



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Cabinet Office

The Efficiency and Reform Group

Key facts

£5.5bn

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

£20bn

annual savings in 2014-15 that ERG aims to influence

£72m

cost of ERG in 2012-13

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.