



House of Commons

Committee of Public Accounts

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

Forty-ninth Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

*Ordered by the House of Commons
to be printed 7 September 2011*

HC 1352

Published on 11 October 2011
by authority of the House of Commons
London: The Stationery Office Limited
£11.00

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Dr Stella Creasy (*Labour/Cooperative, Walthamstow*)
Jackie Doyle-Price (*Conservative, Thurrock*)
Justine Greening (*Conservative, Putney*)
Matthew Hancock (*Conservative, West Suffolk*)
Chris Heaton-Harris (*Conservative, Daventry*)
Joseph Johnson (*Conservative, Orpington*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)
Mr Austin Mitchell (*Labour, Great Grimsby*)
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following member was also a member of the committee during the parliament:

Eric Joyce (*Labour, Falkirk*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

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 www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 The structure and role of the Efficiency and Reform Group	7
2 What the Group has achieved to date	10
3 The Group's strategy for delivering long term reform	12
Formal Minutes	14
Witnesses	15
List of printed written evidence	15
List of Reports from the Committee during the current Parliament	16

Summary

The Efficiency and Reform Group (the Group) was established within the Cabinet Office in May 2010 to lead efforts to cut government spending by £6 billion in 2010-11. Its long term aim is to improve value for money across government by strengthening the central coordination of measures to improve efficiency.

The Group's core objectives are closely aligned with our own role in seeking to improve value for money across government. We therefore welcome the creation of the Group. It has made a good start in its first year towards ensuring central government better coordinates its activities.

The imperative to make savings in the short term has involved the Group imposing new controls on departments, such as moratoria on certain expenditure. This approach has depended on the support of ministers and informal relationships with the Treasury, but sustained efficiency improvements will need a much deeper change to both the culture and institutional structure of government. In the longer term, we expect to see a clear plan for what the Group intends to achieve and how it will get there. The Group also needs to clear up confusion over who is accountable for what in terms of improving value for money, especially in defining its responsibilities and those of the Treasury and individual departments.

Since our hearing, the Group has reported to us that its actions have resulted in efficiency savings of £3.75 billion across departments in 2010-11. The Group's clear reporting of these savings demonstrates a welcome improvement on previous efficiency initiatives, where we were dismayed by the poor quality of reporting by departments. It is important for the credibility of the Group that it continues to describe any future spending reductions accurately and explain any impact on services.

The scale of the challenge to deliver efficiencies is huge: the Government intends that half of the £81 billion reduction in spending planned over the next three years should come from efficiencies rather than through cuts to services or delays to important projects. Many of the efficiencies must be achieved in areas where the Group currently has a limited influence, or by local bodies, where it has none. We look to the Group to set out how it will operate to ensure that its approach can be replicated across the wider public sector, while respecting the objective of devolving decision making authority to local bodies.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Cabinet Office on the Group's progress during 2010-11 and its longer term plans to improve government efficiency.

1 C&AG's Report, *The Efficiency and Reform Group's role in improving public sector value for money*, HC (2010-11) 887

Conclusions and recommendations

- 1. The Efficiency and Reform Group (the Group) has made a good start in its first year. However, the Group's interventions so far have relied heavily on political leadership and sustainable efficiencies will require permanent changes to institutional structures.** The logic of establishing the Group as a corporate headquarters for central government is sound, as it allows the Group to exploit potential synergies from bringing different corporate government functions under a single body. However, some important areas – notably finance – are under the control of other parts of government, potentially undermining the effectiveness of the Group's interventions. The Group and the Treasury should be clear and open about their defined areas of responsibility and need to develop strong partnership working to maximise the impact on Government efficiency.
- 2. There is uncertainty about the respective responsibilities of the Group and individual departments for achieving value for money.** For example, the Group's ability to intervene in the management of major projects and negotiate with large suppliers means that departments' responsibility for their own projects and procurement decisions is less clear-cut than in the past. The 'tight-loose' relationship is likely to evolve and there is a risk that departments might attempt to use the Group as a shield to avoid responsibility and accountability for their spending decisions. As we set out in our April 2011 report on *Accountability for Public Money*, Accounting Officers must remain personally responsible to Parliament for how they spend taxpayers' money. If departments consider that central spending controls militate against securing best value for money, they should raise this formally with the Group. The Cabinet Office should confirm that the head of the Group is accountable to Parliament for the transparency of its decisions and the impact of its activities on value for money across government.
- 3. Our past experience of reviewing efficiency savings shows that departments' reported savings are frequently unreliable and impacts on front line services are often unclear.** The Government has ambitious aims for the scale of efficiency savings to be made, and intends that about half of the planned £81 billion reduction in public expenditure over the next three years will come from efficiencies rather than cuts to services. Following our hearing, the Group provided us with a note reporting that its activities produced savings of £3.75 billion across government in 2010-11, which included a breakdown of savings generated by each initiative. The Group should seek to maintain a high degree of transparency in future reporting on savings, and in particular provide clear and accurate statements which set out: the level of savings delivered across government; whether savings arise from efficiencies or reductions in service; whether savings are permanent and sustainable; and the extent of any independent assurance on the reliability and accuracy of the reported savings.
- 4. The Group has had a strong short term focus on reducing government spending, but has not been clear about what it intends to achieve in the longer term.** In the absence of quantified targets, it is uncertain what we can expect to see from the

Group in two to three years' time or how we will judge whether it has met its objectives. Lord Browne suggested that success criteria should include evidence of how the Group had affected the behaviour of those in Government, whether commercial decision making had improved and whether the Group had developed a unified approach consistent with its strategies across all government departments. The Group now needs to set out more clearly its aims over the spending period, specifying quantifiable measures of success. It should also put in place adequate management information systems to measure progress accurately and objectively.

5. **The Group has direct responsibility for only a fraction of public sector spending, with many of the efficiency savings required by 2014-15 to be achieved in areas where the Group currently has no direct role.** Local public sector bodies, such as NHS trusts, need to contribute £20 billion of efficiency savings over this period. However, the Group does not have a remit to exercise 'tight' control over these bodies, as we found in our May 2011 report on commodity procurement by NHS trusts. The Group must give further consideration to how the benefits of its approach could be replicated across the wider public sector, while respecting the powers of local decision making bodies. For commodity procurement in particular, the Group should develop and promote arrangements for the wider public sector to take up the best deals, including triggers to mandate actions if progress is slow.
6. **The senior civil service needs to prioritize a different set of skills to deliver cost reduction on the scale required.** Senior civil servants have traditionally been policy experts, but they also need strong implementation and project management skills in order to reduce spending while delivering sustainable improvements in value for money. The Group has responsibility for wider civil service reform and should set out detailed plans to develop the civil service's management capabilities, leadership and project management skills – especially among senior responsible owners and project directors. It should set a clear expectation that departments' arrangements for recruitment, performance assessment, promotion and training must encourage civil servants to develop their implementation skills.

1 The structure and role of the Efficiency and Reform Group

1. The Government announced the formation of the Efficiency and Reform Group (the Group) within the Cabinet Office in May 2010. It is headed by a single official, Ian Watmore, acting as Chief Operating Officer for government. During 2010-11, the Group took the lead role in implementing new central controls on certain areas of departmental expenditure and in negotiating cost-cutting measures with major cross-government suppliers. In the short term the Group's strategy has concentrated on a limited number of areas, such as the procurement of common items. However, as its name implies, the Group's longer term priorities are to improve efficiency across the whole of central government and to introduce wider reform of public services.²

2. The Group was formed from a number of predecessor organisations, such as the Government Communication Group and the Office of Government Commerce (Figure 1). The Group expects to be more effective than its predecessor bodies for three main reasons: the impetus provided by the need to reduce the current deficit by £81 billion by 2014-15; strong ministerial support from the Minister for the Cabinet Office and the Chief Secretary to the Treasury; and the Group's responsibility for a range of corporate functions, giving it the ability to tackle common issues across Departments, such as procurement and project management which had previously been managed in a disaggregated way. The Group told us that bringing these functions together would enable the Government to develop a shared and uniform focus on key issues which impact on efficiency and effectiveness.

3. To date, the Group has depended for its effectiveness on its close personal working relations with the Treasury, which retains financial responsibility for departments' overall spending, and on the active role taken by Cabinet Office and Treasury Ministers in its day-to-day operations. The Group acknowledged that the effectiveness of this operating approach needed to be kept under close review and that, in the longer term, sustainable efficiencies would require permanent changes to institutional structures.³ The creation of the Group means there is an overlap between its responsibilities and those of the Treasury for pursuing value for money improvements across government – given that the Treasury retains its role to promote value for money in departments as part of its overall control over public spending.⁴

2 Q 1; C&AG's Report, paras 1-3

3 Qq 1-3, 6-8, 13

4 Qq 4, 12, 18, 22

Figure 1

Structure of the Efficiency and Reform Group



NOTES

CEO - Chief Executive Officer

CIO - Chief Information Officer

SIRO - Senior Information Risk Officer

Figure source: Efficiency and Reform Group

4. Government property management is another example where responsibilities are confused at the centre. On 18 July 2011, the Government announced that responsibility for the overall management of the central government office estate would move to the Group from the Department for Business, Innovation and Skills (BIS).⁵ The property management function was previously split between the Group and BIS. The Group believed that the old arrangements were appropriate when the main objective of government property management was to obtain the maximum value from asset sales (which corresponds with BIS's areas of responsibility). However, the Group told us that the thinking on property management had changed, and that it was now seen as integral to the civil service reform agenda; for example, it believed that co-locating departments could facilitate flexible cross-departmental working and secure financial savings.⁶

5. Under the Government's 'tight-loose' approach, the centre of government can coordinate or standardise action across departments where this would improve efficiency, while allowing departments the lead in other areas. The 'tight-loose' approach is intended to give the centre greater influence without diminishing departments' accountability for their spending and overall operations. However, the enhanced role for the centre has

5 HC Deb, 18 July 2011, col 87WS

6 Qq 14, 98-99, 103-104

introduced some new tensions between the roles of the Group and individual departments in terms of determining who is accountable for achieving improved value for money. For example, in one of our previous hearings the Department for Work and Pensions told us that it had delayed progress with implementing online benefit applications because of the centrally imposed IT moratorium. The Group is able to intervene in the management of major public sector projects if they start running into significant problems, which means that departments' responsibility for their own projects is less straightforward than in the past.⁷

⁷ Qq 78-82; oral evidence taken before the Committee of Public Accounts on 27 June 2011, Department for Work and Pensions Cost Reduction, HC 1351-i, Qq 13, 18

2 What the Group has achieved to date

6. The Group oversaw the emergency measures introduced by the Coalition Government to contribute around half of the £6 billion budget reductions imposed on departments for 2010-11.⁸ Following the hearing, the Group reported to us that the measures reduced spending by £3.75 billion in 2010-11.⁹ The savings included £806 million from renegotiating contracts with the largest cross-government suppliers, and cuts in spending on consultancy and agency staff of £869 million and £492 million respectively.¹⁰

7. The Group does not have a standard definition of efficiency across the public sector. It told us a saving was any action which replaced or reduced the likelihood of a cut in front line services. However, there is also no clear definition of what constitutes a front line rather than a support service and it is not clear that there is an accepted understanding of where expenditure on support services improves efficiency in frontline service delivery.¹¹

8. The Group is looking to ensure that data on spending is collected on a consistent basis to provide a “single version of the truth”.¹² We have commented frequently in our past reports on the poor quality of management information on performance and delivery available within government, and this has contributed to the unconvincing claims made for previous efficiency initiatives.¹³ In our previous examinations of central efficiency initiatives, we found that only 38% of departments’ claimed savings met the specific criteria set by the Treasury.¹⁴

9. Furthermore, there may be significant financial costs incurred as a result of making savings, for example if work previously done in-house is outsourced, or from the costs of early staff exits. There is also a risk that cuts in one area are replaced by higher expenditure elsewhere.¹⁵ A substantial element of the savings made in 2010-11 were lower employment costs following reductions in the number of civil servants. If these cost reductions simply mean expenditure is deferred, they do not constitute sustainable savings.¹⁶ The Group recognises that while cash savings may arise from stopping a project, sustained savings will depend on more systemic reform.¹⁷

10. The Group is responsible for the Major Projects Authority, which assesses departmental proposals for high cost and high risk projects prior to obtaining Treasury agreement to proceed. The Authority also monitors projects during their contracting,

8 Qq 18, 21, 86

9 Ev 21

10 Qq 59-64, 100; Ev 21

11 Qq 56-58

12 Q15; C&AG’s Report, Appendix One, p 33

13 Qq 15-17, 33, 40

14 Committee of Public Accounts, Fourth Report of Session 2010-11, *Progress with VFM savings and lessons for cost reduction programmes*, HC 440

15 Qq 55, 59-64; Ev 18

16 Qq 37-39, 101; C&AG’s Report, para 1.12 and Figure 6

17 Ev 18

design, and construction stages, with a formal review every three months. Where the Authority and the owning department cannot agree on the management of a project, the Group is able to seek the intervention of the Prime Minister.¹⁸ The Group told us it considers its role is to run an assurance process, make judgements and report them honestly, not to run the projects themselves – although it has the mandate to intervene through the Minister for the Cabinet Office if a project is going off the rails. For example, its intervention resulted in the E-borders project going back to the drawing board.¹⁹

11. The Group is taking the lead on behalf of departments and their arm's length bodies for negotiating supply contracts for common categories of goods (commodities) such as office supplies, travel and professional services. It uses a wide range of suppliers, including small and medium sized companies, to avoid becoming dependent on a single supplier. It estimates that around half of the £13 billion a year spent by departments is currently going through its approved procedures. It also proposes to use a wide range of innovative techniques including reverse e-auctions and spot buying of large orders.²⁰

18 Qq 78-83, 90

19 Qq 42-49, 77-83

20 Qq 65-66, 76

3 The Group's strategy for delivering long term reform

12. During the current spending review period, the Government is aiming to reduce overall government spending by £81 billion. We were informed that around half of this target could be achieved through efficiency savings across the public sector, with the remainder coming from cuts to existing and planned services and projects.²¹

13. Although an initial central push to introduce tighter controls over central government departments was understandable, sustainable improvements of this scale need a change in culture and capability and they need to have the support of all those responsible for delivering them across departments. The Group told us it considers this is beginning to happen as departments have spending settlements to deliver. By the end of the current Parliament, it expected its emphasis to be more on coaching, helping and advising rather than applying mandatory controls.²²

14. The long term success of the Group will depend on how effectively it converts its central government leadership to a deep understanding of how to achieve sustained improvements in value for money. We will expect to see clear evidence that the Group is fulfilling this function. Lord Browne suggested that relevant measurable indicators to help assess the Group's long term impact would include:

- evidence of how the Group had affected the behaviour of those in government;
- evidence that decisions are made with greater commercial sense and a better understanding of risks and returns as a result;
- the extent to which activities are aligned with organisational strategy; and
- evidence that the Group is managing its own development and implementing changes so that it remains fit for purpose.²³

15. Of the £40 billion spending reduction which Government is seeking to achieve through efficiency savings, the Group expects about half to come from central government, leaving some £20 billion to be achieved by the wider public sector. However, the Group's controls apply to central government departments and their arm's length bodies only, not to the wider public sector (which includes education, police and health bodies). This means that many of the efficiency savings Government seeks will need to come from areas where the Group currently has no direct role.²⁴

16. One example is central government procurement, which accounts for about £60 billion of total public sector procurement spend of £236 billion. The Group is focusing initially on commodity procurement in central government, centralising £6 billion of expenditure, to

21 Q 86

22 Qq 3, 12, 85

23 Qq 33, 83-84

24 Qq 56, 68, 86

build its credibility and allow departments to focus on other strategic procurement issues. Central deals made for central government will be available to the wider public sector.²⁵ While public sector managers ought to choose better deals voluntarily if they are available, our report on NHS procurement indicated that this does not always happen.²⁶ However, the Group told us it is working with the Department of Health to identify which elements of its central programme of work might apply to the NHS.²⁷

17. Poor quality information inhibits assessment of performance, efficiency and effectiveness. Lord Browne told us that he believed understanding of the importance of management information among senior civil servants was “mixed” and that it will take time to reach the right standards.²⁸ There is pressure from non-executive directors on the new departmental boards for standardised management information to allow comparisons to be made over time and between departments. The Group has made a start by introducing a standardised quarterly data review.²⁹

18. As well as relevant and timely management information, the Group told us it is seeking to encourage the right skills among the civil service’s senior leadership.³⁰ In particular, senior civil servants need to have project management and implementation skills as well as their traditional expertise in policy analysis and advice. The implementation skills required include the exercise of commercial sense and a clear focus on achieving results. The Group recognised that civil servants will have different individual strengths in implementation and policy, and meeting skills needs will demand a diversity of talent within the civil service. Government needs to ensure that arrangements for staff recruitment, performance assessment, promotion and training enable the civil service to develop the required implementation skills.³¹

19. The Group noted in particular that it was seeking to ensure that the portfolio of major projects was managed by people with the necessary skills and resources, and it will intervene where there are gaps in capacity or capability.³² The Group also acknowledged there was a shortage of capable programme directors who could move between programmes according to need. The Group told us it is working towards an understanding of skills needs across the portfolio of projects and available capabilities. This could enable a different staffing model where people with subject-specific expertise could be deployed more flexibly to deal with problems which arise on projects.³³

25 Qq 56, 66-70, 86

26 Committee of Public Accounts, Thirty-fifth Report of Session 2010-12, *The procurement of consumables by National Health Service acute and Foundation Trusts*, HC 875

27 Qq 71-75; Ev 18

28 Q 17

29 Qq 16-17

30 Q 85

31 Qq 85, 87-88

32 Qq 95-97; Ev 18

33 Qq 89-93; Ev 18

Formal Minutes

Wednesday 7 September 2011

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Dr. Stella Creasy
Matthew Hancock

Jo Johnson
Austin Mitchell
Ian Swales

Draft Report (*The Efficiency and Reform Group's role in improving public sector value for money*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations 1 to 6 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-ninth Report of the Committee to the House.

Ordered, That the Chair 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.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 12 September at 3.30pm]

Witnesses

Tuesday 28 June 2011

Page

Ian Watmore, Chief Operating Officer, Efficiency and Reform Group, and **Lord Browne of Madingley**, Lead non-Executive Director, Efficiency and Reform Board, Cabinet Office

Ev 1

List of printed written evidence

1 Cabinet Office

Ev 18: Ev 21

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397
Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426

Oral evidence

Taken before the Committee of Public Accounts

on Tuesday 28 June 2011

Members present

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Chris Heaton-Harris

Joseph Johnson
Austin Mitchell
Nick Smith

Amyas Morse, Comptroller and Auditor General, **National Audit Office** gave evidence. **Keith Davis**, Director, **National Audit Office**, **Gabrielle Cohen**, Assistant Auditor General, **National Audit Office** and **Marius Gallaher**, **HM Treasury**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

The Efficiency and Reform Group's role in improving public sector value for money (HC 887)

Witnesses: **Ian Watmore**, Chief Operating Officer, Efficiency and Reform Group, and **Lord Browne of Madingley**, Lead non-Executive Director, Efficiency and Reform Board, Cabinet Office, gave evidence.

Q1 Chair: I welcome our colleagues from Ghana. I hope you find it an interesting session with us this afternoon. I also welcome Ian Watmore and John Browne. Thank you for attending. Again, it is a slightly different session from the usual ones, in that it is more forward-looking than backward-looking. We will try to divide it into a "What are you there for?" type start, then "What have you achieved in your first year?" and then a look to the future. It is very much an open session, if we can see it in that context.

I will start with you, Ian. We have your memo at the back, describing your purpose and objectives, and you are bringing together under the Cabinet Office a number of organisations that existed across Government in the past. I wanted you to take us through, in a practical way, why you think that bringing together will make a step change in the effectiveness and impact that those units will have.

Ian Watmore: I will be happy to do that, Chairman. There are three things that are acting in our favour. The first is the deficit, and the desire to reduce the deficit is causing people to think very differently about what they do, and therefore that means people are interested in doing things in a fundamentally new way. The second thing is we have very strong ministerial support for what we are doing, and indeed some very hands-on ministerial activity, so that always helps. The third thing, and this is something I have believed for a long time, is that a lot of the corporate functions that sat at the centre of Government were too disaggregated. There are very few real problems that ordinary departments and public sector workers face that just confine themselves to HR or IT or something like that. It is nearly always the combination that causes things to improve.

For example, one of our age-old topics in this Committee is about the so-called IT projects. Initially they start with policy, then they run through procurement, then there is project and programme management, there are core IT disciplines. All those

things together will lead to success. If you have them all in different bits of Government, you do not have that joined-up-ness. It is those three things that I would highlight.

Q2 Chair: Let me just ask you about one of them. In the way that these things happen, the use of ministerial commitment matters. We know that Francis Maude is very driven by efficiency in Government, but what if he is moved? Is that a good enough way of structuring an institutional change?

Ian Watmore: I would not want to underestimate the role that Francis is playing, because he is, as you know, very passionate and driven about this agenda. One of the things that we are trying to do is to embed this right across the ministerial team. The first point is that I report both to Francis and to the Chief Secretary, Danny Alexander. We have a regular Efficiency and Reform Board that they both chair, with John and half a dozen other external experts on it, to challenge us. Also, probably since we last met there is a new sub-committee of the Public Expenditure Committee, PEX, focused on this agenda as well.

Q3 Chair: But it could weaken with a weaker Cabinet Office presence.

Ian Watmore: That is always possible, but what we are finding is that we are moving the agenda away from being a central push into being something that is now increasingly being owned by departments, because they have their own spending settlements to deliver.

Q4 Chair: Lord Browne, if you look at page 12, it sets out the role of the ERG. At the end of it, in paragraph 1.9, it says it "brings together most of the functions of a typical organisational headquarters, except finance which remains with the Treasury and overall strategy which remains with the Prime Minister's Office." This seems to me pretty central to

any organisational performance, to control your finance and to control your strategy, yet it sits outside this ERG structure. Does that make sense to you?

Lord Browne: Clearly it needs to be controlled somewhere, and it is not controlled in the Efficiency and Reform Group, which is specific, and it has taken on specific aspects of efficiency and reform that are useful but not comprehensive in—

Q5 Chair: Can they work without what seem to me to be the two absolutely central features of any organisational performance and competence?

Lord Browne: My experience is outside the ERG, which has only been going for a reasonably short period of time in an organisational history sense. In my experience, you can do it providing you are very clear about strategy and about finance. In the end, someone has to set a direction. Someone has to set boundaries, and then you get other people to work components of that within. That is how you do it in a large corporation outside government, and it is the approach that these boards that we have set up for different departments are beginning to take. They recognise, of course, their limits, their advisory nature, but they have picked five particular principles on which they will work.

Q6 Chair: I am going to press you on this a little. You have said that you have to set strategy, you have to set the parameters of the money and then you can look for efficiency within that context. I accept that. Therefore, in your view, with your background and experience, particularly in BP, would you have set it up in this way? It just seems to me that there is a Government that has come in, driven by deficit reduction and efficiency, and ended up structuring itself not that differently from its predecessor Government, with the potential for tensions between No. 10 and No. 11, with the ERG in the middle of it and probably falling into the sands if that relationship in any way cracks?

Lord Browne: I must say, in my limited experience with the ERG, I have not seen these tensions manifest themselves.

Q7 Chair: So far.

Lord Browne: So far.

Q8 Chair: Early days. Early days.

Lord Browne: Oh, I agree. You never know. But so far it is, I think, a well-intentioned group, to get certain really technical and mechanical things done, and that is what it is doing. It is sitting down and working out what to do with procurement.

Q9 Chair: But you would not set it up that way, would you?

Lord Browne: I do not know. If I were running a corporation, probably not. Again, in my track record I definitely would not have done it in a corporation, but I keep reminding myself that a Government is not a corporation.

Q10 Chair: No, Government is about compromise, but compromise makes it very difficult.

Lord Browne: Very different. A very different sort of environment.

Q11 Chair: Politics is very much about compromise, and therefore it makes it very difficult.

Lord Browne: I would say that organisations work in many different ways, and you can make things work as long as there is a real intention to make things work. I agree that intention can change, but intention is the single most important thing.

Q12 Mr Bacon: So long as the link between the Cabinet Office and the purse strings, i.e. the Treasury, is absolutely locked tight and they continue to be on the same page—which, presumably at least as long as the deficit is top of mind, is likely to be the case—is it right to assume then there is not much of a danger, although there could be in the future perhaps, of the fact that the finance is sitting somewhere else being a problem?

Lord Browne: You would have to ask Ian how it works, but as I observe it, having Danny Alexander there as well as Francis Maude creates a manifestation of some linkage. The linkage is not just, in my observation, with the Treasury but also with all the departments, because some things that are being promulgated can be mandated, but in the end must be agreed and must be understood by everybody to survive time.

Q13 Chair: Let me just ask you one other question, organisationally. The other thing that rather struck me as being odd is that the management of the Government estate rests in BIS. Again, I do not know if this was a political compromise down the line, but even if you accept that you have this wonderfully close honeymoon relationship going on between No. 10 and No. 11 at the moment that allows you to operate effectively, it just would have made sense to have control of a key component, your physical estate, with you too.

Ian Watmore: Can I just comment on the Treasury, No. 10 thing as well, and I will come on to the BIS thing. Everybody is right that if No. 10 and No. 11 are miles apart it will be a problem, but currently they are not. What we do to try to ensure we do not lapse into that is, first of all, my team is co-located within the Treasury. We physically sit in the Treasury. We have joint board meetings with the Treasury officials—in fact I had one last week. I have a regular meeting with Andrew Hudson, etc. There is a lot going on to make sure that we do not drift apart, and as I have said earlier, my Minister is as much Danny as it is Francis. That is one point.

On the No. 10 thing, the Cabinet Office and No. 10 are subtly different, obviously, but a lot of the people in it are the same people. I sit on Jeremy Heywood's policy board, which I see every week. Therefore I understand what is coming down, as you would call it, the strategy track, and know what it is we have to implement. It is a very open relationship. Although there are three organisations there, we are joining it up at the official level very effectively.

Q14 Chair: On the BIS point?

28 June 2011 Cabinet Office

Ian Watmore: On the BIS thing, I agree that it is probably looking less sensible to be sitting in BIS where it is. I think there is some work going on to look at whether that is the right place to locate it. I think the original thinking was that the property arrangements were more about asset sales, and therefore going to require something more like the Shareholder Executive to be able to manage the Government's ownership of its property estate, which is why it was put there. I think it was put there on the recommendation of Lord Carter's report in the last administration. This Government continued with it. What is becoming more obvious to us is that property is more about the reform of the civil service. What sort of buildings do we have for people to work in? Are they co-located? Are they flexible, open plan? That is absolutely much more the issue. We are getting closer, and we may well make some changes to that in the future.

Q15 Mr Bacon: May I ask Lord Browne about the non-executives? There is a very interesting phrase in the appendix, which is the ERG memo, note 6, which talks about the Cabinet Office and HM Treasury having "a single version of the truth", which I thought was a very interesting phrase because we have seen in this Committee—very recently with the DWP cost reduction programme yesterday, and with the NHS IT programme just three or four weeks ago, and it is something that we see from time to time—arguments between Departments and the NAO as value-for-money auditors on what the facts are. Your non-executives, if they are to do their jobs across these different Departments, need a certain basic tool kit; they need a certain basic standard of information available. From what you have seen, do you think the Departments are in a position to provide the kind of quality information, quality data, which non-executives will need in order to do their job?

Lord Browne: There is plenty of data, there really is. The question is whether it is actually information upon which decisions can be made. There is a very big difference between the two. Of all the principles that are held between the different boards, the fifth principle is management information so that we can treasure what we measure and measure what we treasure. These are old clichés but they are not bad ones. It is beginning. Some of the work that the ERG has done is to look at a limited standardised approach to management information reporting on a quarterly basis, which allows comparability both over time—so for one Department over time, how are you doing—and as between Departments on certain matters. That is quite important for things like benchmarking, peer review and so forth. That is beginning. It is too early to tell whether it is successful. There is a lot of pressure by the non-executives saying, "Can we please have better informed data?"

Q16 Mr Bacon: I was re-reading parts of Michael Heseltine's autobiography recently where he talks about MINIS and when he first became a Cabinet Minister. When he entered the Cabinet in 1979, the first thing he said to his Permanent Secretary, Sir John Garlick, was, "What management

information do you receive on a Monday morning to help you assess whether the Department is meeting its objectives?" On hearing the answer, "None", he said, "At least I knew where we were."

What I would really like to know is this, and you have spent now a reasonable amount of time inside Government looking at this and presumably thinking very hard about it. Here we are, 30 years later, and you say that we are beginning. This is despite the Financial Management Initiative from 1982. It is despite the Next Steps, the whole purpose of which was to get more sensible management into Government by having executive agencies with autonomy, control and authority. There has been pressure, as you describe it, of various kinds for 30 years. I applaud completely what the ERG doing. I think it is very exciting and the early signs are it is going to be a lot better than the old OGC approach was, so I am not saying this from a critical point of view. I am great fan of what you are trying to achieve and I hope it works. However, what I still have not got my head around is that there has been this pressure for at least 30 years—you could say for 50 years—so what is going to be different about what you are doing?

Lord Browne: I can offer no historical context whatsoever. I can simply say what I see, which is first that there is clearly competent financial information. There is no doubt about that. Going beyond that the question is one of performance, efficiency and effectiveness. These require different approaches to the assembly of information so that you know where you are. That I think is something which all the boards are trying to get their heads round. What is really needed today, in today's context, is to see how well things are going. There are measures for certain aspects in the ERG. So there are measurements of things like expenditure on certain functional items, procurement, consultants, and so forth, things like that, which clearly are controlled instruments for this period of development of the ERG.

Q17 Mr Bacon: How much do you think there is inside Whitehall amongst the management group, among Permanent Secretaries, an understanding of the importance of, or the aspiration to have, better management information? I am thinking of the role of the Rural Payments Agency scheme, where they actually cancelled the system that would have provided them with management information as to what was going on, which sitting from the outside looking in is staggering. How much of a genuine appreciation is there of the importance of management information? How much do they really care deep down?

Lord Browne: I think it is mixed. Like almost everything there are clearly people who are driving this. Notably the person sitting next door to me here who in my view is very qualified in this area. But there are also people who actually look at things in a very different way, more qualitatively than quantitatively. The quantitative is as important as the qualitative and vice versa. It can shorten and make more easy the communication of direction and how you are doing it against your work plan or to-do list.

That is something that I think will take time to get to the point where everyone is satisfied that the standards are the right standards.

Q18 Austin Mitchell: You talk about management information, the Departments have management information hopefully, but Government is an area of conflicting and cross-cutting responsibilities. What you have got is the power of preaching really; it is the Treasury that holds the purse strings and controls the spending. You have not even proved yet that you have achieved the £6 billion work of efficiency savings you were set up to achieve last year. That is left to cuts in Departmental budgets which will be enforced by Treasury. You cannot prove anything, Ian Watmore.

Ian Watmore: First of all, we were not set up to save £6 billion last year. The £6 billion was the budget reduction that the Government made to the budget when it came—

Austin Mitchell: You were set up to achieve that.

Ian Watmore: We were set up to achieve half or more. We are just having the figures audited at the moment, but we are pretty certain we have got over £3 billion, and somewhere between £3 and £4 billion of savings out of the first year.

Q19 Chair: Will you be able to let us have a note on that?

Ian Watmore: As soon as the auditors have finished crawling through the numbers.

Chair: When?

Ian Watmore: Definitely before the summer recess.

Chair: Before the summer recess. Will you let us have a note before the summer recess?

Ian Watmore: Of course, yes.

Q20 Chair: What is clear according to this report is that it is unverifiable. You are saying you can verify it.

Ian Watmore: We have got our internal auditors going through the numbers as we speak and we are happy to share that.

Chair: Before the summer recess is fine.

Q21 Austin Mitchell: My understanding was that it was £6 billion in the first year. You cannot pull it back and say you have £3 billion.

Ian Watmore: The £6 billion was the total reduction in the budget that the Government set in its emergency Budget, about £3 billion of which came from programmes that were not efficiency-related programmes. The other came from efficiency-related and we have set about doing the efficiency half and actually exceeded it.

Q22 Chair: We will come back when we come on to the detail.

Ian Watmore: That is the first point I would make. Secondly, obviously your point about the Treasury controlling the purse strings is correct; they do. That is what they do, that is why we work very closely with them. To give you one example—I know we have quoted it before but it is our biggest saving—we achieved £800 million of that saving by calling all the suppliers in from Government and renegotiating their contracts in-year. For the first time ever in my

working lifetime, we operated as the Crown rather than as individual Departments. We involved our best negotiators around Whitehall and we got £800 million off the bill from suppliers. That then feeds through into the numbers that the Treasury collect, but it was not the Treasury that renegotiated those supplier contracts. It was a partnership between the two.

Q23 Chair: Can I just stop you on that one? We had the NHS IT people before us, as you well know, and there was a lot of renegotiating went on in those two contracts both with BT and CSC. What was clear was there was a renegotiation—I cannot remember if they got it but they were trying to get £500 million out of the CSC one—but it was a renegotiation that led to cuts in the amount delivered as well as cuts in the budget. I do not see that as an efficiency. It is a thread running through a lot of the questions we want to ask you today. You got money out of it, but you also got less for it. That is a perfectly fair policy decision but do not say that it was just efficiency. It certainly was not on the IT.

Ian Watmore: The generality of what we did with the suppliers was that we got them to reduce their price.

Q24 Chair: Except for NHS IT.

Ian Watmore: As you know, the NHS IT is in a completely different place and we are in litigation with at least one of the suppliers there, so I would rather not talk about the specifics with a commercial litigation.

Q25 Chair: But the BT one.

Ian Watmore: With BT in general, right across the board, they supply us across the whole of Government. I think they are our biggest supplier, up with HP and Fujitsu. I do not have the precise figures but I can supply them to you.

Q26 Chair: I can tell you from what they told us, that on the NHS, the renegotiated contract delivered care record systems to only 47% of the acute trusts that were previously promised them.

Ian Watmore: I think we are overlapping two things. There was something around the NHS IT programme, which is because it is in a bad place and we should talk about that separately. The generality of what we did was renegotiate existing deals where people were providing a service and we either got them to take money off their price or not do stuff that was not necessary. The combination of the two reduced the bill by £800 million. That is £800 million that we would have otherwise had to pay.

Q27 Chair: Was ID cards in that?

Ian Watmore: I do not think ID cards were because I think that had already been cancelled by the Government. I think that was already a cancelled contract. There were suppliers from right across the board: there were property contractors, Trillium; there was Group 4, the people doing prisons and safe and secure custodial services. It was not just IT companies; it was the broad panoply of companies in order to reduce the bill.

28 June 2011 Cabinet Office

Q28 Mr Bacon: I understood you to be saying you were getting more or less the same but just for a lower price which is a great achievement.

Ian Watmore: Yes.

Q29 Mr Bacon: Going back to it, and I do not want to harp on about NHS IT, but there is a reference in this report to volume commitments. This is paragraph 2.9, "All departments (including arm's length bodies) will be required to commit spend through the centralised contracts". That is all very well if you know that you are going to get something that you need, and that it is of the right quality. One of the specific problems, of the many specific problems with NPfIT, was you were getting volume commitments that then allowed the suppliers to fine the NHS if the volume commitment was not achieved, despite the fact that the reason it was not achieved was because nobody wanted the product because the product was useless. Does the intention to require Departments to take part in centralised volume commitments address that risk?

Ian Watmore: I think I would have to re-read the section of the report. If it is the centralised commodity procurement aspect, that is completely not the sort of thing that NPfIT is. NPfIT is the ultimate in what you might call—

Mr Bacon: This is basically, "If you want a laser printer then you will buy this one."

Ian Watmore: Exactly.

Q30 Austin Mitchell: I want to ask Lord Browne what business can contribute here. Business imperatives are much simpler and more straightforward. The board decides a central role and it is left to the rest to implement it. Businesses in problems cut costs, corners and staff. They fire people, that is what they do. BP was accused of cutting standards on safety at Galveston, for instance. Government cannot do that; you are in a much more difficult situation. Going for those kind of efficiency savings—you have old people being beaten up in homes because of inadequate spending on care. What can business contribute in this, with its simplistic views in this complex situation?

Lord Browne: I am sad that business has exactly that characterisation, or perhaps caricature, which I do not think is right. I will just push back to you on BP as well to say that that statement is not proven. So here is the point: there are plenty of different ways of looking at how you create efficiency. One is of course to redeploy people, to change their skill base—not actually to fire them, get rid of them—and there are plenty of different ways of doing that. I cannot speak for industry widely, but in my own experience in all the companies that I have been involved in, laying people off is the thing you do as a last resort. It is the thing where you clearly no longer have a business that merits doing. You do not do it in the first instance. In the first instance you redeploy, you retrain, and you reskill in order to use a great resource that you have. That is what you do.

Q31 Austin Mitchell: In business you can enforce that. In Government all you can do is preach it.

Lord Browne: In business you can to an extent. The impression people have of business is that it is run by founder despots who have absolute autonomy and can do anything they want. It is simply not true. If you want to do business twice in a place you have got to watch out what you do. You have got to watch out what you do with the community, how you deal with it, you ought to worry about organised labour, you ought to worry about non-organised labour, and you ought to worry about your recruitment too. These are just a few things that it seems to me should at least cross the mind of a chief executive before they take big decisions to downsize a workforce.

Q32 Austin Mitchell: Yes, but the ERG are not in that situation. You had power and you could do things; now all you can do is preach.

Lord Browne: My observation of the ERG, in my limited experience of it, is that it takes a limited number of things and tries to deliver them in a very focused way, by consent and by activity in various areas.

Q33 Joseph Johnson: I want to go back to what Lord Browne was saying a few minutes ago about the quality of data that you had seen. You seem to be saying, if I understood correctly, that there was plenty of data. Indeed at one point I think you said there is, "Competent financial information, no question about that." Then you clarified it by saying, "The question is whether it is of the sort on which decisions can be made." I think that was roughly what you were saying. That surprised me to a certain extent because past National Audit Office reports seemed to suggest that the quality of data that the Treasury and other efficiency drives have encountered has not been at all good. Paragraph 1.13 of the report says that, "Available management information is often insufficiently robust." It uses that as one of the reasons why you are being suitably cautious about the savings that you are announcing. I just want to nail down whether you think it is good data or bad data.

Lord Browne: I think I was trying to define what I meant. What I have observed is the financial flow information, which is to say how much money has come in and how much money has gone out, is pretty good. Because people have to land their budget exactly. What is lacking is the much deeper understanding of how you can use numbers and information to understand where you really are. It is to do with efficiency. For example: how well are you doing against all the other Departments or commercial organisations? Where might you be on a project, beyond the Budget period? What are you doing in terms of using the right skills for a project? I am picking random examples. It depends what it is at the heart of your strategy. You should align strategic intent along with the numbers and information needed to work out whether you are on track to achieve what you want to do. Again, I have not observed all the boards, but it is uniform for all the independent members of boards saying, "We have to do more in this area." The ERG has done a limited amount, which is to produce these quarterly data reviews that I think

are just about to start. We have to see how that goes, but it seems to me a good start.

Ian Watmore: One of the things that is clear is that whilst information in a given Department might be quite good, it does not compare very easily across Departments. People aggregate their information differently and then you look at them on one particular measure and you find that actually they are counting things in a different way. In total it works out for them, but just on an individual item it does not. The one that always comes up is cost of laptops. In some places, they count the laptop, the physical piece of hardware, and how much that costs. In other places they count the whole managed service, including the helpdesk, the security environment, and the software layer. Then two people put a number out for the cost of a laptop and people go, "One is five times the other, how scandalous", but actually it is completely different things that are being counted. It is that kind of thing that is really hard for us to do, which is why, as John says, the quarterly data survey which is a joint Treasury and ERG initiative, is trying to get at least a first cut of information out that you can cross-compare, and over time we will hopefully refine that.

Lord Browne: I do not think this is perfect in any organisation, commercial as well. That is why you have to limit the number of things that you look at. You have got to be very precise about what it is you want to know, otherwise people will inadvertently—sometimes purposefully—use two different versions of the same thing.

Q34 Joseph Johnson: Can I just clarify on the point Mr Watmore was making about the £3 billion to £4 billion savings that you believe are going to be attributable to the work of the ERG, out of the £6.2 billion targeted saving? I think you said those were being audited at the moment; is that an NAO audit?

Ian Watmore: We have got our internal auditors doing it, which is actually a service provided by the Home Office. It is another bit of Government that does cross-audit.

Q35 Mr Bacon: Did you say by the Home Office?

Ian Watmore: I think the internal audit function of Government is owned in one Department. It is just sat in one Department and it provides it to all Departments. We have invited those people in to come and crawl all over our figures.

Q36 Chair: If you look at what goes into that, you cannot call all of those efficiency savings, Ian. A freeze on recruitment is a good way—

Ian Watmore: Francis would say that—

Chair: What proportion are efficiencies?

Ian Watmore: Francis would say that the important thing that he was trying to achieve was real savings either in monies that otherwise would have caused cuts on the frontline—

Q37 Chair: Hang on. Even real savings, if you freeze recruitment, it is not a real saving.

Ian Watmore: Why not?

Chair: Because it is a deferring of expenditure.

Ian Watmore: If you are talking about recruitment, if you are at the same time making the system more efficient so you do not actually have to recruit that person.

Q38 Chair: Let's just take an example we had yesterday. We had DWP before us. There has been a freeze on IT. You have done a freeze on new contracts on IT.

Ian Watmore: I do not think we have done a freeze. I think we have always—

Austin Mitchell: Moratorium.

Ian Watmore: We have always said if they have expenditure on IT they bring it to us for approval.

Q39 Chair: Hang on a minute, I will tell you what they said to us yesterday. They said there was a moratorium on IT. One of their propositions for saving money over time is to get more people filling in their benefits online. They have been unable to do that because of an ERG moratorium—if you do not like the word "freeze"—on expenditure. The Permanent Secretary confirmed after a bit of persistence that that had created delay in the progress towards online applications. So you cannot call that a cut.

Ian Watmore: I would like to look at the specifics offline. I am not sure I recognise that example. I am happy to talk to Robert about it offline as well as I see him regularly. The point you asked was, "Is a recruitment freeze a real saving?" and I think it is, provided at the same time you are making the system more efficient so you are not then going to re-recruit those positions.

Q40 Joseph Johnson: The reason why I was asking about the auditing was because when the NAO has looked at past claimed savings it has found that internal audits have not been sufficiently robust. I think in its work on the 2007 savings, which were internally audited by Departments—I cannot remember the exact statistic—

Chair: 38%.

Joseph Johnson: Only something like 38% were green-lighted as bona fide, genuine savings. I just wondered what level of confidence you had that your £3 billion to £4 billion—

Ian Watmore: I am very happy if the NAO would like to come and look at it. I have no desire to do anything other than claim the right number.

Q41 Chair: You promised that there would be analysis by recess.

Ian Watmore: Yes, but if you want people to come and look at it I am happy to do that.

Q42 Nick Smith: Mr Watmore, in your introduction you emphasised joined-up-ness, particularly on IT projects. On this Committee we are interested in the development of universal credit and in particular the joint IT project between DWP and HMRC. It is important because it is a major project, it is big-ticket, and it is high-risk. What is your view of progress with this? Is collaboration working? Who will be accountable should it not work?

28 June 2011 Cabinet Office

Ian Watmore: Good questioning there. First of all, my role as an individual is that I sit on the high-level committee that is chaired by the Secretary of State for Work and Pensions that reviews the joint workings of the project with colleagues from HMRC and indeed from DCLG, because there is a local government input to that as well. So the three main Departments are represented and I represent the Cabinet Office around that; so I have a personal role on that. Obviously my team in the Major Projects Authority regards this as the No. 1. With the Olympics now in sight this is the next big project that Government has. It is the biggest thing that is going on and probably the most risky. I think we have governance on this as good as we can do it.

What is my view of how it is going? My view is that thus far they are doing the right things. I think to be able to say that anything is in the bag for something this complicated and this big would be very premature. It is going to take a lot more effort before we get to that point. Am I sitting there saying this is a disaster waiting to happen? No, I am not. I think there are a number of big decisions they have to get right in the coming year. The dependencies, as you rightly point out, are on the real-time information side that the Revenue provide. That in turn requires the software providers of payroll software to change their software so that the information that is provided by employers comes through in the right format. A recent decision was made on how to do that. I was involved in that decision; we took the least risky way to do it. There were some higher-risk options but we chose the least risky way of doing it. That will be now piloted and if it all follows then the software providers will roll out to all employers for April 2013, so that by the time that universal credit goes live this thing will be providing information. That is that side of the equation.

On the DWP side, they have real complexity as to how they will manage from the legacy environment that they have, which I am sad to say is so old that even I was part of the programming team of it in the 1980s; it is still there whirring away. They have got to convert from that to the new environment. They are doing it in the right way: incrementally, using the agile methodology, all of those things, but it is hard and complicated stuff. There are probably several thousand different types of customer that might go through the system, ranging from the regular person who just loses their job to someone who has got a very complicated personal situation and is in and out of work. There is a lot of work to be done. How they roll it out will be critical. Which group of customers do they start with? How do they then bed that system in? How do they then take on the next tranche and gradually roll it out across the four or five years? These are the issues that they are addressing. So far I think they are doing the right things.

Q43 Nick Smith: Thanks for that very full answer. You paint a very complex picture. Have you had to put up new estimates for the costs of this in terms of IT development?

Ian Watmore: Not to my knowledge. I do not have that in my head, but I do not think so.

Q44 Nick Smith: You talked about being on the different boards overseeing the development of the project. I am still not clear who will be accountable should it not work.

Ian Watmore: The Secretary of State for Work and Pensions and the accounting officer for DWP, Robert Devereux, would be the primary accountability for the universal credit because that is their programme and their benefit.

Q45 Nick Smith: For the IT project, this joined-upness that you identify in your introduction—

Ian Watmore: It is multiple IT projects. The IT that is DWP's will be DWP's; the IT that is the Revenue's will be the Revenue's. Primarily, I think that because the lead Department is DWP that is where the primary accountability lies. If they feel that the Revenue, for whatever reason, are not able to meet their timescales then it is their programme that will be at risk, not the Revenue's. The Revenue are going faster than they probably otherwise would. I think the lead Department has got to be DWP.

Q46 Chair: And your role? Your accountability?

Ian Watmore: I think in this case the accountability would be to assure, through processes like the Major Projects Authority, and to help where requested; but to assure and help success. For example, if our assurance process said it was all going swimmingly fine and then it was a car crash, obviously DWP would be the primary Department in the dock because it would be their customer base that is damaged, but you would rightly point to us and say, "Your assurance process was obviously weak." I feel that I have, through my team and through Francis, the mandate to call a project in if we think it is going off the rails. If necessary we have the Prime Minister's backing for that. Ultimately if we invoke that at some point then we would expect it to be actioned. If it is not, then I think the assurance process completely breaks down.

Q47 Mr Bacon: Did the universal credit get called in?

Ian Watmore: Not yet. By "called in", what I mean I that it is part of that portfolio so we are reviewing it regularly.

Q48 Mr Bacon: I was just thinking of Mr Pitchford's comment the other day of going back to the drawing board. Was this the one where you went back to the drawing board?

Ian Watmore: I do not know what he said, I was not here.

Mr Bacon: He was talking about projects across Government and in a few cases he said he said you had basically had to go back to the drawing board.

Ian Watmore: Not on this one, definitely not. I think the one he probably had in his head is was e-Borders, where they canned the project, and went back to the beginning. On this one I think they have been very open with us from the beginning. Our assurance processes are working. We recognise it is high risk and there is loads of stuff to do. If it gets to a point where I and David, and indeed then Francis, believe that this thing is no longer going to work we will flag

it at the highest levels. I am not going to sit here and say that I will be bulldozed into it by somebody else. If we think it is going wrong we will call it up to the Prime Minister and then we will take the review.

Q49 Nick Smith: One specific point, not an IT one, but one of the things you emphasised the importance of was the real-time recording software. Is all that running well or do you think it is problematic?

Ian Watmore: I think I explained that. In order to get the real-time information in, the primary source of that is to change the payroll software that all employers use. I think there are about 20 companies that 90% of employers use for sending their information into the Revenue on an annual and monthly basis. This is going to be the same software but done on a more regular basis and that is what they have to change.

Amyas Morse: If you do not mind, I will just take us in a slightly different direction. I was just looking over the organisation chart for your office. Perhaps I could ask you both a bit about this. It struck me that in bringing all these groups together, apart from the each one having its individual responsibility, I would expect some logistic benefits.

Ian Watmore: Yes.

Amyas Morse: From your point of view, how have you thought about that? How are you going to deliver those? What are your plans for them? May I ask Lord Browne, because you must have seen this many times before, what would you expect from bringing services together and if you wanted to drive them to deliver synergy, how would you go about that? It is just interesting.

Ian Watmore: Just as a flavour, in my own team—this is the team that I have, not the rest of Government—we have reduced the core team from 600 to 380 people in a year, so we have taken 220 people out of 600. We have taken the delivery bodies down from 1,344 to 891 in a year. There is more to go because we announced the closure of the COI last week and that is still in here. I have taken my leadership team down by two Permanent Secretaries, four director generals and five directors. The top management costs of my team have been reduced by 40% in a year. We have come out of all our buildings and moved into the Treasury building; we are now hot desking and using flexible IT. Instead of working in little pockets of teams, everybody is assigned on a flexible basis so that we put people on to projects that then focus on common business products.

Q50 Chair: How big is your team?

Ian Watmore: I just said the core is now 380 people, it was 600.

Q51 Chair: I notice on the top level, you have got 12 vacancies.

Ian Watmore: I have taken it down by 11 of the most senior grades in the civil service.

Amyas Morse: When I was asking about synergy—it is good to hear about the cost reduction aspect of it—I was thinking more about how you bring together the considerations from these various groups, and to actually shape services and structure the functions of central Government more effectively. It is interesting,

and it is good that you are doing that, but I am much more interested in some of the positive aspects.

Ian Watmore: Let me answer that part of the question then. One of the reasons is that I genuinely believe these teams, if they are too big, create their own silos, they fragment, and they just focus down their own channel. Then some poor Department out there gets 15 visits from the centre, all of whom are being told it is the most important thing on God's earth that they do this thing, and they just plate-spin them away. What we are trying to do is by having much smaller teams, we are then joining up around Departments and key issues like the universal credit. We are taking a business problem and then getting our capability aligned with the major projects, the IT, the procurement, the commercial contracting people etc. We are saying, "There is a common problem there, it is called universal credit. Go work at it together and join up for the benefit of DWP." That is the approach that we are adopting. Given that you and I have a shared professional services background, it is, if you like, joining up your capability around a common client rather than bombarding that client with every bit of your organisation.

Q52 Joseph Johnson: Just quickly on the 380 people in the efficiency unit. Obviously it raised a few eyebrows this side of the table.

Ian Watmore: What, that it was so small?

Joseph Johnson: That you are so lean and efficiently. No, seriously, were these new people or were they people who were rolled in from previous bodies that were—

Ian Watmore: When we assembled the teams in the first place, the 600 came from all the different bits of Government that already existed. We brought them together and we have taken a third out of the cost in the first year. You need to understand what some of these people are doing. They are not just advising on key projects. In there is the Office of Civil Society that is actually giving grants to third sector bodies. We have got the HR management team for the whole civil service—

Joseph Johnson: So are we doing efficiency more efficient?

Ian Watmore: Exactly. I have a saying that credibility begins at home, and if you are going to preach—to use the word that Mr Mitchell was using—efficiency across the patch and you look fat, dumb and happy yourself, you have got no credibility. We have been making sure that we are taking our own medicine early, applying the techniques that we think everybody else should be doing to ourselves, and the numbers are there.

Q53 Joseph Johnson: I am not sure if it is possible for you to give us this answer, but how many people were doing efficiency before you came along, and how many are doing it now?

Ian Watmore: Efficiency is an umbrella term. It was, as I said, 600 people before in the corporate functions, the central bit, and another 1,300 in the bits around the centre like the COI and Directgov, and those things that were delivering a daily service on behalf of Government.

28 June 2011 Cabinet Office

Q54 Joseph Johnson: What's happened to them? Are they still doing it?

Ian Watmore: The 600 is down to 380 and the 1,300 is down to 800.

Q55 Chair: In that, is there any outsourcing?

Ian Watmore: No.

Chair: None of that is outsourcing?

Ian Watmore: No.

Chair: So it is all people out.

Ian Watmore: It is either voluntary departures or abolition really.

Chair: But the COI function is not being outsourced?

Ian Watmore: No.

Q56 Stephen Barclay: Just building on Jo's question, you just used the phrase, "Efficiency is an umbrella term." I was struck by your comments earlier Mr Watmore that data does not compare between Departments. Do you have an agreed definition between all Departments and arm's length bodies in terms of what constitutes a frontline service?

Ian Watmore: No. I think that you get into a very difficult territory whenever you write one of these things down, because if you are sitting in the Department for Education, who is providing the frontline service? Is it the teacher, the school, the local education authority, Ofsted, or the Department? You get into very difficult degrees of definition here. What we have put our arms around are the central Government Departments and their arm's length bodies that people recognise as constituting part of central Government. That is what we are dealing with. The wider public sector, which is largely education, police, health etc., is then beyond.

Q57 Stephen Barclay: Within central Whitehall do you have an agreed definition between Departments for frontline services?

Ian Watmore: Give me an example.

Stephen Barclay: At paragraph 1.12, for example, it says, "A recruitment ban across the civil service except for key frontline staff." I accept, because I have had an interesting exchange in terms of arm's length bodies with my chief fire officer who has 206 full-time fire fighters in Cambridgeshire, six people full-time in the media and communications department, and describes those as essential parts of the frontline service. So his interpretation of paragraph 1.12—

Ian Watmore: The Minister for the Cabinet Office might find that one a difficult one to agree with, I would think.

Q58 Stephen Barclay: I will relay your statement to him. Even though I accept there is an issue with arm's length bodies, although one can look at accounting officers' accountability in terms of arm's length bodies—even within central Government, for frontline services, you put a ban on there with a definition attached to that ban—is there an agreed definition across all Departments of what constitutes a frontline service?

Ian Watmore: I think we have defined it in words but at the end of the day you have got to sit down and say, "Is this person delivering a frontline service?" If

it is a job centre clerk and you need them, then yes they are. If it is a communications back-up resource then no, they are not; and there are all the shades of grey in between.

Q59 Stephen Barclay: Let me give you another example because I think it goes to the heart of this Committee finding the same issues coming up. We had an exchange on professional services, which you may recall, on consultancy.

Ian Watmore: I do.

Stephen Barclay: In the Treasury minute's response it says, "Spend on consultancy across Whitehall has fallen by 46%." That sounds extremely positive. It suggests that a grip is being taken. Yet we had a note from one of the Departments that said, "Our consultancy spend has come down, but our spend on contractors has gone up." In a way it relates to these umbrella terms or different work being rebadged, very imaginatively, with different titles.

Ian Watmore: Would you like to tell me which Department that was and I will go and have a look at it?

Stephen Barclay: I think it was the Department for Transport, but I can send you a note.

Ian Watmore: The overall figures are being audited at the moment so they may not be 100%.

Stephen Barclay: It was in a note to the Committee; I am very happy to do it.

Ian Watmore: Consultancy was down for the year by 70% and the agency staff, which would be your contractor types, was down 40%.

Q60 Stephen Barclay: There is a Department—and for any journalists who want to check it, I will very happily make it available when I go back to the office—that in its note to this committee, and I asked the Permanent Secretary about it at a recent hearing, I forget which Department it was off hand, said that their consultancy spend had gone down, but their spend on contractors had gone up and they could not tell me the difference between the two. That is what I am trying to get to the heart of. Could I come back to the original question, which is about the extent to which you at the centre, in terms of facilitating benchmarking, have now got a set of agreed definitions on professional services across central Government Departments? Have you got that in place?

Ian Watmore: I believe we do.

Q61 Stephen Barclay: Is that published? Is that something that we can see so that we can then look as a Committee whether activity is getting rebadged?

Ian Watmore: I can certainly let you have what we have and then you can decide whether that meets you needs.

Q62 Stephen Barclay: And you are benchmarking them between Departments on professional services on the different categories of what is being spent.

Ian Watmore: Yes. The difficulty is with the term "consultancy", which gets used as an umbrella term for anything that is not direct payroll. Lawyers count as consultancy if you buy them in from wherever.

Q63 Stephen Barclay: Yes, we saw this with the Department for Transport.

Ian Watmore: DFID, who spend all their money overseas, go and engage some local people in Rwanda or something and that gets counted as consultancy. There are all sorts of problems with the definition and so we have tried to hone it to be the professional services groups that you and I would probably recognise by that term, and we expect people to record to that.

Q64 Chris Heaton-Harris: You said a 70% reduction year-on-year on consultancy and 40% on agency?

Ian Watmore: Yes.

Chris Heaton-Harris: Congratulations, fantastic.

Ian Watmore: Thank you. I will pass your congratulations on to the team that has done it because they take a lot of abuse.

Q65 Chris Heaton-Harris: The taxpayers in Daventry are delighted by those statistics. Can I just ask about procurement because day-in, day-out in this Committee, we see examples of probably not the best practice in procurement when it is done by Government? How are you tackling this particular issue and is it one you actually tackle in equal measure across all the different Departments of Government?

Ian Watmore: It is a good challenge, because it is a topic that covers everything from buying paperclips to ten-year programmes to review military equipment.

Q66 Chris Heaton-Harris: Is there a possibility of outsourcing some of this procurement?

Ian Watmore: In effect what we are doing is establishing in one place a Government procurement service—that is what we have called it, but we will call it the central procurement arm of Government—to procure, on an aggregated basis across all Departments, 10 common categories: office supplies, travel, professional services, that kind of thing. We are trying to aggregate the 10 categories and get them all bought through one place. The one place can be our central team headquarters in Liverpool or Norwich, or it can be a bit of Government acting on its behalf. For example the Home Office and the Revenue have two very excellent procurement functions and we are using them more broadly now than we were before.

The intention is over the next two years, to try and get all of that commodity spend going through that engine that will probably get to about, if we are doing well, £5 billion to £7 billion worth of spend through that central engine. That will take a lot of the debate out of things like why does an HP printer cartridge cost this in one Department and that in another. What it will then do is allow Departments to focus on what their real game is, which is strategic procurement. In each Department that is a specialty subject. With the Ministry of Defence, I am sure you read and heard the announcements yesterday that there is a major reform going on there trying to get defence procurement realigned. We have talked a lot about IT procurement in this, but they tend to be at a more strategic end. The Ministry of Justice has done some very innovative things recently in terms of both competing

prisons but also in commissioning services from people like the voluntary sector to try and improve reoffending rates. What we are really trying to say to Departments is, “We will do the commodity stuff for you, that should free you up to focus on what is core and strategic to your business.”

Q67 Chair: Let’s be clear on two things. You said £6 billion or £7 billion. The figure in the report for procurement is £236 billion. Whilst it is really welcome that you are sorting out the paperclips and the cartridges, it is a minute element of the total procurement bill for Government.

Ian Watmore: But that is what the newspapers always go on about.

Chair: It doesn’t matter. What we care about—

Ian Watmore: We read stories that Government procurement is in disarray because they buy this printer cartridge at £5 and this one at £10 and why is that? Whereas you and I know that the real story is on IT procurement, tanks and armoured vehicles and all that, which is where we need to focus the Department.

Q68 Chair: It is important on the £6 billion and to meet the agenda of the *Mail* as well, but it is much more important to try and eke out efficiency savings on the £230 billion that you are not touching. I was just going to ask you how you think that the work you are doing—it is going to be a positive question—on the £6 billion could in any way influence what happens in the much bigger bit, which is not necessarily just defence but across the piece on general procurement, which is what I think really matters.

Ian Watmore: I am sorry for jumping down your throat halfway through the question. The point I was trying to make is that we need to get that right to have credibility with the other procurement initiatives. When we are doing it for central Government we are going to say to the wider public sector, “If we have got deals that you cannot match, then come in and join our deals. We will give you the price breaks of those.” What local authority or health authority would want to say, “I will go and buy my printer cartridges more expensively than you can.”

Q69 Chair: It is still £6 billion.

Ian Watmore: I think I said over the first two years that is the figure. We have got a total spend. Commodity spend in central Government is £13 billion.

Q70 Chair: It is that £13 billion as a proportion of £236 billion.

Ian Watmore: The £236 billion is the wider public sector, which includes health, education and all of that. I think the total expenditure in central Government is about £60 billion, from memory. Of the £60 billion, the vast majority of that is things like MoD procurement, IT procurement, transport procurement, where you have to have a specialist focus on the approach. I am not saying we are ignoring all of that. I am just saying we are not doing that through the centralised procurement route. The

28 June 2011 Cabinet Office

centralised procurement route is for commodities. The targeted procurement route is on the strategic things. We have regular meetings with Bernard Gray, for example, who is the new chief of defence materiel at the MoD, because he can see that the agenda that he is trying to get across the MoD is precisely what we are trying to get across Government. Ditto with the other big Departments who face the wider public sector: Education, Justice Health, etc.

Q71 Chair: Let me just ask two more questions on it. One is, from what I understand you said, let's say you get up to your £13 billion, all the new rather more fragmented bodies that are responsible for using the taxpayers' pound to deliver services will have to be persuaded rather than instructed to take advantage of your more efficient procurement process. Question two is, if I just take another of one of our recent reports which was on NHS consumables procurement—I do not know if that caught your eye. We found there that there are 61 trusts, 652 different types of surgical gloves, and 1,751 different types of cannula, with one trust buying 177 different types of gloves. That is obviously absurd. Is there anything you will be doing that will cut out that real inefficiency?

Ian Watmore: I could name you similar examples. For example, in paper. You would think A4 paper was pretty standard, but we have hundreds of variants of it that we do not need. By aggregation you can actually reduce the number of lines of business; you can see it all in one place. Then you can say, "We do not need two-thirds of those, you can have any car you like as long as it is black, red or green or something, and not any other shade of colour." That is what we are approaching doing with our commodities. We are saying to the wider public sector, "Come into that deal as well. You will get a better deal." Why would you spend your money on that when you have got your own deficit?

Q72 Chair: So it is voluntary, not compulsory?

Ian Watmore: At the moment yes, because I think the Government's general direction on the wider public sector is actually to devolve power locally.

Q73 Chair: It is tight/loose, and I am trying to find out whether this is tight or loose.

Ian Watmore: For central Government, this is tight. Then I think it is up to the Departments that manage those wider systems to decide with their bodies whether they want to—

Q74 Chair: The surgical gloves and cannula?

Ian Watmore: I will have to get back to you on that, it is not my "Mastermind" specialist subject. The principle is right, that we do not want a large number of lines of items to be procured. The paper one I give you is a good example because if we can actually reduce the number, not only can we do it more cheaply, we can actually do it more ecologically as well because we can get recycled paper.

Q75 Chair: I understand that you are going to get back to me on the gloves and the cannula, but do you see that as tight or loose?

Ian Watmore: I think in the context of this it would have to be loose from a central Government point of view, because that is right in the middle of the health service, and the health service reforms are about devolving responsibility away from the centre. They are more than welcome to join in with our procurement approaches and if we can help them aggregate their spend, then great, we will.

Q76 Mr Bacon: Can I ask you a question on procurement and procurement rules. Plainly, if you could have a Model T Ford printer, say an HP printer, and everybody does not have a special requirement, like the disease control centre at Bury St. Edmunds that needed a huge plotter, got the bog standard black printer with the same cartridge, you would save a lot. You also put, say, for example, HP—as long as they are prepared to come up with a good price—in a really good long-term position because once it is all there, in and running you do not really want to pull it all out. You want to keep the cartridges coming at a very low price. Plainly that presents potential competitive problems and even potentially EU procurement rules problems. How do you get round all of them?

Ian Watmore: Again this is a complicated story, but broadly the thrust is when we have aggregated the spend so that we know what we are going to spend, our approach is to try to break that spend up amongst competing companies including, particularly strongly, SME companies; by specifying what we are then going to buy in a way that makes the SMEs able to participate. Then we are into all sorts of issues around how we change the rules. We are absolutely not in the game of trying to lock into a single company and get a short-term cash gain and then realise that you have locked all that away. We want to get commodities to become commodities, and then get multiple people to be able to provide that. We also want to do what we call spot-buying, which is where we might set a price but when a given Department comes along and says, "I want 100,000 of these", we go into the market and spot-buy and take the best price on the day. We have also got reverse e-auctions, the reverse eBay type of approach. There is a whole variety of tools and techniques. We have just signed a deal with ProcServe to put the marketplace on the web for everybody, so there is a whole variety of things to make sure we do not get into particular problem.

Q77 Mr Bacon: You mentioned earlier, I think you were talking about universal credit and agile. The agile community is saying, "If universal credit is agile, why is it taking up to two years and costing hundreds of millions of pounds?" If you look at the original famous agile manifesto, one of its premises, item 3 is, "Deliver working software frequently, from a couple of weeks to a couple of months, with a preference to the shorter timescale". Is this really agile, or is it just waterfall with a different name on it? Is it true to say that there is a difference of emphasis between you and Francis Maude on what agile really consists in?

Ian Watmore: No, I do not think so. I will give you two answers to that. One is I went to Warrington the other day to visit DWP and they have got—I forget the name of the company, but it has one of the world-leading agile people in. They showed me how they are breaking up the delivery for October 2013 into a large number of two-to-three-week drops of code. What they are trying to do with it is take each customer type and develop the whole solution for that customer type. If you are a very straight forward customer then you start off through this transaction, if you get more complicated you wait for a later transaction. They are then using those deliveries to road test it with real customers. They are getting people in front of it and they are working out some of the problems, and they are iterating round. They are then putting that on the shelf and saying, “When we go live, that is the version for customer type A. Now let’s do customer type B.” In the end they are aggregating all these little—

Mr Bacon: So it will be like Lego?

Ian Watmore: In effect. In the end when you are going live with one of these national systems, you have to work out which group of customers you are going to impact, how you are going to do it in which geography, and whether that is fair from a proprietary point of view. That is the way you have to build that up. My second point is I have also recruited, for the purposes of advising me and Francis, somebody whose speciality is in the new ways of developing IT, whose specific job will be to come and challenge us over the next year to make absolutely sure that we are adopting—we collectively in Government—the latest thinking. I think that is already happening in DWP.

Q78 Jackie Doyle-Price: I just want to pop back to this question about accountability and ownership. It comes out of the question that Nick was asking about the DWP. There is a real tension here in what you are describing. You had said that you will be prepared to actively call in projects if they look like they are going awry. Equally, you said that Departments will retain ownerships of these projects. I just want to tease out from you just exactly how that will work in practice because we definitely got the message yesterday from the DWP that they were very much beholden to you in terms of how far and how quickly they could move on their projects.

Ian Watmore: I would have to listen to what Robert actually said to know what he was aiming at. The principle as far as universal credit is concerned, is that it is one of the Government’s major projects. It is probably the biggest outside of the Olympics in terms of risk, cost and difficulty. Each of the major projects is reviewed regularly and independently by the Major Projects Authority, which reports through me. If the Major Projects Authority—I think you had a briefing from David Pitchford last week—says, “The project cannot go on in the way it is; it will hit the buffers”, obviously the first port of call is you talk to the Department about it. If the Department says, “Go away, we are carrying on anyway, it is our project”, we escalate straight to the Prime Minister. Then it is up to the Prime Minister.

Q79 Jackie Doyle-Price: Typically, how often would a major project be reviewed?

Ian Watmore: It is almost continuous really because there are so many different strands of the project. You probably have a formal checkpoint every three months or something, but it is almost continuous activity going on checking out different aspects of this.

Q80 Jackie Doyle-Price: If we relate it to a past example that we have looked at in this Committee, for example Mr Bacon’s favourite, NPfIT or the M25 extension, how quickly would that have been reined in under this process?

Ian Watmore: That is a good question. I would have hoped that something like the national programme would have been reined in several years ago by this process.

Q81 Chair: The interesting thing on that one actually was that the Secretary of State, if I look back on it, she—it was when Ruth Kelly was Secretary of State—asked for a cost-benefit analysis of it all and actually she got the wrong figures. She got figures that proved a case, which later proved to be wrong. I am not sure you could have made a difference on that one.

Ian Watmore: I am just saying that I think the process would have intervened much earlier and it may well have continued afterwards if that is what the ministerial team of the day wanted to do. The point is in terms of intervention, I think it would happen much earlier and we would escalate higher, more quickly.

Q82 Jackie Doyle-Price: I think the risk of an act from the centre—believe me, I wish it were, I think it is essential—is that you are setting yourselves up as human shields for accounting officers who might otherwise have to carry the can.

Ian Watmore: Possibly. That is part of the sport of these things. My point of view is that I am not running universal credit; I am running the Major Projects Authority. My job is to ensure that the Major Projects Authority is operating with professionalism, integrity and all those things, and is making the best judgments it can and reporting them openly and honestly to all the parties. At the end of the day I am not running the universal credit system, or the jobcentres, or whatever. That is down to Iain Duncan-Smith and Robert Devereux and teams. You have to be clear that they are running their business, we are running an assurance process, and it is in our interests for both sides to work together well. I am saying if there is a problem we can escalate to the Prime Minister, we have that right.

Q83 Chair: That brings me neatly to ask Lord Browne this question. We have heard all of this, in your view as the key non-executive director for Government, how would you, and therefore we, judge the effectiveness of the ERG two or three years downstream with three or four criteria?

Lord Browne: Going back to the major projects portion of this, I think the Major Projects Authority is a good start. Where I think I and several of the other directors come from is this: without a deeper understanding of all the leadership in project

28 June 2011 Cabinet Office

management and how you really do this well with the best practice available in the world outside, this is not something that will be completely sustainable. So an adjunct to the Major Projects Authority is to try and work, and we are presently trying to work the definition of it, the Major Projects Academy where people can go and actually understand what is right and wrong about running a big project. There are plenty of projects in the commercial world that do not work. There is less and less ability to hide them away because they get bigger and bigger, which is good. That means therefore people have to get better and better at really leading these. I do not just mean the technical people. I mean the management, in other words, the leadership.

This has proved to be very successful in a whole variety of different commercial organisations. I think that will be an adjunct to this that can, I believe, eventually provide more realistic budgets and timescales and better complete delivery, including the relevant procurement related to any major project. I think it is the point, because if I was looking at the ERG and I were looking at it in a non-governmental way I would say, "I want to assess how the ERG has affected the behaviour and understanding of the people who are actually doing the activities which the ERG is controlling." In other words, is there a deep understanding of how to get IT projects really working? Do we have the right people doing that? Do we have the same in procurement? Is there a real understanding that you need to have a high degree of professional skills for distributed procurement, as well as centralised procurement? We need to make sure that people do not delude you in the usual sorts of ways. I would look to see whether there was a sense that this had been transferred to people, and actually it becomes self-sustaining. That is the first thing I would look for.

The second thing I would look for is whether people used, as it were, commercial sense, as a result of this. Whether they balanced risk with their outcome, with their return, in a way that just made sense. I would look to see whether that was going on. The third I think is I would look to see whether everything that is being done is in line with strategy. Are the strategies of the Departments clear? Are the strategies of the ERG clear? Are they lined up? The final point I would make I think is, there was this question about organisation. My own view about organisations is that they have to be fit for purpose. The ERG looks to me like it is fit for purpose for now. That may not be the case as it actually delivers its results. It needs to think about how it is managing its own development and change. I would do all that and then I would make sure I had numbers to back it all up.

Q84 Chair: I was going to ask, is that translatable into numbers?

Lord Browne: Absolutely it is. I am not involved with the numbers, I see some numbers. If the numbers are correctly formulated then you can see track record being developed, you can see comparatives with the outside world and that will tell you whether this is making a real change or not.

Q85 Mr Bacon: All of what you just said was fascinating, particularly the last bit about it being translated into numbers that you can follow. That of course presupposes, not just for the ERG but out there in the Departments, that there are senior managers out there who understand that and who have the willingness and the capability to translate it into meaningful numbers. I think it is probably a strategic question, but one of the questions that surely all the non-executives will be asking themselves is, "Do we have the right people and are we giving them the right career formation?" You will be aware of the number of directors general who have had to be brought in from outside because of this lack across the civil service, and this has been recognised quite widely, within the top management of the civil service, that there is a problem there. This may be slightly outside the ERG's immediate focus, but certainly in your capacity as the lead non-executive it is not, so where are we going with this, and to what extent is the capacity of the Whitehall system as a whole and the way Permanent Secretaries relate, not just to one another but to the Cabinet Secretary, fit for purpose? As you know, the Cabinet Secretary is in no real sense the line manager of the Permanent Secretaries. He is an influencer and the present Cabinet Secretary is probably more of an influencer than some of the previous ones. He has been pushing for the capability reviews, but this Committee looked at that two or three years ago and we have not heard a whole lot since. In the capability reviews that the NAO did a report on, there was no mention of performance, just capability, and really no identification of where it is going to go next.

Lord Browne: If I may, let me just set a context about the way in which I think all the boards are thinking. In order to simplify their life a bit they have picked five principles to deal with. One is strategic clarity, which does not really exist for each Department, and how do you get there. Secondly, are there people exercising commercial sense? Thirdly, are talented people being trained? I want to come back to that. Fourthly, are people results-orientated? Fifthly, is management information relevant and timely? These are the questions people are asking, and they are very ordinary questions I think, but rather difficult to answer.

On talented people, I went to a meeting that was chaired by Gus O'Donnell—I go to it occasionally—that many Permanent Secretaries attend. It is the senior leadership committee, where the topic of conversation was in effect defining what are the attributes of leaders in the civil service in the future. That definition, which is still I think pretty well being fixed now, says what you have to do to get leaders in the civil service to be aware of tools, techniques and understanding that balance implementation with policy development. A balance is needed between those two things. Promotion and all the other things that go with training people in a balanced way should align. In other words, people should be promoted when they are good, not only on policy but also implementation. The definition of that is in process. Therefore someone, but we need to figure out who, can actually begin to train, educate and evaluate

people on the basis of what they need to do for this part of the 21st century, which I think is very much looking at how you actually get things done with limited resources. That is what this is about.

Amyas Morse: Complementary to that, I have been listening to the answers that you both gave, and Ian said at the beginning that the driver for setting up the ERG is the deficit, ministerial support, and the incoherence in the corporate back office. I understand all those, but you were asked questions about how really sustainable it is; really I think that is the theme. Is it important to get people to get the idea that there is a different way of managing, where it is not just downwards, and there is actually an enduring need for a matrix relationship where you have people with subject matter expertise who always have something to say, and therefore just saying a Department is to run itself, does not mean it can run itself and make ill-advised or inexpert decisions. Equally, if you are going to have a policy of devolution, it does not mean that in every place you devolve to, everybody should go off and busily invent the wheel. There are still a very high percentage of good practices that should be reproduced in practically every place. I would have thought that your group should be one of the people who are driving that out across wider Government. I will just put it to you in that way. Is that a responsibility and a challenge you actually recognise and see yourselves taking up?

Ian Watmore: Yes, absolutely. We are not going to continue to hold back on expenditure items by moratoria and brute-force tactics forever. They work for a period of time, but if you want sustainable change to happen you have got to change the capability and the culture of the organisation. That is why part of what we are doing—it is my team that helped John set the boards up across Whitehall, so we would see that as a very integral part of transforming the way Whitehall Departments are run. It is my team that owns the civil service reform agenda which we are just coming on to, laying out what the Government's vision for that is. So yes, the first year has been about, "Let's get control of the money, stop bad spending and do this, do that, do the other", but by the end of Parliament it needs to be much more down the other end of the spectrum, which is about coaching, helping and advising because the system has begun to adapt for itself.

Q86 Chair: Have either of you got a figure in your brain? The £81 billion or whatever it is that we are trying to eke out of the budget, how much is stopping doing things and how much is efficiency?

Ian Watmore: I do not know. These are very rough figures, but I say about a quarter of that £81 billion ought to come from central Government applying real aggressive efficiencies to itself. Probably another quarter can come out of the wider public sector doing the same thing. So about half is my answer.

Q87 Mr Bacon: Before we leave the point about the wider role of the civil service reform agenda: you said a Parliament out, you should have seen a lot of it bed down. Does that include a role in deciding who the Permanent Secretaries of the future are and making

sure that they come from an implementation background, so that we end up, fairly soon, with a preponderance, perhaps even more than 50%, of Permanent Secretaries who come from a background where they have done something; by which I mean run something.

Ian Watmore: I am rather heartened by the fact that half of the Permanent Secretaries are now women, so I think we have a real chance for success. I think part of the civil service reform agenda has got to be, as John was saying, to lay out what are the capabilities and expectation of a leader in the system going forward, which include many of the previous things.

Q88 Chair: Is it one of your back office savings: fewer Permanent Secretaries?

Ian Watmore: That would involve fewer Cabinet Ministers, which may never happen.

Mr Bacon: Certainly not in a coalition.

Ian Watmore: Certainly not in a coalition. I think John's leadership points are the ones I would alight on.

Lord Browne: As I am sure you know, the development of a leader is not to go from one extreme to the other. It is to give people a strong suit and a minor suit so that they actually appreciate people who have the minor suit as their major suit. That is actually what a leader needs to do, to be able to understand the diversity of talent and to use it really well. I think by training people in this way you can get a more effective approach to management and leadership.

Q89 Stephen Barclay: On that issue of training, could you give us a sense, with the Major Projects Academy, which I think is a very welcome development, how many people will undertake that training over the next 12 months and what will it involve?

Lord Browne: It is too premature to give an answer. I think you should refer that to David Pitchford in a few months when he has developed it. What he is doing is he has got an outline that I think is fit for purpose and now he is going round filling it up with exactly this detail: size, scale and time.

Q90 Stephen Barclay: This links into that: I was told anecdotally—I do not know if it is correct—that the National School of Government has a training course for people appearing before this Committee, but it does not have a training course for senior responsible owners. I do not know if that is correct or not. How many senior responsible owners are there in central Government? It seems quite difficult to get a handle on that. To what extent are you, at the centre, appraising those and perhaps changing the appraisal system for senior responsible owners to pick up on some of these common issues?

Ian Watmore: One of the things we are doing with the major projects work is trying to assemble the portfolio of major projects; I suspect David talked to you about that last week. Outside of defence, which I think has a special cadre, it is going to be 120–130 projects or something of that ilk that we define are the major projects of Government. Part of his remit is to assure himself that the SRO for each of

28 June 2011 Cabinet Office

those projects is somebody who is up to the job and, if they are not, recommend that they are changed.

Q91 Stephen Barclay: That slightly misses my point because we come back to the definitions and as I understand it there was no definition of major projects.

Ian Watmore: I think he has defined it in terms of risk.

Q92 Stephen Barclay: I am pleased to hear it. I understand there is a senior responsible owner in Communities and Local Government dealing with a project of £20 million. There is one person in the Ministry of Defence who is the senior responsible owner for six projects with a combined spend of £17.2 billion, which he does in addition to his day job: quite a feat. When I wrote to Sir Gus O'Donnell about whether you were benchmarking where we are now, because one would assume if you are doing a change programme you would benchmark the starting point in order to assess the changes you put in place, he wrote back to say, "No, we have no intention of doing so and we do not collate the data at the centre in terms of senior responsible owners." It just strikes me we have got a welcome announcement with the Major Projects Academy; as a Committee we have no sense of how much training, how many people, what grades they are. One would assume that there is some training at the moment, but anecdotally I am told it is very little, patchy at best. We know from the NAO that senior responsible owners often have a very wide range of responsibilities and skill sets. I just do not get a sense at the moment that anyone is benchmarking where we are now in order that we as a Committee in two years time can come back and assess whether the Academy is working, whether the grip on SROs is consistent across Departments. How are we going to get that visibility in two years time?

Ian Watmore: I think what we often confuse in these discussions is the difference between the senior responsible owner and the programme director. To me the senior responsible owner is the person who will live with the consequences of this thing, whatever this thing is. That is why I absolutely agree that universal credit have made Terry Moran the senior responsible owner because he is the guy that runs the network.

Q93 Stephen Barclay: Or Sir David Nicholson for the NHS IT programme. He is the senior responsible owner, but he does not actually chair the project board.

Ian Watmore: They are the people who live with consequences and I think that is what you would do in business. If you are going to fundamentally do something to a business the chief executive would be all over it like a rash. What I think we need to do more of, through John's ideas of academies, is build the right awareness in those leaders of the civil service and public service to know about programmes and projects, and what works and what does not. We also need to build a really strong cadre of people who do programme director roles, week in week out, for one programme after another. That is personally where we are very short.

Stephen Barclay: When will we get some numbers on that so that we as a Committee can see?

Ian Watmore: Of the major projects we are going through and benchmarking those now. We are now looking at what we have actually got on the books at the moment.

Q94 Mr Bacon: When will we know that? I am looking at Mr Pitchford's quote from a speech he gave last October, where he said "Nobody in the UK Government seems to know how many projects they have on the books, nor how much these are likely to cost. The current estimates range from somewhere between £300 billion to £600 billion," which leaves a little margin for error. It would be nice to get it honed down a bit more tightly.

Ian Watmore: He is Australian.

Mr Bacon: Yes, I know. He doesn't hold back does he? We like the cut of his jib.

Ian Watmore: We were learning a load of new project management terminology this morning.

Mr Bacon: Including some acronyms I am sure.

Ian Watmore: Like what is the difference between a "schmozzle" and a "doozy".

Q95 Mr Bacon: When are we going to get some numbers?

Ian Watmore: As I say, he is putting this portfolio together, and it aims to be before the summer recess. That will give us the project portfolio. We then have to go through each of those projects with the team and just assess the status and the readiness of each of the teams ready to do it. I am qualified to be an SRO, but I am not currently doing an SRO role in some sense. Other people will be doing it but you would say probably unqualified. We have got to find the right way to match the people to the jobs. That will only come out when we look at the combination of what we have got on the books and who we are putting through the Academy.

Q96 Stephen Barclay: What I am driving at is there is no sense, timescale wise, of when we as a Committee are going to get a sense of how many people are going to be trained, to what level, to what degree. Is it a week course, two weeks, it is an ongoing programme, what is it? There are lots of aspirations and very worthy intentions but in terms of the actual plan and when we are going to see it, it is very hard to get a sense of what that is. If we take the NHS IT programme, where as I understand it we are basically spending the same money to get half the delivery—in short that is the way I would sum it up—the senior responsible owner is Sir David Nicholson.

Ian Watmore: I think he is the accounting officer actually.

Chair: No.

Mr Bacon: He is the SRO as well. He has been the SRO since 2006.

Stephen Barclay: No, he is the senior responsible owner and yet as I understand it is Mr Flory who actually chairs the executive working group. You have got an SRO who is responsible, he is also responsible as the accounting officer, but he is not the person who is actually driving the programme. From the Public

Accounts Committee, it is very difficult to see how that accountability is worked. I come back to the starting point, which is Sir Gus O'Donnell's response to my letter where, to be frank, I do not get a sense from the Cabinet Office that you are collating the data to be able to challenge Departments on the inconsistencies in definition and application between Departments. With respect, from your evidence today I do not any sense of an intention to collate that information, to benchmark it, and therefore to be able to challenge Departments.

Ian Watmore: I think I am probably misunderstanding what you are asking for then. It seems to me that if you wanted to know who are the SROs of our major projects we would be able to tell you that.

Q97 Stephen Barclay: The Ministry of Defence gave me three answers, all of which were different, when we asked them earlier this year. They actually had different dates, and different names for the projects. Even Departments themselves had trouble giving us that information.

Ian Watmore: The Ministry of Defence needs its own—

Mr Bacon: The NHS IT programme: Mr Barclay is right, Sir David Nicholson has been the SRO since 2006, but in the preceding five years there were six SROs. There cannot have been six people who were going to live with the consequences in quite that way.

Ian Watmore: I think there is a lot of evidence in the past that we have put people into the role of SRO who either are not the right person because of their job; they may be the policy person who is pushing something out but not actually the operational person who is going to live with the consequences. Or if they are the right person for the job role, they do not have the skills and the experience to help them, to back them up. I would agree with that. What we are trying to do is understand what we have actually got on the books today and do we have the right people in those roles. We are happy to share that information with you when we have compiled it.

Q98 Austin Mitchell: I have got three statesmanlike questions which might round it off. On property, estates, I see that you are establishing a Government Property Unit that is going to pilot property vehicles in central London. Pilot indicates that they might be low flying aircraft rather than buses full of civil servants driven round central London. You may tell us what those are, but how are you going to exercise effective management or produce economies from the estates when a large section of them—PFI hospitals and the Treasury's PFI deed on all its offices—are untouchable? There is nothing you can do about them. You are going to have to continue to pay a high kind of Danegeld or City-geld on them and the services. So much for changing a light bulb. There is nothing you can do about a large section of property. That was the brief question.

Ian Watmore: It is fair, and the pilot of central London is basically saying, "Can we get the people who need to be in central London to work with this place and with Ministers into many fewer buildings", partly for savings purposes and partly for

collaboration and co-location. We find if people are in the same building they are more likely to work together. I solve more problems with the Treasury by being in the same building, by walking down the corridor and just talking to the person and getting it fixed, than would have happened if we were in different buildings with emails and meetings.

Q99 Austin Mitchell: You cannot evacuate PFI buildings because you have got to continue to pay the rent.

Ian Watmore: Indeed, the Treasury building is of course a PFI building as you well know and we are living in it. We have three sorts of building in London centrally: we have the PFI estate that includes places like the Treasury and Marsham Street where the Home Office is. We have normal leasehold buildings that we just lease off a property like where DCMS are, and we have buildings where we own the freehold like the Admiralty Arch of the Cabinet Office. What we are trying to do collectively, and in particular what the GPU are trying to do, is work out which of those do we want to keep long term, where do we want to aggregate the people so that they cluster up into a smaller space, and then it is like one of those series of moves where A has to move in order for B to come in, for C and so on. We are trying to get that logistical move planned now. For example, we in the Cabinet Office have vacated the Arch. My guess would be we are most likely to want to dispose of that building because it is not very good office space and it is an attractive building and we might be able to get something for it. We are also in the process of vacating 22 Whitehall, which we own the freehold of, but which is good office space. If we vacate that, we would expect another Government Department to come in there and thus free up their more expensive lease space. Then we have a problem of how do we divest that on the current property market, which of course is tricky. When they talk about the London property pilot, it is plotting all those moves. We have also got another one in Bristol that is slightly different where we are looking at whether we can aggregate all of Government Departments that happen to be in Bristol into one place, or one or two places, where we happen to believe there is some particular property opportunities to exploit at the moment. Each city we are doing slightly differently. We have taken London this way, Bristol that way, and then we will probably move round the country and do Manchester, Leeds, Newcastle etc.

Q100 Austin Mitchell: Second question. I have just been reading Macmillan's diaries; that is not Ian McMillan the Yorkshire poet, but Harold Macmillan, the last Prime Minister to think at all strategically. The amazing thing is he did think a lot. He had memoranda composed on the competitiveness of British industry, on the future of British foreign policy, should we enter what was then called the Common Market. Fascinating memoranda, but he never employed any consultants. The only people he consulted were the senior civil servants, the mandarins. No Prime Minister since has done that and what we do now is haul in consultants at enormous

28 June 2011 Cabinet Office

expense. Now we have made recommendations on that. For instance, that too many contracts are based on time spent rather than fixed price contracts and that we should build up the skills of the public service so that we have no need to hire consultants in. What will you be doing about that?

Ian Watmore: I think I have already said we have put our foot on the neck of it really and we have reduced the expenditure by 70% year on year. Part of the reason for doing that is cost, but also part of it is because I believe, and I think most civil service leaders believe, we have got fantastic people in the civil service who actually have a lot more skill and capability than anybody gives them credit for and we should use them. We often use the consultancy resource not because we have to, for skills reasons; we do it because either people want to hide behind somebody else's recommendation rather than make the tough decision themselves, or because the resources are available in the system but they are locked up and you cannot access them quickly enough. So you access the pool of resource you can get that quickly. That is why I think we ought to trust our people more, have them more flexibly deployed and move them around to where the problem is. That is the sustainable way of reducing the dependency on consultancy. We will never eliminate it because they have a valuable role to play in certain situations. But we ought to be able to keep it way down on past levels. As far as politicians are concerned, it is rare for politicians directly to hire consultants. They usually bring in a special advisor groups to advise them directly. The consultancy is usually hired by the system, i.e. by the civil service or the wider public service. I think we can stop it in the ways that I have said provided that we get people to trust their own people more.

Q101 Austin Mitchell: I am delighted to hear that because that will pay back those bastards in the big accountancy houses for supporting the Tory party at the last election rather than us. I am delighted to hear it. The last question again arises from our earlier reports by the National Audit Office. They have looked at efficiency savings in the past and made finding about many of the so-called efficiency savings; efficiency savings is a great con-job of British politics because everyone says, "We are going to make efficiency savings and it will not affect services", and it is always a lie. What the National Audit Office reports have shown is that some of them were lies. They were not actually real savings. Some 18% of savings reviewed by the NAO did not represent sustainable savings, and it was unclear whether a further 44% of savings would be achieved. The question therefore becomes: when are we going to be able to assess the scale of deficit reduction that has been achieved by efficiency savings and what has been achieved by cuts in service? We cannot assess that now can we? You have already said that. When are we going to be able to assess that difference?

Ian Watmore: There is a wonderful piece of "Yes, Prime Minister" where Sir Humphrey waxes lyrically on the difference between cuts in the civil service and cuts to the civil service.

Q102 Austin Mitchell: I should tell you, in the Macmillan diaries, he says at one point, when the Government was turning to the IMF for money, "Oh we shall have to achieve savings or pretend to", which I thought was a marvellous quote. I might recommend it to the Greeks.

Ian Watmore: Yes, brilliant, we should end there. My point is that we have made a reduction in expenditure between £3 billion and £4 billion from the results of the measures that Francis and Danny have introduced last year. That I can tell you with some auditor approval has happened. How sustainable is each piece of that? Some of it will just naturally flow through and others of it will require more systemic change, like John was talking about, to endure.

Austin Mitchell: Will we be able to assess what is real before the next election?

Chair: By July.

Ian Watmore: That is why our Group is known as Efficiency and Reform. It is about making the savings and trying to get the system to endure. We have each year to help the rest of Government, because it is them that make the savings, make an accumulation of that £81 billion church spire fund, if you like, that has to be achieved, making it increasingly on efficiency grounds rather than on frontline public service reductions. That is what the aim of the Government is, and that is what the aim of our group is. I would expect each year to be able to report to you figures of the type that I am now quoting for last year. Then it will be for people in the future to judge whether or not that is becoming enduring or not. We will be trying to both save money and change the system at the same time.

Q103 Mr Bacon: You said something fascinating a minute ago about, "I solve more problems by being in the same building as the Treasury than almost in any other way." Have you thought about what wider lessons might be learnt from that maxim across Government? There was talk early on about there being a New Zealand Beehive. I have not heard much of it since the new Administration took office.

Austin Mitchell: What's that?

Mr Bacon: It was about having all the people working—particularly at the ministerial level—in a pod at the centre.

The Paris partner of your former employer, Accenture, once said he used to think office space was a neutral. He now realised, this was some years ago, that it is actually either a positive or a negative. What wider thought have you given to how what you just said could be applied across Government?

Ian Watmore: Quite a lot, because I think where I said the property issue started was on a pure financial basis: can we make savings particularly by selling our assets? We have come to the same conclusion that you have quoted, I think, which is that the property estate is integral to the civil service reform agenda. It is partly about co-location, it is also partly about the environment in which you set people up to work. If you have a flexible hot-desking environment you get more productivity than if you have a very egg box shaped cellular structure to your offices where they are just inefficient. If you give people flexible

28 June 2011 Cabinet Office

technology to use then they are more likely to be able to work where they are rather than where their desk is. There is a whole variety of things in there that we are taking forward as part of the civil service reform agenda.

Q104 Chair: Summing up, can I say thank you both for coming? I will start by saying that. We look forward to hearing from you about the details of the £3 billion by the recess. If necessary we can revisit that if we feel it is not real savings in the early autumn. Stephen has asked me to say that it is the Department of Health not the Department for Transport where they said their contractor costs have gone up where consultancy costs have not. I leave you with these thoughts. I think it is a good beginning. I think we feel that in the Committee. I think there is

some fragility in the institutional settlement because of your being dislocated from where the money is and where strategy lies. Clearly that is something that we will want to think about. I think accountabilities need some working on in relation to your accountabilities and the accountabilities of Departments for what our job is, which is following the pound. I think you have taken us forward a little bit on the tight/loose relationship but are actually leaving me with a few question marks about whether or not it is a bit too loose, if we really want to get the efficiency gains rather than the cuts in service. It is something else you will want to reflect upon.

Ian Watmore: Music to Mr Maude's ears.

Chair: Thank you very much for a very interesting session.

Ian Watmore: Thank you very much as well.

Written evidence from the Cabinet Office

1. Thank you for the opportunity to give evidence at your recent hearing on the emerging Efficiency landscape. Lord Browne and I enjoyed the discussion and we look forward to further, similar strategic debate across our other agendas in months and years to come.

2. In reviewing the transcript of the hearing, I am glad to provide a correction, a clarification, and the Government's responses to four points of detail that we were not able to answer on the day.

3. First, a correction on one minor piece of evidence. I told the hearing (in response to question 34) that I *thought* that internal audit services to government were provided to all government departments by a service located in the Home Office. In fact, there are several in-house providers of internal audit services within government departments, and provision to the Cabinet Office is arranged through a shared service agreement with BIS and CIG. My apologies for this oversight.

4. Secondly, I will be glad to provide a report before recess setting out our assessment of the cash savings that have been achieved in government departments as a result of Cabinet Office led delivery this year. I'd like to take this opportunity to clarify and reinforce comments I made at our hearing. These cash savings were generated by our early delivery work, which focussed on enacting the controls brought in by Francis Maude in May 2010 to help departments better control specific areas of expenditure, such as hiring management consultants. And, as my report next week will make clear, in each case we have seen a real cash releasing reduction in expenditure as targeted.

5. However, at our hearing the committee also questioned the extent to which these savings correspond with definitions of efficiency and value for money, as implemented by previous administrations. Committee members asked particularly about the sustainability of these measures.

6. I wanted to amplify that these early signs of the success of our strategies must be placed in the context of our broader programme of reform. For example, Major Projects cash savings arose from a review of government's portfolio of major projects. They will sustain over the lifetime of the individual project concerned, of course; but the more systemic reform that follows through from our initial review, and that will deliver sustained savings into the future, is our long term strategy to set up an effective Major Projects Authority, and all that this entails.

7. Thirdly, there were four specific questions that arose in the hearing:

- (a) The committee asked whether the Department of Health's reductions in consulting expenditure had been offset by an increase in contracting expenditure. Our records show that the Department of Health reported a £98 million reduction in their expenditure on Consulting, a fall of 91% on 2009–10 levels. In the same period they reported a £16 million increase in spend on temporary staff and contractors, an increase of 37% on 2009–10 levels. 50 the increase in contractors offset only around a fifth of the decrease in consulting. The increase in DH spend on contractors has the effect of reducing the overall saving in government.
- (b) The committee also asked us to revert with further detail on government policy in respect of reform to NH5 procurement. Here, whilst our overall policy framework is that NH5 reform falls within the "loose" category to which central controls do not apply, we are working with the Department of Health to identify which elements of our central programme of work can be applied within their own programme of efficiency and reform for the NH5; and where our central delivery can be made available directly to health service organisations, we will certainly ensure that they can benefit.

- (c) Thirdly, the committee sought clarification of the MPA's role in respect of SROs of major projects. Part of the role of the MPA is to assure projects to identify that they have the necessary skills and resources to deliver to time, cost and quality and to intervene where there are gaps in capacity or capability. The Major Projects Academy aims to introduce a dedicated facility to undertake the education and development of high potential departmental officials to improve significantly the leadership of major projects. This work is still at an early stage of development and it is not possible to provide more detailed information on the size, scale or time frame of the academy at this time. However, David Pitchford has agreed to provide the PAC with a note on his role as PPM Head of Function in early autumn and this note will contain more information on the development of the Major Projects Academy, particularly in relation to building and managing SRO capability across government.
- (d) Lastly, the committee asked at questions 60 and 61 about the definitions of professional services used within our control framework. I attach the definitions that have been used as an Annex to this letter.

July 2011

Annex A

PROFESSIONAL SERVICES EXTERNAL RESOURCES—DEFINITIONS

Professional services external resources can generally be split into two broad categories:

<i>Temporary Staff</i>	<i>Consultancy</i>
— Temporary workers	— Finance
— Interim managers	— IT/IS
— Specialist Contractors	— Strategy
	— Legal
	— Property and Construction
	— Human Resource, Training and Education
	— Technical
	— Marketing and Communications
	— Organisation and change management
	— Procurement
	— PPM

Understanding the difference between different types of resource is essential to ensure that the right type of service and skills are purchased, at the right price and from the right supplier so that value for money is achieved.

Detailed descriptions of these resources are below:

TEMPORARY STAFF

The provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary Staff are also often referred to as "Contingent Labour".

Temporary Workers—Admin and Clerical	Admin and Clerical agency staff are normally lower grade individuals who are actually filling in for a role within the organisational structure and are ideally used on a short term basis: <ul style="list-style-type: none"> — normally engaged on an ad hoc or temporary basis to fulfil requirements within established posts. — involves providing cover (eg for a vacancy, holiday or sickness) or additional resource (eg for a seasonal peak in workload). — may be undertaking operational or professional roles.
Interim Managers	Interims are normally middle- to senior-grade staff working in an organisation, concerned with the fulfilment of particular professional functional or senior management positions within the organisational structure (usually covering Business-as-Usual activities or providing cover for a role) and ideally engaged on a short term basis. <ul style="list-style-type: none"> — may involve providing cover (eg for a vacancy, holiday or sickness) or additional resource (eg for a new team until someone is recruited, or a seasonal peak in workload). — may include Professional Interim Staff (eg senior qualified professionals in areas such as legal, finance, audit) and Interim Managers (including up to the most senior levels of the organisation). — likely to include a degree of organisational involvement (eg managing staff, representation at meetings).

Specialist Contractors	<ul style="list-style-type: none"> — typically engaged through an agency although in some cases may be engaged directly. <p>Specialists are normally middle to senior grades, used to provide expertise that is not available in-house, fulfilling functional or senior positions within the organisational structure and ideally engaged on a short term basis.</p> <ul style="list-style-type: none"> — may include sub-categories of Finance, HR, IT, Legal, Logistics, Marketing, Medical, Procurement, Estates, Technical and Other. — not staff substitution; specialists are used to provide additional resource, skills and expertise, not to cover vacancies etc. — should not include management functions or similar organisational involvement. — usually involved in a defined package of work or project rather than covering a day-to-day workload or defined job/ role. — in some instances, may include a degree of organisational involvement (eg managing staff, representation at meetings). — not always provided through an agency.
------------------------	--

CONSULTANCY

The provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the “business-as-usual” environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Finance Consultancy	The provision of objective finance advice including advice relating to corporate financing structures, accountancy, control mechanisms and systems. This includes both strategic and operational finance.
IT/IS Consultancy	The provision of objective IT/IS advice including that relating to IT/ IS systems and concepts, strategic IT/IS studies and development of specific IT/IS projects. Advice related to defining information needs, computer feasibility studies, making computer hardware evaluations and to e-business should also be included.
Strategy Consultancy	The provision of strategic objective advice including advice relating to corporate strategies, appraising business structures, Value for Money reviews, business performance measurement, management services, product or service design, and process and production management.
Legal Consultancy	The provision of external legal advice and opinion including advice in connection with the policy formulation and strategy development particularly on commercial and contractual matters.
Property & Construction Consultancy	Provision of specialist advice relating to property services and estates including portfolio management, design, planning and construction, tenure, holding and disposal strategies.
Human Resource, Training & Education Consultancy	The provision of objective HR advice including advice on the formulation of recruitment, retention, manpower planning and HR strategies, and advice and assistance relating to the development of training and education strategies.
Technical Consultancy	The provision of technical advice including the provision of technical studies, prototyping and technical demonstrators, concept development, project and task based technical advice.
Marketing & Communications Consultancy	The provision of objective marketing and communications advice including advice on the development of publicising and the promotion of the Department’s Business Support programmes, including advice on design, programme branding, media handling, and advertising.
Organisation & Change Management Consultancy	Provision of objective advice relating to the strategy, structure management and operations of an organisation in pursuit of its purposes and objectives. Advice related to long range planning, re-organisation of structure, rationalisation of services, general business appraisal of organisation should also be included.
Procurement Consultancy	The provision of objective procurement advice including advice in establishing procurement strategies.
PPM Consultancy	The provision of advice relating to ongoing programmes and one-off projects. Advisory support in assessing, managing and or mitigating the potential risks involved in a specific initiative; work to ensure expected benefits of a project are realised.

Please note that these definitions apply to Central Government only—Local Government categorisation may differ.

Written evidence from the Cabinet Office

CASH SAVINGS DELIVERED IN 2010–11 IN GOVERNMENT DEPARTMENTS

REPORT TO THE PAC

Summary

This report sets out the Government’s assessment of the impact of early actions taken by government departments, under a Cabinet Office lead, to release cash savings.

Context to this work—what did it set out to achieve?

In May 2010, HMT ministers announced a reduction to in-year government expenditure of £6.2 billion. This was subsequently carried out at the emergency 2010 Budget in June. Of the total £6.2 billion, £3.2 billion was expected to derive from measures associated with cash savings through increased efficiency or reduced spend.

In the 2010 Spending Review, HMT ministers took steps to “re-balance the books”, and reduce public spending against the previous OBR forecasts by around £81 billion.

The Cabinet Office began programmes of work with Departments to address both these areas.

- Immediate term steps included:
 - performing a review of major government projects, and of existing ICT projects to identify where spend could be curtailed in year; and
 - putting in place moratoria governing:
 - non-essential recruitment;
 - new ICT projects;
 - marketing and advertising spend;
 - potentially wasteful expenditure on consultants and Temporary Agency staff; and
 - starting a programme to centralise procurement of common goods and services.
- Longer term programmes of reform to embed sustainable change across the public sector, included measures:
 - to reconsider the delivery models for public service and establishing employee owned mutuals;
 - to implement a programme of Civil Service Reform;
 - to establish a Major Projects Authority with real teeth to influence the delivery of our largest project commitments;
 - to increase government transparency; or
 - to create new forms of social investment in the voluntary and community sectors.

What do these figures represent?

These figures represent our best assessment of Government’s progress against meeting the above objectives.

Government has worked hard to put in place strong benefits statements that provide as accurate an estimate as possible of the impact of our work, accurately positioned. However, these savings figures are not national or official statistics; they are management information evidenced, normally, by department reports; and they have been assured by our internal auditors.

These figures reflect genuine reductions in cash spent. Where these reductions are “one-off” and do not recur, there is an associated programme of work to embed longer term change throughout this parliament.

Technical presentation

We have identified limited double counting between the data sets, which has been redacted.

When formulating benefits statements, we have rounded the precise figures to the nearest £10 million to reflect an appropriate level of precision.

Throughout the year we have discussed this approach with the NAO; and at the yearend we invited independent verification of our work from our internal auditors.

Cabinet Office Internal Auditors found that the values and benefits statements below are reasonable reflection of the cash savings made, based on a review of the evidence that Cabinet Office has collated in support of these assertions.

What are the figures?

The figures that have been verified by our internal auditors are as follows:

<i>Area</i>	<i>2010–11 Realised Saving (£million)</i>
Reduction in consulting	£869 million
Supplier renegotiation	£806 million
Reduction in Temp Staff	£492 million
Reduction in marketing and advertising	£397 million
Savings from centralising procurement	£357 million
Smaller civil service	£300 million
Better scrutiny of ICT projects	£296 million
Review of major projects	£147 million
Greater control over property leases	£91 million
Total	= £3,755 million or £3.75 billion

DETAILED BREAKOUT BY AREA

<i>Area</i>	<i>Activity description</i>	<i>Exact amount</i>	<i>Evidence Base / Calculation</i>	<i>Benefits statement</i>
Consulting	We put in place a moratorium on new consulting spend, and extensions to existing contracts. Where spend was considered operationally critical (for example, where it might put at risk critical services) an exception process existed for department ministers to sign off expenditure over £20,000.	£869 million	Savings are calculated by subtracting total departmental reported spend on consultancy for 2010–11 from total departmental reported spend on consultancy for 2009–10. To reduce the risk of costs shifting between categories, we also monitored expenditure on other Professional Services categories, including contingent labour.	Departments report a dramatic reduction in discretionary spend: A reduction in spend on consulting of £870 million from £1.2 billion to £0.4 billion, or 71%.
Crown Commercial	We've renegotiated deals with some of the largest suppliers to government.	£806 million	The method of calculation varies according to the initiative that yields the saving, but was based on cash releasing savings against a baseline of what would have otherwise been spent. This was often price savings against the previous price paid.	Crown Commercial
Contingent Labour	We significantly cut the number of temporary staff.	£492 million	Savings are calculated by subtracting total departmental reported spend on contingent labour for 2010–11 from total departmental reported spend on contingent labour for 2009–10.	Departments report a dramatic reduction in discretionary spend: A reduction in spend on temporary agency staff of almost £500 million, from £1.2 billion to £0.7 billion, or 41%.
Communications	We froze all new marketing spend unless it is an operational necessity. Where spend was proposed, Ministerial sign-off was required for £20,000 or above.	£397 million	Calculations compare departmental spend on marketing and advertising through COI for 2010–11 with that for 2009–10.	We've taken much stronger control of our procurement spend: By taking stronger control of our marketing spend, we have reduced spend through the Central Office of Information on relevant categories by 80% or £400 million.

<i>Area</i>	<i>Activity description</i>	<i>Exact amount</i>	<i>Evidence Base / Calculation</i>	<i>Benefits statement</i>
Centralising Procurement	We've started to centralise spend on common goods and services to drive down prices. These savings derive from the 10 categories of expenditure targeted for centralisation, and relate to price savings through increased aggregation.	£357 million	For each initiative, calculations are performed using individual benefit methodologies that set out how savings will be calculated against an 2009–10 market price baseline. Evidence is management information provided by suppliers.	We've taken stronger control of our procurement spend. By starting to centralise spend on common goods and services, we've already saved £360 million, with more to come in future years.
HR	Government has taken measures to reduce the size of the civil service, including the introduction of a moratorium on Civil Service recruitment, with exemptions for certain front line services, and exception processes in place to deal with. Together these measures have contributed to a reduction in the size of the civil service of 17k.	£300 million	Savings are measured using the fall in Civil Service employment from the baseline of Civil Service employment levels as at Q2 2010 (end of June 2010). The end of June position is taken as the baseline since this is the first quarter after the freeze on external recruitment was announced. Savings are based on savings from the estimated pay bill. They are not net of any costs associated with departures.	We've reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in the size of the Civil Service of more than 17,000, equivalent to a £300 million saving in 2010–11 on salary costs.
ICT	We implemented: (a) a moratorium on all new ICT spend above £1 million; and (b) a review of all on-going ICT commitments. Departments also reported those projects that were closed before undergoing the review.	£296 million	Calculations are based on departmental reports of spend that has not proceeded. Spend that has not gone ahead in 2010–11 is recorded, as a result of stopping or reducing spend. Further, sustainable savings are targeted through the Government ICT strategy.	By applying greater scrutiny to our ICT expenditure departments have stopped or reduced spend on low value ICT projects worth £300 million.
Major Projects	We reviewed the Government's biggest projects to see where 2010–11 costs could practically be reduced within contractual constraints, or wasteful projects stopped altogether. We've halted or curtailed spend on four projects:	£147 million	HMT have provided assurance that the relevant amounts were removed from departmental budgets following the Major Projects related negotiations.	We've applied greater scrutiny to our projects. We've saved £150 million from 2010–11 budgets for government's major projects by scrutinising their funding, and by halting or curtailing spend.

Area	Activity description	Exact amount Evidence Base / Calculation	Benefits statement
	<ul style="list-style-type: none"> — 14–19 Reform—60 million — Identity Cards—50 million — Highways Agency Projects—54 million — Whole Farm—five million 		
	<p>We have redacted £22 million of potential double counting from these figures, that arises between this work and our supplier renegotiation work stream. £14.9 million arises from the Home Office National Identity Cards and £6.7 million from Defra Whole Farm.</p> <p>We put in place national property controls such that signature of new property leases or lease extensions were approved centrally. It has not always been possible to net off all costs associated with vacating buildings. However, we have also not claimed savings in respect of revenue from property disposals.</p>	<p>£91 million</p> <p>Calculations are property by property based on the amount departments have reported saved through the Government's property database by non-renewal of property leases at lease breaks or upon lease expiry.</p> <p>£3,755 million</p>	<p>We reduced the on-going cost of our Property estate by over £90 million by exerting better control over lease renewals.</p> <p>Taken together these measures have saved £3.75 billion over 2010–11.</p>
Total			

September 2011

ISBN 978-0-215-56166-4



9 780215 561664



PEFC
PEFC/16-33-622