



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 887
SESSION 2010–2011
25 MARCH 2011**

Cabinet Office

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

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.



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

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

21 March 2011

This report provides a strategic overview of the landscape and plans for the work of the new Efficiency and Reform Group, set up within the Cabinet office in May 2010. The Group aims to act on behalf of Government, leading collective action or standardisation where this improves efficiency, and allowing departments full responsibility for other areas.

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This report can be found on the National Audit Office website at www.nao.org.uk/efficiency-reform-group-2011

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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



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
<p>Short term: reduce costs</p>	<ul style="list-style-type: none"> ● Moratoria on expenditure ● Negotiations with biggest suppliers ● Major Projects Review 	<p>Sustainability: stop-start actions may not be sustainable</p> <p>Realisation: further action needed to realise savings, e.g. by stopping spend on projects and agreeing contract changes</p> <p>Measurement: supporting information may not be sufficiently robust, baselines may be unclear, there may be some double counting</p> <p>Compliance: departments may find ways around moratoria – shifting costs elsewhere; repackaging spending to keep under threshold</p>
<p>Medium term: sustainable processes in place by the end of 2011</p>	<ul style="list-style-type: none"> ● Centralised procurement processes implemented ● Major contracts renegotiated ● Major Projects Authority acting effectively ● Property Unit up and running ● Benchmarks and lean processes established 	<p>Skills: need to improve quality of project management</p> <p>Centre-local balance: getting the right mix of central action, standardisation and devolution</p> <p>Information: improvements to data needed to support robust decision-making</p> <p>Accountability: need to ensure departments know what they are responsible for and accept central leadership in other areas</p> <p>Incentives: alignment of authority and incentives with intended results</p>
<p>Long term: more efficient government by 2014-15</p>	<ul style="list-style-type: none"> ● 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 	<p>Programme capability: quality of change management</p> <p>Strategic risk management: contingency plans for under-delivery of savings</p> <p>Long-term relationships: degree of cooperation between public bodies, centre and suppliers</p> <p>Performance measurement: quality and transparency of performance information to show where improvement is needed</p> <p>Learning: ensuring application of best practice, use of scarce skills and incentivising continuous improvements</p>

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 programmes*, 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.

Part One

Improving, measuring and reporting value for money

1.1 In May 2010, the new Government announced³ the formation of an Efficiency and Reform Group (the Group), within the Cabinet Office with two interrelated priorities:

- Making Government more efficient: reducing operational overheads to give taxpayers better value and allow resources to be focused on key priorities.
- Radically reforming the way public services are provided to ensure they meet rising public expectations: using transparency to improve accountability; shifting power to people and creating the 'Big Society'.

1.2 This report focuses on the first priority. The following parts examine the Group's role in procurement (Part Two), estates (Part Three), major projects (Part Four) and process management (Part Five). Recent National Audit Office reports have examined other roles of the Group:

- central initiatives to control staff costs across the civil service and wider government;⁴ and
- the challenges for managing information and communications technology across Government.⁵

Appendix One sets out the Group's description of the context and explanation for the formation of the Group.

³ <http://www.cabinetoffice.gov.uk/news/cabinet-office-and-treasury-join-forces-drive-out-waste-and-shake-drive-efficiency>

⁴ Comptroller and Auditor General, *Managing staff costs in central government*, Session 2010-11, HC 818, National Audit Office, March 2011.

⁵ Comptroller and Auditor General, *Information and Communications Technology in government Landscape Review*, Session 2010-11, HC 757, National Audit Office, February 2011.

What we mean by value for money

1.3 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. Cutting costs whilst maintaining an acceptable quality and volume of services is strong evidence for improving overall value for money but it does not prove that an organisation is near to optimising value for money. Technical evaluations and comparisons with benchmarks may indicate that further improvements are possible. The Group's definition of 'efficiency' is closely aligned with the National Audit Office definition of value for money.

Plans for savings during Spending Review 2010

1.4 Since 2000, value for money improvements in departments have been targeted through a number of major Treasury-led programmes – most recently during the 2007 Comprehensive Spending Review period which set savings targets on departments totalling £35 billion by 2010-11. In the light of a series of reports by the National Audit Office and Public Accounts Committee⁶ the Government ended reporting of progress against the targets. The Government's approach for the Spending Review 2010 (SR10) period emphasises cost reduction and requires efficiency and value for money to be integral to what government does, particularly as regards public services reform, rather than through running major Treasury-led VFM programmes. Examples include:

- a reduction in administration budgets of 34 per cent, saving £5.9 billion a year by 2014-15;
- value for money improvements in key areas such as health and tax collection, with small or no cuts in overall spending; and
- targeting reduced spending through improved coordination across government, for example, in procurement, major projects and estate management.

1.5 Overall the Government aimed to reduce public spending by £6.2 billion in 2010-11 and by a further £81 billion by 2014-15.⁷ Most departments are required to deliver substantial reductions in actual spending. The reductions in spending will come from a mixture of cancellations of planned and existing programmes, reductions in entitlements, pay and recruitment freezes, efficiency measures and reform. No detailed plans have been published showing how these spending reductions are to be achieved, whilst minimising the impact on services. Most departments' current business plans (November 2010) propose to make savings but have not said how these will be achieved or what proportion of the spending reductions will be achieved through efficiencies rather than reductions in services. They do, however, set out reform plans including actions and milestones, along with input and impact indicators intended to allow the public to track the implementation of public service reforms.

⁶ HC Committee of Public Accounts, *Progress with VFM savings and lessons for cost reduction programmes*, 4th Report of Session 2010-11, HC 440, October 2010.

⁷ Spending Review 2010, HM Treasury, October 2010.

1.6 Unlike the previous two spending review periods, there are no centrally managed savings targets for SR10 and the Government does not wish to create a new target and criteria driven value for money regime. It remains departments' responsibility to live within the budgets agreed with the Treasury while implementing the changes needed to reduce costs in a structured way. The contribution of the Group's initiatives to these reductions is difficult to disaggregate from other contributions to reduced spend. The Group is considering how savings will be reported based on best practice developed from National Audit Office examinations of the SR04 and CSR07 savings programmes (Appendix Two). The main sources of monitoring include:

- The Parliamentary supply system and the independent audit of accounts, which will be used to monitor achievement of savings in administration costs and overall spending targets both by central government and local bodies.
- Departmental business plans and reports, which will incorporate standard efficiency indicators for common areas of spend, including procurement, property, projects, ICT, Human Resources and finance costs.
- Departments are currently developing key indicators including some on efficiency, for example, unit costs of service delivery, which will also be published as part of the Government's transparency agenda.

The role of the Efficiency and Reform Group

1.7 The components of the Efficiency and Reform Group are shown in **Figure 4**. It was formed from parts of the Office of Government Commerce (OGC) and Buying Solutions which moved from HM Treasury to the Cabinet Office in June 2010. Other components included Directgov, the Office for the Third Sector and the Social Exclusion Task Force.

1.8 The OGC, an independent office within the Treasury with its own Accounting Officer, coordinated cross-departmental collaboration on procurement. Buying Solutions, an executive agency of the OGC, negotiated framework agreements with suppliers to allow departments to access low prices with minimum administrative costs. Responsibility for ICT, civil service staffing and for public service reform previously sat within separate directorates in the Cabinet Office, which also acted as a secretariat for cross-departmental leadership of a number of professional groups.

1.9 The status of the Group within government has been enhanced in comparison to the bodies which it replaced. It is headed by an Efficiency and Reform Board chaired jointly by the Chief Secretary to the Treasury, and the Minister for the Cabinet Office and Paymaster General. The Group also reports to a sub-Committee of the Public Expenditure Cabinet Committee. Ian Watmore, the head of the Group, acts as a Chief Operating Officer for government with oversight of a wide range of cross-government operational functions. The Group brings together most of the functions of a typical organisational headquarters (Figure 1), except finance which remains with the Treasury and overall strategy which remains with the Prime Minister's Office.

Figure 4
Component parts of the Efficiency and Reform Group

Former area	Number of staff	Responsibilities	New area
Civil Service Capability Group	c. 90	Human Resources functions covering the Senior Civil Service, recruitment, training and pay	Civil Service Capability Group
Office of Government Chief Information Officer	c. 60	Responsible for Information and Communication Technology policy across government	Office of Government Chief Information Officer
Government Communication Group	c. 60	Approves central government advertising or marketing campaigns over the specified threshold	Government Communications
Office of Government Commerce	c. 290	Procurement, estates and major projects	Procurement Major Projects Property Commercial
Buying Solutions	c. 380	Procurement	Buying Solutions
Directgov	c. 170	Citizen-focused destination for government information and services	Digital and Directgov
Office for the Third Sector & the Social Exclusion Task Force	c. 75	Big Society policy, charities, social enterprises and social action	Office for Civil Society and Strategy Unit

NOTE

¹ This table lists the staff numbers in the component organisations brought together to form the Efficiency and Reform Group during 2010-11. As at March 2011, the Cabinet Office has not finalised budget allocations or headcounts for 2011-12 onwards.

Source: Cabinet Office

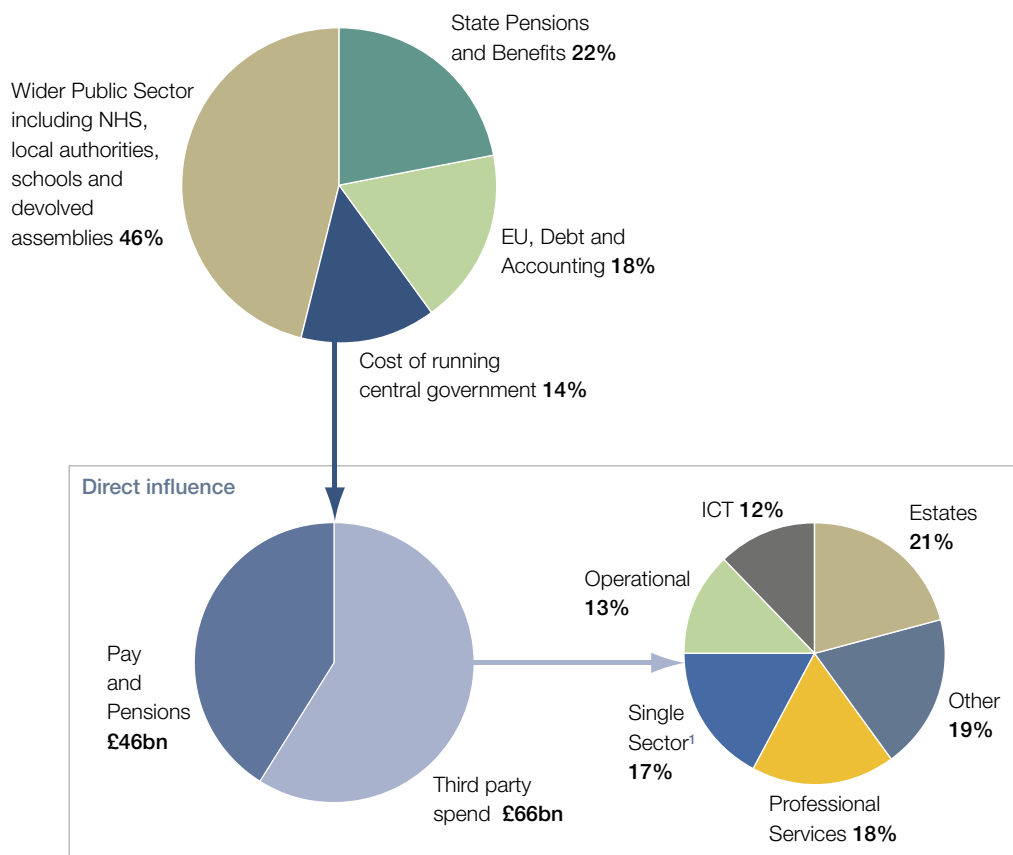
1.10 The Group is to agree detailed targets for each of its responsibilities, but until these have been set it will be difficult to assess whether its strategy is on track or succeeding. It acknowledges that the current quality of data on public sector efficiency and basic data on public spending in common areas is often very poor. It intends to work with departments to improve the quality of management information, partly to enable comparisons across departments using standard efficiency indicators. These will need to have tight definitions, and clear baselines established, if they are to provide an effective means of comparing the relative performance of departments and encouraging improvements in the overall performance of government.

The Group's 2010-11 to 2014-15 strategy

1.11 Appendix One provides the Group's own view of its strategy and priorities. 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 identifying savings from applying efficiency and reform measures to government spending. In the longer term, the Group aims to intervene in areas where savings can be achieved by a centralised, standardised or collaborative approach. The centre is undertaking some activities on behalf of departments, and may commission lead departments to act on behalf of others or share capability (Appendix One). The arrangements will not apply to local government or the National Health Service (**Figure 5**), although they will not be excluded from taking advantage of centrally negotiated deals.

Figure 5

Extent of Efficiency and Reform Group influence over public expenditure



NOTE

1 Single Sector includes goods and services typically required by a single department or organisation.

1.12 In May 2010, the Government announced measures to strengthen central control and oversight of departmental expenditure. These changes represent a reduction in departments' authority to spend money without seeking central approval, and included:

- Freezes on new expenditure above stated limits on ICT, consultancy, marketing and advertising, with exceptions requiring Group approval.
- A recruitment ban across the civil service except for key frontline staff in 2010-11.
- Negotiations with the largest government suppliers, led by the Minister for the Cabinet Office, to identify potential savings: memoranda of understanding have been signed with key suppliers.
- A review by the Group of major projects, to identify where costs could be reduced or projects stopped altogether.
- A moratorium on new leases.
- Centralised procurement of goods and services in areas where a central procurement strategy was in place.

1.13 These measures, which were updated in March 2011⁸, aim to reduce expenditure in the short term and will not all represent sustainable cost reductions. To date the Group has reported potential savings of £1 billion expected by departments in these areas (some examples are detailed in **Figure 6** overleaf). However, the Group recognises that it is important to exercise caution in how it publicly reports the savings generated by its activity because:

- Available management information is often insufficiently robust.
- The Group aims to report savings against a baseline of 2009-10 spend where this is possible. However, in some cases a different baseline may be necessary.
- Realisation of some savings depends on further action by departments, for instance, by halting spend on cancelled projects, or implementing the terms of renegotiated contracts in line with agreed Memoranda of Understanding.
- Moratoria could generate perverse outcomes, such as higher overall project costs, that cannot be quantified.
- The risk of double counting between savings streams.

8 <http://www.cabinetoffice.gov.uk/news/new-government-spending-controls-deliver-billions-more-savings>

Figure 6
Summary of risks on 2010-11 savings forecast by the Group

Examples of forecast savings

Around £402 million has been saved in this financial year following a review of the Government's largest projects, including abolishing ID cards.

More than 300 ICT projects have been reviewed and work is underway with departments to stop or de-scope contracts worth £1 billion.

50 per cent less was spent on consulting compared to the same period last year – saving £350 million.

Estimated reductions in running costs of at least £50 million through rationalising the government property estate.

External recruitment has fallen by around 75 per cent, saving £120 million in this financial year through the ongoing freeze on recruitment.

Potential risks

Cancelled projects may include spend to save schemes, unfunded proposals, or be replaced with other schemes.

Costs may be transferred to other projects, or are not cash releasing as cancelled projects may not have agreed funding. Savings may not take account of the costs of cancellation.

Key initiatives may have been delayed or harmed by the freeze on consultants.

Lack of clarity on whether savings are reported net of costs.

There is a risk that key services are not maintained, that work contracted to the private sector is more expensive, and that short-term financial gains are offset by future costs, such as increases in fraud and error in the tax and benefit systems.

NOTE

1 Further details on the main risks to reporting of savings are at Appendix Two.

Source: National Audit Office

Key issues to be managed

- How accountability to Parliament for decisions made by the Group but implemented by spending departments will be determined.
 - How the Group's programme of work will be integrated with the need for cost reductions in departments as set out in their business plans.
-

Part Two

Improving procurement

Why this is important

2.1 Reducing procurement expenditure and costs is important to the overall value for money of government operations. Public bodies procured goods and services from third parties worth £236 billion in 2009-10, about one third of all public sector spending. The total cost of administering this procurement (including contract planning, letting and management, storage, ordering, delivery, invoice processing and accounting) is not known. However, it is likely to be substantial: our 2008 report on the management of service contracts, worth £12 billion annually, estimated that departments spent 2 per cent of the contract value on contract management.⁹ The procurement of property management and major projects are normally dealt with by specialist teams within departments and are considered in Parts Three to Four.

Recent history of central intervention in this area

2.2 Since the closure in 1993 of The Crown Suppliers (a centralised purchasing agency for central government procuring office equipment, stationery, furniture and a wide range of other common goods and services), all procurement has been the responsibility of individual public bodies, using competition between suppliers to secure the lowest prices. When the OGC was formed in 2000, it was tasked with improving cooperation between departments on prices for common items, enhancing procurement and commercial skills, and extending its role into strategic rather than routine procurement tasks. Since 1993, a number of public sector organisations have offered a range of framework agreements, available to many or all public bodies, avoiding the need for each body to hold tendering exercises to obtain competitive prices.¹⁰ The OGC has also promoted increased use of the Government Procurement Card and electronic procurement to help public bodies to minimise administration costs.¹¹ However, although the percentage of goods and services procured under such central arrangements has been growing, it remains low.

⁹ Comptroller and Auditor General, *Central government's management of service contracts*, Session 2008-09, HC 65, National Audit Office, December 2008.

¹⁰ Comptroller and Auditor General, *Assessing the value for money of OGC buying solutions*, Session 2006-07, HC 103, National Audit Office, December 2006.

¹¹ Comptroller and Auditor General, *Improving Procurement – Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, Session 2003-04, HC 361, National Audit Office, March 2004.

The challenges – evidence about how well it is done now

2.3 The National Audit Office has reported on public procurement, both in individual spending departments and centrally.^{9, 10} The OGC's Collaborative Procurement Programme led to some improvements to the way public bodies buy goods and services. However, a number of outstanding problems have limited the value for money improvements delivered to date. These include:

- a lack of sufficient professional procurement specialists within government;
- poor procurement information, which prevents evidence-based procurement decisions;
- a duplication of administrative effort across the public service, with nearly 50 professional buying organisations procuring similar goods and services;
- unnecessary tendering exercises undertaken at significant cost; and
- public bodies paying a wide range of prices for the same commodities even within existing collaborative arrangements.

2.4 Our recent work provides strong evidence that improved value for money in public procurement can be achieved through a consistent cross-government approach for certain types of goods and services (**Figure 7**) and a more strategic approach by individual public bodies.¹² We recently estimated that over 10 per cent of hospitals' spending on consumables, amounting to some £500 million a year, could be saved if hospitals got together to buy products in a more collaborative way.¹³

Logic behind the centre of government taking an active role

2.5 Central intervention can reduce average prices for common items through aggregation and help to minimise administrative costs, for example, by reducing duplication of effort across public bodies, reducing overall transaction costs and the number of tenders. In addition, the fragmentation of procurement across government means that buying power is lost, scarce procurement and commercial skills are not available to all the organisations which need them, and there is a lack of coordination of individual decisions.¹⁴ But **Figure 7** shows that a range of approaches is needed for different items, and specialised sector-specific arrangements are sometimes appropriate.

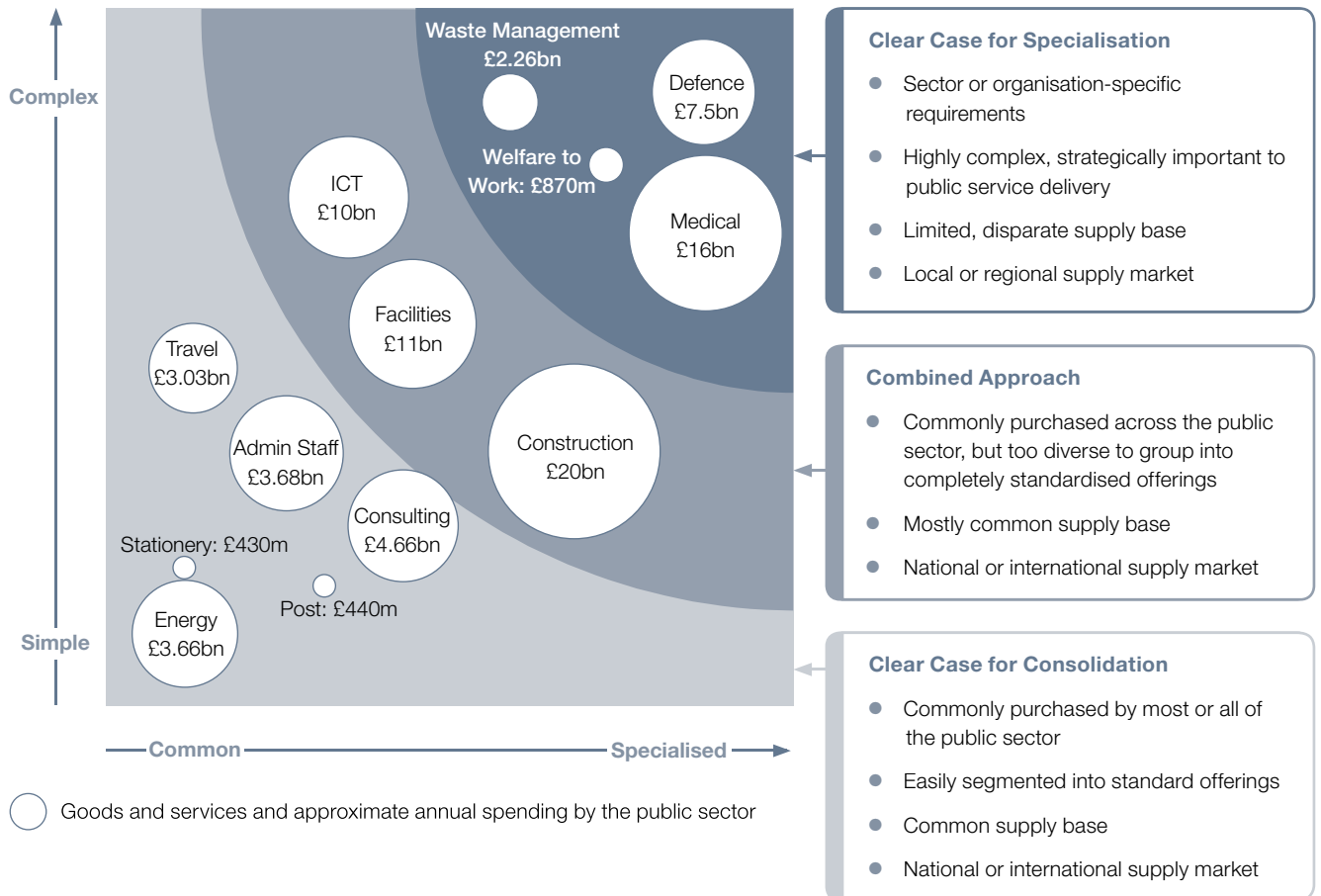
¹² National Audit Office and Audit Commission, *A review of collaborative procurement across the public sector*, May 2010.

¹³ Comptroller and Auditor General, *The procurement of consumables by NHS acute and Foundation trusts*, Session 2010-11, HC 705, National Audit Office, February 2011.

¹⁴ See also Sir Philip Green's Efficiency Review at <http://www.cabinetoffice.gov.uk/sites/default/files/resources/sirphilipgreenreview.pdf>

Figure 7

Scope for increased cooperation between departments on the procurement of common items



Source: Efficiency and Reform Group

Efficiency and Reform Group plans and approach

2.6 In September 2010, the Efficiency and Reform Group launched a programme to centralise Category Procurement with the aim of reforming the ways in which government procures and manages the supply of commonly used goods and services. This will be achieved through the implementation of a new operating model for centralised procurement, which will introduce changes to key areas in the procurement process: governance and strategy; the approach to sourcing different categories of procurement spend; purchase and payment arrangements; data management and analysis and enabling technologies.

2.7 The Group expects centralising category procurement to deliver sustainable cost reductions from the existing estimated baseline spend of £13 billion – in the region of 25 per cent over the next four years. The Group is carrying out reviews of the scope for centralisation on nine categories of spend, covering the bulk of commonly procured items. Each review is intended to identify the optimum supply strategy for that category of spend; and include consideration of small- and medium-sized suppliers. The resulting strategies for each category will be implemented in three phases during 2011 (**Figure 8**).

Figure 8

Planned reviews of procurement strategies

Phase 1 categories (March 2011)	Phase 2 categories (June 2011)	Phase 3 categories (September 2011)
Office Solutions (stationery and office supplies etc.)	Travel	Printing and Print Management
Professional Services (consultants and temporary staff)	Vehicle fleet	Advertising and Media
Energy	Learning and development	ICT Commodities

Source: Efficiency and Reform Group

2.8 The Government's 'tight-loose' strategy, to increase central control over some areas whilst devolving responsibility to the appropriate level for others (Appendix One), allows for a wide range of options within each category to reduce overall procurement costs including:

- a single centralised supply strategy;
- collaboration – improving on the existing arrangements;
- mandatory use of existing departmental centres of excellence;
- partial outsourcing of procurement; or
- contracting out of the whole process.

2.9 Centralisation will require the Government to put in place contracts and any necessary supporting technology to enable all departments to buy at the best price. To obtain the best prices possible, and deliver sustainable savings, all departments (including their arm's-length bodies) will be required to commit spend through the centralised contracts. The Group has established Procurement Executive Boards made up of Senior Commercial Directors from across all central government departments. The Boards' decisions on the optimum procurement arrangements for any item will be binding on all central government departments.

2.10 The Group is also working to improve procurement efficiency in order to reduce both administration costs and suppliers' costs: for example, the Group estimates that it takes, on average, 77 weeks for a government project to complete the Official Journal of the European Union (OJEU) procurement process. New procurement approaches are being trialled via 'Pathfinder Projects' during the first quarter of 2011. These will identify bottlenecks and set targets for timescales, costs, and quality for future procurement exercises.

2.11 Current data systems do not provide clear and up to date information on procurement across government on a consistent basis. The Group is developing proposals for the development and operation of a 'data warehouse' to electronically collect relevant spend data from suppliers and departments.

2.12 The Government held discussions with 19 key government suppliers during 2010, to agree Memoranda of Understanding to reduce contract costs. Lead negotiators from across government negotiated the memoranda which departments will use to renegotiate contracts with these suppliers. The Group estimates that £800 million of reductions in 2010-11 expenditure will result from these negotiations. A second phase, involving 34 more suppliers, was under way in early 2011. The Group has not yet publicly reported the achievement of sustainable cost reductions from these actions, although it reports strong progress. In the longer term, the Group plans to recruit six 'Crown Commercial Representatives' to take on the roles currently occupied by the lead negotiators to be the central point of contact who will take a strategic, cross-government approach to about 30 major suppliers.

2.13 Despite the increased role of the centre required by these reforms, overall staff numbers are not expected to increase. Currently about 380 staff work within Buying Solutions on administering common procurement. The Group expects significant savings to be made by making Buying Solutions leaner and more efficient and, where possible, by making use of existing procurement capacity within some of the major departments.

Key issues to be managed

There has been clear but slow progress in improving coordination and the professionalism of procurement across the public service since 2000. Our 2010-11 report on collaborative procurement¹ emphasised that a step change was needed in coordinating procurement across government in order to meet the cost reduction challenge during the SR10 period.

The key issues include:

- whether the 'tight-loose' approach suggested by the Efficiency and Reform Group is likely to work better than previous procurement initiatives led by the centre;
- how the reviews of procurement strategies (Figure 8) will maintain a balance between operational needs, flexibility to respond to short-term needs and central control or coordination;
- how the Group will develop relationships with suppliers that deliver long-term efficiency improvements beyond the savings identified in one-off negotiations; and
- whether the projected savings, of around 25 per cent of spend, are realistic and achievable.

NOTE

¹ A review of collaborative procurement across the public sector (2010) *op cit.*

Part Three

Improving property asset management

Why this is important

3.1 Annual spending on property in the public sector including running costs is £25 billion (about 4 per cent of total government spending). The market value of the public sector estate in 2009, excluding council housing, was estimated at £100 billion. Central government departments' office property alone is estimated to cost almost £1 billion in annual running costs. There is scope for substantial value for money savings in the management of these large resources without impacting on front line services.

Recent history of central intervention in this area

3.2 There was an attempt at centralised management of the government estate in 1972 with the formation of the Property Services Agency (PSA). However, concern about the PSA's monopoly position, its lack of competitiveness and poor responsiveness to departments' needs led to its progressive break-up and privatisation in the 1980s and 1990s. Although departments were expected to coordinate their property requirements, individual departments have largely determined their own property needs and contracted directly with the private sector. However, subsequent reviews have identified fragmentation of the estate as a problem and recommended measures to promote greater strategic integration: the OGC's High Performing Property Routemap in 2006 aimed to achieve savings of £1 billion to £1.5 billion a year by 2013 by applying common benchmarks and standards. The centre of government has also focused on staff relocation as a source of savings. The Lyons Review of July 2004 identified 20,000 posts which could be dispersed out of London, a target which the Treasury reported it had exceeded.¹⁵

The challenges – evidence about how well it is done now

3.3 The National Audit Office and the Committee of Public Accounts have made a large number of recommendations in relation to property asset management. The key areas for improvement relate to performance measurement, skills, strategy and long-term planning, and cost control, particularly the use of whole-life costing.¹⁶ Key Government reviews in this area have come to similar conclusions.¹⁷

3.4 Departments have made substantial progress in realising many of these savings: OGC estimated that the size of the estate during 2009 fell by 5.8 per cent and, between 2003-04 and 2008-09, the real running cost of the estate fell by about £740 million (17 per cent).¹⁸ Despite this, reviews carried out in 2009 and 2010 show significant scope for further savings.¹⁹

Logic behind the centre of government taking an active role

3.5 Managing the government's property portfolio as a whole rather than as a series of individual departmental estates has significant advantages. It can help to minimise overall space needed and can make the best use of the limited pool of property management expertise. On the other hand, experience from the 1980s suggests that central management can also lead to delay and inflexibility. There are a range of solutions to balance these costs and benefits including:

- Full-scale centralisation – with a central body holding a budget for the estate and taking responsibility for operational management. This can ensure a high degree of compliance with best practice but there is a risk it will disempower local management and initiative.
- Regional centralisation – this model is illustrated by the recent Property Vehicles initiative – see paragraph 3.7 below – with public sector companies managing concentrations of property in regional centres and devolving management of property elsewhere to others.
- Strategic centralisation – with a central body providing strategic overview, setting standards and giving advice, but operational management remaining in the hands of the departments and other bodies. This is essentially the model used since the 1990s. It may help avoid the inflexibility of a fully centralised model but makes it difficult to ensure consistent adherence to good practice and coordination of needs.

¹⁶ For example, the following reports from the Committee of Public Accounts, *Managing the defence budget and estate*, 10th Report of Session 2010-11, HC 503, December 2010; *HM Revenue & Customs' estate private finance deal eight years on*, 32nd Report of Session 2009-10, April 2010; *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, 25th Report of Session 2009-10, HC 417, April 2010; *National Offender Management Service: Maintenance of the prison estate in England and Wales*, 51st Report of Session 2008-09, HC 722, November 2009; *Improving the efficiency of central government's use of office property*, 22nd Report of Session 2007-08, HC 229, May 2008; *Building for the future: Sustainable construction and refurbishment on the government estate*, 3rd Report of Session 2007-08, HC 174, January 2008; and *Managing the Defence Estate: Quality and Sustainability*, 61st Report of Session 2006-07, HC 537, November 2007.

¹⁷ For example, OGC's *High Performing Property – Routemap to asset management excellence* (OGC, 2006) identified leadership and skills among the key drivers of good property performance; the Treasury's final report on the Operational Efficiency Programme, paragraph 4.2, profiled the importance of strategic planning and good performance data.

¹⁸ OGC, *State of the Estate in 2009*, March 2010.

¹⁹ HM Treasury, *Operational Efficiency Programme final report*, April 2009; Smith, I R, *Relocation: transforming where and how government works*, March 2010; Committee of Public Accounts, 25th Report of Session 2009-10, above; Sir Philip Green, *Efficiency Review*, October 2010.

Efficiency and Reform Group plans and approach

3.6 A Government Property Unit has been jointly established in the Department for Business, Innovation and Skills as the property function of the Efficiency and Reform Group in the Cabinet Office. It is responsible for leading property strategy across the public sector, and delivering savings from property asset management. The Unit's strategic aim is to reduce the government's estate; use property more efficiently and exit high cost leasehold property; and consolidate the estate by moving staff into existing freehold or cheaper leasehold properties, whilst maximising its capacity. This is consistent with the current moratorium on signing new property leases or lease extensions. Freeing up leased property for use by the private sector in other uses also contributes to the Government's overall economic growth strategy.

3.7 The Government announced in the Spending Review that it would introduce Property Vehicle pilots in Central London and Bristol from 2011-12 to manage central government's estate in these locations and involve the private sector in the consolidation strategy. In the longer term, this is likely to involve extensive contractual or joint venture arrangements with private sector partners.

3.8 Measuring success in exploiting the remaining scope for savings and efficiencies will be crucial to the Group's effective management of this area. Key indicators of success will be:

- size of the estate and number of holdings;
- real running cost of the estate;
- average cost of office space and comparison with private sector; and
- benchmarks of success against these indicators.

Key issues to be managed

There is evidence that departments have become more efficient in their use of office space. The main future challenge for the Group is to find means to embed good practice across the government sector while:

- getting the right balance between centralisation of management of the estate and departments' individual needs. This is connected with establishing clear accountability and transparency;
- producing appropriate performance measures standardised across the government estate, collect reliable data for these measures and monitor and manage against them;
- ensuring there are sufficient skilled property professionals;
- establishing a framework of benchmarks and standards across government; and
- systematically controlling costs and developing strategic plans which establish strong incentives.

There are other barriers. PFI and PPP outsourcing arrangements, if poorly handled, can create barriers to rationalisation because of the difficulty of altering the long-term contracts such arrangements typically involve. There is a role for the centre in managing PFI and PPP arrangements to avoid this problem.¹ At the same time, the moratorium and review of lease renewal decisions by departments may cause concern in departments regarding their role and the long-term impact on delivery of services.

NOTE

¹ HM Treasury and National Audit Office, *Managing complex capital investment programmes utilising private finance*, March 2010.

Part Four

Improving the management of major projects

Why this is important

4.1 The largest 40 public sector projects accounted for 2 per cent of all government spending in 2009-10. Many major projects present a level of financial and technical risk that no commercial organisation would accept without government guarantees. As a result of this high risk, major projects require specialist management and some will not be delivered to planned time, cost and quality, or will fail to secure the planned benefits.

4.2 The value for money with which departments deliver unique major projects, such as major IT developments, is more difficult to measure than for continuous programmes such as roads and prisons where unit costs or other benchmarks can give a general indication of economy and efficiency. Generally, departments which succeed in delivering their approved major projects on time, at their planned cost and with their expected benefits realised can be considered economic, efficient and effective. Other factors include:

- that the projects selected for funding are those with the highest cost benefit ratio (economic efficiency) and acceptable risk;
- projects are cancelled as soon as they are no longer likely to meet their intended objectives cost-effectively; and
- internal programme and project management cost are minimised.

Recent history of central intervention in this area

4.3 The 1999 *Review of civil procurement in central government*²⁰ identified a need for a common well-defined process for managing large, complex and novel procurements across central government. A system of Gateway Reviews was introduced and managed by the OGC. Projects are reviewed by an independent team of consultants and civil servants at five critical stages in their lifecycle to ensure that they are on track to meet their intended outcomes and that projects and programmes are successful. Progress is assessed on a traffic light basis. Although this was a well established process, there is little evidence of projects rated as red (successful delivery judged to be unachievable) being stopped.

20 Sir Peter Gershon, *Review of civil procurement in central government*, HM Treasury, 1999.

4.4 In 2007, as part of its validation and approval process for high value projects, the Treasury established a Major Projects Review Group. The MPRG reviews projects that are over £1 billion, or projects which are particularly innovative or complex. It provides assurance to HM Treasury ministers on the deliverability, value for money and affordability of a project. The MPRG can recommend that a project proceeds, proceeds with conditions attached, or is stopped.

The challenges – evidence about how well it is done now

4.5 National Audit Office reports have found that the Major Projects Review Group and the Gateway review system are valued by stakeholders for the benefits that result from preparing for a review as well as the impact of their findings on reducing project risks and avoiding costs.²¹ However, we identified that:

- projects were not being appropriately reviewed at all stages of the Gateway Review process, lessons were not shared across departments and post-contract evaluations of benefits were often not carried out;
- there is a lack of coordinated system design for central assurance of major projects;
- information and learning is not systematically captured or used to improve project performance; and
- there is a range of common weaknesses across government in the management of major projects, particularly in option appraisal, project cost estimation and risk management, and a shortage of staff with the commercial skills.

Logic behind the centre of government taking an active role

4.6 The track record of government projects is widely regarded as poor, with frequent late and over-budget deliveries or projects which fail to deliver the intended benefits (sometimes all three) although many major projects are successful.²² Our recent report on the central oversight of high risk projects called for a central, mandatory system of assurance to be established for government. The scarcity of high quality project management skills points to a need for a central role in ensuring that critical projects have access to the right expertise. This approach has been effective for PFI projects, where a Project Review Group in the Treasury has added significant value by standardising contracts and using its collective buying power to obtain a share of refinancing gains.

²¹ Comptroller and Auditor General, *Delivering successful IT enabled business change*, Session 2006-07, HC 33, National Audit Office, November 2006; National Audit Office, *Assurance for high risk projects*, June 2010.

²² See for example, Comptroller and Auditor General, *Ministry of Defence: The Major Projects Report 2010*, Session 2010-11, HC 489 I, National Audit Office, October 2010.

Efficiency and Reform Group plans and approach

4.7 In February 2011, the Government announced the formation of the Major Projects Authority (the Authority) within the Group. New projects will not be considered by the Treasury for approval unless the Authority's assurance processes have been followed. Its role also includes:

- preparing a database of the 200 riskiest government projects and new programmes based on technical risk, lifetime spend and priority; and
- actively reviewing the top 50 projects. The Authority will make recommendations to Ministers to stop or rescope failing projects, or provide high quality expert help to boost management capability.

4.8 The Authority will have 36 project specialists but plans to be able to call on an extensive group of senior staff in departments. The success of the Authority will however be dependent on building up the project management skills of departments because of its limited capacity to intervene directly.

4.9 The Group reports that its initial post-election review of major projects reduced 2010-11 expenditure by £402 million. Its further measures aim to achieve the following results:

- Significantly improved compliance with the integrated assurance and approvals regime.
- More rigorous scrutiny, with projects being stopped or significantly rescope as a result of interventions.
- An increased proportion of major projects will be delivered on time and budget.

Key issues to be managed

The Government's proposals for the Major Projects Authority represent a significant change in the balance of responsibility for project assurance. Parliamentary and public oversight of major projects will be enhanced through the Authority's annual report. However, effective assurance will require:

- sufficient staff with the appropriate commercial skills for the effective delivery of projects in both the Authority and individual departments;
 - objective, quantified information on which to base decisions, when project cost data has not historically been accurate; and
 - effective intervention in poorly performing projects while accountability and responsibility remains with departments.
-

Part Five

Improving process management

Why this is important

5.1 During SR10, departments are required to reduce their administration costs by 34 per cent by 2014-15. The civil service spends some £16 billion a year on internal staff and, whilst pay restraint will make a substantial contribution to this target, significant reductions in overall staff numbers will be needed if departments are to live within their approved SR10 budgets. Ensuring that the remaining staff are as productive and efficient as possible in the tasks they perform, both in support roles and in delivering front-line services, will be essential in maintaining public services during this period.

5.2 There are a large number of recognised management techniques for improving process management which can be adapted to public sector processes (for example, Lean, Continuous Improvement, Kaizen, Six Sigma and Business Process Re-engineering). While differing in detail, all these techniques aim to help organisations to reduce overall costs while improving service to customers for example by focusing effort on their most important activities, improving processing times, and removing non-value adding activities.

Recent history of central intervention in this area

5.3 Historically, individual departments have taken the lead, particularly those with large-scale in-house processing functions. Some areas devolved from central government, such as the police, have also actively pursued process efficiencies with a focus on freeing up police officers' time for front-line duties. In 2008, the Cabinet Office set up a working group to build government's collective capability in 'Continuous Improvement'. In 2009, a smaller leadership group was established to further promote this agenda at senior levels, including senior membership from those organisations with significant continuous improvement programmes underway – HM Revenue & Customs, Department for Work and Pensions, the Home Office and the Ministry of Justice. The Cabinet Office funded activities in the first year which included visits to centres of excellence, publication of case studies and events to share good practice with senior civil servants. A cross-government pilot in the criminal justice area informed wider adoption of the 'Continuous Improvement' techniques across the area.

The challenges – evidence on how well it is done now

5.4 The National Audit Office recently assessed how a range of processes are managed across government.²² The assessment found that there are some pockets of good practice across central government but no single organisation consistently demonstrates the characteristics of strong process management. In more detail we found that:

- The capability to improve business process performance was the weakest area.
- Most departments do not view their core activities as business processes.
- Process management activity to date has typically focused on individual processes rather than the whole organisation, with the result that actions taken by one unit can impact adversely on another.

5.5 We identified three specific performance gaps across government organisations:

- Making the case for change and proving the benefits.
- Creating an environment where staff have an obligation, the desire and the skills to improve business process performance.
- Understanding what the customer wants and implementing a planned response to changes in demand.

Logic behind the centre of government taking an active role

5.6 Our recent work suggests that there is a need for strong central leadership to encourage the wider application of process management techniques and facilitate the spread of good practice. The slow progress to date may relate partly to disincentives within the existing performance regime for departments: staff may have been reluctant to suggest innovative changes which could reduce the amount spent on services, and managers have no incentive to support change which could be seen as disruptive and lead to reductions in their budgets.²³ These internal disincentives need to be counterbalanced by pressure from the centre.

Efficiency and Reform Group plans and approach

5.7 The Group is still developing its approach in this area. It recognises that in order to secure continuous improvement, it needs a long-term strategy to increase departments' awareness, skills and capability and plans to learn from the existing centres of expertise. The Group is considering working with HM Revenue & Customs to build its 'Lean Academy' into a cross-departmental centre of excellence. But it intends to develop a tailored approach to working with each department by gaining an understanding of their current position and facilitating change, for instance, by brokering access to successful practitioners.

²² National Audit Office, *Maturity of process management in central government*, December 2010.

²³ Comptroller and Auditor General, *Innovation across central government*, Session 2008-09, HC 12, National Audit Office, March 2009, page 21.

5.8 The Group emphasises the importance of transparency to creating the right culture for change. This is because:

- a common set of performance benchmarks can demonstrate the scope for improvement;
- in the public sector, where competition between service providers does not create incentives for continuous improvement, publication of information on performance may create a similar pressure for improvement; and
- sharing information between public bodies is needed to spread good practice and innovation.

Key issues to be managed

The departments with the largest scale processing operations – the Department for Work and Pensions and HM Revenue & Customs¹ have been in the forefront of introducing modern process management techniques to improve services and reduce costs. However, many departments have not recognised the potential benefits of process management to their operations. Key issues are:

- understanding when a centralised approach is not appropriate. Successful implementation of process improvement techniques requires the involvement of staff at all levels; the people operating processes are best placed to identify improvements. Innovations are more likely to be implemented where staff are convinced of their benefits, and therefore organisational leadership needs to make and support the case for change;²
- the challenge of establishing a strong improvement culture in departments from a low starting point; and
- the need to get much better at measuring the benefits. In the past there has not been a strong link between process improvement exercises and the overall costs of the organisation. It needs to be clear how process improvements are contributing to the planned reductions in costs.

NOTES

1 See for example, Comptroller and Auditor General, *HM Revenue & Customs: The efficiency of National Insurance administration*, Session 2010-11, HC184, National Audit Office, June 2010, paragraphs 7-8, and *Managing staff costs in central government*, Session 2010-11, HC 818, National Audit Office, March 2011, paragraphs 3.14-3.24.

2 Comptroller and Auditor General, *Innovation across central government*, Session 2008-09, HC 12, National Audit Office, March 2009.

Appendix One

Overview of the Efficiency and Reform Agenda

Prepared for the National Audit Office by the Efficiency and Reform Group

Overview of the Efficiency and Reform Agenda

Summary

1 This Appendix is intended to inform a strategic dialogue with the Committee of Public Accounts (PAC) on the future direction of government efficiency and reform. It sets out the context to this work, outlines the role the centre of government has and highlights key upcoming pieces of work for 2011.

Context

2 The UK's deficit is the largest of any EU country. One pound in every four pounds spent was borrowed, and £43 billion was spent on debt interest payments (more than on schools in England). The Spending Review in October 2010 set out the Government's plan to deal with the deficit in order to secure economic stability at a time of continuing uncertainty in the global economy.

3 The Spending Review prioritised the NHS, schools, early years provision and capital investment that supports economic growth, whilst setting out reductions in public spending of £81 billion by 2014-15. This will see overall public spending as a percentage of GDP return to the level seen in 2006-07. In order to help achieve these reductions in a smart way the Government has introduced a significantly different approach to efficiency and reform. This approach will drive down spend on operational overheads and administration costs wherever possible to help protect key priorities. But measures to improve efficiency go hand in hand with measures to reform service delivery: measures that together will deliver a much wider range of benefits, from decentralising power, to making smarter use of online channels and creating the Big Society.

The role of the centre of government

4 Departments are responsible for spending public money wisely and for delivering high quality public services, and in order to meet these challenges departments are already delivering substantial reform programmes and efficiency measures within their delivery chains. But in many areas departments are unable to secure maximum value for money and unable to reform services in the most effective manner when working in isolation. This is particularly the case when government can exploit economies of scale, make best use of scarce resources, reduce duplication, increase standardisation and simplification, enable greater comparability and ensure increased transparency of performance.

Overview of the Efficiency and Reform Agenda

5 Therefore coordinated measures and central action have a key role to play. To enable this, expertise from across Whitehall has been brought together in the Cabinet Office, which is managing this agenda in close cooperation with HM Treasury, with the centre of government working across departmental boundaries where this will tackle waste, improve efficiency and reform the way services are delivered.

6 Of course, this does not diminish the fundamental accountabilities of Accounting Officers. Departments remain accountable for delivering value for money, both by implementing specific reforms within their delivery chains and also by participating fully in wider cross-government works, in some cases leading on behalf of the Crown, in other cases engaging fully in work that other departments or the centre are leading.

7 The underpinning philosophy to the Cabinet Office's work is the 'tight-loose' framework (**Figure 1**), through which the Government seeks to achieve a balance between the need for Crown level activity and a determination to devolve policy delivery as close as possible to the citizen, business or community impacted by the policy.

Efficiency and Reform work programmes

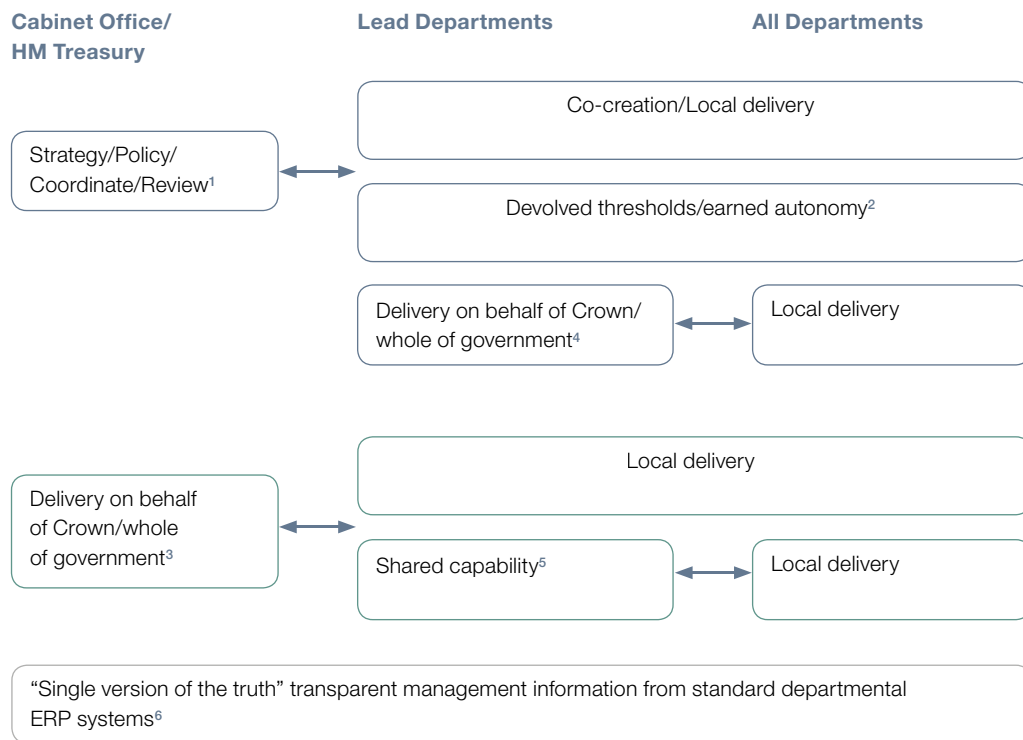
8 Since May 2010, work on efficiency and reform has focused on:

- a** enabling departments better to live within their reduced budget settlements in 2010-11 by taking immediate opportunities to reduce costs;
- b** preparing for future years by developing strategies and capabilities to address future opportunities to reform how departments operate, both individually and collectively; and
- c** reforming the Cabinet Office's Efficiency and Reform Group itself, reducing costs by 40 per cent, building a new leadership team and changing its working practices to better support departments.

9 The full impact of the actions taken to date will only fully be understood when departmental accounts are published later in 2011. However, early indications suggest that spend in the areas addressed has fallen significantly, with more than £3 billion expected to be saved in 2010-11. Examples of the savings that have already been delivered include:

- £800 million expected through renegotiating contracts with key suppliers to government;
 - £350 million on consultancy – spending 50 per cent less than in the same period in 2009-10;
 - £133 million on advertising and marketing spending;
 - £120 million expected through the freeze on external recruitment; and
 - £50 million as a result of the freeze on new property purchases, leases and lease renewals.
-

Figure 1
The 'tight-loose' framework



NOTES

- 1 Cabinet Office and/or HM Treasury must approve certain new activities above minimum threshold. e.g. ICT projects above departmental and delegated limits.
- 2 Departments must approve certain new activities above minimum thresholds and notify Cabinet Office and/or HM Treasury for information, e.g. all use of consultancy.
- 3 Cabinet Office and/or HM Treasury undertake certain activities behalf of the Crown/whole of government e.g. energy procurement.
- 4 Lead departments undertake certain activities on behalf of the Crown/whole of government as commissioned by Cabinet Office and/or HM Treasury, e.g. supplier negotiations.
- 5 Lead departments share their capability with others to implement Crown/whole of government policies and processes e.g. shared corporate services.
- 6 Cabinet Office and/or HM Treasury receive single version of the truth management information from standard departmental ERP systems, e.g. to the procurement data warehouse.

Source: Cabinet Office

Overview of the Efficiency and Reform Agenda

10 The Government's efficiency and reform priorities for 2011 include:

- a** Transparency becomes the norm.
- b** Public Service provision opened up to new providers and ownership models, including mutuals.
- c** Big Society reform policies delivered.
- d** New Departmental Board structures in place.
- e** Property vehicle up and running.
- f** Supplier management consolidated and main markets addressed.
- g** Procurement centralised and accelerated procurement process in place.
- h** ICT and Digital strategies agreed and implemented.
- i** Major Projects Authority biting.
- j** Civil Service reform realised and managed.
- k** Effective management information widely used and process improvement methodologies in place.

Conclusions

The agenda Government has set is necessarily very demanding, but it remains determined to deliver the efficiencies and reforms needed to help address the deficit whilst delivering high quality public services. In this, we welcome and look forward to ongoing constructive oversight and robust challenge from the Committee of Public Accounts.

Cabinet Office

March 2011

Appendix Two

Good practice for accurate public reporting of savings

Risk	Comment
Data quality	Data on quantity and unit costs should be taken from a reliable source, or cautious estimates used.
Properly calculated	Savings should be calculated using an appropriate economic or cost-accounting methodology and checked internally before publication.
Net of costs	All transitional costs and any additional ongoing costs should be netted off from savings reported in the year in which the costs are incurred. Adverse effects on other programmes should also be recognised.
Impact on services	Any adverse effect on service quality should be reported. Any reductions in planned activity/outputs should be demonstrated not to have a material impact on overall outcomes.
Calculated against a realistic baseline	Baseline should be a realistic forecast rather than a worst-case scenario. Ideally, departments should compare actual spending against previously approved spending plans e.g. at the beginning of the spending review period (the counterfactual).
Costs have not been reallocated	Savings should not be reported if spending has been reallocated to another similar activity either internally or in another publicly funded body. However, savings may be used for approved new services which would otherwise have been funded by Parliament.
Cash-releasing	Financial or cash-releasing savings will reduce departments' annual expenditure. Efficiency savings should represent the same output at less cost. Non cash-releasing savings and other benefits, e.g. increased output or reductions in services, should be clearly distinguished.
Realised	Reported savings should clearly distinguish between savings achieved to date and those anticipated in the future. It should be possible to reconcile the saving to budgets and to financial or management accounts, after allowing for planned new services.
Sustainable	One-off or time limited savings should be reported separately from ongoing reductions in annual spend. One-off savings may be sustainable if they are part of an ongoing programme of similar savings.
Scored only once	Savings should not be double-counted under separate categories or by different bodies. Savings reported under previous initiatives should not normally be reported again.

Source: The National Audit Office



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