



House of Commons
Committee of Public Accounts

Progress in improving government efficiency

**Fifty–fifth Report of
Session 2005–06**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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Jon Trickett MP (*Labour, Hemsworth*)
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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

In 2003 Sir Peter Gershon conducted a cross-cutting review of efficiency in the public sector. The Gershon Review was published to coincide with the 2004 Spending Review in which the Government announced an Efficiency Programme designed to achieve ongoing efficiency gains across the public sector which would release £21.5 billion a year by 2007–08 to improve front line services. The Programme also aims to reduce Civil Service posts by more than 70,000 and to reallocate a further 13,500 posts to front line services.

Departments are responsible for delivering and quantifying the efficiencies achieved while the Office of Government Commerce (OGC) checks the robustness of figures put forward and provides support to help departments deliver their gains. The £21.5 billion target is a mix of ongoing cashable and non-cashable gains. Cashable gains consist of reductions in inputs which do not adversely affect the quality of outputs. Overall, around two thirds of the £21.5 billion target is expected to release resources in this way. The remainder of the £21.5 billion target will be in the form of non-cashable gains, where additional outputs such as enhanced quality of service are obtained for the same level of inputs.

When the Committee took evidence on 6 March departments had reported efficiencies up to 30 September 2005 of £4.7 billion, of which just under a half were cashable. While some of these reported gains are robust, delays in obtaining data on service quality and limitations in measurement methodologies mean they must be treated with caution. In addition, deficiencies in departments' management information systems mean that their ability to measure changes in output quantity and quality as well as inputs lags behind the needs of a Programme that is aiming to deliver real efficiency gains rather than just spending cuts.

Two weeks after we took evidence, the Government announced in the Budget that, by 31 December 2005, £6.4 billion of efficiency gains had been achieved. Given the limited opportunity for action between then and the Budget announcement, the latest claims should be treated with the same level of caution as the £4.7 billion reported in the Pre-Budget Report.

The Gershon Review concluded that the public sector did not have the capacity to deliver on-going efficiency gains of more than 2.5% a year. Although embedding efficiency into the public sector is a major objective of the Programme, activity to date has focused on delivering the 2007–08 targets. As the private sector and some overseas public sector experience has shown, however, there is potential to go a lot further than the targets set for the current Efficiency Programme, if deeper and more systematic changes are pursued.

On the basis of a Report by the Comptroller and Auditor General,¹ the Committee took evidence from the OGC and the Treasury on the measurement of efficiency gains, the early implementation of the Programme and the longer-term embedding of efficiency in departments and the wider public sector.

1 C&AG's Report, *Progress in improving government efficiency* (HC 802, Session 2005–06)

Conclusions and recommendations

- 1. The Programme has been effective at raising the profile of efficiency within the public sector.** It is broader in scope than previous efficiency initiatives and the process of reporting progress to the Prime Minister and the Chancellor has made efficiency a priority for senior management in departments. Personal commitment and ownership by senior managers will also need to be sustained throughout the Programme and beyond if the targets are to be met and efficiency embedded in the public sector culture.
- 2. The great majority of projects carry a high or medium risk of reported gains not representing real efficiencies.** Only two of the 20 projects examined in detail by the National Audit Office were assessed as having a low risk of reporting gains that do not represent real efficiencies. While progress has been made, reported efficiency gains should continue to be considered as provisional and subject to further verification. Reported claims should be supported by full audit trails and declared only when the relevant data has been collected and verified by the OGC.
- 3. At the start of the Efficiency Programme around 180 of the 300 major projects lacked baselines.** The number without baselines has now reduced to just over 100, and the OGC expects it to decrease further. Robust baselines need to be established which accurately show the level of performance at the start of each project. Until baselines for an efficiency project have been agreed with the OGC, a department should not be able to record efficiency savings against it.
- 4. Claimed efficiencies do not take into account the costs incurred in achieving them, on the grounds that most projects pre-date the Gershon Review, and therefore commitments to incur the costs had already been made.** But for savings to be counted to the Programme, so should the relevant costs. Most of the efficiency projects require up-front investment in order to achieve the benefits in the longer term and many will entail on-going running costs. To reflect the true increase in efficiency all additional costs, whether one-off or recurring, should be deducted before gains are reported.
- 5. It is difficult to have confidence in what is being achieved when the Treasury and the OGC display a lack of openness about progress.** This lack of transparency is shown by the OGC's refusal to provide the Committee with basic factual information about the likelihood of departments achieving their efficiency targets. Announcements of efficiency gains have lacked analysis to support the claims being made. They should be accompanied by full breakdowns between workstreams, departments, and cashable/non-cashable which so far have only become available through the Comptroller and Auditor General's Report. The Treasury should also provide a reconciliation of claimed headcount reductions with data from the Office for National Statistics on changes in the overall size of the Civil Service.
- 6. Most of the projects already existed before the Programme was launched.** Although all efficiency projects have become a higher priority for departments as a result of being in the Programme, the OGC and departments should make clear what

proportion of efficiencies is derived from projects which were launched as a direct result of the Gershon Review.

7. **Greater assurance is needed that the quality of public services is not being adversely affected.** Service quality needs to be measured robustly to ensure the Programme achieves true efficiencies rather than just cuts in public services. Efficiencies relating to administering benefit payments, for example, should be accompanied by data demonstrating that the speed, accuracy and security of transactions have not been impaired. Savings should not be classified as efficiency gains unless the relevant department can show that service quality has not suffered as a result.
8. **Less than half of reported efficiencies will release cash.** The OGC expects cashable savings to account for two-thirds of the realised gains by March 2008. By September 2005, only 48% of reported gains represented cashable savings. Given the greater certainty over these gains relative to non-cashable gains, and their more direct impact in giving departments flexibility over the use of their resources, the OGC and departments need to prioritise projects delivering cashable efficiencies.
9. **The Programme has received two red Gateway Reviews and remains at high risk.** Fifty of the 300 projects are intended to deliver 80% of the £21.5 billion efficiency gains. At December 2005 more than a third of the Programme was assessed as having problems which put at risk the delivery of efficiency gains. The OGC needs to work with departments to reduce risks by, for example, developing early warning indicators of developments which may prevent delivery so that remedial action can be taken quickly.
10. **Experience in the private sector and in the public sector overseas suggests that there is potential to go further than the targets set for the current Efficiency Programme.** This is demonstrated by the NAO's analysis of good practice across the public, private and voluntary sectors and it is also the view held by staff delivering efficiency projects within government.² In seeking to embed efficiency, departments need to:
 - a) undertake fundamental reviews of their operations and processes, using approaches such as the NAO's Efficiency Toolkit to find opportunities for efficiency savings;
 - b) routinely benchmark their performance against other public sector organisations and against best practice in the private sector;
 - c) recruit the right people to key finance and commercial posts. All main departments should have a professionally qualified finance director and a commercial director on their management board.

1 The measurement and reporting of efficiency gains to date

1. The Efficiency Programme is intended to help deliver high quality public services by making better use of available resources, particularly in reallocating more to front line delivery. The Programme's biggest risk is that improvements in the efficiency of some services are accompanied by unintended falls in their quality. Demonstrating that service quality has not been adversely affected is essential if the Programme is to be successful. Departments measure changes in the quality of public services in a number of ways. The most recent Public Service Agreements, published at the time of the 2004 Spending Review, include about 100 or so targets across public services not just to maintain quality but to increase it in services such as health, education and criminal justice. The Treasury continues to monitor and hold departments to account against these targets but acknowledged that more needs to be done particularly in having specific quality of service measures for the full range of efficiency projects.³

2. In the last Pre-Budget Report the Government announced that efficiency gains of £4.7 billion had been achieved at 30 September 2005 (**Figure 1**), compared with a figure of £2 billion reported in the March 2005 Budget. In the Pre-Budget Report, departments also reported a reduction of over 25,000 civil service posts. Efficiency gains should be, however, regarded as provisional and subject to further verification. While some claimed gains are robust and greater confidence can be placed in the September figure than in the £2 billion reported in March 2005, delays in obtaining data on service quality, other time lags in reporting and limitations in measurement methodologies mean caution must be applied to reported gains.⁴ Of the 20 projects reviewed in the C&AG's Report, only two were considered to have methodologies with a low risk of reporting efficiencies inaccurately.⁵ Following the Committee hearing, the Government announced in the 2006 Budget that efficiency gains of £6.4 billion had been achieved by 31 December 2005.⁶ Given the latest announcement was made only two weeks after our hearing, the latest claims should be treated with the same level of caution as the £4.7 billion reported in the Pre-Budget Report.

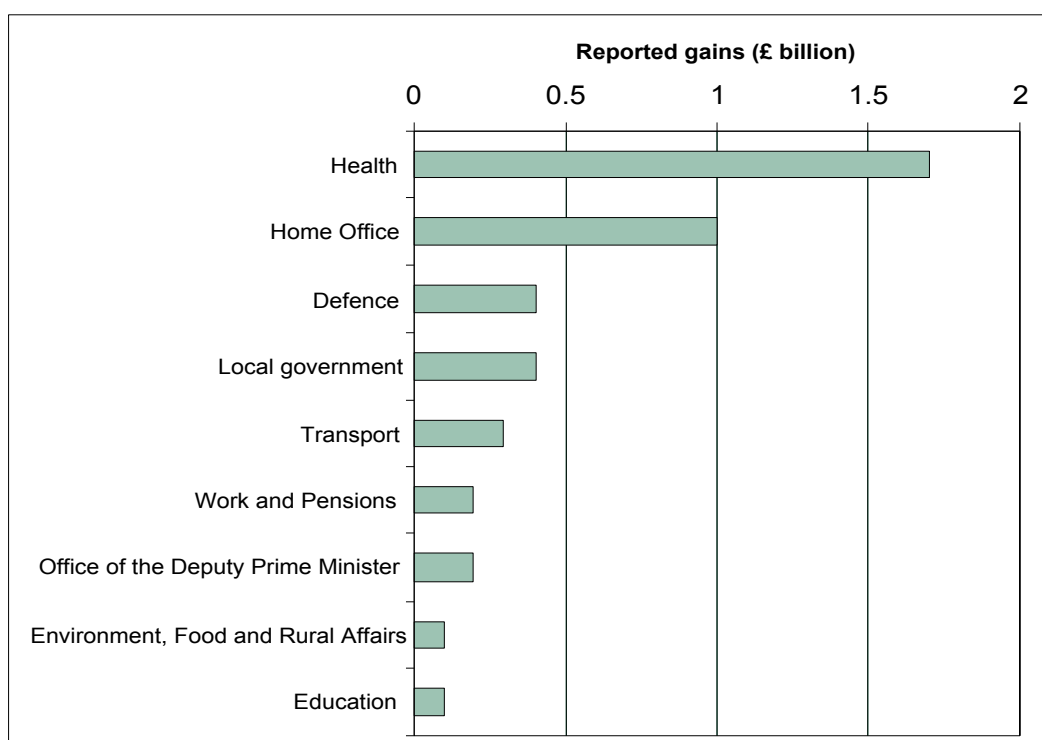
3 C&AG's Report, para 16; Qq 9–10

4 C&AG's Report, para 10

5 *ibid*, Figure 24

6 *2006 Budget Report*, para 6.13

Figure 1: Reported efficiency gains at September 2005



Note: Other departments reported gains of £0.3 billion

Source: C&AG's Report, Figure 15

3. The OGC did not validate or check departments' claimed efficiencies when it prepared the March 2005 Budget announcement on progress to date. It recognised that there was insufficient independent challenge in the early stages of the Programme and has since sought to do more to ensure claimed gains are based on proper baselines and audit trails. Progress has also been made in improving measurement methodologies, but there is still a significant way to go. At the start of the Efficiency Programme around 180 of the 300 major projects lacked baselines. This has now reduced to just over 100 and the OGC expect the number to decrease further. Until baselines for an efficiency project have been agreed with the OGC, a department should not be able to record efficiency savings against it.⁷

4. The headcount numbers reported by departments are not subject to the kind of formal review and challenge that the OGC is now applying to reported efficiency gains. The C&AG's Report cross-checked the reported reduction of 25,000 posts against headcount data for the Civil Service collected by the Office for National Statistics. The data showed that Civil Service posts had fallen by only some 15,000 posts. The difference was explained by the Efficiency Programme and the ONS counting changes in posts in different ways and the two sets of figures could only be reconciled by a series of complex adjustments, which were outlined in the C&AG's Report.⁸

7 Qq 3, 78, 108

8 C&AG's Report, paras 2.8–2.9

5. There is inconsistency over whether efficiency gains are net or gross of upfront capital costs. In line with the Gershon Review, while departments should report efficiencies net of additional ongoing costs, they can report gains gross of one-off expenditure costs. Most efficiency projects do not currently take account of such costs. The Gershon Review identified opportunities for delivering efficiency in a way that recycled resources rather than requiring cuts in public spending. At the time, however, much of the current expenditure on public services had been committed. There was little opportunity for new expenditure to generate efficiencies through, for example, modernisation and the Gershon Review decided that there was little point, therefore, in reporting efficiencies net of set up costs. Such an approach, however, potentially overstates efficiency gains and the OGC now takes the view that future efficiency projects should take into account the capital expenditure needed to modernise public services.⁹

6. Information on changes in inputs and outputs was not always collected on a regular basis from every part of the public sector. In schools, for example, data was collected only on an annual basis and, as a result, no efficiency gains had been reported so far. While the risk of over-reporting efficiency gains exists because of the absence of baselines and limitations in measurement methodologies, the OGC claimed it was also the case that time lags in collecting information could lead to under-reporting of efficiency gains.¹⁰

Less than half of reported efficiencies were cashable

7. The target of £21.5 billion of efficiency gains by 2008 is a mix of cashable and non-cashable gains. Although around two-thirds of the £21.5 billion target is expected to be cashable, only some 48% of the £4.7 billion reported to September 2005 represented cashable efficiency gains. The OGC did not consider that this was a problem as both cashable and non-cashable efficiency gains contribute to improved frontline service delivery. Furthermore, the rate at which the two types of efficiency gains are reported would depend very much on the nature of the workstream they came from. For example, procurement efficiency projects generate a much higher level of cashable gains than other projects, such as those designed to increase the productive time of public servants. Departments' forecasts for the three years of the Efficiency Programme included their expectations for gains from procurement, for productive time and for the other elements of the Programme. In monitoring departments' forecasts, the OGC expected that, over the full term of the Programme, cashable gains will account for two-thirds of the efficiency target.¹¹

9 Q 107

10 Q 109

11 C&AG's Report, paras 1.16, 2.2; Qq 67–69

2 Delivering greater efficiency by 2008 and beyond

8. The Efficiency Programme is a significant opportunity to make better use of public money for the benefit of taxpayers. The Programme is different from previous attempts to improve efficiency in that it covers the whole of the public sector not just the main departments.¹² Its success will, however, depend on sustained leadership realising in particular opportunities for collaboration with other parts of the public sector; promoting and acting upon a better understanding of the drivers of cost and value; and integrating efficiency fully into business planning and performance management.

9. The Gershon Review identified five key workstreams (**Figure 2**), with most potential to deliver improved efficiency. Prior to the Review, the major departments already had efficiency projects underway and most of the targeted £21.5 billion is expected to come from these projects. Of the sample projects in the C&AG's Report, most existed prior to the start of the Programme. While the Programme has increased the emphasis on securing efficiency gains from existing initiatives, OGC considers that future projects should focus more on embedding the search for efficiency into department's routine activities. The OGC also explained that departments' current headcount reductions would come from the projects contributing to the efficiency gain targets rather than from separate exercises.¹³

¹² C&AG's Report, para 1.7

¹³ Qq 26, 90, 94, 103

Figure 2: The five key workstreams for the Efficiency Programme

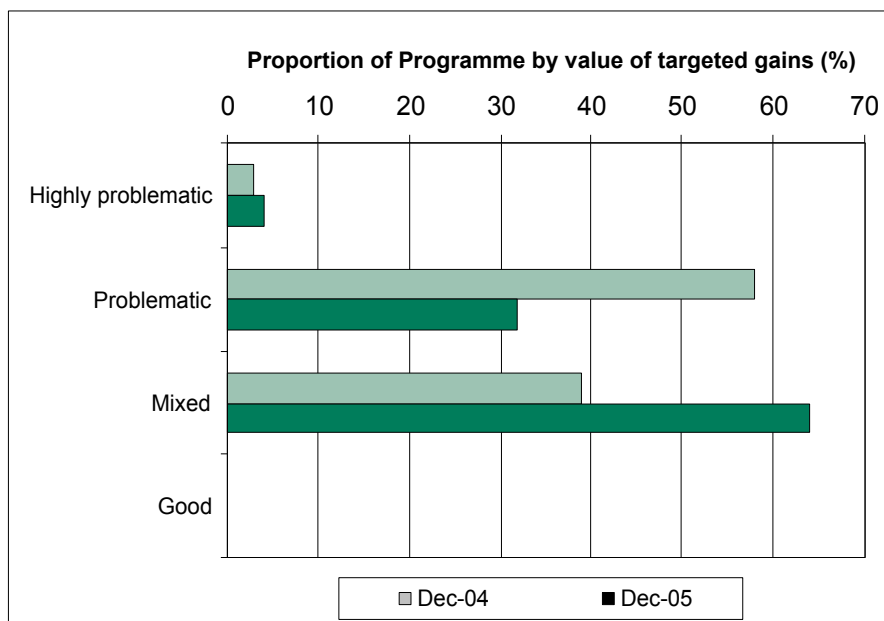
<p>Procurement</p> <p>The public sector spends over £100 billion annually on procurement of goods and services. There is therefore potential for efficiencies through more aggregation of demand, and improved supplier management.</p>
<p>Productive time</p> <p>This workstream relates to activities that are integral to the delivery of improved front-line services, such as within schools, hospitals, policing and local government. Freeing staff from time spent on unproductive tasks could increase public sector outputs considerably.</p>
<p>Policy funding and regulation</p> <p>The Policy, Funding and Regulation workstream focuses on the parts of government that set the delivery and financial frameworks for the public and private sectors. The workstream includes, for example: developing policy and regulation and setting standards and targets. The objective is to reduce the cost of this activity while increasing its effectiveness.</p>
<p>Corporate services</p> <p>The Corporate Services workstream concentrates on the efficient delivery of Finance, IT, HR and property management services to all government organisations, on which almost £30 billion a year is spent.</p>
<p>Transactional services</p> <p>Transactional Services focuses on improving the efficiency of the delivery of services, which currently cost over £10bn annually. These represent the most common interaction that citizen and businesses have with local and national government. The workstream will build on existing programmes across government to modernise service delivery.</p>

Source: C&AG's Report, Figure 7

10. Every six months, the Chief Executive of the OGC reports to the Prime Minister and Chancellor of the Exchequer on the progress departments are making towards their efficiency targets. Each department's efficiency programme is rated according to the likelihood of delivering targeted efficiency gains. In December 2004, the overall likelihood of delivery was assessed as highly problematic or problematic for just over 60% of the Programme by value (**Figure 3**). By December 2005, the proportion of the Programme rated as highly-problematic or problematic had fallen to 36%, although 64% of the Programme was rated as mixed, with some aspects still requiring substantial attention. The OGC said it was working with departments on their programmes to tackle identified risks and to achieve additional gains in some areas. At the start of the Programme, procurement projects were expected to contribute £6 to £7 billion of gains by 2008. The OGC now considered, however, that departments may achieve further procurement efficiencies through the use of new techniques, such as electronic auctions.¹⁴

¹⁴ C&AG's Report, paras 2.46–2.48; Qq 13, 17

Figure 3: The overall likelihood of delivery against the £21.5 billion target



Highly problematic: requires urgent attention and decisive action
 Problematic: requires substantial attention, some aspects need urgent attention
 Mixed: some aspects require substantial attention
 Good: requires only refinement

Source: C&AG's Report, Figure 29

11. When asked to identify the departments which had been rated as highly problematic, the OGC stated the ratings formed policy advice to the Prime Minister and Chancellor and that it would be inappropriate to give this information to the Committee. In a letter¹⁵ to the Committee following the hearing, the OGC reconfirmed this position arguing that, if the ratings were made public, departments would be less likely to engage in open discussion on the likelihood of delivery. The Committee considers that the ratings of departments' efficiency programmes are facts relating to programme implementation which do not, by themselves, involve any policy advice to ministers. Both in this and other respects there is a risk of insufficient transparency about the Programme. For example, while announcing in March 2006 that £6.4 billion had been achieved, the Treasury provided details for only £1 billion of the claimed gains.¹⁶

12. The Programme would have benefited from earlier decisions on how the Gershon Review was to be implemented, making it more likely that a stable OGC team would have been in place from the start. The limited period of transition from the Gershon Review to the Efficiency Programme, along with high staff turnover during 2004 and the time taken to recruit suitable replacements, hindered the Efficiency Team in fulfilling its dual role of monitoring and supporting departments' progress. In particular, a full team of

15 Ev 17

16 2006 Budget Report, para 6.13

measurement specialists was not established until June 2005, some three months after £2 billion of efficiency gains had been announced in the Budget.¹⁷

13. When Sir Peter Gershon recruited his team, most of whom came from outside Government, the expectation was that they would stay for nine months to undertake the review and then move on. At that stage, the Government had not decided how it was going to move into implementation of the Gershon Review recommendations. When the Efficiency Programme was announced in July 2004, the OGC set up an Efficiency Team. To manage the transition, some members of the Gershon Review team were held back or re-acquired for short periods while the new Team was being assembled, however, the Team suffered from high staff turnover and had difficulties in recruiting staff with specialist skills. For instance, the Team found it difficult to recruit a Head of Metrics from within the Civil Service to challenge departments' measurement of efficiency gains and had to make the appointment from the private sector. At the beginning of the Programme, the delays in recruiting key staff had made the establishment of working relationships with departments difficult. The OGC considered that the Team was now staffed to see out the implementation of the Programme for the full three years of the Programme. The Treasury accepted lessons needed to be learnt from the transition between the Gershon Review and the Efficiency Programme in preparation for the 2007 Comprehensive Spending Review.¹⁸

14. The OGC has subjected the Efficiency Programme to two Gateway Reviews. In both cases the Programme was assessed as “red” highlighting that immediate remedial actions were required in a number of areas. OGC considered that at the early stages of such a substantial programme it was not surprising that there were a number of issues to address. The first Gateway Review in June 2004, at the start of the Programme, highlighted issues around the setting up of the OGC Efficiency Team and how risk management issues were to be tackled. The key issue raised in the second Gateway Review, in July 2005, had been the development of indicators to identify sufficiently early slippage in the Programme. The OGC accepted that better monitoring of potential slippage was needed and established a cycle of quarterly reporting by departments. When the Programme is subjected to future Gateway Reviews, the OGC expects that the reviews will identify further issues which will need to be tackled.¹⁹ The purpose of Gateway Reviews was to identify risks sufficiently early for effective remedial action to be taken.

Efficiency needs to become embedded into public sector culture

15. The long term goal of the Programme is to embed efficiency into the culture of the public sector so that achieving efficiency is a routine requirement. As the private sector and some overseas public sector experience has shown there is potential to go further than the targets set for the current Efficiency Programme, if deeper and more systematic changes are pursued. The public sector needs to cumulate the kind of fundamental process changes introduced by the best private sector companies. Departments should, for example, regularly benchmark their performance against best practice in the private, voluntary and

17 C&AG's Report, paras 19, 2.42

18 Qq 37–38; 42, 46

19 Q 11

wider public sector in key activities such as procurement, human resource management, finance and IT services. But better data on efficiency and productivity is needed. Too often in the public sector decisions have been made on the basis of old or unreliable data. Lack of adequate data often hampers attempts to benchmark efficiency or make reliable assessments of productivity. The position in government contrasts with that in many private sector organisations where up to date and comprehensive reports on performance are routinely considered at board level. The best of these have a clear focus around a limited number of indicators that really drive cost and value and also show clearly how input costs relate to outputs produced.²⁰

16. How efficient the public sector will become largely depends on its capacity for reform. Only if there are appropriately skilled people, deployed in the right way, can significant improvements in efficiency be achieved. As a matter of importance the Treasury is addressing the increasing professionalisation of the finance function within central government. By December 2006, the Treasury expect all main departments to have a professionally qualified finance director on their management boards. In addition, departments now employ an individual staff member with responsibility for commercial and procurement activities. In some departments these individuals are senior appointments, either at management board level or closely connected to the board. In some smaller departments, however, they are at a lower level. In exactly the same way as for the financial function, the Treasury expects departments to improve the professionalisation of their commercial functions.²¹

20 C&AG's Report, paras 22, 3.1, 3.12, 2.13; Qq 15, 20, 22

21 *ibid*, para 3.8; Qq 114–115, 117, 119

Formal minutes

Monday 19 June 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Greg Clark

Helen Goodman

A draft Report (Progress in achieving government efficiency), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Summary read and agreed to.

Conclusions and recommendations read and agreed to.

Resolved, That the Report be the Fifty-fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 21 June at 3.30 pm.]

Witnesses

Monday 6 March 2006

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Mr John Oughton, Office of Government Commerce, and **Mr Jonathan Stephens**, HM Treasury

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 6 March 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Greg Clark
Helen Goodman

Kitty Ussher
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, was in attendance and gave oral evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Progress in Improving Government Efficiency (HC 802-I)

Progress in Improving Government Efficiency: Lessons from Case Studies of Efficiency Initiatives (HC 802-II)

Witnesses: **Mr John Oughton**, Chief Executive, Office of Government Commerce and **Mr Jonathan Stephens**, Director of Public Services, HM Treasury, gave evidence.

Q1 Chairman: Good afternoon and welcome to the second part of this PAC hearing today where now we are considering the Comptroller and Auditor General's Report *Progress in improving government efficiency*. We welcome back John Oughton, who is the Chief Executive of the Office of Government Commerce, and Jonathan Stephens, who is the Managing Director of the Public Services Division of the Treasury. You are both very welcome and I am sorry if we delayed you a few moments. Can we start by looking at the Comptroller and Auditor General's Report, page 25, "Measuring the progress of the Efficiency Programme"? Lack of baselines, no quality indicators, risk of double counting—can we place any reliance on the efficiency gains that you have claimed for?

Mr Oughton: Yes, you can and increasing reliance.

Q2 Chairman: Explain to me why.

Mr Oughton: As the NAO Report itself says, there is now greater confidence in the latest set of figures compared with those that were published in the Budget in the spring of 2005. The reason why I say that is because, as the NAO Report quite fairly points out, this is an approach that provides a more structured and potentially more transparent model for delivery and accountability than has previously been the case; so we are in new territory, we are doing more ambitious things. As the NAO Report also makes very clear, although there are some issues around baselines, which might lead perhaps to some over-reporting at this stage until we have bottomed that out, equally there may be under-reporting. As the Report makes absolutely clear in the summary in paragraph 10, there may be under-reporting as a result of lags in recording. There are movements in

both directions that could cast doubt on the figures, but overall the figures are a fair reflection of what has been reported to us so far.

Q3 Chairman: But you accept that there is a lack of these baselines, no quality indicators, risk of double counting; you accept all that, that comes out in this Report. Why do we need a review to discover deficiencies which presumably have been around for the last 20 years?

Mr Oughton: Yes, the Report does say that there is an issue around baselines. It also makes clear that since the start of the programme we have been making significant progress in establishing baselines. Something like 180 of the 300 major initiatives were lacking baselines at the start of the programme. That is now down to just over 100 and I confidently expect that number to decrease further. The important reassurance around baselines of course is that until a baseline has been agreed with the Office of Government Commerce, with my efficiency team, a department will not be recording savings against it; probably another reason why we are under-recording the amount that has been achieved so far.

Q4 Chairman: Let us look at the breakdown now. These are the paragraphs which start with paragraph 1.17, "The Efficiency Programme is and will remain high-risk". Why have we not had a clear breakdown of the £4.7 billion of claimed efficiency gains?

Mr Oughton: You have.

Q5 Chairman: Why can you not publish a clear breakdown of it?

Mr Oughton: If you turn to page 30 and figures 15 and 16, you will see a very clear statement of the major contributions being made by individual government departments, reported in September 2005, and we have also been very clear about where the major contributions are coming from in terms of the original work streams, the original areas of opportunity identified in Sir Peter Gershon's original Report. There is a very good breakdown in the Report.

Q6 Chairman: So there is no secrecy about this programme; everything is clearly set out in the public domain, is it?

Mr Oughton: There is no secrecy whatsoever. The Chancellor has reported progress both in his Budget statement in 2005 and again in the Pre-Budget Report in December. I would expect him to update on progress in his Budget on 22 March.

Q7 Chairman: If you now look at page five, paragraph 12, do you actually know whether service quality is suffering or not as a result of the efficiency programme?

Mr Oughton: We have taken a number of steps to deal with that issue.

Q8 Chairman: Put it another way. Does this Report indicate that you do not actually know whether service quality is suffering?

Mr Oughton: No. What this Report accurately states, first of all, is that service quality is an issue that we are addressing and we are keeping in mind as we go through this efficiency programme. Secondly, this is an issue which we have to work closely with departments to bottom out. Thirdly, we are developing measures which can allow us to track quality.

Q9 Chairman: I have to stop you there. You have framed your reply very carefully. You have said "this is an issue". You have not actually replied to the question I put to you. Do you know whether service quality is suffering as a result of the efficiency programme?

Mr Oughton: Let me try to answer it again then for you. In the way we have set up this efficiency programme we assess departmental performance against the efficiency targets that are set and also against the department's ability to deliver on their public service agreements. Mr Stephens may like to comment on that in a moment. The whole purpose of this efficiency programme was to deliver the Government's spending programme and the Government's modernisation programme for public services within a given level of resources with more of those resources being devoted to frontline delivery of output. So of course, when we are measuring whether efficiency has been achieved, we also want to see whether the public service agreements are still being delivered as promised, as intended.

Q10 Chairman: All right, I shall put the question to you Mr Stephens. Are you now certain that the quality of public service is not deteriorating?

Mr Stephens: We have a number of ways of measuring the quality of public services. The Government set out in their public service agreements that were published at the time of the 2004 spending review about 100 or so targets across public services that set out a very ambitious programme, not just to maintain the quality of public services but to increase it in very significant areas: health, education, criminal justice, *et cetera*. We continue to monitor and hold departments to account against those ambitious targets. I completely accept the message of the Report that more needs to be done in terms of specific measures matched up against specific efficiency projects. That is a really useful message to come out from the Report that will reinforce the importance of keeping a strong view on measuring service quality as far as departments are concerned.

Q11 Chairman: If you look at paragraph 2.39, which you can find on page 47, you will see that the programme has twice received red Gateway ratings. Will the next review be red as well?

Mr Oughton: It might be. A red Gateway rating does not tell you that a programme is in failure: what it tells you is that a programme has issues which need to be addressed immediately. That is the technical definition of the rating. It is not very surprising for a programme which the NAO itself has regarded as more broadly based and more ambitious than any other attempt to tackle efficiency in the British Government, in the British public sector, that there will be immediate issues which have to be tackled. We have had two Gateway Reviews of this programme. One was in June 2004, actually before the Chancellor made his public spending announcements in July, so right at the start of the programme. The issues that were raised then, not surprisingly, were around the setup of the team, recruiting to that team, tackling risk management issues. The issues around the Gateway Review in July 2005 were actually rather different. The risk was identified as an issue on that occasion, there was concentration in that Gateway report on indicators so that we could identify slippage in the programme. We accept that and we have established a cycle of quarterly reporting to deal with it. And there were issues around the connection between this programme and the next comprehensive spending review. I should expect at every stage when this programme is looked at by the Gateway Review process, that it will identify issues which need to be tackled immediately.

Q12 Chairman: Look now at figure 29, which you will find on page 50. If you look at that, as at December 2005, a third of this programme requires remedial action, does it not?

Mr Oughton: Yes, that is right. I actually draw something rather different out of that table.

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Q13 Chairman: What do you get from that?

Mr Oughton: I also note that there has been significant improvement since December 2004, because now 64% of the programme is in green or amber-green territory. That is significant progress. Are there issues that still need to be tackled? Yes, of course there are. As the Report again very fairly and very usefully identifies, we are working with individual departments on individual programmes to tackle those risks and move us forward. Some of the ideas that the NAO have proposed in this Report, the toolkit, are extremely helpful and we shall want to build on those, but of course there are issues which still need to be tackled. Nobody is making any secret of that.

Q14 Chairman: Let us look at how ambitious you have been which is summarised in paragraph 22 on page seven. You are looking for 2.5% a year, are you not?

Mr Oughton: That is correct; 2.5% year on year.

Q15 Chairman: Is that not rather unambitious?

Mr Oughton: No, I do not think so. The NAO's own statement is that this is an extremely ambitious programme and I rather agree with that; 2.5% year-on-year across the whole of the wider public sector. Bear in mind this is not just central government. We are talking about local authorities, police constabularies, hospital trusts, the whole of the education sector. This is a much more broadly-based and ambitious programme than has been tackled before across the public sector.

Q16 Chairman: So this figure of 2.5% stands, you do not think it can be improved upon, there are no plans to change it.

Mr Oughton: That is the target. I am confident, as is the Chief Secretary.

Q17 Chairman: So no discussions going on about it at the moment?

Mr Oughton: The Chief Secretary was very clear when he answered Treasury questions last week that he thinks this programme is on track to deliver. I am very clear that if we are aggressive and if we are successful in pushing these programmes forward, we may achieve additional gains in some areas. Procurement is a very good example of that. At the start of the programme we expected procurement, as Sir Peter Gershon himself recognised, to contribute something like £6 to £7 billion in total across the period. We might do better than that. The evidence from the deals we have been negotiating, the use of new techniques such as electronic auctions, suggest that there may be some more to be had. The very good work that is being done, particularly in local authorities, to develop collaborative procurement solutions, suggests to me that there might be more that can be had, but I am not changing the target. The target is there to be met.

Q18 Chairman: To sum up, the £21.5 billion target will be met, will it?

Mr Oughton: That is the judgment of the Chief Secretary and it is my judgment too. It is a tough ask. There is still more to be done to put right some of the risk in the programme, but I think £21.5 billion is achievable.

Q19 Kitty Ussher: When I read this Report, knowing a little bit about the process, the question that came straight into my mind was: has this been done previously by Government? It seemed like an obvious thing to be trying to do. I do not know whether you can fill us in a bit on the history.

Mr Oughton: There is a very good table in the Report which does sketch out the history of the Government's approach to efficiency and the answer is yes, it has been done in part in some parts of the public sector. In central government all the way back to the early 1980s the then Government established an efficiency unit which tackled efficiency across government departments by looking at individual projects—not the broad sweep of the approach that has been taken now. It looked at individual issues, everything from streamlining administration in departments to tackling benefit fraud, big issues and small ones alike. Those reviews came up with some very specific recommendations for implementation. That was a very successful programme. In the early 1990s, the Government then moved into a much greater use of the private sector to deliver government services, the Competing for Quality White Paper in 1992 and then the change of gear into outsourcing and market-testing of departmental functions which was given a very significant push in that early period in the 1990s. Again it was focused around some particular techniques and some particular activity. The difference with this programme is that it is across the whole of the public sector; Sir Peter Gershon identified some areas of maximum opportunity, the work streams as they are described, but he did not for one moment say that was the whole of the story. What he was saying was that there were opportunities for improvement across the whole of the wider public sector: we are not going to pre-determine the techniques that you use, but you need to be incentivised and encouraged to use the best techniques to deliver benefits.

Q20 Kitty Ussher: Whereas in the private sector very few companies match the size of the entirety of the UK public sector, in the private sector, with the additional spur of competition, productivity improvements annually of about 2.5% are extremely normal and have been since time immemorial; indeed that is the GDP rate of the country, so that is the normal rate of productivity increase. Is that not what every single organisation should always be doing? Linked to that, what lessons can be learned from the private sector in the way that it continually, good companies anyway, innovates in this way?

Mr Oughton: That is very fair. One should also recognise that what the Government have been trying to do with this efficiency programme is to kick-start an efficiency process across the whole of Government. In a sense it has not been in the routine of how Government have done business, which is

why a focus was put on efficiency in Gershon's Report and then the commitments that were made in the spending review 2004. We needed to gather some acceleration and some momentum around this programme and that is why again it is very important to recognise that the three years of this spending review period are not going to be the end of the story. Part of the challenge is to embed efficiency for the longer term so that it becomes absolutely embedded in the DNA of how departments do their business. That is a big challenge for us and for all departments. Again we are starting behind where some private sector companies were starting. Can we learn from the private sector? Yes, we certainly can. One of the major incentives, if you like, for government departments is to benchmark their performance against what appears in the private sector. For example, if I look at our corporate services activity, how we administer ourselves in government departments, in finance, in HR, in other corporate services, there are very good, well-established, clear benchmarks which show performance in good, well-run, private sector companies and what is achieved in the public sector. We know we have an aiming point we can strive for, so yes, we can certainly learn from that.

Q21 Kitty Ussher: Can you also learn from the private sector however in the entire process? Obviously there are ways in which HR departments in the private sector are run that may be more efficient, that our HR departments can learn from, but in terms of how you conduct a sort of rolling efficiency programme, what kind of expertise do you have from the corporate world?

Mr Oughton: There is expertise inside the efficiency team; it is drawn both from the wider public sector and from the private sector. We call on private sector secondees, just as Sir Peter Gershon did to help him with that process, departments themselves draw on private sector secondees as well. What reassured me when I looked at the accompanying documents with the NAO's case studies, the eight case studies they had undertaken, was that some of those came from very well-run private sector modernisation programmes: BT's HR programme, the Asda/Walmart supply chain activity. What reassured me about that was that none of that came as a surprise to me because we knew about those programmes. We have researched them, we have talked to the companies, we have had presentations from them, we have talked to the people who implemented those solutions so that we can learn from them and we can implement them also in government and pick the right lessons from them.

Q22 Kitty Ussher: How long do you think it will take before the British public sector is continually innovating to become more efficient in the same way as the successful global companies like Microsoft, say, always need to innovate to remain ahead of the competition? I sense we are at the very beginning of a learning curve; perhaps there are some quick wins we can make in the next few years, but at some point

it is going to tighten when we are as efficient as we can be given the resources. How long do you think it will take to get to that stage?

Mr Oughton: It depends how we go about efficiency. What has happened in this first three-year programme is that we have identified some specific initiatives, some opportunities in Gershon's work streams that we can follow. A lot can be done around procurement, for example. A lot can be done around maximising the time of public sector workers spent on frontline-facing tasks rather than administrative support activity. You can only go so far in adopting that approach. On procurement, for example, I should argue that we can go a bit further on negotiating better deals. We can certainly go further on aggregating our demands, so that we can drive some bigger discounts in appropriate marketplaces. It is good to try to drive discounts in an energy marketplace for utilities, for volume commodities such as Microsoft licences, since you mentioned the company, but it will not always be the right approach. Some of the benefits will come from using new process techniques such as electronic auctions, but there will come a point where, unless you change the model very significantly, you cannot keep squeezing and squeezing and squeezing and expect to get another 1% or 2% out of that approach. Apart from anything else, I should not want to get to a position where, because of the way Government was doing business, Government was an unattractive customer for private sector companies to do business with. There has to be a recognition that private sector suppliers must make a reasonable return on their investment and they must deliver a good service and a good product to us. So to move on to the longer-term efficiency means more than just squeezing and tightening and negotiating a bit harder: it means changing the process model in the way that the best of the private sector companies have done.

Q23 Kitty Ussher: Two quick questions on procurement. Would you agree the characterisation that I guess I had in my head, that one of the historic problems with departmental procurement is the way the Civil Service works, particularly the senior Civil Service, full of lots of very bright, capable people, but where jobs tend to rotate that are not necessarily linked to the individual's own personal experience and training? You could get a situation where a head of procurement in fact is the policy generalist and does not have the same type of expertise that a private sector procurement person would have. That is question one: what are you doing about that, if you agree? The second one is a bit of a personal bug-bear of mine and I have put forward a 10 minute rule bill on this very point, namely procurement of innovative technologies. There is a lot of brainpower in our universities and in smaller companies that could solve public policy problems in a way that is beneficial to the taxpayer and we have not been using that sufficiently by not going and seeking the kind of bright start-up companies which can solve public policy problems, particularly in Home Office or Health and that type of area. Anecdotally I have

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heard a lot of people say that they fear trading with the Government because they fear they will lose their intellectual property. They come to Government with an idea, Government say “That is all very interesting, let us issue a call to tender with that very idea” and they have lost their intellectual property. I do not know to what extent you are investigating that area as well, but I should be grateful for your views.

Mr Oughton: On the first point, yes, absolutely, the professionalisation of our procurement activity is a key essential part of delivering on this. We have been on this for longer than the Gershon efficiency programme. The Professional Skills for Government programme across central government is designed to improve these specialist skills. So within the Office of Government Commerce, for example, we operate as the head of profession both for procurement and for programme and project management skills, both of them absolutely essential to delivery of any major programme and this efficiency programme is clearly one. Part of my role, part of the responsibility we have, is to work with departments and to challenge them on the reinforcement of their commercial profession. We also have to make sure crucially that that commercial director position has connection with, and access to, the very top of the office so that we move away from what traditionally used to be done in government departments, which was that the procurement man, the contracts officer—who was usually a man—was brought in really quite late in the day when we had reached the point of going out to invitation to tender, placing the advertisement and then starting negotiation. We should like to see proper commercial expertise brought in at the start of the process when the major investment decision is taken at the outset, so that the commercial and procurement strategy can be determined up front as an integral part of deciding to go ahead with the programme. That is what we are trying to do, working with departments to improve their skill and their professionalism in that way. Innovation is a very important way of securing efficiency. I did read your 10 minute rule bill and I did see your remarks in the PAC debate on 26 January and my own view is that we can achieve many of these objectives without the need for a particular set-aside in terms of investment. Why do I say that? I say that because we have done quite a lot of work to remove the barriers to entry for small and medium-sized companies to gain access to government procurement. We ran two pilots in the West Midlands and in Haringey about a year to 18 months ago, looking at how we could remove the disincentives for small companies, many of whom are offering innovative new solutions and how they could get their foot through the door and secure more government business. The interesting thing, rather counter to what you might think is happening in the efficiency programme, where we are aggregating our demands, placing bigger contracts, which only the big companies can therefore win, is that if you remove the barriers to entry, if you shorten the tendering process, simplify the

documents, have better advertisement of the opportunities so that people get access to the information, more small companies can get through the door. In fact, we pretty much doubled the amount of business in the West Midlands that was being won by the small innovative companies.

Kitty Ussher: Thank you. I hope time proves you right.

Q24 Helen Goodman: I should just like to go back to the beginning of the process and ask you how the targets were set, because I do not think I have fully grasped this. In table five on page 14 there is a very straightforward list of targets by money and targets by post. Could you just say briefly how the targets for money were set?

Mr Oughton: There was a three-stage process in the Gershon Review. The first stage from the set-up in September/October 2003 through to the end of the year was around identifying what was happening in departments at the time and looking outside for ideas on good efficiency activities which could be pursued in Government. When Sir Peter Gershon and his team had established an agenda, things that could be done, they put that to departments in the period between Christmas and about February/March to say “Can you come up with ideas based on these proposals that we have set out that could form the basis of your efficiency commitments in the next spending round?”. Departments did that, they were then challenged, scrutinised both by Sir Peter Gershon’s team and by the spending teams in the Treasury and as a result of that, firm commitments were then agreed in the spending round settlement that was published in July.

Q25 Helen Goodman: In the first phase of that, when Gershon was getting the ideas, was it a bottom-up process? Was he saying that the Department of Health spends so much on procuring drugs, so much on hospitals, so much on social care and these are the kinds of efficiencies which are being achieved in these areas in other countries or in the private sector? Was it that kind of process?

Mr Oughton: It was a bit of both. There was clearly a bit of drawing on the experience of the individuals in the team who worked in their own organisations and tried to deliver efficiency. In that sense, there was a piece of top down, “Here are some ideas that we should like you to try to pursue”. There was also a very, very broad consultation exercise and indeed a very well set out annex in Gershon’s Report describes the consultation process, and explains the very wide number of public bodies, both inside central government and indeed in the wider public sector which contributed to that process with their own ideas. So there was quite a bit of bottom-up as well.

Q26 Helen Goodman: Of course it is attractive for politicians of every complexion to say that they have achieved fewer civil servants than there were last year, but speaking as somebody who used to be a civil servant, personally I think this is a bit crude. I wonder how much the constraint on reducing

numbers ties in with the financial targets and to what extent it does not sometimes cut across the financial targets?

Mr Oughton: The head count reductions come really as a consequence of the initiatives identified in Sir Peter Gershon's report and other initiatives that were already underway in departments which were all brought together in the spending review 2004 settlement in July 2004. There is a table in the Public Spending White Paper from July 2004 which sets out the departmental commitments to headcount reductions. As I say, they are a product of the decisions that those departments were taking to modernise the way they do their business, most obviously, the Department for Work and Pensions. There the reductions of 40,000 gross, 30,000 net, were not figures that were simply plucked out of the air, they were a consequence of the end-to-end modernisation of the delivery process that DWP had underway. They were a consequence of those changes, rather than being a completely isolated and separate target in their own right.

Q27 Helen Goodman: One of the things that will disrupt these objectives is if there is a great deal of conflict within the organisations. In some of these there is at the moment quite a lot of conflict with the trade unions and I wonder whether the trade unions were consulted at the outset. My experience is that people on the ground often have quite a lot of good ideas about how to make savings and I wonder whether those ideas were used or whether other ideas were imposed upon them.

Mr Oughton: No, the trade unions were indeed involved in the exercise and they have been involved with us in the implementation phase ever since. The answer to that is yes.

Q28 Helen Goodman: Can we move on to figure 12 on page 21? The way you have divided this up is very useful in terms of work stream by department, both from the point of view of doing the work and in terms of helping us to understand it in this Report. One of the things which concerns me as a constituency Member of Parliament is the kind of complaints I get from my constituents about dealing with the public services. I want to address some of these quality-of-service issues and in particular I see, in terms of the transaction stream of work, that a great deal is expected of the DWP and also something from HMRC. Looking at what you mean by transactions, which is somewhere else in the Report, this could be interpreted as the public sector saving money because the private individuals will do the work themselves. Would you like to comment on that?

Mr Oughton: Many of the changes do result from change in the way transactions are undertaken. For example, in the Department for Transport being able to apply for—

Q29 Helen Goodman: Could you possibly focus particularly on the DWP because I have lots of problems with the DWP.

Mr Oughton: Yes; certainly. In DWP, a number of things have happened. The first is that with the payments modernisation programme, payment of benefits is now done directly into bank accounts rather than by other methods, so the delivery channel has changed in a way that is less labour intensive. Something like 95% of all payments now go directly into bank accounts. That is saving something like £250 million a year this year, but with no degradation in the service being provided to people; in fact, one could argue that it is a surer way of putting money into people's hands.

Q30 Helen Goodman: You say that very smoothly, but we had a debate the other day on the fact that the banks charge people for withdrawing their money and for people on low incomes there has definitely been a very significant reduction in the quality of service. Was that taken into account when the OGC promoted this idea with the DWP?

Mr Oughton: Yes, because conversations were undertaken with the banks.

Q31 Helen Goodman: So you took it into account that people would have to pay to get their benefits and you are still telling me that there is no reduction in the quality of service for benefit recipients as opposed to under the previous system when they got their money in full?

Mr Oughton: I am saying that we took all of the issues into account, all of the factors and the DWP, whose programme this is, judged that that was the right thing to do and I support them in that because that has produced a better outcome.

Q32 Helen Goodman: May I ask you a question about adult social care? This also is a very fraught issue. In County Durham at the moment, we have significant cuts in our residential care. One of the things which is very noticeable from this chart is that significant savings are required from the Department of Health on something called "productive time". I wonder whether you could say where exactly that productive time is meant to be found by the Department of Health.

Mr Oughton: We did a study with the Department of Health in the autumn of last year to look at exactly this issue. It will come from changes, for example the reduction in hospital time for a number of common operations, so reducing the amount of time of a hospital stay. That is releasing something like one million additional bed days each year by reducing the amount of time. It is coming from, for example—

Q33 Helen Goodman: Sorry, you are talking there about the amount of time that people spend in hospital, are you?

Mr Oughton: That is correct.

Q34 Helen Goodman: So you are not talking about the use of the time of the staff, you are talking once again about the use of the time of the general public.

Mr Oughton: I am talking about the use then of the clinicians and the nurses and the staff in the hospitals who can treat more patients and get as good or

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better clinical outcomes, but in less time, so their time is being used more productively. That is exactly what I am getting at. To give you an example, many operations that required overnight stays can now be done as day surgery. That reduces the amount of time that clinicians, nurses, people in hospitals have to spend with each patient whilst still getting the right clinical outcome; that is a benefit. I give you another example, very briefly—

Q35 Helen Goodman: My time is up. I should just like to ask you whether you could possibly provide the Committee with a note on which particular areas of work, funded by the Department of Health are producing these productive time savings.

Mr Oughton: Yes, I can certainly do that.¹

Q36 Mr Bacon: Kitty Ussher referred to rotating civil servants and it is a problem which is not new: Sir Peter Gershon some years ago in evidence before this Committee talked about the problem, Andrew Turnbull when he became Cabinet Secretary talked about increasing posts to four years. Why is this still a problem?

Mr Oughton: It is less of a problem, because, certainly in the senior Civil Service, the normal terms of appointments now are for four years: sometimes in Defence Procurement five years is an upper maximum. That is the typical length of time now when an appointment is taken up.

Q37 Mr Bacon: Could I ask you to turn to paragraph 2.40 on page 47? It says “By the time the report” that is the Gershon Review “had been published, most of the Review team had left the project. Today only one member of the Review team works full time on the Efficiency Team”. In other words, a lot of the expertise had already gone by the time the thing was published. Why did you allow that to happen?

Mr Oughton: When Sir Peter Gershon recruited his team, most of whom came from outside Government I hasten to add—if you look at his report, he lists the members of the team and they mostly came on secondment from outside Government for a fixed, limited period of time—the expectation was that they would stay for nine months and they would do the review. At that stage, the Government had not decided how it was going to move into implementation. When it announced in July 2004 that it was accepting Sir Peter Gershon’s recommendations and wished to implement them, I set up an efficiency team. I did in fact manage the transition by holding back and reacquiring some members of Gershon’s team for short periods to manage that transition and then we built a team of our own. That team is on an engagement now for the full three years of implementing this programme.

Mr Stephens: If I may, from the Treasury’s point of view clearly there were lessons to be learned from that transition and we are making sure that in the comprehensive spending review, we think about implementation in the course of it.

Q38 Mr Bacon: That is not a new point either, is it Mr Oughton? Getting people to implement rather as in the classic example of management consultants turning up in Eastern Europe and throwing fat reports from the steps of aeroplanes as they left the country as quickly as they could, leaving behind them just a large invoice, is a very old-fashioned style of consultancy and we have been moving towards actual implementation, getting it done, for a very long time. You had to go back and re-acquire some of these people did you?

Mr Oughton: Yes, we did and we did that for a short period to help us over that transition. We now have a much more stable team which has a mixture of public and private sector skills and that will see us through the duration of this programme and, as Mr Stephens says, we are already thinking about how we manage the longer-term implementation.

Q39 Mr Bacon: It says that in paragraph 2.42 that you are unable to recruit a head of efficiency measurement from within the Civil Service.

Mr Oughton: Yes, it does.

Q40 Mr Bacon: What does that tell us about the ability of the Civil Service to measure its performance?

Mr Oughton: It tells us that, when we initially started the recruitment, we had no reason to think that we could not recruit someone from the Civil Service, that is why we—

Q41 Mr Bacon: Out of these half a million people, there was not one person who was suitable?

Mr Oughton: Not who applied for the job. So we went to a wider competition, out into the private sector and that took longer.

Q42 Mr Bacon: Did you think of doing any head-hunting? It does not have to be them coming to you. I understood the standard way of Civil Service promotion was “Now come on Carruthers, you’ve done your two years here, it is time for you to widen your experience” and half way through an important project, you are whisked off and have to do something else. How else does one account for the fact that so many programmes have so many project managers within such a short period of time? Should you not have looked internally and, as it were, identified, even fingered somebody and said this is very important.

Mr Oughton: I wanted someone with the right skills. I did not want someone who was simply moving to broaden experience; I wanted someone who had done it and who had that experience. As it turned out, we were proved wrong, we could not find someone who was available within the Civil Service, so we had to go to a wider recruitment and it took us longer.

Q43 Mr Bacon: In paragraph 2.43, it says that the information demanded by the efficiency teams put strains on working relationships. What are you doing to put this right?

¹ Ev 15–17

Mr Oughton: It is not surprising there is a strain. Our role is twofold: it is to help, but it is to monitor and challenge, so that does put a strain on the relationship. What are we doing? We are changing the way we assess departmental progress. We have a process, which again is described in the Report, called “moderation panels”. This is a process of scrutiny and challenge which we conduct once every six months with the departments; my team, plus support from the Public Services Productivity Panel, the Chancellor’s body of external advisers who help with this process. That has been a pretty acrimonious and a pretty challenging process up until now.

Q44 Mr Bacon: Would it have been made more acrimonious by the fact that at each of these six-monthly reviews there was a different relationship manager from your side turning up?

Mr Oughton: That is not generally true.

Q45 Mr Bacon: Let me just read you from paragraph 2.45.

Mr Oughton: It has happened in some cases. It happened particularly at the beginning of the programme.

Q46 Mr Bacon: May I just read from paragraph 2.45? The National Audit Office Report says, and it is citing this as a general comment, as an example of what was a general problem, “One department’s efficiency co-ordinator expressed the general feeling amongst departments” plural “when she observed, ‘At the beginning, it seemed they were coming and going every month . . . It might just be a factor of the way they work, but it would be really helpful to have somebody with a consistent view of the old stories’”. It goes on to say “During 2005, as relationship managers have tended to stay in their positions longer”—it is only March 2006 and I am wondering what constitutes a long period of stay—“the management of relationships with departments has become more stable”. If during 2005 people have stayed longer and the NAO are already, on your advice, forming that conclusion or reporting that, how long does somebody have to stay before it constitutes a long-term stable relationship?

Mr Oughton: The key words in what you have read out are “at the beginning” because that is absolutely true. At the beginning we had too many changes of personnel as people, some of them short-term acquisitions from Gershon’s team, covered that job for short periods before we were able to recruit for the longer term. Since the beginning of 2005, 15 months ago now, we have had much greater stability in the team and that has improved the relationship. However, if I can make one other brief point, what we are doing to change the process of scrutiny and challenge with the departments is to get much closer to them and agree the territory that we are going to cover so that there are no surprises then in the conversation that we have. It is done in a way that is designed to be helpful, very much in the way the

Prime Minister’s delivery unit does their moderation panel work, and it is not just an attempt to catch people out.

Q47 Mr Bacon: That presumably means having the same relationship manager *in situ* for a reasonably long time.

Mr Oughton: Yes, it does.

Q48 Mr Bacon: How long would be your optimum period?

Mr Oughton: They should do at least a year or 18 months and some of them who are now in post will stay until the end of the programme.

Q49 Mr Bacon: In the private sector it is standard to see a programme through. When I talk to consultants and to private sector managers, this is the single biggest difference. People are appointed to a project, they see the project through. The National Probation Service implementation system strategy famously had seven project managers in seven years. The national programme for IT in the Health Service, which is the largest civilian IT programme in the world, has now had four senior responsible owners in three years. This is a core problem in the public sector. What are you doing to put it right? Putting people in for 12 and 18 months is not necessarily addressing the problem, is it?

Mr Oughton: For this task in the three-year programme we have got it right because we now have relationship managers who will see this through. On the wider issue of projects being run in Government, which is not covered in this Report, then I talk to senior responsible owners about their role and the duration. I talk to Permanent Secretaries about that. More importantly, since you cited Connecting for Health, the NHS IT programme, the important stability there is actually around the project director who is undertaking the procurement. He stayed in post throughout from day one.

Q50 Mr Bacon: Are you talking about Mr Granger?

Mr Oughton: Indeed.

Q51 Mr Bacon: Do you have people in OGC whose job it is permanently to scrutinise and worry about Connecting for Health?

Mr Oughton: Yes, I do. I have someone who sits on the programme board.

Q52 Mr Bacon: Multi-national companies have some of the same problems that you do as a large organisation: very big numbers of people, very big numbers of staff, very big numbers in terms of money and their approach, broadly speaking, not universally but broadly speaking, is better. I was interested to hear you say that you have talked to private sector companies. What more do you think you could do?

Mr Oughton: The terms of appointment are already laid down as being four years, that is the presumption, but we should be insisting that four years is stuck to or closer to four years than is the

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case in some respects now. We could do more around that, which is why part of what I do when I talk to departments is to assess their capability to deliver. Remember that the Cabinet Secretary has now instituted a process of capability reviews which are again referred to in the NAO's Report, which will be designed to look at all aspects of departmental capability including their ability to deliver a major project.

Q53 Mr Bacon: Instead of picking a period of time like four years out of the ether, why is it not driven by the project? Why can it not be two and three quarter years or three and a half years and then when the project is done, that should be the criterion for moving on rather than basing it round a chunk of time?

Mr Oughton: Sometimes it is. It depends on the nature of the project. If you take the Ministry of Defence for example, they put down an upper limit on length of appointment in procurement of five years for the simple reason that they wish to ensure that there is complete propriety over the nature of the relationship which builds up between the departmental project and the supplier. That is a perfectly reasonable safeguard to put in place. In some other non-procurement projects, people can stay longer or shorter depending.

Q54 Mr Bacon: One more question. On page 50 there is a chart in figure 29 which shows that at least one department must have been assessed as "Highly problematic—requires urgent and decisive action". Which department was that?

Mr Oughton: I report progress by department to the Chancellor and the Prime Minister, but I am not able to talk about individual departments here.

Q55 Mr Bacon: Not to me? Was it more than one department or was it just one?

Mr Oughton: I am not able to talk about individual departments this afternoon.

Q56 Chairman: Why are you not able to?

Mr Oughton: Because I have given advice to the Prime Minister and Chancellor on performance, department by department. What is reported in the NAO Report is performance by work stream and by major contributor, but not by colour rating.

Q57 Mr Williams: On a point of order, the witness is allowed to withhold policy advice not factual delivery information. That should be available to this Committee.

Mr Oughton: My report is to the Prime Minister and the Chancellor.

Q58 Mr Williams: It does not matter to whom you report, the report is a factual report, not a policy recommendation, not giving advice. We are not asking for the advice, we are asking for the actual thorough information. Are you seriously saying you are going to refuse to give it to this Committee?

Mr Oughton: You can take it Mr Williams that what I provide to the Prime Minister and the Chancellor is advice on what to do about everything that I find in the efficiency programme.

Mr Williams: We are not asking for the advice on what to do. We realise you do not have to give us information on policy and it is absolutely correct that you should not, but you were not asked, you were asked for factual information.

Q59 Mr Bacon: My question is: which department is highly problematic?

Mr Oughton: I cannot answer that question.

Mr Williams: I am sorry, but that is not good enough.

Chairman: I think we are going to ask the Clerk's advice on this. Surely the case is that we are not allowed to ask the civil servant for policy advice to the Prime Minister, but we are allowed to ask for factual information given to the Prime Minister.

Mr Williams: That is right.

Q60 Chairman: The Clerk has confirmed that, so that is the answer.

Mr Oughton: As I have said already, in giving my advice to the Prime Minister and the Chancellor I am making—

Q61 Chairman: We have had advice from the Clerk. You are in danger of being in contempt of this Committee.

Mr Oughton: I am making an assessment which I give to the Prime Minister and the Chancellor. That is policy advice to them.

Q62 Chairman: It is not. You were told this was a clear case. Mr Bacon was referring to figure 29. It was a factual case. What was the department concerned?

Mr Oughton: I would need to consult my ministers, if I were to give that information.

Kitty Ussher: Perhaps Mr Oughton could write to us once he has considered his answer.

Q63 Chairman: Would you be prepared to give it to us in a private session at the end?

Mr Oughton: I need to consult my ministers and then certainly I would write to you with a response.²

Chairman: We shall look forward to receiving your answer.

Q64 Mr Williams: We must reserve the option of calling the witness back after we have heard from him.

Mr Oughton: Yes, I understand that of course.

Q65 Greg Clark: May I address the issue of cashable versus non-cashable savings? Page four of the Report, paragraph seven, says that overall, around two thirds of the £21.5 billion target is expected to be cashable. Does that remain the case?

Mr Oughton: Yes, it seems to be working out as we expected.

² Ev 17–18

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Q66 Greg Clark: But on page five, paragraph 10, it notes that as at the 30 September, just under a half were cashable.

Mr Oughton: 48%.

Q67 Greg Clark: So two thirds is the plan, but only half so far. What is the discrepancy?

Mr Oughton: The discrepancy is because the rate at which savings are made will depend on the nature of the work stream they are coming from. So, for example, on procurement, where by definition there is hard cash coming off the bottom line, we have done some good things on a modest scale, but when I look at forward plans for departments, I can see what is going to happen over the next two years; they have made predictions for three years of their programme. I can look at their predictions for procurement, for productive time, for all the other elements of the programme. I can then make a judgment on the proportions of cash and non-cash that are being delivered. So it will not necessarily look the same in year one, year two and year three.

Q68 Greg Clark: I understand that, but on that, in the NAO sample of projects which is designed to be representative of the whole, they found that only 31% were cashable and 69% non-cashable, which means that to reverse this by 2008 something like 75% of any savings you discover from now on need to be cashable. Is that going to be met?

Mr Oughton: Yes and that is our plan. If we are successful in rolling out across procurement generally, which is our intention, some of the techniques that we have been trialling around procurement—I have mentioned the electronic auctions already which have launched very well but on a modest scale—then I would expect there to be very many more significant savings coming from an area such as that. That would allow us then to shift the balance back.

Q69 Greg Clark: If it is not achieved, then it means the money that was planned to go into the frontline would not be there, so you would accept the importance of this.

Mr Oughton: Cash and cashable are both very important because they both allow resources to be reinvested in frontline service delivery.

Q70 Greg Clark: Sure, but you accept the split; that is helpful. In terms of the National Audit Office in this, have you shared your six-monthly reports to the Chancellor and the Prime Minister with the National Audit Office?

Mr Oughton: The National Audit Office have seen the conclusions and judgments that I have reached.

Q71 Greg Clark: Have they seen the reports?

Mr Oughton: Seen; yes.

Q72 Greg Clark: Do you share them with them as a matter of routine every six months?

Mr Oughton: I should not say routine. We have only had two, maybe three reports so far; we are only just into this process.

Q73 Greg Clark: Do you intend to put them on the copy list when they go to the Chancellor?

Mr Oughton: No, I do not. We have a separate process.

Q74 Greg Clark: The National Audit Office being the auditor of the public sector, do you not think that they perhaps ought to see the progress report?

Mr Oughton: No, because when I give, and when any official gives advice to ministers it would not routinely be the case that those documents would be copied to the National Audit Office. There would be a separate process of disclosure of material to our external auditor.

Q75 Greg Clark: Would it not be the case Sir John that in any audit of a commercial company, the auditor should have access to any relevant financial figures?

Sir John Bourn: Yes, he certainly should have access, but what Mr Oughton describes would be the practice in the profession as a whole. It would not be that the company would send all the papers to the external auditor as a matter of course; many of them he would have to ask for himself. As Mr Oughton has said, we have asked to see them, we have seen them, we shall continue to ask to see them and we shall see them.

Q76 Greg Clark: So you expect to be able to ask for them and get them without let or hindrance. Very good. Savings of £2 billion were claimed for the Gershon Review in the Chancellor's 2005 Budget. The timing of that was rather sensitive because it was a few weeks before the General Election was called and obviously there is a need, particularly at that time but at any other time, to be meticulous about that. Sir John, were you asked to comment before the publication of these figures as to their accuracy?

Sir John Bourn: No.

Q77 Greg Clark: On page 45 of the Report, the NAO says "... we conclude that most of the efficiency gains announced in March 2005 were not based on clear audit trails and, from our understanding of the process through which the gains were collated, were not subject to adequate challenge by the Office of Government Commerce". Does that continue to be your view?

Sir John Bourn: Yes, that was the view and is the view in relation to what is said there.

Q78 Greg Clark: As I understand it, the process of collating this information involved the Treasury ringing round departments asking what savings they could offer up in time to be mentioned in the Budget with no checks at all; certainly no checks from the NAO. That is correct is it not Sir John?

Sir John Bourn: No, we did not check the figures.

Q79 Greg Clark: Mr Oughton, what do you have to say about that process?

Mr Oughton: That is an accurate statement of the gains as they were reported in the Budget in the spring of 2005. What has happened since then, which

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the NAO again quite accurately and faithfully record in the Report, is that there is now greater confidence around the figures because more work has been done on audit trails, more work has been done on establishing baselines.

Q80 Greg Clark: That particular incident worries me: why the NAO were not invited to take a view and why they felt compelled to say that the Office of Government Commerce, which you head, were not sufficiently challenging, in other words did not scrutinise properly the figures that were offered up.

Mr Oughton: It would not normally be the case that we would go to our external auditors to seek validation of information for a ministerial statement.

Q81 Greg Clark: They said that you did not challenge them effectively.

Mr Oughton: There are two parts to the answer, if I may; the first in relation to the National Audit Office. It would not be normal to go to our external auditors to seek a prior check on information that was disclosed in a ministerial statement. The external auditor of course has the absolute right and access to that information to conduct an audit after the event. The NAO and the Audit Commission were however involved in the process of developing the methodology by which we measure the efficiency gains and were satisfied with the methodology process that we had set up.

Q82 Greg Clark: The Report, page 33, paragraph 2.11, says on the question of methodologies "... we have significant concerns over whether the adopted measurement methodologies can be relied upon to substantiate efficiency gains effectively". So you are trying to give us comfort that these efficiency gains, whilst they were not looked at by the NAO and indeed the NAO said that you did not challenge them sufficiently, were based on robust methodologies. The Report directly contradicts that.

Mr Oughton: What I am saying is precisely what the Report itself says and that is that progress—

Q83 Greg Clark: I have just read out a quote from the Report. Do you accept that?

Mr Oughton: Yes, and if I could take you to—

Q84 Greg Clark: "... we have significant concerns over whether the adopted measurement methodologies can be relied upon".

Mr Oughton: Yes, and if I could take you to page five Mr Clark, paragraph ten, you will see that the Report also says "... greater confidence can be placed in the September figures than the £2 billion of efficiency gains reported in March 2005".

Q85 Greg Clark: This is my point. I concede that things have improved since then, but it worries me that in March 2005 some figures were put into the public domain at a very sensitive time which were beset by methodological flaws to the point that the NAO say they cannot be relied upon, that the NAO

were not consulted as to whether they were accurate and that they feel the need to conclude in their Report that you, at least your Office, were not sufficiently challenging. Going forward, it is true, is it not Sir John, that we can still only rigorously validate half of those savings?

Sir John Bourn: That is right.

Q86 Greg Clark: So going forward, Mr Oughton mentioned in his earlier remarks that the Chancellor no doubt, and no doubt the Office, will be publishing figures in future. Would it not be helpful for everyone's sake, because these figures are extremely important, to have the National Audit Office look at them before they are put in the public domain, rather like you audit the assumptions in the Budget? Would you think that would be helpful Sir John?

Sir John Bourn: If the system were changed and Parliament asked me to do it, then I certainly would do it.

Q87 Greg Clark: Do you think it would be useful?

Sir John Bourn: I do think that it would be useful in relation to this instance. Though of course as a general proposition it is not right to use the external auditor as part of executive management and tick things off as they go along, there can be particular exercises, of which this might be one, where that could be useful.

Q88 Greg Clark: Finally, of the £21.5 billion savings, how much of those will come from projects that existed before the Gershon Review?

Mr Oughton: A significant element will result from projects which started before Gershon.

Q89 Greg Clark: Does "significant" mean "most"?

Mr Oughton: I would not say most. What I would say is that—

Q90 Greg Clark: Just on that point, if you turn to page 19, paragraph 1.15, "Prior to the Gershon Review, the major Departments already had efficiency projects underway... and most of the targeted £21.5 billion... will come from these projects". So it is "most".

Mr Oughton: Yes, I am agreeing with that; I did say most. However, the point is this—

Greg Clark: You said "I would not say most".

Q91 Chairman: Did you say "significant" or "most"? I thought you said "significant" and you now say "most".

Mr Oughton: I agree with the Report. I signed off the facts of the Report. If I may answer Mr Clark, the point is this—

Q92 Greg Clark: What I am keen to get at is the percentage more or less. "Most" is over 50%. Are we talking 90%, 75%? You must have a point for this, you survey the whole scene.

Mr Oughton: My feel is as follows. The existing projects which were in place before Gershon undertook his work were designed to deliver a range of benefits. Mr Bacon has referred to Connecting for

Health for example. That is a very good example, a £6 billion investment to deliver a range of benefits including improvements to—

Q93 Greg Clark: The point is that I want to know how many were new in Gershon.

Mr Oughton: The point is this. Those projects when they were set up were not primarily designed to deliver efficiencies. The change that has resulted from Gershon is that there is now much greater focus on the importance of delivering efficiency and we now have a much higher confidence that an efficiency benefit will be delivered alongside the other benefits that were originally postulated for a programme.

Q94 Greg Clark: According to the NAO, of their sample, which again was meant to be representative, of 20 projects between one and three were new efficiency projects. Would you concede that the sample was designed to be representative of the whole? Is that a reasonable feel?

Mr Oughton: You need to drill down into it a little bit further because you can have a very broadly described initiative in a department which may, nonetheless, take on new elements as a result of the efficiency programmes. You may not see many new big programmes but you may see new activity taking place within them which will result from the efficiency drive.

Q95 Greg Clark: But one to three out of 20 is not a high proportion.

Mr Oughton: Not of that particular sample, but that is a very small sample of the 300 or so major contributing initiatives across the programme as a whole.

Q96 Greg Clark: Sir John, the sample was designed to be representative was it not and that is why one chooses it?

Sir John Bourn: Yes, it was designed to be representative.

Q97 Mr Williams: It is a little bit vague how much of this is a review rather than an initiative, is it not? What is coming over increasingly from the evidence, as with the last answer, is that you are assessing rather than necessarily initiating. You agreed this Report, as you have already indicated, and on page 19 the headline there is “The target excludes most investment costs” and it makes the point that most of the target of £21.5 billion of efficiency gains will come from projects which were already underway.

Mr Oughton: Yes.

Q98 Mr Williams: At the final sentence the point is made “... the £21.5 billion target does not therefore reflect the net efficiency gains that may, in practice, be achievable”. What is the point of them if they do not reflect the net efficiency gains? What are they reflecting?

Mr Oughton: Sir Peter Gershon had to deal with the circumstances as he found them when he was invited to do this work by the Prime Minister and the

Chancellor. So he looked across government departments as I described in answer to previous questions. He looked across what was happening in departments and he identified opportunities for securing efficiency. He took account of what was happening already, but what he did was to put more emphasis on delivering an efficiency benefit alongside a public service improvement benefit. He started therefore, absolutely correctly, you are right Mr Williams just as the Report is right, looking only at benefits, £21.5 billion, which was the gross figure. It was not net of the investment; much of that investment had already taken place. What I expect to do with new initiatives as they are developed in departments is to ensure that those are calculated net of the investment costs, so that we can see the residual efficiency figure which is developed from that.

Q99 Mr Williams: So what you are saying is that all this money was invested, but it was not intended to obtain any of the targeted £21.5 billion which somehow has come about as a result of your initiative?

Mr Oughton: I am saying that was not primarily the purpose.

Q100 Mr Williams: That is a different matter; that is a different matter. This is why it is a bit of an illusionary thing, is it not? How far has the Gershon Review contributed, as opposed to trying to identify what was already happening? If the bulk of the investment was already underway and if that is not going to be reflected in net efficiency gains, what is the review worth?

Mr Oughton: The important difference as a result of Gershon is that efficiency has moved centre stage in departmental planning and departmental agendas. Two years ago, before Gershon, you would not have heard efficiency being talked about in the same way, so it has become a much more prominent issue. That means there is more focus, there is more effort, there is more likelihood of achieving it.

Q101 Mr Williams: What you are saying in effect is that over recent years departments have been making these massive investments oblivious to the issue of efficiency gains. That cannot be right, can it?

Mr Oughton: No, I would not say that, because all investments have to be justified by a business case which is subject to very rigorous scrutiny. The benefits which are postulated from many of these major investments are service delivery benefits rather than efficiency benefits.

Q102 Mr Williams: So the £21.5 billion is the result of that investment with a marginal contribution by the Gershon Review.

Mr Oughton: No, I would not say that. Gershon was about bringing focus to this so that we can be more likely to achieve delivery.

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Q103 Mr Williams: Do you mean that these projects have all been drastically reformed since Gershon? Drastically reformed as opposed to what they were when the money was allocated to them?

Mr Stephens: What has happened as a result of Gershon is that there has been an increased emphasis on securing the efficiency gains as a result of the investment that has already gone in, particularly to IT investment. What Sir Peter Gershon also saw was the need to develop a pipeline of efficiency projects and gains in which the early ones, yes they will have been ones in train and under development, but in the later years of the programme and as we roll forward, particularly into the comprehensive spending review years, these will be new projects and new efficiency gains that are coming out as a result of the embedding of efficiency into the public sector.

Q104 Mr Williams: We are told in paragraph 1.15 "... most of the targeted £21.5 billion of efficiency gains will come from these projects" which were already underway or planned. Then we look at figure 10 and remember that most of the £21.5 billion is coming from investment which has already been made. Read the first sentence you signed up to. The first sentence you have signed up to is "The majority of efficiency projects within the Programme require additional investment". So in addition to the investment already gone in, more investment is needed but nowhere are you taking past investment or new investment into account in judging whether you have made efficiency gains or not.

Mr Oughton: We are not taking past investment into account; that was not the approach Gershon was asked to take: he was asked to identify the opportunities for securing efficiency. We absolutely shall take new investment, additional investment, into account and we shall expect to make a judgment on whether we are getting a decent return on that investment.

Q105 Mr Williams: But you signed up also not just to the first sentence of figure 10 but you signed up to the last sentence of figure ten. The last sentence of 10 says "Without such matching of capital costs against gains, the £21.5 billion target overestimates the efficiency gains".

Mr Oughton: That is right.

Q106 Mr Williams: That includes the past as well as the present and the future.

Mr Oughton: And the Report also says, which is again very fair, that where new initiatives are calculated net, they will likely under-record the efficiencies being secured based on using the same Gershon methodology. So it does cut both ways actually as we move forward.

Q107 Mr Williams: If you do not mind me saying so, that sounded like gobbledygook. I do not know whether it will read like gobbledygook. I shall read it with the greatest attention and give you credit for it at the moment. I just do not see how you can reconcile the final sentence and the first sentence in

paragraph 1.15 with any claim to have produced any miraculous transformation of a way in which public resources are being used.

Mr Oughton: Let me have one more go, if I may. What Gershon did was to answer precisely the exam question he was asked, which was to identify opportunities for delivering substantial efficiency in a way that then could use those resources to be recycled into frontline service delivery; not to produce cash cuts out of budgets, but to recycle those resources so that we could continue to improve public services. That is the exam question he was asked to answer. A lot of the modernisation of public services which is underway at the moment follows from investments which have already been decided upon and are being made at the moment. Therefore, he has adopted a gross not a net approach and that is what he was asked to do. As we move forward, we take the view that it is now proper to take account of any investments, any decisions we make on new investments, bearing in mind the likelihood that they will deliver the modernisation of public services and efficiency as well. We shall adopt that net approach to judging those investments.

Q108 Mr Williams: Taking the exam question you were set, I am not certain on the answer that you would quite achieve a CSE grade five. If you look at what the National Audit Office tells us, there are deficiencies in the management information system which mean that their ability to measure changes in output quantity and quality as well as input still lags behind the needs of the programme. It is getting even more nebulous now, is it not? You are not even sure what figures you are producing.

Mr Stephens: The Report also recognised that significant progress has been made in improving the quality of measurement. We absolutely agree with that. Measurement is critical to delivery of this programme. As the Report recognises, this was an ambitious programme which set out to approach efficiency in a new way and established a potentially new and more accountable and more transparent system of measuring efficiency. That is very clearly our objective from the beginning. The Report helpfully points out that there is still a significant way to go. We fully accept that, we continue to focus on improving our measurement methodology. Further suggestions from the NAO and others will be extremely helpful in that regard but significant progress has already been made.

Q109 Mr Williams: What it says in the briefing we have is that inadequacies in measurement methodologies adopted and the data mean it is very difficult to measure changes and efficiency reliably. So we now have a past investment which is ignored, future investment which is not specified and a data collection and a methodology of assessment that is not up to par. It is really a matter of "Go away and try to do better next time", is it not?

Mr Oughton: On the data collection and the methodology, again as the Report is clear, significant improvements have taken place there. We now have, and have had, since the formal start of this

programme in April last year, quarterly returns of information from departments which are signed off and approved at very senior level either by ministers or by accounting officers. We have a degree of surety around the data that is being delivered to us. Where that data is deficient, and we accept this, is in two respects. In one respect because baselines have not been established for every programme; there will be gaps in what is being reported, that is certainly true. Secondly, because the information is not always collected on a quarterly basis from every part of the public sector—in schools for example, no data is collected on more than an annual basis, so we are not reporting anything on schools yet and there will be a gap in the coverage there—there could be over-reporting, there could be under-reporting. We know that we need to do more to ground those figures out. I certainly should not draw a conclusion from this that these are unreliable and shaky figures.

Q110 Mr Williams: You talk about departments, but we are told that 65% of the projects and £13.5 billion, that is 70% of delivery, will come from local bodies.

Mr Oughton: That is right.

Q111 Mr Williams: Are you saying that the local bodies are doing a better job at assessment and providing data than the central departments are able to do?

Mr Oughton: In some respects there are very well established systems in local bodies. In local authorities, for example, the annual efficiency statement system which has been set up requires local authorities to make both a report on the efficiencies they have achieved so far but also a prediction of the efficiencies that they will achieve in the year to come, a forward look if you like.

Q112 Mr Williams: If that is so good, why on earth is it not being applied in central government?

Mr Oughton: The same approach is now being applied in central government because we have quarterly reports from departments on what has been secured, what is being reported and in their forward plans they also have to predict what they expect to achieve for the rest of the programme. I should argue that the position is much the same.

Q113 Mr Bacon: Just to pick up where Mr Williams left off, local government finance officers or finance directors have required a professional qualification since 1988. I understand there will be a requirement by December 2006, is that right?

Mr Stephens: That is right.

Q114 Mr Bacon: What does it say about central government that it imposed this obligation upon local government 18 years ago, but it has still not got round to doing it itself? This is perhaps one for Mr Stephens?

Mr Stephens: It is. As a matter of importance we are addressing the increasing professionalisation of finance within central government.

Q115 Mr Bacon: That was not my question. My question was not: are you addressing this as a matter of importance? My question was: what does it say about central government that this was imposed on local government 18 years ago and you still have not got round to doing it for yourselves?

Mr Stephens: It says that we need to get round to it and we are. By December 2006 I fully expect all main departments to have a professionally qualified finance director sitting on the board. That is what we want to achieve.

Q116 Mr Bacon: That is terrific. Do you think you will meet the December 2006 target?

Mr Stephens: Yes, I fully expect to; there may be one or two smaller departments which lag behind.

Q117 Mr Bacon: Does every department now have a commercial director?

Mr Oughton: Not sitting at board level. Every department has an individual who is responsible for commercial and procurement activities. In some departments they will be at very senior level, either at board level or closely connected to board level, but in some departments no, there is a lighter touch. In exactly the same way as Mr Stephens has described for financial qualifications we are pushing departments to improve on the professionalisation of their commercial functions.

Q118 Mr Bacon: Are you expecting to have more commercial directors at more senior level? This Committee has recommended this before.

Mr Oughton: Yes, that is my expectation.

Q119 Mr Bacon: When do you think that it will be standard that there will be a commercial director at board level?

Mr Oughton: I could not give you a target date. All I can say to you is that what I am doing at the moment, as every appointment comes up in government department, is expecting to look at the appointments process to see that a more professional, qualified person is appointed. That is exactly the same approach as is being taken on financial management as well.

Q120 Chairman: It is right, is it not, that 50 of the 300 projects have to deliver 80% of the total savings?

Mr Oughton: That is right.

Q121 Chairman: That is rather risky, is it not?

Mr Oughton: No, I do not think so. It would be more risky if the gains were spread so widely that we had to provide very significant management to a very large number of projects. It is helpful actually that we can get our arms around the top 50 and try to manage those in a coherent fashion.

Q122 Chairman: I asked you earlier why you have not published a clear breakdown of the £4.7 billion of claimed efficiency gains and you referred to what is in the NAO Report. I am not sure that your reply

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was not slightly disingenuous. Why do you not publish a regular breakdown as a government? Why do you leave it to the NAO?

Mr Oughton: We publish results in the Pre-Budget Report and in the Budget every year and you can expect the Chancellor to update on progress in the budget.

Mr Stephens: We have not yet got to the completion of the first year of the programme, but the intention is that at the end of the programme results by each department will be reported in their departmental reports.

Q123 Chairman: Sir John, Mr Oughton seems very confident that he can deliver this £21 billion of savings. Do you believe there is a question mark over the efficiency savings the Government have achieved and whether the Government can achieve their target of £21 billion? Do you think there is a question mark over that?

Sir John Bourn: It is certainly the intention to do so. You have certainly heard Mr Oughton explaining the various methods by which it is being pursued. All one can say is that if it is achieved it will be something that never has been achieved in British Government so far, but it does not mean to say that it cannot be done this time. It will be a mountain to climb and, as the external auditor, we shall of course be concerned to report to this Committee on the progress made as achievement goes forward.

Q124 Chairman: Thank you for that. Now Mr Oughton, in some very interesting questions from Mr Williams he said that you were assessing rather than reviewing this. That is fair, is it not? Would it be fair to say to you that when it comes to this, you are rather the scorer than the batsman? The

permanent secretary of the Treasury is the batsman or the Cabinet Secretary. You are shaking your head Mr Stephens. Mr Oughton has given some very effective evidence but my next question is: why is the Permanent Secretary of the Treasury not here today?

Mr Stephens: Departments have to deliver the efficiencies.

Mr Oughton: That is a wrong premise.

Q125 Chairman: Why? Put me right.

Mr Oughton: The Office of Government Commerce has to play two roles. One is indeed a monitor and a score-keeper, which is why I report to the Chancellor and Prime Minister on progress. The second role however, which is the one described in Peter Gershon's own report, is the help and assistance role to enable this programme to happen. The batsman, to use your terminology, is the department that is delivering; they are the people who have to score the runs. Where they need help, either with new techniques or sharing of best practice or brokering so that we can develop collaborative solutions, it is the role of my team in the Office of Government Commerce to deliver that. So there are two roles: one an enabling role, one a scoring and monitoring and checking role.

Mr Stephens: This is really important to the Treasury in terms of improving value for money across public services. It will be increasingly important. We are committed to this being a central part of the comprehensive spending review. The Treasury is totally 100% in this and committed to it.

Chairman: Thank you very much gentlemen, it has been a very interesting hearing and I hope our Report will also assist the Treasury in your efforts. We are here to help you. We need two notes from you Mr Oughton. Thank you very much; that concludes our business.

 Supplementary memorandum submitted by the Office of Government Commerce

Question 35 (Helen Goodman): Productive time savings in the Department of Health

Productive Time Improvement

Productive Time improvement is about making better use of the time of front-line staff delivering quality and value by:

- Doing the right things—removing unnecessary work, and reducing the problems that cause re-work
- In the right way—identifying good practice and streamlining processes
- With the right people—ensuring that the skills of front-line staff are used most effectively, and ensuring that people with scarce skills are not occupied doing activities that can be done more cost-effectively by others
- With the right tools—using equipment, facilities and technology in the most appropriate way.

HOW HEALTH PRODUCTIVE TIME EFFICIENCIES ARE BEING DELIVERED

The health Productive Time programme is planned to deliver £2.7 billion of efficiency gains. These health service efficiencies are achieved by changing how services are designed, organised and delivered, whilst ensuring that patient care and service is at least maintained and preferably improved.

The Productive Time programme to achieve efficiency savings draws from existing and new NHS programmes and policy implementations that have broader objectives and benefits relating to patients and staff as well as efficiency. It is therefore an integral part of NHS change and business improvement.

There are three closely linked main workstreams underpinning these changes in the NHS:

1. Process redesign—improvements in the way healthcare is designed and delivered will provide better outcomes and service quality for patients more efficiently and effectively.
2. Workforce Reform—new contracts for NHS consultants and GPs, incorporating a competency based career development framework, will enable much greater flexibility in job design and workforce planning, meeting patient needs more efficiently and effectively.
3. Information and Communication Technology—technological transformation of information and communications flows, enabled by the new NHS IT system, will allow improved decision-making, process design and patient-centred outcomes.

What Efficiency Benefits will be delivered?

Efficiency can be defined as either getting more output (including better service) from the same input, or the same or more output from less input. Following from this definition, expected Productive Time benefits in health can be categorised into four types:

1. Service Improvement—efficiencies generated by changing the way services are designed, structured and provided. The benefits include:

- Improved patient flow (ie ensuring patients only stay in hospital for as long as is clinically necessary)
- Improved availability of beds
- Increased patient satisfaction
- Decreased waiting times
- Fewer missed appointments
- Fewer emergency admissions

These are measured by the value to the health service of:

- Shift from in-stay to day case treatment
- Reduction in length of stay for elective in-patients
- Reduction in emergency bed days
- Reduced patient non-attendance (hospitals/clinics)
- Reduced cancelled operations (on day of surgery)
- Redesign of 999 emergency service provision
- Redesign of diagnostic services

2. Input Costs—reductions in the cost of providing a service. The benefits include:

- Lower sickness absence
- Lower agency/locum costs
- Lower recruitment costs
- Improved career development
- Improved recruitment and retention

These are measured by:

- Reduced staff sickness costs
- Reduced level of agency staff usage
- Improved prescribing practices (drug costs)

3. Time Releasing—increasing the amount of time front-line professionals are able to spend on direct patient care. The benefits include:

- Improvements in clinical effectiveness
- Improvements in the quality of healthcare
- Improvements in operational flexibility
- Reductions in administration time/cost
- Reductions in running costs
- Reductions in fraud

These are measured by time saved in:

- Administration of patient flows and clinical care records
- Administration of patient bookings
- Administration of orders and results
- Administration of prescribing
- GP administrative burden

Time Releasing savings are quality related, increasing the amount of time that clinicians spend with patients. They are therefore counted as non-cashable' gains under the Gershon definition.

4. Quality Improvement—measurable improvements that are valued by patients. Measurement will be based on the results of work commissioned from York University to provide improved measurement of the quality of health provision in line with the recommendations of the “Atkinson Review of Measurement of Government Output (ONS 2005)”.

How do these changes affect patients?

In addition to efficiency gains for the NHS, these changes bring real improvements for patients. For example:

- Patients treated proactively in the community, reducing the likelihood of them being admitted to hospital as an emergency
- More patients treated as day cases, avoiding the need to stay in hospital overnight
- More patients treated in local community settings rather than in hospitals
- Patients staying in hospital for less time for their treatment, achieved by a number of strategies including admission on day of operation, better planned and coordinated care ‘packages’ and weekend discharges

These are improvements that are welcomed by patients. They are underpinned by the highest clinical standards. The White Paper “Independence, Well Being and Choice: Your Health, Your Care, Your Say” based on extensive consultation with patients and clinicians makes it clear that the long term strategy is to reduce the number of and time spent by patients in hospital but at the same time to maintain and indeed improve the quality of care.

Assurance Of Quality

The Department of Health (DH) is required to demonstrate that cost efficiency savings do not reduce the quality of service delivered. Quality will be assured primarily by the delivery of existing service improvement Public Sector Agreement (PSA) targets relating to waiting times, health outcomes and patient satisfaction. In addition Patient Re-admissions is an appropriate quality measure in relation to reducing the time spent by patients in hospitals.

Further Information

More detailed information on the health productive time programme is available from the following website:

<http://www.dh.gov.uk/PolicyAndGuidance/HumanResourcesAndTraining/ProductiveTime/fs/en>

Information on the Ten High Impact Changes can be found on:

<http://www.wise.nhs.uk/cmsWISE/HIC/HIC+Intro.htm>

Information on the work of the National Institute for Innovation and Improvement on reducing variation in hospital length of stay can be found on:

<http://www.institute.nhs.uk/NHSInstitute/Products/DeliveringQualityandValueFocusDocument.htm>

Information on how improvement plans are integrated can be found on: www.isip.nhs.uk

Letter from the Chief Executive, Office of Government Commerce, to the Chairman of the Committee

I am writing following the PAC hearing on 6 March on the NAO's Report on *Progress in improving government efficiency*, at which I was a witness.

With reference to figure 29 of the NAO Report, I was asked to indicate which were the departments given a “red” rating for likelihood of delivery in their efficiency targets in December 2005 (Question 63). The Committee was concerned that these ratings were “facts”, rather than “advice”, and thus should be put forward for the Committee's consideration.

As I mentioned at the time, I believe that these ratings are not “facts”, but rather management assessments or judgements forming part of the policy advice I provide Ministers on efficiency.

The facts of departmental progress are already published: departments regularly publish quantified progress against their targets in annual reports and Autumn Performance Reports. Progress is additionally reported in aggregate in the PBR and Budget. Departments are also able to answer on the progress and details of their respective plans. The red/amber/green ratings for each department are difference: they are an opinion regarding the likelihood of delivery. On this ground, I do not believe that they should be revealed to the Committee as a matter of course.

In addition, the red/amber/green statuses of departments are a crucial tool for driving delivery in departments. There is a real risk that if the ratings were made public, departments would focus their efforts on good presentation in order to secure a positive rating, rather than engaging in honest discussion with OGC as to where further progress is required.

I have sought the views of Ministers, who support this approach. I am not seeking to be unhelpful here: my approach is conditioned by what I believe will best encourage successful delivery.

Mr John Oughton
Chief Executive

21 March 2006

Letter from the Chairman of the Committee to Chief Secretary to the Treasury

I am writing in response to a letter from John Oughton on 21 March concerning my Committee's request at its hearing on 6 March for the identity of the departments given a "red" rating for the likelihood of delivery against their efficiency targets. In the letter, Mr Oughton suggests that the ratings constitute policy advice to Ministers and should therefore not be presented to the Committee for its consideration. He also notes that Ministers support the approach that he is taking with the Committee.

Having considered carefully the arguments put forward by Mr Oughton, the Committee questions whether the ratings really do constitute policy advice. The Government's policy is to implement the recommendations of the Gershon Review over the Spending Review 2004 period. The six-monthly assessments on departments represent a means for monitoring progress in implementing this policy. As such, the Committee questions whether it is necessary to regard the ratings as policy advice. The Committee considers the ratings to be facts relating to programme implementation rather than policy advice to ministers.

My Committee considers that providing this information would assist Parliament to scrutinise the progress of the Efficiency Progress as we know HMG wishes us to do. The Committee would be grateful therefore if you could provide it as requested.

Mr Edward Leigh MP
Chairman, Committee of Public Accounts

5 April 2006

Letter from Chief Secretary to the Treasury to the Chairman of the Committee

Thank you for your letter regarding departmental "red" ratings and the likelihood of delivery against SR04 efficiency targets.

1. I am pleased that the PAC have shown interest in the progress of the Government's Efficiency Programme and I welcome, as your letter suggests, the scrutiny and challenge that your Committee provides.

2. However, I do not agree with the Committee's view that the ratings for departmental likelihood of delivery should be released as a matter of course.

3. It continues to be the case that departments set out their efficiency plans in their Efficiency Technical Notes, report quantitatively on progress against this in their Autumn Performance Reports and Departmental Reports, and overall summaries of government progress are provided in the Budget and Pre-Budget Reports. This robust progress make available publicity the facts on delivery, in aggregate and by department.

4. The red/amber/green ratings are not fact. They are advice to Ministers on the likelihood of delivery based on judgements made by the Office of Government Commerce. As a result, they are not made public beyond government.

5. I fear that this response will disappoint the Committee, but I would like to reiterate that this is in keeping with the position taken on a whole range of other government business, notably Public Service Agreement reporting.

Once again I welcome the Committee's interest in the Efficiency Programme.

Rt Hon Des Browne MP
Chief Secretary to the Treasury

3 May 2006

Letter from the Chief Secretary to the Treasury to the Chairman of the Committee

I was grateful to Alan and you for taking the time to discuss the efficiency programme with me at our recent meeting. I enjoyed the conversation and was reassured that we found much common ground on the progress being made and the importance of the programme. I welcome the PAC's commitment and look forward to reading the PAC Report later this month.

We discussed the release of detailed information about the efficiency programme and options for increasing transparency to ensure the PAC can monitor and challenge the progress of the programme effectively.

You mentioned your recent visit to the United States and I note that you have published some of your findings. Treasury officials are considering how best to improve efficiency reporting, and our deliberations will be greatly aided by the knowledge the PAC has gathered. I propose that we agree the following:

a. I will commit to overseeing a more rigorous process of departmental efficiency gains in departmental reports and Autumn Performance Reports. As you know these publications make clear departmental progress against targets to date. There is clear scope for increasing the depth and level of coverage here and I am committed to ensuring we achieve this.

b. In addition to this, I have considered and am content to pass to you and the NAO, in confidence, a breakdown of the "red/amber/green" status by programme value. This will be an updated form of the chart produced by the NAO in figure 29 of their recent Report, taking into account the moderations undertaken by OGC in May and June. This will provide you with a clear indication of the overall scale and magnitude of programmes judged, at the time, to be red, amber or green or a permutation of these ratings.

c. We discussed at our meeting your desire to see the "facts" on delivery. Departments have now published these in their Department Reports, available on-line and on the Treasury website.

This will give an accurate picture of the scale of the challenges and risks the efficiency programme faces. It will also ensure that we protect the confidential and constructive relationships that OGC have built up over the course of this programme.

I have mentioned my very real concern, which I hope the Committee will understand, that releasing the red/amber/green ratings by department will make the programme vulnerable and less likely to succeed. I am particularly concerned that departments will revert to getting a "good" rating rather than being honest about the prospects of delivery if faced with disclosure.

I hope this will meet the Committee's aspirations and that you will accept this proposition as a mutually beneficial compromise. Again, I would like to thank you and the Members of the Committee for the interest you've shown in the efficiency programme to date.

Rt Hon Stephen Timms MP
10 July 2006