

Operational Efficiency Programme: final report

April 2009



HM TREASURY



HM TREASURY

Operational Efficiency
Programme:
final report

April 2009

© Crown copyright 2009

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk

HM Treasury contacts

This document can be found in full on our website at:
hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-1-84532-587-9

PU728



Official versions of this document are printed on 100% recycled paper. When you have finished with it please recycle it again.

If using an electronic version of the document, please consider the environment and only print the pages which you need and recycle them when you have finished.

Contents

	Page
Foreword	3
Executive summary	5
Chapter 1 Back office operations and IT	13
Chapter 2 Collaborative procurement	27
Chapter 3 Asset management and sales	39
Chapter 4 Property	53
Chapter 5 Local incentives and empowerment	69

Foreword

Dear Chief Secretary

We are pleased to present the final report of the Operational Efficiency Programme. It draws together the products of almost a year of sustained work to research, analyse and design solutions to the ongoing challenges of improving value for money across the public sector.

The areas we have examined are diverse, representing the Government's determination to consider efficiency in the round and in innovative ways. We would like to thank all those who contributed to the Programme's development.


The private sector never stops seeking greater efficiency in the ways that it purchases and provides services, and neither should the Government. We have seen excellent practice in many organisations, and our report highlights many good examples. However, there is scope to go further and we have each set out an ambitious set of recommendations to increase the value for money the public sector achieves from its activities and from some of its most valuable assets – the insight and energy of its people, as well as its bricks and mortar.

While compiling the report, it has become clear that many of the incentives for better value for money cut across the areas we were asked to investigate. This is why this final report also recommends changes to the accountability and performance management frameworks, in order to embed improvements in value for money over the long term. However, each of us worked independently on our specific areas of expertise, and our conclusions and recommendations in these areas are our own.

We were asked to challenge the level of the Government's ambition on efficiency, and accordingly the recommendations we present will require sustained action over the coming years, with few easy wins. The economic downturn has only sharpened the sense that concrete action, both in Whitehall and across the wider public sector, will be necessary to protect services and ensure their continuing improvement in the coming period.



Sir Michael Bichard



Lord Carter of Coles



Gerry Grimstone



Martin Jay



Dr Martin Read

Executive summary

Context

In the current economic circumstances businesses are facing up to real challenges of cutting costs in order to stay in business and emerge stronger from the downturn. The public sector needs to do likewise, looking for savings in addition to the routine savings departments are expected to make each year, so that the Government can continue to invest in excellent public services while maintaining sustainable public finances.

Good progress has been made in recent years on efficiency, with the Government having over-delivered against Sir Peter Gershon's 2004 Spending Review targets by 20 per cent, saving £26.5 billion. In the 2007 Comprehensive Spending Review (CSR) period the Government took this further by agreeing targets that will deliver £30 billion of value for money savings by the end of 2010-11, and a further £5 billion of savings in 2010-11 based on the interim conclusions of the Operational Efficiency Programme announced at the 2008 Pre-Budget Report.

Achieving value for money should always be a priority for government, and it is never a finished process. Challenging economic circumstances impact directly on the public finances, and mean that the current drive for efficiency will be important to supporting continued improvement and investment in frontline services. This new operating environment comes after more than a decade of record levels of investment in public services.

Some efficiency savings take time to deliver, requiring changes to contracts or major restructuring of services. That is why it is right to look ahead into the next spending review period as well as looking for short-term savings.

The Operational Efficiency Programme

Budget 2008 announced that the Government would take action, through the Operational Efficiency Programme, to ensure that future efforts to drive efficiency in the public services kept pace with developments in the private sector. Five private and public sector leaders with relevant expertise were appointed to advise the Operational Efficiency Programme and examine five key areas of operational expenditure in the public sector:

- back office operations and IT, led by Dr Martin Read;
- collaborative procurement, led by Martin Jay;
- asset management and sales, led by Gerry Grimstone;
- property, led by Lord Carter of Coles; and
- local incentives and empowerment, led by Sir Michael Bichard.

The scope of the programme is to draw conclusions which should apply across all public organisations within the wider public sector: central government and its agencies and non-departmental public bodies (NDPBs); and delivery bodies e.g. local government, the NHS, police and schools.¹

The advisors have recognised the progress that has been made on operational efficiency throughout the public sector, but by engaging with a wide range of stakeholders including government departments and agencies, consultancies, think tanks, subject specialists and public

¹ In this document, 'central government' refers to government departments, agencies and NDPBs, while 'wider public sector' also includes local delivery bodies such as local government, the NHS, police services and schools. 'Public sector' refers to both central government and the wider public sector.

service staff throughout the delivery system, they have identified significant opportunities that remain to be seized.

Core to achieving these opportunities, is making sure that services are run and decisions are taken at the most appropriate, efficient and effective level. Especially when resources are limited, there are undoubted benefits in providing the flexibility to tailor services according to citizen needs at the most appropriate local level.

Equally, purchasing common goods or delivering low cost, high quality back office operations are goals all services share. These goals become more achievable when the public sector harnesses the economies of scale that it can achieve when it acts as a whole, and uses the professional operational capacity it has built, freeing local managers to concentrate on delivering high-quality services to the citizen. Devolving services does not mean that government should devolve choices on every operational function or excuse operational inefficiency.

The complex and evolving challenges that government faces means it should continuously review the data that all public sector organisations are asked to collect to ensure its usefulness and guarantee that excessive burdens are not being placed on those who are asked to provide it. There is a strong signal that, to meet current challenges, management information relating to operational efficiency needs to be improved. This should not equate to a central data-gathering exercise, or the imposition of excessive new burdens, but rather a framework for individual organisations to compare their performance in a transparent way, allowing managers to manage and ultimately achieve better value for money.

Findings

Each advisor has worked independently, supported by their teams, to develop conclusions and recommendations in their specific area of expertise.

Dr Martin Read's examination of back office operations and IT has focused on the need to improve the collection and integration of management information into departmental processes, and to introduce benchmarking and performance reviews. His work on IT has aimed particularly at better governance of IT-enabled projects, and greater standardisation and simplification of IT across the public sector.

Martin Jay has drawn attention to the need to increase the amount of areas where government uses its collective buying power, by channelling more spending through collaborative strategies and continuing to improve the coherence and coordination of Professional Buying Organisations.

Gerry Grimstone has recommended a stronger mechanism of challenge across government to ensure that assets held by the public sector are managed in a way that maximises efficiency, and that commercial potential is being fully considered and harnessed. The Shareholder Executive will lead a six-monthly review exercise, challenging Departments on the assets they hold through a rolling programme of collaborative studies.

Lord Carter has recommended the creation of a central function to drive efficient use of property across the whole of the public sector, and has shown the need to create incentives that deliver a rationalised and more efficient estate.

Sir Michael Richard's work has highlighted the opportunities that exist beyond traditional understandings of operational efficiency. Local authorities, their partners and frontline professionals can help deliver savings by collaborating and innovating right across the public sector, especially if protected from the burdens of unnecessary or excessive bureaucracy.

While every advisor has made specific recommendations on their area of expertise, a number of themes emerged throughout, building on the best of private and public sector practice to achieve:

- **consistent, comparable data** – organisations need to be able to benchmark against others to know whether the services they deliver constitute good value for money. This requires consistent, comparable data, which allows organisations to benchmark their performance and use both public and private sector best practice to raise their standards;
- **incentives** – an effective system of incentives and sanctions across the public sector would create the right conditions for all organisations and individuals to maximise their contribution to the delivery of high quality public services in an efficient manner;
- **structures and tools** – the right structures (e.g. shared service centres and professional buying organisations) and tools (such as software which allows access to collaborative procurement deals) need to be in place to help organisations and their staff achieve the savings they are being asked to achieve; and
- **accountability and performance management** – all elements of the public sector must respond to the efficiency challenge. Organisations should have the flexibility to decide on the most appropriate methods of delivering savings in these areas, suited to their circumstances. To maximise the benefits, and ensure these savings are found across the public sector, there is a need for robust, proportionate accountability mechanisms. With consistent, comparable data, those who are currently under-performing can be identified and supported to improve quickly.

Accountability and performance management

The Operational Efficiency Programme as a whole has identified the need to build upon existing forms of accountability and introduce measures to improve performance management so that they are underpinned by good data and information, lead to legitimate challenge to those who are underperforming; and are taken seriously by senior stakeholders.

Actions to achieve this should include:

- a value for money review group to support and challenge departmental performance, looking beyond the data to identify areas that warrant more intensive investigation, and completing focused reviews of individual departments, delivery chains or functions across government where benchmarking suggests there is scope for greater efficiency;
- regular discussion of value for money and operational efficiency in the relevant Cabinet committee, in order to hold ministers and departments to account, encourage senior officials and ministers to celebrate success and offer advice where progress is not being made;
- a designated minister responsible for championing value for money in each department, to reinforce the Government's ongoing commitment to delivering value for money gains and raise its profile;
- clarification of the role of departmental non-executive board members in promoting, supporting and challenging departments' performance on value for money; and
- the embedding of operational efficiency deliverables through reference to individual elements of the Operational Efficiency Programme in Senior Civil Service performance agreements.

Potential savings

The Operational Efficiency Programme was designed to identify savings that could be made both during and beyond the 2007 CSR period, in addition to wider efficiency savings that departments are able to achieve in the normal way. Where savings can be delivered within the 2007 CSR period, these savings will contribute to departments' value for money targets as part of the Government's overall value for money target. As a result of the interim findings of the OEP, at the 2008 Pre-Budget Report the Government increased this target by an additional £5 billion to £35 billion.

Where appropriate, the advisors have quantified the level of savings that the Government could achieve if their recommendations were implemented. These estimated savings are at a high level and indicative, given limited management information and current market uncertainty, but include, by 2013-14:

- compared to 2007-08 spending of around £18 billion on back office operations (such as finance and HR) across the public sector, savings of around £4 billion a year;
- compared to 2007-08 spending of around £16 billion on IT, savings of £3.2 billion a year;
- compared to 2007-08 spending of £89 billion, savings of around £6.1 billion a year from an extended programme of collaborative procurement (plus £1.6 billion of collaborative procurement savings on IT which are included in the figure above); and
- compared to 2007-08 running costs of approximately £25 billion on the public sector's property estate, cost savings of up to £1.5 billion a year.

Some of these savings are already underway. It is estimated that nearly £6 billion per year of these savings can be delivered by 2010-11 towards the Government's target of £35 billion. Others will take time to deliver, for example as contracts need to be changed, back office operations need to be restructured, and surplus property is sold. It is estimated that additional savings of around £5 billion per year can be achieved in 2011-12, rising to around £9 billion per year by 2013-14.

Proceeds from property sales (excluding council housing), totalling in the region of £20 billion, should also be achievable over an initial 10-year period.

All organisations in the public sector – central government, local government and delivery bodies – stand to benefit by playing their part in taking forward the opportunities identified by the Operational Efficiency Programme.

While the recommendations in this report have been founded on an evidence base that includes the public sector throughout the United Kingdom, the devolved administrations are responsible for value for money in their own jurisdictions and are free to use the findings and recommendations of the Operational Efficiency Programme to inform their progress on efficiency.

Recommendations

This list is a summary of the Operational Efficiency Programme's recommendations. It includes cross-cutting recommendations on accountability and performance management, and lists the advisors' recommendations by workstrand. Detailed recommendations for each workstrand appear in the relevant chapter (see Contents).

Accountability and performance management

- 1 a value for money review group, including relevant public and private sector expertise, should be drawn together by HM Treasury to support and challenge departmental performance as necessary;
- 2 value for money, including operational efficiency, should be regularly discussed with secretaries of state at the Ministerial Committee on Public Services and Public Expenditure;
- 3 a minister responsible for championing value for money should be designated for each department;
- 4 the review of the Corporate Governance Code, due to report in about a year, should clarify the role of non-executive board members, including in promoting, supporting and challenging departments' performance on the value for money agenda; and
- 5 OEP deliverables should be embedded into relevant individual Senior Civil Service performance agreements.

Back office operations and IT

Back office

- 1 all public sector organisations employing more than 250 people must collect and publish data using the audit agencies' approved value for money indicators for back office operations with effect from June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector. Benchmarking information from across the public sector should be collected, checked and published on a regular, consistent, auditable and transparent basis in order to drive improved performance;
- 2 introduce a system of Operational Reviews that examine performance on back office operations, the first of which should take place no later than April 2010;
- 3 take the estimated £4 billion annual savings in the cost of back office operations into account when determining departmental settlements, taking note of savings already made where appropriate;
- 4 by the end of 2010-11, and thereafter at least every five years, public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes to drive simplification and standardisation;
- 5 accelerate progress in central government shared services by consolidating existing shared back office centres to provide a robust shared services offer to central government (including agencies and NDPBs) . A similar drive towards greater use of shared services should be encouraged across the wider public sector; and

- 6 enhance COINS functionality where possible to collect data on the cost of back office operations for all central government departments, executive agencies and NDPBs, centrally and seamlessly on a monthly basis as part of forecast outturn, using consistent definitions.

IT

- 7 take the estimated £3.2 billion annual savings in the cost of IT into account when determining departmental settlements, taking note of savings already made where appropriate and any substantial concentration of major IT-enabled change projects in particular departments;
- 8 fully integrate management information on IT spend into departmental processes and ensure that this data and the associated benchmarking statistics are collected on a regular, consistent, auditable and transparent basis;
- 9 strengthen the governance of IT-enabled change projects (including the requirement that ministers and accounting officers are regularly updated on high-risk projects and briefed on projects where the delivery confidence is not high);
- 10 strengthen the existing Gateway assurance processes (including the introduction of “starting gate” reviews of all IT-enabled change projects);
- 11 implement portfolio management processes within departments to prioritise the most important IT-enabled change projects and resources and to reduce the overlap and duplication in IT-enabled change projects across the public sector;
- 12 give government Chief Information Officers (CIOs) and OGC Collaborative Category Boards the responsibility for achieving greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector; and
- 13 develop the internal IT capability within the public sector and continue to professionalise the IT function.

Collaborative procurement

- 1 extend the current programme of collaborative procurement to cover additional categories of common spend. In the first instance this should include construction, facilities management and food;
- 2 improve the quality of management information on procurement spend across the public sector to ensure that common standards and much increased transparency are implemented;
- 3 improve access to better deals for local service providers across the wider public sector by working with and through Professional Buying Organisations (PBOs) in a more regulated manner. This will incorporate sharing management information across PBOs, sharing the best framework agreements and developing common, transparent business models and governance across PBOs; and
- 4 increase uptake of collaboration (through PBOs or other collaborative strategies) on common categories of goods and services within the scope of the programme: 80 per cent of all available spend² in central government (including NDPBs and agencies) and 50 per cent in the wider public sector, by 2010-11. This should be achieved by:

² In this report, “available spend” is categorised as spend not locked into existing procurement contracts.

- more focused marketing of available deals;
- better use of existing investments in eProcurement systems;
- regular reporting to Ministers on the value derived from collaborative procurement and ensuring value for money and collaboration form key components of skills and capability development of procurement professionals across government;
- ensuring accounting officers in central government departments hold commercial functions across department families to account for delivering value for money through increased collaboration, and should monitor progress towards achieving this across their departmental family;
- ensuring accounting officers give commercial directors in central government departments increased powers to coordinate delivery of the collaborative agenda throughout departmental families, including NDPBs and executive agencies; and
- ensuring public sector organisations can keep any collaborative procurement efficiency savings they deliver in excess of what they need to live within their budgets and incentivising good performance through not penalising departmental success against collaborative procurement targets.

Asset management and sales

- 1 there should be an ongoing six-monthly review exercise, carried out across government, to identify new assets to be examined by the Shareholder Executive, together with relevant departmental and organisational stakeholders. These reviews would be tied in to Pre-Budget Report and Budget announcements every year, together with an update on progress made on the existing portfolio of assets; and
- 2 assets examined by the Programme should continue to be reviewed by individual project teams coordinated by the Shareholder Executive with the full support of HM Treasury, the responsible department or public sector entity, and the relevant management. These teams should:
 - consider whether the most efficient use is being made of the assets from the point of view of business model, capital structure, organisational and customer requirements, including whether the current position within the public sector is appropriate;
 - bring forward for decision-making the findings of these studies;
 - once decisions are made, oversee the implementation stage to ensure that plans are properly converted to appropriate action;
 - where and when appropriate, lead disposal and/or partial disposal activity with departments; and
 - report progress publicly, to be tied in to Pre-Budget and Budget processes.

Property

- 1 The Government should create a new central property function to drive efficient use of property across the whole of the public sector. It would be a small strategic resource, which would work closely with HM Treasury teams as well as with

organisations across the public sector and, where necessary, draw on private sector expertise. Its main roles would be to provide:

- a strategic overview of rationalisation and disposal;
 - property standards and advice; and
 - coordination and oversight of property performance.
- 2 in producing new departmental spending plans, HM Treasury should take steps to ensure that departments make choices in their capital investment plans which deliver a rationalised and more efficient estate. The new central property function would assist HM Treasury teams in this process;
 - 3 the public sector should be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular, organisations are encouraged to publish information about the core, surplus, and intermediate property assets held. All local public services should also be encouraged to follow best practice and use the audit agencies' value for money indicators, which should be closely linked to the Audit Commission's 'use of resources' assessment; and
 - 4 HM Treasury and Communities and Local Government should together investigate whether a depreciation mechanism for local authorities and other local delivery bodies would be workable, considering in particular the advantages and disadvantages of a depreciation charge and any potential impact on the public finances.

Local incentives and empowerment

- 1 roll out Total Place, a programme mapping total public spending in a local area and identifying efficiencies through local public sector collaboration, to at least 12 pilot sites with a high level reference group to identify how to increase incentives and eliminate the barriers for joint working and with ministerial sponsorship to ensure that issues raised are addressed swiftly across government;
- 2 accelerate joint working in local areas by: reforming the National Indicator Set; strengthening Local Area Agreements and Local Strategic Partnerships by aligning performance frameworks; joining up inspection and value for money targets around place; and extending the involvement of Whitehall 'negotiating champions' in the Local Area Agreement negotiation process;
- 3 strengthen Local Strategic Partnerships and encourage local flexibility and coordination by avoiding ring-fencing of new funding allocations except in exceptional circumstances, and reducing existing ring-fences where possible;
- 4 use continuous improvement tools such as Lean more systematically across the public sector, and develop capacity to examine themes that cut across organisational boundaries;
- 5 improve design and innovation in public services, diffusing innovations in both central and local government using online tools, and improving measurement of benefits realised from investment in public sector innovation;
- 6 introduce reviews of burdens from a frontline perspective on a rolling basis, with short, intense reviews that should be sector led, working with the Better Regulation Executive; and
- 7 embed innovation and collaboration in Capability Reviews and public sector leadership training programmes.

1

Back office operations and IT

Advisor: Martin Read

The back office operations and IT workstrand has been led by Martin Read. Martin is a non-executive director of British Airways and a senior adviser to Candover Partners. He was chief executive of international IT services company Logica from 1993 to 2007 and has served as a non-executive director of Boots (1999-2006) and ASDA (1996-1999). Prior to 1993, he was supervisory managing director of the GECMarconi Radar and Control Systems group of companies. Martin's other interests include being a director of homelessness charity Shelter, a trustee of the Council for Industry and Higher Education and the Vice Chair of the Council of Southampton University.

Summary recommendations (Back office):

- 1 all public sector organisations employing more than 250 people must collect and publish data using the audit agencies' approved value for money indicators for back office operations with effect from June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector. Benchmarking information from across the public sector should be collected, checked and published on a regular, consistent, auditable and transparent basis in order to drive improved performance;
- 2 introduce a system of Operational Reviews that examine performance on back office operations, the first of which should take place no later than April 2010;
- 3 take the estimated £4 billion annual savings in the cost of back office operations into account when determining departmental settlements, taking note of savings already made where appropriate;
- 4 by the end of 2010-11, and thereafter at least every five years, public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes to drive simplification and standardisation;
- 5 accelerate progress in central government shared services by consolidating existing shared back office centres to provide a robust shared services offer to central government (including agencies and NDPBs). A similar drive towards greater use of shared services should be encouraged across the wider public sector; and
- 6 enhance COINS¹ functionality where possible to collect data on the cost of back office operations for all central government departments, executive agencies and NDPBs, centrally and seamlessly on a monthly basis as part of forecast outturn, using consistent definitions.

¹ The HM Treasury system used to collect financial information relating to Government Accounts and Resource Budgets.

Summary recommendations (IT):

- 7 take the estimated £3.2 billion annual savings in the cost of IT into account when determining departmental settlements, taking note of savings already made where appropriate and any substantial concentration of major IT-enabled change projects in particular departments;
- 8 fully integrate management information on IT spend into departmental processes and ensure that this data and the associated benchmarking statistics are collected on a regular, consistent, auditable and transparent basis;
- 9 strengthen the governance of IT-enabled change projects (including the requirement that ministers and accounting officers are regularly updated on high-risk projects and briefed on projects where the delivery confidence is not high);
- 10 strengthen the existing Gateway assurance processes (including the introduction of “starting gate” reviews of all IT-enabled change projects);
- 11 implement portfolio management processes within departments to prioritise the most important IT-enabled change projects and resources and to reduce the overlap and duplication in IT-enabled change projects across the public sector;
- 12 give government CIOs and OGC Collaborative Category Boards the responsibility for achieving greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector; and
- 13 develop the internal IT capability within the public sector and continue to professionalise the IT function.

1.1 The back office operations and IT strand of the Operational Efficiency Programme (OEP) identifies the potential for significant savings from public sector expenditure on back office operations and IT. It sets out how these savings can be delivered whilst maintaining or improving service quality.

1.2 The term “back office” comprises the full range of operations that provide support to the frontline delivery of services, including finance, HR, estates management, procurement, legal services, travel services and marketing and communications. The term “IT” comprises the full range of IT spend, including hardware, software, IT support and major IT enabled change projects. For consistency, the term IT is used throughout this report, but this refers to the full range of Information and Communication Technologies (ICT).

1.3 Progress has been made in improving the efficiency of public sector back office operations and IT over recent years as a result of the Gershon programme and related initiatives. Some encouraging steps have been taken, but there is also a widespread understanding of the need to accelerate the pace of change.

1.4 Key challenges exist in respect of both back office operations and IT across the public sector, particularly when compared to private sector experience:

- the UK public sector is highly fragmented, with a very large number of individual organisations usually having their own back office operations and IT systems and processes;

- there is a lack of robust and consistent management information on public sector spending on back office operations and IT, making it hard to identify what the accurate costs of back office operations and IT actually are. This makes it difficult to establish trends, make comparisons and manage down costs. What is not measured well, will not be managed well;
- limited mechanisms exist today for reviewing an organisation's operational effectiveness in respect of back office and IT. This means that operational costs and processes get limited independent scrutiny and cross-questioning; and
- there is a cost penalty from the lack of standardisation, simplification and sharing of back office operations and IT across the public sector. Devolution of delivery can provide greater responsiveness in the provision of services, but unchecked proliferation of separate back office operations and IT systems and processes can and does lead to significantly increased costs.

If some of these challenges could be successfully addressed, the resultant savings would be substantial.

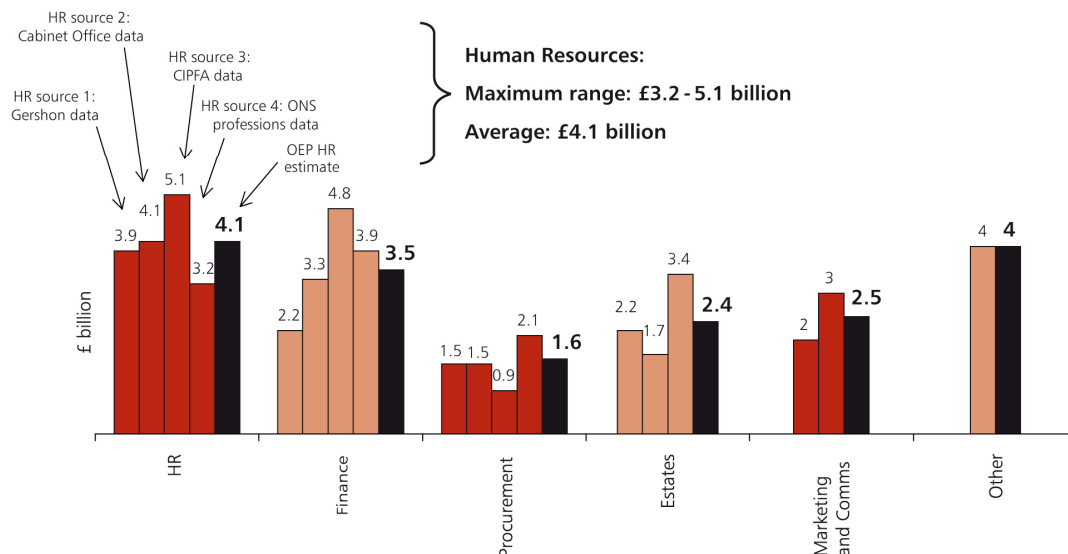
1.5 Despite the restricted management information available on back office operations and IT, the programme has estimated the total spend in each area and identified a significant level of savings. A set of recommendations has been developed in order to achieve these savings, including producing regular and reliable management information on back office operations and IT, the increased use of benchmarking and the introduction of performance reviews. The savings identified should be taken into account in determining departmental settlements. It is the task of management to decide how these savings are delivered, but a suite of recommendations and best practice case studies have been offered to demonstrate how to achieve this.

Back office operations

1.6 The OEP has estimated approximate expenditure on back office operations of £18 billion per year across the public sector (excluding IT). This figure has been put together using a range of proxies, assumptions and estimates.² It is the best estimate from the available data, but the actual figure could be as low as £16 billion or as high as £20 billion a year. Chart 1.A summarises the analysis used to reach the estimate of £18 billion.

² This includes Gershon data, CIPFA data, Cabinet Office data, ONS professions data, departmental returns to the Operational Efficiency Programme and data from a procurement survey. Further information on the OEP back office operations and IT workstrand is available online at www.hm-treasury.gov.uk

Chart 1.A: Summary of estimates for the cost of back office operations across the public sector



Source: HM Treasury analysis based on a variety of sources, including Gershon data³, Cabinet Office data⁴, CIPFA data⁵ and ONS data⁶

1.7 This workstrand has found wide variations in the efficiency of different public sector organisations. The data that is currently available shows that some organisations in the public sector are already operating at a level equivalent to best practice in the private sector, whereas others achieve far inferior performance. Given the wide spread in the levels of efficiency in back office operations, there is considerable scope for cost savings.

1.8 Three different methodologies have been used to estimate the level of savings achievable:

- **benchmarking:** This method uses spending distributions on back office operations as a percentage of running costs for a sample of public sector organisations. It identifies the potential savings deliverable from reducing the spend of the poor performers down to various public sector and private sector benchmarks;
- **applying private sector cost efficiency experience to the public sector:** Uses experience from across the private sector of how costs have been saved from re-engineering and sharing back office operations; and
- **public sector best practice:** Uses public sector best practice case studies to estimate potential savings.

1.9 Chart 1.B illustrates the **benchmarking** methodology, using a sample of CIPFA data for around 50-60⁷ public sector organisations. Some organisations will, of course, have particular requirements of their back office functions but the scale of the differences underlines the potential for cost savings. The public sector would only have to move the weakest performing organisations up to the top end of the lowest performance quartile to generate savings of around £4 billion per year.

³ Unpublished data from the Gershon independent review of public sector efficiency: *Releasing resources to the frontline: Independent Review of Public Sector Efficiency*, HM Treasury, 2004.

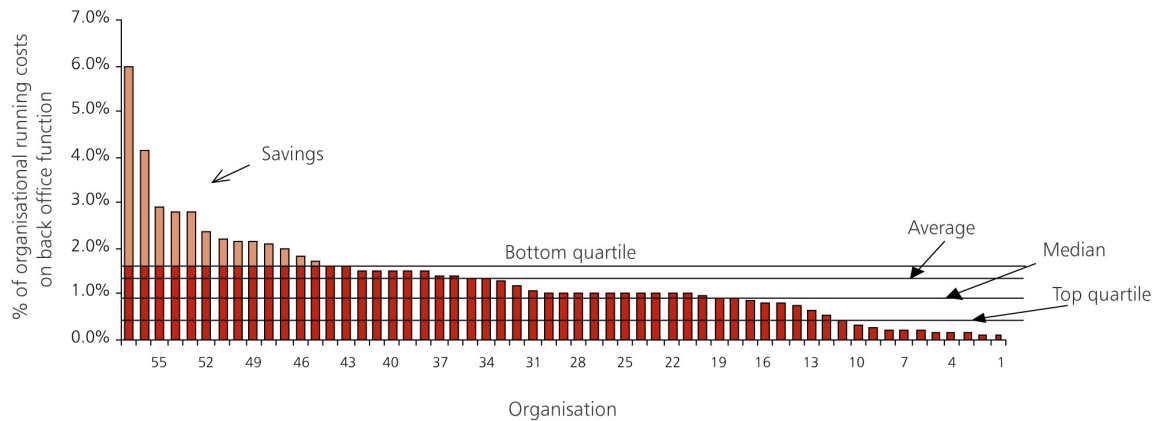
⁴ *Improving corporate functions using shared services*, NAO, 2007.

⁵ Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

⁶ *Civil Service employment by profession*, ONS, 2008.

⁷ The number of organisations submitting their costs varies between function – for example, more organisations submitted finance data than estates management data.

Chart 1.B: Potential savings using public sector benchmarking methodology and illustrative data



Source: HM Treasury, illustrative data using CIPFA benchmarking data 2006-07

1.10 The potential savings from re-engineering back office operations have also been estimated using extensive research on **private sector cost efficiency experience**, advisor experience and input from private sector companies with experience in improving back office efficiency. This has shown that 20 to 30 per cent savings can be made from business process re-engineering (BPR) and shared services. BPR has been a common feature of private sector companies for many years, ensuring continuous improvement in the efficiency and effectiveness of an organisation's processes. Some case studies of private sector best practice in making significant savings are summarised in Box 1.A.

Box 1.A: Private sector case studies

A **luxury goods manufacturer** had unacceptably high operating costs and the survival of the business was consequently under threat. To reduce operating costs, eight European head offices were consolidated into a single location. Finance and HR headcount were both reduced by 70 per cent and complex finance processes were standardised and simplified (e.g. from 6400 line items in the chart of accounts to 640 line items) by implementing a common IT system;

A **telecommunications firm** moved its finance support functions to a central shared service centre located in the UK. The overall goal was to achieve sustainable cost savings across its European business. The result was a reduction in operational costs of between 50 and 66 per cent; and

A **global distributor** developed a shared services model which resulted in cost reductions of between 35 and 40 per cent, greater visibility of its finance and accounting functions across Europe, timely provision of management information and the foundation for further consolidation of its accounting and finance functions.

Source: A response to HM Treasury Operational Efficiency Programme: Prospectus, PriceWaterhouseCoopers, October 2008.

1.11 It is both notable and encouraging that there are a number of best practice examples across the public sector where significant savings have already been made. These **public sector case studies** demonstrate that savings in the region of 25 to 30 per cent can be made in the cost of back office operations. Some examples are summarised in Box 1.B.

Box 1.B: Public sector case studies

HM Prison Service (HMPS): HMPS have implemented a shared services centre that delivers finance, procurement and HR functions for all 128 Prison Service establishments. It is expected to deliver a 32 per cent saving in staff costs and just over 30 per cent savings against the gross costs of corporate services;

National Health Service (NHS): A joint venture, shared business service between the Department of Health and Steria now serves over 100 health trusts. This shared service delivers 20 to 30 per cent savings on like-for-like services; and

Department for Work and Pensions (DWP): DWP have set up a shared services organisation providing some HR and finance functions to the Department, its executive agencies and to other parts of government. Savings from shared services of 15 per cent have been achieved already, with further savings of 13 per cent expected for 2008-09.

1.12 These three different methodologies each indicate that the public sector should be able to achieve a reduction in annual back office costs of around 20 to 25 per cent by the end of the next three years. This is equivalent to a reduction of around £4 billion from the estimated £18 billion annual UK spend on back office operations. The three-year timescale for achieving this reduction is at the upper end of private sector experience for the delivery of cost saving programmes of this kind. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further.

1.13 The programme's recommendations for securing the estimated savings focus on the production and review of top-level performance indicators and the adoption of best practice. The approach centres on transparency rather than micro-management. In summary, government should:

- improve the collection and reporting of data across the public sector. Management information on back office operations should be fully integrated into departmental processes and should be collected and reported on a regular, consistent, auditable and transparent basis to allow for robust comparisons;
- introduce benchmarking and operational performance reviews across the public sector; and
- take the estimated savings into account in determining departmental settlements (taking note of savings already made where appropriate).

1.14 This workstrand sets out a range of case studies and recommendations to public sector organisations highlighting how these estimated savings can be achieved. The full set of recommendations is summarised below.

Collection and reporting of back office data

1.15 The lack of management information on public sector expenditure on back office operations makes it hard to identify what the costs of these operations actually are. What is not measured well will not be managed well. In the private sector, improved management information drives improved cost control. Therefore, the collection and reporting of data on back office operations in the public sector should be improved, with information available on a regular, consistent, auditable and transparent basis.

1.16 The five audit agencies' value for money indicators in HR, finance, procurement and estates management should be used by all public sector organisations.⁸ This management information should be fully integrated into organisational systems, with the cost of back office operations included in regular board and public reporting. This is not an onerous task. Many public sector organisations are already using these indicators. Those which have recently started using them confirm that it is quick and easy to do.

1.17 For central government, agencies and NDPBs, the Corporate Functions Board (CFB) will drive this process. Discussions should be taken forward between HM Treasury and the National Audit Office (NAO) on how the NAO could provide assurance on central government reporting against the indicators. For the wider public sector, the Audit Commission should encourage use of the indicators for all local public bodies within its scope. Paragraph 1.20 details other bodies with a similar role to play.

Recommendation 1.1a: All public sector organisations employing more than 250 people must collect and publish data using the five audit agencies' approved value for money indicators for back office operations with effect from June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector.

This information should form part of a department's regular management information and be included in its regular board and public reporting. It should be subject to external audit.

Benchmarking and assessment of back office data

1.18 To ensure that these value for money indicators are used in a way that drives improved performance, data from across the public sector should be collected, checked and published in a form in which comparisons between similar organisations can readily be made. Improved collection and benchmarking of data should help to identify disparities, raise questions about why differences exist and pinpoint how poorer performing organisations could improve.

1.19 For central government, this process should be owned by the CFB, with each Head of Profession responsible for benchmarking in their function. This same benchmarking data should feed into the departmental balanced scorecard that the centre of government (Cabinet Office and HM Treasury) will use to hold departments to account.

1.20 Central departments should ensure that organisations in their delivery chain are collecting and benchmarking this data. Different mechanisms for achieving this objective will be appropriate for different sectors, for example:

- in local government, Regional Improvement and Efficiency Partnerships (RIEPs) should use peer review of back office data in their areas, and their outputs should be available for review by the Audit Commission in its "use of resources" assessment;
- for schools, benchmarking data should be collected at an aggregate level through local authorities, which should work with the Department for Children, Schools and Families (DCSF) and RIEPs to benchmark and reduce back office costs across schools in their area;
- all NHS organisations should sign up to the audit agencies' value for money indicators in order to benchmark themselves and identify scope for improvement,

⁸ The full list of indicators and definitions can be found on the Public Audit Forum website: www.public-audit-forum.gov.uk

including through use of the NHS shared business service. Delivery of savings in back office operations should be incentivised through the tariff;

- in the police service, the indicators should be included in the value for money profiles that are produced by Her Majesty's Inspectorate of Constabulary (HMIC). The Home Office should create expectations and incentives for forces and the police service to place a premium on having cost-effective back office functions, ensuring that the availability of resources for operational policing is maximised; and
- in the Further Education sector, the Learning and Skills Council should drive better value for money in back office operations. The Higher Education Funding Council for England should do the same in the Higher Education sector.

Recommendation 1.1b: Benchmarking information from across the public sector should be collected, checked and published in order to drive improved performance. In central government, this will be the responsibility of the Corporate Functions Board. For the wider public sector, each sector should ensure that its organisations are collecting this benchmarking information on a regular, consistent, auditable and transparent basis, and that the data is compared and scrutinised.

Operational reviews

1.21 The much improved collection, comparison and reporting of data will facilitate greater external review of back office performance and costs and make it possible to hold permanent secretaries and ministers to account for the efficiency of back office operations.

1.22 Operational Reviews of organisational performance should be introduced to examine the effectiveness of back office spend and identify how organisations can improve their operational effectiveness. These reviews should make use of private sector experience and focus on organisations that are performing poorly. The first reviews should take place no later than April 2010 and the secretariat for this function should be based at HM Treasury, with support from the Cabinet Office. As well as back office operations, these reviews should include analysis and assessment of progress on the other OEP workstrands including, for example, the effectiveness of IT spend.

1.23 For central government, the Operational Reviews should focus on departmental performance but should also examine benchmarking data for departmental delivery chains at an aggregate level to drive improvements throughout the public sector. This analysis should feed directly into PSX⁹ value for money discussions to hold ministers to account and be an input to the six-monthly performance reviews between the Centre and departmental permanent secretaries. For local government and other local public bodies within its remit, the Audit Commission should examine back office costs as part of its "use of resources" assessment, paying due regard to the peer review of costs carried out by RIEPs. It should encourage organisations with poorly performing back office operations to improve.

⁹ Ministerial Committee on Public Services and Public Expenditure.

Recommendation 1.2: A system of Operational Reviews that examine performance on back office operations should be introduced for public sector organisations. The initial focus should be on those organisations currently performing in the bottom quartile. The first reviews should take place no later than April 2010.

For central government and agencies, and at an aggregate level, departmental delivery chains, this should be carried out by a small review team incorporating private and public sector experience. The review team should report to PSX and feed into six-monthly performance reviews between the Centre and departmental permanent secretaries. The Audit Commission should carry out this function for local public bodies in its scope as part of its “use of resources” assessment.

Building savings into settlements

1.24 The estimated £4 billion annual savings in the cost of back office operations, achievable after three years, should be taken into account when departmental spending settlements are made. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. Exceptions should be made for those departments which can demonstrate, using the audit agencies’ value for money indicators, that they and the organisations within their delivery chains are already operating above public sector median performance across the range of back office operations.

Recommendation 1.3: The Government should take into account the estimated £4 billion annual savings in the cost of back office operations when determining departmental settlements, taking note of savings already made where appropriate.

Systematic organisational reviews of functions, systems and processes

1.25 A key driver in generating savings in public and private sector best practice examples is conducting a fundamental review of an organisation’s activities and processes. Devolution and fragmentation across the public sector mean that there is a wide variation and substantial complexity in back office operations. This lack of simplification and standardisation comes at a significant cost. Therefore, it is recommended that all public sector organisations with more than 1000 employees conduct a systematic review of their functions, systems and processes to reduce complexity and cost through simplification and standardisation by the end of 2010-11. This process should not only reduce costs but also improve the effectiveness of service provision.

Recommendation 1.4: Public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes to drive simplification and standardisation. Reviews should be carried out by the end of 2010-11, and thereafter at least every five years. They should lead to significantly greater sharing of services and potentially increased outsourcing.

Increased momentum for shared services and outsourcing

1.26 It is recommended that there is increased consolidation of existing shared service centres for central government. Central government should be leading the way in shared services with a robust shared services offer for central departments, their agencies and NDPBs that can be moved onto with minimal transaction costs.

1.27 Other parts of the public sector, including local government, the health sector and the police, should accelerate the use of shared services both between similar bodies and across services in a geographical area. Greater use should be made of the NHS shared business service, using financial incentives as necessary.

Recommendation 1.5: Progress in central government shared services should be accelerated by consolidating existing shared back office centres to provide a robust shared services offer to central government (including agencies and NDPBs). This should be overseen by the Corporate Functions Board. The shared service centres should be managed on an arms-length basis via clear Service Level Agreements. The target is to deliver upper quartile performance for all those using the shared service and drive out cost savings of at least 25 per cent within three years. A similar drive towards greater use of shared services should be encouraged across the wider public sector.

Improved management information in the longer term

1.28 In the longer term, systems should be put in place to enable management information on the costs of back office operations to be easily collected and reported as an integral part of the public sector management reporting system. Over time, the HM Treasury system used to collect public sector financial information centrally ('COINS' – the Combined Online Information System) should be enhanced where possible to collect this back office data categorised by function. Initially, this should include management information for central government departments, executive agencies and NDPBs. In the longer term, the aim should be to expand this to back office operations outside central government. The system will be replaced over the next few years and a common chart of accounts for back office operations should be considered as part of the replacement. The new system should also have the functionality to better integrate performance and financial information.

Recommendation 1.6: HM Treasury should enhance COINS¹⁰ functionality where possible to collect data on the cost of back office operations for all central government departments, executive agencies and NDPBs, centrally and seamlessly on a monthly basis as part of forecast outturn, using consistent definitions.

As part of the COINS replacement, a common chart of accounts should be considered for back office operations and the integration between performance and financial data should be increased.

IT

1.29 The IT workstrand of the OEP builds on the IT efficiencies achieved as part of the Gershon programme. It is focused on delivering greater value for money from the Government's spend on IT and improving the delivery performance of IT-enabled change programmes.

1.30 As is the case for back office operations, there is a lack of reliable, consistent management information on public sector IT expenditure. Many public sector organisations do not hold detailed or accurate management information on how money is spent on IT within their organisations. Five different sources are available which measure UK public sector IT spend. These have been collected on different bases and produce a wide range of results for how much the UK spends on public sector IT. Taking account of the respective strengths and weaknesses of

¹⁰ The HM Treasury system used to collect financial information relating to Government Accounts and Resource Budgets.

this data, this workstrand has estimated that around £16 billion per year is spent on IT across the wider public sector, although this figure could vary from as low as £12.5 billion up to around £18.5 billion. The largest area of IT spend is in local government, but it is hard to conduct a detailed analysis of this expenditure as it lies in a very devolved landscape.

1.31 Six different methodologies have been used to estimate the potential savings that can be made from IT expenditure across the public sector:

- **benchmarking analysis:** approximately 50 public sector organisations from local government, central government, the health service and the police take part in an anonymous CIPFA benchmarking process.¹¹ Whilst public sector organisations will not have the same IT requirements and may be at different stages of their IT investment cycles, the size of the variations should not be disproportionate. As for back office spend, savings have been estimated based on the assumption that the very worst performers can improve their performance to the top end of the lowest performance quartile;
- **best practice case studies:** encouragingly, there are several examples of best practice achievement in the public sector where significant savings in IT expenditure have been achieved and the quality of service improved. The programme has reviewed these case studies and used them as a basis for estimating the wider savings possible across the public sector;
- **private sector comparisons:** comparisons have been made of the IT costs of government departments with the most similar private sector organisations to evaluate the potential for savings. For example, this workstrand has compared the IT costs of transaction-intensive public sector organisations with banks and insurance companies and assessed the potential level of savings available;
- **analysis of existing IT contracts across government:** this method uses research carried out by management consulting firms into the costs of UK Government's outsourcing contracts and their assessment of the level of savings available;
- **IT consulting organisations' view of the potential savings available:** this method is based on input from private sector IT consulting organisations with significant experience of undertaking IT-focused cost reduction programmes across the public and private sectors in the UK and abroad; and
- **international comparisons of IT spend:** international comparisons of IT spend are difficult, however, Gartner¹² and Kable¹³ have produced data on IT spend across major economies which has allowed IT spend of similar government departments around the world to be compared. This data has been used to assess the potential savings available in the UK.

1.32 All six methods involve estimations of one form or another. However, each method points strongly to the fact that better value for money is achievable from UK public sector IT spend. Overall savings of around 20 per cent of the estimated £16 billion annual expenditure (£3.2 billion) should be achievable without compromising the quality of frontline public service delivery. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. This reduction in

¹¹ Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

¹² Forecast: *Industry Market Strategies by Vertical Industry, Worldwide 2006-12*, Gartner, 2009.

¹³ *Overview of IT in the European public sector to 2010*, Kable, 2007.

annual spend should be achievable by the end of a three year period. This is somewhat longer than the average timescales achieved in the private sector.

1.33 The estimated savings¹⁴ should be taken into account in determining departmental settlements. This process should, where appropriate, have regard to any significant savings that have already been achieved and to any substantial concentration of major IT-enabled change projects in particular departments. It is the task of management, both within departments and within their wider delivery chains, to determine how the targeted savings can best be delivered.

1.34 The programme has developed a suite of recommendations for public sector organisations to assist in the process of delivering these savings. In summary, these are to:

- improve the collection, reporting, benchmarking and review of data on IT spend across the public sector;
- strengthen the governance of IT-enabled change projects;
- strengthen Gateway assurance processes for all IT-enabled change projects;
- implement portfolio management processes to prioritise projects and resources and to reduce overlap and duplication in IT-enabled change projects;
- promote greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector; and
- develop the internal IT capability within the public sector and continue to professionalise the IT function.

1.35 The detailed recommendations are as follows:

¹⁴ Approximately £1.6 billion of these savings are also included in the collaborative procurement savings, due to improved collaborative procurement of IT.

Recommendation 1.7: The Government should take into account the estimated £3.2 billion annual savings in IT expenditure when determining departmental settlements, taking note where appropriate of savings already made and any substantial concentration of major IT-enabled change projects in particular departments.

Recommendation 1.8: Management information on IT spend should be fully integrated into departmental processes and should be collected on a regular, consistent, auditable and transparent basis to allow for robust comparison and review following the principles set out in the recommendations for back office operations. Across the wider public sector, all organisations should use the audit agencies' value for money IT indicators. If available for implementation in the next three months, the new Cabinet Office IT benchmarks can be used as an alternative to determine the efficiency and effectiveness of IT spend in central government and to support the setting of prices for commodity-based purchases. The applicability of these new benchmarks for use across the whole of the public sector should be evaluated during the course of 2009.

Recommendation 1.9: Strengthen the governance of IT-enabled projects so that ministers and accounting officers are regularly updated on high-risk projects and briefed on projects where the delivery confidence is not high. Departmental Chief Information Officers (CIOs) should actively endorse all IT-enabled change projects. Where the cost of IT-enabled change projects is above departmental delegated limits, HM Treasury should refer projects for approval to the Government CIO before approving expenditure. HM Treasury should also seek advice from the Major Projects Review Group on the status of all large, high-risk IT-enabled change projects.

Recommendation 1.10: Strengthen the existing Gateway assurance process. This should include introducing "starting gate" reviews of all IT-enabled change projects to prevent large scale IT projects being initiated with a low likelihood of success. Departments should have processes in place to address low delivery confidence Gateway findings and should ensure that appropriate remedial action is taken. Accounting officers should consult with their departmental CIO before agreeing the continuation of projects receiving "red" Gateway findings.

Recommendation 1.11: Implement portfolio management processes within departments to prioritise the most important IT-enabled change projects and resources and to reduce the overlap and duplication in IT-enabled change projects across the public sector.

Recommendation 1.12: Give government CIOs and OGC Collaborative Category Boards the responsibility for achieving greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector. They should be empowered to address duplication and large cost variations across departments. They should act to ensure common infrastructure (including the development of the Public Sector Network) is bought once with the Crown as the purchasing agent, rather than by individual departments. This will allow licences to be available across the public sector. Strategic oversight by CIOs and OGC Collaborative Category Boards should also ensure that all new IT infrastructure is reusable across the public sector.

Recommendation 1.13: Develop the internal IT capability within the public sector and continue to professionalise the IT function.

Conclusions

1.36 This workstrand has identified that significant annual savings in the cost of back office operations and IT are deliverable. Compared to a 2007-08 baseline, in three years time, it is estimated that the annual cost of back office operations could be reduced by around £4 billion and the estimated annual cost of IT could be reduced by around £3.2 billion (the latter including savings arising through collaborative procurement). Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further.

1.37 The savings that have been estimated should be taken into account in determining departmental settlements, taking note where appropriate of savings already made and any substantial concentration of major IT-enabled change projects. It is the task of management to deliver these savings, but this workstrand has set out a suite of recommendations and best practice examples to facilitate this process.

1.38 In future, management information on back office operations and IT should be available on a regular, consistent, auditable and transparent basis, and be used to benchmark across the public sector. A system of Operational Reviews should be introduced to examine spending effectiveness and to ensure that poorer performing organisations improve. These reviews should be driven by the most senior leaders across the public sector. Embedding this new approach will drive sustained operational improvement across the public sector and deliver increased value for money and effectiveness in the delivery of public services in the years ahead.

2

Collaborative procurement

Advisor: Martin Jay

Martin Jay was appointed a non-executive director of Invensys in January 2003 and became Chairman in July 2003. He retired as Chairman of VT Group plc in July 2005, where he was also Chief Executive for 13 years. He previously held a range of leadership positions at GEC and was a member of the GEC Management Board. Martin is the Chairman of the Tall Ships Youth Trust.

Summary recommendations:

- 1 extend the current programme of collaborative procurement to cover additional categories of common spend. In the first instance this should include construction, facilities management and food;
- 2 improve the quality of management information on procurement spend across the public sector to ensure that common standards and much increased transparency are implemented;
- 3 improve access to better deals for local service providers across the wider public sector by working with and through Professional Buying Organisations (PBOs) in a more regulated manner. This will incorporate sharing management information across PBOs, sharing the best framework agreements and developing common, transparent business models and governance across PBOs; and
- 4 increase uptake of collaboration (through PBOs or other collaborative strategies) on common categories of goods and services within the scope of the programme: 80 per cent of all available spend¹ in central government (including NDPBs and agencies) and 50 per cent in the wider public sector, by March 2011. This should be achieved by:
 - more focused marketing of available deals;
 - better use of existing investments in eProcurement systems;
 - regular reporting to Ministers on the value derived from collaborative procurement and ensuring value for money and collaboration form key components of skills and capability development of procurement professionals across government;
 - ensuring accounting officers in central government departments hold commercial functions across department families to account for delivering value for money through increased collaboration, and monitor progress to achieve this across their departmental family;

¹ In this report, "available spend" is categorised as spend not locked into existing procurement contracts.

- ensuring accounting officers give commercial directors in central government departments increased powers to coordinate delivery of the collaborative agenda throughout departmental families, including NDPBs and agencies; and
- ensuring public sector organisations can keep any collaborative procurement efficiency savings they deliver in excess of what they need to live within their budgets and incentivising good performance through not penalising departmental success against collaborative procurement targets.

2.1 This workstrand has found that collectively, the public sector has the potential to become an extremely powerful purchaser, with over £175 billion spent on external goods and services in 2007-08.² However, it is also clear that:

- the process of procuring common goods and services across the public sector is dispersed, resulting in a wide range of prices for similar goods and services;
- the majority of public sector procurement spend is undertaken by organisations in the wider public sector. £103 billion of the total £175 billion public sector procurement spend is spent by local authorities, schools and health organisations alone. In order to deliver true value for money, large public sector organisations need to procure in collaboration with small organisations so that the entire public sector can benefit from the full leverage that it can exert; and
- suppliers, including both large organisations and small and medium-sized enterprises (SMEs) are disadvantaged by a disjointed approach from government to supply markets.

2.2 This workstrand considered collaborative procurement practices both within central government, and in the wider public sector and examined the centrally driven programme of collaborative procurement, led by the Strategic Stakeholder Forum (SSF) and administered by the Office of Government Commerce (OGC). This programme currently targets six categories of expenditure on goods and services such as desktop computers and electricity, which are commonly bought across the public sector. It aims to bring all parts of the public sector into a single governance structure, where government can derive maximum value from its common spend by approaching the supply market in an appropriate and coordinated manner.

2.3 This workstrand has found that it is realistic to achieve a total of around £6.1 billion of annual value for money savings³ by 2013-14, compared to the 2007-08 baseline of the £89 billion government procurement spend that has been categorised to a commonly procured commodity. A further £1.6 billion value for money savings could be achieved through the collaborative procurement of IT, and are included in the savings figures set out in Chapter 1. This gives a total collaborative procurement savings figure of £7.7 billion by 2013-14.

2.4 Of these savings, by the end of 2011-12, £4.1 billion could be delivered, plus £1.6 billion from IT, giving a total of £5.7 billion a year, as demonstrated in Table 2.A. Some of these savings will already be underway but there is scope to go further than current plans, provided that the Government acts swiftly to implement the recommendations of this report.

² Derived from Tables 2.2, 2.3 and 7.10 in *Public Expenditure Statistical Analysis*, HM Treasury, March 2008.

³ Value for money savings defined according to HM Treasury methodology and consistent with value for money savings achieved in the Comprehensive Spending Review 2007 period, accumulating against a 2007-08 baseline. All of these savings are cash-releasing and net of implementation costs. This review has not sought to distinguish the degree of overlap between collaborative procurement delivery and pre-existing 2007 CSR departmental delivery plans.

Key findings and recommendations

Limited scope of the current programme of collaborative procurement

2.5 The current programme of collaborative procurement seeks to achieve increased value for money from six categories of common goods and services: Professional Services, ICT, Energy, Fleet, Travel and Office Solutions. These six categories collectively cover £49.8 billion of the £89 billion spend in categories bought commonly across government. There is scope for expanding the programme to look at other categories of common spend.

Recommendation 2.1: Government should extend its current programme of spend to cover new categories of common spend.

By October 2009, the Strategic Stakeholder Forum should extend the scope of the Government's current collaborative category programme to include three new categories of common spend: construction, facilities management and food. This will increase the total coverage of the collaborative procurement programme from £49.8 billion to £78.1 billion of the £89 billion spend in categories bought commonly across government.

2.6 Under an extended government collaborative procurement programme, £78.1 billion of the total £89 billion of government procurement spend that has been categorised to a commonly procured commodity will be subject to a collaborative approach to procurement. The remaining £11 billion comprises categories, which may have potential for future collaboration, including social care, clinical and medical expenditure, operational goods and waste management.

2.7 Table 2.A shows the level of savings, which should be achievable by 2011-12 if the programme were extended along the lines described here and the other recommendations of this workstrand are implemented.

Table 2.A: Estimation of possible savings by the end of 2011-12

Category	Forecast Delivery by end 2011-12
Energy	£320 million
Fleet	£110 million
Office solutions	£280 million
Travel	£240 million
Professional services	£1,120 million
ICT	£1,570 million
Facilities management	£540 million
Food	£90 million
Construction	£1,460 million
Total	£5,730 million

Management information on government procurement spend is poor

2.8 This workstrand found that whilst there are some examples of good practice in respect of management information on procurement spend in the public sector, overall the private sector⁴ enjoys significantly more robust, assured, timely and consistent data and management information on procurement spend.

⁴ This workstrand observed good practice examples of the benefits of strong management information at organisations including Shell and IBM.

2.9 This lack of assured, comparable data for the public sector constitutes a key blocker to making progress against a number of agendas and is the single biggest factor preventing the centre from quantifying the case for increased departmental and wider public sector collaboration. If Government is to drive the maximum value from its procurement spend over this and subsequent spending review periods, it must address these issues more quickly than current plans allow.

2.10 Central and local government accounts suggest that the Government spent £175 billion on procurement in 2007-08. Since 2005, OGC has run its Public Sector Procurement Expenditure Survey (PSPES), which has, for the first time, brought together the Government spend against a common categorisation. However, to date only £110 billion of the total £175 billion government procurement spend has been categorised to a basic common standard. This current common categorisation is comparatively high-level and falls short of being a comprehensive common classification schema for government that can be embedded into departmental enterprise resource planning (ERP)⁵ systems. If public sector organisations cannot articulate their spending effectively, they cannot manage their spending effectively. Improving the quality of the current management information will present significant opportunities in driving supplier performance and managing uptake levels and benefits flows.

2.11 Certain government departments (such as HM Revenue and Customs (HMRC) and the Home Office) have substantially improved management information systems over the last 18 months to enhance their understanding of how much they spend on particular commodities. However, in many parts of the public sector, management information remains of insufficient quality or detail to support quality procurement decisions. Where there are devolved services, there is usually no central point of responsibility for ensuring that procurement expenditure is subject to rigorous management information standards or controls. Key barriers to improving management information on procurement spend are:

- **accounting structures:** A barrier to effective management information is the manner in which accounting structures and systems have developed in government which do not provide a common basis for categorising expenditure by supply market. Unlike the private sector, it is not common practice in the public sector to capture commodity codes at the point of data entry;
- **data quality:** It is often not possible to understand emergent trends in procurement data because departments do not maintain commercial management information in an accurate or consistent way;
- **data standards:** Compared to private sector organisations, and with certain exceptions, the public sector has low uptake of commercially accepted data standards, such as Dunn & Bradstreet for supplier codification, or UNSPSC⁶ for supply market categorisation. There are no endorsed government standards for those considering applying them; and
- **technology:** The public sector does not apply consistent technologies such as ERP and other back office proprietary systems in a common manner.

2.12 The above barriers combine to prevent identification at an aggregate level of what the public sector spends by category and hold back the development of evidence-based decision-making in government procurement.

⁵ Enterprise resource planning is an organisation-wide computer software system used to manage and coordinate all the resources, information and functions of the organisation from shared data stores.

⁶ United Nations Standard Products and Services Code: see online at www.unspsc.org

2.13 Addressing these issues and improving government management information on procurement spend will be of significant benefit and will allow government, at an aggregate level, to:

- focus on suppliers and categories of spend where expenditure is significant;
- provide a baseline against which government can identify the value that has, or has not, been derived from a category spend through collaboration and other department specific routes;
- represent government's position to suppliers against an accurate view of government's leverage in spend with that supplier;
- deliver increased transparency in spend, and thereby increased accountability in how government spends its £175 billion of procurement each year; and
- corroborate its own data sources about spend with those of suppliers to judge uptake of contracts and identify off-contract spend that is not complying with the best deal.

2.14 Maintenance of these data is a basic hygiene factor for good financial management; the taxpayer should expect government to be able to explain what it spends, and with whom. This report strongly endorses the importance of quality management information. What is not measured well will not be managed well.

2.15 All public sector organisations (including central government departments, their agencies and NDPBs and wider public sector organisations) have a responsibility to maintain detailed and consistent information on how public money is spent and should be able to categorise their procurement spend to an appropriate level of detail. Where departments and public sector organisations have strong management information on procurement spend, as seen in the HMRC example in Box 2.A, the benefits they have received as a result are significant and compelling.

Box 2.A: Improving management information in HM Revenue and Customs (HMRC)

The Commercial Directorate in HMRC initiated a transformation programme in 2006 to introduce a fully integrated eProcurement system. However, it was clear that there was no existing capability in the use of standard coding and spend reports were wildly inaccurate, so the initial priority was to establish robust and flexible spend analysis capability built around the widely accepted UNSPSC coding system. HMRC implemented the spend analysis component of the eProcurement software as the first stage of the overall eProcurement programme such that the organisation is now able to extract data only a month away from real-time.

From a starting position of “not knowing what we buy and not knowing who we spent our money with,” HMRC now have management information for all orders placed and all invoices paid – and the ability to drill down to individual transaction level at the very core of their spend data. The introduction of spend analysis has had a positive impact which allows the Department to easily:

- benchmark the data set against other organisations;
- identify rationalisation opportunities by UNSPSC and HMRC organisational structures;
- analyse the scale and characteristics of low value transactions;
- interrogate adherence to payment terms and attribute to individuals;
- measure uptake of contracts and identify methods to develop this measure and the associated controls in the future;
- run reports on duplicate payment issues;
- support the accurate measurement of saving targets; and
- track the Department’s spend over time and highlight seasonal skews.

Recommendation 2.2: Improve management information available on Government procurement spend

With immediate effect, OGC should take the lead role in defining government's approach to management information, in respect to third-party procurement spend, in consultation with central government departments, the wider public sector, HM Treasury and the Office for National Statistics. This should include:

- a mandate to agree by major government sector (e.g. central civil government, defence): a common classification schema for goods and services, such as UNSPSC; common classification schema for suppliers, such as Dunn and Bradstreet; and common information schema for supplier information/market category provided to government bodies;
- representing government's interests upon the boards and steering committees of agreed data standards and extending these standards where appropriate; and
- monitoring and publishing the performance of public sector bodies in classifying their data against agreed standards.

OGC should agree common standards for central government departments, their agencies and NDPBs and publish these by June 2009.

OGC should work with government departments to agree a similar common standard on management information for the wider public sector by April 2010.

Central government departments, including their agencies and NDPBs, should implement the agreed standards within their financial systems, by April 2010, to a level of detail within the elected classification schema at least equivalent to UNSPSC level three, proportionately such that it covers 80 per cent or more of their procurement spend.

OGC should expand the programme of public sector procurement expenditure analysis.⁷

Complexity of procurement landscape

2.16 The procurement landscape in the UK comprises around 44,000 public sector buyers including approximately 20,000 schools, 355 English local authorities, 43 police forces, around 500 NHS trusts, central government departments, agencies and non-departmental public bodies (NDPBs).

2.17 The landscape is inefficient, fragmented and uncoordinated, with at least 45 professional buying organisations (PBOs) that have evolved in an unplanned manner, over time, with varying business models, no clear common vision and no clear governance. Currently, approximately £12 billion of the £89 billion spend in categories of goods and services bought commonly across government is channelled through PBOs.⁸ The largest PBOs are OGC Buying Solutions, NHS Purchasing and Supply Agency (NHS PASA)⁹ and the PRO5 (the local authority buying consortia), which, between them, account for £9.3 billion of the £12 billion spend currently channelled through PBOs. The majority of PBOs have a regional or sectoral focus, for example concentrating on health, or on a region of the United Kingdom; but the majority of supply markets in which they operate are common across sectors and not restricted to a particular region.

⁷ Further information on the OEP collaborative procurement workstrand is available online at www.hm-treasury.gov.uk

⁸ Based on figures sourced from OGC's markets and collaborative procurement efficiency team.

⁹ NHS PASA's non-health specific core sourcing work will be integrated with OGC Buying Solutions as part of a forthcoming restructuring of PASA.

2.18 The fragmentation and lack of coordination in the procurement landscape presents a key barrier to driving greater value for money from collaborative procurement across the public sector. This is particularly apparent in the health, local government and education sectors where approximately £103 billion of the total £175 billion of government procurement expenditure lies.¹⁰ It is precisely where spend is most fragmented that increased collaboration has the most value to offer.

Box 2.B: Value Wales: Channelling more spend through PBOs

Across the public sector in Wales, approximately £4.5 billion is spent on goods and services each year. Value Wales frameworks have already saved the Welsh public sector £56.7 million. For example, Dwr y Felin School in Neath has 1,264 pupils and spends approximately £500,000 every year on commodities. Since 2006 the school has started outsourcing its procurement and channelling its procurement spend through Value Wales for the majority of high usage stock. Three years ago the school spent some £7,000 a year on consumable office items such as paper. This has now reduced to about £4,000 a year as a result of using Value Wales agreements. Just on this element, this makes a saving of £3,000 a year, which has been spent on improving the school. In total, the school has saved around 20-30 per cent on these and other items when compared with a few years ago.

Value Wales framework deals are open to all public sector organisations based in Wales and deliver better arrangements than individual organisations can achieve on their own because of the economies of scale secured through collaboration across the entire Welsh public sector. For example:

- IT equipment and services, covering PCs, laptops, printers, handheld devices and servers – average savings of 39 per cent;
- stationery and paper – average savings of 30-35 per cent; and
- computer consumables, including printer cartridges – average savings of 26 per cent.

Source: Improving Schools Procurement in Wales: Case Studies, Value Wales, June 2008

2.19 This workstrand found the following key issues with the current procurement landscape which are limiting the scope for the achievement of greater value for money savings through collaborative procurement:

- there is no overall governance to coordinate activities of PBOs, resulting in duplication of effort and duplicated contracts offering varying degrees of value for money. For example, individual energy contracts with energy companies are part of the reason why there is over a 50 per cent cost variation in energy prices across the public sector. There is also a lack of cooperation; some PBOs compete with each other over similar geographies or service offerings;
- PBOs do not routinely share management information on the best deals available to the public sector and they rarely collaborate on purchasing or logistics opportunities. They do not therefore maximise on their potential value by providing shared offerings or price benchmarking to ensure they are offering the best deal available to public sector authorities;
- there are no common performance metrics or governance for PBO interactions. The review also found evidence of perverse incentives generated by commissioning

¹⁰ Derived from Tables 2.2, 2.3 and 7.10 in *Public Expenditure Statistical Analysis*, HM Treasury, March 2008.

where PBOs are not incentivised to collaborate and thereby drive down the prices of common goods and services for the public sector, but to simply to increase the value and volume of throughput; and

- limited exploitation of electronic procurement (eProcurement) by PBOs. eProcurement solutions such as eMarketplaces and eAuctions offer significant opportunities in sharing information on the best available deals for common goods and services and providing management information on the take-up against those deals.

Recommendation 2.3: Government must make better use of the current PBO landscape.

By June 2009, OGC should create and chair a “PBO governance group” that brings together central policy and local delivery representatives with PBOs with a view to driving greater coordination, consistency and transparency across this landscape.

By December 2009, this governance group should ratify a strategy for an operating framework that will allow PBOs to cooperate across categories, regions and the procurement process. This should:

- provide a framework within which PBOs can share management information on the best deals available to drive best practices. Sharing data and standards is a key enabler for effective coordination and management of the landscape. Sharing this information would be a fundamental change to the current way of working for most buying organisations;
- provide buyers with a clear list of available approved and accredited buying options, so that budget holders can choose from alternative product or service offerings which offer best value. This approach will also benefit suppliers, who will consequently spend less time tendering;
- provide a coordinated and efficient approach to procurement and to customer management by defining clear roles and governance models that can be shared across PBOs. This will ensure that PBOs are not competing for customers and are benefiting from the combined purchasing power of multiple PBO customer bases. It will eliminate unnecessary overlap and reduce duplication of geographies, market scope or service offerings in the procurement landscape;¹¹ and
- provide renewed reward mechanisms for PBOs so that they are incentivised to deliver the best value to their customers.

Limited uptake of collaborative strategies

2.20 The potential for achieving the savings set out above is predicated on levels of uptake of collaborative strategies in each of the six categories of common spend currently included within the programme and in any future categories of common spend which are incorporated into an extended programme.

2.21 The Government should target levels of uptake of 80 per cent in central government and approximately 50 per cent in the wider public sector. However, this workstrand found that in some categories of common spend, current uptake levels are very low relative to these target levels, although in the case of more mature fleet and energy categories, uptake of the

¹¹ Further information on the OEP collaborative procurement workstrand is available online at www.hm-treasury.gov.uk

collaborative procurement value for money strategies developed over the past two years has already risen to between 80 and 90 per cent for central government.

2.22 Uptake of value for money collaborative strategies in the wider public sector has proven harder to achieve. In energy (the furthest advanced of the six categories currently underway), despite high uptake levels in central government, uptake levels remain below 50 per cent overall because of low uptake in the wider public sector. Promoting collaborative strategies in those parts of government with high levels of local autonomy is a key challenge in achieving the full potential of benefits available from collaborative procurement.

2.23 This workstrand has found that although target levels of uptake in central government appear to be realistic, a 50 per cent uptake target in the wider public sector remains ambitious under current constraints.

2.24 Government therefore needs to be more radical in driving uptake to collaborative strategies through improving mechanisms whereby all parts of the public sector have access to and can comply with collaborative deals. This workstrand would suggest that the benefits of collaborative procurement can be achieved while maintaining local flexibility in the delivery of frontline services to the public. Recommendation 2.4 below outlines how this should be achieved.

Recommendation 2.4: Improve awareness and uptake throughout the public sector to collaborative strategies.

By March 2011 the level of common spend channelled through collaborative strategies including PBOs and other solutions ratified by Collaborative Category Boards should increase to 80 per cent of all available spend¹² in central government departments.

In the wider public sector, departments should work with their delivery chains across the public sector to actively promote greater compliance and uptake to collaborative strategies within their sectors and channel 50 per cent of all available spend in the wider public sector through collaborative strategies including PBOs and other solutions ratified by Collaborative Category Boards.

To further promote greater uptake of collaborative strategies, central Whitehall departments and organisations across the wider public sector should:

- ensure more focused marketing and sharing of management information on the best central deals available, which offer improved value for money for the public sector as a whole;
- make better use of existing investments in eProcurement tools, such as Zanzibar,¹³ to support greater uptake of collaborative category deals; and align an OGC-developed central eProcurement policy with commercial strategies;
- ensure regular reporting to Ministers on the value derived from collaborative procurement and ensure value for money and collaboration form key components of skills and capability development of procurement professionals across government;
- ensure accounting officers in central government departments hold commercial functions across department families to account for delivering value for money through increased collaboration, and should monitor progress towards achieving this across their departmental family;
- ensure accounting officers give commercial directors in central government departments increased powers to coordinate delivery of the collaborative agenda throughout departmental families, including NDPBs and executive agencies; and
- ensure public sector organisations can keep any collaborative procurement efficiency savings they deliver in excess of what they need to live within their budgets and incentivise good performance through not penalising departmental success against collaborative procurement targets.

¹² In this report, “available spend” is categorised as spend not locked into existing procurement contracts.

¹³ Zanzibar is a web-based purchase to pay (P2P) and electronic marketplace solution, available under a framework agreement to all English, Welsh and Northern Irish public sector organisations.

3

Asset management and sales

Advisor: Gerry Grimstone

Gerry is Chairman of Standard Life plc, having been a Standard Life director since July 2003. Prior to this Gerry Grimstone held senior positions with the Department of Health and Social Security and HM Treasury until 1986. He then spent 13 years with Schroders in London, Hong Kong and New York prior to becoming Vice Chairman of Schroders' worldwide investment banking activities. Since then, he has held a number of senior appointments in the private and public sectors.

Summary recommendations:

- 1 there should be an ongoing six-monthly review exercise, carried out across government, to identify new assets to be examined by the Shareholder Executive, together with relevant departmental and organisational stakeholders. These reviews would be tied in to the Pre-Budget Report and Budget announcements every year, together with an update on progress made on the existing portfolio of assets; and
- 2 assets being examined should be reviewed by individual project teams coordinated by the Shareholder Executive with the full support of HM Treasury, the responsible department or public sector entity, and relevant management. These teams should:
 - consider whether the most efficient use is being made of the assets from the point of view of business model, organisational and customer requirements, capital structure, including whether the current position within the public sector is appropriate;
 - bring forward for decision-making the findings of these studies;
 - once decisions are made, oversee the implementation stage to ensure that plans are properly converted to appropriate action;
 - where and when appropriate, lead disposal and/or partial disposal activity with departments; and
 - report progress publicly, to be tied in to the Pre-Budget and Budget processes.

3.1 The asset management and sales strand of the Operational Efficiency Programme aims to ensure more efficient and commercial operation of assets held by the public sector. In the current economic climate, it is particularly important for Government to demonstrate to the taxpayer that it is creating maximum value from the assets it owns, whether through driving efficiency in the public sector or by transferring in whole or in part to the private sector. But this is not a programme for which the sole objective is the disposal of Government assets – rather this work has been designed to challenge departments on the efficient management of the assets they hold, and to help free up resources for important frontline service delivery. In some cases this may lead to a disposal being the appropriate course of action, but only once the

full array of possible options has been properly considered. Other courses of action may be more suitable.

3.2 Where disposals are being considered, assessments on a case-by-case basis should be made regarding the availability of suitable financing as well as the appropriate timing for any disposals to ensure that value for money is achieved. Because of present market conditions, financial proceeds arising from this workstrand will be of medium-term benefit.

3.3 The key focus of this workstrand has been that where assets held by Government are carrying out activities that are predominantly commercial in nature, there is a need to demonstrate that their commercial potential is being fully considered and harnessed. The benefits of doing so will be demonstrated through improved delivery as the assets are used more efficiently in the public sector, or, if appropriate, through the realisation of receipts from full or partial disposal. This will allow reinvestments to be made in the public sector to improve essential public services.

The approach to studies

3.4 The range of potential assets for inclusion in this strand of work was vast. As a starting point for detailed investigation into the assets held in the public sector, an initial list of specific assets to focus on was identified. These assets were identified from across a range of trading funds, public corporations, and other organisations or activities that were thought to be commercial in their nature, and where there was believed to be scope for increasing efficiency. This first short-list of assets was developed in conjunction with the Shareholder Executive who have led and project managed the subsequent review work. This role for the Shareholder Executive is consistent with their wider remit, which is to act as an intelligent shareholder of assets within the public sector, enabling professional commercial skills sets to be used for the public benefit.

3.5 The 2008 Pre-Budget Report announced an initial list of nine assets, for which detailed studies would be carried out to consider the potential for alternative business models, commercialisation, new market opportunities, and where appropriate, alternatives to public ownership. These assets were as follows:

Table 3.A: Initial list of assets included in the asset management and sales strand

Asset (parent department)	Principal Activity
British Waterways (Defra)	Ownership and maintenance of canal infrastructure and land alongside the waterways
QE II (CLG)	Conference centre located in Westminster for Government and private use
Ordnance Survey (CLG)	Provider of high quality geographical data covering Great Britain
Land Registry (MOJ)	National registry of property and land ownership
Dartford Crossing (DfT)	Road transport bridge and tunnel crossings of the River Thames at Dartford
Royal Mint (HMT)	Manufacturer of circulating and commemorative coins
Met Office (MOD)	National weather forecasting service
Oil and Pipelines Agency (MOD)	Management of the Government Pipeline and Storage System
Defence Storage and Distribution Agency (MOD)	Management and infrastructure of MOD equipment storage and distribution agency.

3.6 A tailored approach was applied to each of the studies, taking into account the very different circumstances surrounding each and appreciating that a single approach would not be

appropriate in all cases. There were no pre-conceived conclusions to the studies, and each study considered fully the benefits of the whole spectrum of appropriate options.

3.7 The studies were taken forward using a collaborative approach, working with the Shareholder Executive, relevant departments, and the management of the assets involved. Project teams were set up for each of the assets, with representation from all of these groups. This helped both to drive radical conclusions in respect of each study, through ensuring that the expertise of those who understand the asset best was drawn upon, whilst at the same time providing innovative thinking and external challenge.

3.8 In carrying out the studies there has been close tie-in, where relevant, with the Trading Funds Assessment (see Box 3.A).

Box 3.A: Trading Funds Assessment

The first phase of the Trading Fund Assessment considered how a number of Government businesses could open up the information they create or hold as a result of carrying out their core public duties. The businesses were Met Office, Land Registry, Ordnance Survey, Companies House, Driver and Vehicle Licensing Agency and UK Hydrographic Office.

Availability of the information produced by these Trading Funds generates opportunities for innovation, added-value and growth in both the wider economy and society. Accurate and easily available information enables the better delivery of public services and increased accountability of government.

The Assessment identified key principles of good practice relating to information produced by all Trading Funds. These principles are:

- information easily available – where possible at low or marginal cost;
- clear and transparent pricing structures for the information, with different parts of the business accounted for separately;
- simple and transparent licences to facilitate the re-use of information for purposes other than that for which it was originally created; and
- clearly and independently defined – with input from customers and stakeholders – core purposes (“public tasks”) of the organisations.

The Office of Public Sector Information will provide enhanced oversight and governance to ensure application of these principles across the Trading Funds that create significant amounts of information.

A new business strategy for Ordnance Survey has been developed (see Box 3.H) which also will ensure easier and simpler access to high-quality information.

Further work on the future business plans and models for specific Trading Funds - as well as consideration of the effectiveness of the Trading Fund model – will now be incorporated into the Operational Efficiency Programme.

3.9 In addition, the workstrand was closely aligned with the work being carried out by the Intellectual Property Office (IPO) on intangible assets. The IPO have been leading cross-government work looking at how the public sector can identify and get the most value from its intangible assets. To facilitate this, the IPO is establishing a UK-wide virtual network for public sector stakeholders to promote the sharing of best practice, experience and greater collaboration. A number of public sector organisations have undertaken a systematic review (or ‘health check’) of the management of their intangible assets to see what improvements can be

made and others are planning such health checks in the coming year. The virtual network will enable the sharing of knowledge and experience from these and other activities.

3.10 Whilst the specific asset studies in this workstrand have been the main focus so far, they represent only a small part of the picture. Work has been continuing elsewhere in Government in respect of other assets, for example on the United Kingdom Atomic Energy Authority (UKAEA), and it is important that government continues to have an ongoing responsibility in challenging itself on the best ways forward for the whole range of assets in its portfolio.

3.11 What the OEP asset studies have succeeded in doing is adding momentum and direction to this challenge, supporting departments in new thinking around specific assets, and helping change mindsets across the public sector to ensure that a more commercialised approach is applied throughout.

Progress on the studies

3.12 Given the different complexities and circumstances that apply to each of the assets considered, the studies necessarily vary in terms of the progress they have achieved and their conclusions for going forward. The boxes below set out the emerging findings from each study, together with an agreed direction for taking work forward over the coming months. Where appropriate, further progress on the next steps will be reported at the 2009 Pre-Budget Report.

Box 3.B: British Waterways property portfolio

British Waterways is a public corporation which owns and maintains over 2,000 miles of canals, rivers and supporting infrastructure in England, Wales and Scotland. It owns a significant land and property portfolio alongside the waterways which assists British Waterways to deliver wider public benefits and urban regeneration. The study considered the parts of this portfolio in England and Wales.

British Waterways has achieved significant growth on its canal-side property portfolio. Under current economic conditions it is important British Waterways remains focussed on maximising gains from its property while also delivering excellence in management of the waterways. This will be enhanced by managing the canal-side property portfolio through a dedicated, wholly-owned subsidiary of British Waterways. The change will also increase clarity of British Waterways' current funding model. British Waterways and the Department for Environment, Food and Rural Affairs (Defra) will work closely with HM Treasury and Shareholder Executive to take forward this change, and on the company's long-term strategy which will consider the appropriate business model to provide a sustainable future for the waterways and ensure delivery of a wide range of public benefits

Box 3.C: Dartford Crossing

The Dartford-Thurrock River Crossing is part of the Strategic Road Network that connects the M25 across the river Thames to the east of London. The crossing carries nearly 150,000 vehicles a day. The crossing is made up of two road tunnels and the Queen Elizabeth II Bridge, a 137 metre high cable-stayed bridge.

The 2008 Pre-Budget Report announced widening the scope of the capacity study to include the potential to realise value for the taxpayer. The Department for Transport (DfT) recently concluded this study on the future need for additional crossing capacity in the Lower Thames area and this has been published on the DfT's website. The Department has announced it will look in more detail at the recommendations of the study, in particular to explore in more depth three possible options for providing additional crossing capacity.

The OEP team, working with the Department and the Shareholder Executive have considered the commercial options for realising value for the taxpayer. This work cannot be finalised until decisions are made on the requirement for future capacity and any legislation that specific options might require is determined.

As part of the next phase of capacity work, the Department will determine the best approach to realising value for the taxpayer from the existing crossings. The Government will bring forward proposals to realise value by Budget 2010 with progress reported at the 2009 Pre-Budget Report.

Box 3.D: Defence Storage and Distribution Agency (DSDA)

The Defence Storage and Distribution Agency (DSDA) stores, processes and distributes materials and equipment for the armed forces and industry, within the defence supply chain. Following a significant three year efficiency and business improvement programme it was recognised that DSDA had potential for further modernisation, rationalisation and could operate more effectively in a commercial manner exploiting its range of assets and skills in a wider market.

The OEP team has worked closely with DSDA and the Ministry of Defence (MOD) to identify the best business model to deliver its services whilst seeking to minimise its ongoing capital investment requirement.

A number of important actions are now being introduced from 1 April 2009, including:

- the consolidation of elements of the Joint Supply Chain (the DSDA plus British Forces Post Office and the Disposal Services Authority) into a single Integrated Provider Group (IPG) from 1 April 2009 in order to rationalise overheads and to exploit the synergies between the organisations; and
- the introduction of shadow internal charging, to make the costs of DSDA's activities more transparent to its internal customers and help strengthen its business model. This is expected to lead to more efficient use of its services and prepare it for further transformation.

DSDA has also completed a full review of its ongoing/future business requirements, which highlights opportunities for modernisation and business co-location. This will form the basis for a detailed assessment of its estate needs and the potential wider commercial exploitation of its infrastructure to be undertaken over the next three to four months.

The next phase of the process will include an evaluation of potential further commercial opportunities including:

- growing third party revenues;
- partnering;
- the potential disposal of surplus assets; and
- alternative methods of ownership to fund capital requirements and to grow.

The work will also include reviewing the boundaries, synergies and relationship between the IPG and the Defence Support Group (DSG) which provides a strategic in-house facility for the maintenance, repair and overhaul of major land and air platforms. This work will be completed by autumn 2009.

Box 3.E: Land Registry

Land Registry maintains and develops a stable and effective land registration system throughout England and Wales, providing the cornerstone for the creation and free movement of interests in land. Giving a state-backed security for title to registered estates and interests in land for the whole of England and Wales, and ready access to up-to-date and guaranteed land information, enables confident dealings in property and security of title. In addition, Land Registry produces property price reports and delivers a range of non-statutory added-value products and services. Land Registry is committed to providing high quality, cost-effective services which are delivered promptly to all customers.

A review of the business model was undertaken as part of the OEP. This concluded that in light of current market conditions and recognising the need to retain responsibility for the creation, recording and guaranteeing of title to land within Government, the following improvements to the operating framework of the business have been identified and will be delivered;

- realising significant efficiency savings through a programme which includes estate and operational rationalisation and market testing of support functions that will result in a more streamlined, resourceful organisation;
- developing opportunities for the provision of wider commercial services and products;
- identifying synergies with the functions and data requirements of other public sector bodies with a view to achieving efficiency improvements through greater collaboration; and
- exploring opportunities to accelerate these initiatives through joint ventures and/or outsourcing of activities to third party providers.

A further update is planned at the 2009 Pre-Budget Report.

Box 3.F: Met Office

The Met Office is a world-leading provider of weather forecasts and climate change modelling and advice to the general public, specialist customers throughout the public sector and an increasing number of private sector customers.

It is essential that the Met Office's unified approach to short, medium and long term forecasting and climate modelling, which is the most efficient and sophisticated in the world, is preserved. The Met Office also performs a number of key government roles, especially in international data collaboration and UK representation. In order to maintain the quality of its services it will require long-term investment and the freedom to develop its operations. There remains potential to expand commercial operations at the Met Office beyond those already provided, possibly through the introduction of private capital in some areas.

Over the coming months the project team will:

- work closely with the MOD as the owner department and HM Treasury to identify improvements to its business model, ownership structure and financial framework in order to reduce the administrative burden, maximise its development and to fully exploit the market opportunities open to it;
- work with other public sector bodies to achieve efficiency improvements through greater collaboration or transfer of functions;
- explore increased commercial activities, for example weather warnings to industry and helping business understand the impact of climate change;
- seek opportunities for private sector partners to develop specific services to complement the Met Office's business; and
- maximise operational freedoms and reduce bureaucracy in the interface between the Met Office and the MOD.

Box 3.G: Oil and Pipelines Agency (OPA)

The Oil and Pipelines Agency manages the Government Pipeline and Storage System, overseeing all aspects of its operation and maintenance to support UK defence needs and exploit surplus capacity. It is an important player in the UK fuel industry and infrastructure, which has changed significantly since it was set up, creating a need to develop and modernise.

The OPA, and the assets that it manages on behalf of the Ministry of Defence, have the potential to make a broader contribution within the downstream oil market to enhancing the UK's product distribution and storage infrastructure, thereby reinforcing the security of energy supply for the UK and adding to the resilience of important parts of the nation's economic infrastructure. This is constrained by current legislation, which will be reviewed and amended.

Doing so will also enable private sector users to make greater use of these assets, in particular the spare capacity, and therefore deliver improved value to the taxpayer.

The project team have concluded that there may also be scope to drive efficiencies by applying the OPA's expertise in the management of pipelines and fuel storage to a wider range and use of assets than at present.

As part of the programme, the project team are engaging in discussions across a number of government departments to determine how these opportunities can best be exploited in the short to medium term, to the UK's benefit, whilst supporting defence needs.

The next phase of the Operational Efficiency Programme will also explore whether there is a potential role for the private sector in the future financing, ownership or operation of some or all of these assets.

Box 3.H: Ordnance Survey

Ordnance Survey collects, maintains and publishes high quality and up-to-date geographical information for the whole of Great Britain. Ordnance Survey provides data and services to customers both directly and indirectly through its network of commercial partners. The Government is committed to stimulating innovation in the geographical information market, increasing competition where it would be beneficial to consumers and to making geographical data and services more easily available.

The OEP has concluded so far that Ordnance Survey needs to be more customer-focused and commercially driven. The Government is therefore publishing a new commercial strategy for the Ordnance Survey on their website. The new strategy balances the requirement to maintain the highest quality standards with the need to significantly enhance ease of access to geographic data and services for both commercial and non-commercial use.

The new strategy seeks to equip Ordnance Survey to thrive in and better support competition and innovation in a wider geographical information market that is being transformed by advances in technology. It is a significant and ambitious programme of change. The Government has set key milestones for delivery in 6 and 12 months' time and beyond, as well as a process for independent review and challenge of progress. If sufficient progress is not made to promote competition and innovation in these timescales, the Government will consider further reforms. Opportunities to accelerate the delivery of initiatives through introducing further commercial experience and capabilities will be fully explored over the coming year.

Box 3.I: QE II Conference Centre

The QE II Conference Centre is a purpose built conference centre located in Westminster in central London. It provides high quality conference facilities for national and international meetings for both government and private use.

Following the statement in the 2008 Pre-Budget Report, further work on the QE II conference centre has been undertaken. Although, in theory, the QE II conference centre could be disposed of now, this would be potentially at a significant discount to its underlying value. A more measured approach is required. The conclusions are, therefore, as a first step, to undertake a site development study within three to six months advised by a firm of property professionals. It will explore the opportunity of redeveloping the existing site, in a way that is sympathetic to planning considerations and current business operations. This could entail retaining the existing conference business for the foreseeable future. Marketing and disposal could take place at various stages depending on market evolution and prevailing risk and reward considerations, but at the latest by mid 2012.

Box 3.J: Royal Mint

The Royal Mint manufactures all UK circulating coins for the UK Government, sells coins and blanks to overseas governments, and sells commemorative coins to the public. It also produces ceremonial coinage and medals.

The Royal Mint has demonstrated success over the past few years through an increasingly diversified and commercial strategy. The business' performance has improved significantly. As well as continuing to manufacture circulating and commemorative coins for the UK, it has won a number of important overseas contracts and enhanced productivity. Its performance remains robust in these challenging times.

In line with this success, the Government's priority is to facilitate further growth to better secure the sustainable success of the business for its staff, customers, and also to secure value for money for the taxpayer.

There is now a strong case for the introduction of private capital into the Royal Mint. This will best allow the business to pursue further commercial opportunities and grow, taking advantage of the resources and opportunities which come from moving outside the public sector. It will cement the Royal Mint's position as a high-quality British manufacturing success, competing and winning in global markets.

In the 2004 Pre-Budget Report, the Government announced an intention to vest the Royal Mint as a company. Work on vesting was halted in 2006, due to the need to tackle the performance of the business. Given the recent developments in the business outlined above, the Mint will now recommence work on vesting, with the intention of completing the process later this year.

Ongoing work

3.13 The nature of the asset studies, and the potential for identifying new candidates, means that work on this aspect of the Operational Efficiency Programme needs to be ongoing. This is necessary to ensure that:

- the full range of options for each asset can be properly considered, including the appointment of relevant advisors;

- once the most appropriate option for progression has been selected, that adequate time is built in to prepare the organisation for change, and to engage with the appropriate stakeholders;
- there is sufficient time to oversee the implementation of the changes identified; and
- in addition, there needs to be an ongoing wider challenge to government in relation to the assets it holds, and on the way in which it manages them efficiently.

Recommendation 3.1: There should be an ongoing six-monthly review exercise, carried out across government and the public sector, to identify new assets for consideration. This would be tied in to Pre-Budget Report and Budget announcements each year, together with an update on progress made with the existing portfolio of assets.

3.14 The role of the Shareholder Executive, working with the backing of the HM Treasury, Departments, and other responsible public sector entities, would remain central to the identification of these assets and in leading the work going forward.

Recommendation 3.2: Assets examined by the Programme should be reviewed by individual project teams coordinated by the Shareholder Executive with the full support of HM Treasury, the responsible department or public sector entity, and the relevant management. These teams should:

- consider whether the most efficient use is being made of the assets from the point of view of business model, capital structure, organisational and customer requirements, including whether the current position within the public sector is appropriate;
- bring forward for decision-making the findings of these studies;
- once decisions are made, oversee the implementation stage to ensure that plans are properly converted to appropriate action;
- where and when appropriate, lead disposal and/or partial disposal activity with departments; and
- report progress publicly, to be tied in to Pre-Budget and Budget processes.

3.15 As part of this work it will be important for the Government to consider addressing and bringing forward any necessary legislation, so as to enable relevant changes to assets to be made in a timely manner.

3.16 This will be supported by the package of accountability and performance management mechanisms, described in the Executive Summary of this document, that ensure that departments and other parts of the public sector are challenged on their efficiency performance at the highest levels.

Further assets

3.17 In line with the recommendations above, and to ensure continued momentum, a further short-list of assets has been identified for consideration over the coming months. Studies into these assets will be pursued in the same way – they will be collaborative in their approach, will consider the full set of appropriate options and will have no pre-conceived outcomes.

3.18 As part of the next phase of OEP work, the Shareholder Executive will be working with departments and agencies to consider, for a number of government assets, the potential for

alternative business models, commercialisations, new market opportunities and, where appropriate, alternatives to public ownership. The work includes:

- looking at the synergies between the Defence Animal Centre and the animal operations of other public sector organisations to establish whether there is scope for further efficiencies;
- reviewing the status of Defence Estate's Security Services Group, which provides physical security advice and delivery across central government;
- extending work on the Defence Storage and Distribution Agency to review the boundaries and relationship with the Defence Support Group, which provides a strategic facility for the maintenance, repair and overhaul of major land and air platforms;
- working with the Department of Health on NHS Professionals' transformation to a limited company status and examining ways to best deliver value to the taxpayer going forward. Also working with the Department of Health to explore options to bring further commercial disciplines to other NHS and Department of Health organisations;
- continuing to encourage major trust ports to consider the best ownership structures for the ports and, where they consider it appropriate, to bring forward voluntary proposals for change in line with current legislation;
- studies will be undertaken examining the potential for further commercialisation opportunities for the National School of Government and the Central Office of Information. The Programme will also cover the Emergency Planning College, which has already embarked upon the route to commercialisation and is currently in the final stages of a competitive tendering exercise to secure a new commercial partner;
- working with the Olympic Park Legacy Company to maximise the opportunities available at the Park and the Olympic venues, to ensure that they become treasured assets for the capital, for local communities and for the country as a whole;
- considering how the Public Forest Estate in England can generate greater commercial benefit – including from new and innovative opportunities – while respecting the Government's continuing commitment to public-sector ownership of and involvement in the management of England's woodlands and continuing to deliver social and environmental benefits; and
- working with the relevant Departments and Ofcom to realise opportunities to achieve efficiencies in the management of public sector spectrum holdings, building on the progress and work programme set out in the Forward Look 2009.

Box 3.K: Forward Look 2009

The Government has recently published *Forward Look 2009: a Strategy for the Management of Major Public Sector Spectrum Holdings*, which outlines the significant progress made in implementing Professor Cave's 2005 Audit of Public Sector Spectrum Holdings since publication of the last *Forward Look* in 2007. Notably, the MOD has published a strategic plan for defence spectrum management, including details of its plans for the future release of defence spectrum. The *Forward Look 2009* also outlines the work programme for achieving further progress, including continuing technical work to identify future opportunities across the public sector and Ofcom's proposals to extend the application of Administrative Incentive Pricing amongst public sector spectrum use where appropriate.

3.19 Progress on these further assets will be reported in the 2009 Pre-Budget Report, and will also take into account market conditions and the views of relevant stakeholders.

3.20 Departments are also working to achieve efficiencies on other government assets:

- the Government continues to explore options for realising value from its stake in Urenco;
- the Government is implementing the outcome of the recent review of the Fire Service College to ensure the College maximises the use of its assets and commercial opportunities; and
- UKAEA announced on the 30th March to offer for sale its commercial arm, UKAEA Limited.

Conclusions

3.21 This workstrand has shown that it is necessary for government to challenge itself on an ongoing basis, in relation to the assets it holds, and to demonstrate to taxpayers that it is managing its assets in the most efficient manner. The current economic context makes demonstration of this particularly important.

3.22 There needs to be a change of mindset across government, whereby departments are required to demonstrate that they are maximising the efficiencies and the commercialisation opportunities for all of the assets they hold, and that they are doing so on an ongoing basis.

3.23 Regular external challenge to departments, provided through the Shareholder Executive working with HM Treasury, should continue to be core to initiating change across government.

3.24 An ongoing role for the Operational Efficiency Programme's asset studies, led by the Shareholder Executive in conjunction with HM Treasury and the relevant departments, is therefore proposed. Reports on progress on existing assets and on the identification exercise for new assets should be provided on a six-monthly basis.

4

Property

Advisor: Lord Carter of Coles

Lord Carter of Coles is a Labour Peer who, in addition to a career in business, has advised the Government on a wide range of issues and has chaired a number of government reviews. In 1985, he founded Westminster Health Care which he built into a leading health care provider and sold in 1999. He is a private investor and director of companies in the fields of insurance, healthcare and information technology. He was Chair of Sport England from 2002 to 2006, was a member of the Home Office Board and of HM Treasury's Productivity Panel. He was assisted in this workstrand by Lord Hart of Chilton, Sir Christopher Howes, Geoff Gillham, Simon Roberts and Mike Whittles.

Summary recommendations:

- 1 the Government should create a new central property function to drive efficient use of property across the whole of the public sector. It would be a small strategic resource, which would work closely with HM Treasury teams as well as with organisations across the public sector and, where necessary, draw on private sector expertise. Its main roles would be to provide:
 - a strategic overview of rationalisation and disposal;
 - property standards and advice; and
 - coordination and oversight of property performance.
- 2 in producing new departmental spending plans, HM Treasury should take steps to ensure that departments make choices in their capital investment plans which deliver a rationalised and more efficient estate. The new central property function would assist HM Treasury teams in this process;
- 3 the public sector should be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular, organisations are encouraged to publish information about the core, surplus, and intermediate property assets held. All local public services should also be encouraged to follow best practice and use the audit agencies' value for money indicators, which should be closely linked to the Audit Commission's 'use of resources' assessment; and
- 4 HM Treasury and Communities and Local Government should together investigate whether a depreciation mechanism for local authorities and other local delivery bodies would be workable, considering in particular the advantages and disadvantages of a depreciation charge and any potential impact on the public finances.

4.1 This workstrand has found that there is significant scope for public sector property and land to be used more efficiently and effectively. The recommendations for strengthening accountability and performance management, set out in the Executive Summary of this

document, are a crucial part of the new approach, outlined in this chapter, for improving the efficient use of property and are integral with the property-specific recommendations set out in paragraph 4.5 of this chapter.

4.2 Over the next 10-year period, this workstrand estimates the potential for savings from improved efficiency to be around £20 billion in receipts from property disposals (excluding council housing), and savings in running costs of up to £5 billion a year by the end of that period. Departments are likely to need to prioritise investment in order to pump-prime the rationalisation of their estates.

4.3 Disposals need to be carefully planned to maximise value for the public sector, especially in the light of current property market conditions.

4.4 Cultural and managerial change is key to achieving a step-change in performance. Some organisations have already substantially met this challenge, and others can learn from them. Principles of good practice need to be applied consistently across all parts of the public sector.

4.5 To achieve the new approach to property management, this workstrand recommends:

- a new central property function to drive efficient use of property across the whole of the public sector;
- steps to facilitate investment in property transformation; and
- specific actions to achieve change across the wider public sector.

The public sector estate

4.6 Obtaining and compiling data about the size of the total estate owned and used by the public sector is challenging. From limited available data, and drawing on a number of different sources, the workstrand has established the following picture.¹

4.7 According to the Office of National Statistics, the public sector's property assets have a book value of £370 billion.² This represents about £6,000 worth of assets for every UK resident.³ The UK's local government property (including council housing) accounts for two thirds of this total – around £240 billion – and central government and public corporations for the remaining one third – £130 billion.⁴

4.8 This asset base is growing. Public Sector Net Investment (the resources invested in the creation of new capital assets, including property) was about £30 billion for 2007-08.⁵

4.9 From the 2007 National Asset Register, which itemises all central government freehold assets with a book value of over £1 million, the sectors with the largest property holdings are health, with around £35 billion,⁶ and defence with around £18 billion.⁷

4.10 Local government's estate is made up of a diverse portfolio including schools, housing, offices and leisure facilities. Unlike other parts of the public estate, local authorities (including counties, metropolitan boroughs and districts) are partly funded by central government and

¹ Reliable and consistent data on the property assets owned and used by the public sector is difficult to obtain because there is no one comprehensive, detailed and authoritative record. Organisations' accounts provide information on assets held, and some bodies also maintain estate databases, but given the vast number of public sector organisations, it was not feasible to compile a complete picture from these.

² *United Kingdom National Accounts: The Blue Book*, Office of National Statistics, 2008.

³ *National Statistics*, www.statistics.gov.uk

⁴ *United Kingdom National Accounts: The Blue Book*, Office of National Statistics, 2008.

⁵ See 2008 Pre-Budget Report.

⁶ This includes the Department of Health, National Health Service, Foundation Trusts and Primary Care Trusts in England.

⁷ *National Asset Register*, HM Government, 2007.

partly from council tax revenue. They are also able to raise capital through borrowing, subject to affordability as set out in the prudential code.⁸

4.11 The book value of property does not give a good indication of the market value. For example, the net book value of council housing in England is around £100 billion, while the current market value is estimated to be over twice as much.⁹ By contrast, for operational property assets such as hospitals or courts, the net book value is often much higher than their estimated market value.¹⁰

4.12 In order to assess the potential size of disposal receipts, this workstrand has made a conservative estimate of the market value of public sector property. Excluding council housing, and taking account of current property market conditions, the potential market value of the estate is estimated to be in the region of £100 billion. This figure has been used as the basis for estimating the level of receipts achievable through property disposals.

4.13 The public sector estate has estimated annual running costs of more than £25 billion¹¹ – equivalent to five per cent of total public sector current expenditure.¹² This includes the cost of running the freehold estate as well as leasehold and Private Finance Initiative (PFI) property.

4.14 In considering efficiency, an important measure is density of occupation or use. For the public sector, reliable information is available only for the central government office estate, where almost 14.5 square metres are used per full-time equivalent (FTE) employee, but good practice in public and private sector organisations shows that this can be reduced by a third.¹³ At present comparable information is not readily available for other parts of the public sector estate.

Approach

4.15 This workstrand has engaged with property experts, chartered surveyors, corporate real estate advisors and key stakeholders from the public and private sector, including representatives of central and local government. In addition, existing research, published documents and studies were reviewed and an analysis was undertaken of different countries' approaches to the management of public sector property. A number of more detailed studies, e.g. into the NHS London estate and into a section of the Ministry of Defence's property and land holdings, were also carried out, working closely with those organisations. The evidence gathered from these activities forms the basis for the analysis and recommendations contained in this chapter.

4.16 This workstrand has considered the property opportunities and challenges for the whole of the public sector. The majority of public services, though partially or totally funded centrally, are delivered through wider public sector organisations over which central departments have limited control.

⁸ The Prudential Code for Capital Finance in Local Authorities has been developed by the Chartered Institute for Public Finance and Accounting (CIPFA). More information is available at www.cipfa.org.uk

⁹ For net book value see: *Local Government Financial Statistics England, No18*, Communities and Local Government, 2008. A potential market value of around £260 billion is derived using 2006 English House Conditions Survey valuations (which are the most recent available), based on sale of each individual property on the contemporary housing market (vacant possession at contemporary market prices), which are applied to the around 2 million properties that make up English council housing stock. The average house price reduction of around 10 per cent since 2006 (Source: average Halifax and Nationwide house price growth rates in 2006 and 1st quarter 2009) suggests a current market value in the region of £234 billion.

¹⁰ The net book value of specialised property assets is normally based on Depreciated Replacement Cost, the estimated cost of replacing the functions of the property asset in question and providing the same service potential, adjusted to take account of obsolescence. The estimated market value is normally based on their alternative use.

¹¹ OEP estimate based on a number of sources. Running costs normally include rent, rates, utilities and Facilities Management (FM) costs. For PFI buildings, these costs are included in a 'unitary charge', which includes payments to cover the cost of capital expenditure incurred in building the property (and associated financing costs), the cost of maintaining the building and the facilities management services costs.

¹² See 2008 Pre-Budget Report.

¹³ Based on information from OGC, various private sector organisations and professional bodies including the Royal Institution of Chartered Surveyors (RICS) and the Association of Chief Estates Surveyors and Property Managers in the Public Sector (ACES).

Quantifying the potential benefits

4.17 The workstrand has estimated the potential benefits in terms of disposal receipts and running costs by using the limited available data and drawing on evidence and assessments from property stakeholders regarding the potential savings achievable for different parts of the estate.

4.18 The analysis is also supported by specific studies. For example, a study undertaken in partnership with NHS London indicated that there was significant potential for efficiencies in the health estate although this workstrand acknowledges the significant challenge to achieving them (see Box 4.A). This analysis could be developed further and should not be used to provide a final assessment of the efficiency of particular trusts.

Box 4.A: Study of the use of NHS property in London

The property strand of the OEP worked in partnership with NHS London to examine NHS property use in London focusing mainly on NHS acute trusts.

The study identified the main drivers of space usage within acute trusts and then developed a benchmarking model to calculate how much space an acute trust requires given the level and type of activity that it undertakes. This model enabled comparisons to be made between trusts with a similar profile.

At the same time the model controlled for the quality of healthcare provision by including only those trusts that had been rated 'good' or 'excellent' by the Healthcare Commission in relation to quality of service. It also made an adjustment for the Government's current policy of raising service quality through the provision of single-bedded wards. In this way the methodology compares trusts with what is currently being achieved by other comparable trusts offering at least a 'good' quality of care.

By applying this methodology to all good and excellent rated trusts across London, the study concluded that, on average, these trusts could deliver their current level of activity and quality with about 18 per cent less space.

4.19 The recommendations this workstrand makes should produce substantial savings as follows:

- around a 30 per cent reduction in central government office accommodation through the reduction of space occupancy from 14.5 to 10 square metres or better per FTE could be achieved by adopting best practice (including desk sharing). This could reduce running costs for this part of the estate by £1 billion a year;
- for the remainder of the estate, property assets (excluding council housing) could be reduced by around 20 per cent over an initial 10 year period, reducing running costs (including rent from leasehold buildings) by between £2 billion and £4 billion a year;
- for the retained estate, running costs could be reduced by around £0.5 billion a year. A further £0.5 billion a year could be saved from collaborative procurement of facilities management (FM), which is included in the savings figures in Chapter 2;

- for the whole of the public sector freehold estate (excluding council housing) £20 billion in disposal receipts over an initial 10 year period;¹⁴ and
- the reduction of the estate would also bring significant improvements to government's performance on carbon emissions reduction, including making a large contribution to the achievement of the government's carbon emissions targets for the central office estate.¹⁵

4.20 In total, this would mean:

- compared to an estimated 2007-08 running costs of approximately £25 billion, savings of up to £1.5 billion a year plus a further £0.5 billion from collaborative procurement of FM by 2013-14. This rises to a total of around £5 billion by the end of a 10 year period (excluding energy efficiency savings); and
- proceeds from sales in the region of £20 billion (excluding council housing) over an initial 10 year period.

4.21 In order to realise these savings, departments are likely to need to invest in their estate. The majority can be funded from efficiency savings, but initially departments may need to prioritise significant up-front investment.

4.22 Potential rationalisations and savings will not be spread equally across the public sector and organisations' previous performance needs to be taken into account. Some organisations have already taken significant steps to rationalise their estate and its running costs. Following Budget 2009 these calculations will be refined in order to create tailored and intelligent targets to inform new departmental spending plans (see paragraph 4.54).

The principles for efficient management of property

4.23 The following are suggested as principles of efficient management of property across the public sector:

- at the most senior and strategic level, management should provide effective challenge to their organisation's use of and demand for property, supported by appropriate expertise;
- organisations should have strong incentives and controls so that they fully recognise the costs associated with property, and treat it appropriately as part of their strategic planning process, ensuring that property use is aligned with business objectives;
- there should be good data and guidance to allow the costs and use of property to be quantified and understood, to ensure that property use is in accordance with best practice standards; and
- organisations should work collaboratively, managing and sharing property across organisational boundaries, and achieving economies of scale to the fullest extent possible. Where operations are dispersed across the country, "hubs" at regional and local level – where different parts of the public sector could share property – would maximise the efficient use of property and enhance the delivery of joined up public services.

¹⁴ The 2004 Spending Review established a target endorsed by Sir Michael Lyons, to dispose of £30 billion of assets by 2010, with £24 billion to come from local government, and the remaining £6 billion from central government. Disposals under this target included property, as well as other fixed assets and council housing, which made up a significant share. The latter two are excluded from the OEP property strand's estimate for disposals. The OEP has calculated an estimated market value for use as a basis for estimated disposal receipts from the estate, rather than using the book value.

¹⁵ The government's targets for Sustainable Operations on the Government Estate (SOGE) were launched by the Prime Minister in June 2006. For more details see www.defra.gov.uk

4.24 Although these principles are common to all organisations, and certain actions will be required centrally to raise standards across the country, this workstrand does not seek to impose uniform solutions across the public sector. The nature of the mechanisms by which these common principles are applied may differ to take account of the diversity of the public sector and the fact that local bodies will be best placed to decide how to optimise implementation locally.

Analysis

4.25 Many of the findings support those of previous reports, including by Sir Michael Lyons, the National Audit Office and the Audit Commission.¹⁶ This workstrand builds on these reports and makes recommendations which would firmly embed the above principles in the public sector.

Senior and strategic management

4.26 Strategic management of property at a senior level within organisations, supported by the expertise of property professionals, is one of the key principles for ensuring a well-managed and efficiently used estate.¹⁷ It would also drive some of the other key principles identified, such as the availability of good data (which will in turn enable better management) and collaboration between organisations.

4.27 The efficient management of property requires engagement at a senior and strategic level so that:

- property is clearly linked to a wider business strategy and connections are made between property and other business areas, in particular information technology, productivity, sustainability and the working patterns of employees (e.g. flexible working);
- demand for property is challenged, and is informed by long-term plans for meeting forecast demand; and
- investment decisions which will lead to a more efficient estate over the longer term are given priority.

Box 4.B: Ministry of Defence

The Ministry of Defence (MOD), which has a large, diverse and highly dispersed estate, has a number of elements of good estate management. It has a discrete management function, Defence Estates (DE) responsible for managing the entire estate, separated from the customer demand for property and land, i.e. the centre of the department, the three Services (Army, Royal Air Force, Royal Navy) and the equipment procurement and logistics organisation. The MOD's estate objective is rationalisation towards fewer larger sites, and it has proactively published an Estates Development Plan setting out strategic plans to 2030 including the identification of core and surplus sites. However, DE's capacity to make and carry through strategic decisions across the whole of the estate is limited as major change programmes and investment funding are controlled centrally by MOD and are subject to competing defence priorities and resources.

¹⁶ *Towards better management of public sector assets*, Sir Michael Lyons, December 2004; *Hot Property*, Audit Commission, April 2000; *Improving the efficiency of central government's office property*, Report by the Comptroller and Auditor General, November 2007.

¹⁷ This was advocated by Sir Michael Lyons, who called for a stronger "strategic profile" of public sector asset management. See *Towards better management of public sector assets*, Sir Michael Lyons, December 2004.

4.28 Following the Lyons review,¹⁸ departments are producing Asset Management Strategies – for HM Treasury – and also Property Asset Management Plans, as part of the Office of Government Commerce (OGC) initiative High Performing Property (HPP).¹⁹ The HPP initiative also introduced board-level property champions in each department. Yet, a review of the asset management strategies and plans by this workstrand showed that their quality is highly variable with little evidence that they were integrated with departmental business planning or included clear implementation plans.

4.29 Importantly, the OGC’s remit – and therefore the HPP initiative – does not extend to much of government’s operational estate (e.g. NHS, educational facilities, armed forces accommodation, research laboratories) or local government, and it has few formal sanctions available to it. In this way initiatives like the introduction of property champions can have only limited impact, and there remains great potential for more widespread board-level engagement on property issues across the public sector.

4.30 There is limited property expertise at the right level within many public sector organisations and limited capability to act as skilled commissioners of estates expertise from outside providers. Senior management needs to be able to draw on such expertise in planning and making property decisions. A 2006 study by the University of Leeds found “good examples of property assets being managed strategically but that expertise is confined to less than 25 per cent of CCG (central civil government) organisations.”²⁰

4.31 Where good value has been achieved through a strategic approach to property management, for example through the negotiation of large PFI contracts for the property portfolios of the Department for Work and Pensions and of Her Majesty’s Revenue and Customs,²¹ high quality expertise has played a crucial part in this success.

4.32 The benefits of senior management engagement are illustrated in Box 4.C.

¹⁸ *Towards better management of public sector assets*, Sir Michael Lyons, 2004.

¹⁹ *High Performing Property: Routemap to Asset Management Excellence*, Office of Government Commerce, November 2006.

²⁰ *Improving Property Asset Management in the Central Civil Estate*, University of Leeds, April 2006.

²¹ For further details see *Accommodation Services for the Department of Work and Pensions: Transfer of property to the private sector under the expansion of the PRIME Contract*, NAO, January 2005 and *PFI: The STEPS deal*, NAO, May 2004.

Box 4.C: Hampshire County Council

In Hampshire, the Chief Executive of the County Council – who is also the lead officer for the 74 local authorities in the South East of England in respect of property improvement and efficiency – provides strong leadership for the management of the county’s property portfolio of over 5000 buildings. By applying good property management practices they have been able to:

- realise over £300 million from the disposal of surplus land and property, which has been reinvested in other capital projects;
- put into place a rationalisation plan to cut the number of county council office locations from 64 to 12, by increasing utilisation rates as well as introducing flexible working patterns; and
- in a specific case, convert a former office block and multi-story car park to allow the number of staff it accommodates to double to over 1200. This will decrease energy consumption of the building by 50 per cent and – through more intensive use of communal areas as well as increased staff accommodation – increase the utilisation by 75 per cent.

A new central property function

4.33 This workstrand highlights the need for a new central property function to provide strategic leadership and support across the public sector. This would extend beyond OGC’s current remit to include all public sector organisations and would work with departments to help with rationalisation of their estate, including identification of their surplus and underutilised property assets. It should assist individual organisations across the public sector, when requested, in the delivery of efficient management of property including support for developing strategic property plans, and helping with complex projects and procurements.

Recommendation 4.1: Government should create a new central property function to drive efficient use of property across the whole of the public sector. It would be a small strategic resource, which would work closely with HM Treasury teams as well as with organisations across the public sector and, where necessary, draw on private sector expertise. Its main roles would be to provide:

- a strategic overview of rationalisation and disposal;
- property standards and advice; and
- coordination and oversight of property performance.

4.34 The function would not take responsibility for management of public sector property in the style of the former Property Services Agency. Ownership and management of property would remain the responsibility of individual organisations. Rather it would be a small strategic resource at the centre of government, which would work closely with departments and property stakeholders across government – for example, the OGC in relation to its existing civil estate remit – as well as with professional bodies such as the Royal Institution of Chartered Surveyors.²² Where appropriate it would commission work from the private sector.

²² The Royal Institution of Chartered Surveyors (RICS) have already produced the *RICS Public Sector Asset Management Guidelines: A guide to best practice* in 2008 in conjunction with government departments and other organisations, and are working with Communities and Local Government to develop similar guidelines for local authorities. For more details see www.rics.org

4.35 Where rationalisation or efficiency gives rise to significant opportunities for land developments, choices need to be made between the desire to maximise the receipts from disposal and using the surplus land for social benefit, e.g. affordable housing. The central property function needs to work with the Homes and Communities Agency (HCA) to ensure that public sector organisations collaborate in the early identification and planning of significant land development to ensure that these different objectives are addressed.

4.36 At local level, more needs to be done to disseminate existing examples of good practice in local government, such as that shown in Box 4.C. It will be important to ensure that mechanisms are developed to encourage local authorities that are performing strongly to share and disseminate good practice amongst their peers, for example through a national programme coordinated by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Asset Management Network and the Regional Improvement and Efficiency Partnerships (RIEPs).²³ Locally elected councillors also play a key role in driving forward the efficiency agenda in councils. Their engagement and leadership is vital to ensure that the significant potential efficiencies across the local authority estate are realised in practice.

Incentives and controls

4.37 A strong system of incentives and controls is key to efficiency. However, there is evidence that current incentives are not sufficiently effective.

4.38 The current framework of incentives enables government departments to reinvest the receipts from sales of surplus assets in new capital projects (previously sales of surplus assets were simply returned to central budgets).²⁴ It also includes two charges (depreciation and a cost of capital charge) which measure the opportunity cost of holding capital assets (these changes formed part of the introduction of resource accounting and budgeting).

4.39 Both measures, together with the normal costs of occupying property, have had limited effect at a time when, for many departments, capital budgets have been increasing considerably. Many sectors have been the focus of a deliberate effort to increase capacity and invest in physical infrastructure, partly to address legacies of under-investment, which has meant that there has been less incentive to dispose of surplus property.

4.40 The impact of the two charges has been further weakened because:²⁵

- depreciation and cost of capital charges are non-cash²⁶ ring-fenced costs in departmental budgets, the effect of this ring-fence is that savings may not be re-deployed to other areas of spending without explicit HM Treasury approval;²⁷ and
- although recorded in local authority accounts, in most cases depreciation charges do not directly impact on council tax levels, reducing the incentive effect of these charges.

4.41 As an additional incentive, HM Treasury has introduced asset disposal targets, based on its assessment of the overall level of potential surplus for the public sector.²⁸ These targets have been effective in delivering asset disposals. But they have been of a "top-down" nature, and

²³ The Asset Management Planning (AMP) Network was set up in September 2000 as a partnership between CIPFA and FPS (Federation of Property Societies) to support local authorities, together with police and fire authorities in developing their approaches to Asset Management and Capital Investment Strategies. For more details see www.cipfaproperty.net.

²⁴ For further details see *The Economic and Fiscal Strategy Report*, 1998 and the Comprehensive Spending Review 1998.

²⁵ For further details see: *Alignment (Clear Line of Sight) Project (Cm 7567)*, HM Treasury, March 2009.

²⁶ Depreciation and cost of capital do not currently score (or do not score in the same way as in departmental budgets, accounts or estimates) in the National Accounts. As a result, these items are ring-fenced within resource budgets in a separate 'non-cash' budget, to protect the overall fiscal position by preventing funds from being switched into other expenditure (termed 'near-cash').

²⁷ *Consolidated Budgeting Guidance 2009-10*, HM Treasury.

²⁸ The 2004 Spending Review established a target to dispose of £30 billion of assets by 2010, with £24 billion of this to come from local government.

now need further refinement in order that they can be tailored to individual departmental circumstances and adequately reward efficient management.

Creating stronger incentives and controls

4.42 To some extent, more constrained capital and revenue settlements than in the past may provide additional incentives for property sales. But to deliver efficiencies in the medium term, departments have to make up-front investments that allow them to build and move to more efficient estates. They need to be strongly encouraged to make these investment choices.

4.43 HM Treasury teams routinely scrutinise and challenge departments' performance and future plans as part of a continual drive to improve value for money. These discussions are most intense during the negotiation of departmental spending allocations. This process needs to be extended, and supported, so that it takes into account departments' previous performance on property, and sets the capital spending allocation so that it drives greater efficiency.

4.44 HM Treasury teams will need better data on departments' property performance, enabling them to provide a powerful challenge to departments. This was recognised by Sir Michael Lyons in his review of public sector assets.²⁹ The new central property function would coordinate the data required by HM Treasury.

4.45 The central property function (see paragraph 4.33) would also challenge departments in identifying underutilised and surplus assets, and would oversee the implementation of asset disposals across government. It would also provide assistance with complex and major property transactions (including projects where different public sector bodies cooperate).

Recommendation 4.2: In producing new departmental spending plans, HM Treasury should take steps to ensure that departments make choices in their capital investment plans which deliver a rationalised and more efficient estate. The new central property function would assist HM Treasury teams in this process.

4.46 The workstrand recognises that the current depreciation and cost of capital mechanisms are ineffective and agrees with the recommendations of HM Treasury's Clear Line of Sight project.³⁰ These include:

- HM Treasury working with the Office for National Statistics to remove the need for the current ring-fence around depreciation in departmental budgets.³¹ This will provide a greater incentive on departments to reduce depreciation costs through better property management as any savings could be redeployed to fund other priorities;
- the removal of the existing non-cash cost of capital charge from departments' budgets;³² and
- allowing cost of capital charging to be retained within departmental families (the organisations that central departments sponsor). Evidence from the Clear Line of Sight project has shown that cost of capital charging may have an incentive effect

²⁹ *Towards better management of public sector assets*, Sir Michael Lyons, 2004.

³⁰ For further details of the proposals for change, see *Alignment (Clear Line of Sight) Project (Cm 7567)*, HM Treasury, March 2009.

³¹ This reflects the fact that the Office for National Statistics currently uses its own model to determine economy-wide, and public sector, depreciation data, rather than using the data collected by HM Treasury and departments in accordance with GAAP (Generally Accepted Accounting Principles). This means that, in National Accounts, GAAP depreciation is subtracted from public spending totals and the ONS depreciation measure is added in.

³² If the current cost of capital charge were made a near-cash cost at a departmental level it would create a fiscal risk by allowing departments to increase real spending by more than expected and by creating a significant new misalignment between the accounts, estimates and budgetary frameworks.

within departmental families as those organisations have the freedom to reallocate savings from a reduction in such charges into other parts of their budget.

4.47 Similar action should be taken to ensure that the financial frameworks within the wider public sector also create incentives on organisations to make efficient use of the property they hold. Local government has already taken steps towards depreciation charges for new assets funded by prudential borrowing. Consideration should be given to extending the impact of depreciation charges for local authorities and other relevant local delivery bodies to incentivise them to focus on the efficient management of their existing asset bases.

Recommendation 4.3: HM Treasury and Communities and Local Government should together investigate whether a depreciation mechanism for local authorities and other local delivery bodies would be workable, considering in particular the advantages and disadvantages of a depreciation charge and any potential impact on the public finances.

Good data and guidance

4.48 Efficient management is dependent on the availability of good information and the ability to interpret it meaningfully and use it effectively. In the case of property management, good data would inform senior management, and help ensure that property is given due consideration at a strategic level, as acknowledged by the NAO.³³

4.49 For example, property running costs are often not clearly identifiable in published accounts, and are recorded differently between organisations, with variations in how costs are defined and analysed. The reliability of existing data can also vary, suggesting that data collection requires careful oversight and guidance.

4.50 Several databases containing property information, and a number of initiatives aimed at improving measurement and driving performance,³⁴ are already in existence across the public sector. There are, however, no common standards or definitions for these datasets, which therefore limit their usefulness. This workstrand advocates a more considered approach to datasets and key performance indicators (KPIs) including benchmarks (by type of property e.g. administrative offices, courts, acute health sector) in order to facilitate the efficient use of property.

4.51 It is important that property data requirements and standards include consideration of sustainability. The workstrand found that there was some inconsistency between the assessment of more efficient use of property and government sustainability targets.³⁵ These targets are currently under review. It is important that any new energy efficiency target is aligned with more efficient use of the government estate, for example by changing the target so that it is measured with reference to FTE employees rather than square metres of space.

4.52 The reporting of performance against property benchmarks, such as the use of office space per FTE employee, is mandatory for the central civil administrative estate.³⁶ Elsewhere, organisations with operational estates have also developed benchmarks to improve their performance. For example, the Higher Education Funding Council for England has shown how benchmarking can be used for educational institutions (see Box 4.D). This workstrand has also

³³ *Improving the efficiency of central government's office property*, NAO, November 2007.

³⁴ The Electronic Property Mapping Information Service (e-PIMS) database, established by the OGC, is used to record property information for over 145 organisations.

³⁵ See footnote 15 in this chapter.

³⁶ OGC has responsibility for the central civil estate. This comprises the property required by The Executive to discharge its functions. The definition of the civil estate is derived from the 1996 Efficiency Scrutiny of the Civil Estate.

been very encouraged by the steps the Department of Health is taking to develop benchmarking for the NHS acute sector's estate, and supports these developments (see Box 4.E).

Box 4.D: Use of comparative data to improve performance for Higher Education estates

The Higher Education Funding Council for England, along with the other UK higher education funding bodies, is supporting the use of estates data to enable Higher Education Institutions (HEIs) to measure and compare the efficiency and effectiveness of their estate. Within this the HEIs can select groups of similar HEIs for comparison.

IPD Occupiers, specialists in property performance measurement, helped to develop and runs the Estate Management Statistics (EMS), collecting data from institutions, verifying it and distributing it to all participants. All the UK's institutions currently participate even though the use of the system is voluntary. The 2007 EMS annual report has concluded that in terms of space management a significant improvement has been achieved between 2001-02 and 2005-06, with the amount of non-residential space per full-time equivalent student in English HEIs falling by about 12 per cent to 7.9 square metres.³⁷

Box 4.E: The development of benchmarks for the NHS acute sector

The Public Value Programme (PVP)³⁸ and the new NHS Premises Assurance Code (a new framework for managing property) are focused on improving utilisation of the NHS estate in order to increase efficiency and release savings. The most important developments are:

- new property benchmarks for the acute sector, using existing data, to measure the performance of trusts providing acute hospital services; and
- incentives for NHS organisations to review property performance and take action if performance is poor.

Benchmarking data would allow trusts to compare their property utilisation costs with those of other providers, and also enable commissioners of health services to understand which providers are relatively more efficient. Providers who are less efficient will be under pressure to reduce costs in order to remain competitive. These developments would be enhanced if they were linked with the outputs from the study in London (see Box 4.A).

The approach should be extended beyond the acute sector to primary care, mental health and ambulance trusts.

4.53 The five audit agencies and CIPFA have already done much work to develop benchmarks.³⁹ These cover the whole public sector, including local government and activities undertaken by local authorities in partnership with other local delivery bodies.

Intelligent targets and performance information

4.54 The availability of good information about the performance of property should allow the setting of tailored "intelligent" targets to achieve a more efficient and effective estate. This

³⁷ HEFCE and IPD occupiers. See www.hefce.ac.uk

³⁸ The Public Value Programme was launched at Budget 2008 to investigate the potential for reforms that will achieve savings and better value for money in key areas of public spending.

³⁹ *Value for Money in public sector corporate services*, Audit Commission, National Audit Office, Northern Ireland Audit Office, Wales Audit Office and Audit Scotland, May 2007.

information would enable HM Treasury to allocate funding so that it rewards good performance and encourages departments to invest in a more efficient estate.

4.55 The central property function would advise on the setting of intelligent targets and help develop the necessary benchmarks and performance standards. It should work closely with HM Treasury teams, providing information and expertise, so that the targets could be incorporated into departmental spending plans.

4.56 The central property function should set clear guidance to improve the quality and consistency of information about public sector property. It should help define and monitor the collection and publication of certain minimum information to ensure an accurate government-wide picture of the public sector's property and to assess performance. This would include:

- information, based on common definitions, about property holdings and running costs, to encourage greater transparency;
- information about all property held, showing for each asset whether it is "core" and must be retained, "surplus" and will be disposed of in future or "intermediate" where a final decision on its future use is pending;
- performance of property against key indicators including benchmarks (by type of property);
- goals and objectives for the next one to three years including plans showing how and when performance benchmarks would be achieved; and
- a clear demonstration that sustainability, productivity, service quality and other related issues are integrated into plans for property management.

4.57 The role of the central property function in monitoring data and setting guidance would be adapted for the wider public sector to take into account the degree of independence that such organisations have from their sponsoring departments. It would also ensure that, as far as possible, there is consistency and comparability across the public sector, and that data burdens are minimised.

4.58 However, it is clear that there is a need for better data within the wider public sector too, and for the use of benchmarks to be made more consistent and widespread. Regional Improvement and Efficiency Partnerships (RIEPs) would be a useful mechanism to drive this. For local public services,⁴⁰ benchmarks could be linked with the "use of resources" assessments carried out as part of the new inspection regime for local government - which requires the Audit Commission to inspect against the Comprehensive Area Assessment (CAA).⁴¹

4.59 In addition, the collection and publication by the wider public sector of information about core, surplus and intermediate assets, supported by CIPFA, should help to promote shared approaches to the use of property.

4.60 These different sources of information, once aligned, should provide local authorities with an integrated and comprehensive source of support to ensure that property is efficiently managed. This in turn will increase accountability within local government, raise standards and – through more efficient use of property - improve outcomes at local level. Local authorities should consider, together with their partners, using such data to develop local targets for improving asset management.

⁴⁰ In this report local public services are defined as those subject to inspection by the Audit Commission.

⁴¹ The new Comprehensive Area Assessment (CAA), implemented in April this year, as part of a new inspection regime for local government, includes a "use of resources" assessment, as part of which a score is assigned to local partners for the quality of their management of assets. The CAA also takes account of how local partners have been working together to deliver their Local Area Agreement (LAA). See www.audit-commission.gov.uk

Recommendation 4.4: The public sector should be more consistent and transparent in the data it collects and publishes in relation to property management and usage. In particular organisations are encouraged to publish information about the core, surplus, and intermediate property assets held. All local public services should also be encouraged to follow best practice and use the audit agencies' value for money indicators, which should be closely linked to the Audit Commission's 'use of resources' assessment.

Collaboration

4.61 There are over 1500 individual property centres (organisations that manage property directly) across government.⁴² The NAO has highlighted the need to improve coordination by, for example, adopting opportunities for co-location.⁴³ But organisational barriers can be difficult to overcome. This issue arises both at the national and local levels where departments and other bodies often do not look for the best fit across the whole of the public sector, and instead manage property in isolation.

4.62 Greater collaboration will improve the quality of service for citizens,⁴⁴ as well as achieve significant economies of scale, for example in the procurement of facilities management (see Box 4.F). The opportunity for co-location of the office estate is particularly apparent for the office estate around Westminster, where around 15 per cent of the total central government office space (around 1.2 million square metres) is located in close proximity to the Houses of Parliament.⁴⁵

Box 4.F: Collaboration in facilities management (FM) procurement

The Department for Environment, Food and Rural Affairs (Defra) has developed an innovative approach for procuring FM across the central department and its executive agencies. The 15-year contract with a private sector partner, who is financially incentivised to reduce the overall cost of the estate, has a value of approximately £900 million and is expected to deliver £126 million of annual cost reductions.

This has largely been achieved by moving from a localised approach, where each business unit scoped and delivered its own FM requirements, to a partnership arrangement with joint governance and collective ownership of the Defra property strategy. By adopting a collaborative approach that works across organisational boundaries, Defra has been able to use its estate expertise to control costs centrally and ensure there remains a focus on the agreed business objectives - including efficiency and value for money, service improvement, transforming the work environment and sustainability - while maintaining good relationships with its executive agencies and private sector partner.

4.63 There are similar opportunities in other large urban areas with a large public sector presence for developing regional "hubs", where the public sector can share property. The West Midlands initiative,⁴⁶ if extended to involve wider public sector partners, could be an encouraging development.

⁴² This includes all property centres in the central civil estate, local authorities, health trusts, fire and police authorities and others.

⁴³ *Improving the efficiency of central government's office property*, National Audit Office, 2007.

⁴⁴ *Service transformation: a better service for citizens and business deal for the taxpayer*, Sir David Varney, December 2006.

⁴⁵ Office of Government Commerce, e-PIMS database.

⁴⁶ Civil Service in the West Midlands (CSWM) is a pilot of Civil Service in the English Regions that has adopted the principle of a regional estates strategy.

4.64 But despite the clear benefits, organisations frequently fail to overcome the barriers to collaboration. The causes can be as simple as the lack of common systems for IT and security, but also arise from a lack of information about the opportunities available or, at a deeper level, resistance to the sharing of property.

4.65 The central property function would play a role in developing cross-government initiatives to overcome the barriers to sharing of property, such as those presented by IT and security. It would also work to promote regional planning across the public sector, providing assistance when requested and facilitating collaboration where opportunities arise. More uniform and publicly available information will also be important in enabling organisations to look for opportunities for co-location or other types of collaboration.

4.66 Greater collaboration also needs to be encouraged at the local level. Because of their leadership role with other local service providers, local authorities should be pivotal in developing such collaborative approaches. This is especially relevant where the provision of services is linked and where assets are of a similar type. Local strategic partnerships (LSPs)⁴⁷ should be encouraged to play a role in the development of asset management strategies across different local or regional providers. Ideally this should lead to the publication of local area strategies for the public estate.

4.67 For local public services, the role of the Audit Commission is particularly important in improving performance. In this respect the stronger focus on use of resources and on locally driven cross-partnership working, which is being introduced as part of the new delivery and inspection regime for local government, is welcome.

Summary and conclusion

4.68 This workstrand has established the key areas that need to be addressed to achieve a well-managed and efficient estate across the public sector. They are:

- focused and engaged senior management with access to the right expertise;
- a system of strong incentives and controls for efficient property use;
- good data, guidance and KPIs; and
- collaboration and sharing of property across organisational boundaries.

4.69 To this end this workstrand recommends:

- a new central property function to help drive efficient use of property across the whole of the public sector;
- steps to facilitate investment in property transformation; and
- actions to achieve change among local authorities and their partners.

4.70 The recommendations are integral with those relating to accountability and performance management set out in the Executive Summary.

4.71 The property strand has identified the potential for significant running cost savings and capital receipts from the disposal of surplus property. However, without a strong concerted drive from the centre, and a clear commitment to change from senior level leadership, these efficiency savings will not be realised.

⁴⁷ LSPs bring together representatives from all the organisations (e.g. health, police, schools and fire authorities) responsible for delivering services locally. The LSP sets and delivers the priorities across the locality through targets set out in a local area agreement (LAA) which is agreed with central government.

4.72 Accordingly, the priorities for implementation should be:

- establishing the new structures recommended in this report;
- initiating the development of core datasets and benchmarks, in cooperation with appropriate professional and other organisations;
- working with departments (and, through them, with the bodies they sponsor, for example NHS trusts and local authorities) to put in place the frameworks and mechanisms needed to ensure a step change in the efficient management and use of property, including facilities management;
- working with audit and inspection bodies to ensure new standards and/or targets are reflected in their audit/inspection regimes;
- ensuring HM Treasury works with departments to develop a good understanding of their property performance, so that targets are intelligent and the capital spending allocation is set so that it drives greater efficiency; and
- promoting cross-department, cross-agency collaboration and sharing of property, at national, regional and local levels.

4.73 There is much work to be done to take these recommendations forward. The creation of the new structures needs to be planned well by suitably skilled experts and put in place as soon as possible after Budget 2009.

4.74 The estimated property efficiencies are ambitious and represent a significant challenge for the whole public sector. However, taken together the recommendations from this workstrand will help to make this goal achievable and realistic.

5

Local incentives and empowerment

Advisor: Sir Michael Bichard

Sir Michael Bichard is Director of the independent Institute for Government, a charity dedicated to supporting the development of leadership in government, and Chair of the Design Council. In a career spanning both central and local government, he has served as: Rector of the University of the Arts London; Chair of the Legal Services Commission; Chairman of the Soham Inquiry; Permanent Secretary for the Department for Education and Employment; Chief Executive of the Benefits Agency; Chief Executive of Gloucestershire County Council and of the London Borough of Brent.

Summary recommendations:

- 1 roll out Total Place, a programme mapping total public spending in a local area and identifying efficiencies through local public sector collaboration, to at least 12 pilot sites with a high level reference group to identify how to increase incentives and eliminate the barriers for joint working and with ministerial sponsorship to ensure that issues raised are addressed swiftly across government;
- 2 accelerate joint working in local areas by: reforming the National Indicator Set; strengthening Local Area Agreements and Local Strategic Partnerships by aligning performance frameworks; joining up inspection and value for money targets around place; and extending the involvement of Whitehall 'negotiating champions' in the Local Area Agreement negotiation process;
- 3 strengthen Local Strategic Partnerships and encourage local flexibility and coordination by avoiding ring-fencing of new funding allocations except in exceptional circumstances, and reducing existing ring-fences where possible;
- 4 use continuous improvement tools such as Lean more systematically across the public sector, and develop capacity to examine themes that cut across organisational boundaries;
- 5 improve design and innovation in public services, diffusing innovations in both central and local government using online tools, and improving measurement of benefits realised from investment in public sector innovation;
- 6 introduce reviews of burdens from a frontline perspective on a rolling basis, with short, intense reviews that should be sector led, working with the Better Regulation Executive; and
- 7 embed innovation and collaboration in Capability Reviews and public sector leadership training programmes.

Context

5.1 Total spending on public services has seen unprecedented sustained growth over the past decade, with total public spending increasing by 42 per cent in real terms since 1997, spending

on the National Health Service doubling in real terms and local government receiving real increases in government grants of 39 per cent between 1997 and 2007.

5.2 Alongside this investment in public services, there has been a renewed drive both towards devolution in the delivery of public services to the frontline and towards joining up the activities of different local service providers in order to address interconnected local issues and deliver cross-cutting outcomes. A wide range of partnership arrangements now exist across the local public sector, with Local Strategic Partnerships playing a leading role in enabling local public services to work together with local communities, businesses and the third sector to meet local needs.

5.3 Times, however, are changing – alongside the current challenging economic circumstances, governments around the world are facing an unprecedented range of complex issues. For example, one estimate suggests that by 2025 the cost of chronic disease is likely to have increased by 30 per cent to a minimum of £15.6 billion¹ unless better ways of preventing coronary heart disease, strokes and diabetes are developed. In this new operating environment, vigorous efforts are required to ensure that the resources devoted to public services are rigorously prioritised and controlled, and that the best value for money is achieved from the way assets are managed.

5.4 However, such challenges demand an exceptional response. To tackle successfully the problems of the future, radical new solutions are required, which redesign or reshape public services; involve and liberate the potential of frontline staff and users to be at the heart of that process; and put the right incentives in place to encourage local initiative. While government has a role in driving improvements in quality and value for money from the centre, all public services need to be innovators, capable of reconstructing their offer so that it truly reflects user and citizen requirements and does so readily accepting that resources will be limited.

5.5 This strategic leadership role for government – providing direction, standards and vision without micro-management – alongside a focus on the role that public servants themselves can play in improving services, builds naturally on the Cabinet Office and HM Treasury's *Excellence and Fairness* agenda, and recent publication *Working Together: public services on your side*.²

Principles of local incentives and empowerment

5.6 The local incentives and empowerment workstrand seeks to create the environment where collaboration and innovation on the frontline can flourish. The work has therefore adhered to two key principles to guide its analysis and recommendations:

- **encourage the good:** By identifying successful or promising initiatives and reforms to delivery systems that can be extended further, rather than creating new programmes or imposing rigid solutions which are neither locally owned nor appropriate for the challenges they seek to address; and
- **eliminate the barriers:** By reducing bureaucratic burdens on the frontline and stopping programmes that do not add value to create space for those that do.

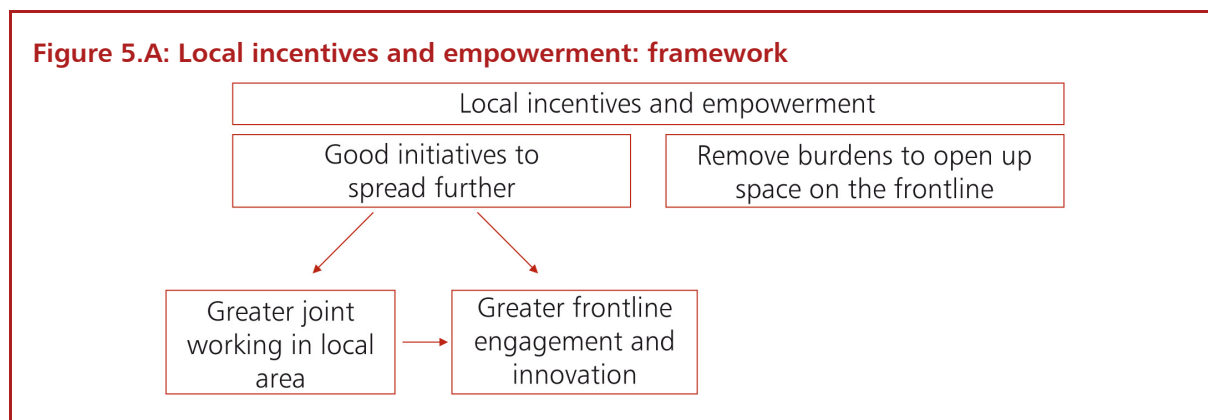
5.7 This approach complements that of the other Operational Efficiency Programme workstrands. These aim to stimulate better value for money across discrete areas of spend that, traditionally, the private and public sectors have seen as ripe for greater efficiency such as greater standardisation of costs in back office functions and better asset management. By

¹ Estimated costs to the UK Government according to *The chronic disease burden – An analysis of health risks and health care usage*, Cass Business School, October 2005 quoted in *The Innovation Imperative: why radical innovation is needed to reinvent public services for the recession and beyond*, NESTA, March 2009.

² *Working Together: Public services on your side*, Cabinet Office, March 2009.

drawing on the professional operational capacity in government, local managers can be freed to concentrate on delivering high-quality services to the citizen. This needs to be complemented with a direction of travel that gives more space and incentives for local innovation and concerted local action, supports innovators and involves frontline staff and their clients in redesigning public services. This workstrand sets out recommendations to support that approach.

5.8 Figure 5.A sets out the framework used to structure the analysis.



5.9 The workstrand has firstly looked at how to encourage greater joint working across public services at the local level, to allow for more effective, customer centred and efficient services. An analysis of potential benefits and recommendations for driving forward this area-based approach are at paragraphs 5.13-5.28.

5.10 This kind of area-based approach will often involve a re-examination of the way that services are designed and some of the best ideas on how to improve efficiency and effectiveness of services come from the frontline. Accordingly, the workstrand has also focused on programmes that prioritise engagement with frontline public service professionals to identify innovative approaches, redesign services with a focus on the customer, improve outcomes and increase efficiency. For example, the use of Lean in selected Job Centre Plus sites, with frontline engagement core to its approach, has delivered 15 to 30 per cent efficiency savings,³ much improved service quality and greater staff satisfaction. Recommendations on this area are at paragraphs 5.29-5.40.

5.11 Vital to creating the space for joint working, frontline engagement and innovation, is an active approach to removing barriers that frustrate individuals, teams and organisations. For example, Sir Ronnie Flanagan’s Independent Review of Policing found that reducing the amount of non-essential information being captured would free up approximately 40,000 hours per year in a medium sized force.⁴ The review found that only a proportion of bureaucracy was imposed by the Home Office and that some of it was ‘self imposed’ by senior and middle-ranking officers and others in the chain of command locally. The Government will continue to pursue opportunities to reduce these types of burdens on the public sector. Recommendations on how this might be given new momentum are at paragraphs 5.41-5.46.

5.12 Finally, the capability and capacity to create a culture of innovation and collaboration needs to be developed throughout the public sector. Recommendations on how to take this forward are at paragraphs 5.47-5.51.

³ *Innovation across central government*, NAO, 2009.

⁴ *Independent Review of Policing*, Sir Ronnie Flanagan, February 2008.

Joining up in a local area

5.13 Effective solutions to the real challenges of local places, citizens and clients can often only be developed by joining up at the local level, with local public service organisations such as primary care trusts, Job Centre Plus, local authorities and the police moving away from a traditional view of individual service areas limited by institutional boundaries. For this to happen, central government departments will also need to behave in different ways. If public services are able to identify new ways of commissioning and delivering services centred around local needs, this will enable them not only to improve results but also to increase efficiency by better targeting services, reducing areas of overlap and minimising overheads and transaction costs.

5.14 The two primary factors that enable effective local collaboration are: firstly, a strong commitment from local leaders to working jointly to meet agreed local priorities; and secondly, flexibility from central government in the application of national delivery structures so that they facilitate efficient local delivery.

5.15 National delivery structures are essential for setting the overall strategic direction of public services, ensuring that consistent service standards are available in every place and for holding delivery systems to account for results. However, if local public services are solely focused on meeting national objectives, they will fail to respond flexibly to the particular challenges and needs of local places and people in a coordinated and efficient way. Box 5.A sets out the characteristics of national delivery structures and how they should be adapted to support delivery of customer centred services.

Box 5.A: Integration of delivery channels to deliver customer-centred services

Public resources have traditionally been administered according to broad categories of spending by service type, which allow for a high degree of national level transparency, accountability and prioritisation of public resource allocation. Each sector of public spending (e.g. policing, health) has its own vertical mechanisms, which translate national policies and priorities into local delivery.

However, the people who benefit from these services, either through direct use of services or through wider public benefit, use a mix of public services in their daily lives. For example, in seeking employment an individual's experience may be influenced by employment advice, skills training, transport and health services. An excessive reliance on vertical delivery channels will fail to take account of the interconnected nature of the challenges facing local citizens. To collectively meet the needs of citizens, local services therefore also need to be horizontally integrated, with an understanding of customer needs.

A balance between vertical service delivery channels and their ability to be horizontally joined together at the local level will provide the flexibility for public services to form more efficient delivery models, meet the needs of citizens and adapt to the changing nature of local places.

5.16 Alongside delivering improved outcomes for the customers of public services, there is the potential to make significant efficiency savings in the following ways through collaboration:

- removing duplication where there is overlap in the activities of local agencies;
- identifying new ways of delivering services at lower cost through joint innovation;
- investing in those public services that will reduce the costs of other local services, even if the costs and benefits fall to different organisations, by looking at the benefit to the public sector as a whole in a place;

- better targeting of spending towards the needs and priorities of each place through strategic commissioning; and
- joining together the functions and management structures of different services to reduce overheads and transaction costs.

5.17 The examples in Box 5.B demonstrate the potential for gains in efficiency and effectiveness that can be achieved by local organisations working together and focusing on the role of the public sector as a whole across a place.

Box 5.B: Improving efficiency and effectiveness by working together across a place

Calling and Counting Cumbria⁵

Calling and Counting Cumbria was a two-phase initiative that set out to:

- bring together leaders from all public sector bodies in Cumbria to gain a shared understanding of the needs of the area, the services provided, and the total levels of public spending; and
- identify how cultural and organisational barriers could be overcome, how resources could be better matched to needs and how organisations achieve more for the area by working together more closely.

The 2008 projects combined the mapping of the £7.1 billion of public money spent in the area with challenging local organisations on what could be done differently to make savings. A saving of just one per cent across the county would result in a £70 million saving a year.

Birmingham: Public Expenditure and Investment Study

Birmingham's Local Strategic Partnership undertook a similar funding stream mapping exercise to that in Cumbria, with the aim of understanding spending and as a consequence, knowing where and how expenditure can be better aligned to achieve collective goals. This identified that total public sector spend in the city will be £7.5 billion in 2008-09, or around £7,425 per head. The expenditure is being mapped onto delivering outcomes in order to move to greater alignment between funding streams and outcomes in future. Birmingham City Council and partners are developing pilots to model how public spending in a particular theme or geographic area can be re-engineered to provide better priority outcomes.

5.18 These case studies show that mapping of total public spending in a place is effective in identifying how spending relates to the priorities of the area and demonstrate the real potential for efficiency savings and quality improvements to be made from collaboration in a place. The scale of total potential savings cannot be accurately identified, but with around two thirds of the Government's annual expenditure at the local level and with initiatives to redesign processes from an end user perspective delivering 20 to 30 per cent savings in many areas, the total potential savings are significant. The cost of not joining up, for example between health services and social services, is just not sustainable.

5.19 With such opportunities from local collaboration, government must ensure that it better applies its vertical national frameworks in ways that support local flexibility and collaboration rather than hindering it. Progress has already been made in this area over the past decade, with local public service organisations working together more closely, identifying common aims and delivering together. Recent changes made to performance and funding frameworks have further helped enable and increase the incentives for more effective local partnerships, for example:

⁵ See www.localleadership.gov.uk for more information on Calling and Counting Cumbria.

- a cross-cutting and more streamlined set of Public Service Agreements set out at the 2007 Comprehensive Spending Review (CSR07);
- a reduction in the number of performance indicators through which local government is held to account from over 600 to a single National Indicator Set (NIS) of 198 at CSR07, which has since been reduced to 188;
- pooling over £5 billion of specific grants to local government into the non ring-fenced area-based grant, which allows spending to be matched flexibly to local needs and priorities;
- in June 2008, the Government signed 150 Local Area Agreements (LAAs), with the local authority and its partners in each upper tier local authority area in England, each of which set out up to 35 priority targets for local outcomes; and
- from April 2009, local authorities and their partners will be assessed by the Comprehensive Area Assessment (CAA), providing a single framework for inspection and assessment in a place that is joined up, risk based and outcome focused.

5.20 Early evidence from the first reviews of the new LAAs suggests that many local partnerships are beginning to deliver an increased range of joint initiatives and services targeted at local challenges, and are reaping the benefits of new approaches.

5.21 However, despite this progress, the pace of change needs to quicken. It is therefore recommended that the principles of the Cumbria approach and similar initiatives be taken forward urgently in several areas, asking questions about the ways in which public money is spent in places to drive greater efficiency and improved delivery of outcomes in a local area.

Recommendation 5.1: Roll out Total Place, a programme mapping total public spending in a local area and identifying efficiencies through local public sector collaboration, to at least 12 sites across England:

- the Calling and Counting Cumbria approach asks fundamental questions about how public money comes together and is spent in places and how the distribution and configuration of services can be improved to drive improved outcomes and greater efficiency. This approach should be extended to and built upon in at least 12 areas (including at least 10 new pilot sites alongside at least two existing projects) under the Total Place initiative. These should have a dual focus on leadership of place and efficiency. This work should be led on behalf of central government by Communities and Local Government (CLG) and for local government through the Regional Improvement and Efficiency Partnerships (RIEPs) in each region. Initial findings should be reported at the 2009 Pre-Budget Report with final results reporting at Budget 2010;
- a high level reference group comprising senior Cabinet Office, HM Treasury, CLG, DCSF, Home Office and Department of Health officials and leaders of local public bodies should capture the learning of these 12 sites in order to identify how to increase the incentives and eliminate the barriers for joint working; and
- this programme of work should be sponsored by a ministerial group including the Chief Secretary to the Treasury, the Minister for the Cabinet Office and the Secretary of State for Communities and Local Government to ensure that the barriers and incentives for joint working are addressed swiftly and effectively across government.

5.22 This programme, as described in Recommendation 5.1, should inform both central and local government of the specific actions that will enhance the kinds of local collaboration that lead to efficiency savings and improved outcomes, by reducing or eliminating factors that pull against horizontal integration.

5.23 Alongside this initiative, the vertical frameworks, structures and mechanisms coming from government need to be adapted to support local delivery, building on the work already in train through the local government performance framework. These include:

- **performance frameworks** for public agencies, which provide strong incentives, rewards and drivers for service delivery but which are often designed and delivered in silos;
- **financial regulations and ring-fences** which, when they prescribe the specific activities to be funded by central grants, can prevent the sharing of spending on joint aims in a local partnership or increase the complexity of doing so;
- **inspection, assessment and regulation regimes**, which are vital for ensuring that national standards are being met and to challenging the quality of services, but if seen as an end in themselves can restrict local flexibility and responsiveness;
- **commissioning frameworks** in different sectors, each with their own reporting and monitoring requirements, which create complexity in organisations jointly commissioning services to meet local needs; and
- **accountability and reporting to the centre**, which can often take priority over local accountability to the public and to partner agencies.

5.24 While these tools can play a vital part in the overall management of the business of government, they must not prevent the public sector locally from meeting the needs of individual places and local people. Strong motivation and commitment to joint working from local leaders has been and will continue to be the most effective means by which to overcome these barriers but the following recommendations set out a strategy to help local partnerships overcome the barriers to collaboration.

5.25 Performance frameworks for local public services should be better joined up across sectors to encourage greater local collaboration and give greater importance to the joint priorities of each place. This should build on progress made through LAAs and should allow for greater prioritisation and flexibility across the whole public sector at a local level, leading to greater efficiency savings and joint delivery.

5.26 As part of these frameworks, inspection and oversight have been streamlined through the CAA, but there is scope to extend the CAA to all public services in an area. The inspection landscape is now simpler due to a reduction in the number of public sector inspectorates, and new inspection coordination arrangements are being introduced from 2009 as part of the CAA framework, but there is significant room for further improvement to deal with multiple uncoordinated inspections and audits by numerous agencies outside the scope of the CAA. Lessons from developing the new CAA framework should help to develop an inspection process that is joined up, outcome focused, risk based and proportionate. Commissioning frameworks across the public sector should provide greater flexibility for local variation and should be simplified in order to reduce the complexity of the joint commissioning of services to meet local priorities.

5.27 LAAs and the CAA are key vehicles for achieving these changes. In particular, full weight should be given both to the LAA negotiation in a local area and the first round of findings from the CAA.

Recommendation 5.2: Performance frameworks should be aligned across sectors and services to encourage greater local collaboration and give greater weight to the to the joint priorities of each place:

- CLG should lead on reforming, and where possible reducing, the National Indicator Set (NIS) ahead of the next round of LAAs to support effective local prioritisation. This should include making the indicators more relevant, outcome focused, cross-cutting and measurable; where possible reducing the number of LAA targets to focus on a smaller number of priorities at the local level; and examining the approach to mandatory indicators to ensure that they accurately reflect those outcomes that are an absolute priority for government in every place;
- performance frameworks, resource allocations and delivery mechanisms should be better aligned between different parts of the public sector, with the LAA becoming the primary performance agreement for all public sector partners in a place, including health and police. As a first step, HM Treasury should undertake an analysis of the alignment of performance frameworks across government and their impact on collaboration at a local level to inform future development of the government's performance framework. Government departments should work with HM Treasury and the Audit Commission to develop, negotiate and agree a method of measurement and a target for value for money savings across the whole of the public sector in an LAA area;
- in the longer term, the CAA framework should be extended to become the main assessment for the public sector in a place. The public accountability for the performance of local services should be enhanced through online reporting that is focused on local priorities and presented in an accessible way. CLG and the Audit Commission should work to ensure that critical reviews are followed up rigorously; and
- CLG should rapidly extend the involvement of senior Whitehall 'negotiating champions' in the LAA negotiation process, using the Top 200⁶ as facilitators of a meaningful dialogue and as an ongoing point of contact with Whitehall.

5.28 Where financial regulations and ring-fences restrict investment in joint local services, these should be removed to help promote the pooling of local budgets in order to encourage greater local collaboration and to strengthen the LSP. Any legal requirements that prevent or inhibit the pooling of funds and joint investment in LSPs should be investigated and, where possible, removed.

Recommendation 5.3: Strengthen Local Strategic Partnerships and encourage local flexibility and coordination by avoiding ring-fencing of new funding allocations except in exceptional circumstances, which need to be agreed with the Chief Secretary to the Treasury. Existing ring-fences should be reduced where possible.

Frontline engagement, innovation and service redesign

5.29 Innovation and service redesign will be critical in order to achieve improvements in the quality and efficiency of public services in more challenging economic circumstances. Often the people with the best ideas for service improvement and innovation are on the frontline, close to

⁶ The corporate leadership group for the Civil Service made up of the most senior civil service leaders.

service users. There are already good examples of better engagement with these staff but these examples need to become the norm if the kind of radical innovation needed to deliver higher quality with less resource is to be achieved. Public services are already responding to this challenge, increasing staff satisfaction and commitment by adopting techniques developed in both the public and private sector to tap into ideas and expertise from the frontline.

5.30 Policy makers are increasingly aware of the need to use frontline insight to develop practical policy. Recently published research commissioned by the Cabinet Office and carried out by the Sunningdale Institute again makes the case for a Whitehall policy culture that seeks out, captures and values frontline insights and experiences in order to ensure policies that are practical, effective and relevant.⁷ Government will issue a response to this report shortly and has said that it will ask Departments to establish better ways of engaging with the expertise of those working at the frontline.⁸ This workstrand has also looked at ways to encourage this engagement. Box 5.C highlights examples of transferable approaches that organisations throughout the public sector should aim to emulate.

⁷ *Engagement and Aspiration: Reconnecting policy making with front-line professionals*, Sunningdale Institute/Cabinet Office, March 2009.

⁸ *Working Together: Public services on your side*, Cabinet Office, March 2009.

Box 5.C: Using frontline expertise to redesign and develop services

Make It Work: Sunderland City Council's Northern Way Worklessness Pilot engaged with over 280 employers, practitioners and clients and used service design methods to map the public services needed to help disadvantaged individuals out of unemployment. The resulting combined framework allowed services to be commissioned more efficiently by designing out elements that did not meet users' needs.

WIBGI: The NHS National Innovation Centre has pioneered the use of 'Wouldn't It Be Good If...?' (WIBGI) sessions to facilitate and stimulate collaboration between frontline staff, patients, policy makers, commissioners and industry. The sessions, themed around specific challenges such as reducing waiting lists or healthcare-associated infections, use creative techniques to answer needs identified by frontline staff, stimulate intelligent demand within the NHS and focus suppliers' product development.

GEMS: GEMS is the Ministry of Defence-wide scheme, launched in 1996, that recognises and rewards staff ideas that are put into practice. The scheme encourages all civilian and armed forces personnel, ex-employees, contractors and their staff to contribute constructive ideas for improving efficiency and organisation anywhere within the Department, and recognises the value of their contribution with a financial reward. The scheme gathers some 2000 ideas each year, generating, on average, £10 million in savings a year.

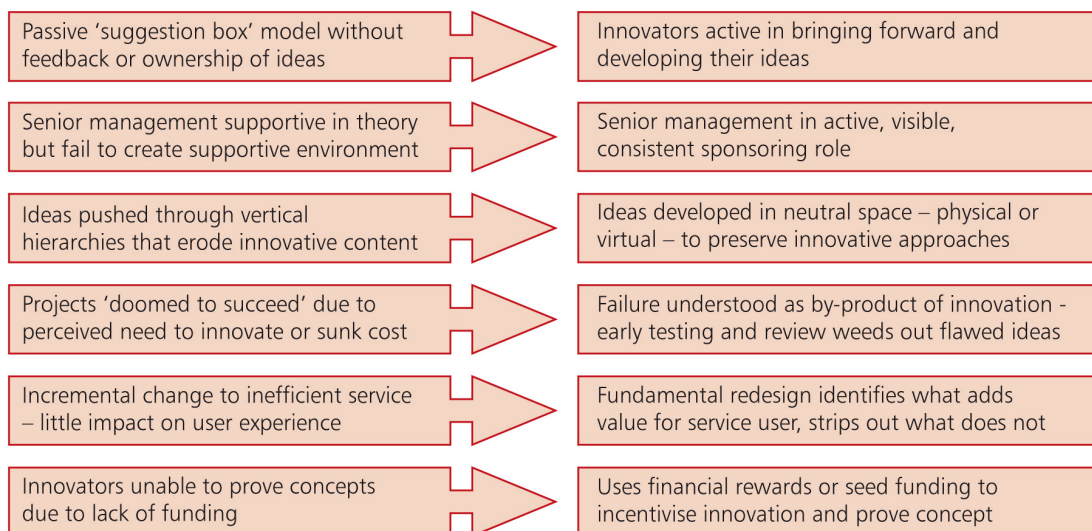
Drive for Change: Drive for Change, a practical tool to help with change management, was developed by the Cabinet Office and Trades Union Congress (TUC) under the umbrella of the Public Services Forum (PSF), which brings together government, public service employers and trade unions. Drive for Change encourages employers, staff and trade unions to work together to innovate by tapping into staff knowledge and experience, to build a shared vision for improvement and to deliver joint solutions.

Productive Series: The NHS Institute for Innovation and Improvement is building on the success of the Productive Ward, which enabled nurses to identify for themselves how to release time for patient care, by further developing a Productive Series focusing on productive community hospitals, mental health wards, and leadership. Further programmes, aimed at operating theatres and community services, are currently in development.

5.31 The schemes highlighted in Box 5.C demonstrate that there is a body of good practice in the public sector. However, a recent NAO report⁹ found that fewer than 60 per cent of bodies surveyed had even reached the point of encouraging staff to submit innovative ideas. While adopting an 'off the shelf' approach to engagement and improvement – developed and proved elsewhere – might be appropriate in some circumstances, organisations throughout the delivery chain should feel empowered to adapt schemes, refining their chosen model to suit their needs and designing their own solutions. Box 5.D highlights the kind of shifts necessary if the engagement of frontline staff is to be meaningful.

⁹ *Innovation across central government*, NAO, 2009.

Box 5.D: Moving toward stronger frontline engagement



Source: HM Treasury

5.32 Continuous improvement tools such as Lean¹⁰ have also been used both to harness staff insight and expertise and identify the redundant or avoidable steps that can be stripped out of delivery chains, leading to more efficient services. Box 5.E shows several examples of this across government.

5.33 Public service organisations that are introducing ongoing cycles of continuous improvement, often based on the Lean approach, are improving cost effectiveness, quality of services, timeliness of services and are engaging more successfully with their workforce. The Cabinet Office's Capability Building Programme has begun the work of joining up departmental efforts, but these tools should be used more systematically across the whole public sector and there is already a clear case for more coordinated action:

- there are numerous and diverse examples of continuous improvement in public services, based on Lean principles, which have delivered substantial improvements;
- continuous improvement driven from the frontline is both effective, sustainable and comparably inexpensive;
- awareness and experience of this approach among leaders is varied;
- organisations are facing similar challenges and increasingly using similar approaches to make a difference, but are at different stages of development; and
- more can be done to spread existing expertise and learning between organisations and offer opportunities to collaborate across services.

¹⁰ Developed by Toyota, Lean is an improvement approach that aims to reduce waste in the production process by focusing on areas where activities consume resources but do not add value from the customer's perspective. For an examination of Lean's applicability in the public sector, see *Evaluation of the Lean approach to business management and its use in the public sector*, University of Warwick, March 2006

Box 5.E: Continuous improvement in departments

Police service: Operation QUEST is a Home Office sponsored programme focused on operational process improvement and capability development that taps into the experience of frontline officers, reviewing end-to-end processes, analysing associated data and changing the way operational work is carried out. Successes include a 72 per cent reduction in the number of apology calls made in Brighton and Hove and projected net officer time savings worth more than £1 million a year in Norfolk from more effective deployment decisions.

HM Revenue and Customs: PaceSetter is one of the key ways in which HM Revenue and Customs will continually improve the performance of its business. A phased rollout will help HMRC take a fresh look at business processes from a customer perspective, introducing a new discipline of how to manage these processes and involving everyone in finding ways to improve. Primarily implemented in large processing areas so far, productivity increases of at least 30 per cent have been achieved in areas where PaceSetter is operational.

Local government: The National Process Improvement Project (NPIP), sponsored by the Department for Communities and Local Government, allowed a group of local authorities to deploy industry standard business improvement methods across 10 service areas, from child protection to waste management. These projects used a variety of process analysis and costing techniques to help identify ways to deliver efficiency gains of up to 12 per cent and service improvements across different service areas and types of local authority.

Department for Work and Pensions: DWP established the Lean Way in 2007 as an ambitious four-year programme to embed continuous improvement using Lean behaviours and techniques rolled out in a phased approach supported by a DWP Lean Academy. In addition to improved customer and staff experience, improvements to processes identified and designed by staff have been rolled out nationally, and efficiency gains delivered to date per site range between 18 and 30 per cent. The programme has already achieved savings of over £10 million a year and expects further savings in excess of £40 million.

Recommendation 5.4: Use continuous improvement tools such as Lean more systematically across the public sector, and develop capacity to examine themes that cut across organisational boundaries:

- continuous improvement approaches should be used more systematically across the public sector. Departments should be expected to have in place comprehensive programmes of employee engagement, which mirror the elements of the successful continuous improvement and Lean programmes;
- Cabinet Office and HM Treasury should accelerate work towards developing a centre of excellence in this field, drawing in public service staff with relevant expertise to examine themes that cut across organisational boundaries, identifying the bureaucratic burdens and barriers identified by these approaches, and coordinating action to address them; and
- future Capability Reviews should take account of departmental arrangements for employee engagement when assessing a department's capacity to innovate. (See recommendation 5.7.)

5.34 Government also needs to build the public sector's understanding of the importance of good design in delivering effective public services and build the appropriate skills to turn this

understanding into tangible improvements. In partnership with the Department for Innovation, Universities and Skills (DIUS), the Design Council¹¹ is trialling a design-led innovation programme for the public sector, based on their successful *Designing Demand* model in the private sector, to give managers the skills to understand better how design can improve efficiency and service outcomes. DIUS and the Design Council should take this programme, *Public Services by Design*, forward as a matter of priority.

5.35 Alongside improving service design, greater innovation should be encouraged throughout the public sector. Since the publication of the *Innovation Nation* white paper,¹² DIUS have worked with a range of partners to develop interventions to promote public service innovation. This includes NESTA's¹³ development of The Lab, which aims to provide the freedom, capital and the expertise to help undertake radical experiments to improve public services in the face of serious economic and social challenges.¹⁴

5.36 Departments are also acting to develop their innovative capacity. The Department of Health, as part of *High Quality Care for All*,¹⁵ has developed a programme of work to support and enable the NHS and its partners to realise the benefits of innovation while improving procurement processes and, ultimately, health outcomes. This will be achieved through harnessing the energy and ideas of the frontline in a rewarding format, better information, innovation funds and prizes, a new legal duty for Strategic Health Authorities to promote innovation and better links between research, teaching and education, healthcare delivery and wider industry.

5.37 The NHS National Innovation Centre has also developed a suite of online tools - The Key - which it has made available to all public sector organisations. These tools identify needs, support innovative responses from suppliers and the frontline and promote the diffusion and adoption of transferable ideas by showcasing them. The Key is being developed in partnership with the Department of Health, DIUS and DWP for wider application in central government, but The Key could also benefit local government. The Beacons scheme in local government is to be replaced with a new award and knowledge transfer scheme that should make use of appropriate online tools such as The Key to spread innovation and best practice among LSPs.

5.38 Challenge funds and prizes can also trigger innovations, rather than recognise them once they have taken place, and are another example of tools that parts of the public sector are already exploiting.¹⁶ Challenge prizes prompt involvement from new audiences, help to identify barriers to innovation, recognise successful innovation, and have a positive effect on the total amount of effort and investment that is channelled into solving some of the most challenging and complex problems that public services face. As drivers for more efficient, innovative and engaged local authorities, Regional Improvement and Efficiency Partnerships (RIEPs) should consider using this approach to address cross-cutting issues at a local level.

5.39 Accountability and measurability of innovation are hugely important, given the investment that is being channelled into developing public sector innovation. The NAO's recent report

¹¹ Sir Michael Bichard is currently Chairman of the Design Council, an executive NDPB that is sponsored by DIUS. DIUS and the Department for Culture, Media and Sport are jointly responsible for the organisation.

¹² *Innovation Nation*, DIUS, March 2008.

¹³ National Endowment for Science, Technology and the Arts.

¹⁴ See online at www.nesta.org.uk/the-lab-innovating-public-services.

¹⁵ *High quality care for all: NHS Next Stage Review final report*, Department of Health, June 2008.

¹⁶ For example, Home Office, Design Council and the Design and Technology Alliance have engaged young victims of crime, police, mobile industry experts and designers to understand current and future issues regarding mobile phone crime. Working with the Technology Strategy Board, they have launched a £400,000 challenge to design solutions that make mobile phone handsets and the data stored on them harder or less desirable to steal and make future mobile commerce transactions secure and fraud proof. The Department of Health is introducing Health Innovation Challenge Prizes to address some of the major healthcare challenges facing the NHS and Strategic Health Authorities, targeting resource at helping frontline staff develop, grow and spread new ideas to deliver real improvements in the quality of care people receive. The Sainsbury Review recognised the Ministry of Defence leading best practice through running a Grand Challenge and Competition of Ideas to stimulate innovation in its Science and Technology programme.

recognised that better measurement of innovation would help organisations to make a stronger case for investing in innovation amid competing priorities.¹⁷ Having accurate information is key to both large and small projects so that benefits or shortcomings can be demonstrated and meaningful lessons learned for the future. NESTA are working to develop a UK Innovation Index¹⁸ that will help public sector organisations to understand their performance relative to others (and to the private sector) and make a substantial contribution to improving the current measurement gap.¹⁹ It is vital that the public sector component of this work, though complex, should produce simple, credible metrics and not be allowed to fall behind schedule.

Recommendation 5.5: Programmes to improve design and innovation in public services should be accelerated, with a consistent method of measuring investment and benefits:

- DIUS should support the Design Council to accelerate the planned roll out of the *Public Services By Design* programme by increasing the number of prototype projects. Central and local government should consider how design approaches could help deliver improved outcomes and greater efficiency;
- innovation should be recognised and diffused by developing and applying the suite of tools available through The Key model to other public services. DIUS, the NHS National Innovation Centre, IDeA and CLG should explore using this model as part of the planned renewal of the local government Beacons scheme;
- as drivers for more efficient, innovative and engaged local authorities, Regional Improvement and Efficiency Partnerships (RIEPs) should consider using challenge prizes to address cross-cutting issues at a local level; and
- departments should contribute to the development of NESTA's Innovation Index, to improve the measurement of investment in, and benefits from, public sector innovation, with implementation of a pilot index by the end of 2009.

5.40 A series of joint HM Treasury and DIUS workshops on the theme of innovation among frontline staff identified the importance of recognising the achievement of those who do innovate. In the 2008 Pre-Budget Report, the Government announced that it would sponsor a new efficiency award for frontline public servants who have reformed public services and delivered greater value for money. This award, highlighting frontline engagement and its role in delivering the Operational Efficiency Programme's recommendations, will be part of the Guardian's Public Services Awards in 2009.

Reducing burdens and regulation

5.41 The paragraphs above set out a strategy for developing local incentives and empowerment through area-based approaches, engaging with the frontline and facilitating innovation. These approaches should help to open up space on the frontline, but there is still further to go to reduce burdens in order to create more space for local areas and public sector professionals to take up these challenges, unencumbered by excessive requests and regulations that do not add value. Not all of these demands are the product of central government, but it often takes a determination on the part of central government to remove them. An integral and high profile part of its role should be to take a positive approach to identifying and, where possible, reducing these burdens.

¹⁷ *Innovation across central government*, National Audit Office, March 2009.

¹⁸ More information is available online at www.innovationindex.org.uk

¹⁹ Departments have also begun to develop their own tools – for example, the Department of Health is currently developing a suite of metrics to measure the impact of innovation in the NHS.

5.42 Significant progress in this area has been made across government in recent years:

- the number of individual inspectorates has been rationalised and new ‘gatekeeper’ powers, where inspectorates oversee requests made of organisations within their remit, manage the burden of inspections on local authorities. The new CAA should help to limit the burden of inspection on local public bodies;
- the Lifting the Burdens Taskforce used local government practitioners to identify central requirements that cause difficulty on the ground and add least value, and agreed packages of burden reduction with relevant government departments; and
- Better Regulation Executive, leading many of these changes, has redesigned its website to provide an opportunity for the public and those who deliver public services to highlight unnecessary bureaucracy and have their suggestion followed up.

5.43 Despite this progress, government must be prepared to go further in eliminating avoidable burdens while protecting service quality. Currently, not enough is known about the scale, overlaps and duplication of information requests from a frontline perspective.

Box 5.F: Independent Review of Policing by Sir Ronnie Flanagan

In 2007-08, Sir Ronnie Flanagan carried out an Independent Review of Policing,²⁰ focussing on the need to better manage the risks in order to reduce the threat to the public and reduce the harm caused by crime. A significant focus of the review was freeing up space by reducing unnecessary bureaucracy, and the review found that many different organisations in the system were adding to bureaucracy on the frontline. Since the review was published, Jan Berry, ex-Chairman of the Police Federation of England and Wales, has driven forward the bureaucracy reducing recommendations in the Flanagan Review, to challenge government and the police service to remove and/or reduce overly bureaucratic requirements, systems or processes.

5.44 The Independent Review of Policing, as described in Box 5.F, found that a only a proportion of bureaucracy was imposed by the Home Office and that some of it was ‘self imposed’ by senior and middle-ranking officers and others in the chain of command. For schools and the NHS, local authorities, primary care trusts and strategic health authorities are likely to be substantial contributors to the burden on frontline. Similarly, the key issue for frontline workers can be more about internal management systems than they are about requests for data. Reviews of burdens in discrete services would be useful, provided that these are rapidly completed and the findings swiftly followed up to ensure that changes are relevant and there is continuous improvement.

5.45 As part of these reviews, organisational scale needs to be considered. Small primary schools, often with fewer than 10 staff, are unlikely to have the same capacity to absorb bureaucracy as large secondary schools with dedicated support staff. There are similar concerns about the regulatory burden on small businesses and the Government recently committed to a simplified or more flexible approach for business with fewer than 20 employees.²¹ A similar mindset is required in government’s dealings with the smallest public sector organisations.

²⁰ *Independent review of policing*, Sir Ronnie Flanagan, February 2008.

²¹ See for example www.berr.gov.uk/whatwedo/bre/policy/small-business/index.html

Recommendation 5.6: Reviews of burdens from a frontline perspective should be introduced on a rolling basis, with short, intense reviews. They should be sector led, working with the Better Regulation Executive. These reviews should consider the potential for:

- a streamlined approach to information requests placed on the smallest organisations;
- organisations that fall outside of the LAA remit to have an explicit cap on the indicators and targets that they are subject to; and
- inspectorates to primarily focus objectives agreed in LAA indicators and to look at other outcomes only whether there is some cause for concern.

5.46 In order to embed a reduction in public sector bureaucratic burdens in the longer term, there should be a greater championing role in government, with strong political leadership. The Better Regulation Executive's role in reducing unnecessary bureaucracy in the public sector should be enhanced by linking with the work of the Cabinet Office on public service reform, so that suggestions for reducing the bureaucratic burden can be captured and acted upon.

Building capability and capacity

5.47 To ensure that progress is made in both collaboration and innovation right across the public sector, the right incentives and capabilities need to be in place for public sector leaders. Leaders need to take a strong championing role in order to build the behaviours and culture that are critical to the success of a collaborative or innovative agenda.

5.48 Different organisational cultures inevitably inhibit closer joint working between local agencies, and a key success factor in greater collaborative working is strong leadership which looks beyond a single organisation. Public service managers should be equipped and held to account for working across different organisational cultures as well as enabling their own organisations to work effectively with local partners for the benefit of clients, citizens, taxpayers and the community.

5.49 Senior management are key to fostering innovation and creating a culture where frontline staff feel empowered to bring forward their own ideas on service redesign and better value for money. Accountability structures and risk aversion are often cited as inhibitors to innovation.²² The NAO has repeatedly stated the importance of innovation for improving public services and responding to changing social and economic conditions.²³ Leaders should be held to account for their track record in innovating and engaging with their delivery partners, in order to provide a robust incentive to build a culture of innovation throughout their delivery chain.

²² *Innovation across central government*, National Audit Office, March 2009.

²³ See *Achieving innovation in central government organisations*, National Audit Office, July 2006 and *Innovation across central government*, National Audit Office, March 2009.

Box 5.G: Building capability in innovative and frontline engagement techniques

Whitehall Innovation Hub: Leading Innovation

The Whitehall Innovation Hub, located within the National School of Government and set up by DIUS as part of its Innovation Nation strategy, has a vital role to play in spreading awareness about how public sector leaders can make the argument for innovation and effective frontline and user engagement. Their recent paper, *Change you can believe in: the leadership of innovation*,²⁴ outlines the challenges that innovation presents to government, why the transforming government agenda is a foundation for the implementation of any innovation strategy, and why leadership is critical to innovation and transforming government.

Coaching for Performance

The capability of managers at every level to engage with their people is vital to frontline empowerment. In 2007, HMRC's Child Benefit and Tax Credits frontline workers worked in a culture that failed to use their own know-how to solve problems and improve performance. A new leadership radically transformed this culture to an efficient, inclusive, highly motivational coaching style. This resulted in 95 per cent of frontline workers reporting confidence in suggesting productivity and efficiency improvements.

5.50 There are two tools that should be used to greater effect to encourage collaboration and innovation. Firstly, Sir Michael Bichard and Sir Gus O'Donnell have been asked to look at proposals for revising the Capability Review process²⁵ and wider civil service performance management structures and make recommendations on how to improve them. Capability Reviews are a major driver of departmental activity and by measuring departmental progress and capability to innovate and collaborate, central departments and their senior civil servants will increasingly have the incentives to lead from the front on these issues.

5.51 Secondly, leadership academies develop leaders right across the public sector. They should be equipping leaders with the capability to meet the most pressing challenges for public services, and innovative and collaborative approaches should be at their core. A review of the public service leadership development provision, with a focus on public sector leadership academies, is currently ongoing to ensure that leadership development is fit for purpose. This review should consider whether the curricula currently reflect the importance of local collaboration and innovation. Also, DIUS and the Whitehall Innovation Hub will look to embed leadership for innovation in leadership programmes at the National School of Government.

Recommendation 5.7: Embed innovation and collaboration in Capability Reviews and public sector leadership training programmes:

- the Cabinet Office should embed departmental capability and track record in fostering innovation and collaboration in Capability Reviews and performance management structures; and
- leadership development programmes across the public sector should include leadership of place and innovation as a core of the curriculum. The Cabinet Office should work with DIUS and the leadership academies to deliver this as part of their current review of public service leadership development provision.

²⁴ *Change you can believe in: the leadership of innovation*, Whitehall Innovation Hub, March 2009.

²⁵ The Cabinet Office's departmental Capability Review programme aims to improve the capability of the Civil Service, help departments act on long-term key development areas and therefore provide assurance on future delivery.

Conclusion

5.52 While government must be prepared to play a strategic, central role where necessary, it must also create the incentives, powers and spaces that will allow it to harness the insight and energy of local areas and public sector professionals.

5.53 This approach, as set out above, builds on a solid foundation of good practice throughout the public sector. Departments are extending the freedoms that their staff have to innovate, and creating mechanisms for channelling and supporting those innovations so that the organisation as a whole is able to benefit. Local areas are increasingly working together to ensure that the services they provide are appropriately organised and aligned and the Government has made real progress on reducing the burdens that regulation and inspection place on the frontline.

5.54 The challenge for government is to recognise and encourage these examples, ensuring that the conditions are right for organisations, services and people to work more collaboratively to improve their local area and address the major challenges facing public services in the years to come. The recommendations set out do not answer all the questions, but provide a strong direction of travel and momentum for an inclusive, creative approach to value for money in the challenging years ahead.

ISBN 978-1-84532-587-9



9 781845 325879