National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Cabinet Office

The Efficiency and Reform Group's role in improving public sector value for money

Summary

1 In May 2010, the Government announced the formation of an Efficiency and Reform Group (the Group), within the Cabinet Office. The Group integrates many of the functions of a typical corporate headquarters in one place at the centre of government with a single official, Ian Watmore, acting as a Chief Operating Officer for government (**Figure 1**). Appendix One is a memorandum submitted to the Comptroller and Auditor General by the Cabinet Office, describing the Government's agenda, how different parts of the government are working together to deliver it and the role played by the Group.

2 In order to make the spending reductions required by the 2010 Spending Review, the Government's intention has been to introduce a significantly different approach to efficiency and reform. The Government intends the formation of the Group to be an important departure from previous arrangements – bringing together expertise from across departments on a large scale to work across organisational boundaries and focus on common issues core to the Government's agenda. Whilst the Group acts as the focal point for this activity, it does not intend to act alone: all departments will have a role to play, sometimes taking the lead in particular areas (known as the 'tight-loose' strategy).

3 The Group's priorities are improving efficiency in central government and wider reform of the way public services are provided, although the two are closely interrelated. This report focuses on the former, and reviews four of the Group's main responsibilities (**Figure 2**). For each one it:

- sets the Government's plans in the context of previous central initiatives and the issues for achieving improved value for money identified by our recent work;
- examines the logic for the centre of government playing an active role; and
- comments on whether the plans address the areas for improvement.

4 It is too early to reach a judgement on the success of the Group. However, we are reporting on developments to date as the Group will play a leading role in promoting change and improving efficiency in central government. These are likely to be areas of ongoing interest to the Committee of Public Accounts. The National Audit Office intends that this report will provide an objective baseline against which to assess the progress made by the Group in improving the value for money of government overall.

5 The term 'efficiency' has been interpreted in a number of different ways within government in the past. The National Audit Office's focus is on sustainable value for money, which we define as the optimal use of resources to achieve the intended outcomes. The Group's definition of 'efficiency' is closely aligned with that NAO definition of value for money.

Figure 1
Structure of the Efficiency and Reform Group

Chief Executive Officer Office

Civil Service Capability Group	Efficiency and Reform strategy	Office for Civil Society and Strategy Unit	Office of Government Chief Information Officer and Senior Information Risk Officer
Change Programme	Transparency and Operational Excellence	Government Reform	Commercial Portfolio
Major Projects	Procurement	Government Communications and Directgov	Buying Solutions

Source: Efficiency and Reform Group

Figure 2
The Scope of Efficiency and Reform Group functions examined in this Review

Function	Scale of spending
Commercial and Procurement (Part Two)	Public bodies procured goods and services from third parties worth £236 billion in 2009-10, about one third of all public sector spending.
Government Property Unit (Part Three)	Annual spending on property in the public sector including running costs is £25 billion. The market value of the public sector estate in 2009, excluding council housing, was estimated at £100 billion.
Management of major projects (Part Four)	The largest 40 public sector projects accounted for 2 per cent of all government spending in 2009-10.
Operational Excellence (Part Five)	The civil service spends some £16 billion a year on internal staff. During the 2010 Spending Review period, departments are required to reduce their administration costs by 34 per cent by 2014-15.

Source: National Audit Office

The Government's efficiency strategy and the role of the Group

6 The Group is still in the process of developing the detail of its long-term plans. In the short term, the Government's efficiency strategy has concentrated on reducing departmental costs in specific areas, while in the medium term it will seek to put in place more sustainable processes to secure increased value for money, within reduced overall expenditure, by the end of the current spending review period. **Figure 3** summarises the Government's plans, and our joint assessment of the key issues that need to be managed, based on discussions with the Group. These factors will help to frame both our and their future assessments of the Group's achievements.

On reducing costs

7 The Group's short-term priority was to help government bodies live within budgets that were reduced by £6.2 billion in 2010-11, by applying efficiency and reform measures to government spending. Key early actions by the Group included:

- introducing central controls on Information and Communications Technology (ICT) contracts and reviewing 300 major projects;
- estimated reductions in running costs of at least £50 million on the government property estate;
- freezing civil service recruitment and limiting pay rises;
- renegotiating contracts with major suppliers to save an expected £800 million in 2010-11; and
- saving an estimated £133 million in the first six months of 2010-11 by freezing non-essential advertising and marketing spend.

8 The Group is currently developing a new methodological framework for the next Spending Review period to confirm the outcomes from these actions. This is planned to be based on our recommendations of good practice in reporting savings which we have drawn from our reviews of the SR04 and CSR07 programmes (Appendix Two).

9 Most departments' current business plans (November 2010) set out actions and reforms intended to help drive savings. At this stage, it is not clear what proportion of the spending reductions will relate to 'efficiencies' rather than reductions in services. Because of the short time scale, there is a risk that much of the cost reduction achieved by departments in 2010-11 will result from policy decisions to withdraw funding and reduce budgets or other short-term measures, rather than structured and sustainable cost reduction. The delivery of the spending reductions will be confirmed through departments' audited financial accounts for 2010-11, which will be available in summer 2011. However, the contribution of the Group's initiatives to these reductions is difficult to disaggregate from other contributions to reduced spend.

Figure 3
Efficiency and Reform strategy

Strategy	Actions	Key issues to be managed
Short term: reduce costs	• Moratoria on expenditure • Negotiations with biggest suppliers • Major Projects Review	**Sustainability:** stop-start actions may not be sustainable **Realisation:** further action needed to realise savings, e.g. by stopping spend on projects and agreeing contract changes **Measurement:** supporting information may not be sufficiently robust, baselines may be unclear, there may be some double counting **Compliance:** departments may find ways around moratoria – shifting costs elsewhere; repackaging spending to keep under threshold
Medium term: sustainable processes in place by the end of 2011	• Centralised procurement processes implemented • Major contracts renegotiated • Major Projects Authority acting effectively • Property Unit up and running • Benchmarks and lean processes established	**Skills:** need to improve quality of project management **Centre-local balance:** getting the right mix of central action, standardisation and devolution **Information:** improvements to data needed to support robust decision-making **Accountability:** need to ensure departments know what they are responsible for and accept central leadership in other areas **Incentives:** alignment of authority and incentives with intended results
Long term: more efficient government by 2014-15	• Procurement spend on common items down 25 per cent • Strategic, collaborative relationship with suppliers and more efficient delivery methods • Savings delivered on major projects and fewer go off track • Public bodies deliver continuous process improvements	**Programme capability:** quality of change management **Strategic risk management:** contingency plans for under-delivery of savings **Long-term relationships:** degree of cooperation between public bodies, centre and suppliers **Performance measurement:** quality and transparency of performance information to show where improvement is needed **Learning:** ensuring application of best practice, use of scarce skills and incentivising continuous improvements

Source: National Audit Office analysis of Cabinet Office and Efficiency and Reform Group plans

On improving coordination between departments

10 In the medium to long term, the Group is developing plans to deliver more fundamental changes through improved coordination between departments and a stronger role for the centre of government, including introducing mandatory arrangements in some areas where departments have had operational discretion. Previously, the Group's functions were distributed across separate directorates in the Cabinet Office, the Department for Work and Pensions, and the Treasury and its agencies. In order to influence efficiency, the centre of government relied on issuing guidance and on monitoring government departments' progress against a series of performance targets. From 1997, three-year spending review periods were introduced. There were separate initiatives to identify savings, leading to additional targets for departments outside the expenditure control framework.

11 Our reports on previous central savings initiatives have found that they have had mixed impact.[1] There has been significant progress in reducing the costs of office accommodation. However, in other areas departments did not have good enough data to effectively measure improvement, many invalid savings were reported, and accountabilities were unclear. While the centre of government encouraged departments to act collaboratively, there was no binding requirement to do so, for example, to use common services or centrally-developed arrangements. The centre did not have sufficient, consistent and comparable performance data from across government, so could neither encourage improvement by publishing benchmarks, nor identify where intervention was needed to deal with poor performance.

12 Many of our recent reports support the case for a more integrated approach in the areas where the Group is taking an active role. While there were areas of good departmental practice across the areas surveyed here, patchy performance and the scarcity of relevant skills indicate that the centre of government could have been more effective in driving improvements in value for money through the system. However, the logic for central intervention is not the same across the areas we have examined and does not necessarily involve greater central control. For example, process efficiencies are best designed and implemented by the staff delivering services, but the centre can create incentives and support improvement. In procurement, on the other hand, it makes sense to purchase certain common items in aggregate whilst specialist items continue to be the responsibility of individual departments.[2]

1 Comptroller and Auditor General, *Progress with VFM savings and lessons for cost reduction programme*s, Session 2010-11, HC 291, National Audit Office, July 2010.

2 For example: National Audit Office and Audit Commission, *A review of collaborative procurement across the public sector,* May 2010; Comptroller and Auditor General, *Improving the efficiency of central government's use of office property*, Session 2007-08, HC 8, National Audit Office, November 2007; National Audit Office, *Assurance for high risk projects*, June 2010; and National Audit Office, *Maturity of process management in central government*, December 2010.

13 The Government's 'tight-loose' strategy outlined in Appendix One is intended to share responsibilities between the Group, the Treasury and departments so that central action is taken only where it adds value. The intention is to avoid creating a large bureaucratic centre: in some areas the Cabinet Office's preferred approach is for a lead department to act on behalf of the whole of government. The new environment is intended to give the centre more levers to influence or direct departments' spending decisions, without diminishing departmental accountability and ownership.

14 We highlight key issues specific to each functional area at the end of each chapter. For the Government's overall strategy to have more success than the previous attempts detailed in this Report, it will need:

- a good understanding of the barriers to change and of the best levers for the centre to use to achieve sustainable value for money improvements;
- appropriate strategies for each area, underpinned by a clear logic, and based on a good, data-driven understanding of the drivers of value for money;
- arrangements to ensure compliance with the agreed strategies;
- clear accountability for financial decision-making, especially where one department acts on behalf of others or the Group has decided to cancel or amend projects;
- detailed planning by departments for how efficiencies and economies are to be realised, whilst minimising the impact on services;
- milestones and accountabilities for tracking improvements; and
- departments and the centre to work together with a clearly understood division of duty.