

# Releasing resources to the front line

Independent Review of Public Sector Efficiency

Sir Peter Gershon, CBE

July 2004



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# Foreword

## Letter from Sir Peter Gershon to the Prime Minister and the Chancellor of the Exchequer

Dear Prime Minister and Chancellor,

I have now concluded the Review of Public Sector Efficiency you invited me to undertake in August 2003. The Review has focused on your objective to release major resources out of activities which can be undertaken more efficiently into front line services that meet the public's highest priorities, and on the need to help inform the results of the 2004 Spending Review which the Chancellor is announcing today. Working closely with departments and other stakeholders, auditable and transparent efficiency gains of over £20 billion in 2007-08 across the public sector have been identified and agreed. Over 60 per cent of these are directly cash releasing.

The proposals also result in a gross reduction of over 84,000 posts in the Civil Service and military personnel in administrative and support roles. I am conscious that this will result in a significant loss of employment opportunities over a relatively short period. It is important that these reductions are managed well both for the individuals concerned and to sustain the commitment and motivation of the whole Civil Service in light of the invaluable functions it performs.

Throughout the review I have been mindful of two important considerations. Firstly the need to ensure that savings are not delivered at the expense of impacting on service delivery: to go further or faster than the savings set out in my Review during the period 2005-06 to 2007-08 would put at risk the delivery of public services. Secondly I have paid considerable attention to departmental capacity to deliver these proposals both in terms of the delivery framework that is being put in place to realise the efficiency gains and recommendations to address a number of systemic issues identified during the course of the Review such as the need to strengthen financial management in departments. The programme of work you have agreed to establish will, with sustained political and management leadership, provide the foundations to help realise these gains and sustain efficiency as an integral part of your delivery and reform agenda.

The report which I am publishing today will, I hope, inform the debate about public sector efficiency by setting out a robust framework for the analysis and deliverability of potential efficiency savings and thereby enable informed discussion about this important aspect of public sector management.

A handwritten signature in black ink, appearing to read 'Peter Gershon', is written above a solid black horizontal line.

**Sir Peter Gershon, CBE**



# 1

## Introduction

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1.1 Budget 2003 announced a review of “new ways of providing departments, their agencies and other parts of the public sector with incentives to exploit opportunities for efficiency savings, and so release resources for front line public service delivery.” Subsequently the Prime Minister and Chancellor invited me in August 2003 to lead an independent review. As the head of this review, I have drawn on my own personal experience and consulted widely to identify opportunities for, and develop proposals to deliver, sustainable efficiencies in the use of resources within both central government and the wider public sector.

1.2 My remit was to consider the scope for efficiency savings across all public expenditure within Departmental Expenditure Limits (DEL)<sup>1</sup>. I was asked to look at specific proposals to deliver efficiencies and more general changes which could be made to the framework within which the public sector operates to improve efficiency. A key element of my remit was that the Review should feed directly into the 2004 Spending Review, making recommendations to Ministers for stretching but realistic departmental efficiency targets for the period 2005-06 to 2007-08.

### THE EFFICIENCY REVIEW’S APPROACH

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1.3 The process followed by my Efficiency Review took account of this remit and the following key considerations:

- given the importance of securing real savings the Review would need to engage the whole public sector, which in turn would have an important role in implementing its recommendations;
- the Review team, supported by the Prime Minister and Chancellor, should provide a high degree of leadership, challenge and scrutiny to the process of proposal development; and
- the Review should look to strengthen the existing 2002 Spending Review value for money regime through addressing a number of areas which have become evident through operational experience, including: taking a cross-cutting approach, a complete coverage of government (DEL) spending, carrying out substantial preliminary analysis to underpin overall efficiency agreements, and up-front work on measurement and delivery planning for agreed efficiencies.

1.4 Chart 1.1 below summarises the overall approach followed by the Efficiency Review. Early stage work was carried out in consultation with departments, non-departmental public bodies (NDPBs) and agencies, private sector suppliers and representatives of the wider public sector. On the basis of this work, and taking into account the responses to a written consultation, a series of

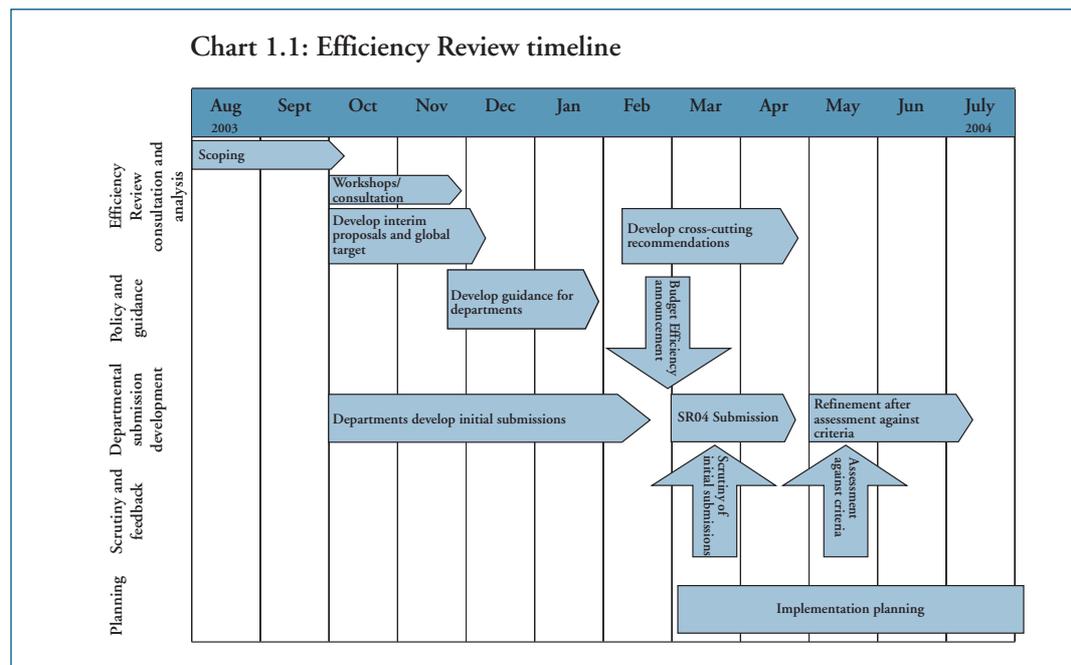
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<sup>1</sup>This did not include transfer payments – such as benefits and debt repayments – or the spending of the devolved administrations. Rail was subsequently excluded due to the separate review being undertaken. The Review did however identify some savings outside of DEL, for example accruing to the public through reduced fees and charges for the provision of licences, or savings in Annual Managed Expenditure (AME) on social housing repairs and maintenance.

proposals was developed against six broad areas of public sector activity ('workstreams'), and an interim assessment made of the potential total efficiency savings which could be delivered in the 2004 Spending Review period. This analysis is summarised in chapter 2.

1.5 These interim proposals were designed to be refined by a process of delivering more detailed proposals in collaboration with departments during the period between January and June 2004. Indeed, some departments had begun their own work on efficiency proposals in 2003 in parallel with the Review team. The Efficiency Review supported the development of proposals by assisting departments in understanding its interim proposals through meetings and workshops led by departmental 'account managers', scrutiny of initial departmental proposals and further feedback on more advanced proposals (which also took account of the Chancellor's announcement of an overall public sector efficiency target for the 2004 Spending Review period) against a number of assessment criteria. This process is described in chapter 3.

1.6 In parallel I recommended, and helped HM Treasury and the Office of Government Commerce (OGC) to develop, cross-cutting measures to support the delivery of departmental efficiency proposals and promote efficiency more generally in the public sector. These measures are described in more detail in chapters 3 and 4.



## WHAT IS EFFICIENCY?

1.7 Efficiency in the public sector involves making best use of the resources available for the provision of public services. This review has defined as 'efficiencies' those reforms to delivery processes and resource (including workforce) utilisation that achieve:

- reduced numbers of inputs (e.g. people or assets), whilst maintaining the same level of service provision; or
- lower prices for the resources needed to provide public services; or
- additional outputs, such as enhanced quality or quantity of service, for the same level of inputs; or

- improved ratios of output per unit cost of input; or
- changing the balance between different outputs aimed at delivering a similar overall objective in a way which achieves a greater overall output for the same inputs (“allocative efficiency”).

**The public spending framework** 1.8 The Efficiency Review took account of recent changes to the structure within which departments and other public sector bodies operate which have an impact on efficiency, and recent developments in best practice. At the largest scale, changes have been made to the system for managing public expenditure aimed at either raising efficiency directly or establishing stronger incentives for better use of resources. Such changes include:

- a move to multi-year (three year) plans for public spending at the departmental level (though not at all levels in the public sector), and full end-year flexibility (EYF), allowing departments to carry over unspent resources and any efficiency savings into later years within the settlement period;
- Public Service Agreements (PSAs), including value for money PSA targets (see Box 1.1) focused on the efficiency with which public services are delivered;
- the introduction of resource accounting and budgeting, plus Departmental Investment Strategies, which have placed an emphasis on asset management and estate rationalisation in departments; and
- the replacement of previous running cost controls by administration cost limits for government departments.

**Departmental efficiencies** 1.9 Public sector efficiency has also been driven forward over recent years by a number of individual reforms undertaken by departments and other public sector bodies. For example:

- significant investment in information and communications technology (ICT) by both central and local government in the 2002 Spending Review is streamlining the delivery of services to the public, cutting transaction costs and reducing paperwork. The Department for Work and Pensions (DWP), for example, now pays over 60 per cent of benefits directly into its customers’ bank accounts, and is on track to deliver savings of £400 million a year by 2006 as a result of this efficiency measure;
- the development of a joined-up approach to human resources (HR) back office functions within central Government facilitated by the Corporate Development Group based in the Cabinet Office. Under this initiative a network has been established to facilitate the sharing of data, the comparison of performance and the development of transformation plans;
- shared back office projects have been developed in the wider public sector such as Capita’s administration of housing benefit payments for Westminster Council in its service centre in Blackburn;

- the use of e-enabled channels for the provision of information and delivery of services to the public, such as ‘Liverpool Direct’, a joint venture company set up between Liverpool City Council and BT. Liverpool Direct includes a call centre open 24 hours a day, seven days a week, so people can contact the City Council at their convenience. The Council is also introducing new initiatives designed to introduce electronic facilities to more people and to make new technology more accessible to all;
- the use of standard proven management tools for driving up efficiency such as activity based costing in the Department for Environment, Food and Rural Affairs (Defra) and the police; and
- savings delivered by e-auctions. For example, the NHS Purchasing and Supply Agency renewed its £40 million budgeted requirement for IT hardware through an e-Auction. The successful supplier was able to offer a £12.7 million (31 per cent) saving over the prices paid in the previous contract.

### **Box 1.1: Value for money PSAs and 2004 Spending Review efficiency agreements**

Value for money PSAs have had an important role in increasing departments’ focus on efficiency in both the 2000 and 2002 Spending Reviews.

All departments are currently required to have a value for money target, most within their PSAs, focusing on improving the efficiency or value for money of a key element of its work. For example, in Spending Review 2000, the Home Office was set a target to “ensure annual efficiency gains by police forces are worth in total at least 2 per cent of overall police spending in that year”. Also in Spending Review 2000 the Treasury was set a target to “by 2002-03, deliver £1 billion of savings in government procurement through the Office of Government Commerce”. Departments report progress on value for money targets, and all PSAs set in the 2002 Spending Review, through Departmental Reports and Autumn Performance Reports.

In the 2004 Spending Review the Government has agreed with my recommendation to agree efficiency targets with departments for the period 2005-06 to 2007-08 based on proposals developed in conjunction with the Efficiency Review. These efficiency agreements, and the corresponding proposals, represent a significant development of the Government’s approach to efficiency, in that by comparison with value for money targets they:

- cover a greater proportion of total public expenditure, including spending by central and local government, NDPBs and agencies;
- are founded on evidence-based proposals (including workforce and relocation) and implementation plans which underpin overall efficiency agreements;
- implement a joined-up and cross-cutting approach to efficiency, with a clear role for the centre of Government in coordinating and supporting individual department’s proposals; and
- ensure that departments’ progress against their agreed efficiency target is transparent and the achievements are auditable.

**1.10** The proposals (both specific and cross-cutting) in this report build on existing practice in some cases and propose a step change in others. Chapter 2 describes in more detail how the Review team reviewed efficiency across the public sector within six workstreams and the proposals it developed to make improvements.

# 2

## Identifying the scope for efficiencies

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2.1 This chapter describes how the Review set about engaging with departments, the wider public sector and other interested people and organisations and developed a series of proposals for improvements in public sector efficiency. It also describes the approach taken to make an overall assessment of the scope for efficiency savings in the public sector by 2007-08.

### **EVIDENCE GATHERING AND CONSULTATION**

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2.2 Given the scale and scope of public sector spending, the Review team decided to divide its analysis into several workstreams. In doing so the team drew on its own wide experience in both the public and private sectors, and discussions with the key organisations involved. The following six main potential areas for savings were identified:

- **back office** – back office functions in the public sector provide essential support to the delivery of frontline services. Back office functions include for example: finance, human resources, information technology support, procurement services, legal services, facilities management, travel services, marketing and communications;
- **procurement** – the public sector is one of the biggest purchasers of goods and services in the economy. In 2003-04, the public sector spent over £100 billion purchasing, for example, utilities, ICT systems and services, as well as professional services, temporary labour, construction, social housing, social care, and environmental services;
- **transactional services** – for most citizens and businesses, the transactional services provided by the public sector are their most common interaction with government at both a local and national level. The transactional services undertaken by government include the payment of benefits and pensions, the collection of taxes, charges or fees (for example, income tax, TV licenses and road tax). Transactional services also include the public sector's role in the collection and exchange of information, such as the registration of births and deaths and the calculation of benefit entitlements;
- **policy, funding and regulation for the public sector** – effective strategy, evidence-based policy and focused inspection and regulation are critical to driving up performance in public services. Some parts of government therefore develop policy, provide funding to, inspect or regulate other parts of the public sector. For example, the Department for Education and Skills (DfES) develops policy for and provides funding to the education sector, while the Office for Standards in Education (OFSTED) inspects performance in schools. It is important to ensure, however, that the costs of these activities (including the consequent costs for the frontline delivery organisations) are proportionate to their added value, whilst ensuring that frontline public service providers receive the support they need and are pursuing a well designed overall strategy;

- policy, funding and regulation for the private sector – some government activity is specifically designed to impact on, or intervene in, the private sector. For example the government regulates certain industries to protect consumers' interests, or ensure compliance with regulation, for example on working conditions and environmental protection. Government also sets policy for, and funds, private sector bodies in support of wider objectives, such as productivity growth and job creation. Government interventions in the private sector need to be carefully weighed against the compliance costs that may be imposed on firms, and should seek to ensure that these interventions remain efficient and effective; and
- the productive time of front-line public service professionals both in the wider public sector, such as schools, hospitals and the police and within central government departments, NDPBs and agencies. Front-line staff are there to deliver services to the user and reducing the amount of time they spend away from these core activities is an important part of efficiency. The Review initially focused on front-line staff in schools, hospitals and police forces but concluded that its findings, described later in this chapter, applied equally to public sector staff more generally.

### 2.3 In developing the workstreams, the Review team sought to:

- base analysis where possible on existing organisational structures and flows of funds. For example, the choice of two separate workstreams on public and private sector policy funding and regulation reflected the tendency towards specialisation in one or another area by Whitehall policy departments. This approach also facilitated the collection of data from, and comparisons between, departments;
- identify generic areas of activity across all parts of the public sector, for example where those activities – such as back office functions or transactional services – tended to be managed as discrete functions within organisations, or where, as with local authority procurement, similar types of spending were being carried out by a large number of different public sector bodies. This would facilitate benchmarking and the identification of best practice within the public sector, and comparisons between the public and private sectors;
- reflect the underlying drive of the Efficiency Review to release resources to the front line. The focus on productive time of frontline professionals reflects existing initiatives to reduce bureaucracy and significant investments in workforce reform and ICT across the health, education and police sectors in the 2002 Spending Review. Similarly, the public sector policy, funding and regulation workstream, cognisant of the work being taken forward by the devolving decision making review announced in Budget 2003, focused on securing savings from a reduction in nationally set targets and more joined up funding and inspection which could be recycled within departments to the front line.

2.4 Chart 2.1 below shows how the activities of different central government departments and devolved public services provided by the wider public sector (such as schools, hospitals etc) fall within the six workstreams.

**Chart 2.1: Efficiency Review workstreams**

	Central Government	Devolved Public Services
Procurement	All central government	All devolved services
Back office (HR, Finance etc)	All central government	All devolved services
Transactional services	HMRC, DWP, DVLA	All devolved services
Public service policy, funding & regulation	DfES, DH, ODPM, HO, DCMS, DCA	Local authorities, Primary Care Trusts
Private sector policy, funding & regulation	DTI, Defra, DfT, ODPM	Local authorities
Productive time	Central government staff	Teachers, doctors, nurses, police

2.5 The Review team’s early work, conducted in Autumn 2003, involved gathering benchmark and general data on efficiency from departments, the wider public sector and industry, and developing proposals. A consultation was carried out to ensure the views of departments and other public sector bodies, as well as trades unions, industry representatives, practitioners, the voluntary sector and individual public sector employees were taken into account. A copy of the consultation document issued by the Review is included in Annex A. The Review team also arranged a series of workshops with representatives of frontline public sector delivery organisations (eg Local Authority Chief Executives, Chief Constables, Head Teachers, and Hospital Trust Chief Executives) and representatives of central departments and agencies to help develop proposals. Annex B provides further details of these exercises and the engagement of the Review more generally, including a summary of the responses received.

## INTERIM PROPOSALS

2.6 During this consultation and evidence gathering phase of the Review the team took a view on proposals for, and the overall level of, efficiency gains that might be delivered over the 2004 Spending Review period, 2005-06 to 2007-08. In developing proposals the Review team was careful to avoid any which required new primary legislation or investment in large new ICT systems because of the uncertainty this would create over the delivery of the consequent savings within the 2004 Spending Review period.

**Back office** 2.7 Drawing on observations of best practice, the Review team developed a model for the back office function comprised of three elements:

- corporate core – setting high level policies and procedures, within which efficiency can be promoted by seeking to develop “off the shelf” policies which work across the organisation, for example defining common staff reporting procedures;

## 2 Identifying the scope for efficiencies

- core expertise – active management of key strategic functions, where the focus ought to be on delivering a professional service which enhanced the efficiency and effectiveness of the organisation as a whole, for example through active sick absence management or best value strategic sourcing;
- transactional support services – replicated processes such as invoice raising, which could be made more efficient by a combination of simplification, standardisation and sharing to deliver economies of scale.

2.8 Generic reform maps were developed for finance, HR and IT back office functions (Chart 2.2 sets out the finance reform map). Using the maps, departments were invited to identify the current state of these functions within their headquarters, NDPBs and agencies and develop:

1. An effective strategy for reforming the back office through approaches including:
  - simplification and standardisation of policies and processes;
  - adoption of best practice within each function;
  - sharing transactional support services to achieve economies of scale through clustering with other central government bodies;
2. A benefit realisation plan to ensure that the reform plan was fully achieved, that costs were driven out as quickly as possible and that reformed back office functions were both efficient and effective.

Chart 2.2: Generic reform map for finance functions

	Prepare	Consolidate	Transform	Improve
Corporate Core	<ul style="list-style-type: none"> <li>• Rationalise staffing requirements</li> <li>• Simplify policies</li> </ul>	<ul style="list-style-type: none"> <li>• Professionalised Chief Finance Officer group</li> <li>• Transactional performance standards in place</li> <li>• Standard Accounting Policies in place</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Information Systems standardised on an up-to-date platform (eg Oracle 11i)</li> </ul>	
Core Expertise	<ul style="list-style-type: none"> <li>• Rationalise staffing requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Core and transactional activities split</li> <li>• Expertise-based activities focused on risk management and decision-support</li> <li>• Vendor management in place</li> </ul>	<ul style="list-style-type: none"> <li>• Expertise-based activities consolidated (eg management accounting)</li> </ul>	
Transactional	<ul style="list-style-type: none"> <li>• Rationalise staffing requirements</li> <li>• Site rationalisation</li> <li>• Simplify processes</li> </ul>	<ul style="list-style-type: none"> <li>• High volume transactional activities (eg Accounts Payable) consolidated into shared service centres</li> <li>• Co-sourcing or Outsourcing employed</li> </ul>	<ul style="list-style-type: none"> <li>• Lower volume transactional activities consolidated</li> <li>• Scope of co-sourcing/outsourcing increased</li> <li>• Processes re-designed to exploit self-service (eg purchase order authorisation)</li> </ul>	<ul style="list-style-type: none"> <li>• Transactional performance ‘bar’ progressively raised</li> </ul>

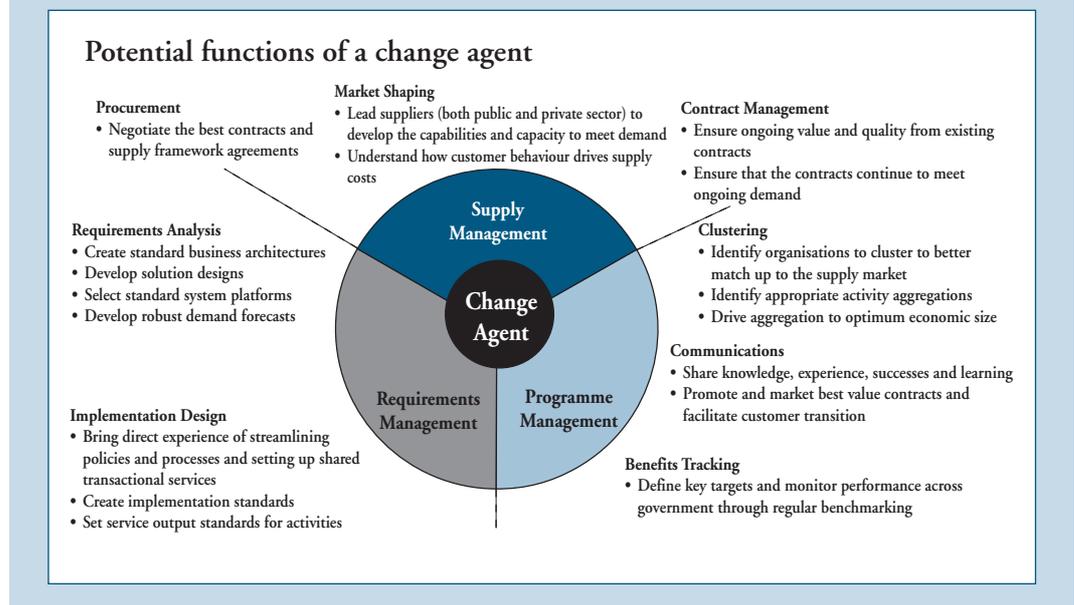
2.9 To promote this process the Review team proposed the creation of a back office change agent to assist departments in achieving reform. The change agent would be primarily facilitative in character and focus on programme management (continuing the work of the Review to help departments develop their reform plans against an overall reform map), requirements management (assisting for example with the design of common benchmarking criteria) and supply management (helping departments identify delivery options consistent with the objective of releasing resources to the frontline including sharing services and the potential for outsourcing). Box 2.1 below sets out the effective role that change agents for reform of back office and other functions could perform.

**Box 2.1: Change agents**

The Review team proposed that departments receive further specialist support from change agents on the implementation of certain aspects of their efficiency programmes, in particular in relation to the back office, transactional services and procurement. Change agents will be teams of people who have experience of delivering change in the areas covered by the workstreams of the Efficiency Review. Change agents will help in particular by:

- providing expertise to enable departments to realise the full savings potential in their area of focus;
- delivering incremental savings through identifying cross-departmental collaborative opportunities that would not otherwise be captured; and
- delivering savings earlier than would be possible merely using departmental resources and skills.

The chart below sets out the range of functions that a change agent could perform.



**Procurement 2.10** In considering the scope for savings in procurement the Review team decided to analyse public sector spending of over £100 billion a year by a number of key markets. Those identified were: construction and facilities management of buildings, social housing, commodity goods, social care, environmental services, highways, defence, police, education and health-specific procurement. The Review team looked at the relevant key characteristics of these markets including as appropriate: size and planned growth of the supply and demand side; past and likely future price trends; the degree of fragmentation of overall public sector purchasing; the degree of professionalisation and involvement of the procurement function; the degree to which the market

was effectively being managed, for example to ensure efficient supply chain management; and the make-up of the supplier base.

**2.11** While the Review team identified examples of good practice (see Box 2.2 below) it concluded that in general significant scope exists for delivering procurement savings in particular through:

- better supply side management: seeking to communicate and manage likely aggregate public sector demand in a strategic way with the supply sector, thereby enabling the supply side better to anticipate and plan for shifts in public sector demand; and
- further professionalisation of the procurement function within the public sector through either use of shared procurement models, or the enhancement of procurement skills.

### **Box 2.2: Procurement best practice – The OGC and NHS**

The Government established the Office of Government Commerce (OGC) in 2000 to lead a programme to reform procurement in Central Civil Government (CCG). The department has successfully delivered value for money gains of £1.6 billion in its first three years, by a number of measures, including:

- helping individual departments to negotiate improved deals with suppliers;
- aggregating demand through centrally awarded call-off contracts or through helping certain departments to act as lead buyers for a group of departments;
- process/transactional gains (for example, improved information systems and use of procurement cards); and
- improved project, contract and asset management.

Looking forward, the OGC is committed to achieving £3 billion in value for money gains in the three years to 2005-06, of which around one half will come from the Gateway Review process, which requires independent assessment of projects and programmes at key points in their life-cycles.

The NHS needs additional capacity to treat more patients and improve the delivery of healthcare. The private sector in the UK has capacity but traditionally this has been purchased by the NHS at a high cost through spot-purchasing type arrangements. While the spot market option has been helpful for small numbers of procedures it is not a sustainable or affordable option for large scale capacity requirements.

In order to develop a new market for quality and efficient private sector capacity in the UK, the Department of Health invited bids for new independent sector treatment centres (IS-TC), and invested time and effort in persuading overseas providers who have experience of providing such services in similar markets to submit bids.

A mark of the success of the programme is the impact it has had on the incumbent market where there is evidence that UK providers are reviewing their business strategies and shifting their attitudes. Prior to the IS-TC programme the NHS was purchasing spare capacity from the private sector at rates which were 40 to 45 per cent above NHS tariff rates for the same procedures. Under the IS-TC programme and subsequent, nationally co-ordinated procurements, the price of procedures from the private sector has fallen significantly.

**2.12** The need for greater professionalisation in public sector procurement was recently highlighted in the National Audit Office's (NAO) report on Central Civil Government procurement<sup>1</sup> which found that: most procurement is not carried out by designated procurement staff; procurement staff are often consulted too late in the procurement process, and the majority of procurement staff do not hold professional qualifications. Earlier, the Audit Commission's report on Competitive Procurement<sup>2</sup> noted in 2002 that only around one-quarter of councils had specific arrangements in place to enhance their procurement skills and their ability to make the best use of competition, while Sir Ian Byatt's review of local government procurement<sup>3</sup> in 2001 noted that local authorities lacked enough people of the right skills to implement a programme of radical improvement in their procurement function.

**2.13** The Review team proposed to address these issues by: working with departments to promulgate successful examples of enhanced supply sector management and encourage use of shared procurement models such as framework contracts or regional purchasing consortia; encouraging departments further to enhance procurement expertise; working with departments with policy leads for particular sectors – for example the Department of Health (DH) in relation to social care and Defra for environmental services – to facilitate savings in partnership with the wider public sector; and the establishment of change agents to help address issues such as fragmentation of the demand side, lack of a market overview including availability of overall market data, and little strategic supply chain management.

**2.14** The team proposed that departments consider:

- the potential to make savings for the market segments relevant to them;
- the potential for the use of change agents as described above;
- possible incentive structures for encouraging devolved delivery bodies to participate in shared procurement models where they can provide superior value for money over existing arrangements; and
- the scope to make better use of scarce existing in-house professional commissioning and procurement resources, for example through shared procurement models such as regional purchasing consortia.

**Transactional services** **2.15** The Review team looked across transactional services delivered by: central Government departments (such as DWP, the Inland Revenue and HM Customs and Excise); and local government (for example the payment of Housing Benefit by local authorities). Its key interim findings included that:

- in line with the e-Government agenda to make all service available electronically by 2005 these services have enjoyed significant levels of new investment in recent years. As the Chancellor noted in his 2004 budget speech £6 billion has been invested in the 2000 and 2002 Spending Reviews in modern technology (Box 2.3 describes one example); however:

<sup>1</sup> "Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively", NAO, March 2004

<sup>2</sup> "Competitive Procurement", Audit Commission, March 2002

<sup>3</sup> "Devolving Better Services for Citizens: A review of local government procurement in England", Sir Ian Byatt, June 2001

- relatively little emphasis has been given to the efficiencies that could be delivered by realising the full benefit of these investments in seeking to migrate particular customer segments to new channels, or by restructuring internal processes to reduce time spent on paper handling, data entry and correction; and
- significant duplication exists, for example across organisations in relation to payment of housing benefits, or in the multiplicity of contacts between a single person or business and different government agencies resulting in inefficiencies to both the private and public sectors.

### **Box 2.3: DWP's Payment Modernisation Programme**

DWP has around 20 million customers, over half of whom are pensioners. In 2002-03 the department issued over 840 million payments, including Child Benefit. From April 2003, the Payment Modernisation Programme began to move over 14 million customers paid by expensive and outdated paper-based methods of payment onto direct payment into bank accounts and the Post Office Card Account.

Ongoing savings of around £400 million a year will be realised when the programme is complete. To illustrate, a transaction (normally paper based) to pay benefits in cash costs on average around £1, whilst direct payment into a normal bank account costs around two pence per transaction. As well as improving efficiency, this Payment Modernisation Programme supports the department's wider objectives, for example by ensuring a safe and convenient way of paying benefits to its customers and by reducing payment fraud.

By May 2004, 65 per cent of DWP's customers were being paid all their benefit entitlements by direct payment, and the department is aiming to raise this figure to 85 per cent by December 2005.

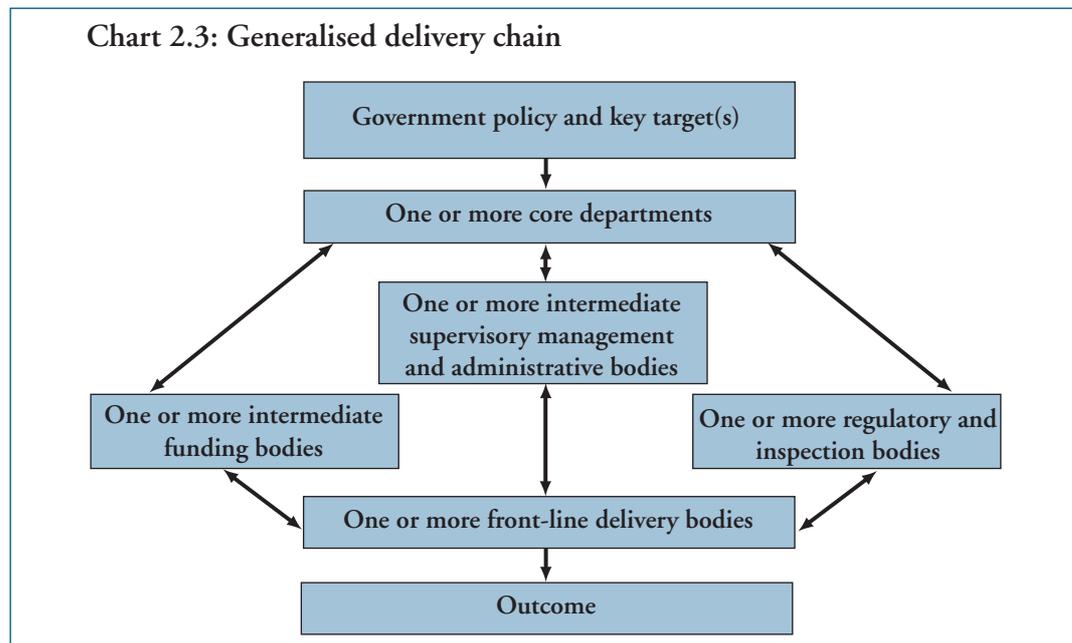
**2.16** The Review team concluded that significant efficiencies could be delivered by helping the public sector to address these issues, working for example with the Inland Revenue and HM Customs and Excise to enhance plans to help move certain customer segments fully to e-enabled channels, and with Companies House to achieve similar objectives in relation to company registration and other services. In addition, it proposed the establishment of a transactional services change agent to continue the Review's work in supporting departments as they develop and implement strategies to secure these efficiencies.

**2.17** The Review team proposed that relevant departments respond to this analysis by reviewing and reconsidering, with a view to delivering savings in the 2004 Spending Review period:

1. Existing investment in e-government and other new channels in the 2000 and 2002 Spending Review periods, planned benefits from that investment, and returns realised to date; and
2. Their proposed strategy for segmenting customer groups and interfacing with each group appropriately, including for example:
  - plans to adopt best practice within each channel for interaction with the public and businesses – such as increased automation of call centres, better targeted deployment of face-to-face contacts and improvements to web services;

- their strategy for greater usage of public, private and voluntary sector intermediaries; and
- proposals to ensure that socially disadvantaged groups continued to have full access to such services.

**Public sector policy, funding and regulation** 2.18 A significant majority of public services are delivered by devolved, autonomous or independent bodies (eg schools, local authorities, hospitals, police, voluntary sector). Because these bodies are locally based and/or funded in all or in part by taxpayers, their activities are subject to varying degrees of involvement by the centre – by policy, through funding mechanisms, or by regulation and inspection of their effectiveness and efficiency. A helpful concept to understand the potential complexity of public sector policy funding and regulation is the ‘delivery chain’. Chart 2.3 sets out a generalised delivery chain.



2.19 The Review team examined those parts of the public sector responsible for policy, funding and regulation (PFR) activities and considered whether:

- all such functions did in fact add value (and where they did not, could therefore be discontinued and release resources);
- the level of resources allocated to PFR functions could be reduced through more efficient working and interaction with local delivery bodies; and
- the burden of PFR could be reduced on front line delivery bodies and the voluntary sector so they could devote more of their own resources to service delivery.

**2.20** In doing so, the Review team looked at the potential for savings from a reduction in nationally set targets, particularly those not related to the key national priorities set in PSAs, as proposed by the Treasury and Cabinet Office's review of devolved decision making<sup>4</sup>. The team also benchmarked the level of resources devoted to PFR activities; and considered the potential for applying across the board the savings within corporate headquarters already being delivered by some departments. Evidence from workshops and consultation suggested that there was significant scope for greater efficiency in these areas. For example, one delivery organisation noted that they had to bid for funding from over 40 separate funding streams, each with their own rules and conditions. Another noted that it had been subjected to over 30 separate inspections in one year.

**2.21** The Review team proposed that, as a next stage, departments consider the potential to make savings in PFR spending, focussing initially on savings within their existing headquarters budgets (covering the core department, its agencies and NDPBs), but also considering savings which could be made in PFR activities in the wider public sector, looking at any implications for organisational structures.

### Private sector policy, funding and regulation

**2.22** The public sector devotes considerable resource in support of public policy objectives in relation to the private sector (such as maintenance of fair markets, consumer protection, and environmental protection), employing staff across several hundred organisations. The Review team considered how savings could be made in private PFR by:

- developing a more holistic, risk-based approach to regulation and delivery, exploiting economies of scale, for example through rationalisation of delivery bodies as proposed by Lord Haskins in his report on modernising rural delivery<sup>5</sup>;
- reshaping the policy making function in departments carrying out private PFR, enhancing the use of scarce professional resources, achieving efficiencies in the functioning of the interface between different policy functions, and between policy and delivery; and
- improving the quality of support to the private sector through better targeted business support and scientific research.

**2.23** As a next step, the Review team proposed that departments map their existing private PFR functions and consider the potential for savings in particular through:

- simplification of the delivery landscape, e.g. removal of duplication, merging, alignment with common customer groups;
- change in regulatory/compliance regimes and strategies for assessing and implementing this;
- an improved and more flexible central model for policy making; and
- better management information on PFR costs which could inform policy and operational decision making, e.g. ongoing measurement of resource committed by activity using activity based costing.

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<sup>4</sup>“Devolving Decision Making: 1 – Delivering better public services: refining targets and performance management”, HM Treasury and Cabinet Office, March 2004

<sup>5</sup>“Rural Delivery: A report on the delivery of government policies in rural England”, Christopher Haskins, October 2003

**Productive time** 2.24 Just over £50 billion is spent annually on the salaries of employees in the police, schools and health service. Public sector salaries as a whole amount to some £120 billion. Freeing those staff from time spent on unproductive tasks could increase public sector outputs considerably. The Review team considered, and proposed departments come forward with, savings against three ways in which the productive time of frontline staff, and public sector staff more generally, could be enhanced by:

- realising the benefits of workforce reforms in which the Government is making significant investment. Workforce levels in support of frontline professionals are increasing, for example through the provision of bursars, administrative assistants and classroom assistants in schools, and similar developments in the police. New contractual arrangements, such as the NHS consultant contract, envisage a more balanced approach to the provision of services across staff with complementary skill sets. These reforms can produce significant improvements in the productive time of frontline staff;
- realising the benefits of ICT investment. The Government has committed some £4.5 billion to investments to modernise the delivery of services in police, schools and the health service. These investments offer great potential for enhanced frontline delivery through for example reducing the time spent by professionals in accessing and handling information. The new patient record system being introduced in the NHS is one such example; and
- process reform, modernisation and sharing of best practice. Opportunities exist for the reshaping of organisations and practices to enhance the productivity of frontline professionals, such as the use of day surgery as the norm for elective surgery in the health service. There are also opportunities to improve sickness absence management and staff turnover rates, where these are high, for example by reducing disparities in performance across similar organisations in, or between different parts of, the public sector.

**Relocation** 2.25 At this stage the Review team also took note of the emerging recommendations of Sir Michael Lyons' review of public sector relocation<sup>6</sup>, which found that:

- moving posts away from London and the South East can deliver efficiency gains through lower property costs, reduced staff turnover and more effective service delivery; and
- relocation can provide a spur to the adoption of new business practices, processes and technology, as well as improvements in organisational culture.

Departments were therefore encouraged to develop their relocation plans in close parallel with their work for the Efficiency Review.

<sup>6</sup> "Well placed to deliver? – Shaping the pattern of Government service", Sir Michael Lyons, March 2004

### ASSESSING THE POTENTIAL FOR EFFICIENCIES

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2.26 Having developed generic proposals within each of the workstreams, the Review team made an initial assessment in December 2003 of the potential scale of savings that could be delivered in 2007-8, approximately £15 to £20 billion, and the gross number of posts within the Civil Service and military personnel in administrative and support roles which could be saved (up to 80,000 posts) by 2007-08 if these proposals were implemented. This analysis considered such factors as:

- the scale of saving which could be made by benchmarking performance on key activities across comparable delivery organisations and bringing average performance up to the current best in class within a limited period of time. Such an approach could be particularly powerful in looking at generic functions such as the back office or broader PFR activities across the public sector;
- evidence from existing best practice on efficiency. For example, the OGC reported £1.6 billion value for money gains, against a target of £1 billion, through Central Civil Government (CCG) procurement in the 2000 Spending Review period, with a target rising to £3 billion for the 2002 Spending Review period. This is being achieved through the introduction of new processes, guidance and techniques including Gateway reviews of projects and programmes, an increase in the use of collaborative deals and the introduction of e-auctions and other e-procurement tools; and
- the scale of investments made in ICT in the 2002 Spending Review period and the potential for this to generate savings in productive time and transactional services by securing pay-back within a limited period.

2.27 On the basis of the analysis described in this chapter I made an interim recommendation to the Prime Minister and Chancellor in December 2003 that the Review team should pursue its work by:

- asking departments to consider the proposals outlined above and respond with their own further analysis and proposals;
- reviewing departments' own proposals to deliver efficiencies and examining the potential for improvement to those plans;
- considering other generic changes which might be made to departmental practices and incentives to promote a culture of efficiency and facilitate the delivery of proposed efficiency savings; and
- developing further proposals for change agents.

2.28 Chapter 3 explains how the Review team took forward the first three parts of this agenda, describes the more refined proposals developed in partnership with departments, and cross-cutting recommendations to improve efficiency. Chapter 4 sets out agreed efficiency targets for government departments, describes further proposals for change agents and summarises the steps the Government has agreed to take to implement cross-cutting measures (further details of which are published in the 2004 Spending Review).

# 3

## Developing departmental efficiency proposals

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3.1 This chapter describes how, as a result of working closely with the Review and other stakeholders, and in response to a target announced in Budget 2004, departments have brought forward efficiency proposals that reflect the six workstream areas, plus a number of further proposals in other areas. A description of the efficiency programmes being pursued by each department is set out in Annex C.

### **WORKING WITH THE EFFICIENCY REVIEW**

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3.2 Following the development of its interim proposals, and in order to begin the process of departments' taking ownership of their own proposals, the Review team refocused its work around bilateral engagements with departments. Departments were asked to consider the Review's interim recommendations by workstream according to their particular circumstances, and put forward specific proposals to deliver efficiencies both in areas the Review had identified and in any others they considered capable of delivering efficiencies. Where appropriate (for example in the case of local authority expenditure) multilateral discussions took place between several departments and representatives of the wider public sector, including for example the Local Government Association (LGA), the Association of Chief Police Officers (ACPO) and the Efficiency Review team. Emerging departmental proposals were subject to scrutiny and feedback by the Review team, supported by independent input from senior-level experts, including members of HM Treasury's Public Services Productivity Panel and associates of the Prime Minister's Delivery Unit (PMDU).

#### **The public sector efficiency target**

3.3 In light of the Review team's scrutiny of initial departmental proposals, which confirmed its interim assessment of the potential for efficiency savings referred to in the previous chapter, as well as a judgement of how far efficiencies could be driven without impacting on the delivery of public services and PSA targets, the Chancellor announced in Budget 2004 that the Government was "setting a stretching but realistic target for the whole public sector to deliver efficiencies of 2.5 per cent a year over the three years of the 2004 Spending Review period which would deliver gains equivalent to £20 billion a year by 2007-08". Box 3.1 summarises this and other announcements on efficiency made in Budget 2004.

### Box 3.1: Efficiency in Budget 2004

Budget 2004 made announcements in relation to efficiency, including:

- a target to deliver £20 billion of annual efficiency gains by 2007-08, through a 2.5 per cent a year efficiency target for the whole public sector;
- that the 2004 Spending Review would cap the administration costs of all departments at or below the 2005-06 nominal level. This would reduce central government running costs as a proportion of total spending to a record low;
- that Departmental Expenditure Limits (DELs) for 2006-07 and 2007-08 had been set for DWP and would be held constant at 2005-06 nominal levels;
- that administration expenditure for 2006-07 and 2007-08 had been set for HM Treasury and the new tax department, and would be held constant at 2005-06 nominal levels;
- the integration of HM Customs and Excise and Inland Revenue which, along with existing plans and proposed efficiency reforms, would create scope for the reduction of 14,000 posts by the end of 2007-08. On the basis of policy commitments and existing spend to save packages this would result in a net reduction equivalent to 10,500 posts by 2008;
- that DWP planned to make gross efficiency gains equivalent to 40,000 posts between Budget 2004 and 2008, and re-invest some of the savings in meeting significant increases in its own frontline workload such as additional work-focussed interviews. This would result in a net reduction equivalent to 30,000 posts by 2008; and
- that DFES had agreed to a fall in nominal administration costs over the 2004 Spending Review period, and the department had started a major restructuring – including a 31 per cent reduction in its headquarters workforce.

## DEPARTMENTAL EFFICIENCY PROGRAMMES

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3.4 Departments were asked to take account of the budget announcement and scrutiny feedback in preparing their submissions to the Spending Review setting out their own efficiency proposals. The Efficiency Review team assessed departmental proposals against a number of criteria to determine whether they:

- **delivered as a minimum 2.5 per cent annual efficiency gains across the 2004 Spending Review period.** Departments' baselines were assessed as departmental DEL plus additional local government spending outside DEL, for example local expenditure on highways maintenance in the case of the Department for Transport (DfT), or expenditure on waste collection and disposal for Defra;
- **were protected by contingencies to guard against slippage and risk.** Departments were asked to consider the risk associated with their proposals, and accordingly to make proposals to help assure delivery of the 2.5 per cent target;
- **exceeded the minimum 2.5 per cent where the potential to go further existed.** For example the efficiency programmes in this report for the Home Office (HO) and the Department of Health (DH) exceed the 2.5 per cent minimum;
- **were transparent and auditable.** The team was particularly concerned to ensure that departments' proposals could be measured and amounted to real efficiencies rather than cuts in service provision, or simple transfer of responsibility for financing. For example I decided to disallow certain proposals for co-financing as efficiencies;

- **were accompanied by high level implementation proposals.** The Review team judged the reality of proposals on the basis of whether leadership and change management teams had been identified; and
- **delivered a high proportion of ‘recyclable’ savings.** Given the purpose of the review of releasing resources to the front line, it was critical that a high proportion of departments’ efficiency proposals either release resources to be recycled to front-line services, or represent (as in the productive time of front-line staff) a direct increase in service output.

3.5 In aggregate, and taking account of contingency for risks and slippage, departments have brought forward plans to achieve annual efficiencies in excess of £20 billion in 2007-08. Of these annual savings, over 60 per cent are cash-releasing, some £6.45 billion will be found within local government expenditure and a similar amount in health spending. Other significant efficiencies are planned in education and defence. Departmental efficiency proposals also include plans to achieve a gross reduction in civil service posts and military personnel in administrative and support roles of over 84,000 by 2007-08. Departments are further committed, in line with the recommendations of Sir Michael Lyons’ review of public sector relocation, to relocate an additional 20,000 posts out of London and the South East by 2010.

3.6 Departmental efficiency programmes include a range of proposals reflecting the Efficiency Review workstreams and the recommendations of Sir Michael Lyons’ review. The following paragraphs set out some of these departmental plans.

**Back office** 3.7 Departmental programmes for the back office services address reform in functional areas such as HR, finance and IT, and in particular the transactional element of these functions. The majority of departments are focussing on simplifying and standardising business processes as prerequisites for the implementation of any subsequent steps to share or outsource services across the public sector.

3.8 For example, DH intends to ensure that, where possible, NHS organisations, particularly in primary care, can share and rationalise back office services, such as finance, ICT and human resources. There will be a reduction within the Ministry of Defence (MOD) in the numbers of civilians, and military personnel in administrative and support roles, by over 15,000 and annual savings of over £300 million in its back office through rationalisation and business change. The Foreign and Commonwealth Office (FCO) plans to rationalise its back office functions, principally from its Human Resources and Finance Directorates, and reduce the overall pay bill over the 2004 Spending Review period, contributing to around a quarter of its total efficiencies.

3.9 The Northern Ireland Office (NIO) plans to rationalise functions, including human resources, ICT, office services, policy and corporate services in the core department and all the bodies that it funds, and restructure and streamline its headquarters directorates, contributing in total £12 million of efficiency gains. The Department for Culture, Media and Sport (DCMS) plans to secure efficiency gains of at least £115 million from the department and its sponsored bodies, through an efficiency programme which will include rationalising the back office functions and accommodation of sponsored bodies, and sharing specialist services such as ticket booking, art storage and transport, while protecting and enhancing front-line services.

**Transactional services** 3.10 Departments responsible for the delivery of transactional services have put forward a range of proposals to deliver efficiencies through the migration of appropriate customer groups towards more cost effective channels such as web-based interfaces and call centres. These proposals should deliver the realisation of benefits from investments agreed in this and the 2002 Spending Reviews.

3.11 Proposals include the delivery of £70 million of efficiencies a year through transactional services and other areas within the DfT's Driver, Vehicle and Operator (DVO) Group. Modernising transactional processes within DWP will deliver around a third of its cumulative efficiency gains by 2007-08. HM Revenue and Customs intends to develop further electronic channels so that customers can seek the information they need and discharge their responsibilities under the tax systems in ways which are more convenient for them and more cost-effective for government, such as filing tax returns on line. The savings that will arise from this will contribute significantly to a reduction in departmental civil servants by 12,500 net and 16,000 gross by 2007-08, including a further 2,000 reductions above those announced in Budget 2004.

**Procurement** 3.12 Departments have developed a series of innovative proposals on procurement. In local government, the Department for Environment, Food and Rural Affairs (Defra) has committed to supporting an improved approach to waste collection and disposal that should not only improve efficiency but support local authorities to meet challenging new environmental targets. Following the principles of Sir Christopher Kelly's report on the management of public sector procurement markets<sup>1</sup>, DH has appointed their Commercial Director to lead on developing new ways to collaborate with the suppliers of social care services to improve efficiency and service delivery. DH also plans to make better use of NHS buying power at a national level to get better value for money in the procurement of healthcare, facilities management and medical supplies.

3.13 The Office of the Deputy Prime Minister (ODPM) has identified four areas for focus to transform the provision and management of social housing that will reduce costs and improve the condition of the stock. For example, it has identified a successful model for delivering efficiencies in the procurement of housing repairs work. *Fusion 21*, a Merseyside based partnership, is delivering savings of 25 to 30 per cent on the cost of materials for repairs and an overall net saving of some 7.5 per cent on the cost of repairs projects for its members. ODPM proposes to roll out a national network of local collective purchasing consortia based on the *Fusion 21* model.

3.14 The MOD plan to generate annual efficiency gains of over £1 billion in logistics and procurement (excluding procurement of military equipment by the Defence Procurement Agency) by modernising business processes. Finally, DfT plans to lead a project to improve roads procurement in local authorities through the application of Highways Agency expertise, to deliver efficiencies of £190 million a year, and more in later years.

**Policy, funding and regulation** 3.15 Departments have considered how to make efficiencies in both public and private policy, funding and regulation activity across a broad range of services. Without jeopardising their ability to deliver these functions, departments have identified significant efficiencies in these areas, including reductions in posts within departmental headquarters (such as in HO, DfES and DH) as well as savings from the rationalisation of delivery functions and inspection activities.

3.16 For example, Defra plans, by 2007-08, to rationalise delivery functions following the Haskins Review – realising efficiency gains through the Modernising Rural Delivery Plan (£13 million) and the England Rural Development IT Programme (£30 million). The Department of Trade and Industry (DTI) plans to deliver around 80 per cent of its total efficiency gains, principally by increasing the effectiveness of DTI's business support products and securing efficiency gains within the science budget. DTI will also secure recyclable savings from its agencies and non-departmental public bodies. Savings in Regional Development Agencies are planned to deliver £139 million by 2007-08, at least half of which will be cash releasing back into the Single Pot, which brings together allocations from all the departments that fund them.

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<sup>1</sup> "Increasing Capacity and Improving Long Term Capacity Planning in the Government Marketplace", Sir Christopher Kelly, December 2003.

3.17 Within the Criminal Justice Departments there are plans to achieve a total reduction in the size of the Home Office headquarters equivalent to 2,700 full time posts. This will include reductions of 1,170 posts in the National Offender Management Service (NOMS) and the Immigration and Nationality Directorate (IND) headquarters. The Department for Constitutional Affairs (DCA), including Her Majesty's Court Service (HMCS) will also cut 1,100 civil service posts. DfES plans to reduce the total number of its civil service posts by 1,960, and be on course to relocate around 800 posts from DfES and its partner organisations out of London and the South East by 2010. DfES further intends to streamline the delivery system for each education sector through improvements in PFR such as the lighter touch process for OFSTED inspection, streamlined data collection and reduced reporting and monitoring requirements introduced in the New Relationship with schools. In addition to plans announced last year to reduce the number of its civil service posts by 720, DH will reduce the staffing of its arms-length bodies by around 5,000.

**Productive time** 3.18 Departments have proposed substantial efficiencies in the productive time of front-line professionals, realising the benefits of investments in ICT committed in the 2002 Spending Review, workforce reform and initiatives to spread best practice, for example in the Health Service.

3.19 For instance, the Department of Health plan to make better use of staff time (accounting for up to half of its efficiencies), for example through the implementation of a modern ICT infrastructure for the NHS. Electronic patient records, appointment booking and prescription transfer will mean less wasted time spent checking patient information, fewer letters to type and send, and no lost prescriptions. The Home Office, working with the Association of Chief Police Officers (ACPO), is aiming to increase time spent on front-line policing, realising the benefits, for example, of *Airwave* – the new police digital radio system – and maximising the effective use of support staff. DfES also has plans to enable front-line professionals in schools, colleges and higher education to use their time more productively through, for example, the use of ICT investments.

**Relocation** 3.20 In addition to the work of the Efficiency Review, departmental efficiency plans also include relocation proposals. The plans have been informed by the recommendations of Sir Michael Lyons' independent review of public sector relocation, which found that relocation of public sector activities away from London and the South East can enhance the efficient delivery of government and generate benefits for regional economies. Consistent with Sir Michael's recommendations, departments are committed to the relocation of 20,000 posts away from London and the South East by 2010, with at least half planned for completion by 2007-08.

**Further efficiency** 3.21 In addition to finding savings within the workstreams identified by the Efficiency and Lyons Reviews, departments have come forward with a series of other proposals. For example, DfES plans to improve financial management in schools through the increased usage of financial benchmarking information and dissemination of best practice. The Department for International Development (DFID) plans to increase the percentage of bilateral programme spending going to Budget Support from 44 per cent to 53 per cent. Research shows that budgetary support provided as part of partner government Poverty Reduction Strategies is a significantly more effective form of aid.

## CROSS-CUTTING ISSUES

3.22 During the Review I have also identified a number of systemic issues where action should be taken to support the delivery of departmental efficiency plans and promote a culture of efficiency more generally in the public sector.

**Financial management** 3.23 Strong financial management is essential to the efficient use of resources and a pre-requisite to the successful delivery of major efficiency programmes. This reflects not only best practice in the private sector and wider public sector, but also the best-in-class practice that the Efficiency Review has seen in a small number of departments. As a priority, I recommend that the financial management of government departments be strengthened by making it a requirement that all departments should have professional Finance Directors<sup>2</sup> reporting to the Permanent Secretary with a seat on the departmental board at a level equivalent to other board members by December 2006. All the evidence the Review team has seen confirms that such appointments provide, inter alia, leadership of the efficiency agenda, strong internal challenge to the department's businesses (budget holders, agencies, NDPBs etc) and a catalyst for driving change. I would also support additional measures within government to assess and enhance its financial management capacity.

**Procurement** 3.24 Significant progress remains to be made across several key aspects of public sector procurement:

- strategic management of major supply markets is not well established and consequently there is an underdeveloped understanding of factors such as the impact of new policies on the supply side, dynamics and characteristics of the supply markets, and the efficiency of these markets;
- departments with major procurement spends – either direct or indirect through their agencies and NDPBs – often lack strategic visibility of and influence over the totality of the spend, and do not provide functional leadership to procurement and commercial staff in agencies and NDPBs;
- too much public procurement is undertaken without professional support which results in sub-optimal value for money and unnecessarily high prices being paid for goods, works and services; and
- there is little evidence that the procurement of professional services (for example consultancy, legal services, financial advisory services) is managed to ensure value for money. This is a rapidly growing area of spend – for example, data published by the Management Consultancies Association (whose members represent an estimated 60 per cent of the UK consultancy market) earlier this year indicates that fee income from the public sector in 2003 was almost twice that of the previous year.

3.25 In light of these considerations I recommend that all departments consider, and agree with OGC by December 2004, how to:

- i. improve the value for money of direct and indirect procurement activity across the core department, agencies, NDPBs and areas of local authority spend within their efficiency baseline, through enhanced scrutiny, monitoring and accountability arrangements;

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<sup>2</sup>The term professional Finance Director in this context means *both* being a qualified member of one of the six bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland (Chartered Institute of Public Finance and Accountancy, The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accounts in Ireland, Chartered Institute of Management Accountants, The Association of Chartered Certified Accountants), or having equivalent professional skills and/or qualifications, *and* having relevant prior experience of financial management in either the private or the public sector. Note these are the same professional bodies that Local Government recognise in the appointment of their finance directors as required under the 1988 Local Government Finance Act.

- ii. enhance their procurement capacity by improving leadership and professional skills together with the strong, consistent application of best-practice tools and techniques across their expenditure;
- iii. improve the strategic management of key supply markets, including the provision of demand information and engagement with suppliers, by providing functional leadership across areas of spend in (i), through faster implementation of the recommendations of Sir Christopher Kelly's review, and by having an effective focus that enables wider government policy (for example, innovation and SMEs) to be advanced through public procurement;
- iv. in relation to (ii) ensure all procurement in those public sector bodies that they fund is conducted either (a) via a process (for example a framework agreement, catalogue, or procurement card) that has been put in place by a procurement professional; or (b) has the direct support of procurement professionals; and
- v. pursue improvements in the value for money of all procurement of external professional services, ensuring that costs are scored against administration budgets where it is appropriate to do so, putting in place strong controls on the engagement of external service providers, and ensuring public visibility of expenditure on these services (for example in departmental reports).

**Modernising transactional services** 3.26 There is a need for reinforcement of planning and implementation processes to achieve high levels of take-up of e-enabled transactional services by appropriate customer groups. There should be greater awareness of the needs of different customer groups as well as greater understanding the costs of serving customers via different channels, and an emphasis on determining the appropriate balance between encouraging, incentivising and mandating use of these services. There should also be more focus on the delivery of services through public sector service delivery platforms such as the *Directgov* and *BusinessLinks* websites.

3.27 In order to strengthen the effectiveness of investment in transactional services, I have recommended that the Treasury and the e-Government Unit (eGU) issue a benchmark standard for high quality strategies to ensure that new electronic services and channels get high levels of take-up. This should include realising the potential of e-government to provide joined-up services across government and improve service delivery by involving third parties. Departments should provide these take-up strategies by December 2004 for all of their key e-services, and any other existing or new services that are expected to deliver efficiencies. Furthermore, the eGU should identify and prioritise cross-cutting opportunities and barriers emanating from the Efficiency Review and produce delivery roadmaps for each.

**Efficiency delivery** 3.28 Budget 2004 announced the initial measures for taking forward the efficiency agenda. These are necessary but need to be complemented by additional measures if efficiency is to be embedded in the fabric of the public sector. I therefore recommend that:

- efficiency targets should be agreed with departments in advance of the Spending Review settlements;
- to ensure that efficiency is raised throughout the public sector, and to create incentives for further efficiency gains, departments should seek to cascade their three year settlement down to all those public sector bodies that they fund to the maximum extent possible. Where this is not possible, departments should consider what other incentives could be used to encourage recipients to generate savings in excess of those required to meet annual budgets. Departments should agree with the Treasury the nature and depth of cascading by December 2004;

- the Treasury should consider the role audit committees can play in helping management focus on the efficient use of resources and promulgate appropriate guidance;
- the Treasury should reach agreement on the roles of key public sector audit bodies in respect of the efficiency agenda;
- the Treasury should ensure with the relevant departments that, wherever public sector entities or the voluntary sector are subject to audit/regulation/inspection by multiple bodies, there is clarity as to which of these bodies leads on efficiency matters so that the entities are subject to coherent (rather than uncoordinated) external pressure;
- the Treasury should review the application of, and classification against, administration costs limits to ensure that, where these are applied with the intention of driving out efficiency, they do not result in cuts to outputs of key front-line services, such as immigration, security and other front-line public services undertaken by civil servants; and
- similar to the role played by the PMDU in ensuring PSA delivery, close performance monitoring and reporting should be undertaken to support the Government's efficiency programme.

**Delivery chains** 3.29 Work on the policy funding and regulation workstreams during the Efficiency Review identified that departments in general have an insufficient understanding of the efficiency (and effectiveness) of key delivery chains. Departments should undertake robust holistic scrutiny of priority delivery chains where either delivery of key outcomes are not meeting targets or the costs of the chain are disproportionately high compared to the value added. An example is the Defra landscape review, completed in October 2002, which prompted the Haskins review of rural delivery.

**Voluntary and community sector** 3.30 In light of discussions with representatives of the voluntary and community sector (VCS) and departments I recommend the Government improves its funding relationship with the VCS by:

- improving stability by moving to longer-term, multi-year funding arrangements where possible;
- considering carefully the appropriate assignment of risk between the statutory body and the voluntary and community organisation when contracting for service provision;
- making further progress towards full acceptance of the principle of full cost recovery, ensuring publicly-funded services are not subsidised by charitable donations or volunteers; and
- streamlining and rationalising monitoring, regulatory and reporting requirements.

3.31 Chapter 4 summarises the Government's response to these cross-cutting recommendations and describes the structures put in place to support the delivery of the departmental proposals summarised in this chapter.

# 4

## Delivering efficiencies

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4.1 In response to the recommendations of my review, and consistent with the proposals developed by departments, the Government is announcing in the 2004 Spending Review stretching but achievable efficiency targets that have been agreed with each department and myself. This chapter describes the nature of these targets, and the efficiency delivery framework that the Government has developed in conjunction with my Review team. This chapter also outlines the Government's response to my cross-cutting recommendations on embedding efficiency within the public sector.

### **DEPARTMENTAL EFFICIENCY AGREEMENTS**

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4.2 On the basis of the departmental proposals developed in conjunction with the Efficiency Review, the 2004 Spending Review has agreed with every central government department, and the whole of local government, a stretching but achievable target to deliver a minimum level of annual efficiencies by 2007-08. Annex C sets out further details of the programmes that departments plan to implement in order to secure these efficiencies.

4.3 Achievement of these agreed efficiency targets, set out in Table 4.1 below, will enable the Government to meet its target, announced in Budget 2004, of £20 billion in annual efficiency gains by 2007-08 across the whole of the public sector. Moreover, on the basis of the Efficiency Review team's analysis of departments' efficiency programmes, the Government forecasts that the annual outturn level of efficiencies across the whole of the public sector will be approximately £21.5 billion by the end of the 2004 Spending Review period.

**Table 4.1: Public sector efficiency savings**

	<b>Agreed efficiency target (£ million) 2007–08</b>
<b>Department</b>	
Education and Skills	4,350
Health	6,470
Transport	785
Office of the Deputy Prime Minister	620
Home Office	1,970
Constitutional Affairs	290
Law Officers' Departments	40
Defence	2,830
Foreign and Commonwealth Office	120
International Development	310
Trade and Industry	380
Environment, Food and Rural Affairs	610
Culture, Media and Sport	260
Work and Pensions	960
Northern Ireland Office	90
Chancellor's Departments	550
Cabinet Office	25
Smaller Departments	20
Local Government	6,450
<b>Total forecast efficiency savings<sup>1</sup></b>	<b>21,480</b>

<sup>1</sup> Total forecast efficiencies are the sum of agreed efficiency targets, less forecast overlap of £5,650 million efficiencies across central and local government.

**Civil service reductions** 4.4 As part of their efficiency programmes, departments will be implementing total planned gross reductions in the Civil Service and military posts in administrative and support roles of over 84,000 by April 2008, of which 13,500 posts will be reallocated to front-line activities. Departments are also committed to relocating over 20,000 posts outside London and the South East by 2010. These civil service workforce changes are set out in Table 4.2.

Table 4.2: Civil Service workforce reductions and relocation plans, by department

Department	Estimated reductions in Civil Service <sup>1,2</sup> workforce from efficiency <sup>3</sup> (April 2004 to April 2008)		Expected relocations by 2010
	Gross reductions in posts <sup>4</sup>	Net reductions in posts after re-allocations <sup>4</sup>	
Education and Skills	-1,960	-1,960	800
Health	-720	-720	1,110
Transport	-700	-650	60
Office of the Deputy Prime Minister	-400	-400	240
Home Office	-2,700	-2,700	2,200
Constitutional Affairs	-1,100	-1,100	200
Law Officers' Departments	-50	-50	-
Defence <sup>1</sup>	-15,000	-15,000	3,900
Foreign and Commonwealth Office	-310	-310	450
International Development	-170	-170	85
Trade and Industry	-1,280	-1,280	685
Environment, Food and Rural Affairs	-2,400	-2,400	390
Culture, Media and Sport	-30	-30	600
Work and Pensions	-40,000	-30,000	4,000
Northern Ireland Office	-130	-130	8
Chancellor's Departments	-16,850	-13,350	5,050
Cabinet Office	-150	-150	250
UK Trade and Investment	-200	-200	-
<b>Total</b>	<b>-84,150</b>	<b>-70,600</b>	<b>20,028</b>

<sup>1</sup> Civil Service, and military posts in administrative and support functions.

<sup>2</sup> Financial Year Averages for permanent staff, measured on a Full Time Equivalent (FTE) basis. Figures cited include workforce changes within core departments, their agencies and other non-departmental bodies.

<sup>3</sup> Excludes reclassifications and other changes to the civil service workforce.

<sup>4</sup> The gross reduction is the total reduction in posts as a result of efficiency gains. The net reduction is the gross reduction in workforce excluding re-allocations to front-line roles in the Civil Service. Reductions are rounded to the nearest ten.

#### Accountability for efficiencies

4.5 Accountability for the delivery of this efficiency programme is critical. Ministers and officials need to be held to account on the basis of good information on performance. The Government has therefore agreed that there will be effective and continuing parliamentary and public accountability systems for the delivery of agreed efficiency targets. As with PSA targets, this will be a highly transparent system. Each departmental Secretary of State will be ultimately responsible and accountable for delivering efficiencies within their department, its NDPBs, agencies and relevant parts of the wider public sector. Progress towards meeting the efficiency agreements will be publicly reported so that the Government is accountable for its results. Departments will be expected to report progress through their departmental reports and on their websites.

### THE EFFICIENCY DELIVERY FRAMEWORK

4.6 The challenge now is to sustain the process of making these proposals a reality. Planning and performance measurement is fundamental to delivery and departments are already working on Efficiency Technical Notes (ETNs) setting out the measures and methodologies underlying the agreements, as well as detailed plans for how they will go about meeting them.

**Implementing efficiencies** 4.7 The efficiency implementation framework set out as part of the 2004 Spending Review builds on the strengths and experience of the PSA framework and role of the PMDU. It combines strong accountability for implementing the Efficiency Review with minimum bureaucracy and a robust framework for monitoring progress, including a system of regular public reporting.

4.8 The Budget announced that John Oughton, Chief Executive of the OGC, will be responsible for implementing the Efficiency Review, working closely with the Treasury and reporting directly to the Prime Minister and Chancellor. An Efficiency Team has been established reporting to John Oughton. The Efficiency Team will drive and coordinate implementation of the Efficiency Review as a cross-departmental programme and draw on relevant expertise via change agents.

4.9 Departments will work with John Oughton's Efficiency Team to produce implementation plans setting out how they will meet their efficiency targets. These plans will be owned by the department and will be expected to evolve as lessons about what works are learned. The Efficiency Team will assure the quality of departments' implementation plans (including the adequacy of contingencies to guard against slippage and risk), and their capacity to implement them, and proposed monitoring arrangements. From Autumn 2004 there will be formal assessments of the plans and departments' progress towards delivering their agreed efficiency targets. It will be important for contingency plans to be reviewed throughout the period of delivery of the programme.

4.10 More generally John Oughton's Efficiency Team will bring in outside expertise as appropriate to support and challenge departments, including senior figures from the private and public sectors, for example from the Public Services Productivity Panel. I will remain involved in the efficiency implementation process, by participating in the oversight arrangements being established by John Oughton.

**Measuring efficiencies** 4.11 Auditable and transparent measures of performance are vital if departments are to be effectively held to account for their progress against their efficiency agreement. The 2004 Spending Review therefore announces that departments will produce Efficiency Technical Notes (ETNs) setting out the measures and methodologies that they will use to assess efficiency savings. These notes will cover the whole range of savings, and will be a key mechanism for ensuring accountability of progress towards the Government's headline target of £20 billion in annual efficiencies by 2007-08. In order to ensure confidence and credibility of these measures, the Government is inviting the National Audit Office (NAO) and the Audit Commission to scrutinise departmental ETNs before publication. This will ensure that the measures and methods that departments are employing to deliver efficiency align with the principles set out in the opening chapter of this report.

4.12 Scrutiny of first drafts of ETNs will take place later this Summer. Departments will then publish the final versions of these documents on their websites by the end of October. Subsequent additions and amendments to ETNs will be allowed, subject to prior scrutiny by the NAO and Audit Commission.

**Change agents** 4.13 As described in chapter 2, my Review team put forward a case for the creation of specialist change agents to advise departments on the implementation of particular aspects of their efficiency programmes. In response, the Government has announced that change agents will be established for the 2004 Spending Review period in the following sectors:

- the e-Government unit will take over existing work on e-Government delivery plans, and supplement this with additional work on non-electronic transactions. The aim will be to drive cross-government solutions, to facilitate best practice, to support departments to improve the measurement of performance in the transactions area, and to support departments to carry out proper segmentation of their customers and to greatly improve their strategies for promoting the use of electronic services ('take-up strategies');
- back office change agents will be created, staffed by people who have had experience of back office reform in other organisations. Their tasks will be to help develop a common definition of each back office function (HR, IT and Finance), where this does not currently exist; to develop meaningful metrics and support bench marking; to provide advice to departments on process change associated with back office reform; and to understand the supply market and contribute to better procurement;
- the Office of Government Commerce will establish change agents in construction and facilities management, and commodities procurement. The change agents will address the problems created by highly fragmented markets which cross many departmental boundaries. The change agents will focus on overall market shaping, clustering and requirements analysis and be integrated with other procurement bodies, such as regional centres of excellence, as appropriate; and
- the OGC will also take on a wider role as a coordinator of procurement activity in the wider public sector as well as central civil government, while departments that sponsor other parts of the public sector (eg local government, health and defence) will lead on developing capability in their sectors. Change agents will be established in these sectors as appropriate.

**Cross-cutting measures** 4.14 Chapter 3 also set out further recommendations of my Review in relation to procurement, financial management, modernising transaction services and the role of public sector auditors. I welcome the Government's response to these recommendations, as announced in the Spending Review and summarised in Box 4.1 below.

**Assistance with implementation costs** 4.15 The efficiencies I have identified as part of my review will release significant resources for departments to redeploy to their priority programmes. In many cases, however, implementing their efficiency programmes will require upfront investment. On my advice, therefore, the Government has announced in the Spending Review that it will be providing limited assistance to certain departments with their implementation costs, both through temporary administration cost flexibilities and via allocations from the £300 million Efficiency Challenge Fund. I also support the measures the Government has announced in the Spending Review to support individuals affected by the workforce reform component of departments' efficiency programmes.

**Devolved Administrations** 4.16 While outside the scope of this Review, my team has shared its proposals and process in meetings with representatives of the Devolved Administrations. I note that the Scottish Executive and Welsh Assembly Government have announced that they are engaged in making annual efficiency gains as ambitious as those in England, including rationalising back office and related areas. Under suspension of devolution the Northern Ireland departments report to Northern Ireland Office Ministers and have committed to delivering at least 2.5 per cent per annum efficiency gains to recycle into front-line delivery.

**Identifying further efficiencies** 4.17 Beyond 2007-08 there is the scope to secure ongoing gains in public sector efficiency over and above those identified in my report by embedding changed culture and practise in public sector management. I am therefore pleased that the Government has confirmed its Budget 2004 announcement that John Oughton's responsibilities include a remit to work with departments to identify the scope for further embedding efficiency within the public sector during the 2004 Spending Review period and beyond.

### **Box 4.1: Cross-cutting efficiency measures**

The 2004 Spending Review announces that the Government is taking steps to ensure departments **procurement and financial management capability** are enhanced. These include:

- requiring departments to agree with John Oughton, as part of their overall efficiency implementation strategy, their plans to reform their procurement practices in line with the best practice identified by the Efficiency Review;
- all departments are now required to have professional Finance Directors reporting to the Permanent Secretary, with a seat on the departmental board at a level equivalent to other board members, by December 2006; and
- HM Treasury will conduct a department-by-department review of the effectiveness of financial management. The review will start with those departments with the biggest spending programmes, and will be led by Mary Keegan, who takes up appointment in September as Head of the Government Accountancy Service, working closely with John Oughton.

Consistent with my recommendation, the **public sector auditors** will also support the delivery of efficiency programmes. In addition to the scrutiny of Efficiency Technical Notes, the NAO will be involved in the review of financial management mentioned above. Furthermore, the Audit Commission will strengthen its measurement of local authorities' use of resources within the revised Comprehensive Performance Assessment from 2005. Value for money will form a key theme throughout the overall Assessment.

In the light of my recommendations relating to the **voluntary and community sector**, and following a recent seminar with representatives of the VCS and departments, the Government is reiterating the need to further improve its funding relationship with the VCS by:

- improving stability by moving to longer-term, multi-year funding arrangements where possible;
- considering carefully the appropriate assignment of risk between the statutory body and the voluntary and community organisation when contracting for service provision;
- making further progress towards full acceptance of the principle of full cost recovery, ensuring publicly-funded services are not subsidised by charitable donations or volunteers; and
- streamlining and rationalising monitoring, regulatory and reporting requirements.

The Active Communities Directorate in the Home Office has lead responsibility for driving-forward this agenda across Government, in direct partnership with the Efficiency Team reporting to John Oughton.

The Government is also putting into effect my recommendations on the cascading of spending review settlements, transactional services, delivery chains, the role of audit committees and co-ordination of audit, regulation and inspection.

# 5

## Conclusions

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**5.1** The proposals described in this report will deliver over £20 billion of efficiencies in public spending by 2007-08, which will either directly increase the output of public services or will free up resources which can be recycled into front line delivery. Critical to the delivery of those savings will be the continued support from the Prime Minister and the Chancellor, the Head of the Civil Service and the public sector auditors, coupled with a determined commitment to deliver change on the part of departments and the wider public sector, and the use of effective programme management techniques the Government has decided to deploy in establishing a new Efficiency Team under John Oughton.

**5.2** The change agents that the Government has agreed to establish for the Spending Review period will play an important part in facilitating and supporting departments in delivering their efficiencies. But the aim should be for departments themselves to establish networking and collaborative processes for joint working which will take over this role and support an ongoing efficiency programme, responding to changes in demand, the constitution of the market and customers' needs.

**5.3** For a culture of efficiency to develop further and become self sustaining I believe it will be important to report on the successes of efficiency delivery and reward those who deliver in just the same way as those who deliver improvements in effectiveness have been rewarded. The increasing professionalisation of the public sector procurement function, the importance of identifying and planning for benefits realisation from ICT investment, and a primary role for the department and its Finance Director as responsible for ensuring efficiency within its ambit of expenditure, will be critical changes to ensure efficiency becomes embedded in the public sector culture.





# Consultation document

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A.1 The following consultation document was issued by the Efficiency Review, inviting comments on public sector efficiency from stakeholders in both the public and private sectors. A summary of consultation responses is included in Annex B.

## **Efficiency Review: Releasing Resources to the Front Line**

### **Consultation Document**

**20 October 2003**

#### **1. Introduction**

The Government has increased spending on public services significantly. It has also increased the number of frontline staff working in our schools, hospitals and police forces. The aim of this review is to ensure that frontline staff get the resources they need to do their job even better, and that the bureaucracy that can get in their way is removed.

The Prime Minister and Chancellor of the Exchequer agreed earlier this year to an Efficiency Review covering the whole of public services. This was announced in the Chancellor's budget speech in the Spring. The Review is an integral part of the Spending Review 2004.

Peter Gershon, who has extensive senior experience both in the private sector and within government, has been asked to personally lead the next stage of the Review and will report next Summer on his final conclusions. At this stage, we are seeking your views on the best opportunities for efficiency improvements, which would release resources to the frontline. In 2004, we will want to consult extensively about how to achieve the best opportunities identified.

#### **2. What are we trying to achieve?**

Over the next 3 or 4 years, we want to achieve 2 things:

- To release major resources into frontline services that meet the public's highest priorities out of activities, which can be undertaken more efficiently,
- To reduce the bureaucracy faced by frontline professionals and free them up to better meet the needs of their customers.

This review will represent a radical and fundamental challenge to the way the government does its business. By 2005/6, government will be spending £320 billion on public services – with £70 billion directly controlled by central government and £250 billion devolved to local bodies in health, education, policing and local government. Clearly, even a small proportional efficiency saving would generate major opportunities for re-investment in high priority frontline services.

#### **3. Why have a review now?**

Given the huge new resources going into public services, it is the right time to step up our drive to ensure that we can get the best value of out this new money. This is the right time to:

- Make the most of Investment – Ensure that the benefits of recent and planned investment are fully realised.

- Enhance Devolution – Support the devolution of funds to local public bodies by offering new opportunities for them to collaborate and achieve better value for money
- Strengthen the transfer of Best Practice – Accelerate the rapid take-up across the public sector of best practice, from both the private and public sector, in reducing overhead costs
- Put the Frontline first – Inject more urgency into the reduction of activity which adds limited value to frontline professionals in providing what customers really value

We are looking for opportunities to improve efficiency which can be delivered in the next 3 years and release substantial new resources by 2007/8.

#### 4. What are the priority areas for the efficiency review?

At this stage we are targeting the following priority areas:

**Procurement** – Procurement of goods and services from third parties will rise to over £120 billion a year by 2005/6. For example, nearly half of local government spending is on procurement. We want to look at how better value for money could be achieved by more collective and professionalised purchasing across the public sector.

**Back office functions** – Back office functions (such as HR, finance, ICT, and estate management) are essential to support frontline staff doing their job and to manage resources effectively. However, very significant improvements are possible across the public sector. We want to look at the improvements that could be made if back office functions were provided on a more efficient basis and if best practice was achieved consistently and rapidly.

**Transactional services** – Transactional services direct to the public, activities such as the payment of over £100 billion of benefits and collection of billions of pounds of tax revenues, have the potential for complete transformation through ICT. We want to explore the opportunities to simplify access for the public and achieve major efficiencies by accelerating the usage of modern technology.

**Policy, funding and regulation of devolved public services** – Although most public services are devolved to local institutions (schools, hospitals, FE colleges, etc), both central and local government spend substantial resources in setting policy, allocating funding and regulating quality. We want to explore whether significant savings could be made by simplifying these requirements and reducing the bureaucracy imposed on frontline providers.

**Policy, funding and regulation of the private sector** – The degree of government involvement in the private sector varies considerably. Some forms of regulation run across all industries, but sectors such as financial services have regulators setting specific rules for the market, while in areas such as agriculture and transport, the government is heavily involved in shaping the market, providing considerable financial assistance through grants and subsidies. We want to see how to secure high levels of public benefit at the least cost to both businesses and to government itself.

**Productive time** – In key service areas such as education or health, the majority of resources are already spent on frontline staffing. However, many staff are frustrated about the proportion of time frontline staff are able to spend meeting customer needs. Productive time can be reduced if people are having to spend too much time serving the organisation rather than their customers, if support functions are inefficient or if too much time is spent customising straightforward tasks. We want to look at what measures could address these issues, along with reducing time lost due to factors such as high levels of turnover.

**5. Early perception to barriers of efficiency**

Our early work raises some apparent barriers to efficiency which need to be explored:

**Self-sufficiency** – at present, many public sector bodies try to provide all internal functions themselves or through individually negotiated contracts. In some areas, like back office functions, procurement or where hundreds of bodies are providing a very similar service, this is unlikely to be the most efficient way forward. Instead, new ways of sharing services can be developed.

**Incentives to adopt best practice** – in some cases, we do not seem to have the right pressures and rewards to incentivise the transfer of proven best practice. There are wide variations in the performance and cost of functions, which could be greatly reduced.

**Customer power** – the influence of customers (whether for internal services, frontline services, buying from the private sector or for those on the receiving end of regulation) appears often to be too weak. The different roles of customers can all be strengthened.

**6. What do we want to know at this stage?**

We would like your suggestions on the most effective ways that resources can be released for the frontline, and would welcome your initial views by 21st November 2003 to:

Efficiency Review, 26 Whitehall, Ripley Court, London SW1A 2WH  
 Efficiencyreviewteam@cabinet-office.x.gsi.gov.uk

**Many thanks for your time and interest in this Review**



# B

## Summary of consultation and engagement

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**B.1** The Efficiency Review carried out extensive consultation and engagement through meetings and workshops with a range of individuals and representatives of public and private sector organisations and through a written consultation exercise.

### Meetings and workshops

**B.2** Meetings and workshops were carried out with the following groups:

- Senior Ministers: including the Prime Minister, Chancellor and Deputy Prime Minister, two briefings to the Cabinet, meetings with individual Cabinet Ministers, plus briefing for the Ministerial Committee on Public Services and the Public Expenditure Sub-committee on Electronic Service Delivery;
- The Treasury: regular meetings were held with the Chief Secretary, and regular meetings held with the Lyons Review. There was also regular engagement with central teams in the Treasury's Public Services Directorate and with its departmental spending teams. The Public Services Productivity Panel received briefings;
- Permanent Secretaries: departmental heads were given briefings at Sunningdale; the Civil Service Management Board was given regular briefings throughout the Efficiency Review;
- Cabinet Office: meetings were held with the Prime Minister's Delivery Unit, the Strategy Unit, the Regulatory Impact Unit, the Modernising People Management team, Performance Partnerships, the e-Envoy, and the Office of Public Service Reform;
- The National Audit Office and Audit Commission, the HR Society, departmental HR directors and HR project managers all received briefings. Departmental Finance Directors received regular briefings and guidance throughout the Review;
- the public sector trades unions received several briefings through the Government's Public Services Forum and through two further meetings organised by the TUC;
- Local delivery organisations: meetings were held with the Society of Metropolitan Chief Executives, the Association of Chief Police Officers, and the Local Government Association;
- A seminar was hosted by the Chief Secretary to the Treasury for representatives of voluntary sector organisations and key departments responsible for working with the voluntary sector;
- Meetings were held with the CBI, with private sector service providers (including Accenture, Capita, McKinsey, PA Consulting, HP, IBM, Oracle, Computer Science Corporation), and with the LSE, IPPR, and the Management Consultancies Association; and
- A seminar was held for non-executive directors from public sector boards.

**B.3** Fourteen workshops were held with some 245 attendees from departments and the wider public services including local authority Chief Executives, Chief Constables, PCT Directors, School Heads, Registered Social Landlord (RSL) Chief Executives. These workshops gathered and shared data, developed analysis of opportunities and obstacles and proposals for reform.

### Written consultation

**B.4** A written consultation (see Annex A) asking for views on the Efficiency Review was issued.

**B.5** The consultation document was sent to members of the Cabinet and Permanent Secretaries. It was announced in the House of Commons and the House of Lords. It was published on the Cabinet Office and Treasury web sites and a press release was issued.

**B.6** The document was also sent to Efficiency Review departmental board contacts. Through departments it was cascaded to senior civil servants, Chief Executives of NDPBs, executive agencies, Heads of Armed Services, OFSTED, the HMIC, Chief Executives of local authorities, Chief Constables of police forces and Chief Executives of Magistrates' Courts Committees, Principals and Vice Chancellors of colleges and universities. NHS managers received the document through the Department of Health newsletter.

**B.7** The document was also sent to the CBI, the TUC, Public Sector Unions and staff representative groups, the National Audit Office and the Audit Commission, groups such as SOLACE, LGA, NHS medical staff, BMA, CIPFA, a number of private sector consultancies who have significant public sector interests, 4 academics, 80 voluntary organisations, the National Housing Federation and 10 RSLs

**B.8** The Review received 247 responses in total, including:

- 15 from colleges and universities (10 from Vice-Chancellors and Principals);
- 18 from police forces;
- 28 from NDPBs and agencies;
- 12 from local authorities;
- 12 from health service bodies;
- 11 from unions and professional bodies;
- 25 from the private sector; and
- 92 from individuals.

**B.9** Key findings from the written consultation, meetings and workshops are summarised below.

### Back office

**B.10** There was a high level of interest in the back office workstream. Key areas of focus were around:

- the degree to which services were capable of being shared across the public sector;
- the potential for outsourcing services;
- the potential for process simplification and system standardisation; and
- the skills required to achieve reform.

**B.11** Advantages of shared services identified included: enabling the organisation to focus on the core business; access to ready made services and the avoidance of the need to self design. Suggestions for grouping of shared service included by location, serving a number of organisations in a given area, or by similar type of organisation.

**B.12** Concerns in relation to shared services included: the risk of creating a monopoly provider; and the risk that ineffective implementation of shared services arrangements could impact adversely service delivery. There was also a concern over the lack of capacity to deliver change at the local level.

**B.13** Where services are already outsourced there was a perceived need to aggregate contract size across to enable to market to deliver greater efficiencies.

**B.14** Most contributions focussed on Finance, HR and ICT. However, other possibilities for back office reform were proposed including estates management and legal services.

**Transactional services**

**B.15** There was a high level of interest in transactional services. The main suggestions were to:

- increase the volume of transactions processed electronically, thereby reducing the cost of data input, and correction;
- standardise technology across organisations to permit easier interchange of data and sharing of service provision;
- reduce duplication and join up front-end delivery around specific customer market segments;
- rationalise the number of providers of the same transactional services, such as housing benefit, thereby delivering significant economies of scale; and
- focus on shifting appropriate groups of customers to less expensive channels, including the more effective use of call centres. Avoiding an unthinking reliance on e-solutions was important to safeguard the access of vulnerable people to services.

**B.16** Most responses focussed on benefits and revenue collection (local and central). However, other responses mentioned using the internet to enable other services such as planning applications, repeat prescriptions, crime reporting and college registration.

**B.17** Many respondents considered that the benefits of e-government through the reduction in costs of delivering traditional services had not been realised. Others suggested that there needed to be a significant culture change to realise the benefits of ICT through an active process of managing the shift of key customer groups to ICT channels.

**Procurement**

**B.18** There was a high level of interest in procurement. Specific points included:

- there was strong support for the view that purchasing power should be aggregated across the public sector, either through consortia of organisations, or more formal central procurement vehicles such as OGC or the Purchasing and Supply Agency in the NHS;
- some respondents referred to existing successful consortia that are already operating and made proposals for their extension;

- some respondents suggested mandating the use of existing framework contracts (S-Cat/G-Cat and other framework contracts developed, for example, by OGC);
- there was some concern that were procurement to become more centralised this would place small and medium sized enterprises at a considerable disadvantage;
- the potential to exploit further e-procurement such as e-auctions were considerable (some respondents cited examples where e-procurement had been successful in delivering significant savings);
- contracts for service delivery by voluntary and community organisations (VCOs) tended to suffer from an unnecessarily short-term approach and place an excessive burden of risk on service providers;
- the Treasury’s recommendation that statutory funders promote “full-cost recovery” by paying the legitimate portion of VCOs’ overheads remained largely unimplemented at local level;
- procurement skills across the public sector were capable of substantial improvement; and
- it needed to be clear how the Efficiency Review would add value to other recent reports on public sector procurement.

**B.19** Some respondents cited long and cumbersome procurement processes, noting that bid costs, particularly for PPP and PFI, could be very high, thereby reducing interest from potential bidders.

**B.20** Some public sector organisations said they would be keen to attempt purchasing in a consortium, but that it was not clear to them how to go about this while respecting individual accountability responsibilities of each organisation.

**Productive time** **B.21** The review explored three key themes during its engagement and consultation process:

- the use of para-professionals and the mix of skills applied to front line delivery;
- the use of technology to enhance front line productivity; and
- management reform and sharing best practice.

**B.22** Those consulted on the use of para-professionals and the mix of skills currently deployed within key public services made a number of points. Within the police, for example, it was considered by some that scope exists to make greater use of Police Support Officers to increase police presence, and for civilians to undertake more administrative roles. Some respondents considered there was scope within the NHS to make greater use of para-professionals, especially to carry out routine administrative tasks. Within schools some of those consulted considered that increased numbers of support staff offered a significant opportunity to enable teachers focus more on core teaching tasks.

**B.23** Those consulted on the scope for technology to deliver efficiency highlighted the need for the benefits of existing investments to be fully realised (for example, the new electronic patient record within the NHS). However, it was considered by many to be critical that new technology investments were effectively rolled out, with the full involvement of front line staff and appropriate process redesign.

**B.24** Consultation responses on management reform and best practice included the view that process mapping such as the Activity Baseline Review carried out in the police service offered the potential to reach a better understanding of how front-line staff use their time and how processes could be re-engineered to improve efficiency. Other contributions highlighted the importance of more focussed people management, enabling greater motivation and dealing with possible abuse of sickness absence.

**Public policy,  
funding and  
regulation**

**B.25** There was a high level of interest in public policy funding and regulation. The main points raised were as follows:

- front line service delivery bodies often had to deal with a plethora of bodies as funders and regulators leading to significant additional delivery costs;
- opportunities existed to deliver services more efficiently by more joined up approaches at the local level;
- it ought to be possible to make fewer, more targeted, inspections and audits. Where multiple separate audits are necessary they should be coordinated;
- the costs of applying for ring fenced grants were very high and could be significantly out of proportion with the size of the grant itself; nevertheless bodies felt bound to make applications;
- departments were perceived as having developed grants to deal with a particular short term issue without perhaps seeking subsequently to rationalise a plethora of different grants. A more medium to long term approach towards funding should be adopted;
- local boards with responsibility for cross-organisational issues (eg Local Criminal Justice Boards – Police, CPS, Courts) were hampered in the exercise of their roles by inflexibility in their ability to redirect the resources between organisations and priorities;
- greater effort could be made to ensure that plans and information requirements made of local service delivery bodies need to be coordinated and justified;
- public sector organisations and voluntary and community organisations spent considerable time repackaging statistics to service the different formats required by funders; scope existed to rationalise systems and requirements; and
- many organisations highlighted the duplication of effort involved in dealing with multiple regulators and noted that in many cases the costs of regulation appear disproportionate to the risks to service users

**Private policy,  
funding and  
regulation**

**B.26** There were relatively few written responses that focussed on private policy funding and regulation, however the key issues raised in meetings and workshops were:

- there was a perception of a large number of regulators and delivery bodies with often overlapping functions or interests; overlaps between regulators and delivery needed to be reviewed with the potential for rationalisation; and
- there was general support for the view that there should be a more horizontal approach to government in this area and a more joined-up approach between departments.

**B.27** The comment was made that it needed to be clear what the Efficiency Review would add to work already being carried out by the Better Regulation Task Force and the Regulatory Impact Unit.

**General responses B.28** More general comments on the Review included the following:

- any efficiency programme needed to be sustainable;
- real incentives needed to be created;
- it was important that proposals delivered real efficiencies and did not lead to falls in the level of service provision; and
- any provision to support the retraining of staff should be properly supported.



## Summary of departmental efficiency programmes

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**C.1** This annex sets out the efficiency targets that have been agreed with each department as part of their 2004 Spending Review settlement. Each target is specified in terms of the headline figure for annual efficiency gains that departments will realise by 2007-08, which in total will represent more than £20 billion of annual efficiencies across the public sector. Alongside each target is an indication of the proportion of efficiency gains that will be cash releasing. In total, these recyclable elements amount to approximately 60 per cent of the headline £20 billion figure. Alongside these departmental programmes, this annex also summarises the contribution of local government, the Government Offices and the Regional Development Agencies towards the Government's overall efficiency programme.

**C.2** Underneath each agreed target are a series of bullets that set out departments' proposed implementation plans, including some of the key efficiency measures that departments intend to implement in pursuit of their target. These proposed measures have been developed in conjunction with the Efficiency Review team, and the majority follow the six workstreams used by the Review team, as set out in chapter 2 of this report. These indicate the areas in which departments plan to secure savings, but departments will work closely with John Oughton over the coming months to develop further their programmes for delivering their agreed efficiency target. Departments will be assessed against progress towards their overall efficiency target; detailed components of their efficiency programme may be subject to change.

### DEPARTMENT FOR EDUCATION AND SKILLS

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**C.3** **Agreed target:** The Department for Education and Skills (DfES) will realise total annual efficiency gains of at least £4.3 billion by 2007-08. At least half of the total will be recyclable, enabling it to be reinvested in front-line activities: for example, schools with access to a better procurement deal will save money to invest in other areas.

**Implementation plan:** As part of this programme of savings the DfES plans, by 2007-08, to:

- reduce the total number of its civil service posts by 1,960, with 1,460 in the core department and 500 in the Office for Standards in Education (OFSTED), and be on course to relocate around 800 posts from DfES and its partner organisations out of London and the South East by 2010;
- enable frontline professionals in schools, colleges and higher education institutions to use their time more productively to generate around 30 per cent of the total efficiency gains, enabling institutions to achieve more with their resources. Benefits will be generated through workforce reform, investment in ICT and reducing administrative burdens;
- improve procurement of goods, services and new school buildings, using a new Procurement Centre of Excellence to be established by April 2005 to strengthen procurement practice across the education and children's services sectors – this will deliver around 35 per cent of the total efficiency gains;

- streamline the delivery system for each sector through improvements in policy, funding and regulation, such as the lighter touch process for OFSTED inspection, streamlined data collection and reduced reporting and monitoring requirements introduced in the New Relationship with schools;
- free up resources from the cost of the department, its non-departmental public bodies (NDPBs), and OFSTED by reducing overlaps, simplifying systems, better procurement, and rationalisation of back office functions through simplified standard processes and common systems – reducing the total administration costs of these organisations by at least 15 per cent; and
- pursue additional efficiency gains, including improvements in school-level financial management through the increased use of financial benchmarking information and dissemination of best practice.

### DEPARTMENT OF HEALTH

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**C.4 Agreed target:** The Department of Health will realise total annual efficiency gains of around £6.5 billion by 2007-08, of which over half will be cashable, releasing resources for front-line activities.

**Implementation plan:** As part of this programme of savings, by 2007-08 the department plans to:

- achieve a total reduction of just over 720 civil service posts, reduce the staffing of arms-length bodies by at least 5,000, and be on course to relocate 1,110 posts out of London and the South East by 2010;
- make better use of staff time (accounting for up to half of efficiencies), for example through the implementation of a modern ICT infrastructure for the NHS. Electronic patient records, appointment booking and prescription transfer will mean less wasted time spent checking patient information, fewer letters to type and send, and no lost prescriptions;
- make better use of NHS buying power at a national level to get better value for money in the procurement of healthcare, facilities management and medical supplies;
- ensure NHS organisations, particularly in primary care, can share and rationalise back office services, such as finance, ICT and human resources, where possible; and
- improve commissioning of social care to generate around 10 per cent of the efficiencies.

### DEPARTMENT FOR TRANSPORT

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**C.5 Agreed target:** The Department for Transport will realise total annual efficiency gains of at least £785 million by 2007-08, of which at least half will be cashable, releasing resources to front-line activities.

**Implementation plan:** As part of this programme the Department for Transport plans, by 2007-08, to:

- achieve a total reduction in departmental civil service posts of at least 200 and in the Driver and Vehicle Licensing Agency by at least 500;

- be on course to have relocated 60 or more posts out of London and the South East by 2007-08 and consider further relocations as the department develops its future strategy;
- lead a project to improve roads procurement in local authorities through the application of Highways Agency expertise, to deliver annual efficiencies of £190 million, and more in later years;
- increase tax collection by the Driver and Vehicle Operator (DVO) Group by £75 million per annum, and achieve another £70m of efficiencies per annum through transactional services and other areas within the DVO group;
- put in place its comprehensive and far-reaching agenda to restructure and reform the department, which will deliver efficiencies of over £25m from reforming both the central department and its support services; and
- deliver £125 million of efficiencies as a result of Transport for London's own efficiency plans and a further £122 million from other areas of local authority spending.

## OFFICE OF THE DEPUTY PRIME MINISTER

**C.6 Agreed target:** The Office of the Deputy Prime Minister (ODPM) will realise total annual efficiency gains of at least £620 million by 2007-08, of which two thirds will be cashable, releasing resources for front-line activities – including increasing new affordable housing provision.

**Implementation plan:** As part of this programme of efficiencies the ODPM plans, by 2007-08, to:

- achieve a total reduction of 400 posts, including at least 250 headquarters and Government Office civil service posts, be on course to have relocated 240 posts out of its London headquarters and have made progress in relation to its key sponsored bodies;
- improve social housing procurement methods by introducing new partnering arrangements, achieving annual efficiencies of £160 million to be reinvested in delivery of new social housing;
- realise efficiencies of £195 million in the Registered Social Landlord (RSL) sector on capital works, management and maintenance and commodities;
- deliver efficiency gains in Regional Development Agencies of £120 million; and
- continue the modernisation of the Fire and Rescue Service to provide efficiencies to fund further enhancements in the effectiveness of the service reaching £105 million.

ODPM will also target and monitor an aggregate of £835m of efficiencies, in all of the social housing sector, that includes the housing efficiencies listed here for central government and the Registered Social Landlord sectors and further efficiencies in local government.

## CRIMINAL JUSTICE DEPARTMENTS

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**C.7 Agreed Target:** The Home Office, Department for Constitutional Affairs (DCA) and the Crown Prosecution Service (CPS) will realise total annual efficiencies of at least £2.3 billion by 2007-08, of which at least half will be cashable, releasing resources for front-line activities. The overall total will include contributions of at least £1,970 million from the Home Office, £290 million from DCA and £35 million from CPS<sup>1</sup>.

**Implementation plan:** As part of this programme of efficiencies, the departments plan to:

- reform and streamline the way the Home Office functions, delivering a total reduction in the size of the Home Office headquarters equivalent to 2,700 full time posts by 2007-08. This will include reductions of 1,170 posts in the National Offender Management Service (NOMS) and the Immigration and Nationality Directorate (IND) headquarters. DCA, including Her Majesty's Court Service (HMCS), will also cut 1,100 posts;
- transfer 2,200 posts out of London and the South East, including planning the relocation of the NOMS headquarters to outside of London and the South East; and relocate 200 DCA posts;
- deliver efficiency gains of 3 per cent a year (of which half will be cashable) from policing, including by substantially increasing the proportion of officer time spent on front-line policing. These efficiency improvements will be equivalent to £1,060 million by 2007-08;
- reduce asylum support costs by at least £450 million a year by 2007-08, and achieve further efficiencies, including through reduced asylum processing and operating costs; and
- support these gains by increased efficiency across the Criminal Justice System (CJS), including correctional services and HMCS, and through value for money benefits from total investment of £2 billion in CJS ICT across the 2002 and 2004 Spending Review periods.

## MINISTRY OF DEFENCE

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**C.8 Agreed target:** The Ministry of Defence will realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three quarters will be cash-releasing, to be re-invested in additional defence capability and further modernisation initiatives.

**Implementation plan:** As part of this efficiency programme, the Ministry of Defence plans, by 2007-08, to:

- reduce the numbers of civilians and military posts in administrative and support roles by over 15,000, and be on course to have relocated 3,900 posts out of London and the South East by 2010;
- generate annual efficiency gains of over £1 billion in logistics and procurement (excluding procurement of military equipment by the Defence Procurement Agency) by modernising business processes;

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<sup>1</sup> The Serious Fraud Office, Treasury Solicitor's Department, Customs and Excise Prosecution Office, Northern Ireland Court Service, National Archives and Charity Commission are also making efficiency gains in line with the Government's objectives.

- generate annual savings of over £330 million in its 'back office', through rationalisation and information-enabled business change;
- make better use of its assets and manpower to meet security threats, for example by harnessing new technology, yielding annual savings of over £1 billion; and
- improve the defence information infrastructure, the defence estate, the management of the fleet of military vehicles and healthcare of service personnel, yielding improvements equivalent to around £330 million annually.

## FOREIGN AND COMMONWEALTH OFFICE

**C.9 Agreed target:** The Foreign and Commonwealth Office (FCO) will realise total annual efficiency gains of at least £120 million by 2007-08, of which at least half will be cashable, releasing resources for front-line activities.

**Implementation plan:** As part of this programme the FCO plans, by 2007-08, to:

- relocate about 450 posts out of London and achieve a total reduction of just over 310 civil service posts;
- rationalise back office functions, principally from the Human Resources and Finance Directorates, and reduce the overall pay bill over the 2004 Spending Review, contributing to around a quarter of total efficiency gains;
- deliver improved ICT, increasing the overall productivity of staff and realising efficiencies of about £25 million;
- deliver savings of about £11 million through more efficient procurement practices, such as strategic sourcing and collaboration with other government departments; and
- ensure that the British Council and BBC World Service also contribute around £30 million of the total FCO efficiency target through rationalising back office functions, changes to procurement practices and, in the case of the British Council, reductions in the size of their overseas estate.

## DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

**C.10 Agreed target:** The Department for International Development (DFID) will realise total annual efficiency gains of at least £310 million by 2007-08, through an improvement in the effectiveness of international aid and redeployment of resources to key priority areas, delivering better outputs and outcomes.

**Implementation plan:** As part of this programme DFID plans, by 2007-08, to:

- achieve a total reduction of 170 civil service posts, with a further reduction of 124 posts appointed in country, and be on course to have relocated 85 posts out of London and the South East by the end of 2005 at the latest;
- increase the percentage of bilateral programme spending going to budget support from 44 per cent to 53 per cent. Research shows that budgetary support provided as part of partner government Poverty Reduction Strategies is a significantly more effective form of aid;

- achieve a 2 per cent year on year improvement in the performance of aid projects, achieving better value for money;
- increase the level of European Community aid going to Low Income Countries to 70 per cent, in line with World Bank evidence that aid targeted to the poorest countries achieves a greater impact in reducing poverty;
- substantially raise support for the next International Development Association (IDA) replenishment round, which is acknowledged to provide some of the most effective development assistance;
- deliver cashable savings on administration costs of £7 million a year; and
- achieve an additional 1 per cent increase in savings annually, through further improvements to procurement, representing savings of over £10 million a year.

### **DEPARTMENT OF TRADE AND INDUSTRY**

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**C11 Agreed target:** The Department of Trade and Industry (DTI) will realise total annual efficiency gains of at least £380 million by 2007-08, of which at least half will be cashable, releasing resources to other priorities.

**Implementation plan:** As part of this programme DTI plans, by 2007-08, to:

- achieve a total reduction in civil service posts of 1,010 in core DTI, 200 in UK Trade and Investment, and 270 in other bodies, and be on course to have relocated at least 685 posts out of London and the South East by 2010;
- deliver around 80 per cent of total efficiency gains, principally by increasing the effectiveness of DTI's business support products and securing efficiency gains within the science budget. DTI will also secure recyclable savings from its agencies and non-departmental public bodies;
- rationalise back office functions, saving £20 million to deliver around 5 per cent of efficiencies through consolidation of finance and human resources functions;
- deliver around £20 million of savings through improved procurement, particularly through more effective procurement of external consultancy and information technology, and rationalisation of the DTI estate; and
- work with the Regional Development Agencies to ensure the efficient devolution of business support products and to minimise overlaps in service provision.

### **DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS**

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**C.12 Agreed target:** The Department for Environment, Food and Rural Affairs (Defra) and its core agencies and sponsored bodies will realise total annual efficiency gains of at least £610 million by 2007-08, of which at least half will be cashable, releasing resources to front-line activities.

**Implementation plan:** As part of this programme of efficiency gains Defra plans, by 2007-08, to:

- achieve a total reduction of 2,400 civil service posts and be on course to have relocated 390 posts out of London and the South East, and come forward by March 2005 with further proposals for relocation;

- deliver step-change improvements to the way Common Agricultural Policy (CAP) schemes are administered, through the Rural Payments Agency change programme, delivering £52 million in efficiencies;
- rationalise delivery functions following the Haskins Review, realising efficiency gains of £13 million through the Modernising Rural Delivery Plan and £30 million through the England Rural Development ICT Programme;
- realise across-the-board efficiency gains of £73 million in the Environment Agency (EA) under the EA Efficiency Programme, by generating efficiencies in flood defence provision, placing a greater emphasis on the provision of online services, and by making back-office improvements within the EA itself;
- streamline policy-making and rationalise Defra back office functions to deliver around £84 million of efficiencies;
- deliver efficiency gains of around £33 million in improved procurement, largely through ICT system improvements for commercial contracting; and
- work with local authorities to deliver around £300 million of efficiency gains on waste services.

## DEPARTMENT FOR CULTURE, MEDIA AND SPORT

**C.13 Agreed target:** The Department for Culture, Media and Sport (DCMS) will realise total annual efficiency gains of at least £260 million by 2007-08, of which at least half will be cashable, releasing resources for front-line activities.

**Implementation plan:** As part of this programme of efficiencies, the DCMS plans, by 2007-08, to:

- achieve a total reduction of just under 30 civil service posts and be on course to relocate 600 posts in sponsored bodies out of London and the South East by 2010 at the latest, both from new bodies to be set up following legislation, and from existing bodies that may benefit from relocation;
- secure annual efficiency gains of around £115 million through an efficiency programme which will include cutting the core department's administration costs, rationalising the back office functions and accommodation of sponsored bodies, and sharing specialist services such as ticket booking, art storage and transport, while protecting and enhancing front-line services;
- facilitate the delivery of annual efficiency gains of £146 million within local government expenditure on culture and leisure services, for example by promoting best practice and by streamlining performance regimes, particularly for library services; and
- work with its sponsored bodies, local authorities, the Office of the Deputy Prime Minister, and the Improvement and Development Agency to facilitate the delivery of these and other efficiency gains.

## DEPARTMENT FOR WORK AND PENSIONS

**C.14 Agreed target:** The Department for Work and Pensions (DWP) will realise total annual efficiency gains of at least £960 million by 2007-08, of which at least half will be cashable.

**Implementation plan:** As part of this programme of efficiencies DWP plans, by 2007-08, to:

- achieve a total reduction of 40,000 civil service posts, with redeployment of 10,000 of these posts to front-line roles, and ensure the relocation of at least 4,000 posts out of London and the South East;
- continue to modernise its transactional processes, such as benefit processing, in order to put more of the available resources into front-line services such as helping people into work and tackling child and pensioner poverty. Modernising transactional processes will deliver around a third of efficiency gains;
- continue to make substantial savings in procurement processes, generating around half of the required efficiency gains. For example, by moving people from paper-based methods of benefit payment to direct payments into bank accounts, the department is able both to provide a more effective service and to make substantial savings in the contracts and costs associated with cashing paper-based payments; and
- modernise and streamline the back office functions of finance and human resources shared service functions, delivering over 10 per cent of efficiency gains.

### **NORTHERN IRELAND OFFICE**

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**C.15 Agreed target:** The Northern Ireland Office (NIO) will realise total annual efficiency gains of at least £90 million by 2007-08, of which at least half will be cashable, releasing resources for front-line activities.

**Implementation plan:** As part of this programme of efficiency gains the department plans, by 2007-08, to:

- achieve a total reduction of 128 civil service posts in the core department and its agencies, as well as a total reduction of 1,446 public sector posts, and relocate 8 posts out of London and the South East by 2007-08;
- rationalise back office functions, including human resources, ICT, office services, policy and corporate services in the core department and all the bodies that it funds, and restructure and streamline its headquarters' directorates, contributing in total £12 million of efficiency gains;
- deliver around £12 million of efficiencies through improved procurement, including a coordinated approach to procurement across the NIO and other Northern Ireland departments;
- improve working practices in the prison service, reducing the cost per prisoner place; and more generally reduce sickness absence and release resources to the front line
- invest in core ICT infrastructure and in *Causeway*, a joint undertaking by six criminal justice organisations in Northern Ireland to improve performance by sharing information electronically, leading to faster justice; and
- increase front-line time of the police as a percentage of police time by over 15 per cent.

## CHANCELLOR'S DEPARTMENTS

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**C.16 Agreed target:** Across the Chancellor's Departments total annual efficiency savings of around £550 million will be achieved by 2007-08, of which at least half will be cashable, releasing resources for front-line activities.

**Implementation plan:** As part of this programme of savings the departments plan, by 2007-08, to:

- achieve a total net reduction of 13,350 departmental civil service posts with a further 3,500 posts redeployed to front-line activities, and be on course to have relocated at least 2,550 posts out of London and the South East by 2007-08, and a further 2,500 by 2010 giving at least 5,050 relocations in total;
- further develop electronic channels so that customers can seek the information they need, and discharge their responsibilities under the tax systems, in ways which are more convenient for them and more cost-effective for government, such as filing tax returns on line;
- rationalise back office functions by greater use of ICT and economies of scale as HM Revenue and Customs is created, and improve procurement, together saving £100 million by 2007-08; and
- exploit the opportunities to achieve efficiencies generated by the creation of HM Revenue and Customs.

## CABINET OFFICE

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**C.17 Agreed target:** The Cabinet Office will realise total annual efficiency gains of at least £25 million by 2007-08, of which at least half will be cashable, releasing resources for other priorities.

**Implementation plan:** As part of this programme the Cabinet Office plans, by 2007-08, to:

- achieve a total reduction of 150 civil service posts, and relocate 250 posts out of London and the South East; and explore the business case for the relocation of a further 120 posts;
- rationalise back office functions by continuing work on establishing a shared corporate human resources services centre with HM Treasury and the Office of the Deputy Prime Minister, outside of London and the South East, reviewing back office systems and costs, and implementing reforms in financial management and information technology; and
- deliver around half of total efficiencies through improved procurement, for example by improving systems and automating transactions.

## LOCAL GOVERNMENT

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**C.18** Achieving greater efficiency across the whole of the public sector is essential to support the Government's continuous drive for improved public service delivery. Local government has a key role to play in this ambitious agenda, and many local authorities are already securing efficiencies through investment in technology and rationalisation of back office and procurement functions. The Spending Review builds on existing best practice and proposes efficiency savings in local government of 2.5 per cent per annum to deliver £6.45 billion of efficiencies and productivity improvements by 2007-08, releasing additional resources to front-line services.

**C.19** Recent research carried out by Deloitte on behalf of ODPM concluded that universal implementation of e-procurement alone by all local authorities would secure savings of £1.1 billion. There is scope for significant additional savings through aggregation of demand by local authorities through the Regional Centres of Excellence and moving towards increased rationalisation of back office and transactional services. There is also scope for efficiencies with improvements in staff productive time. ODPM will lead and coordinate with other government departments the collective local government package and work in partnership with local government to help authorities secure these savings.

**C.20** **Local government will be responsible for delivering over £6.45 billion of total efficiency gains by 2007-08**, building on existing best practice. At least half of these savings will be cashable, releasing resources to front line activities. ODPM and other government departments will work in partnership with the Local Government Association, local authorities and other stakeholders to help secure these efficiencies. Efficiencies are anticipated in the following areas, with approximately:

- 40 per cent of the savings expected to be delivered through schools (see paragraph C.3);
- 10 per cent through policing (see paragraph C.7); and
- 35 per cent derived through procurement in other services (for example adult social care, social housing, children's services, highways maintenance and waste).

**C.21** Further savings are also expected to be delivered through increased rationalisation of local authority back office functions and transactional services and improvements in productive time of staff.

**C.22** Support for this agenda, alongside other departmental programmes, includes:

- resources within ODPM's Local Government Departmental Expenditure Limit (DEL) totalling £25 million over 2004-05 and 2005-06, and with continued support totalling £20 million available over 2006-07 and 2007-08 through the Capacity Building Fund. This will fund Regional Centres of Excellence that are led and managed by local authorities to drive forward efficiency and promote best practice in procurement, back office and transactional services in the regions. It will also support innovative programmes for authorities to share back office functions with other authorities and the wider public sector, as well as sharing council tax and business rate collection;
- increased freedoms and flexibilities for fair, good, and excellent local authorities through new trading powers from September 2004, allowing authorities to trade in their efficient services; and
- the introduction of three-year settlements in local government, so that authorities can plan and invest with greater certainty.

**C.23** The Deputy Prime Minister has appointed Barry Quirk, Chief Executive of Lewisham, to work with local authorities, government departments and other partners, to share and promote best practice on the ground.

C.24 The Government will continue to explore opportunities for increased freedoms and flexibilities, through strengthening the conversation between central and local government, further deregulation, and devolving decision making to authorities, for example through testing Local Area Agreements.

## **REGIONAL DEVELOPMENT AGENCIES**

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C.25 The Regional Development Agencies (RDAs) have agreed to deliver 2.5 per cent efficiencies per year in the Spending Review period, at least half of which will be cash-releasing back into the Single Pot, which brings together allocations from all the departments that fund them. DTI, as the sponsor department, will work with the RDAs to identify further efficiencies where possible. The RDAs will be expected to identify efficiencies in delivering on the additional responsibilities that have been devolved to them.

## **GOVERNMENT OFFICES**

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C.26 The Government Offices' (GOs) administration budget will be reduced from the nominal 2005-06 level by 2.5 per cent a year in cash terms over the Spending Review, in line with the Budget 2004 commitment to reduce administration costs. Departments which are cutting administration budgets by more than this will cascade those savings to the GOs. Managing this real terms reduction will require GOs to become more efficient in their operations and departments to consider the most efficient means of delivering their programmes.

## **SMALL DEPARTMENTS**

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C.27 In line with the overall 2.5 per cent target for the public sector, smaller departments within government will also be working to deliver efficiency gains. These smaller departments include the Central Office of Information, Charity Commission, Office of Fair Trading and UK Trade and Investment.



# D Acknowledgements

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