Efficiency in government

Cross-government

REPORT
by the Comptroller
and Auditor General

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HC 303
The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2020, the NAO’s work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £926 million.
Efficiency in government

Cross-government
Lessons learned reports

Our lessons learned reports bring together what we know on important recurring issues to make it easier for others to understand and apply the lessons from our work.
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Scope and our evidence base

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Foreword by the Comptroller and Auditor General

The scale and nature of the COVID-19 pandemic and the government’s response are without precedent in recent history. The overall long-term impact and cost of the pandemic remains uncertain but will be substantial. The government is now beginning to plan for the post-pandemic recovery, with this autumn’s Spending Review providing an opportunity to set a medium-term approach for expenditure across government’s areas of responsibilities. It is inevitable that government has a renewed focus on efficiency – how it can maximise the outcomes achieved for the available resources – as part of its approach.

In our role as the UK’s independent public spending watchdog, we have learnt about the successes and failures of past government attempts to improve efficiency. From our work, we have drawn out the issues that we regard as being most important for government to get right when it comes to: identifying efficiency gains that can endure; having a robust plan to realise those gains; and finding ways to embed efficiency as an ongoing priority.

This will be the first in a series of National Audit Office reports about efficiency in government and we will use the issues raised here when assessing the value for money of efficiency measures. We intend that this report will inform government’s activities over the coming months, beginning with the Spending Review. It is aimed at both HM Treasury, which convenes the process through which government identifies and plans efficiency gains, and the other government departments that are making plans to be more efficient. The factors set out in this document are not exhaustive – there will be other issues that government will need to consider to realise efficiency gains. Similarly, there are a range of other important issues that HM Treasury will need to consider as part of the Spending Review, not least how the review will support government’s target that the UK will achieve net zero greenhouse gas emissions by 2050.

In setting out the lessons from our previous work, we recognise that the pandemic followed a decade of rising demand for services and fixed spending levels, which saw departments having to plan to deliver more with less. This means, in many cases, that departments have already absorbed any easy wins and they now need to think more creatively and radically to achieve further efficiency gains. Equally, the pandemic has caused government to operate in new and unexpected ways, presenting an opportunity to challenge previous conventions around what might be possible.

Gareth Davies
Summary of key learning

We have identified nine issues that government will need to consider when attempting to achieve efficiency gains in the coming months and years.

Identifying efficiency gains

- Consider the potential gains that can be achieved over the long term, including those that may have additional upfront costs.
- Recognise the relationship between short-term efficiencies and resilience to deal with unexpected events.
- Understand service users and what they value, to reduce unnecessary activity and predict how they will react when services change.
- Be aware of the links between different parts of government and the risk that attempted efficiencies in one area inadvertently increase costs somewhere else.

Planning to achieve efficiency gains

- Be aware of optimism bias and learn from past experiences.
- Identify risks and plan how to manage them.
- Ensure there is sufficient capability to achieve the efficiency gains.
- Measure progress towards realising efficiency gains and plan to learn lessons for the future.

Embedding efficiency

- Focus on continuous improvement.
Introduction

The wider context

1 COVID-19 has resulted in levels of government spending to support businesses and individuals that are unprecedented in recent times. As at May 2021, government expects to spend £372 billion on COVID-19, with borrowing now at its highest level since the end of World War Two (Figure 1).

Figure 1
Net borrowing (deficit) in the United Kingdom as a percentage of Gross Domestic Product (GDP), 2011-12 to 2020-21

Government borrowing has risen sharply to £299 billion, 14% of GDP in 2020-21

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Net borrowing (£bn)</th>
<th>Percentage of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125</td>
<td>7</td>
</tr>
<tr>
<td>2012-13</td>
<td>127</td>
<td>7</td>
</tr>
<tr>
<td>2013-14</td>
<td>103</td>
<td>6</td>
</tr>
<tr>
<td>2014-15</td>
<td>94</td>
<td>5</td>
</tr>
<tr>
<td>2015-16</td>
<td>83</td>
<td>4</td>
</tr>
<tr>
<td>2016-17</td>
<td>55</td>
<td>3</td>
</tr>
<tr>
<td>2017-18</td>
<td>56</td>
<td>3</td>
</tr>
<tr>
<td>2018-19</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>2019-20</td>
<td>64</td>
<td>3</td>
</tr>
<tr>
<td>2020-21</td>
<td>299</td>
<td>14</td>
</tr>
</tbody>
</table>

Notes

1 All historical figures are nominal amounts, meaning they have not been adjusted for inflation.
2 Financial year (FY) 2011-12 to FY 2019-20 figures are sourced from the Office for National Statistics’ Government Deficit and Debt Return.
3 General government net borrowing for FY 2020-21 is sourced from the Office for National Statistics’ public sector net borrowing, excluding public sector banks.
4 Percentage of GDP for FY 2020-21 was calculated with reference to GDP for the calendar year 2020 as 2021 Q1 is not yet available.

Source: National Audit Office analysis of Office for National Statistics data
As part of measures to manage spending over the coming months and years, government plans to increase its efficiency. HM Treasury allocates funding across the government's priorities, sets limits on spending and defines the main outcomes that the public can expect the government to achieve with its resources. Ahead of the next Spending Review, HM Treasury has asked government departments to make plans which set out where they might achieve substantial efficiency savings by 2024-25. HM Treasury plans to work with departments over the summer to refine these plans, using a range of evidence to establish whether the plans are realistic, deliverable, or if they could go even further. These efficiency programmes will most likely have an impact on staff costs and the purchase of goods and services, which are two of the biggest types of government expenditure (Figure 2 overleaf).

Defining 'efficiency'

Put simply, improving efficiency means government being able to spend less to achieve the same or greater outputs, or to achieve higher outputs while spending the same amount. Efficiency, along with 'Economy' and 'Effectiveness', is one of the three criteria we use to assess value for money. Government can achieve efficiency gains by carrying out activities faster; with fewer resources, such as people and buildings; or to a higher standard without additional resources ('technical' efficiency). This could be achieved, for example, by combining back-office functions into shared services, automating activities using technology, or reducing duplication. Efficiency gains can also be realised by focusing resources on those activities with the best ratio of costs to the benefits achieved where this can be calculated ('allocative' efficiency) (Figure 3 on page 9). This might be achieved through, for example, investment in prevention or early intervention. Efficiency does not include decisions to reduce costs with the intention to achieve less.

In 2016, the Public Sector Efficiency Group, a group of civil service analysts, used case studies and other evidence to identify the five broad drivers of public sector efficiency, such as using technology and reorganising workforces (Figure 4 on page 10). It is likely that departments will base many of their efficiency plans in the coming months around these types of activities. In this report, we set out the key learning we have drawn from past work on how departments should identify potential efficiency gains and make plans to realise them.
### Figure 2

**Breakdown of government expenditure by type**

According to the Whole of Government Accounts, staff costs, social security benefits, and purchase of goods and services are the biggest areas of expenditure.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff costs</strong></td>
<td>184</td>
<td>183</td>
<td>186</td>
<td>194</td>
<td>193</td>
<td>191</td>
<td>216</td>
<td>256</td>
</tr>
<tr>
<td><strong>Social security benefits</strong></td>
<td>210</td>
<td>215</td>
<td>213</td>
<td>218</td>
<td>223</td>
<td>224</td>
<td>226</td>
<td>230</td>
</tr>
<tr>
<td><strong>Purchase of goods, services and other expenditure</strong></td>
<td>178</td>
<td>182</td>
<td>190</td>
<td>192</td>
<td>192</td>
<td>195</td>
<td>212</td>
<td>207</td>
</tr>
<tr>
<td><strong>Grants and subsidies</strong></td>
<td>62</td>
<td>56</td>
<td>60</td>
<td>57</td>
<td>54</td>
<td>54</td>
<td>51</td>
<td>59</td>
</tr>
<tr>
<td><strong>Depreciation and impairment</strong></td>
<td>64</td>
<td>51</td>
<td>50</td>
<td>45</td>
<td>43</td>
<td>47</td>
<td>58</td>
<td>48</td>
</tr>
<tr>
<td><strong>Interest costs on government borrowing</strong></td>
<td>28</td>
<td>32</td>
<td>37</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase/(decrease) in provisions</strong></td>
<td>17</td>
<td>29</td>
<td>20</td>
<td>28</td>
<td>9</td>
<td>19</td>
<td>15</td>
<td>21</td>
</tr>
</tbody>
</table>

### Notes

1. All historical figures are nominal amounts, meaning they have not been adjusted for inflation.
2. Whole of Government Accounts consolidates the accounts of more than 9,000 public sector bodies, including central and local government and public corporations such as the Bank of England, to provide the most complete and accurate picture of the UK’s public finances.

**Source:** Whole of Government Accounts
Efficiency in government

Introduction

There are two types of efficiency: technical and allocative. Along with economy and effectiveness, efficiency is one of the three criteria we use to assess value for money.

Figure 3
The relationship between different types of efficiency and value for money

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Resources</th>
<th>Inputs</th>
<th>Processes</th>
<th>Outputs</th>
<th>Outcomes (intended and unintended)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical efficiency</strong></td>
<td>Carrying out activities faster; with fewer resources; or to a higher standard without additional resources</td>
<td><strong>Economy</strong></td>
<td>Minimising the cost of the resources used while having regard to quality</td>
<td><strong>Effectiveness</strong></td>
<td>Extent to which objectives are achieved and the relationship between intended and actual impacts of a service</td>
</tr>
<tr>
<td><strong>Allocative efficiency</strong></td>
<td>Focusing resources on activities with the best ratio of costs to the benefits achieved</td>
<td><strong>Value for money</strong></td>
<td>The optimal use of resources to achieve the intended outcomes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

→ Contributes to the measurement of

Figure 4
The drivers of public sector efficiency as identified by the Public Sector Efficiency Group

The Public Sector Efficiency Group has identified five broad drivers of public sector efficiency

<table>
<thead>
<tr>
<th>Markets and competition</th>
<th>Service re-design and alternative delivery mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entry competition/ market creation</td>
<td>Prevention/ early detection</td>
</tr>
<tr>
<td>Strengthened incentives</td>
<td>Front-line service integration</td>
</tr>
<tr>
<td>Cost benchmarking</td>
<td>Reconfiguring services</td>
</tr>
<tr>
<td>Intelligent outsourcing</td>
<td>Involving users in service design</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organisation and workforce</th>
<th>Technology, data and targeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage restraint</td>
<td>Effective use of IT</td>
</tr>
<tr>
<td>Pay systems</td>
<td>Effective use of digital services</td>
</tr>
<tr>
<td>Sharing services</td>
<td>Technological advances</td>
</tr>
<tr>
<td>Sharing best practice</td>
<td>Effective use of data</td>
</tr>
<tr>
<td>Capability and leadership</td>
<td></td>
</tr>
<tr>
<td>Organisational structure</td>
<td></td>
</tr>
</tbody>
</table>

Hard budget restraints + spending flexibility

Identifying efficiency gains

Long-term costs and benefits

Efficiency gains can take several years to be realised and could require investment that increases costs in the short term. For example, HM Courts & Tribunals Service commenced its programme of transforming courts and tribunals in 2016, with planned implementation costs of £1.2 billion, and aimed to achieve savings of £244 million per year from 2024-25 onwards. But we have noted in the past how government’s structures and processes for planning and spending can cause departments to focus on the short term, with longer-term plans often lacking in detail. For example, the last multi-year Spending Review in 2015 focused on funding decisions until the end of the Parliament, with less focus on the long term. It also focused on short-term impacts, which brings the risk of unintended consequences, such as higher costs in the future, shifting costs to consumers, or loss of operations and capability to the private sector.

We have seen how a focus on the short-term annual financial balance has limited progress on being more efficient in the long term. Our January 2018 report on Sustainability and transformation in the NHS found that the NHS achieved its overall surplus in 2016-17, but in a way that meant health service organisations were unable to make progress on long-term efficiency initiatives, such as preventative services. This included the Department of Health & Social Care transferring funding intended for capital projects to fund the day-to-day running of NHS bodies, such as staff costs. To address this focus on the short term, NHS England published The NHS Long Term Plan in January 2019, which sets out how the NHS aims to achieve a range of priorities and five financial tests, set by the government in return for a five-year funding settlement. We have seen some examples of departments investing in preventative policies, such as the Department for Communities and Local Government’s Troubled Families programme, which it set up in 2012 to invest in effective proactive and preventative interventions to help transform the lives of troubled families.1,2

1 In January 2018, the department was renamed the Ministry of Housing, Communities & Local Government (MHCLG).
A short-term focus could also incentivise departments to focus on efficiency gains within the Spending Review period that inadvertently store up additional costs for later. For example, the Ministry of Justice’s Prison Unit Cost Programme, which sought to “maximise savings from public sector prisons by reducing operating costs while supporting the safety, security and decency of public prisons”, cost £115 million with expected savings of £550 million. The programme broadly achieved the planned cost savings, staff reductions and prison closures by 2016, but since 2017 the government has sought to increase staff numbers to improve safety in prisons. This demonstrates the importance of longer-term thinking in overall efficiency.

Practical considerations for the Spending Review

- HM Treasury should recognise the tendency of its arrangements to focus on the short term and consider how its current efficiency programme accommodates long-term efficiency plans. This means challenging departments on whether they have considered long-term benefits of allocating resources to different activities, such as preventative measures, and working with departments to consider whether planned efficiencies will endure beyond the Spending Review period or if they may inadvertently increase other costs in the future.

The relationship between efficiency and resilience

- In planning efficiency gains, HM Treasury and departments will need to manage the relationship between reducing costs on a day-to-day basis and maintaining capacity to deal with emergency or unexpected situations. Existing workforce issues, such as vacancy rates in nursing and medical staff, have added to the challenges in responding to the COVID-19 pandemic. Before the pandemic, we often saw departments operating in ‘firefighting mode’, reacting in an unplanned and uncoordinated way to problems as they arose and surviving from day to day. This means they do not have the time or resources to anticipate, plan or prepare for unexpected issues or areas of uncertainty to build better ways of operating that would make government more resilient to changes in demand, including any unanticipated emergencies.

- Some departments may plan efficiency gains based on operating with less spare capacity, or with fewer people, which could enable long-term gains, but could also mean a greater risk of service delivery failure in emergency or unplanned situations. If certain risks crystallise and services fail, the cost of rectification may undo any savings achieved. It is for departments to judge the level of spare capacity or resilience with which they should operate, drawing on modelling and scenario planning, and it is normal for some risks to be tolerated since running with spare capacity potentially means the under-utilisation of expensive resources. But departments should consider what they have learned about risk and resilience when forming their efficiency plans in the coming months.
The importance of system capacity and long-term sustainability is already implicit in guidance to departments such as *Managing Public Money*. In 2017, HM Treasury commissioned Sir Michael Barber to consider government efficiency, which led to a focus on how government understands and measures the public value it achieves. The guidance that followed this review further emphasised the need for departments to focus on the underlying quality and resilience and their ability to deliver in the long term. In March 2021, HM Treasury issued budgeting guidance to departments that stated departments should manage new pressures from within existing budgets and that departments should identify around 5% of their budget that could be reprioritised to fund unforeseen pressures.

**Practical considerations for the Spending Review**

- HM Treasury and departments should consider the risk that efficiency plans reduce resilience to deal with unforeseen pressures. This might draw on standard methodologies for quantifying resilience using probabilities of future scenarios, such as emergency situations.

**Understanding service users and what they value**

Departments should put taxpayers and citizens at the centre of decisions about efficiency and avoid making plans that are far removed from service users’ values and experiences or that neglect what drives service users’ decisions. We have previously reported how organisations with a customer focus are more likely to deliver what customers want and get it right first time, providing an opportunity to become more efficient. Focusing on the customer or service user can help to minimise unnecessary spending and enable prioritisation. Conversely, not doing so can mean departments’ efficiency plans could detract from the quality and coverage of services that end users do value. Getting this right requires an end-to-end understanding of processes, with awareness of how changes upstream, such as in back-office or support roles, could have knock-on effects later in the process. The British Army’s transformation of its recruitment process is an example of how designing and adjusting a process around what users value can be beneficial. Through increasing support to candidates, such as by offering development courses, providing anonymous support platforms and allowing individuals to move through the process at the speed they want to, the British Army tailored the process to different types of applicants. These changes provided a better experience for the user, are contributing towards a more diverse range of people and filled 100% of vacancies the following year.

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12. Making the link between government activities and outcomes for citizens has long been recognised as an area where government needs to develop its understanding. The Barber Review recognised the need to track how public money is turned into results for citizens; understand the impact of each pound spent; and prioritise to ensure that resources are allocated to where they will be most effective. The Barber Review recommended a ‘Public Value Framework’ to improve policy outcomes for citizens and measure the likelihood that public spending will produce results that improve people’s lives.

13. Departments also need to be aware of the diversity of users’ needs. Changes to policy or processes that do not consider users’ diversity can have unintended consequences for particular groups. For example, our work on the Windrush situation showed how the Home Office’s failure to fully consider the needs of a specific group within the wider immigration system led to serious adverse consequences for the individuals affected. Where departments are planning automation or digitisation of processes, we have often seen them base designs on the requirements of the majority of users, without considering what barriers or difficulties may be faced by non-majority groups. Furthermore, by increasing the total cost of dealing with calls and complaints to resolve problems this can undermine any efficiency gains. More recently, our work on the COVID-19 pandemic has shown that although central universal offers of support can be developed at speed, they may not be as flexible and cost-effective as targeted local offers and, as such, result in inefficient use of funds.

14. Finally, departments should think about the effect of service user behaviour on the outcome of their proposed efficiency measures, recognising that human behaviour is complex and has multiple determinants, which may not be obvious to departments. We often see government miscalculate how people will react to its policies, from energy efficiency schemes to benefit reforms, resulting in remedial changes with additional costs. For example, HM Revenue & Customs (HMRC) reduced the costs of processing people’s tax affairs by increasing automation and moving more customers to online services to reduce demand for its telephone, postal and face-to-face services. It reduced the number of staff in personal tax from 26,000 to 15,000 between 2010-11 and 2014-15, but demand for telephone advice did not fall as expected. This caused a deterioration in performance measures, with average customer waiting times to speak to an adviser for the personal taxes helpline tripling over the first seven months of 2015-16 compared with 2014-15 levels, before improving substantially. Back office staff from other areas had to be transferred to its call centres to meet user demand.
Practical considerations for the Spending Review

- Departments should use the Public Value Framework to focus on value and quality as defined by the end user to identify operational waste and opportunities for efficiency.

- Where efficiency gains start from a point of reducing costs, departments should consider what the potential impact might be on the things that the end users of services value. When this is not possible to determine, departments should at least be fully transparent about where their uncertainties lie and monitor them closely.

- HM Treasury has an important role to play in providing a cross-government perspective to identify potential consequences for citizens that departments have missed, and to consider wider risk implications such as the cumulative risk to different groups (for example, age, location, ethnicity) and risk exposure from efficiency plans. This could be an extension to the analysis HM Treasury already performs at major fiscal events on the distributional impact on households of tax, welfare and public service spending decisions.

The impact for the whole of government

Many government objectives, from overseas aid to children’s mental health services, cut across multiple departments and public bodies. There are also links and dependencies between central and local government, most notably in the interactions between the health and social care systems. Efficiency plans need, wherever possible, to be based on the expected impact on the whole of government, both central and local, recognising that changes made in one part of government can often have knock-on impacts somewhere else and that for service users it is inconsequential which organisation delivers a public service. Government recognises the importance of joining up delivery. Managing Public Money sets expectations of a joined-up approach: good value is judged for the Exchequer as a whole, not just for an individual organisation.5

Our work has demonstrated the importance of aligning objectives and incentives across government. We have seen that when decisions are taken in isolation, they can achieve local savings at the expense of wider government objectives. For example, Network Rail’s sale of railway arches saw it receive the proceeds from the sale of its property portfolio. However, the sale agreement did not include any provisions for protecting tenants, wider support for business, or community regeneration plans. The new owners have committed to adopting a ‘Tenants’ Charter’ to guide their practices in relation to tenants and their leases, but this is not legally binding. As the asset is now in private ownership, it is more difficult for government to achieve wider objectives.

Our work also demonstrates the challenges of achieving efficiencies in more complex environments where interactions between and within systems are difficult to understand but which exhibit signs of inefficient or unnecessary activities. This can lead to unexpected consequences when apparently inefficient services are targeted for savings. For example, our 2014 report on the Ministry of Justice’s reforms to civil legal aid found that changes aimed at reducing demand for legal aid services had the effect of increasing the number of ‘litigants in person’. This in turn raised the cost of processing cases and increased the risk of legal issues not being solved early, leading to problems further down the line. The Ministry had not estimated the scale of the wider costs of the reforms – even those the Ministry itself would have to pay – because it did not have a good understanding of how people would respond to the changes or what costs or benefits may arise. Our estimates point to additional costs of £3 million per year to HM Courts & Tribunals Service (an agency of the Ministry) as well as direct costs to the Ministry of approximately £400,000. Similarly, we have seen the importance of departments understanding the end-to-end processes involved in delivering services. Our 2020 report into immigration enforcement found that teams lacked visibility of the wider immigration system and their role within it. This led to numerous examples of inefficiency, including rework, duplication and work which otherwise does not add value.

Practical considerations for the Spending Review

- HM Treasury and departments should consider how to account for the wide range of government objectives in determining opportunities for savings, recognising that there may need to be trade-offs between conflicting priorities.

- HM Treasury and departments should draw on their understanding of related objectives and activities that span departments to consider whether savings accrue for the Exchequer as a whole and savings in one area do not lead to increased spending elsewhere, including in local government. This might mean needing to consider the risk that seemingly attractive opportunities for savings in fact reflect a poor end-to-end understanding of a complex system.

- Given the links that span organisational boundaries, HM Treasury should consider whether departments have sufficient incentives to invest in efficiencies if the benefits accrue to another department.
Planning to achieve efficiency gains

Optimism bias

18 Optimism bias is a concept that is well-recognised in government. HM Treasury has published guidance aimed at redressing the tendency for project appraisers to be overly optimistic, by adjusting estimates of costs and benefits using data from past projects or similar projects. Our own work shows how over-optimistic plans for delivery or savings, such as the efficiency targets set for hospitals, can be followed by either failure to deliver, lower service quality, or a need for later funding injections. At the root of this problem lies not only poor data on costs and performance, but also inconsistent challenge, both within departments and by the centre of government.

19 On efficiency, optimism bias has often manifested itself in areas regarded as easy wins, such as reducing the number of arm’s-length bodies, deploying shared services to fulfil back office functions, process automation and outsourcing. These do not always achieve the efficiency gains that government expected (Figure 5 overleaf).

Practical considerations for the Spending Review

• Departments and HM Treasury should consider whether efficiency plans have been subject to adequate challenge within departments and by HM Treasury on their realism and the risk of optimism bias. They should focus particularly on assumptions about savings accruing for other parts of government. For example, if multiple departments plan to share services, expectations may tend to be over-optimistic because they do not fully account for other organisations’ practical realities.

• Wherever possible, departments should show how they have drawn on lessons from previous similar attempts to achieve efficiency gains (such as the use of shared services) when determining what it is possible to achieve.

### Figure 5

Examples of public sector optimism bias found in National Audit Office reports

<table>
<thead>
<tr>
<th>Area</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arm’s-length bodies</td>
<td>In 2010, government announced its intention to take out of public ownership 192 arm’s-length bodies and merge a further 118. We set out at the time how the closure and merger of these bodies would need to be managed effectively to realise savings.</td>
</tr>
<tr>
<td></td>
<td>In 2015 we found that while government had made good progress in reducing the number of public bodies and simplifying the landscape, there had been a simultaneous increase in the number of companies in government.</td>
</tr>
<tr>
<td></td>
<td>In 2021, we reported that recent reductions in the number of arm’s-length bodies have been driven in part by the reclassification of bodies and do not necessarily reflect a true reduction in the number of bodies delivering across government.</td>
</tr>
<tr>
<td>Shared service centres</td>
<td>Our 2016 report on shared service centres found government’s plans were over-optimistic and fell far short of the planned savings. Although the programme achieved some benefits, its implementation was problematic and failed to achieve value for money. Only two of the 26 planned shared services centres had been set up at the time of publishing. Following investment costs of £94 million, the two centres reported savings of £90 million over the 2½ year period, falling short of the £128 million savings per year target set out in the strategy. Also, delays in migrating to new systems removed the opportunity to make further planned savings and increased costs for both customers and suppliers.</td>
</tr>
<tr>
<td>Process automation</td>
<td>Government has invested in technology and new analytic tools but, as highlighted in our 2019 report on Challenges in using data across government, this does not guarantee efficiencies in the longer term. The use of new technology, such as robotic process automation and artificial intelligence, has the potential to deliver accurate and tailored services to individual customers. However, if the existing data in the systems are not of good enough quality then layering new technology on top carries a significant risk of magnifying rather than overcoming the problems associated with data quality.</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>The collapse of Carillion in 2018 demonstrated the risk of government outsourcing. Carillion had around 420 contracts with the UK public sector at the point of its liquidation. Although government had monitored Carillion as part of its risk management system for strategic suppliers, the scale of Carillion’s financial difficulties came as a surprise to the Cabinet Office when they emerged in the second half of 2017. The Cabinet Office ultimately paid the loss on the liquidation, estimated at the time to be £148 million, with the overall cost to the taxpayer higher because some public sector bodies were paying a premium for post-liquidation services.</td>
</tr>
</tbody>
</table>

Risk management

20 We recognise that government does not hold detailed information in every aspect to know the impact that attempted efficiency measures might have ahead of time. An absence of quality information should not preclude government from attempting efficiency gains, but with greater uncertainty can come greater risk, and without necessary arrangements in place to manage risks, the effects can be costly.

21 For example, in our report Transforming Rehabilitation: Progress review we found that huge change was launched at speed on the basis of a very limited understanding. As a consequence of needing to meet timescales set by Ministers to deliver the reforms before the 2015 election, the Ministry of Justice did not adequately test how the transformed system might work before letting contracts; it did not have a good understanding of delivery models, working practices and governance; and ended pilots early and even abandoned some before they started. Its rushed implementation introduced significant risks with far-reaching consequences, including poor value for money for the taxpayer.

22 We have seen recently how good risk management can help departments achieve value for money in uncertain situations. When the Department of Health & Social Care and the Cabinet Office increased the number of ventilators available to the NHS in response to COVID-19, they actively managed risks during uncertain times (Figure 6 overleaf). Using robust risk planning and being clear about risk appetite and risk tolerance when choosing which trade-offs should be made in emergencies has been an important learning point from the government’s response to the COVID-19 pandemic. The same principles of effective risk management (including risk-based decision-making) should apply when departments plan to make efficiency gains.

23 Piloting new programmes can help identify risks at an early stage, enabling departments to correct design weaknesses prior to full scale roll-out. However, we find it is too little used – for example, on government’s Payments by Results schemes, where implementation tended to be rushed, with few schemes being piloted or phased in advance of full roll-out.

Practical considerations for the Spending Review

- HM Treasury and departments should ensure that efficiency measures are supported by an adequate plan, which:
  - puts risk at the centre of the underlying decision-making process;
  - shows how uncertainty will be managed with sufficient oversight and data capture;
  - considers the option to pilot approaches;
  - indicates how costs will be controlled where possible; and
  - enables timely intervention where things are off track.
Planning to achieve efficiency gains

Efficiency in government

Figure 6
Good practice: Investigation into how government increased the number of ventilators available to the NHS in response to COVID-19

Background
Patients with COVID-19 who are admitted to hospital often have problems breathing. Ventilators, medical devices that assist or replace a patient’s breathing, are often used alongside other care provided to these patients. From March 2020, in response to the COVID-19 pandemic, the government increased the number of ventilators available to the NHS. It did this through the procurement of ventilators by the Department of Health & Social Care (DHSC) and the Cabinet Office’s ‘ventilator challenge’, which encouraged UK businesses to design and manufacture more ventilators.

Approach and benefits
DHSC and the Cabinet Office actively managed the risks of the programmes, responding quickly when circumstances changed. When the expected demand for ventilators did not materialise, ministers were quick to adjust targets. This was done with the aim of providing additional resilience in the system in preparation for a ‘second wave’. The previous urgency meant that contracts had already been entered into, allowing the teams to prioritise other tasks. They were able to focus on ensuring the most efficient manner to manage the programme through: identifying the best mix of devices; ensuring they were delivered; identifying which options were no longer required to meet government’s targets; and managing the programmes’ overall cost. While the number of ventilators significantly exceeded demand, there is more spare capacity should it be needed.

Inevitably, the overall costs of both programmes were higher than would be expected in normal times. This is a risk for all plans implemented during uncertain times. However, both departments maintained sufficient records of their rationales, the key spending decisions and the information they had to base those on. They also put in place effective programme management, controlled costs where they could and recovered some of their spending once it became apparent that fewer ventilators were needed. These arrangements are examples of good practice that can be implemented whenever plans are made during uncertain times, with imperfect information.

Source: Comptroller and Auditor General, Investigation into how government increased the number of ventilators available to the NHS in response to COVID-19, Session 2019–2021, HC 731, National Audit Office, September 2020

Capability to achieve efficiency gains

24 Departments should ensure they have the capability required to achieve planned efficiency gains, including people with the right skills and technology. This refers to capability at all levels, including senior management, to ensure departments can deliver complex plans such as digital programmes. The chief executive of the civil service, within the Cabinet Office, has overall responsibility for the capability of the civil service.
In our report *Capability in the civil service* we highlighted several examples of how capability shortfalls led to problems. This included the InterCity West Coast franchise competition in 2012, where a lack of expertise in project and programme management contributed to its collapse. We also found that the Common Agricultural Policy Delivery Programme suffered from a high turnover of senior leaders. Our work on digital services at the border showed how the Home Office underestimated the technology requirements of its change programme, leading to a number of unforeseen technical challenges such as increased downtime. At a local level, we have reported how diminished capability and capacity in local authorities’ transport planning teams has been a key reason for the slow pace of improvement in bus services.

For government to achieve efficiency gains, departments are likely to require specialist skills as well as raising the general level of technical and leadership capability in operational delivery:

- **Specialist skills**: For example, digital transformation of the NHS relies on having people with the right digital and data skills. Last year we reported that these specialist skills were in short supply. Since 2013, the civil service has been moving towards a ‘functional model’ whereby corporate and specialist skills are organised on a cross-government basis. There is central leadership of 14 cross-departmental corporate functions – such as finance, project delivery and human resources – that aim to develop capability, give expert advice, set and assure standards, set cross-government strategies and drive improvement. Having a combined input from all the functions is necessary to understand how to achieve efficiency without unintended consequences.

- **General technical and leadership capability**: We have recently emphasised the importance of building capability in departments’ operational delivery. Those in front-line operational roles must be able to identify, raise and solve day-to-day problems; while those managing services need capability in using and interpreting data, such as trend analysis, to spot and anticipate problems and ask the right questions of their teams. Ensuring that everyone in an organisation has the necessary capability to do their current role well will be an important part of realising efficiency gains.

Securing the capability to achieve efficiency gains could require upfront investment, for example to train staff, bring in the capability and skills needed or to purchase a new software solution. As we described earlier in the section on long-term costs and benefits, the need for additional investment upfront should not be a barrier to planned efficiency measures if there is a strong case that it will achieve gains in the long run.
Practical considerations for the Spending Review

- Departments need to understand from the outset the skills and capability required to achieve efficiency gains, working with the functions to establish the specialist and technical skills needed.

- HM Treasury should work with the cross-departmental government functions to consider the cumulative draw on specialist skills and the risk that multiple departments plan to draw on the same small pool of skills in their plans. This should feed into the Cabinet Office’s workforce planning for government as a whole.

Tracking progress

28 As with any project or programme, departments will need to track the progress of attempted efficiency gains. Performance management is important for accountability purposes, as well as triggering intervention when things are off course or deciding that the attempted efficiency gain is no longer the right thing to do. An effective performance management system needs timely reporting of progress against planned milestones along with information on the resources and funding used to achieve progress to date.

29 Performance measurement relies on departments having access to accurate data. Good data also improve the interoperability between government departments and functions, enabling insights to be shared and performance to be measured across government. However, our reports have repeatedly found that the quality and availability of data has been an issue for government decisions, such as our reports Handling of the Windrush situation and Investigation into overpayments of Carers Allowance. Although making good-quality data widely available is a complex issue and a recognised concern, we found in the past that government does not always see it as a priority. However, the pandemic has caused government to expand the range of data that it can use for decision-making, such as on rough sleepers and care homes, and saw examples of timely sharing of data between departments.

30 Departments will need to consider the complexity of measuring efficiency gains. For example, defining and measuring the quality of outputs is recognised as being challenging, and inputs in one department may have an impact on outputs or outcomes measured by a different department. In some cases, changes to inputs might not directly lead to the intended efficiencies, such as where new ways of working save small amounts of several people’s time but only realise efficiency once this can be incorporated into longer-term workforce planning with reduced staff numbers.
Our work on the pandemic response has shown the importance of gathering feedback from end-users and front-line staff as part of progress monitoring. For example, in October 2020 we reported that HMRC carried out surveys of employers, employees and self-employed people who accessed the employment support schemes. The high satisfaction scores recorded gave HMRC confidence that it was delivering a good customer experience to claimants, although at the time it had not yet carried out survey work to estimate the scale of furlough fraud.7

Lastly, departments should plan how they will evaluate the impact of actions taken to achieve efficiency gains. Good-quality evaluation can provide evidence on attribution and causality – that is, whether the action to achieve efficiency delivered the intended outcomes or impacts, and to what extent those were due to the action taken. Our reports have repeatedly found a lack of evaluation evidence across government. Government itself recognises the importance of good evaluation, which is set out in HM Treasury’s *Magenta Book: Central government guidance on evaluation*.8 It is important that efficiency plans follow the principles set out in this guidance to help plug the gaps in government’s awareness of what works when it comes to efficiency.

**Practical considerations for the Spending Review**

- Departments should establish effective ways to track progress of planned efficiency savings, including set milestones to compare performance against, with clear thresholds for intervention, including the option to stop. This should also demonstrate the link between short-term activities and long-term intended outcomes.

- HM Treasury and departments should consider what lessons and opportunities from how data have been captured and shared during the COVID-19 pandemic could be applied in achieving efficiency gains.

- Given the challenges to measure efficiency effectively, HM Treasury and departments should work together to identify good-practice approaches, such as ensuring consistency; measuring quality and obtaining front-line and end-user feedback, while guarding against the risk of creating burdensome additional reporting processes.

- Departments should plan from the start how they will evaluate attempted efficiency gains. This means being clear on the outcome to be achieved and the counterfactual of what would happen without intervention.

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7 Employers committed furlough fraud if they claimed furlough payments but kept employees working for them against scheme rules. In our 2020 survey of furloughed employees, 9% of those who responded admitted to working in lockdown at the request of their employer, and against the rules of the scheme.

Embedding efficiency

33 In the previous sections we set out the lessons from National Audit Office work on identifying and planning efficiency gains as government embarks on its post-pandemic efficiency drive. While doing so, we emphasise to government that efficiency should remain a priority on an ongoing basis, not only at major fiscal events such as Spending Reviews. Efficiency gains can be achieved incrementally, and do not always need to come from transformative step-changes.

A continuous improvement focus

34 We have emphasised in previous work the importance of departments embedding continuous improvement approaches to improve how they run their business-as-usual operations and meet future challenges. Continuous improvement refers to ongoing improvement of products, services or processes through incremental improvements. It can apply at all levels of an organisation, from strategic thinking to operational front-line problems, and can be used to fix immediate problems or to develop innovative solutions to identify new approaches.

35 Continuous improvement can be used to support the ongoing achievement of efficiency gains, but the right conditions need to be in place. Crucially, there need to be system incentives for leadership behaviour that encourage continuous improvement. The centre of government already recognises the importance of building leadership capabilities, having introduced the Civil Service Leadership Academy and increased the National Leadership Centre’s focus on gaps in leadership capability. The New Curriculum and Campus for Government Skills brings together those existing offers with plans for a Service Delivery Academy for operational delivery. Additionally, there needs to be clarity of purpose; people with the ability to react to real-time data that indicate there are problems leading to inefficiency; and it needs to be possible for everyone to contribute to problem solving. We have seen in an example from the Independent Office for Police Conduct, where casework teams used continuous improvement approaches to improve their productivity, by implementing new ways of allocating and working on cases (Figure 7).

36 Continuous improvement requires that government captures and makes use of the lessons from what works. We described in the previous part the importance of departments planning from the outset to evaluate planned efficiencies. Such evaluations will help to build government’s knowledge of what works, adding to the body of knowledge captured by the network of nine What Works Centres, which government established to build the supply of evidence to inform decision-making. Making more use of existing evidence early in the development of policy could help to improve the efficiency of public spending.
Having a continuous improvement focus would also support departments to manage efficiency plans through to the point where they realise gains. Where departments’ efficiency plans rely on transformation programmes, they need to avoid a situation where the programme itself becomes the aim and departments lose sight of the actual benefits to be achieved. Planned efficiencies will rarely run smoothly and will require changes along the way as well as time to elapse for transformation to iterate and adapt so that it achieves the efficiency gains. We have seen this with the Crown Commercial Service (CCS), which government established in 2014 to provide a cross-government procurement service. Cabinet Office expected CCS to achieve net savings of £3 billion over the first four years of operations. But the roll-out ran into difficulty in 2015, leading to a reset in the way CCS undertook its business. It subsequently managed implementation in an iterative manner, allowing it to adapt its approach and engage stakeholders at key stages. This enabled it to increase the commercial benefits for government from £521 million in 2015-16 to £945 million in 2018-19 through improved take-up of its frameworks. During the pandemic, we have also seen government act quickly in a number of areas to solve problems arising from rapid implementation and improve performance, such as on free school meal vouchers; the vaccine programme; and support for the arts and culture sector.

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**Figure 7**

Good practice: Self-organising teams at the Independent Office for Police Conduct

**Background**

The Independent Office for Police Conduct (IOPC) reviews complaints about local police investigations using casework teams, where targets are set for the number of casework activities to be completed in a given time period. These cases vary significantly in the effort, skills and knowledge required to complete them. The previous approach for allocating work did not reflect this variation in case complexity. The IOPC leadership team wanted to design better ways of working to engage people in their work while maintaining a focus on the performance of the service.

**Approach**

The IOPC leadership team experimented with giving casework teams ownership of how to manage their workload. Casework teams were given space and trust to define new ways of working, including taking responsibility for deciding how to meet casework demand and measuring performance. IOPC’s continuous improvement team helped build the technical capability needed to manage demand, design new processes, measure performance and understand people’s preferred ways of working.

**Benefit**

The new approach allowed people to choose the type of work they enjoy doing, rather than allocating on an assumed equity basis. Individuals were also able to expand their knowledge by selecting cases on subjects they wanted to learn about. It was also decided that casework team performance would be assessed using team measures rather than individual productivity. IOPC says that productivity in one casework team may have increased by 33%, and a staff survey shows that people are happier and feel more valued and trusted using the new approach.

38 Departments should be willing to stop an efficiency programme if it becomes apparent it will not, in fact, achieve greater efficiency. In our work more broadly, we rarely see departments taking decisions to stop programmes. For example, in 2019 the Committee of Public Accounts found that the Ministry of Defence’s Equipment Plan was unaffordable because it delayed making decisions on its priorities, including whether to increase funding or stop, delay or scale back programmes.

**Practical considerations for the Spending Review**

- The Spending Review process is an opportunity for HM Treasury to establish some of the conditions that support continuous improvement from a ‘what to do’ perspective, as well as just ‘how things are done’. This includes communication of clear cross-government priorities (for example, net zero, levelling up) to inform the purpose of improvement work. Setting priorities also helps people to identify which problems to fix first.

- The Spending Review is an opportunity for departments to consider gaps in their ability to embed continuous improvement, such as creating system incentives for leadership behaviour that encourage continuous improvement and training staff in problem-solving, and to factor this into spending plans.

- More generally, HM Treasury and Cabinet Office should work with departments to consider how to embed further continuous improvement approaches that would underpin identification of incremental efficiency gains.

- Where efficiency gains are based on transformational change, HM Treasury should work with departments to ensure that departments manage transformation programmes with an improvement focus, avoiding falling into a ‘task-and-finish’ approach which prioritises completing the transformation rather than seeing it as a means to the end of greater efficiency.
Appendix One

Scope and our evidence base

Scope

1 This report follows a review of previous National Audit Office (NAO) value-for-money reports and draws on our expertise in key issues such as digital, risk management and project delivery. We have also held discussions with government departments and with external stakeholders.

2 This report includes specific examples from our published work. These are illustrative examples and not indicative of the overall performance of specific departments. This report does not set out what action government has taken since these reports were published, or what actions government has taken or intends to take on the learning points set out in this report.

Our evidence base

3 This report draws on the previous NAO reports published up to July 2021, which are listed in Figure 8 on pages 28 and 29. No additional fieldwork was carried out for this report, except for providing up-to-date information for Figures 1 and 2. Other figures are based on previous NAO reports and have not been updated, even where more recent data may be available.
## Figure 8
National Audit Office publications used in this report

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## Figure 8 continued
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