallocations. Our work focused on three assertions:

Assertion

The information systems used to generate headcount data are fit for purpose

Process of reporting headcount reductions and reallocations is thorough and subject to adequate controls

Headcount reductions are not causing additional expenditure on replacement labour

Evidence

- National Audit Office work on payroll systems during 2005-06 financial audit
- National Audit Office tests of centrally-held payroll information to data held by local offices
- Internal audit reports
- Reports on information systems by external consultants commissioned by the Departments
- Interviews with staff responsible for reporting headcount reductions and reallocations
- Review of documented controls
- Analysis of selected definitions
- Review of expenditure from 2003-04 to 2005-06 on overtime, consultants, other staff substitutes and outsourcing arrangements

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 OGC Efficiency Team's management team
- The OGC Efficiency Team's measurement specialists
- Relationship managers for our sample departments

We analysed information held by the OGC Efficiency Team to monitor the progress of the Programme including:

- Data based on returns provided by each department
- A survey conducted for the OGC by YouGov on public views of government efficiency. YouGov interviewed 2,539 individuals, representative of the UK adult population. The research was conducted online in May 2006.

In addition, we attended meetings of the OGC User Group, organised by the OGC Efficiency Team for departments' efficiency representatives.

¹⁵ Due to the small sample size and low value of projects rated 'low risk', the standard error would reduce the lower limit to a negative figure of -£0.4 billion. Because a project would not report negative efficiency, the lower limit for the random sample of 20 projects has been set at zero.

¹⁶ Any errors in additions are a result of rounding to the nearest £0.1 billion.

Interviews with Departments' Finance Directors

We conducted semi-structured interviews with the Finance Directors of all 14 departments within our sample of projects. They focused on how the Programme was impacting on Departments as a whole, whether recommendations from our first report were being implemented and what direction the efficiency agenda should take beyond 2008.

Visits to wider public sector bodies

To understand the process of reporting efficiencies across the wider public sector, we visited:

- Essex Police Constabulary;
- West Mercia Police Constabulary;
- Leicestershire County Council; and
- Hackney Borough Council.

Focus groups with stakeholders across the Programme

We commissioned MORI to hold 18 focus groups. These were broken down as follows:

- Four group discussions with Departments' efficiency representatives who had also contributed to the National Audit Office's first report on the Efficiency Programme. These groups discussed how their opinions of the Programme have developed. The following central government departments were represented:
 - Department for Constitutional Affairs;
 - Department for Culture, Media and Sport;
 - Department for the Environment, Food and Rural Affairs;
 - Department of Health;
 - Department for Transport;
 - Department for Work and Pensions;
 - Home Office;
 - Ministry of Defence; and
 - Department for Communities and Local Government
- Six group discussions with staff from the Department for Work and Pensions and HM Revenue & Customs that held posts which had been reallocated to customer-facing positions. The groups aimed to understand staff views on how such reallocations affected the employees themselves, as well as service quality.

- Four group discussions with Police Constables, doctors and nurses. The groups examined the extent to which the Efficiency Programme is impacting on the front-line of service delivery.
- Two group discussions with benefit claimants, one with recent victims of crime and one with NHS patients. These groups aimed to build up a rounded picture of the impact that changes are having on service delivery from the user's perspective.

Group discussions took place between July and August 2006.

Structured submissions on public sector efficiency

In order to gain a wider perspective of public sector efficiency, and how it can be improved, we invited a cross-section of the parties interested in the government efficiency debate to outline the one change they would like to see made to improve government efficiency, why the change is needed, how it should be brought about and what benefits it would bring. We consulted the following parties:

- Professor Colin Talbot, Professor of Public Policy and Management, University of Manchester;
- Confederation of British Industry;
- Council of Civil Service Unions;
- Professor George Boyne, Professor of Public Sector Management, Cardiff Business School;
- GSL Global;
- McKinsey & Company;
- Reform;
- Reliance Security Group plc;
- Serco Group plc;
- Social Market Foundation;
- TAP Consultancy Limited;
- John Tizard, Director of Government & Business Engagement, Capita Group Plc (writing in a personal capacity).

We also published an invitation for others with an interest in government efficiency, including academics, business leaders, interest groups, public servants and those with expert knowledge in this field, to submit their ideas on public sector efficiency. This was done through the National Audit Office website, as well as various on-line and paper-based publications.

APPENDIX TWO

Questions for assessing efficiency measures

Below are the questions we asked of all efficiency gains reported by projects in our sample. The questions represent an effective check-list for departments to consider the robustness of reported gains. For each high-level question, a characteristic of good practice is included in italics.

The questions are divided into two sections:

- 1) Measurement methodology
 - a) Questions on the financially-quantified benefit
 - b) Questions on the service quality measures
- 2) Data quality

1) Measurement methodology

a) Questions on the financially-quantified benefit:

Questions	Sub-questions
<ul style="list-style-type: none"> ■ Does the measure accurately capture the desired efficiency? <ul style="list-style-type: none"> ■ <i>There is a clear causal link between the project and the measure.</i> 	<ul style="list-style-type: none"> ■ What is the desired efficiency? ■ What is the measure used? ■ How does the department demonstrate that the project is responsible for the improvement, rather than external factors?
<ul style="list-style-type: none"> ■ Is the quantified benefit a sustainable improvement? <ul style="list-style-type: none"> ■ <i>The benefit can reasonably be expected to accrue in each subsequent year.</i> 	<ul style="list-style-type: none"> ■ Have periodic claimed gains fluctuated? ■ How does the department ensure these savings will be incurred every year?
<ul style="list-style-type: none"> ■ Is the baseline representative? <ul style="list-style-type: none"> ■ <i>It takes into account existing trends and seasonality; it has appropriately selected a snapshot or an average figure.</i> 	<ul style="list-style-type: none"> ■ Which period was used for the baseline? ■ Why was this period used? ■ Based on historical trends, does this period fairly reflect previous performance?
<ul style="list-style-type: none"> ■ Is there a possibility of double-counting? <ul style="list-style-type: none"> ■ <i>A check across other project calculations has been done.</i> 	<ul style="list-style-type: none"> ■ Do other department projects use the same data? ■ Do other projects target the same inputs, outputs or outcomes? ■ What does the department do to ensure double-counting does not take place?
<ul style="list-style-type: none"> ■ Is there a possibility that costs or negative effects have been shifted to another stakeholder or part of the organisation? <ul style="list-style-type: none"> ■ <i>The risks have been identified and are being managed.</i> 	<ul style="list-style-type: none"> ■ Who are the other stakeholders in this project? ■ What costs or effects may be shifted? ■ How does the department know this has not been done?
<ul style="list-style-type: none"> ■ Are additional running costs incurred as a result of the project accounted for? <ul style="list-style-type: none"> ■ <i>Additional operating costs have been identified and subtracted.</i> 	<ul style="list-style-type: none"> ■ What additional activity is incurred to achieve these efficiencies? ■ Are there any on-going costs for these activities? ■ Have any such costs been subtracted from the efficiency claims?

b) Questions on the service quality measures

Questions	Sub-questions
<ul style="list-style-type: none"> ■ Are the indicators a robust measure of service quality? <ul style="list-style-type: none"> ■ <i>They accurately represent changes in the level of service in a timely manner.</i> 	<ul style="list-style-type: none"> ■ What measures of service quality are used? ■ How are the measures used i.e. as support to a quantified benefit, or as efficiency in their own right? ■ Do they measure what is important for the customer? ■ Do they record changes during the period, or is there a cause and effect time lag?
<ul style="list-style-type: none"> ■ Do the indicators cover all critical elements of service quality which may be affected by the project? <ul style="list-style-type: none"> ■ <i>If a project affects various aspects of service quality, there are indicators which measure them.</i> 	<ul style="list-style-type: none"> ■ Which aspects of service quality are at risk from the project? ■ Do all the critical aspects have indicators? ■ Where indicators do not exist, how does the department ensure service quality is not compromised?
<ul style="list-style-type: none"> ■ Are the indicators sufficiently specific to the activity producing the efficiency gain? <ul style="list-style-type: none"> ■ <i>There is a causal link between the project activity and the measure of service quality.</i> 	<ul style="list-style-type: none"> ■ Which other factors may affect the service quality measures, other than the project? ■ Are service quality measures sensitive to changes brought about by the project?
<ul style="list-style-type: none"> ■ Can a comparison of service quality before and after the project be made? <ul style="list-style-type: none"> ■ <i>There is either a baseline figure of the service quality indicator, or a new measure of service quality allows a judgement of whether the level of service has been maintained.</i> 	<ul style="list-style-type: none"> ■ Is there a robust baseline of service quality? ■ If the measure is new, does it demonstrate that service quality is at an acceptable level following the project?

2) Data quality

Below are generic questions on data quality that apply to data used for the financially-quantified benefits as well as the measures of service quality:

Questions	Sub-questions
<ul style="list-style-type: none"> ■ Are there robust validation procedures in place? <ul style="list-style-type: none"> ■ <i>Structured validation takes place; an audit trail has been maintained; there is clear responsibility for validation.</i> 	<ul style="list-style-type: none"> ■ What are the validation procedures used by the department? ■ Are these procedures documented and any validation verifiable? ■ Who is responsible for validation? ■ How is senior management involved in validation?
<ul style="list-style-type: none"> ■ Are the source data and collection methods robust? <ul style="list-style-type: none"> ■ <i>Quality controls are in place to ensure data is robust and verifiable; any bias is corrected appropriately; cross-checking is performed.</i> 	<ul style="list-style-type: none"> ■ What data sources/management information systems are used? ■ Is it clear who is responsible for data quality and operating controls? ■ Are there effective procedures for identifying and assessing risks to data reliability? ■ Is there documentary evidence of the operation of key controls? ■ What steps are taken to ensure that source records are accurate?
<ul style="list-style-type: none"> ■ Is the processing and analysis undertaken by the Department reliable? <ul style="list-style-type: none"> ■ <i>Quality controls are in place to ensure data is robust and verifiable; analytical techniques are appropriate; cross-checking is performed.</i> 	<ul style="list-style-type: none"> ■ What data processing and analysis is undertaken? ■ What steps are taken to check the quality of data entering the system (e.g. checks on credibility and internal consistency of primary data contained in source records)? ■ Where processing is heavily IT reliant, has an IT audit specialist been involved in the validation? What is their assessment? ■ Where analysis relies on judgement (for qualitative systems), are there clear criteria and transparent procedures in place to govern that process?

APPENDIX THREE



Assessment of measurement methodologies



The table below gives the background to each project in our sample, and the reasons behind the ratings given. These ratings reflect the risks that the financial figures reported do not realistically reflect the improvements made, using the following definitions:





Green: The reported figures fairly represent the efficiencies made.



Amber: The reported figures represent efficiencies, but carry some measurement issues and uncertainties.


Red: There may be efficiencies taking place, but the measures used either do not yet demonstrate efficiencies, or the reported gains may be substantially incorrect



Department	Project	Reported gains	NAO rating	Background	Key issues
Cabinet Office	Procurement	£6m		<p>This project comprises many individual initiatives that aim to reduce the cost of procuring various items, including contracts for consultancy, training and estates management.</p> <p>Some contracts contributing to the reported efficiencies, such as the production of starter pack material for new entrants, came into effect as early as 2001.</p>	<p>Although numerous improved procurement practices have been introduced, as the Cabinet Office recognises, there is also a need to ensure that all the reported efficiency gains are measured against acceptable baselines, and that appropriate supporting documented evidence is available.</p> <p>For example, the Department is reporting £450,000 in efficiency savings relating to consultancy fees. The reported gains represent the difference between the negotiated fees and the original bids from consultants. Although this methodology demonstrates that the Department is challenging service providers on the prices they charge, it does not use a historic baseline which fully demonstrates that the new processes are more efficient than previous practice.</p>
Department for Constitutional Affairs	Control of 'Very High Cost Criminal Cases'	£44m		<p>Efficiencies are achieved by managing 'Very High Cost Criminal Cases' (those that last more than 40 days at trial) more actively, as well as a reduction in the rates paid to legal professionals.</p>	<p>This is a fundamental change to the way in which the Department's work is carried out. By bringing more of the inputs and outputs under its control it increases the likelihood that the changes are sustainable.</p>



Department	Project	Reported gains	NAO rating	Background	Key issues
Department for Constitutional Affairs <i>continued</i>	Control of 'Very High Cost Criminal Cases' <i>continued</i>			This project was initiated in 2000 in order to stem the escalating annual cost increases. The new model was piloted from 2001 onwards and fully implemented in April 2003.	However, the calculation relies on a number of assumptions about the current period accurately reflecting the baseline period, such as the proportion of cases that go to trial, the proportion of complex to simple cases, and the average cost of cases. While these assumptions are reasonable, they are an inherent risk given the nature of what is being measured. The Department is considering the need to update these variables as the model develops and more data becomes available.
	Asylum and Immigration Tribunal	£23m		<p>The new Asylum and Immigration Tribunal has significantly improved the speed of the asylum appeals process. This improved speed is one factor that contributes to reducing the number of resource-intensive asylum appeals, and therefore improving efficiency.</p> <p>The Asylum and Immigration Tribunal was introduced in April 2005 as part of the Government's wider political strategy on Asylum.</p>	<p>There has been a significant reduction in the number of asylum appeals, which indicates that substantial financial savings have been made. However, based on the measures used, we cannot give assurance that the reported efficiencies represent the achievements of the Department. This is significant as both the unit cost of each asylum appeal, as well as the total cost of the Asylum and Immigration Tribunals, has increased when compared to the baseline period.</p> <p>Because asylum workload is now wholly integrated within the appeals process, the Department uses the reduction in the average unit cost of all decisions (asylum as well as out-of-country) to calculate efficiencies. Theoretically the model could report efficiencies even if the number of costly asylum decisions remains the same, so long as the number of less costly, out-of-country decisions increases. Although we accept that the Department would not seek to claim efficiencies under this theoretical scenario, and that such a scenario is not foreseen in the current Spending Review period, there remains a possibility that the average unit cost measure could calculate efficiency gains despite no improvements to the efficiency of the Tribunal.</p> <p>In addition, the efficiency measure is wholly dependent on the portfolio of work undertaken by the Tribunal, and therefore assumes that the Department is fully in control of the volume of asylum appeals. However, there is a possibility that the volume of asylum appeals has fallen due to factors beyond the government's control, such as changes in global circumstances.</p>


Department	Project	Reported gains	NAO rating	Background	Key issues
Department for Constitutional Affairs <i>continued</i>	Cross-Criminal Justice System transactions	£6m		<p>The Department is trying to reduce the proportion of trials that incur unnecessary costs – termed ‘cracked’ or ‘ineffective’ trials.</p> <p>This is achieved through numerous standalone initiatives, such as the Case Management System implemented in December 2003 and the new Charging Scheme piloted in 2002.</p>	While the benefits calculation model is able to demonstrate a lower proportion of cracked or ineffective trials, it does not capture the additional costs which have been incurred to achieve these improvements. The Department is considering a number of indicators to address this issue.
Department for Communities and Local Government	Firelink	£8m		<p>Efficiencies represent savings made through centrally procuring fire brigades’ wide-area communication equipment. Previously, fire brigades procured the equipment locally.</p> <p>The project is an interim arrangement ahead of a new nationwide communications system. The project was given the go-ahead in May 2002 when the proposed nationwide system, Firelink, was approved.</p>	<p>The actual spend is compared to an amount that was set aside in the budget. However, using the budgeted costs as the baseline means the project may be significantly overstating its efficiencies. The efficiencies would be more reliable if they were based on a comparison of the actual costs of equipment before and after the central arrangements were put in place.</p> <p>Given that the efficiencies will only last until completion of the Firelink roll-out in 2009-10, they should be considered sustainable only until 2010.</p>
Department for Culture, Media and Sport	Local authority efficiencies	£70m		Local authorities have full flexibility as to how they secure their targeted gains. Gains from projects classified as ‘Culture and Sport’ on local authorities Annual Efficiency Statements, contribute to the Department’s overall efficiency gain target. See Appendix 4 for full details of the Annual Efficiency Statement process.	The summary nature of the Annual Efficiency Statements makes the level of external review particularly important. Over the past year, the level of external review has increased; the Audit Commission is now monitoring the processes for compiling the Statements as part of its Use of Resources assessment of each local authority. However, in order to avoid overburdening local authorities, the Commission is not validating the figures reported.
Department for the Environment, Food and Rural Affairs	Executive Agencies efficiencies	£18m		The Department’s Executive Agencies are able to decide independently how they will achieve their annual 2.5 per cent efficiency gains. Initiatives reviewed in the sample included reductions in headcount, as well as reductions in assets such as buildings and ships.	The Veterinary Laboratory Agency uses its total expenditure to calculate savings. While the Agency can demonstrate some manpower and estates efficiencies, there is a risk that this method of measuring efficiencies can be influenced by fluctuations in demand rather than on-going efficiencies.



Department	Project	Reported gains	NAO rating	Background	Key issues
Department for the Environment, Food and Rural Affairs <i>continued</i>	Executive Agencies efficiencies <i>continued</i>			Due to the nature of the funding arrangements, Executive Agencies have always had to demonstrate efficiencies to the Department. However the Department expects the Laboratory Strategy Review to deliver additional efficiencies. This Review was established after the Gershon report, but is focused on the long-term relationship between the Department and its science agencies rather than purely on achieving efficiencies.	One element of the Centre for Environment, Fisheries and Aquaculture Science's efficiency gains is a renegotiated value, and therefore depreciation rate, of one of its buildings. However, although sustainable in terms of the Office of Government Commerce measurement guidance, as this building is due to be vacated within the next few years, the efficiencies are not embedded for the long term.
Department for Education and Skills	Information and Communications Technology in Higher Education	£21m		The Joint Information Systems Committee, funded by Higher Education Funding Council for England, negotiates reduced subscription rates for online services.	The efficiency calculation uses an assumed market rate for on-line service subscriptions, such as Ordnance Survey maps and education image galleries, and then applies this rate to the current volume of usage. Assumed market rates are in place as, in many cases, products have not been previously available and the Department has sought to minimise bureaucratic burdens on Higher Education Institutions in measuring efficiency gains. However, this volume of usage may be inflated due to the unlimited access users now have. Although negotiating national subscription rates will have achieved economies of scale, the calculation used may be significantly overstating the efficiency gains made.
	Local authority procurement	£34m		Local authorities have full flexibility as to how they secure their targeted gains. Gains from areas classified as 'Non-schools educational services' on local authorities Annual Efficiency Statements, contribute to the Department's overall efficiency gain target. See Appendix 4 for full details of the Annual Efficiency Statement process. Following the Gershon Review, the Department established the Centre for Procurement Performance to provide central support to local authorities.	The summary nature of the Annual Efficiency Statements makes the level of external review particularly important. Over the past year, the level of external review has increased; the Audit Commission is now monitoring the processes for compiling the Statements as part of its Use of Resources assessment of each local authority. However, in order to avoid overburdening local authorities, the Commission is not validating the figures reported.


Department	Project	Reported gains	NAO rating	Background	Key issues
Department of Health	Service improvement – Average Length of Stay	£518m		<p>Most of the reported efficiencies were conceived through the NHS Modernisation Agency's 'High Impact Changes'. These are a set of evidence-based improvements, such as better management of patient admissions and discharging, and applying a systematic approach to the care of people with long-term conditions. However, these have been revised and enhanced significantly throughout the implementation process.</p> <p>A document outlining the 'High Impact Changes' was published in September 2004. The Changes have since been followed by a number of follow-on initiatives around potential productivity improvements.</p>	<p>Due to considerable volatility of the data for average length of stay, the Department made an adjustment to the 2003-04 baseline. However, this adjustment is not statistically sound and, following discussions with the NAO, the Department is looking to move to measuring the efficiencies on the basis of a three-year moving average. This approach would delay final reported figures for a year after the end of the Programme, but would be a more acceptable methodology providing it can be demonstrated that the unadjusted figures are inherently volatile and therefore not truly representative of performance in a given year. It is likely resulting efficiencies would fall between the unadjusted figure (£209 million) and the previously reported figure (£518 million). (Separately, the Department believes the way that hospital data are compiled may be leading to an understatement of gains, but recognises that it does not yet have the evidence to justify an adjustment on this basis.)</p> <p>Although the overall basket of quality indicators shows constant or improved quality, for one of the key agreed indicators – hospital readmissions – the Department has still to complete detailed analysis to confirm that increased readmissions are caused by the increase in average patient age and case complexity, and not by the changes in service provision.</p> <p>While the central initiatives driving the service improvements are not predicated on additional resources, the NHS as a whole is benefiting from a significant increase expenditure, which is not captured as part of the Efficiency Programme. This illustrates the problem of reporting efficiencies on a project-by-project basis rather than addressing organisation-wide efficiency. The net effect of input changes is captured in the NHS Cost Efficiency Index, which is reported annually. The Index is also more likely to reflect accurately the scope of local NHS efficiency improvements, some of which cannot be captured by national indicators used to calculate efficiency gains for the Efficiency Programme.</p>



Department	Project	Reported gains	NAO rating	Background	Key issues
Department of Health <i>continued</i>					Collectively these issues are indicative of the considerable complexities in isolating efficiency gains from information as dynamic as NHS data. The Department has to date reported the gains relating to length of stay as interim (i.e. potentially subject to final adjustment) and will continue to do so until all measurement processes have been finalised.
	Service improvement – Emergency Bed Days and other projects	£538m		As for 'Service Improvement – Average Length of Stay' above.	<p>The majority of the reported efficiencies are a result of a fairly straightforward calculation of a reduction in the number of Emergency Bed Days.</p> <p>Although the causal link between hospital readmissions and Emergency Bed Days is not as strong as that with Average Length of Stay, the Department has still to complete detailed analysis to confirm that increased readmissions are caused by the increase in average patient age and case complexity, and not by the changes in service provision.</p> <p>While the Department has subtracted the additional ongoing direct costs incurred to achieve the reduction in Emergency Bed Days, the NHS as a whole is also benefiting from a significant increase in resources, which is not captured as part of the Efficiency Programme. This illustrates the problem of reporting efficiencies on a project-by-project basis rather than addressing organisation-wide efficiency. The net effect of input changes is captured in the NHS Cost Efficiency Index which is reported annually. The Index is also more likely to reflect accurately the scope of local NHS efficiency improvements, some of which cannot be captured by national indicators used to calculate efficiency gains for the Efficiency Programme.</p>
	Pharmaceuticals procurement	£1,204m		Most of the procurement efficiencies arise from three initiatives, all of which involve reductions in the prices at which pharmacists are reimbursed for drugs they issue: the Pharmaceutical Price Regulation Scheme; the Pharmacy Contract; and the reduction in the prices of four drugs that have recently come off their patent.	The calculations for reduced prices of drugs are based on management information systems that are also used for payment purposes. Using this information for a critical purpose is likely to ensure the quality of the data is higher than data in ad-hoc models developed purely for efficiency reporting purposes.



Department	Project	Reported gains	NAO rating	Background	Key issues
Department of Health <i>continued</i>	Pharmaceuticals procurement <i>continued</i>			Drug prices subject to the Pharmaceutical Price Regulation Scheme came into effect in January 2005. They were previously renegotiated in 1999. Drug prices under the Pharmacy Contract came into effect in March 2004.	
	Reducing bureaucracy for GPs	£93m		<p>An updated policy reducing the amount of bureaucratic activity expected of GPs delivers efficiencies by giving GPs more time to spend treating patients.</p> <p>The two reports identifying the opportunities for reducing GP bureaucracy were published by the Cabinet Office in 2001 and 2002.</p>	<p>To calculate the efficiency gains, the Department has used an estimate of 50 per cent compliance to the proposed reductions in bureaucratic activity. This was to reflect the fact that some of the efficiencies should have been fully realised, while others have an element of local discretion. To ensure that this estimate is valid, the Department would need to conduct a follow-up survey. Given the low value of the gains as a proportion of the Department's overall efficiency programme, and given the practicalities, costs and burden on GPs, the Department has not commissioned such follow-up work.</p> <p>The Department calculated the potential efficiency savings using a sample of 34 GPs. Representing approximately 0.15% of all GPs, this was not a statistically significant sample from which to extrapolate the impact of the changes.</p>
	Department restructuring	£48m		<p>The Department has delegated, but continues to pay for, a number of functions to the appropriate service delivery organisations. The Department now focuses purely on policy-making, and without having to support those delegated functions, can reduce its administrative costs.</p> <p>The change programme was announced in February 2003 as a standalone improvement initiative.</p>	<p>The efficiency gains are based on annual reductions to the Department's Administrative Cost Limit. The Department has introduced a series of indicators that measure the quality of certain specific activities. The Department also uses its performance against Public Service Agreement targets to provide further assurance the savings have not been at the expense of quality.</p>


Department	Project	Reported gains	NAO rating	Background	Key issues
Department of Trade and Industry	Internal Operations	£23m		<p>This project is reporting efficiencies as a result of: rationalising the number of estates from 6 to 2.5; reducing its headcount as a result of centralising its 'Information, Communications and Technology' function; and reducing its overall expenditure on consultants through renegotiating contracts and improving its control over projects.</p> <p>In October 2003, the DTI developed a new business model with the aim of improving operational efficiency and effectiveness of the Department in delivering its PSA targets. It defined a set of projects to deliver the change required across the Department which included this reform of its Internal Operations.</p>	The Estates and the Information, Communications & Technology benefits appear to be robust. However for its spending on consultants, a lack of output measures means the Department cannot demonstrate that reduced spending is due to the efficiency project as opposed to yearly variations in demand.
	Procurement	£18m		<p>The efficiencies are achieved as a result of the Department's use of the OGCBuying.solutions framework agreements. OGCBuying.solutions is an Executive Agency of the OGC, and negotiates framework agreements that exploit the purchasing power of government as a single entity. This allows it to obtain goods and services at prices that are lower than an individual public body could obtain if acting alone.</p> <p>As part of the Spending Review 2004, the Department sought to reduce its procurement expenditure. As part of this review the Department began procuring through the OGCBuying.solutions frameworks.</p>	The efficiency calculation submitted by the OGC to the Department for its procurement through OGC's Buying Solutions is based on an average market rate across the whole of the public sector. Given the difficulties in establishing a market rate for each individual department, this is a reasonable method by which to calculate a baseline for procurement efficiencies.

Department	Project	Reported gains	NAO rating	Background	Key issues
Department for Work and Pensions	Direct Payments Initiative	£19m		<p>This project was initiated to provide informed choice to the public with regards to the various methods of payment that are available for receiving benefits. It generates efficiencies by converting benefit payments to more cost-efficient electronic systems.</p> <p>In 1999 the Department began introducing the Payment Modernisation Programme (PMP) to move towards direct payment of benefits. The Direct Payments Initiative (DPI) providing informed choice, was subsequently introduced in 2003.</p>	<p>Considered as a discrete project, the efficiencies reported by the DPI are reliable and, as such, the project represents good value for money.</p> <p>Looking at the move to direct payments more widely, while the Government's Efficiency Programme reports the benefits of DPI and PMP, the Programme does not account for all of the associated costs incurred at a cross-government level. The most significant costs relate to the Post Office Card Account, which were approximately £164 million for DWP in 2005-06. These are reported through the cross-government Universal Banking Programme but not through the Efficiency Programme. Reporting efficiencies gross of costs is in line with the 2004 Spending Review methodology.</p>
Foreign & Commonwealth Office	BBC World Service	£10m		<p>Although the BBC World Service is independent of government, the majority of its funding is obtained from the Foreign and Commonwealth Office through the Grant-in-Aid, and is therefore reported as part of the Efficiency Programme.</p> <p>For many years, the organisation has had efficiency targets incorporated as part of Spending Review settlements. In the 2004 Spending Review, the major areas for achieving savings were in transmission, distribution and through digital production. As part of the BBC it also benefits from the various procurement and outsourcing initiatives.</p>	<p>The BBC World Service aims to demonstrate achievement of its efficiency targets by adhering to its overall budget, of which the efficiency targets are one element. Removing forecast efficiency savings from a budget, and then monitoring closely against that budget, is an effective method of embedding efficiency.</p> <p>There is a possibility that adherence to a budget can be achieved by spending less than expected in other elements of the budget, rather than making the intended efficiency improvements. The organisation has provided substantial evidence that a significant proportion of its reported efficiencies have been realised. The organisation mitigates the risk of not being able to demonstrate all its efficiencies through effective management control processes, from budget setting and auditing to monthly progress reviews.</p>

Department	Project	Reported gains	NAO rating	Background	Key issues
HM Revenue & Customs	Compliance headcount reductions	£30m		<p>The Department is reallocating Compliance staff to areas where they are able to collect greater amounts of tax – known as improved yield. By doing this it can reduce its total headcount without compromising the tax yield.</p> <p>Headcount reductions were identified following the merger of Customs & Excise and the Inland Revenue, which began in March 2004.</p>	<p>The Department has taken the appropriate step of using payroll data to calculate its headcount reductions. Yield and activity data suggest headcount reductions are not affecting results.</p> <p>The quality measures adopted would be more complete if the Department monitored the VAT 'tax gap' in respect of reported efficiencies as well as additional payments secured. The VAT 'tax gap' is the difference between the amount of VAT which is due on a given volume of economic activity if taxpayers comply with the law and the amount actually collected.</p>
Home Office	Individual police force efficiencies	£888m		<p>Each police force identifies a number of efficiency initiatives in its Annual Efficiency Plan. Such initiatives vary from cashable gains such as improvements in procurement, to non-cashable gains such as increasing the proportion of time spent by police officers on front-line activities.</p> <p>Police forces have been producing efficiency plans, setting out how they will achieve their three per cent efficiency targets, since 1998.</p>	<p>Police Authority Treasurers sign off efficiency gains identified in a police force's Annual Efficiency Plan. Cashable gains are then removed from the force's base budget, reducing the amount of resources it has to spend in the coming year. Although service quality is monitored at a general level, using various frameworks and performance indicators, there is no direct assessment of whether the cashable efficiency gains are made at the expense of service quality.</p> <p>Although HM Inspectorate of Constabularies reviews the reliability of non-cashable efficiency gains if they observe falls in the level of service quality, the quantification of such gains does not benefit from similar scrutiny.</p>
	Asylum support costs	£445m		<p>Most of the efficiencies arise from: renegotiated accommodation contracts; the reduction in unnecessary emergency accommodation; and a reduction in the number of people claiming support costs as a result of being granted indefinite leave to remain. Granting a number of applicants indefinite leave to remain was made possible by ensuring that applicants were given the right status, clearing older cases out of the system and improving the processes to cease support efficiently.</p> <p>A review was requested by the Minister of State for immigration due to the large increase in the number of asylum seekers between 2001 and 2003. The report was published in May 2003.</p>	<p>The efficiency calculations are either derived from, or are reconciled to, the annual financial accounts to ensure the project is delivering real benefits. Service quality on accommodation is ensured through the continuous review of accommodation standards. The quality of decision-making on asylum issues is also reviewed and reported monthly by the Asylum Management Board.</p>

Department	Project	Reported gains	NAO rating	Background	Key issues
Home Office <i>continued</i>	Headquarter restructuring	£44m		<p>The Department has reduced its overall administration budget, and is able to stay within this budget partly by reducing the number of posts it employs at its headquarters.</p> <p>The 2004 Spending Review required annual reductions in the Department's administrative budget. To achieve this the Department recognised it would have to reduce its headcount. The headcount reductions contribute to both the Department's efficiency gain and headcount targets.</p>	<p>The Department uses its Enterprise Resource Planning system to report on the number of posts it has reduced. However, because this is not a straightforward payroll system and requires some manual interventions in the calculations, there is a risk that inappropriate post reductions are reported.</p> <p>While the Department is currently using PSA Targets to provide assurance on service quality, it is intending in the future to link performance indicators in its Balanced Scorecard more closely with its headcount reduction activities.</p>
Ministry of Defence	Defence Logistics Transformation Programme	£541m		<p>The Programme is managed by the Defence Logistics Organisation (DLO), which was formed as a result of the merger of the logistics functions of the Royal Navy, Army and Royal Air Force. Efficiencies are achieved through over 1,000 initiatives, which among other things aim to simplify logistic processes, forge closer partnerships with industry to improve contracts, and make the supply chain more responsive to the needs of the users.</p> <p>The Programme was launched in April 2004, incorporating the DLO Change Programme and the End to End Logistics Review. The DLO Strategic Goal target is subsumed within the current DLTP targets.</p>	<p>The Defence Internal Audit team carried out an audit of 63 per cent of reported efficiency gains. Based on this assessment it calculated the proportion of those claims that represent robust efficiencies. The Department then applies this proportion calculation to the entire savings reported. This approach shows that the Department has established a robust process for gaining assurance on devolved efficiency targets.</p> <p>These efficiencies include savings in depreciation, either as a result of increasing the life of assets – which in some cases demonstrates good practice – or writing-down their value (devaluing). This is in line with centrally-issued guidance. However, there is a risk that measuring such reductions in depreciation may lead to perverse incentives by inappropriately extending the life of an asset, or may simply be accounting exercises with no real efficiency improvements taking place.</p>

Department	Project	Reported gains	NAO rating	Background	Key issues
Ministry of Defence <i>continued</i>	Army manpower	£41m		<p>The efficiencies arise from the strength reductions to Army manpower.</p> <p>The project represents the implementation of the Future Army Structures programme, and is derived from the Department's report <i>"Delivering Security in a Changing World: Future Capabilities"</i> published in July 2004.</p>	<p>This project measures total strength reductions to Army personnel as reported by the Defence Analytical Services Agency (DASA) and the Adjutant General's Monthly Manning Returns. DASA produces National Statistics on the total army strength according to statistical protocols and data quality procedures.</p> <p>Manpower figures may fluctuate over the year as actual inflows and outflows vary from forecasts. The overall savings are based on a planned reduction from the April 2004 baseline of 103,642 to 101,797 by April 2008, with savings accruing year on year.</p> <p>Although the measure includes total headcount reductions in front-line personnel as well as those in administrative and support posts, assurance on the impact of reductions in front-line posts can be taken from detailed strategic reviews indicating, overall, outputs are to be maintained. The manpower reductions are all defence policy compliant.</p>
	Fast jets	£37m		<p>The project is achieving efficiencies through a number of strands: the earlier decommissioning of certain fighter jets and missiles; the closure of airforce bases; and reducing the number of force elements that are ready for deployment.</p> <p>This project arises from the implementation of the changes set out in <i>"Delivering Security in a Changing World: Future Capabilities"</i>, published by the Department in July 2004. It is driven by the introduction of the Typhoon multi-role fighter.</p>	<p>While most of the strands represent efficiencies, the earlier decommissioning of fighter jets and missiles (approximately 20 per cent of the total efficiencies reported) are only a financial saving over the period of the original budgets up until the original decommissioning date of 2008-09. Although this can be scored within OGC guidelines and has allowed resources to be redirected to other defence priorities during this time, because the savings will not be reported beyond the initial budget periods, in our view they cannot be considered sustainable.</p>

Department	Project	Reported gains	NAO rating	Background	Key issues
Cross-departmental project	Overseas network of Foreign and Commonwealth Office staff engaged in UK Trade and Investment work	£19m		<p>UK Trade & Investment (UKTI) brings together the work of the Department of Trade and Industry and the Foreign and Commonwealth Office (FCO) on international trade and inward investment. For the majority of its civil service manpower it draws on staff from one or other of its parent departments.</p> <p>As a result of its 2004 Spending Review settlement, UKTI is required to identify FCO staff with a Full Economic cost of £20m for redeployment on other FCO priorities. To deliver this, UKTI first identified priority markets and services for its customers, matching available resources to these priorities with the aim of maintaining overall service to its customers. Having done this, it identified efficiencies either by releasing staff time, or by regrading posts and, where appropriate, by making greater use of locally engaged staff. Both of these approaches help to reduce the cost of staff deployed on UKTI work.</p>	<p>UKTI has delivered on its 2004 Spending Review objective of identifying resources to be transferred to other FCO priorities whilst maintaining levels of service to its customers.</p> <p>However, because this represents the reallocation of front-line FCO resources from one function to another, it is important to understand how these transferred resources are subsequently used. Information on the activities to which the released staff time has been diverted will not be available until the completion of the 2006 Schedule V exercise (due in February 2007).</p> <p>The FCO do not aggregate UKTI's £19m reallocation to their own reported efficiencies. However, some of the freed resources are in the form of a member of staff stopping work on FCO's trade and investment work and being redeployed on another FCO priority. If this redeployment creates additional capacity that enables the FCO to release staff and report efficiency gains, the cost/efficiency saving would overlap that reported by UKTI. Hence government-wide reporting of efficiencies, or indeed the use by any public sector organisation of resources provided by a parent body, needs to ensure that this effect is taken into account when these figures are aggregated.</p>

APPENDIX FOUR

Summary of the process for 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, for example 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 Department for Communities and Local Government in Annual Efficiency Statements. The Department 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 three parts:

- **Forward Looking** – setting out the estimated efficiency gains to be achieved in the next financial year and the strategy for doing so.
- **Mid-Year Update** – revising the estimated efficiency gains for that year and setting out the gains achieved in the first six months (voluntary for shire districts and councils rated 4*, or 3* and “Improving Strongly”, under Comprehensive Performance Assessment).
- **Backward Look** – setting out the details of efficiency gains achieved in the last financial year and the amount sustained from previous years.

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 in relation to cross-cutting areas (corporate services, procurement, productive time, transactions).

In the Backward Look Statements, 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 Department for Communities and Local Government 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.' Since a high proportion of local authority efficiency gains are 'cashable', visibility of efficiency gains in authorities' budgets also offers assurance on the gains providing adequate checks of service quality can show them to be efficiencies rather than cuts.
- **The Department for Communities and Local Government.** The Department, 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 Department reserves the right to review the validity of an authority's declared gains.
- **Audit Commission.** Auditors appointed by the Audit Commission review councils' Backward Look Statements as part of its Use of Resources assessment. The efficiency gains reported are a source of evidence to inform a broader judgement on value for money within each local authority. The Audit Commission will report where they have specific concerns about the process followed by the council in compiling the Statement, or where the Statement is not consistent with the auditors' knowledge of the council obtained through other audit work. The Audit Commission does not formally audit the efficiency gains on the basis this would add to the burden of regulation.

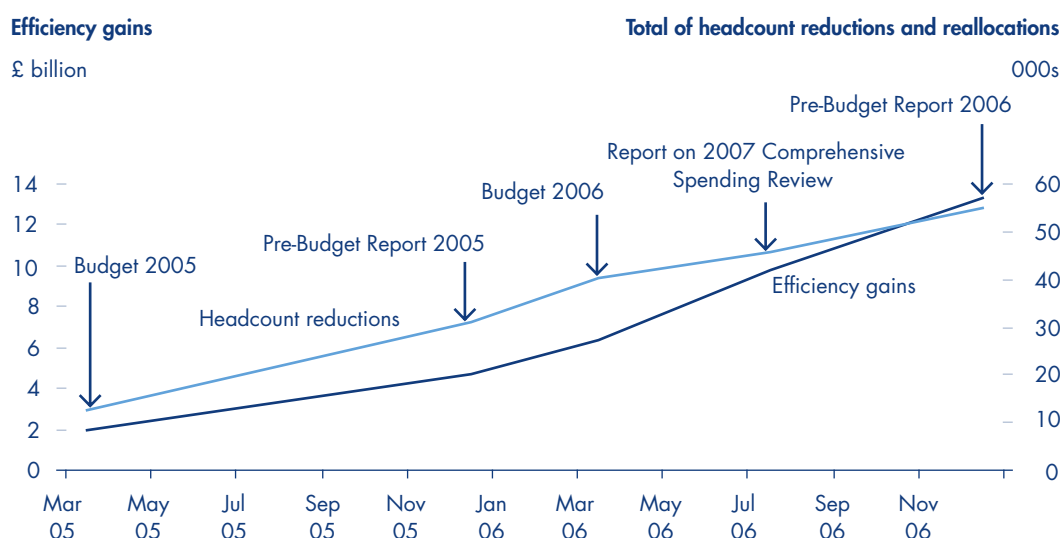
Where auditors report that the Statement is unsatisfactory, councils will be required to rewrite their statements, with the process being observed by independent consultants appointed by the Department for Communities and Local Government. If the end result of this work is still considered unsatisfactory, then zero efficiency gains will be recorded by the Department for that council.

APPENDIX FIVE

Timeline of reported progress of the Efficiency Programme

Since the introduction of the Efficiency Programme, the government has made five public announcements reporting progress against the efficiency target. They show a steady rate of progress for both efficiency savings and headcount reductions.

22 Reported efficiency gains and headcount reductions have risen consistently since 2005



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