



Comptroller and Auditor General

**Report on Impact of
Value for Money Examinations
1994 - 1996**

November 1999

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The report was prepared on the basis of information, documentation and explanations obtained from the bodies referred to in the report.

The draft report was sent to all relevant Secretaries General and, where appropriate, comments received were incorporated in the final version of the report.

Report of the Comptroller and Auditor General

Impact of Value for Money Examinations 1994 - 1996

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out an examination of the Impact of Value for Money Examinations 1994 - 1996.

I hereby submit my report of the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized loop at the beginning and a long, horizontal flourish extending to the right.

John Purcell
Comptroller and Auditor General

4 November 1999

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Summary

The effectiveness of value for money (VFM) examinations depends on the success of the accountability process which VFM reports serve and on the impact which the reports have on improving the activities of the bodies examined. This report considers the impact of the first sixteen VFM reports produced between December 1994 and 1996.

Achieving value for money requires a strategic framework which allows for the specification of the objectives of organisations and of criteria by which the extent to which the objectives are met can be assessed. In the Irish civil service the essential elements of such a strategic framework are being developed through a series of reforms referred to as the strategic management initiative (SMI).

The sixteen VFM reports predate the implementation of SMI and, accordingly, the extent to which impact can be assessed is limited. In this report, specific impacts achieved by individual VFM reports and more general impacts, common to all departments and offices, are considered. The Department of Finance has stated that it is evident that VFM studies have contributed to actual savings in specific sectors and to a greater cost consciousness in general in the expenditure of Oireachtas moneys.

Specific impacts

The sixteen reports covered a wide range of issues dealing with economy, efficiency, project management and the assessment of effectiveness.

The principal impacts associated with economy were concerned with identifying the potential for saving money through centralising the procurement function or through the substitution of cheaper resources for more expensive resources, without a loss of quality. Some substantial savings in energy costs in the health sector and in procurement by the Garda Síochána and by universities were noted. Specific cases where savings were achieved or the quality of service improved through substitution were also noted. However, where staff substitution is involved the achievement of economies is more complicated. The need to develop effective staff performance management systems and the potential for achieving economies through the use of the private sector are recognised but changes in employment structures and practices can only be brought about in the public service through partnership which is the lynchpin of Government policy in this area.

The VFM reports dealing with efficiency looked at organisational and administrative efficiency and at systems efficiency. Positive impacts were noted in the case of the transfer of responsibility for the borrowing and treasury management activities associated with FEOGA from the Department of Agriculture and Food to the National Treasury Management Agency. Some operational improvements were also noted in the Ordnance Survey and in the arrangements for administering the second LEADER programme. Less immediate impact arose from the report on Means Testing but the issues raised in the VFM report are being addressed by the Department of Social, Community and Family Affairs as part of a wider modernisation strategy.

The VFM reports dealing with project management issues covered a diverse range of projects and found weaknesses in each of the key stages of the project life cycle. As the reports are retrospective reviews of once-off projects the most beneficial impact to be expected is for improvement in guidance material for future projects. This has been noted in the case of the development of project management plans for civil engineering projects and an increase in post project review activity. As a consequence of the Collins Barracks VFM report, the Department of Finance wrote to Accounting Officers to reiterate the benefits to be achieved from proper planning and control of projects.

Arrangements for the direct assessment of the effectiveness of the operations of Government Departments and Offices are underdeveloped and this limits the scope of VFM activity in this area. The principal impacts arising from the three reports dealing with effectiveness evaluation have been improvements in the data availability and monitoring arrangements for the areas covered.

General Impacts

Inadequacy of systems for performance information

The inadequacy of data collection to support the provision of meaningful performance information is a recurring theme in many of the sixteen reports. While this problem is being assessed in the specific cases highlighted, the overall progress in the development of improved performance reporting has been disappointing.

The period covered by the sixteen reports predates the initiative for the production of statements of strategy and business plans by government departments and offices. These strategic documents make a potentially important contribution to the value for money environment as they should clarify the objectives of programmes and identify the performance measures and indicators by which achievements can be assessed. However, much more work is needed in the development of standards and supporting systems to underpin the routine production of performance reports.

Administrative Budgets

The administrative budgets initiative was an early attempt to achieve efficiency by devolving some administrative spending responsibility to Departments and building in an expectation of a 2% efficiency dividend.

The implementation difficulties highlighted by the VFM report on administrative budgets were taken up in a revision of the system for the third round of agreements covering the period 1999 - 2001. The new round of agreements also benefit from the availability of strategy statements and plans and from moves to a multi-annual budgeting system. This reflects the interdependence between many of the reform initiatives envisaged in SMI and the need to manage the progress of reform in an integrated and co-ordinated manner.

**Impact of Value for Money
Examinations 1994 - 1996**

1 Introduction

1.1 The mandate for the conduct of value for money (VFM) examinations is provided in the Comptroller and Auditor General (Amendment) Act, 1993. This examination was concerned with the impact of the first sixteen reports on VFM examinations produced between 1994 and 1996.

1.2 The term 'value for money' as applied to public expenditure is generally accepted to include three basic elements: economy, efficiency and effectiveness. All three are well established in the literature of government auditing.

- Economy is concerned with the acquisition and utilisation of resources of the right quality, in the right quantities at the right time and place at the lowest possible cost.
- The examination of efficiency aims to compare the ratio of outputs from activities to the consumption of inputs. There are two approaches in this regard, the maximisation of outputs in relation to a fixed level of inputs or the minimisation of inputs in respect of an expected level of outputs.
- In considering the systems, practices and procedures used to measure effectiveness, VFM examinations focus on how State bodies determine the results of their activities and the extent to which their objectives are achieved.

Purpose of VFM Examinations

1.3 The purpose of VFM examinations is to provide the Dáil with independent assurance as to the economy and efficiency with which entities use their resources and the adequacy of the management systems which they have in place to evaluate the effectiveness of their operations. The primary objective of the VFM audit process is to facilitate the accountability of the entities to the Dáil and ultimately the taxpayer for the results achieved from the deployment of public resources. Accordingly, VFM reports focus on the provision of information about the performance of the entities subject to examination.

1.4 The accountability objective is achieved through consideration by the Committee of Public Accounts (PAC) of the content of each report and through the interaction between the PAC, representatives of the audited bodies and the Department of Finance. All sixteen reports have been considered by the PAC.

1.5 The PAC produces its own report on the outcome of its deliberations on the VFM reports. Three such reports have been produced to date covering twelve of the VFM reports. (See Appendix.)

1.6 The Department of Finance issues a formal response to the PAC report. Three formal responses covering twelve of the VFM reports have been issued to date. In

considering the impact of the sixteen reports, the Department of Finance has stated that it is evident that VFM studies have contributed to actual savings in specific sectors and to a greater cost consciousness in general in the expenditure of Oireachtas moneys.

Impact of VFM Reports on the Delivery of Public Services

1.7 Implicit in the accountability process is an expectation that there should be continuous improvement in the delivery of public services. In many cases, the value for money reports and the ensuing debate of the PAC will identify specific areas where improvements may be made.

1.8 The 1993 Act is recognised as part of a series of legislative measures designed to give effect to the modernisation of public sector management in Ireland. This Act, together with successive legislative reforms such as the Public Service Management Act, 1997, the Freedom of Information Act, 1997 and the over-arching Strategic Management Initiative (SMI), represent a strengthening of the governance and accountability framework in the public sector. These provisions also address the need for the public service to be more responsive, accountable and open and to provide the best possible value for money.

1.9 Several of the initiatives introduced as part of SMI seek to introduce processes and reporting mechanisms which are essential to enable civil service Departments and Offices to demonstrate that value for money is being achieved. These include the production of statements of strategy which identify the objectives and targets of Departments and the development of financial information systems to capture the full cost of operations. There is a greater emphasis on understanding the processes involved in public sector activities and on measuring the outputs from those processes (through performance indicators). This is further supported by the establishment of units specifically dedicated to the evaluation of results achieved against the original objectives set.

1.10 The sixteen reports were prepared prior to these initiatives and it is therefore not practical to attempt to systematically attribute impacts solely to the VFM reporting process. There is also no means of assessing the wider intangible benefits which may have arisen from the general dissemination of VFM principles in the reports and in the PAC deliberations on them.

Objectives and Scope of the Examination

1.11 A chronological list of the sixteen reports is set out in the Appendix. The objective of the examination was to identify the principal impacts which issues raised in the VFM reports had in the areas examined and on the general development of public sector management.

1.12 The issues are considered under the following broad headings

- specific issues relating to economy, efficiency, project management and effectiveness evaluation - Chapter 2
- general issues relating to information systems and administrative budgets affecting a wide range of entities - Chapter 3.

1.13 The examination did not include a review of any new or revised systems, practices or procedures which have been introduced into the areas examined since the completion of the VFM reports.

Methodology

1.14 The VFM reports in question, proceedings of PAC meetings, PAC reports, Department of Finance minutes and correspondence with the entities examined were reviewed and the key findings and recommendations established. The entities subject to examination were contacted to establish what action has been taken in relation to the key findings in the reports since their completion.

2 Specific Impacts

2.1 This chapter identifies key issues in the sixteen reports, subsequent impacts on service delivery and the potential for further development.

2.2 In Table 2.1 the key issues in the sixteen reports are grouped under four headings - economy, efficiency, project management and the evaluation of effectiveness. Within each of these headings, common themes in the reports emerged. These are set out in Table 2.2.

Table 2.1 Breakdown of issues in the sixteen VFM reports 1994 - 1996

| Report | Economy | Efficiency | Project Management | Effectiveness Evaluation |
|---|---------|------------|--------------------|--------------------------|
| LEADER | | ✓ | | ✓ |
| Energy Management in the Health Service | ✓ | ✓ | | |
| Garda Transport | ✓ | ✓ | | |
| Gas Interconnector Project | | | ✓ | |
| Management of Telephone Facilities in the Civil Service | ✓ | | | |
| Regional Development Measures | | | | ✓ |
| FEOGA Borrowing | | ✓ | | |
| Means Testing | | ✓ | | |
| Gulliver: The Irish Tourism and Reservation System | | | ✓ | |
| Planning of Second Level School Accommodation | | | | ✓ |
| The National Museum at Collins Barracks | | | ✓ | |
| Procurement in Universities | ✓ | | | |
| Ordnance Survey | | ✓ | | |
| The Irish Genealogical Project | | | ✓ | |
| Administrative Budgets in the Civil Service * | | ✓ | | |
| Arterial Drainage of the Boyle and Bonet Rivers | | | ✓ | |

*Note: * The issues raised in this report and subsequent developments are considered separately in chapter 3*

Table 2.2 Key issues arising with associated common themes

| Category | Common themes arising in reports |
|-----------------------------|--|
| Economy | <ul style="list-style-type: none"> ● Centralised procurement ● Substitution of cheaper resources |
| Efficiency | <ul style="list-style-type: none"> ● Operational efficiency ● Efficiency of processes |
| Project Management | <ul style="list-style-type: none"> ● Deficiencies in appraisal ● Planning weaknesses ● Delays in completion ● Project reviews not undertaken |
| Evaluation of effectiveness | <ul style="list-style-type: none"> ● Absence of clear targets ● Poor data collection |

Economy

2.3 In the four VFM examinations which considered economy issues two key points emerged

- the potential for improving economy through the use of centralised procurement procedures
- the substitution, where appropriate, of a cheaper resource for a more expensive resource.

Centralised Procurement

2.4 The centralisation of purchasing in an organisation and the use of collaborative arrangements for procurement between bodies with similar activities can produce significant benefits. The maximisation of purchasing power in this way should enable the purchaser to obtain discounts from suppliers and should reduce transaction processing costs. In addition, duplication of administrative effort can be avoided. Where additional resources are required to implement initiatives of this nature, the potential benefits need to be weighed against the costs of these resources. Even where centralised procurement is not feasible some economic benefit should accrue from the sharing of key procurement information.

2.5 Three reports highlighted potential benefits from centralising procurement.

Positive impacts

2.6 The report on energy management in the Health Service¹ noted that some central procurement arrangements were already in place including an agreement for the supply of natural gas which covered the period 1992 to 1996 and a more recent initiative for the central negotiation of fuel oil prices. Since the report was completed a new agreement has been negotiated with effect from 1997 for the purchase of natural gas.

2.7 The report on Garda Transport² found that over 60% of Garda fuel was purchased locally and that there was scope for substantial savings by taking advantage of the purchasing power of the Department of Justice, Equality and Law Reform through negotiating centrally for the supply of the locally purchased fuel. In October 1998, a nationwide contract for the supply of this fuel commenced and the Department anticipates that there will be savings of some £200,000 per annum as a result.

Limited impacts

2.8 The report on Procurement in Universities³ suggested that greater use of centralised purchasing or collaborative arrangements could yield significant benefits. Similar arrangements in UK universities and in the Irish private sector have achieved savings of between 5% and 15%. The universities already had two such arrangements in place in the area of information technology where special deals had been made at more attractive prices than existed previously. In the light of the findings in the VFM report the Universities Chief Financial Officer Group, in May 1997, commissioned a firm of consultants to carry out a review of procurement in universities. The consultants' report indicated that savings of the level achieved by UK universities did not appear to be achievable.

2.9 The consultants recommended more sharing of information across Colleges and between departments and that approved supplier lists be introduced to ensure that, where possible, the overall purchasing power of a university can be used.

2.10 Individual universities have stated that, while there has been considerable discussion on the procurement initiatives recommended in the VFM report, no formal arrangements have been made to put them into effect. Centralised purchasing is now undertaken in relation to periodicals/journals with estimated savings

¹ *Comptroller and Auditor General, Report No. 2, Energy Management in the Health Service, PN 1628*

² *Comptroller and Auditor General, Report No. 3, Garda Transport, PN 1858*

³ *Comptroller and Auditor General, Report No. 12, Procurement in Universities, PN 3211*

of 2 - 3%. Information relating to insurance costs is being shared by all universities and two have advertised jointly on a test basis for insurance services. In the area of information technology suppliers lists have been compiled by the universities. The universities are in the process of recruiting Procurement Officers who, when appointed, will be responsible for ensuring best practice is followed and value for money achieved. To date, five of the universities have appointed Procurement Officers who are in regular contact sharing information and further appointments are expected to be made in the remaining two universities by the end of 1999.

2.11 Five of the universities individually engaged consultants to review their procurement arrangements for a range of products and services and to assist in the implementation of efficiencies identified. The consultants made a presentation on joint purchasing to the finance officers of the universities. Consultants are currently being engaged to develop a common procurement framework for the university sector which will incorporate common procurement policies, training programmes, information technologies and the assessment of areas suitable for collective purchasing arrangements. Individual universities have already issued statements of policies and procedures governing the procurement function to relevant staff.

Potential for Further Development

2.12 Significant savings from centralised procurement can be achieved and the potential for savings should be constantly monitored and initiatives taken, where feasible. The potential to extend this practice throughout the public sector should be subject to systematic and regular review. The good practice suggested for the universities could, for example, be equally applied to Institutes of Technology and Vocational Educational Colleges.

2.13 The Higher Education Authority has stated that, following the provision of £40 million for equipment under the Government's Programme for Research in Third Level Education 1999-2001, the opportunity to maximise value for money through co-operation between universities has been brought to their attention and discussions are taking place between them.

Substitution of Cheaper Resources

2.14 Three VFM reports suggested that savings could be achieved through the substitution of a cheaper resource for a more expensive resource.

Positive impacts - Consumables and Equipment

2.15 The examination of Energy Management in the Health Sector concluded that savings were achievable through fuel substitution involving a transfer to heavy grade oil in three health board areas which did not have access to natural gas supplies. Initiatives were already underway at the time of the examination and the three boards have reported that significant savings are being achieved. The North Western Health Board, for example, have stated that use of heavy fuel oil is achieving savings of £100,000 per annum.

2.16 The report on the Management of Telephone Facilities in the Civil Service⁴ focused on an in-depth analysis of the use of the Government Telecommunications Network (GTN). The examination established that although 40% of calls could be routed through the GTN only 23% were so routed. At the time of the examination the Department of Finance was considering the possibility of using a Virtual Private Network (VPN), which attracts significantly cheaper rates than GTN, for the provision of telecommunication services. A contract for a VPN service was signed with Telecom Éireann (now renamed Eircom) by the Minister for Finance in June 1997. Most Government Departments and Offices have now connected to the new service and GTN was discontinued in June 1999. The regional Health Boards and a number of areas in the Garda Síochána are also availing of VPN while a number of local authorities are planning to connect to the service in the near future. An interdepartmental group, chaired by the Department of Finance, is preparing a request for tender for a new voice and data VPN service to replace the existing voice only service when the existing contract expires in June 2000.

Limited progress - Manpower

2.17 In the Garda Transport report, it was noted that the substitution of less expensive civilian personnel for Garda personnel in the Garda Garage could yield annual savings of up to £250,000. Alternatively, contracting out of the entire operation could yield savings of the order of £400,000 to £600,000. Also, the use of civilian staff for routine driving duties, not having a security dimension, would reduce costs. The potential for savings has been acknowledged and the whole area of the use of civilian employees in the Garda has been taken up. A total of 30 civilian drivers are being recruited, as required for the transport details section, subject to completion of medical examinations and driver competency tests. However, there has been little progress in relation to the other proposals. The Department of Justice, Equality and Law Reform have stated that a review of the Garda Síochána is currently underway within the Department in the context of the SMI, including the operation of the Garda Garage. Increased civilianisation throughout the Force is being pursued in this context but any changes in current

⁴ *Comptroller and Auditor General, Report No. 5, Management of Telephone Facilities in the Civil Service, PN 2041*

structures must be agreed with the Garda representative bodies within the SMI framework.

Potential for Further Development

2.18 The bulk of resource costs within the Public Sector relate to the employment of staff. The substitution of cheaper manpower resources poses a challenging task given the constraints that apply to employment practices in the Public Sector. The achievement of value for money requires that there should be more flexible arrangements for the utilisation of human resources.

2.19 Savings are also achievable where the same level and quality of service can be obtained at lower cost through contracting-out operations to private sector firms. Using comparable private sector benchmarks to measure performance in terms of key economy and efficiency criteria such as unit costs can present opportunities where it is appropriate to contract out the provision of goods and services. Such decisions are often taken against a complex background involving social, political and industrial relations issues in addition to economy issues. Moreover, maintenance or improvement of existing service levels must be built into contractual arrangements. Where there is potential for greater cost-effectiveness through contracting out, reasonable justification for retaining the service or operation in-house should be fully established and kept under review.

Efficiency

2.20 There are two broad approaches to maximising efficiency. The 'economising approach to efficiency' aims to maintain the current level and standard of output (for example the provision of service), while reducing the level of input (resources). The alternative 'productivity approach to efficiency' entails achieving a higher level of output without changing the level of resources used. Where justified, it can also involve increasing the level of input provided this results in a disproportionately larger increase in output. In recent times, pressures to reduce or at least contain public expenditure have placed a greater emphasis on the economising approach in public sector management.

2.21 Efficiency is a relative concept and is not an end objective in itself. The aim of efficiency measurement is to highlight the potential for performance improvement. In the relevant VFM reports, efficiency was usually considered by reference to the trend in relevant performance indicators (input/output ratios) over time. In some cases, efficiency was also assessed by examining the processes used to convert inputs into outputs.

2.22 The measurement of efficiency is dependent on the availability of information about the resources devoted to a programme, activity or service and where the end products of the activity are well defined and broadly similar. Measuring efficiency is problematic where information about resources is poor or where the outputs of programmes or activities are ill defined and not measured. As the period in question predated SMI reforms the extent of such information was limited and, as a result, many of the examinations focussed on administrative efficiency only. In two of the examinations input/output ratios were used in assessing the efficiency of operations or activities.

Operational Efficiency

2.23 Four of the examinations had findings in relation to the organisation of the entity or activity in question which had implications for efficiency. These are summarised in Table 2.3.

Table 2.3 VFM Reports dealing with organisational and administrative efficiency

| Title of Report | Auditee | Nature of Programme | Programme Expenditure |
|------------------------|--|--------------------------------|------------------------------|
| LEADER | Department of Agriculture and Food | Rural development | £30 million |
| FEOGA Borrowing | Department of Agriculture and Food | Management of borrowing | n.a. |
| Means Testing | Department of Social, Community and Family Affairs | Social security administration | £15 million |
| Ordnance Survey | Ordnance Survey | State mapping agency | £9 million |

Positive impacts

2.24 The report on FEOGA Borrowing⁴ suggested that assigning the borrowing and treasury management function from the Department of Agriculture and Food to the National Treasury Management Agency (NTMA) might be cost effective on the basis of a comparison of the interest rates achieved by the Agency over the first six months of 1995. The FEOGA intervention borrowing function was transferred to the NTMA

⁴ *Comptroller and Auditor General, Report No. 7, FEOGA Borrowing, PN 2269*

with effect from March 1998. The 1999 Finance Act provided for the transfer of FEOGA subsidy borrowing to NTMA and this is being implemented in two phases up to the end of 1999. The NTMA has estimated that savings on intervention borrowing for the period for which the Agency had responsibility for this function in 1998 was almost £40,000 as measured against a benchmark of the estimated cost of funds to the Department. The NTMA have stated that there have been no additional resource implications arising from the transfer of this function.

2.25 The report on Ordnance Survey⁶ found that there was room for improvement in customer service and revenue collection and that rural mapping was considerably out-of-date.

2.26 Since the completion of the VFM report a Customer Service Development Plan was produced in 1998 and a firm of consultants have been appointed to assist in its implementation. The Plan includes standards which address the customer service problems which were highlighted in the VFM report.

2.27 The Agency also appointed a business development manager and a wholesale distribution manager. A comprehensive catalogue has been published with a restructured pricing system. The products are also advertised on the Internet. A proposal has also been submitted to the Department of Finance for additional resources to enable the Agency to revise all rural mapping.

Limited impacts

2.28 A number of administrative weaknesses were noted in the VFM report on LEADER⁷ including inadequate inspection of some groups, inadequate analysis of project proposals in some cases, cost overruns on some projects, and the risk of duplication and administrative overlaps, the use of a flexibility clause to circumvent the exclusion of certain types of projects and the involvement of a number of board members as project promoters. The report also suggested that technical and administrative matters might be better organised on an agency basis by mainline or other area-based organisations leaving key roles at local level.

2.29 The Department of Agriculture and Food have stated that the weaknesses highlighted in the VFM report were addressed in the arrangements for the LEADER II programme including the elimination of the flexibility clause and the maintenance of a register of interests of board members. The suggestion of an agency taking on the purely technical and administrative aspects of the programme was not put into effect in the second LEADER programme as the Department of Agriculture and Food considered that this would be contrary to the bottom-up nature of the programme.

⁶ *Comptroller and Auditor General, Report No. 13, Ordnance Survey, PN 3483*

⁷ *Comptroller and Auditor General, Report No. 1, The LEADER Programme, PN 1374*

2.30 The examination on Means Testing* found that there was extensive retesting of individuals who were already in receipt of a welfare payment and some duplicate testing. The report suggested a number of options which could be considered to improve efficiency including the creation of a single means testing agency, greater categorisation of claimants on the basis of risk, integration of schemes to make service delivery more client centred, qualification on one scheme serving as a passport to other schemes and the adoption of a common definition of means.

2.31 Since the VFM report was issued, a report to the Government by a working group on the Integrated Social Services System has concluded that the establishment of a single means testing agency was unnecessary, particularly in the light of the creation within the Department of Social, Community and Family Affairs of a means testing database called the Means Recording System.

2.32 In July 1999 the Government decided to establish a cross departmental initiative, known as the REACH initiative, to implement a range of integrated service objectives including a shared means database. In effect this will involve making the Means Recording System accessible to other public sector bodies such as health boards and local authorities. The initiative will have an initial three year implementation period (up to 2002) and has been allocated a budget of £11.3 million.

2.33 There has been some progress in relation to streamlining means testing of a number of schemes operated by the Department and the process of standardising the assessment of capital across a number of social assistance schemes has been implemented. Standard procedures have been agreed between the Department and the health boards with regard to the assessment of means for Supplementary Welfare Allowance. The Department has improved information sharing with the health boards by extending the use of its short-term schemes computer system to Community Welfare Officers who administer the Supplementary Welfare Allowance scheme.

Efficiency of Processes

2.34 Two VFM examinations used input/output analysis to examine the efficiency of operations. These are summarised in Table 2.4.

* *Comptroller and Auditor General, Report No. 8, Means Testing, PN 2270*

Table 2.4 Value for Money Reports dealing with efficiency of processes

| Title of Report | Auditee | Nature of Process | Annual Expenditure |
|--|--|----------------------------------|---------------------------|
| Energy Management in the Health Sector | Health Boards, Department of Health & Children | Management of energy consumption | £22 million |
| Garda Transport | Department of Justice, Equality and Law Reform, Garda Síochána | Fleet management | £14.3 million |

Positive impacts

2.35 The examination of energy management in the health sector measured energy consumption rates in health board and voluntary hospitals and suggested that a set of initiatives involving both a capital outlay and a minor outlay could produce significant savings in energy costs. Worthwhile savings could also be achieved by, for example, regular efficiency testing of boilers, restricted space heating and better control of lighting.

2.36 Following the issue of the report, the Mid-Western Health Board undertook a pilot project to install modular boilers and calorifiers and a combined heat and power (CHP) unit at a gross investment in excess of £92,000. In 1998, the Board estimated that the payback period^{*} for this project was 5.4 years which is considered satisfactory. The success of the pilot project encouraged the Board to seek approval for a CHP unit in the regional general hospital. The unit was installed in 1998. The Southern Health Board has also confirmed that several Health Boards have achieved savings through the installation of CHP units.

2.37 A number of other initiatives were taken as a result of this report, such as

- the Department of Health and Children issued a circular to all health agencies bringing the issues identified in the VFM report to their attention and restating guidelines
- Technical Services Officers hold regular forums to exchange information
- Energy Officers have been appointed in three health boards
- a variety of other initiatives have been taken across health boards to address the specific points raised in the VFM report.

^{*} The payback period is the time within which the savings achieved by the project reach the level of the original investment in the project

2.38 It is not possible to accurately assess the cumulative impact of these measures on energy consumption patterns and costs across the Health Boards as the data which would facilitate such an assessment is not available. However, there is a consensus that the actions taken as a result of the production of the report have led to considerable improvement and awareness of the potential for better economy and efficiency in energy management.

2.39 The report on Garda Transport found a number of inefficiencies in the operation of the Garda Garage including delays in vehicle procurement, low productivity levels and high maintenance costs.

2.40 Since the issue of the VEM report revised practices were introduced during 1996 for the purchase of vehicles at the start of the year which would reduce delivery time by four or five months. It was also agreed that vehicles would be fitted out by suppliers which would facilitate speedier delivery to Garda stations. Targets have also been set for utilisation of vehicles.

2.41 A ban on overtime was introduced for one year but overtime was subsequently reintroduced. A new computerised system is expected to provide information which will assist in the evaluation of performance and in the monitoring of productivity at the Garda Garage.

Potential for Further Development

2.42 Securing improvements in administrative efficiency or in the processes employed for service delivery is a continuous challenge to public sector entities. In the case of administrative efficiency, the reports highlight the need for improved record keeping to measure efficiency often by making better use of available technology.

2.43 For process efficiency, the unique problems associated with introducing more flexible work arrangements and in cross cutting programmes which require legislative change are key issues being dealt with through various aspects of the SMI. The all embracing nature of the required changes in management practice and the long time horizon needed to secure full implementation suggest that a strategic approach to major change is appropriate.

Project Management Issues

2.44 The undertaking of projects by individual Departments or across Departments pose special risks to value for money. By their nature, projects involve activities which are outside the normal activities of the organisation. Obtaining value for money from projects usually depends on the adequacy of the project management structures put in place to control the consumption of inputs, oversee the production of outputs and manage the achievement of the project objectives in line with the targets set.

2.45 Five VFM examinations were concerned with projects. The nature of the projects and the bodies concerned are summarised in Table 2.5. While each project examined was different in nature, the key findings of the examinations can be considered under four headings representing the critical stages of project management as set out in Table 2.6.

Subsequent Events

2.46 Because of the unique once-off nature of most of the projects examined in this period, the scope for follow-up action and for implementing improvements is limited. One of the intended impacts of reports of this nature is the potential for applying the lessons learned to subsequent projects, as appropriate. However, a number of specific actions and improvements in project management procedures were reported as follows

- The Engineering Services Division of the OPW is now developing a Project Management Plan for civil engineering projects¹⁰. Consultants were engaged to review the return on investment in relation to the arterial drainage maintenance programme.
- A project management structure along the lines recommended was put in place for Phase II of the National Museum at Collins Barracks¹¹. This included the appointment of a Project Manager by the National Museum and the putting in place of a Project Steering Group for overall project management and cost control.
- A joint review/re-evaluation of the Gas Interconnector Project¹² was carried out by the Department of Public Enterprise/Bord Gáis Éireann last year and the findings will be applied to any such project in the future.

¹⁰ *Comptroller and Auditor General, Report No. 16, Arterial Drainage of the Boyle and Bonet Rivers, PN 3527*

¹¹ *Comptroller and Auditor General, Report No. 11, The National Museum at Collins Barracks, PN 3068*

¹² *Comptroller and Auditor General, Report No. 4, Gas Interconnector Project, PN 1895*

Table 2.5 Value for Money Reports on Projects 1994 - 1996

| Title of Report | Auditee | Nature of Project | Project Expenditure |
|--|---|-----------------------------|----------------------------|
| The Gas Interconnector Project | Department of Public Enterprise | Energy Infrastructure | £249 million |
| Gulliver: The Irish Tourism and Reservation System | Bord Fáilte Éireann | Systems development | £10 million |
| The National Museum at Collins Barracks | Department of Arts, Heritage, Gaeltacht and the Islands | Buildings Renovation | £28 million |
| The Irish Genealogical Project | Department of the Taoiseach | Creation of Database | £15 million |
| Arterial Drainage of the Boyle and Bonet Rivers | Office of Public Works | Agricultural Infrastructure | £32 million |

Table 2.6 Key project management findings

| Project Stage | Selected VFM report findings |
|--|--|
| <u>Project appraisal</u> Definition of project need Justification for the project | <ul style="list-style-type: none"> ● lack of adherence to Department of Finance appraisal procedures ● deficiencies in cost/benefit appraisals giving rise to an over-estimation of the project return ● failure to carry out a re-assessment of a project where this was warranted due to changes in circumstances. |
| <u>Planning</u> Definition of outputs Establishment of time and cost targets | <ul style="list-style-type: none"> ● absence of appropriate project management structures ● failure to set budgets and targets for projects and, in one instance, the adoption of an inappropriate concept and specification. |
| <u>Implementation</u> Controlling resources, monitoring the delivery of outputs | <p><i>Timeliness</i></p> <ul style="list-style-type: none"> ● significant delays occurred in the completion of virtually all of the projects examined. In some cases the original schedule of work was not completed or the full planned service was not provided. <p><i>Monitoring</i></p> <ul style="list-style-type: none"> ● Deficiencies in the monitoring of project progress. |
| <u>Post project review</u> Establishing outcomes | <ul style="list-style-type: none"> ● General absence of post project reviews |

- A fundamental review of the Irish Genealogical Project¹³ is underway. Funding to complete the project, estimated at £3.4 million, was held pending the outcome of this review. The report of this review recommended that funding of £210,000 for 1999 be conditional on an acceptable business plan being produced by Irish Genealogy Limited which has responsibility for the project and subject to agreed targets as set out in the plan being met. Progress in this regard will be monitored by the Department of Arts, Heritage, Gaeltacht and the Islands
- The Gulliver system¹⁴ was sold to a private sector partner in July 1997 with Bord Fáilte and the Northern Ireland Tourist Board retaining 26% of the shares in the company.
- The Gas Interconnector project and the Irish Genealogical project were subjected to post-project review following a recommendation to this effect in the relevant VFM reports.

2.47 In response to the project planning and control issues raised in the VFM report on the development of the National Museum at Collins Barracks, the Department of Finance has reiterated to Accounting Officers the importance of adequate planning and control for any similar projects in the future.

Potential for Further Development

2.48 The common deficiencies in project management highlighted in the reports should assist in the dissemination of good practice both within the organisations examined and across the Public Service as a whole. The collective findings of these reports (and similar reports produced since 1996) could also be used as an input to inform the design of training programmes on project management and in the updating of central guidance notes on project management and control.

Systems to Evaluate Effectiveness

2.49 Expenditure programmes in the Public Sector have historically been evaluated on an ad-hoc and limited basis only and have not been subject to systematic or comprehensive evaluations. In addition, performance measurement has been limited to the measurement of inputs and outputs while the determination of outcomes has tended to be neglected.

¹³ Comptroller and Auditor General, Report No. 14, *The Irish Genealogical Project*, PN 3526

¹⁴ Comptroller and Auditor General, Report No. 9, *Gulliver: The Irish Tourism Information and Reservation System*, PN 2722

2.50 The Comptroller and Auditor General (Amendment) Act, 1993 provides a mandate to examine and report on the systems, procedures and practices put in place by Departments to enable them to evaluate their performance. The primary responsibility for evaluating effectiveness lies with the Departments themselves.

2.51 In considering a Department's ability to evaluate effectiveness account is taken of a framework which includes the following elements

- clearly stated programme objectives, measurable as far as possible and consistent with organisational goals
- performance measures or indicators to enable progress in achieving objectives to be assessed and targets set for each measure or indicator
- a system for monitoring and evaluating the results of performance measurement
- evaluation studies which focus in particular on the qualitative aspects of performance that are less easily measurable on a routine basis to complement the use of performance indicators.

2.52 Three VFM examinations reviewed the mechanisms in place to evaluate effectiveness. These are summarised in Table 2.7.

Table 2.7 Value for Money Reports dealing with effectiveness evaluation

| Title of Report | Auditee | Nature of Programme | Programme Expenditure |
|---|-------------------------------------|----------------------------|------------------------------|
| LEADER | Department of Agriculture and Food | Rural development scheme | £35 million |
| Regional Development Measures | Multiple Departments | Economic development | £2,500 million |
| Planning of Second-level School Accommodation | Department of Education and Science | School accommodation | £39 million |

2.53 Each of the examinations found an absence of or deficiencies in the key elements of effectiveness evaluation. In the case of both LEADER and Regional Development Measures¹⁵, it was established that while overall objectives were set for programmes there was an absence of clear targets which hampered the measurement of the extent to which objectives were being achieved. The examination of LEADER also reported that some groups had plans which were vague and not related to sectoral objectives and were without quantified targets. The examination of Planning of Second-Level School Accommodation¹⁶ reported that the Department had not set clear output targets for the school accommodation programme and that the Department took a reactive approach to the provision of school accommodation instead of formulating a strategic plan.

2.54 A system of programme evaluation enables Departments to assess the extent to which objectives are being achieved, the continuing need for the programmes and the potential for increasing value for money. The three VFM reports highlighted a failure to establish and maintain data collection systems which would generate performance measures to facilitate the evaluation of effectiveness.

Direct Impacts

2.55 The Department of Agriculture and Food has since established a financial and statistical database for the recording of information supplied on a monthly basis by each LEADER group.

2.56 Improvements were made in procedures for measuring the performance of Operational Programmes devised to administer regional development measures. These included the establishment of an independent EU Evaluation Unit in 1996 by the Department of Finance in partnership with the European Commission to co-ordinate evaluation activity in this area and promote best practice. The Unit carried out a review of ongoing evaluation of programmes under the Community Support Framework. The report on this review identified deficiencies in the evaluation procedures and made recommendations which could be applied to future EU-funded programmes. The Department of Finance subsequently drew up guidelines on how such evaluations should be undertaken and issued a circular to this effect to the relevant bodies.

2.57 The Planning and Building Unit of the Department of Education and Science has introduced a new computer system for management information and project management of Second-Level School Building which will address the deficiencies identified in the VFM report. The Department has also begun to set basic measures to monitor the performance of the Planning and Building Unit.

¹⁵ *Comptroller and Auditor General, Report No. 9, Regional Development Measures, PN 2159*

¹⁶ *Comptroller and Auditor General, Report No. 10, Planning of Second Level School Accommodation, PN 3067*

Potential for further development

2.58 Our limited review indicated that the establishment of systems, procedures and practices for evaluating effectiveness were under-developed. Under the Public Service Management Act, 1997, all Government Departments are required to draw up strategy statements which should articulate the required outputs to implement policy, the means by which they will be achieved, the resources utilised and the measures by which progress will be assessed. An ongoing framework for monitoring and reviewing progress and procedures for corrective action is also required to be established. These are important elements of the framework to evaluate effectiveness.

2.59 Since the launch of Delivering Better Government in 1996, greater emphasis is being given to programme evaluation and Departments are currently undertaking a rolling cycle of programme evaluations for their major programmes. These should provide important feedback on the effectiveness of the activities examined.

2.60 The establishment of Evaluation Units in some Departments/Offices to carry out evaluations and programme reviews is a positive development.

3 General Impacts

3.1 In this chapter, two subjects of general relevance to all Government Departments and Offices are considered.

- The inadequacy of information systems to satisfy the emerging demands for financial and non-financial data needed to measure outputs and outcomes was a recurring finding in most of the examinations.
- The examination of the administrative budgets initiative¹² looked into one of the earliest attempts to achieve efficiency improvements across a range of Departments.

Systems to Measure Performance

3.2 Management information systems in the public sector have historically been geared to provide information on regularity issues such as compliance with laws and regulations and the probity and propriety of the actions of public officials. Inadequate attention has been paid to demonstrating the extent to which value for money was achieved through the measurement of their efficiency and effectiveness.

3.3 Since the VFM mandate was introduced there is a new requirement for public sector organisations to include within their management information systems data collection and analysis procedures to measure their inputs and outputs and the relationships between them. There is also a requirement to build appropriate systems which define expected outcomes, provide for the measurement of outcomes to the extent that this is possible and, for non measurable outcomes, accommodate other activities which will enable the entity to demonstrate its effectiveness. The absence of performance measures reduces the likelihood that value for money is being achieved.

Impact of the Reports

3.4 Almost all of the VFM reports completed in the period 1994 to 1996 refer to deficiencies in performance information. These deficiencies and steps taken to address them are summarised in Table 3.1.

3.5 In most cases, the action required to improve the quality of management information was significant and would impact on either the development of strategy within the entity or on the systems development and maintenance schedules of the information systems units in organisations. Accordingly, while the auditees did not in general dispute the audit findings and accepted the recommendations made, their

¹² *Comptroller and Auditor General, Report No. 15, Administrative Budgets in the Irish Civil Service, PN 3529*

Table 3.1 Deficiencies in management information

| Report title | Report findings and progress reported |
|---|--|
| The LEADER Programme | <p>Evaluation of the programme was hampered by the absence of clear targets and the failure to establish and maintain data collection systems.</p> <p><i>Progress reported: Some improvements in the management information systems for LEADER II were reported by the Department of Agriculture and Food.</i></p> |
| Energy Management in the Health Sector | <p>The annual compilation of performance indicators similar to those developed for use in the VFM examination would provide a useful source of information which would facilitate review and any necessary decision making.</p> <p><i>Progress reported: The Department of Health and Children is currently reviewing performance indicators with the health boards with regard to delivery of energy in the most cost effective manner.</i></p> |
| Garda Transport | <p>There were deficiencies in the information maintained including delays, inaccuracies and omissions which reduced the capacity to manage, monitor and evaluate the performance of the vehicle fleet.</p> <p><i>Progress reported: Computerisation is being introduced in phases. There is provision for a time recording system which should eventually provide figures to support the evaluation of performance of the Garda Garage.</i></p> |
| Planning of Second-level School Accommodation | <p>Output targets for the Planning and Building Unit were not set and there were some shortcomings in the management information available.</p> <p><i>Progress reported: The Department of Education and Science has begun to set basic measures to monitor performance in this area and a new computer system was introduced to improve management information.</i></p> |
| Means Testing | <p>Variations existed in how data was processed and held by organisations affecting their capacity to share information.</p> <p><i>Progress reported: The REACH initiative, launched in July 1999, aims to implement a range of integrated service objectives including a shared means database.</i></p> |
| Procurement in Universities | <p>None of the universities examined generated regular and comprehensive procurement information for effective procurement management.</p> <p><i>Progress reported: Some improvements have been made in the quality of procurement information where universities have introduced new financial management systems and it is expected that further improvements will be made in this area.</i></p> |
| Ordnance Survey | <p>It was not possible during the examination to evaluate the extent to which financial targets were being met because of limitations in the management information system. The report recommended that the Ordnance Survey should develop a comprehensive management information system.</p> <p><i>Progress reported: Little progress has been made due to a lack of resources.</i></p> |

ability to make progress depended on progress with other aspects of the implementation of strategic change.

3.6 In some cases, the interdependence of improvements in information systems with other management activity has delayed progress. Progress in other cases has been hampered by the diversion of resources to essential work related to Year 2000 compliance and the adaptation of systems to cater for the introduction of the Euro.

Potential for Further Development

3.7 The specific deficiencies in information systems reported in the sixteen reports represent the tip of the iceberg in the requirements for the enhancement of management information systems. There is considerable potential for improvement. In order for Departments to properly demonstrate the extent to which they achieve value for money, an expansion in the quantity and quality of information reported would be required. The whole area of performance reporting in the Public Sector is undergoing rapid development internationally. Some of the improvements which are emerging are

- greater use of the full accruals basis of accounting in departmental and whole of government external financial reporting
- the use of costing reports at programme level within Departments
- the publication by Departments of their efficiency and effectiveness achievements through separate performance reports (in some cases independently audited) using relevant performance measures and indicators covering financial and non-financial data.

3.8 Any improvement in reporting must be underpinned by adequate data collection and processing systems.

Administrative Budgets

3.9 The establishment of the administrative budgets system in 1991 was a significant early step in seeking improvements in administrative efficiency across a range of Departments. This was to be achieved through individual agreements between the Department of Finance and spending Departments for the delegation of decision making about administrative spending - both from the Department of Finance to departmental managements and within individual Departments. Civil service running costs were to be reduced and a 2% efficiency dividend was planned into the system.

3.10 The VFM examination looked into the outcomes of the first two cycles of administrative budgets and found that overall the system helped to contain the tendency for administration expenses to increase. There have, however, been problems with the implementation of the system. The examination noted that these implementation difficulties manifested themselves in a number of ways as follows

- It had not been possible to establish if civil service efficiency had improved other than by way of general overall indicators. The determination of performance by reference to individual schemes and programmes of expenditure which had been envisaged in the agreements was not achieved.
- The efficiency dividend had not been applied across the board in the second period mainly because of resistance by larger Departments.
- Monitoring groups set up to oversee the implementation of the agreements were ineffective.
- There was a general failure to devolve responsibility for administrative spending to line management within Departments.

Positive impact of the VFM report

3.11 Since the completion of the VFM examination a new round of administrative budget agreements have been drawn up covering the period 1999 to 2001. Many of the agreements have already been signed and the remainder are expected to be finalised shortly. The main impact of the VFM report was to stimulate debate on the proposals for the third round of administrative budget agreements among the Financial Management Group, the Co-ordinating Group of Secretaries and the SMI Implementation Group. It is clear from the memorandum to Government that a consensus view was achieved by the various groups and that the principal concerns expressed in the VFM report were taken up.

3.12 The new arrangements should be viewed in the context of the new management structures for the civil service provided for under the Public Service Management Act, 1997 and other innovations prompted by the SMI. The arrangements, which may offer a better chance for the successful implementation of the system than heretofore, include the following

- Departments are to immediately begin the development of explicit measurable targets for outputs and impacts consistent with performance measurement targets being developed in the strategy statements under the SMI. The targets will be progressively incorporated over the period and will be fully operational by the third year.

- The efficiency dividend of 2% per annum has been restored to ensure that there is an appropriate payback to the Exchequer arising from developments such as the restructuring agreements under the PCW, the Public Service modernisation programme under Partnership 2000 or investment in Information Technology or other initiatives. Departments will be allowed to retain the saving to the extent that it is applied to the Change Management Budget under the SMI or used to finance the cost of new or expanded services for which additional resources were not provided.
- The monitoring committees are to be reconstituted and their functions extended to concentrate on implementing the process of downward delegation and to deal with the development of appropriate measures of output and key performance indicators as required under the SMI.
- There will be greater empowerment of civil service managers, both outward from the Department of Finance and downward within Departments by formal delegation of more authority and accountability for administrative budget expenditure and associated outputs within the context of the SMI.

Potential for Further Development

3.13 The integration of the third round of administrative budget agreements with the production of strategy statements, the multi annual budgeting cycle and the development of output measures is a good combination of strategic management steps, administrative innovation and improved reporting. There is an interdependence between each of these reforms and it is essential that they be developed in a fully co-ordinated and integrated manner across the civil service.

Appendix

Appendix A Chronology of the Accountability Process for the 16 VFM Reports

Table A.1 Critical dates relating to VFM reports 1994-1996

| Title | Report signed | Date published | Discussed at PAC | Date of PAC Report | Finance response |
|---|--------------------------|---------------------------|----------------------------------|-------------------------------|-----------------------------|
| The LEADER Programme | 23-12-94 | 13-04-95 | 26-05-95 | 09-05-96 | 17-01-97 |
| Energy Management in the Health Service | 28-04-95 | 10-08-95 | 12-10-95 | 09-05-96 | 17-01-97 |
| Garda Transport | 09-08-95 | 17-11-95 | 18-01-96 | 09-05-96 | 17-01-97 |
| Gas Interconnector Project | 09-08-95 | 30-11-95 | 15-02-96 | 01-05-97 | 15-10-97 |
| Management of Telephone Facilities in the Civil Service | 03-11-95 | 29-01-96 | 28-03-96 | 09-05-96 | 17-01-97 |
| Regional Development Measures | 22-12-95 | 15-03-96 | 13-06-96 | 01-05-97 | 15-10-97 |
| FECGA Borrowing | 22-12-95 | 15-04-96 | 11-07-96 | 01-05-97 | 15-10-97 |
| Means Testing | 29-12-95 | 21-02-96 | 27-06-96 | 01-05-97 | 15-10-97 |
| Gulliver: The Irish Tourism and Reservation System | 30-05-96 | 26-07-96 | 06-03-97 | 01-05-97 | 15-10-97 |
| Planning of Second Level School Accommodation | 02-10-96 | 17-01-97 | 13-03-97 | 06-11-97 | 09-04-98 |
| The National Museum at Collins Barracks | 15-10-96 | 23-01-97 | 20-03-97 | 06-11-97 | 09-04-98 |
| Procurement in Universities | 12-11-96 | 17-01-97 | 26-03-97 | 06-11-97 | 09-04-98 |
| Ordnance Survey | 20-12-96 | 01-05-97 | 23-04-98 | - | - |
| The Irish Genealogical Project | 23-12-96 | 22-04-97 | 20-01-98 30-04-98 29-04-99 | - | - |
| Administrative Budgets in the Irish Civil Service | 31-12-96 | 08-05-97 | 11-12-97 | - | - |
| Arterial Drainage of the Boyle and Bonet Rivers | 31-12-96 | 05-06-97 | 08-01-98 21-05-98 | - | - |