



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL

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SESSION 2012-13

17 APRIL 2013

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Cabinet Office

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# The Efficiency and Reform Group

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Our vision is to help the nation spend wisely.  
Our public audit perspective helps Parliament hold government to account and improve public services.

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National Audit Office

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Cabinet Office

# The Efficiency and Reform Group

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

15 April 2013

In this report, we examine ERG's overall role and its reorganisation following the appointment of a new Chief Operating Officer for government in September 2012. We assess its impact on departments' spending in 2011-12; and what it is doing to use enablers and remove barriers to deliver its longer-term objectives.

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## Contents

**Key facts** 4

**Summary** 5

**Part One**

ERG's structure and objectives 11

**Part Two**

Achievements since 2010 18

**Part Three**

Enablers and barriers to ERG's performance 29

**Appendix One**

Our audit approach 35

**Appendix Two**

Our evidence base 37

**Appendix Three**

Previous Committee of Public Accounts recommendations on ERG 41

**Appendix Four**

Main ERG areas of operation 43

**Endnotes** 45

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This report can be found on the National Audit Office website at [www.nao.org.uk/ERG-2013](http://www.nao.org.uk/ERG-2013)

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## Key facts

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**£5.5bn**

annual savings in 2011-12 that ERG estimates it has influenced

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**£20bn**

annual savings in 2014-15 that ERG aims to influence

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**£72m**

cost of ERG in 2012-13

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During 2011-12:

**£1.5 billion** reduction in staff costs that ERG has influenced

**£1.8 billion** departments' reported savings on consultants and other temporary staff

**£1.5 billion** other reported savings in areas that ERG has influence

**£0.8 billion** reported reduction in spending on capital projects that ERG has influenced

Note: In each case the saving is calculated by comparing 2011-12 spending against 2009-10 (see Figure 4 on page 20)

# Summary

**1** In May 2010, the government announced the formation of the Efficiency and Reform Group (ERG) within the Cabinet Office. Its purpose was to help spending departments achieve savings through a step change in their efficiency combined with stronger central oversight. Around half of the £80 billion reduction in annual expenditure required by 2014-15 under the 2010 to 2015 Spending Review was to come from central government. About half of this, or £20 billion, was intended to come from efficiencies, reforms and cuts to spending in low priority policy areas targeted by ERG (paragraphs 1.1 and 1.2).

**2** The Committee of Public Accounts concluded in October 2011 that £3.7 billion of departments' total spending reductions of over £7.9 billion in 2010-11 were in the savings areas that ERG had targeted, in line with ERG's own estimate of its impact. The Committee welcomed the improved transparency with which ERG reported on savings but sought further assurance that savings did not affect key services. The Committee asked ERG to build on its good start through:

- improving its own long-term planning;
- building more effective relationships and interventions with departments; and
- addressing cultural and organisational barriers within the civil service (paragraphs 1.3, 1.4 and Appendix Three).

**3** The Committee regularly examines individual ERG programmes. The Committee took evidence earlier this year on our more detailed assessments of savings in procurement and Information and Communications Technology (ICT), which are included in this broader report (paragraph 1.5).

**4** In this report, we examine ERG's overall role and its reorganisation following the appointment of a new Chief Operating Officer for Government in September 2012. We assess its impact on departments' spending in 2011-12; and what it is doing to use enablers and remove barriers to deliver its longer-term objectives.

## Key findings

### Savings and sustainability

**5 Departments have achieved significant reductions in annual spending since 2010 in the areas ERG aims to influence.** Overall we have confidence in ERG's reported savings of £5.5 billion in 2011-12. These savings contribute to a £15 billion reduction in departments' spending in 2011-12 compared to 2009-10. ERG's estimates for some aspects of its influence are conservative and more than offset elements of reported savings that we have been unable to endorse fully. ERG's net running costs are likely to be £72 million in 2012-13 (paragraphs 2.1 to 2.11 and 3.15).

**6 ERG's activities have helped departments make significant savings but quantifying this contribution is difficult.** ERG made significant contributions to departments' staff savings including: changes to the Civil Service Compensation Scheme to reduce the average cost of early departures; restrictions on employing consultants and temporary staff; and monitoring permanent staff recruitment. However, from the information available ERG cannot always distinguish between savings which have arisen solely because of its actions and those where it has had less direct effect (paragraphs 2.14 to 2.24).

**7 The growth in savings reduced substantially in 2011-12 compared to 2010-11 but the Cabinet Office forecasts that savings will increase in 2012-13.** Overall, ERG increased its reported savings by £1.8 billion in 2011-12, compared to the £3.7 billion of savings it reported in 2010-11. Although the growth of new savings on permanent staff and capital spending increased, other savings streams slowed. However, ERG expects savings of over £8 billion in 2012-13 with further increases each year to 2014-15 (paragraphs 1.13, 2.12, Figures 3 and 6).

**8 Savings to date have differing degrees of sustainability.** The one-off savings delivered to date are valuable and should be maximised but, unlike sustainable savings, they will not contribute to the 2014-15 aspiration. Savings from commercial negotiations with major suppliers and from the advertising moratorium were less than in 2010-11. Similarly, some 2011-12 savings are unlikely to be sustained. For example, of the ICT savings we assessed as meeting our criteria only 46 per cent are likely to recur indefinitely, 33 per cent were likely to occur for more than one year; and the final 21 per cent were savings only in the current year (paragraphs 2.12 to 2.13 and 2.24).



**9 It is not fully clear how ERG intends to make the reforms necessary to secure enough savings over the rest of the spending review.** ERG has yet to translate its ambition for saving £20 billion by 2014-15 into more detailed plans. ERG has made progress in developing strategies across its wide range of responsibilities, and is focusing on core activities likely to produce savings. However, until recently ERG's focus has mainly been on the savings themselves, with less emphasis on delivery of the longer-term changes and improvement in efficiency necessary to make them sustainable (paragraphs 1.9 to 1.14, and 3.6 to 3.11).

**10 Departments have still tended to lack a clear strategic vision of what they are to do, what they are not, and the most cost-effective way of delivering it.**

Much of departments' 2014-15 savings are likely to come from further reductions in staff. Sustainability of these savings will depend on developing skills and working in new ways while maintaining staff motivation and engagement. ERG and the wider Cabinet Office are beginning to influence this process, for example, through their role in:

- the Government Digital Strategy: to encourage a digital-by-default approach to government services and increase Whitehall's capability to deliver them;
- the Public Bodies Reform Programme: to cut the number and size of these bodies;
- the promotion of shared services; and
- the Civil Service Reform Plan: to increase project delivery, commercial, change management and digital skills (paragraphs 2.16 and 3.5 to 3.9).

### Tackling barriers to ERG's success

**11 ERG has significant advantages compared to the bodies it replaced.** The Minister for the Cabinet Office has provided strong support, while ERG's close links with Cabinet subcommittees (particularly the Public Expenditure Committee (PEX(ER)), which specifically focuses on efficiency and reform) have helped it to promote collective agreements across departments. In addition, ERG has developed closer links with Treasury and the requirement for departments to cut costs continues to supply a clear logic for ERG's activities. While much of what it does is new, ERG has absorbed and developed units that were already well established with a clear way of operating (paragraphs 1.2, 1.9, 1.10 and 3.5).

**12 ERG introduced a clearer and more responsive organisational structure from October 2012 and is continuing to review its effectiveness.** This addresses a perception that ERG's different parts were working in isolation from each other. ERG has lost some parts and acquired others. Six internal reporting lines replace at least 23 lines previously reporting directly to its Chief Operating Officer. Internal performance reporting is being standardised and internal communications strengthened. The changes are intended to identify opportunities to cooperate internally, to remove duplication and to give greater clarity to departments. ERG began developing area plans on a common basis in November 2012 and produced its first corporate business plan in early 2013 (paragraphs 1.9 to 1.11).

**13 ERG is acting to improve the effectiveness of its relationships with departments.** In response to departments' concerns, ERG has issued clearer guidance on its controls and their interactions with the Treasury's. ERG has appointed a senior member of staff to oversee its relationships with departments and has begun to work with departments to assess their reform plans. ERG is also working towards the agreement of a single efficiency and reform plan with savings ambitions and actions agreed by each department (paragraphs 3.2 to 3.4 and 3.7).

**14 ERG has recognised that its staff turnover in 2010-11, at 18 per cent a year (25 per cent including a voluntary exit programme) is too high, with particularly frequent changes at senior level.** Since ERG was established in 2010, there have been three Cabinet Office Permanent Secretaries, with changing definitions of the role, two heads of ERG, and several departures of staff at the level immediately below. ERG fully accepts the need for more stability (paragraphs 1.7 to 1.8).

#### Remaining weaknesses

**15 ERG's area strategies include large savings ambitions and some progress has been made in developing detailed area plans but the overall plan for meeting the £20 billion savings aspiration is in its early stages.** ERG has started to develop strategies and timetables for all its responsibilities. However, it does not consider that it needs to clarify its role in supporting departments in developing their future operating models. Its own plans vary in maturity, with some requiring substantial further work. For example, initiatives focused on preventing and detecting fraud, error and debt aim to save £10 billion in 2014-15. However, there remains considerable work to be done before this aim is realistic particularly for fraud and error, but also for debt. Data about fraud and error across government is currently of inconsistent quality and needs to be more timely, and comparable between departments. This work aims to bring greater accountability and transparency to departments' efforts to tackle fraud and error and provide the Cabinet Office with an evidence base for its savings aspirations (paragraphs 1.12 to 1.13 and 3.5 to 3.11).

**16 ERG does not have a well-developed risk register, particularly in relation to the impact of its activities on public services.** Change of the degree ERG is seeking inevitably brings risks to services as government departments reduce overall spending and move to new ways of operating. In late 2012, ERG began developing its first business plan and a risk register evaluating, and tracking, the risks to delivery. Although ERG has a role in assessing the impact of major projects, it considers that it is primarily for departments to assess and manage any impact of its other activities on service delivery. A central understanding of the risks to services is vital in a time of major restructuring, with systems to identify when the potential risks materialise and the ability to respond rapidly (paragraphs 2.25 and 3.8).

**17 ERG is working with government to improve the quality and use of management information.** As a result of a department-wide strategy for improving management information, there have been significant improvements in obtaining financial data both from departments and suppliers since 2010 but further work is needed to ensure that these are reliable. ERG also requires better data to monitor its own performance, to assess departments' performance and measure its impacts in relation to its costs. It currently lacks access to performance information that already exists in other departments. Other relevant information, including on ERG's contribution to the changes being achieved by departments, is not yet available. Such information is necessary to show how ERG can most effectively deploy its own resources (paragraphs 2.25 and 3.11 to 3.14).

**18 ERG faces staff shortages and a lack of key skills in some areas.** Particular skills gaps include staff with commercial experience at a senior level, and staff with systems experience and corporate finance skills. Some parts of ERG, for example, ICT and commercial models, have reported difficulties in recruiting staff with the right experience. More recent recruitment exercises have been more successful and further exercises are under way (paragraph 3.16).

### **Conclusion on value for money**

**19** The scale of the savings that ERG has helped departments achieve, net of its own running costs, demonstrates that ERG has provided value for money to date. In the longer term, ERG is trying to develop a new model of government: by taking on aspects of a corporate headquarters role; applying stronger central controls; and supporting the transformation of government services. ERG's actions to date, particularly its spending controls, have helped departments deliver substantial spending reductions. As a relatively new organisation, ERG has assessed the obstacles it faces and has begun to tackle them energetically. Some of its areas are now making good progress in developing their strategies. It is also beginning to coordinate these strategies with departments. However, its plans to move beyond the role of imposing central spending controls, to achieving sustainable influence on departments' behaviour are only starting to emerge.

## Recommendations

**20** We make the following recommendations to improve ERG's impact in helping central government departments secure value for money.

- a** **ERG should develop and publish a clear vision for how it will help departments make longer-term savings.** ERG needs to build on its work with Treasury and departments in developing their efficiency and reform plans. To progress from its early tactical successes, and to achieve all the ambitions which led to its formation in 2010, ERG needs to identify how it will support the development of departments' future operating models. In doing this ERG needs to work with departments to identify where it can help deliver further savings across government.
- b** **ERG should distinguish between sustainable reductions in departments' cost bases and other impacts.** This will help it to assess progress in meeting its financial aims. One-off savings and cost avoidance, for example, are valuable but do not have the same long-term benefit as sustainable savings.
- c** **ERG should report publicly on the likelihood of meeting its savings forecasts in each area of its activity.** Reporting should be based on an evaluation of departments' individual efficiency and reform plans. The aim to deliver £20 billion of annual savings by 2014-15 is ambitious. ERG has a limited overview of the likelihood of departments delivering savings on the scale required.
- d** **ERG should further improve both its own management information, and data provided by departments, so it can monitor the direct impact of its own activities on departments as well as wider benefits that it has contributed to.** This will help ERG to identify which of its own activities are most cost-effective and to focus where improvements can be made.
- e** **ERG together with departments should undertake an assessment of the risks they face in delivering their efficiency and reform programmes and prioritise them, particularly the risk to continuity and quality of service delivery.** ERG should explain how it will work with departments to identify whether risks from cost reduction measures are crystallising and what mitigating actions are necessary in such circumstances. To do this, departments need to improve their understanding of the link between results and resources.

# Part One

## ERG's structure and objectives

**1.1** The government announced the formation of the Efficiency and Reform Group within the Cabinet Office in May 2010.<sup>1</sup> Its purpose was to help spending departments achieve cost reductions through a step change in their efficiency and stronger central oversight of their spending. Its ambition is to ensure that around half of the £40 billion planned reduction in central government departments' spending by 2014-15 would come from reductions in waste and administrative costs, and reform, rather than cuts to priority services.<sup>2</sup> Reductions to central government spending, in turn, represent around half of the £80 billion planned reductions in public spending as part of the government's deficit reduction strategy.

**1.2** ERG aims to be a vital part of an effective corporate centre for central government comprising the Cabinet Office and the Treasury. ERG combines roles previously spread across different bodies, giving it more influence than its predecessor bodies. ERG reports directly to the Permanent Secretary for the Cabinet Office and to the Efficiency and Reform Board, chaired jointly by the Minister for the Cabinet Office and the Chief Secretary to the Treasury. The board includes senior business leaders with public sector experience.<sup>3</sup> The Minister for the Cabinet Office also sits on the Public Expenditure Committee, which led the 2010 Spending Review and now identifies areas for economies and resolves interdepartmental disputes.<sup>4</sup>

**1.3** We first reported on ERG in March 2011, and reviewed ERG's 2010-11 savings in February 2012.<sup>5</sup> Our second report confirmed that £3.7 billion of departments' spending reductions of £7.9 billion during the last ten months of 2010-11 came in the areas where ERG seeks to influence departments' behaviour. The main areas ERG targets are: staff costs; other running costs, including Information and Communications Technology (ICT), consultancy, procurement, new or extended leases and advertising; and major projects.

**1.4** Following our reports, the Committee of Public Accounts welcomed the improved transparency with which ERG reported on savings but sought further assurance that savings did not affect key services. The Committee made recommendations (Appendix Three) and asked ERG to build on its good start through: improving its own long-term planning; more effective relationships and interventions with departments; and addressing cultural and organisational barriers within the civil service.

**1.5** The Committee regularly examines individual ERG programmes because they are so wide ranging. The Committee took evidence earlier this year on our more detailed assessments of savings in procurement and ICT, which are included in this broader report. The Committee also took evidence on the Civil Service Reform Plan, run by other parts of the Cabinet Office but with close links to ERG. This report examines ERG's structure and objectives (Part One), ERG's achievements in its first two years (Part Two), and how it is addressing potential barriers to the delivery of its mission and financial objectives (Part Three). Further details of our audit approach and methodologies are at Appendices One and Two.

### **ERG's broad approach has been consistent**

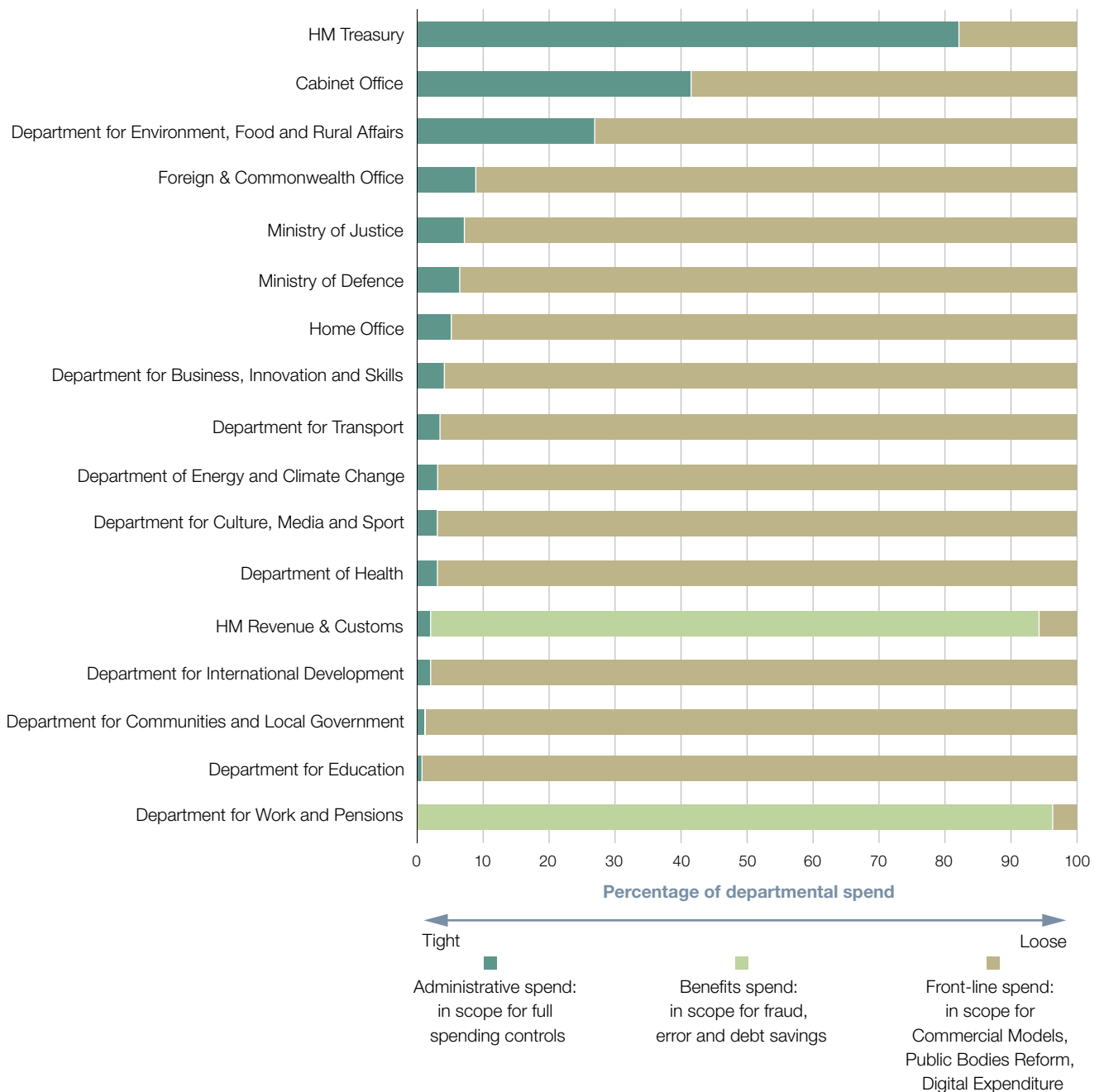
**1.6** In a memorandum to the Committee of Public Accounts,<sup>6</sup> ERG described its strategy as 'tight – loose': parts of departments' spending, for example on advertising, would be subject to strong central controls while front-line spending would be further delegated to the most appropriate bodies (**Figure 1**). ERG focuses mainly on staff and other running costs, and on capital projects including ICT developments. Its role on annually managed expenditure, such as benefits, is limited to its coordinating role on fraud, error and debt. It has no formal role in local government, schools or the NHS other than centrally funded major projects. It can however seek to influence the wider public sector through guidance and example. The Treasury highlighted ERG's part in improving cost-effectiveness through promoting best practice in the 2012 Autumn Statement.<sup>7</sup>

### **ERG's staff turnover is high**

**1.7** In its short history, ERG has had significant changes in senior personnel and in the configuration of senior posts. The first Head of the ERG, and Chief Operating Officer for Government, was Ian Watmore who reported to Sir Gus O'Donnell, the Cabinet Secretary and Permanent Secretary of the Cabinet Office. Following Sir Gus's retirement in 2011, Ian Watmore's role was extended so that he became the Cabinet Office Permanent Secretary. Following Ian Watmore's resignation, his roles were split again: Richard Heaton became the Permanent Secretary of the Cabinet Office in August 2012 and Stephen Kelly became the head of ERG (Chief Operating Officer for Government, UK) in September 2012.

**Figure 1**  
ERG controls on departments' spending

ERG has strong influence only over administrative spend which is a small proportion of most department's spending



Source: Cabinet Office

**1.8** There have also been departures among key senior staff including the directors responsible for procurement, commercial, operational excellence, ICT and communications. The Cabinet Office recognises that its wider staff turnover rate is also high, at 18 per cent in 2010-11 (25 per cent including a voluntary exit programme) and is beginning to address the issue.

### **ERG has reorganised to improve internal cohesion and create a more focused plan.**

**1.9** Since October 2012, ERG has been reorganising to focus on core efficiency and reform activities, simplify reporting lines and improving coordination. It is too early to assess whether the new structure is enabling ERG's different parts to support each other better, rather than contradict or duplicate efforts. It is certainly simpler than the structure it replaced: ERG is now organised around five 'clusters' headed by a senior staff member, while previously over 23 areas reported directly to the head of ERG. (**Figure 2** and Appendix Four).

**1.10** ERG now includes:

- some parts developed from pre-existing units in the Cabinet Office or elsewhere in government (including central procurement, the Major Projects Authority and the government estate);
- other parts created at ERG's inception (including commercial models; fraud, error and debt; and public bodies); and
- new parts to coordinate ERG's contribution to economic growth, lead on contacts with departments and Treasury, and to provide legal advice on high value and high risk cross-government and departmental contracts (General Counsel).

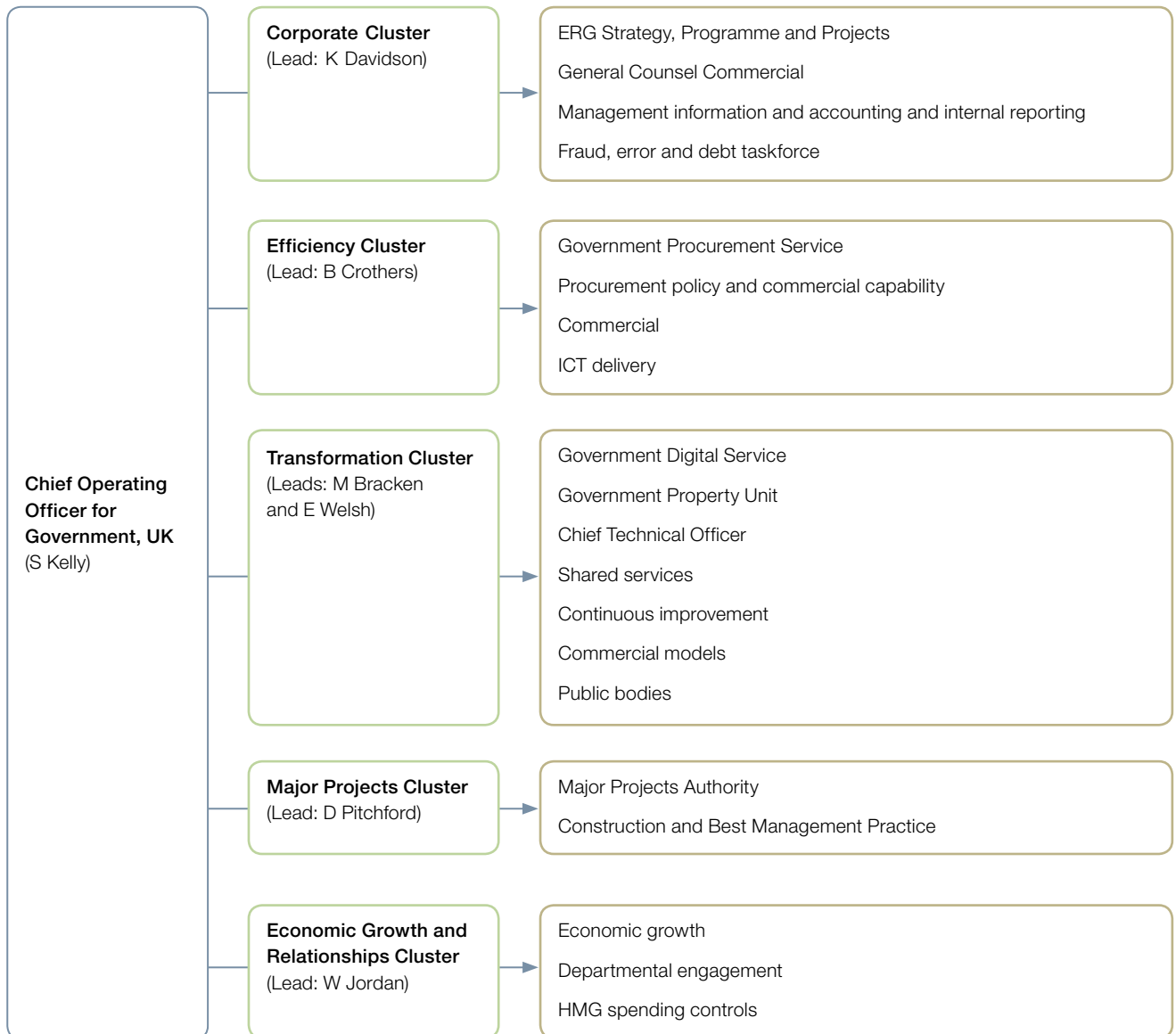
**1.11** Other elements were initially included in ERG but now report directly to the Cabinet Office Permanent Secretary while maintaining close links with ERG colleagues. This category includes the elements responsible for the transparency agenda and the Office for Civil Society (which are now part of the Government Innovation Group led by Gareth Davies), and for the civil service reform plan (led by Katherine Kerswell). The Civil Service Workforce Reform Team jointly reports to both the Chief Operating Officer and the head of Civil Service Reform.



**Figure 2**

The Structure of ERG and senior staff (from November 2012)

ERG has created a more structured internal organisation, replacing over 23 reporting lines, with six cluster leads reporting directly to Stephen Kelly



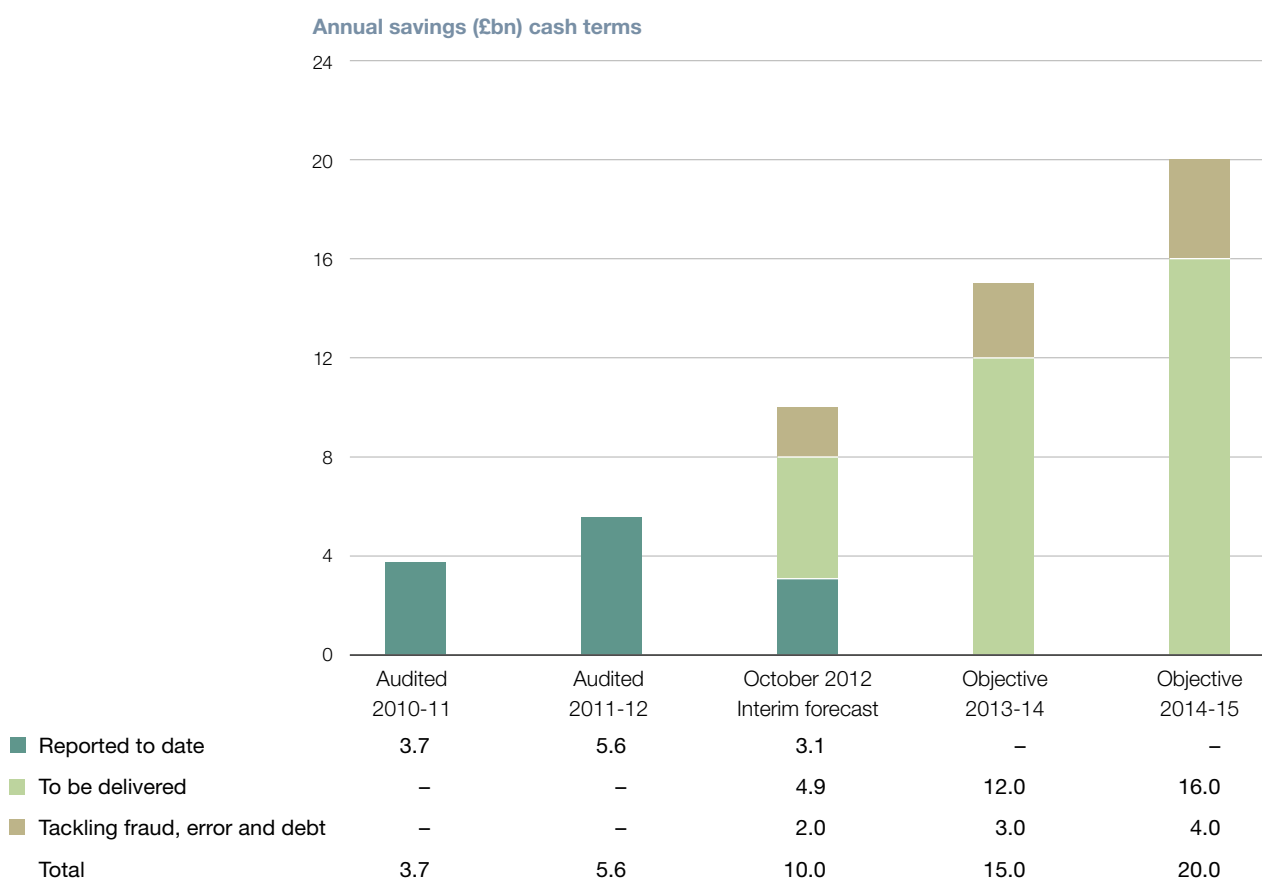
Source: National Audit Office

## ERG has set savings ambitions for each of its areas

**1.12** ERG reported that departments saved £5.5 billion in 2011-12 in the areas ERG is targeting, which is £1.8 billion more than in the period June 2010 to March 2011, and is currently predicting a further increase of £2.5 billion to £8.0 billion in 2012-13. In November 2012, ERG prepared area business plans in a common format for the first time. The plans include savings ambitions totalling £20 billion in 2014-15. ERG believes that of its £20 billion savings ambition for 2014-15, £16 billion will come from its efficiency and reform activities (**Figure 3**); with up to a further £10 billion from reductions in fraud, error and uncollected debts.

**Figure 3**  
ERG's savings aspirations 2010-11 to 2014-15

ERG has savings aspirations across each of its areas which will achieve its ambition of £20 billion in 2014-15



Source: Efficiency and Reform Group

**1.13** Delivery of ERG's aspiration of £20 billion savings by 2014-15 relies heavily on securing substantial new savings streams, particularly around fraud, error and debt, as well as significantly increasing some existing savings streams. Some of the aspirational savings appear to be challenging:

- ERG considers that there is still much work to be done both centrally and in departments before the £10 billion target set, by its fraud error and debt strategy, can be said to be realistic. There are technical difficulties in measuring changes in fraud and error losses and in comparing data across departments. Past estimates of savings made by departments have proved over-optimistic: ERG will not be reporting fraud, debt and error savings for 2012-13 until robust measurement arrangements are in place.
- ERG's Digital Strategy, published in November 2012, aims to save £1.8 billion a year by shifting all major government services to online delivery. It is 13 years since government first announced its intention to move public information and transaction services online, a move it initially intended to complete by 2005. Only half of the 650 services identified by the strategy are currently available online and most of these are rarely used. To speed up delivery, the strategy aims to transform 23 exemplar online systems by March 2015. Although the savings ambition does not take into account the likely costs of redesigning existing, or creating new, digital services, ERG believes that the estimate is likely to be conservative as savings may be achieved more quickly than originally forecast.<sup>8</sup>
- There has been slower than expected progress by departments in increasing the volume of goods and services procured collaboratively.<sup>9</sup> Only £3.0 billion of departments' procurement expenditure was managed through central contracts in 2011-12 compared to departments' forecasts of their total expenditure on common goods and services of £7.5 billion. For 2012-13, the Government Procurement Service forecasts that centrally managed expenditure will exceed £5.0 billion.

**1.14** However, opportunities exist to deliver increased savings in some areas. Our recent report on ICT savings initiatives recommended that the Cabinet Office should review its savings aspirations across government to ensure they remain sufficiently stretching.<sup>10</sup> Similarly, our report on the government estate found that £651 million could be saved by vacating half of the buildings whose leases are due for renewal by 2020.<sup>11</sup>

## Part Two

### Achievements since 2010

**2.1** This part of our report examines the £5.5 billion of cash releasing savings reported by ERG for 2011-12.<sup>12</sup> These are savings made by departments in the areas of spending targeted by ERG including: staff costs; ICT; communications; estates; major projects; and other procurement. We have assessed whether:

- the 2011-12 savings reported by ERG have been realised, bringing together evidence from a range of sources;
- ERG's activities contributed substantially to the claimed savings; and
- the savings are sustainable, resulting from working more efficiently and cutting waste and non-priority services, while protecting priority services.

#### **Departments have achieved substantial spending reductions**

**2.2** Overall we have confidence in ERG's reported savings in 2011-12. We analysed a variety of independent sources:

- internal audit work commissioned by ERG to provide itself with assurance about its claim;
- a sample of savings from procurement and ICT;
- the audited accounts of the 17 main departments;
- cash given to departments to fund services (from the Consolidated Fund); and
- information collated for other purposes by the Office of National Statistics, HM Treasury and Office of Budget Responsibility.

**2.3** The Treasury's whole of government accounts for 2011-12 will eventually provide a further source of evidence but these will not be available until summer 2013.

## ERG's work to provide assurance on reported savings

**2.4** ERG reports annually on the savings, made by departments, to which it considers it has contributed. These are estimates based on a range of unaudited information sources but are subject to internal quality control arrangements with the potential to give reasonable, but not absolute, assurance that the overall level of savings are valid. Following initial review by line management and ERG's central management information team, ERG commissioned an internal audit review to assess the 2011-12 savings.

**2.5** The internal audit team examined a limited sample of savings to test whether ERG's descriptions of the savings were reasonable and consistent with the evidence provided by departments. Internal audit did not test the quality of data supplied to ERG. The 2012 assessment found that ERG's evidence base had improved since a similar exercise in 2011, giving 'reasonable' assurance on 6 of the 11 savings categories, representing 60 per cent of the total claimed. Internal audit gave 'moderate' assurance on the remainder due to:

- inconsistencies in the analyses of 5 of the 17 departments reporting savings (£1,035 million) on consultancy expenditure. Internal Audit found that the inconsistencies resulted in a small understatement of the 2011-12 saving;
- the risk of double counting savings arising from commercial negotiations with major cross-government suppliers (£437 million) because that work overlaps with work undertaken by other ERG teams also claiming savings; and
- the risk that forecast capital savings on high risk projects (£541 million), large ICT systems (£145 million) and other construction work (£72 million) may not be realised due to later cost overruns on the projects.

## Savings in the audited accounts of major departments

**2.6** Departments' audited financial accounts for 2011-12 show real-terms reductions in spending on the specific areas targeted by ERG, supporting the credibility of ERG's reported savings (**Figure 4** overleaf). The reductions in spending and waste reported as savings by ERG do not exactly match the overall spending reductions achieved by departments. For example, savings reported by ERG may be higher than the overall reduction in spending where, savings are used to meet unforeseen cost pressures or the additional costs of new services. In addition, there is no standard format for reporting departmental running costs or consultancy so we were unable to allocate substantial amounts of spending to specific ERG savings categories. Our analysis therefore may tend to understate the overall savings being achieved.

**Figure 4**

## Review of Cabinet Office's reported savings by departments' in 2011-12

Departments' audited financial accounts for 2011-12 show real-terms reductions in spending in the specific areas targeted by ERG, supporting the credibility of its reported savings

**ERG's reported savings in areas which it influences<sup>2</sup>****NAO estimate of spending reduction in the areas which ERG influences<sup>1</sup>**

<b>Savings category</b>	<b>£m</b>	<b>ERG Source data</b>	<b>£m</b>	<b>Comment</b>
<b>Staff related savings</b>				
Recruitment moratoria	1,475	Based on payroll data for civil service and executive NDPB employees	2,285	Based on the average number of staff employed in 2009-10 to 2011-12 including non civil servants
Temporary staff	747	Departmental returns	360	
Consulting moratorium	1,035	Departmental returns	815	
<b>Subtotal</b>	<b>3,257</b>		<b>3,460</b>	
<b>Other running costs</b>				
Marketing and Advertising Moratorium	387	Departmental returns	460	Audited Central Office of Information accounts
ICT running costs	104	Suppliers data and departmental returns	320	External contractors' costs and PFI contracts
Other procurement	422		220	Includes only staff travel and stationery
Property	198	Annual cost of leases ended from May 2010 to March 2012 from a central database of property	470	Accounts include wider land and property-related costs
Supplier Renegotiation	437	ERG analysis of savings claimed by major cross-government suppliers	0	The impact is included in ICT capital and other resource cost categories
<b>Subtotal</b>	<b>1,548</b>		<b>1,470</b>	
<b>Capital spending</b>				
ICT and digital services	145		610	
Other major projects	541	Analysis of ERG decisions agreed with departments	1,740	Reduced capital spending
Construction savings	72			
<b>Subtotal</b>	<b>758</b>		<b>2,350</b>	
<b>Total<sup>3</sup></b>	<b>5,563</b>		<b>7,280</b>	

**NOTES**

1 National Audit Office estimate is in real terms based on our review of the audited accounts of the main 17 departments.

2 ERG's reported savings estimate is mainly in cash terms.

3 ERG adjusted the reported savings from individual categories to remove potential double counting between categories.

4 ERG reported total savings as £5.5 billion due to rounding differences.

5 The reported savings do not include estimated savings of £3.6 billion from the fraud debt and error strategy.

Source: ERG and National Audit Office

**2.7** Departments' audited accounts for 2011-12 show higher reductions in overall spending than those listed in Figure 4 because ERG's reported impacts do not extend to all areas of departments' spending. In real terms, compared to 2009-10, we estimate that:

- departments' spending on staff, including temporary staff and consultants, reduced by £3.5 billion, comparing closely to ERG's reported figure of £3.3 billion;
- other running costs reduced by £6.5 billion, of which £1.5 billion was in spending categories targeted by ERG, slightly less than ERG's reported figure; and
- departments' overall capital spending reduced by £3.7 billion, of which £2.3 billion was in areas targeted by ERG, more than covering ERG's reported figure of £0.8 billion.

**2.8** Our review confirmed that running costs have reduced in all the savings categories targeted by ERG but by slightly less overall than ERG's reported total. However, ERG made conservative estimates for its influence on staff and capital, and these understatements are larger than the savings that we have been unable to endorse fully. Our recent report on ICT<sup>13</sup> found that ERG's initiatives to reduce spending on ICT are starting to work. We analysed a sample of savings reported from three ICT initiatives and extrapolated our results. We found that 89 per cent (£316 million) of the £354 million of reported savings met our criteria. However, we also found that insufficient information was available centrally to validate a further £348 million of savings from commercial negotiations with major cross-government ICT suppliers. The Cabinet Office has since taken steps designed to improve the accuracy of these savings from 2012-13 onwards.

### Information from other sources

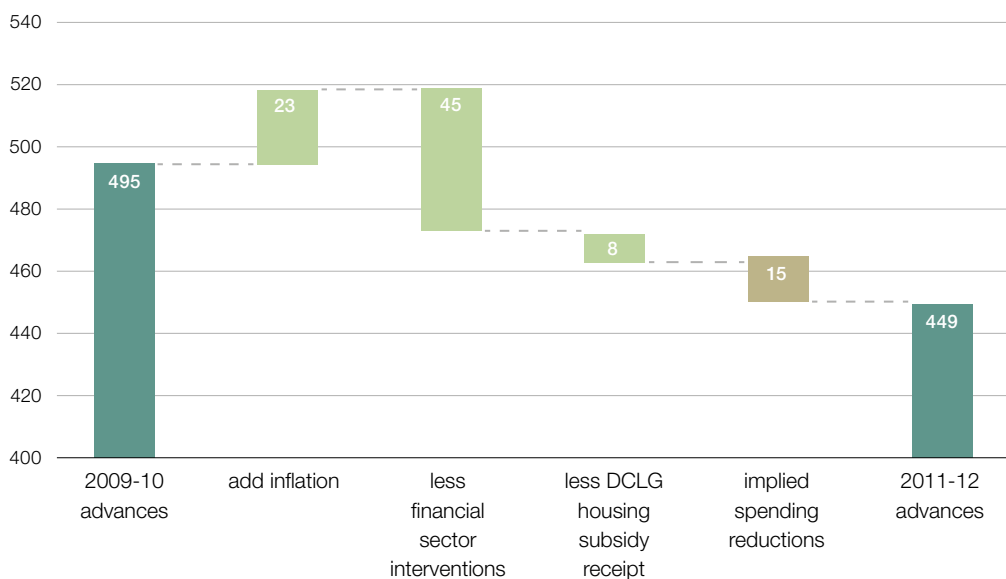
**2.9** There have been substantial real-terms reductions in cash paid from the Consolidated Fund into departments' bank accounts since 2009-10, lending support to the assertion that departments have reduced their costs. The Consolidated Fund meets central government's day-to-day cash requirements out of tax revenues, net borrowing by the National Loans Fund and miscellaneous income from departments. As a cash account, it does not take into account any liabilities incurred by departments and can be affected by large one-off transactions such as asset purchases or interventions in the banking sector.

**2.10** The net cash advanced to spending departments in 2011-12 to cover their normal operations reduced by £15 billion (3 per cent in real terms) compared to 2009-10 (**Figure 5** overleaf). This reduction is of a scale to support the credibility of the £5.5 billion savings to which ERG reported its activities contributed. It is calculated after adjusting for transactions intended to stabilise the banking sector, and one-off receipts in 2011-12 from changes in local authority housing revenue subsidy arrangements. It covers all of central government and will reflect reductions in spending due to cuts in services as well as efficiencies.

**Figure 5**

## Cash advances to spending departments 2009-10 to 2011-12

After adjusting for inflation and unusual items, cash issued to departments in 2011-12 was £15 billion less than in 2009-10

**Cash advances (£bn)****NOTES**

- 1 Cash advances to departments ('supply services') are made from the Consolidated Fund. They exclude contributions to the EU, interest on the national debt and spending financed by departments' income from other sources, such as National Insurance contributions.
- 2 Inflation is based on the Treasury GDP Deflator index which estimates domestic inflation and is a key assumption in setting departmental spending limits.
- 3 Financial sector interventions are the cost of the purchase of bank shares by HM Treasury during 2009-10. Some other interventions were not financed through the Consolidated Fund.
- 4 In 2011-12, the Department for Communities and Local Government retained £8 billion of the £15 billion of net receipts resulting from local authorities' housing revenue subsidy and used it to offset other expenditure. It surrendered the remainder to the Consolidated Fund, reducing net borrowing on behalf of central government.

Source: Consolidated Fund Account 2010-11 and 2011-12

**2.11** The results of our analyses of the Consolidated Fund and departments' audited accounts are consistent with analyses of public spending in 2011-12 reported by the Office for National Statistics,<sup>14</sup> HM Treasury<sup>15</sup> and the Office of Budget Responsibility.<sup>16</sup> These sources are prepared for different purposes and on different bases but they provide further broad assurance about savings overall and the scale of ERG's contribution.



## **Savings growth slowed in 2011-12 but ERG is predicting a large increase in 2012-13**

**2.12** Overall, ERG's reported savings in 2011-12 were £5.5 billion which is £1.8 billion, or 48 per cent, higher than the £3.7 billion it reported as savings in the last 10 months of 2010-11. ERG expects savings of over £8 billion in 2012-13. In 2012 we commented that departments' response to the reductions in spending in 2010-11 announced in May 2010 were sometimes necessarily short term and might not prove to be sustainable. As expected, there were significant variations in individual savings categories in 2011-12 (**Figure 6** overleaf) with reductions in reported savings from ICT and commercial negotiations.

**2.13** The Department is currently forecasting savings of over £8 billion in 2012-13 (excluding fraud, error and debt). These have been subject to improved quality assurance processes during the year but have not yet been independently audited. ERG guidance on calculating savings does not distinguish between short term and permanent savings. The latter will directly contribute to ERG's aim to deliver £20 billion of annual efficiencies by 2014-15. However, the short-term savings in earlier years will need to be replaced by new savings in 2014-15. We analysed the 2011-12 ICT savings in detail and found that 46 per cent of those meeting our overall savings criteria were recurrent in the long term. A further 33 per cent were likely to occur for more than one year and the final 21 per cent were savings from spending stopped only in the current year.<sup>17</sup>

## **ERG's activities have contributed significantly to the savings achieved by departments**

**2.14** The following paragraphs describe ERG's activities and their links to reported savings. It is not generally possible to attribute changes in departments' spending exclusively to specific ERG initiatives or to departments' own budget management and efficiency measures. Instead, we assess whether departments' own measures are likely to have been helped by ERG's activities in three areas:

- staff resources (including temporary staff and consultants);
- other running costs (including property, ICT, media spending, commodity procurement etc.); and
- major projects (including capital ICT and construction work).

**Figure 6**

The growth in savings reported by ERG 2010-11 to 2011-12 (cash terms)

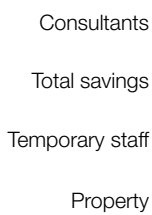
ERG's total reported savings on all categories in 2011-12 were 48 per cent higher than in 2010-11, but the overall growth slowed with significant variations in individual savings categories

**Savings category**

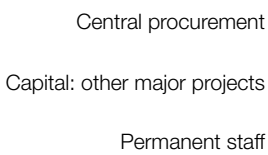
**Total savings are less than in 2010-11**



**Total savings increased but rate of new savings reduced in 2011-12**



**Total savings and rate of new savings increased**



**NOTES**

- 1 Negative percentage changes indicate that total cash savings in 2011-12 were lower than in 2010-11, i.e. 2010-11 savings have not been sustained or replaced by new savings in 2011-12.
- 2 By definition, all savings in 2010-11 were new. In 2011-12, new savings are defined as the amount of savings over and above the level of savings achieved in 2010-11. A percentage change of zero therefore indicates that total cash savings were the same in 2011-12 and 2010-11 and that the amount (or rate) of new savings in 2011-12 was zero.
- 3 Positive percentage changes of between 1–99 per cent indicate that total cash savings in 2011-12 were up to two times higher than in 2010-11. However, the amount of new savings in 2011-12 was lower than that in 2010-11, implying a decrease in the growth of new savings.
- 4 Positive percentage changes of 100 per cent or more indicate that total cash savings in 2011-12 were at least double the amount in 2010-11. Thus the amount of new savings in 2011-12 was greater than or the same as that in 2010-11, implying an increased or steady growth of new savings.

Source: ERG reported savings 2011-12

## Staffing

**2.15** Our review of accounts showed that the average number of permanent staff<sup>18</sup> employed by the main 17 departments and their arm's-length bodies has fallen by 55,800 full-time equivalents (6 per cent), saving £2.3 billion in 2011-12. Four aspects of ERG activities have helped departments make reductions in staff numbers and spending:

- ERG changed the Civil Service Compensation Scheme, making early departures cheaper for departments. ERG's approval is required for all departments' early departure schemes. Our review of departments' accounts showed that the average cost of each early departure reduced from £52,800 in 2009-10 to £38,500 in 2011-12. Departments had agreed over 56,000 early departures during 2010-11 and 2011-12 at an estimated total cost of £2.4 billion. Departure costs are likely to be recouped within 15 months, except for staff nearing retirement.<sup>19</sup>
- ERG has been monitoring departments' recruitment of permanent staff to ensure their compliance with the freeze announced in 2010. Annual recruitment into the civil service fell by two thirds to 12,600 in 2011-12 and 13,400 in 2010-11 from 39,000 in 2009-10.<sup>20</sup>
- ERG approves all proposals to use consultants (other than for legal services) on contracts valued at more than £20,000. It also monitors departments' temporary staff recruitment. Our review of departments' accounts found that spending on consultants has fallen by £815 million since 2009-10. Temporary staff numbers have reduced by 7,000 posts (17 per cent), saving £360 million.
- ERG has promoted employee-led mutuals, where staff members have significant input to the direction of the company as an alternative to in-house provision or contracting out. It also approves proposals from departments for the creation of new bodies, or outsourcing contracts with a value exceeding £5 million. During 2012, the Cabinet Office transferred 500 staff into MyCSP, which is a new mutual organisation taking over the administration of the Civil Service Pension Scheme.

**2.16** ERG is beginning to help departments use staff more efficiently to achieve desired results with permanently lower numbers. Sustainability will depend on developing skills and working in new ways while maintaining staff motivation and engagement. ERG and the wider Cabinet Office are beginning to influence this process through their role in:

- the Government Digital Strategy to encourage a digital-by-default approach to government services and increase Whitehall's capability to deliver them;
- the Public Bodies Reform Programme to cut the number and size of these bodies;
- the promotion of shared services; and
- the Civil Service Reform Plan to increase project delivery, commercial change management and digital skills.

However, we have found that departments tend to lack a clear strategic vision of what they are to do, will not do, and the most cost-effective way of delivering changes.<sup>21</sup>

### Other running costs

**2.17** ERG has led efforts to increase central controls over certain categories of expenditure and to encourage cooperation between departments on buying common goods and services.<sup>22</sup> Including:

- Departments have to obtain ERG approval for any advertising, marketing and media campaign with a budget of more than £100,000.
- Departments require ERG approval before entering a new building lease or renewing existing leases beyond contractual break points. ERG has recently developed plans for much larger reductions of property holdings. There is substantial scope to increase savings further as a result of a shrinking civil service, tighter space standards and property sharing.<sup>23</sup> However, there may be delays in disposing of surplus properties in the current market.

**2.18** ERG has increased the use of cross-government contracts with the aim of ensuring that all buying is at the lowest possible prices. There are mandatory arrangements for buying common items such as business travel, office supplies and energy. The value of contracts under ERG management has increased from £2.6 billion in 2009-10 to £3.0 billion in 2011-12, compared to departments' forecasts of their total expenditure on common goods and services of £7.5 billion. This improvement has been achieved despite reductions in departments' overall procurement spending.

**2.19** The overall level of ERG's reported savings on running costs in 2011-12 was largely unchanged at £1.5 billion and savings on consultants increased by less than 20 per cent. Our recent report on government procurement found that the quality of reporting of savings through centralising procurement was high compared to previous initiatives. However a wide range of methods were used to estimate data for the baseline year, which makes it difficult to have certainty over the accuracy of valuation. As such, some departments are unable to recognise the amount the Government Procurement Service (GPS, the body which manages central contracts) estimates to have saved them. Overall, however, we have confidence in GPS's reported £426 million savings for central government in 2011-12.<sup>24</sup> ERG believes that the 2011-12 performance reflects the high level of short-term savings reported in 2010-11. It is currently predicting significant increases in savings reported by centralised procurement and commercial negotiations. For 2012-13, GPS forecasts that centrally managed expenditure will exceed £5 billion.

### Major projects

**2.20** The two main ERG areas involved in capital projects are the Major Projects Authority (MPA) and the IT Reform Group. The MPA is working as part of the Civil Service Reform Plan, to improve delivery of major projects by:

- scrutinising major projects before they move to full implementation;
- reducing the turnover of departments' senior responsible owners who are responsible for the overall delivery of projects;
- working with departments to improve their project management and delivery; and
- improving public scrutiny of government major projects. MPA plans to publish its first annual report in May 2013.

**2.21** ERG also has a team which is seeking to improve the efficiency of construction projects by 15 to 20 per cent and in 2012 the Major Projects Leadership Academy was launched to improve the capability of public sector major project leaders to deliver successful projects. ERG's aim is to ensure that by the end of 2014 over 300 leaders of government's largest projects will have started the Academy programme.

**2.22** ERG recognises that quantifying its impact on any individual capital project, and therefore in total on all projects, is difficult. Impacts are likely to extend over several years and departments often have no clear baselines for calculating savings. The MPA is currently developing a performance framework which it intends will provide a better understanding of its work and impact on projects. ERG considers that in 2011-12 it had strong evidence for significant financial savings on two ongoing projects, which it assumed will be realised evenly over the development or construction phases:

- savings of £600 million on the Department of Health's National Programme for IT (NPfIT), including £331 million in 2011-12; and
- savings of £1 billion on the Department for Transport's Crossrail project, including £205 million in 2011-12.

The relevant Treasury spending teams agreed that ERG's estimates of these impacts were reasonable. However, the Department of Health could not confirm that the forecast savings for NPfIT had been realised in 2011-12 as the project was subject to further revision and rescheduling. The Department for Transport told us that the MPA review process was only one factor in the changes made to the project.

**2.23** There is stronger evidence available for ERG's IT Reform Group, which reviews all proposals for new ICT systems costing over £5 million. It estimates that, as a result of its interventions, departments made savings of £145 million in 2011-12 from cancelling or changing projects. Our recent review of ICT savings found that 89 per cent of these savings met our savings criteria. The main reason for savings not meeting our criteria was a lack of clear evidence in some cases.<sup>25</sup>

**2.24** Forecast capital savings, for example through reducing the planned scope of a project, may only be realised on completion or may be used to offset cost overruns. In addition, savings from projects cancelled or delayed as a result of ERG intervention are often recycled by departments into alternative projects within the same year or are replaced with proposals for future projects addressing the same problems. Nevertheless, our review of departmental accounts confirms that there have been significant reductions in overall capital spending in 2011-12.

### **ERG does not monitor whether priority services are affected by the savings it reports**

**2.25** Reductions in spending can be regarded as value-for-money improvements rather than cuts if they do not have a significant impact on services or outcomes and are sustainable so that services in future are protected. ERG considers its role is to support reductions in spending, not primarily value for money. ERG also considers that it is for departments to manage any impact of its activities on service delivery. However, a common theme in our reports on departments' performance measurement is that it is difficult to link government spending with specific policy outcomes and there is often little information on unit costs of providing public services. From 2011-12, departments have publicly reported their performance quarterly using a new system of input and impact indicators.<sup>26</sup> These reports do not explicitly link inputs and impacts in most departments.

## Part Three

### Enablers and barriers to ERG's performance

**3.1** This section discusses ERG's main strengths and how it is responding to risks to achieving its long-term objectives. From our previous work on centrally managed savings initiatives, we consider the following to be the core requirements for ERG:

- the ability to work with departments to affect decisions or change their behaviour;
- a clear strategy for each of its areas of operation, supported by detailed plans and risk assessments;
- measurable performance criteria supported by reliable information systems; and
- sufficient staff and other resources to implement plans.

#### **ERG is improving its working relationship with departments**

**3.2** ERG now has a senior staff member responsible for developing its relationships with departments and HM Treasury, having identified this as a key risk to achieving its aims. During 2012, ERG carried out an initial evaluation of departments' internal efficiency and reform plans and is tailoring its assistance to the strengths and weaknesses identified in each, and preparing detailed forecasts for likely savings under each of its efficiency and reform initiatives. The results are being shared with departments, and across ERG, thereby creating a single view of efficiency savings and the actions required to achieve them. The Treasury and ERG met jointly with departments to discuss possible savings for the 2015-16 spending round. Budget 2013 subsequently announced that a further £5 billion of efficiency savings would be sought in 2015-16 through efficiencies and reducing wasteful expenditure.

**3.3** The ERG operates spending controls cover certain expenditure by departments on media and advertising, contracts with major cross-department suppliers, outsourcing, ICT (including digital services), recruitment, consultants, redundancy, staff training and property. To avoid delays in obtaining spending approvals, revised guidance commits ERG and the Treasury to making decisions within 28 days, and places a responsibility on ERG staff to consult internally to ensure that decisions are given all necessary approvals at the same time. ERG is currently implementing a new digital case management system and is seeking to engage earlier with departments on their forward programme to facilitate a quicker turnaround time for formal applications.

**3.4** The Committee of Public Accounts, while supportive of ERG, expressed concern that its role potentially conflicts with Accounting Officers' personal responsibility to Parliament for securing value for money. In July 2012, ministers announced that the ERG controls first introduced in 2010 would be permanent. ERG issued revised guidance to departments advising that disagreements with ERG decisions should be treated in a similar way to the long-standing arrangements that apply when Accounting Officers disagree with ministers' decisions.<sup>27</sup> Treasury guidance to accounting officers also stresses that their responsibility for ensuring value for money is firstly to the Crown rather than to their department.

### **Strategies are becoming mature in some areas of ERG**

**3.5** In 2010, ERG inherited some well-established existing units with existing strategies, including procurement, major projects and ICT. It set out to change the existing strategy in a number of areas, while developing less established work in areas such as fraud, error and debt; shared services; and public bodies' reform. We concluded early in 2011 that individual ERG unit strategies, where they existed, were of mixed quality, maturity and effectiveness. They concentrated on immediate opportunities, such as lease breaks, rather than interventions based on long-term needs.<sup>28</sup>

**3.6** Most ERG unit strategies have now undergone at least one review. We assessed progress in developing strategies against the following criteria:

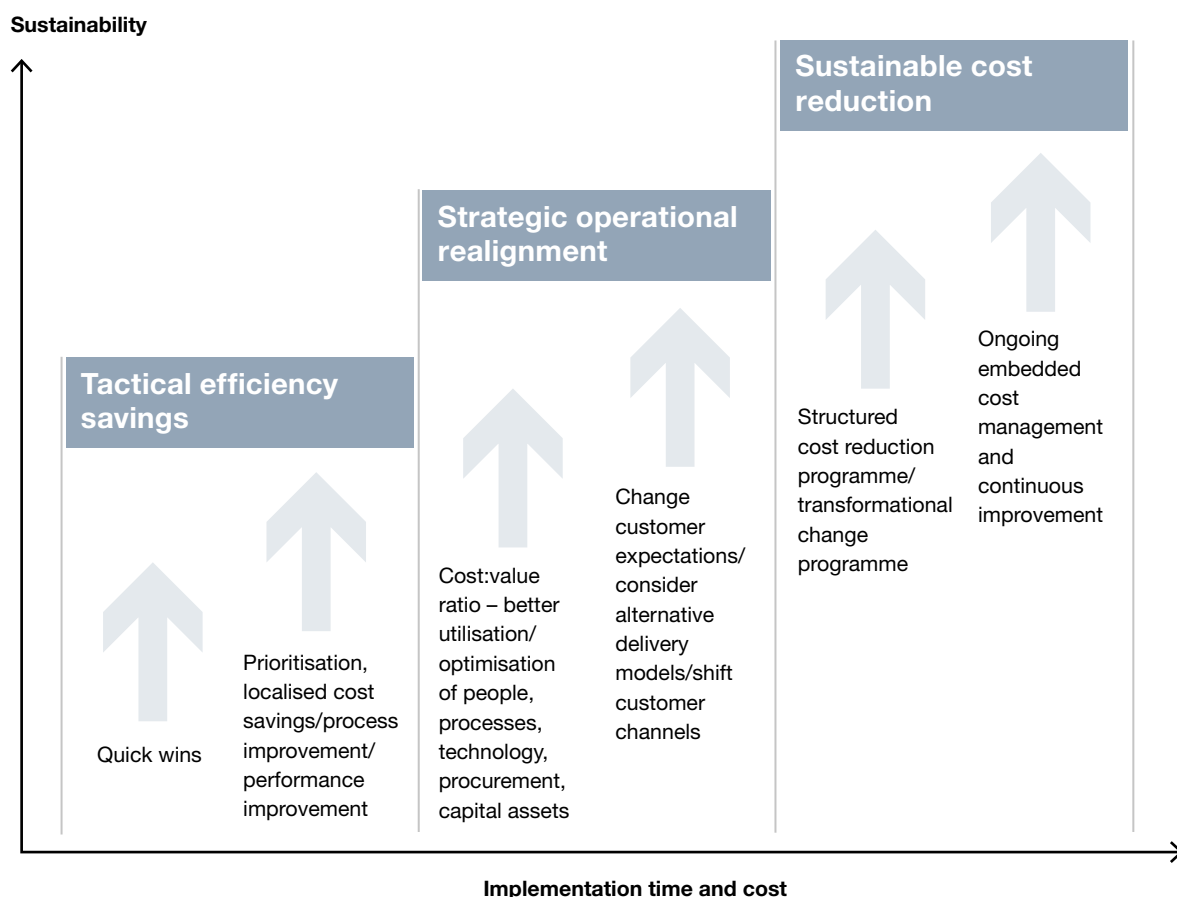
- there is an ambitious and radical long-term vision (target operating model) which will plausibly help departments deliver major cost reductions in the longer term (Appendix Four);
- the strategy is supported by a detailed plan, adequate resources and skills, and agreed project milestones and quantified objectives;
- planned changes are likely to be sustainable, including having the support of departments, addressing key cost drivers and protecting service delivery; and
- there are good information systems able to monitor departments' progress and delivery.

**3.7** Individual ERG units are now beginning to develop strategies based on a transformation of current operating approaches to secure longer-term sustainable cost reductions across government that complement more immediate savings. This is a welcome progression through our maturity model for cost reduction strategies (**Figure 7**).



**Figure 7**  
Stages of cost reduction

Over time, organisations need to move from making short-term savings to structured reform and a culture of continuous improvement



Source: National Audit Office

**3.8** ERG overall still does not have a long-term plan beyond 2014-15. However, in late 2012, it began developing its first business plan and a risk register evaluating and tracking the risks to delivery. Although ERG has a role in assessing the impact of major projects, it considers that it is primarily for departments to assess and manage any impact of its other activities on service delivery. Change of the degree ERG is seeking inevitably brings risks as government tries to move into new ways of operating. A sophisticated understanding of risks is vital in a time of major restructuring, with systems to identify when potential risks materialise and the ability to respond rapidly. ERG does not feel that it is part of its role to support and shape departments' future operating models or to the impact of its activities on services.

**3.9** Our recent reports on individual ERG units suggest that some ERG strategies, and planned approaches, are now near the more mature end of the model:

- The digital strategy is far reaching in its proposals for long-term sustainable savings and a digital-by-default approach to government services.
- The revised shared services approach suggests radical reorganisation of all central government back-office functions under Cabinet Office control.
- There is now a wider transformational programme for civil service reform to complement ERG's spending controls.
- A fundamentally new approach is emerging for the cross-government use of property, though this is not yet supported by a clear plan with milestones.

**3.10** In contrast, other ERG strategies are less well developed:

- The commercial models strategy focuses on identifying, developing and delivering bespoke business models, including mutualisation, contracting out, privatisation and various forms of joint venture (e.g. MyCSP). ERG is developing a number of projects across a range of departments and arm's-length bodies, the first of which are expected to be completed in 2013.
- There was little long-term planning for the role of Crown Representatives (who manage major cross-government suppliers) in 2011-12, and a lack of information systems for monitoring their impact. The appointment of a new Chief Procurement Officer during 2012-13, the merger of ERG's procurement and commercial teams and the recruitment of additional Crown Representatives has strengthened the approach.
- On public bodies, ERG and departments had not sufficiently defined the benefits expected from improved accountability. Our recent report found that ERG is not able to show the amount by which spending has reduced as a direct result of the reduced number of bodies.<sup>29</sup> Since then, ERG has developed a benefits framework including both numerical performance measures and narrative evidence for less tangible benefits.

**3.11** To date ERG's objectives have extended little beyond broad financial savings. There are limited examples of non-financial objectives: for example the number of public bodies to be closed and the number of new mutual organisations to be assisted. More recently it has become involved in implementing the Civil Service Reform plan.<sup>30</sup>

## **There has been slow progress in improving management and performance information across government**

**3.12** High quality management information is essential to improve operational effectiveness and hold management to account for delivering savings. However, the poor quality of much information has been a recurrent theme of our reports. We have found that departments do not fully understand the costs of individual activities, and it is rare for them to have good information on the unit costs of outputs, levels of productivity or the value of outcomes. Departments generally focus on monitoring against a one-year budget, with few looking as far ahead as the current spending review period of four years.<sup>31</sup>

**3.13** Our recent reports on ERG have identified progress in management information on procurement and ICT. However, there is still much to do and ERG's individual units still commonly identify poor management information as a key barrier to delivering their strategies:

- Our recent reviews of ICT savings initiatives<sup>32</sup> and government procurement<sup>33</sup> found that departments and ERG lacked agreement about expenditure levels on common items.
- Government does not yet collate sufficient information centrally to help departments manage their office estates together, or for ERG to undertake detailed planning.<sup>34</sup>
- Our 2012 review of the reorganisation of public bodies found that most departments had not yet made adequate estimates of transition costs. Work has since been undertaken by ERG to address this.<sup>35</sup>

**3.14** In 2012, the Efficiency and Reform Board commissioned a review of slow progress on improving financial and performance monitoring. ERG's corporate cluster is taking the lead on a wide range of initiatives including:

- to increase public transparency of spending, for example, by improving the quarterly data summaries of departments' financial and other aims;<sup>36</sup>
- to further automate the collection of data from departments' financial and other information systems to reduce the number of ad hoc requests and improve the accuracy and consistency of published information; and
- to obtain better quality data to monitor progress and assess departments' savings on ERG's initiatives.

### **ERG has cut its overall staff numbers and costs but has struggled to secure key skills in some areas**

**3.15** Changes in the composition of ERG since 2010<sup>37</sup> have made it difficult to track like-for-like changes to overall staff numbers and costs. Since 2010, there have been significant reductions in the cost of some large areas of ERG such as procurement and communications. The annual running costs<sup>38</sup> of the Government Procurement Service, for example, were £22.5 million in 2011-12 compared to £43.7 million in 2009-10 for its predecessor bodies. However, other areas have recently expanded: the Government Digital Service, for example, has recruited 74 specialist staff and used secondments from industry to overcome gaps in technical areas such as IT security. As a result of its 2012 restructuring, overall ERG staffing reduced to 863 posts for 2012-13. The Cabinet Office's forecast expenditure for the areas which remain in ERG is £113 million in 2012-13 (£72 million<sup>39</sup> net of receipts from suppliers and users of Government Procurement Service contracts).

**3.16** ERG believes it has sufficient funding to meet its forecast staffing requirements. However, it continues to identify shortages of staff and key skills in some areas. Our reports on the Major Projects Authority and the ICT Strategy identified constraints due to staff shortages. Particular skills gaps include staff with commercial experience at a senior level, staff with systems experience and corporate finance skills. Some parts of ERG, for example ICT and commercial models, reported difficulties in recruiting staff with the right experience. In response, ERG:

- is using a flexible staffing approach, including secondments to and from the private sector;
- is allocating staff for specific tasks, to increase productivity, rather than assigning them as permanent members of particular teams;
- is using staff in other departments, with 448 people across government having worked on reviews by the Major Projects Authority. This has helped expand project management skills among civil servants: The Authority estimates that prior to 2010, 55 per cent of project reviewers were consultants compared to 14 per cent in 2012; and
- has improved its continuity planning, for example announcing the new Chief Construction Adviser before his predecessor's departure and involving him in activities before his formal appointment.

# Appendix One

## Our audit approach

**1** This study examined the progress made by the Efficiency and Reform Group (ERG) since our previous report in February 2011. We reviewed:

- ERG's structure and objectives;
- ERG's achievements since 2010; and
- enablers and barriers to ERG's programme.

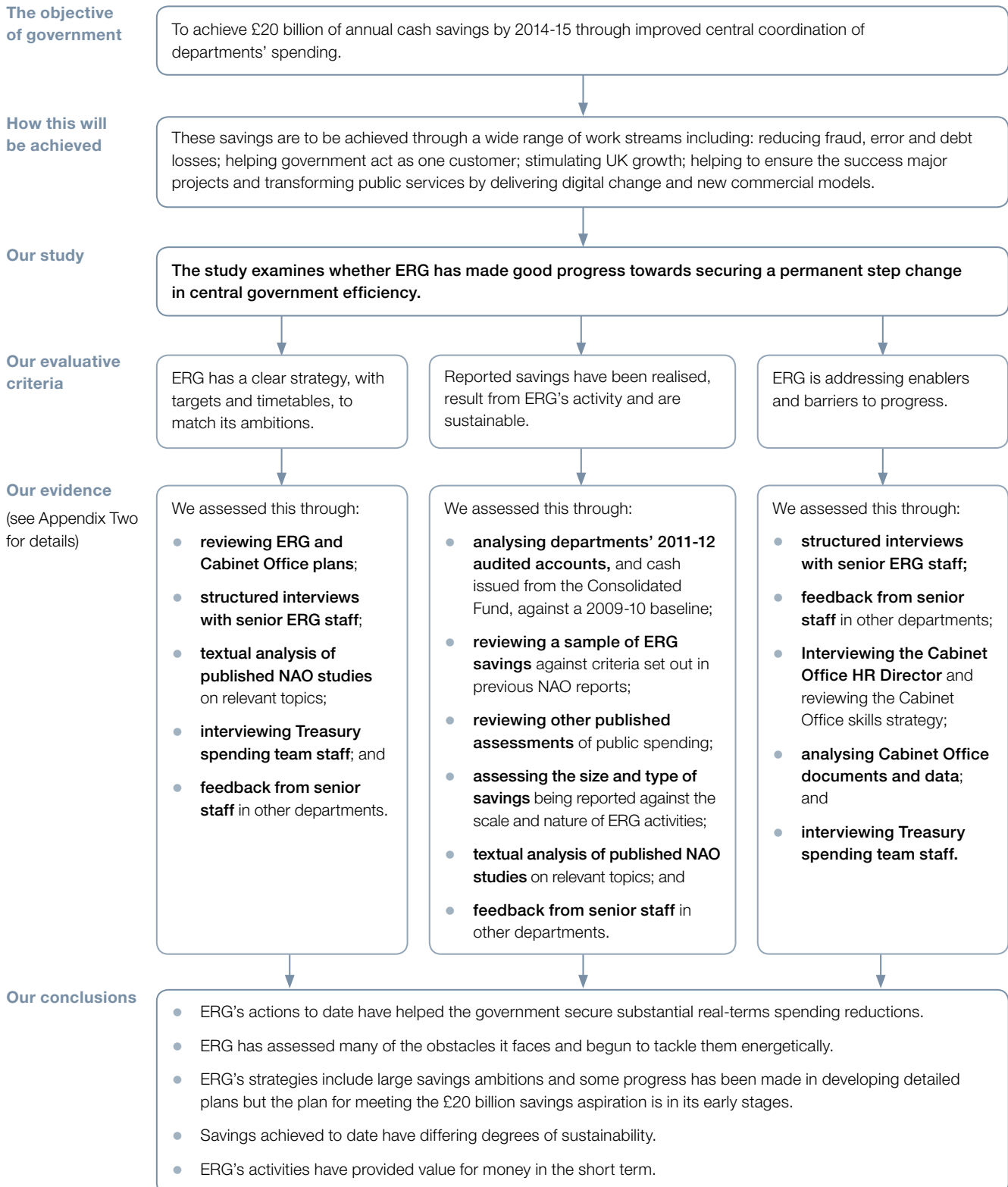
**2** We applied an analytical framework with evaluative criteria to consider what way of operating would be optimal for ERG. We considered ERG's use of resources and its achievements:

- We defined optimal arrangements as the most desirable possible subject to recognised restrictions and constraints. ERG faces the challenge of developing a new model of government while working with the existing model. Under optimal arrangements, departments would meet their savings requirements through efficiencies and cuts to non-priority services. ERG would be able to show that this happened as a result of its interventions.
- We took a broad view of ERG's resources. They extend beyond expenditure to include ERG's position at the heart of government, its political support, its access to skilled staff, its relationship with HM Treasury and other departments, and its emerging track record.
- We assessed the extent of savings by analysing audited accounting information. We reviewed documents and interviewed senior staff members to assess the degree to which ERG could show these savings were sustainable, the result of efficiencies, and influenced by ERG's actions.

**3** Our audit approach is summarised in **Figure 8** overleaf. Our evidence base is described in Appendix Two.

**Figure 8**

## Our audit approach



# Appendix Two

## Our evidence base

- 1** Our independent conclusions on whether the Efficiency and Reform Group provided value for money in its first two years were reached following analysis of evidence collected between July 2012 and February 2013.
- 2** We applied an analytical framework with evaluative criteria, which consider what would be an optimal outcome for ERG. Our audit approach is outlined in Appendix One.
- 3** **We assessed whether ERG had a clear strategy, with quantified objectives and timetables, to match its ambitions:**
  - We reviewed documents including Cabinet committee papers, business plans, strategy documents and internal minutes to identify ERG's original aims, and the range of management information used to track progress. We assessed strategies against defined criteria (Figure 8).
  - We interviewed senior Cabinet Office, ERG and Treasury staff to build on ERG's area strategies, and achievements to date, together with planned future developments. We also interviewed senior staff in departments, including Crown Commercial Representatives, to understand their perspectives on ERG. All these interviews also provided feedback on cross-departmental issues.
  - We undertook detailed textual analysis of PAC reports on ERG (Appendix Three) and a wide range of relevant NAO reports (**Figure 9** overleaf) to gain a broad view of conclusions reached on matters relevant to ERG. We used the ATLAS software tool to code the results of this analysis. We honed our understanding of these conclusions through discussions with the NAO teams responsible for the reports.

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## Figure 9

### Audit Criteria for evaluating ERG area strategies

#### **New Target Operating Model developed:**

- Alternative delivery models identified and evaluated.
- Selected model implies radical reform and addresses main problems identified.
- Plan includes better coordination from the centre or clear strategy for empowering departments.

#### **Planning the transformation process:**

- Detailed implementation plan published and approved.
- Key milestones set.
- Realistic scheduling of costs and resources needed.
- Realistic estimates of savings potential.

#### **Ensuring changes are sustainable:**

- Measures taken address departments' main cost drivers.
- Departments have been consulted and agreed the strategy.
- Priority services identified and metrics established to confirm continued delivery and outcomes.

#### **Establish information systems and progress reporting mechanisms:**

- ERG has metrics for financial and other objectives.
- Reliable information systems available.
- Progress regularly reviewed by Committee with power to influence departments and revise strategy.

*Source: National Audit Office*

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#### **4** We assessed whether reported savings had been realised, resulted from ERG's activities, and were sustainable:

- We analysed departments' audited accounts for 2011-12, 2010-11 and 2009-10 to assess the extent to which spending had reduced. We examined spending overall and in areas that ERG aims to influence.
- We reviewed cash withdrawals made by departments in 2011-12 from the Consolidated Fund to assess the extent to which they were lower in real terms than in 2009-10. We adjusted for large one-off factors to compare on a like-for-like basis.
- We reviewed ERG's reported savings for 2011-12. We assessed the reliability of the data sources used and checked the supporting calculations. We evaluated the methodologies used by ERG to quantify savings by comparing them to our published criteria for evaluating reported savings.<sup>40</sup> We examined a sample of high value and a representative sample of smaller savings on ICT and procurement. We discussed with internal audit their assurance work in order to understand its limitations.<sup>41</sup>
- We reviewed assessments from the Office of Budget Responsibility and Office for National Statistics to ensure that different views of spending presented a consistent picture.



- We reviewed the nature and scale of ERG's activities to assess the likelihood that they had influenced the reported savings.
- 5** We assessed whether ERG is addressing enablers and barriers to its progress:
- We used the interview and document review evidence described under the previous two aspects of our study to reach conclusions on how ERG has achieved savings to date and what it is doing to secure them for the future.

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## **Figure 10**

### NAO Reports 2008-9 to 2012-13 analysed for this report

#### **C&AG's Reports on ERG and its predecessor bodies**

Cabinet Office: Improving government procurement, February 2013

The impact of government's ICT savings initiatives, January 2013

Memorandum on the 2012 Civil Service Reform Plan, January 2013

Identifying and meeting central government's skills requirements, July 2011

Digital Britain One: Shared infrastructure and services for government online, December 2011

Implementing the Government ICT Strategy: six-month review of progress, December 2011

Assurance for major projects, April 2012

Reorganising central government bodies, January 2012

Cost reduction in central government: summary of progress, February 2012

Efficiency and reform in government corporate functions through shared service centres, March 2012

Managing early departures in central government, March 2012

Improving the efficiency of central government office property, March 2012

The Government Procurement Card, March 2012

Progress with VFM savings and lessons for cost reduction programmes, July 2010

Central government's use of consultants and interims, October 2010

Information and Communications Technology in government Landscape Review, February 2011

Managing staff costs in central government, March 2011

The Efficiency and Reform Group's role in improving public sector value for money, March 2011

Reorganising central government bodies, March 2010

Innovation across central government, March 2009

Assessment of the Capability Review programme, February 2009

Helping government learn, February 2009

Recruiting civil servants efficiently, February 2009

Addressing the environmental impacts of government procurement, April 2009

Commercial skills for complex government projects, November 2009

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**Figure 10** *continued*

NAO Reports 2008-9 to 2012-13 analysed for this report

**Efficiency and cost reduction**

HM Revenue & Customs: Tackling tax credits error and fraud, February 2013

HM Revenue & Customs: Progress on reducing costs, February 2013

Progress in making NHS efficiency savings, December 2012

The UK Border Agency and Border Force: Progress in cutting costs and improving performance, July 2012

Preventing Fraud in contracted employment programmes, May 2012

The BBC's approach to managing the cost of its support functions, 2012-13, March 2012

Child Maintenance and Enforcement Commission: cost reduction, February 2012

Managing change in the Defence workforce, February 2012

Reducing Costs in the DFT, December 2011

Shared Services in the Research Councils, October 2011

Reducing Costs in HMRC, July 2011

DEFRA – Managing Front-line Delivery Services, July 2011

PaceSetter: HMRC's programme to improve business operations, July 2011

Reducing costs in DWP, June 2011

Spending reduction in the Foreign & Commonwealth Office, March 2011

Management of NHS hospital productivity, December 2010

**Other**

**i) Performance and Financial management**

Managing budgeting in government, October 2012

Department for Business, Innovation and Skills: Financial management report, July 2012

Financial management in the Home Office, April 2012

Implementing transparency, April 2012

Ministry of Justice: Financial Management Report, December 2011,

Department for Environment, Food and Rural Affairs: Financial Management Report 2011, November 2011

DFID – Financial management Report, April 2011

Taking the measure of government performance, July 2010

Department for Culture, Media and Sport: Financial Management, March 2011

Progress in improving financial management in government, March 2011

Strategic financial management of the defence budget, July 2010

**ii) Major projects**

HM Treasury: Planning for economic infrastructure, January 2013

The Introduction of the Work Programme, January 2012

Lessons from PFI and other projects, April 2011

*Source: National Audit office*

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# Appendix Three

## Previous Committee of Public Accounts recommendations on ERG

**Cabinet Office: The Efficiency and Reform Group's role in improving public sector value for money (Report Session 2010-12)**

Summary of recommendation	National Audit Office evaluation of progress	This Report paragraphs
<p><b>1</b> ERG and HM Treasury should be clear and open about their defined areas of responsibility and need to develop strong partnership working to maximise the impact on government efficiency.</p>	<p>New guidance has been issued clarifying ERG and Treasury roles.</p>	<p>3.2 to 3.4</p>
<p><b>2</b> The Cabinet Office should confirm that the head of ERG is accountable to Parliament for the transparency of its decisions and the impact of its activities on value for money across government.</p>		
<p><b>3</b> ERG should set out: the level of savings delivered across government; whether savings arise from efficiencies or reductions in service; whether savings are permanent and sustainable; and the extent of any independent assurance on the reliability and accuracy of the reported savings.</p>	<p>Overall we have confidence in ERG's reported £5.5 billion savings in 2011-12. ERG does not monitor whether priority services are affected by the savings it reports.</p>	<p>5, 2.2, 2.4 to 2.8 to 2.10 and 2.25</p>
<p><b>4</b> ERG now needs to set out more clearly its aims over the spending period, specifying quantifiable measures of success. It should also put in place adequate management information systems to measure progress accurately and objectively.</p>	<p>ERG has yet to translate its ambition for saving £20 billion by 2014-15 into more detailed plans. ERG is working with government to improve the quality and use of management information.</p>	<p>8,17, 1.12 to 1.14, 3.11 to 3.14</p>
<p><b>5</b> For commodity procurement in particular, the Group should develop and promote arrangements for the wider public sector to take up the best deals, including triggers to mandate actions if progress is slow.</p>	<p>It has no formal role outside central government but seeks to influence the wider public sector through guidance and example.</p>	<p>1.6, and <i>Improving government procurement</i>, HC 996</p>
<p><b>6</b> ERG should set a clear expectation that departments' arrangements for recruitment, performance assessment, promotion and training must encourage civil servants to develop their implementation skills.</p>	<p>This issue is being addressed through the Civil Service Reform Strategy. The Major Projects Authority is developing project management profession across government.</p>	<p>See <i>Memorandum on the 2012 Civil Service Reform Plan</i> (HC 915 2012-13)</p>

**Cost reduction in central government: summary of progress (80th Report, Session 2010-12)**

<b>Summary of recommendation</b>	<b>National Audit Office evaluation of progress</b>	<b>This Report paragraphs</b>
<b>1</b> An informed lead should be given by the centre of government if arbitrary spending cuts are to be avoided.	ERG does not consider that it needs to clarify its role in supporting departments in developing their future operating models. Treasury and ERG met jointly with departments to discuss possible savings for the 2015-16 spending round. The Cabinet Office is working with departments to produce a single forward plan for the efficiency and reform agenda.	13, 15, 3.2 to 3.4 and 3.7
<b>2</b> The Committee expects departments to have management information in place within a year that enables them to link costs to their key priority outputs, and to use that information to drive efficiency savings, where possible, before making cuts.	ERG is working with government to improve the quality and use of management information.	17
<b>3</b> Central coordination is required to identify and manage interdependencies between departments' individual plans so that cuts in one department do not lead to increases in spending in another. The centre of government must monitor whether short-term cuts will lead to increases in expenditure over time. The centre must monitor departmental performance to identify outliers and instigate early remedial action.	ERG is working towards the agreement of a single efficiency and reform plan with savings ambitions and actions agreed by each department.	13
<b>4</b> Treasury and ERG must develop an overarching strategic framework with specific actions and milestones for individual departmental strategies to allow the centre to assess progress and identify outliers.	During 2012, ERG evaluated departments' internal efficiency and reform plans and is tailoring its assistance to the strengths and weaknesses identified in each; and preparing detailed forecasts for likely savings.	8 to 10, 1.12 to 1.14, 3.2 and 3.11
<b>5</b> Accounting Officers must be held accountable for achieving the required cost reductions and be rewarded for success or penalised for failure.		
<b>6</b> Departments' performance reports must distinguish between savings through efficiencies and reducing waste, and savings affecting services. These statements must be able to withstand robust scrutiny.	ERG is taking the lead on proposals to improve management information across government.	17 and 2.25
<b>7</b> The centre of government should have the option of mandating actions to secure best value.	Departments are to treat ERG decisions as instructions from ministers.	3.2 and 3.4

# Appendix Four

## Main ERG areas of operation

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### Chief Operating Officer for government, UK (Stephen Kelly)

Cluster and lead	Delivery Area	Strategy
Corporate Cluster (Lead: K Davidson)	ERG Strategy, Programme and Projects	Overall ERG vision, strategy, business planning and project management.
	General Counsel Commercial	Legal advice on high value and high risk cross-governmental and departmental projects.
	Management information and accounting and internal reporting	Improving performance and spend data across government to increase the impact of ERG initiatives and improve transparency of public reporting.
	Fraud, error and debt taskforce	Reducing avoidable losses through consistent approaches to preventing fraud error and debt, improving system design, and cross-departmental sharing of intelligence.
Efficiency Cluster (Lead: B Crothers)	Government Procurement Service	Reduce overall procurement spend by establishing cross-government policies for a wide range of common goods & services to maximise bulk discounts and reduce overall whole-life costs;
	Procurement policy & commercial capability	i) Establishing cross-cutting policy, including EU engagement and ensuring SMEs have fair access to government contracts; and ii) Introducing Lean procurement procedures and enhancing procurement profession across government.
	Commercial	Management of major-cross government suppliers on a single client basis to ensure best deals are achieved.
	ICT delivery	Manages centrally negotiated framework agreements at competitive rates for departments requiring ICT professionals for advice or service delivery.

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<b>Cluster and lead</b>	<b>Delivery Area</b>	<b>Strategy</b>
Transformation Cluster (Leads: M Bracken and E Welsh)	Government Digital Service	Aims to: i) reduce the overall number and cost of government websites;  ii) improve the efficiency of digital transactions; and  iii) increase the take-up of the internet, rather than through phone and post, by providing simpler, clearer and faster services for users.
	Government Property Unit	Management of central government land and buildings. Increasing cooperation and sharing of buildings by the public sector bodies, increasing occupancy rates and space standards.
	Chief Technology Officer	Create a common ICT infrastructure for government and use ICT to change how public services are delivered. Reduction of ICT and telecommunications costs through reducing complexity of projects and development timescales (Agile).
	Shared services	Increasing efficiency of back-office operations (e.g. finance, HR) through economies of scale.
	Continuous improvement	An approach in which all staff are encouraged to seek out, support and implement changes to improve services and products and improve cost-effectiveness.
	Commercial models	Ensuring high-quality services while delivering maximum value for both government and the taxpayer by identifying, developing, and deploying bespoke commercial models for central government service delivery, and supporting the development of public service mutuals across the wider public sector.
	Public bodies	Rationalisation of the public bodies' landscape.
Major Projects Cluster (Lead: D Pitchford)	Major Projects Authority	Centralised assurance of major new schemes and progress monitoring. In the longer term: improvement of department's project planning and management capability.
	Construction and Best Management Practice	Reform of building sector and public sector practices. Establishment of unit costs to compare VFM.
Economic Growth and Relationships Cluster (Lead: W Jordan)	Economic growth	Coordination of ERG initiatives to promote growth.
	Departmental engagement	Improve cooperation with centre of government and departments.
	HMG spending controls	Coordinate ERG response to departments requests for authority to spend on media and advertising, contracts with major cross-department suppliers, outsourcing, ICT (including digital services), recruitment, consultants, redundancy, staff training and property.

## Endnotes

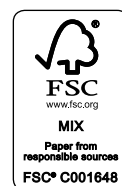
- 1 Available at: [www.cabinetoffice.gov.uk/news/cabinet-office-and-treasury-join-forces-drive-out-waste](http://www.cabinetoffice.gov.uk/news/cabinet-office-and-treasury-join-forces-drive-out-waste) and [www.cabinetoffice.gov.uk/news/whitehall-shake-drive-efficiency](http://www.cabinetoffice.gov.uk/news/whitehall-shake-drive-efficiency)
- 2 HC Committee of Public Accounts, *The Efficiency and Reform Group's role in improving public sector value for money*, Forty-ninth Report of Session 2010–2012, HC 1352, October 2011.
- 3 In April 2013, the Efficiency and Reform Board included seven private sector members including: Lord Browne, Lord Carter, Martha Lane Fox, Sir Peter Gershon, Lord Haskins, Lucy Neville-Rolfe and Dr Martin Read.
- 4 Comptroller and Auditor General, *Managing budgeting in government*, Session 2012-13, HC 597, National Audit Office, October 2012 and *The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 887, National Audit Office, March 2011.
- 5 Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2010–2012, HC 1788, National Audit Office, February 2012.
- 6 See endnote 5 and Appendix One.
- 7 “In making savings, departments will be encouraged to match best practice across government, working with the Efficiency and Reform Group in the Cabinet Office to identify more cost-effective ways of delivering public services and continuing to clamp down on inefficient spending.” HM Treasury, Autumn Statement 2012, Cm 8480, December 2012 paragraph 2.9.
- 8 Comptroller and Auditor General, *Digital Britain Two*, Session 2012-13, HC 1048, National Audit Office, March 2013.
- 9 Comptroller and Auditor General, *Improving government procurement*, Session 2012-13, HC 996, National Audit Office, February 2013.
- 10 Comptroller and Auditor General, *The impact of government's ICT savings initiatives*, Session 2012-13, HC 887, National Audit Office, January 2013.
- 11 Comptroller and Auditor General, *Cabinet Office: Improving the efficiency of central government office property*, Session 2010–2012, HC 1826, National Audit Office, March 2012.
- 12 Savings are measured relative to a baseline of spending in 2009-10, which was the financial year preceding ERG's formation.

- 13 See endnote 10.
- 14 The Public Sector Finances (PSF) statistical bulletin is published jointly by ONS and the Treasury. The bulletin is produced monthly and provides the latest available estimates for key public sector financial statistics, such as Public Sector Net Borrowing and Public Sector Net Debt.
- 15 See *Autumn Statement 2012*, Cm 840 December 2012, and spending data available at: [www.hm-treasury.gov.uk/psf\\_statistics.htm](http://www.hm-treasury.gov.uk/psf_statistics.htm)
- 16 See, for example, Office of Budget Responsibility, *Economic and fiscal outlook*, December 2012, Cm 8481, December 2012.
- 17 See endnote 10.
- 18 Our figures include both civil servants and other employee groups. The Group's reported staff savings are based on changes in payroll costs of civil servants since 2009-10.
- 19 Comptroller and Auditor General, *Managing early departures in central government*, Session 2010–2012, HC 1795, National Audit Office, March 2012.
- 20 *Civil Service Statistics 2012*, Office for National Statistics, November 2012.
- 21 Comptroller and Auditor General, *Memorandum on the 2012 Civil Service Reform Plan*, Session 2012-13, HC 915, National Audit Office, January 2013.
- 22 A full list of ERG spending controls is available at: [www.gov.uk/government/publications/cabinet-office-controls-guidance-version-3-1](http://www.gov.uk/government/publications/cabinet-office-controls-guidance-version-3-1)
- 23 See endnote 11.
- 24 See endnote 10. Our review examined a total of £702 million of savings reported under ICT related initiatives. Of these savings, £145 million are projects cancelled, delayed or reduced in scope as a result of IT Reform Group intervention.
- 25 See endnote 24.
- 26 These are known as 'Structural Reform Plans' or 'Departmental Business Plans'.
- 27 Available at: [www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance](http://www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance)
- 28 See endnote 10.
- 29 Comptroller and Auditor General, Cabinet Office, *Reorganising central government bodies*, Session 2010–2012, HC 1703, National Audit Office, January 2012, paragraph 25.
- 30 Comptroller and Auditor General, *Memorandum on the 2012 Civil Service Reform Plan*, Session 2012-13, HC 915, National Audit Office, January 2013.



- 31 Comptroller and Auditor General, *Progress in improving financial management in government*, Session 2010-11, HC 487, National Audit Office, March 2011.
- 32 See endnote 10.
- 33 See endnote 9.
- 34 See endnote 11.
- 35 See endnote 29.
- 36 Available through <http://transparency.number10.gov.uk/>
- 37 See paragraphs 1.9 to 1.11 and Figure 2.
- 38 See endnote 9. Annual Running Costs excludes cost of sales, the Procurement Investment Fund, restructuring costs and depreciation charges.
- 39 2012-13 outturn will include a one-off cost of £13 million for vacating property.
- 40 *Good practice for accurate public reporting of savings*, published as Appendix Two of *The Efficiency and Reform Group's role in improving public sector value for money*, March 2011.
- 41 Comptroller and Auditor General, *The impact of government's ICT savings initiatives*, Session 2012-13, HC 887, National Audit Office, January 2013.





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