FY2013-14 Technical Note

TECHNICAL NOTE

Savings delivered in 2013/14 in Government Departments

Summary

This report sets out the Government's assessment of the impact of actions taken by Government departments, supported by the Cabinet Office, to release cashable savings, to identify savings through identification of low priority spend on projects, leading to project cancellation, funding reprioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings and gain receipts from asset sales and new commercial models in FY13/14.

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

- In May 2010 UK Gross Domestic Product (GDP) had shrunk by almost 5% in the recession of 2008/9 and public spending made up 47% of GDP, a level that was considered by all major political parties to be unsustainable. The deficit between government revenue and public spending, including debt repayments, was the largest percentage of GDP of any developed country.

- The Government embarked on a programme of spending cuts aiming to reduce this fiscal deficit over the lifetime of the current Parliament. The June 2010 Budget removed £6.2 billion from in-year public spending, £3.2 billion of which came from central Government budgets.

- The Cabinet Office began programmes of work with Departments to address both these areas.
    - Immediate steps included:
        - starting a programme to centralise procurement of common goods and services and renegotiating deals with some of the largest suppliers.
        - putting in place moratoria governing:
            - non-essential recruitment
            - new ICT projects
            - marketing and advertising spend
            - potentially wasteful expenditure on consultants and Temporary Agency staff; and
        - performing a review of major government projects, and of existing ICT projects to identify where spend could be curtailed in year

    - Longer term programmes of reform to embed sustainable change across the public sector, included measures:
        - to reconsider the delivery models for public service and establishing employee owned mutuals;
        - to implement a programme of Civil Service Reform;
        - to establish a Major Projects Authority to provide appropriate governance to influence delivery of our largest project commitments;

- to improve government transparency; and
- to create new forms of social investment in the voluntary and community sectors.

- For FY10/11 the Government reported savings of £3.75 billion. The benefits statements and values we have included in this figure were verified by the internal auditors and subsequently the NAO confirmed savings of this scale had been made in their report 'Cost reduction in central government'[1]. The PAC welcomed the form with which these savings were reported and commended to Government to continue with its work on improving efficiency and bringing about reform.

- In FY11/12 the Government built on this success delivering an operational savings total of £4.8 billion, and prevention of wasteful spend by major projects and construction of £758m, totalling £5.5bn. The benefits statements and values we have included in this total were again verified by the internal auditors.

- In FY12/13 the Government accelerated the savings delivery, delivering an operational savings total of £8bn, and prevention of wasteful spend by major projects and construction of £2bn, totalling £10bn. Again the benefits statements and values we have included in this total were verified by the internal auditors.

- In FY13/14, further savings have been achieved. This report sets out operational savings of £10.6bn, reduction in low value spend by major projects, reduced revenue requirements and construction savings of £3.5bn and receipts from asset sales and new commercial models of £0.1bn, totalling £14.3bn[2].

<u>What do these figures represent?</u>

- These figures represent our best assessment of the Government's progress against meeting the above objectives.
- The Government has worked hard to put in place robust savings assertions using detailed savings methodologies that provide as accurate an estimate as possible of the impact of our work. However, these savings figures are not national or official statistics; they are management information evidenced, normally, by department reports; and they have been assured by our internal auditors, and scrutinised by the NAO.
- Where these reductions are "one-off" and do not recur, there is an associated programme of work to embed longer term change throughout this parliament.

[1] The report states, "In July 2011, the Cabinet Office's Efficiency and Reform Group reported to the Public Accounts Committee that it had helped save some £3.75 billion through these initiatives. Our analysis of the audited accounts of the 17 main departments confirms that spending in the areas targeted was reduced on this scale."

[2] Figures may not sum due to rounding.

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- Wherever potential double counting between the data sets has been identified, this has been removed.
- When formulating benefits statements, we have rounded the precise figures to the nearest £10m to reflect an appropriate level of precision.
- Throughout the year we have discussed this approach with the NAO, and at the year end we invited independent verification of our work from our internal auditors.
- Cabinet Office Internal Auditors found that the values and benefits statements below are a reasonable reflection of the savings made with no significant weaknesses. This was based on a review of the evidence that Cabinet Office has collated in support of these assertions.

What are the figures?

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

Area	FY13/14 Realised Saving (£m)
Advertising and Marketing	£378m
Centralising Procurement	£1,490m
Commercial Relationships	£1,809m
Consulting and Contingent Labour	£1,615m
Common Infrastructure Programme	£116m
Workforce Reductions	£2,392m
Pensions Reform	£2,340m
Property Portfolio Optimisation	£461m
Operational Savings Total	***£10,601m***
Major projects	£2,479m
Construction	£840m
GDS Controls Savings and GDS Wider Savings	£91m
GDS Transformation	£119m
Savings through Identification of low priority spend on projects, leading to project cancellation, funding reprioritisation, or cost	***£3,529m***

reduction; implementation of projects to reduce revenue requirements and construction savings	
Property Asset Sales	£163m
Commercial Models	£10m
Receipt from Asset Sales and New Commercial Models	***£173m***
TOTAL	***£14,303m***[3]

[3] Excludes £3.5m of rounding adjustments.

Detailed breakout by area

Area	Activity description	Exact Amount (£m)	Evidence Base / Calculation / Caveats	Savings Assertion
Operational Savings				
Advertising & Marketing	We have maintained central controls and ensured Ministerial sign-off on all planned advertising, marketing and communications spend over £100,000. The control improved the effectiveness and efficiency of all expenditure, thus delivered better outcomes and value for money. We also ensured government expenditure was transparent, professionally managed and better coordinated across government.	£378m	The calculation compared 12 month departmental spend on advertising, marketing and communications for 2013/14, benchmarked against the same exercise first undertaken in 2009/10. ALBs not providing returns for 2013/14 were removed from the 2009/10 baseline calculations. New or existing ALBs not included in the 2009/10 exercise were discounted from the calculations. Senior sign-off was obtained from all departments (most often the Director of Communications).	By maintaining strong control of the advertising, marketing and communications spend, government saved nearly £380m in 2013/14 from 2009/10.

Centralising Procurement	We have established, and maintain a range of framework agreements across multiple categories for commodity products and services. Aggregation of spend and optimisation of OJEU procurement processes have released savings across Central Government and the Wider Public Sector.	£1,490m	Benefit methodologies have been developed for the different categories of procurement. These follow a standard template and require the approval of senior managers who review them against the approved ERG approach, including the use of any counterfactuals, before they can be used to calculate and claim savings. Savings are calculated based either on the invoiced value of products/services provided or a comparison of a representative selection of products/services. Spend is reported by Suppliers as required under the terms of the framework agreements.	By centralising spend on common goods and services and by introducing policies requiring Departments to purchase less, Government has saved £1,490million centrally and in the wider public sector.
Commercial Relationships	We have improved commercial outcomes to deliver savings on contracts.	£1,809m	Evidence base is derived from department verification of savings. Departments submitted savings information to the Cabinet Office. Where savings were not directly reported by departments they are tracked back to departmental verification from (i) supplier reports, (ii) savings derived from spend controls managed by the Cabinet Office or (iii) negotiations involving the Cabinet Office. The method of calculation varies according to the initiative that yields the saving but are generally based on a saving against a baseline of what would have otherwise been spent. The savings compare original and revised agreed/contracted prices. Savings are calculated, where possible, with reference to a 2009-10 baseline. However, this is not always possible, for example when (i) a good or service was not procured in the baseline year, (ii) baseline spend data is not available, or (iii) cash-releasing negotiations or profit/gain share agreements do not require a baseline. In these cases the most appropriate baseline, or no baseline, is used based on specific circumstances.	By better managing contracts and commercial arrangements. Government has saved nearly £1810m in 2013-14. This includes nearly £200m recovered from suppliers.

Consulting & Contingent Labour	We have implemented a controls process to manage the approval of demand for Consultant and Contingent labour (CCL) staff across departments.	£1,615m	Savings are calculated by subtracting the total reported department spend on Consultancy and Contingent Labour for 2013-14 against the total reported for 2009/10 uplifted by the relevant counterfactual (RPIX for Consulting and AAWE for contingent labour). This is a change in basis from 2012-13 where no counterfactual was applied.	Departments report a significant reduction in discretionary spend: A reduction in spend on consulting in 2013-14 of over £1,110m compared to 2009-10. A reduction in spend on temporary agency staff in 2013-14 of over £500m compared to 2009-10.
Common Infrastructure Programme	We have implemented a Common Infrastructure Programme	£116m	Sustainable savings are calculated per project based on departmental reports of telecommunications and hosting spend in 2013-14 compared to 2009-10. This assertion only covers those departments on the PSN framework, which were able to provide ERG with outturn information.	By implementing a Common Infrastructure Programme, we saved nearly £120 million from spend on telecommunications and hosting in a number of departments in 2013-14 compared to 2009-10.
Workforce Reductions	We have restructured the Civil Service, implemented stronger controls on non-essential recruitment, a two-year pay freeze followed by a continued period of pay restraint.	£2,392m	Savings were calculated by subtracting the total reported departmental spend on payroll staff for 2013-14 against the total reported for 2009-10.	We've reduced the size of the Civil Service by 76,000 between June 2010 and December 2013 contributing to over £2,390m in savings in 2013-14 on paybill costs compared to 2009-10.

Pensions Reform	We have adjusted the balance between central funding for pensions and employee contributions for selected unfunded public service pension schemes: - Principal Civil Service Pension Scheme - NHS Pension Scheme - Teachers' Pension Scheme - NHS and Teachers' Pension Schemes in Scotland - Northern Ireland Executive Pension Schemes - LG Police Force Pension Schemes - LG Firefighters' Pension Schemes in England Please note the following: - This is based on forecast information. - The net benefit to the Exchequer does not come from improved efficiency or reduction in administrative overheads, but from a transfer of costs. - The calculation does not take account of second order tax revenue implications.	£2,340m	The formula used to estimate the yield from increasing employee contribution rates is as follows: A = E – (B * C / D) Where: A = expected yield B = employee contributions for baseline year C = employer contributions for target year D = employer contributions for baseline year E = employee contributions for target year Source: Table 2.18 from the Supplementary Fiscal Tables to the Office for Budget Responsibility's Budget 2013 Economic and Fiscal Outlook published in March and December, but with unrounded figures supplied directly by OBR officials.	By adjusting the balance between central funding and employee contributions, this Government saved an estimated £2,340m in 2013-14 from taxpayer contributions to selected unfunded public service pension schemes.

Property Portfolio Optimisation	We have put in place national property controls such that signature of new property leases or lease extensions were approved centrally. Government departments have been working to consolidate and reduce the size of its estate.	£461m	Calculations by property are based on the amount departments have reported saved through the Government's property database by non-renewal of property leases at lease breaks or upon lease expiry or exit from freehold property. We have deducted a prudent estimate of the costs associated with exiting buildings and property disposals realised including any new leasehold costs arising.	We reduced the in-year cost of our property estate by over £460m for 2013-14.
Savings through Identification of low priority spend on projects, leading to project cancellation, funding reprioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings				
Major Projects	Responding to the Government's determination to reduce the deficit, the majority of Departments have had to conduct their activities with budgets that, in real terms, are lower than those in 2010. Departments have cancelled lower priority projects and re-scoped other projects to remove less essential elements. They have also found ways of removing cost from some project activities and successfully implemented projects that have reduced their revenue requirements. The Major Projects Authority has successfully introduced a suite of reviews and other activities that provide Departments, their project teams and the	£2479m	<u>Cancelled Projects</u> The saving is the difference between the amount that a department had planned to spend (the benchmark forecast) and the amount it spent on any and all retained elements of the cancelled project. The benchmark for measuring the saving is the latest forecast profiling expenditure on the project prior to the review that led to the cancellation.	Departments have reported savings of nearly £220m in 2013-14 by cancelling low priority or wasteful projects. This saving is equivalent to the amount that would have been spent had the project continued.

	Treasury with a system for rating the likely success or otherwise of major projects.		Re-scoped Projects The saving is the difference between the amount that a department had planned to spend (the benchmark forecast) and the amount it spent on the revised project. The benchmark for measuring the saving is the latest forecast profiling expenditure on the project prior to the review that led to the re-scoping.	Departments have reported savings of nearly £270m in 2013-14 by removing low priority elements from the scope of their major projects. This saving is the amount which would have been spent on lower priority elements.
			Cost reductions from specific actions by the project team The saving is the difference between the forecast cost of the relevant stage of the project at the start of the stage and the actual cost when the difference is attributable to a specific action commissioned by a department's project team.	Departments have reported savings of over £430m in 2013-14 by taking action that resulted in a quantifiable reduction in cost of the project. The saving is the reduced project cost.

			<u>Reductions in ongoing expenditure requirements following successfully implemented projects</u> The saving is measured only if the project has a positive net present value when measured using the outturn cost. The reductions in ongoing expenditure requirement flowing from the new service are the basis of the saving. This category includes the Department of Health (DH) modernisation programme saving of £1070m which measures the reduction in administration expenditure against the 2009-10 baseline increased for inflation, after deducting DH savings included in other categories. This category includes the total difference in legal aid expenditure since 2010-11 from in-year accounts, adjusted to allow for known changes in legal aid volumes since the start of 2013-14. The estimate included may change in the event of end-year accounting adjustments.	Departments have reported savings of nearly £1560 m in 2013-14 following successful implementation of projects and programmes. The saving is the difference between the cost prior to project delivery, and the cost following successful implementation of the project (where possible, net of the cost of the project). The 13-14 cost may be influenced by factors outside of the individual projects.

Construction	We published the Government Construction Strategy (GCS), setting out how we plan to realise and monitor reductions in the costs of construction over the SR period using benchmarks. We set up a cross government Data & Cost Benchmarking Task Group to publish benchmarks and measure progress against delivery of Annual Savings targets. We have worked with departments to implement initiatives that deliver cost reductions and are proposed by the GCS.	£840m	Each department has confirmed that a 2009-10, or thereafter, baseline has been used in calculating any savings. Benchmarks are established by department and product e.g. the cost of a school by floor area (£/m^2) or the cost of a road by kilometre run (£/km). Type 1 Benchmarks (Spatial Measures): Encompass the most common formats used by clients and industry to benchmark total construction costs, for example: £/m, £/m2, £/m3. They are related to throughput (quantity) in the sense, for example, of square metres of accommodation delivered by a project. Type 2 Benchmarks (Functional Measures): Encompass a range of more Department specific benchmarks, which address business outcomes per £ for example: £/Place; Flood Damage Avoided £ / Investment £. Type 3 Benchmarks: Address a range of more Department specific benchmarks but where business outcomes are related only indirectly to the benchmark, for example: ratio of product cost (or alternatively development cost) to total construction cost. Type 4 Benchmarks: Similar to Type 1 benchmarks but applied at an elemental throughput (quantity) level, for example: foundation costs £/m, £/m2 or £/m3. Cost reductions reported by departments are derived by comparing current benchmarks with baseline benchmarks multiplied by the volume of activity (overall spend or creation of area or length by department). The baseline consists of the departmental construction benchmarks that were recorded during the financial year 2009/10 and which have been published. Savings for construction of road improvements include descoping aspects of projects whilst still maintaining the	Departments reported eliminating over £820m from the planned costs of construction projects in 2013-14. The Government successfully realised a reduction in the overall £/m2 cost of refurbishment activities of FE colleges in 2013-14 compared to 2009-10 costs, that equated to nearly £20m.

			integrity of the network. Construction projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion. More detail on the counting method outlined above is provided at: https://www.gov.uk/government/publications/construction-costs-departmental-reductions-2010-2011 The following list from Table 8 of the cross Government "Cost Reduction Validation Method" identifies typical ways in which public clients are reducing the cost of construction: • Different approaches to packaging of projects and procurement (including introduction of mini competitions on frameworks; commercial / improved cost targeting); • Streamlining project development and approvals processes; • Value engineering using innovation and alternative methods to deliver the same outcome more efficiently; • Improved delivery process / contractor efficiencies through reducing waste / increasing productivity; • Lean initiatives to increase the proportion of spend on the end product and a corresponding reduction in non productive costs (particularly those related to upfront design and site overhead costs / schedule duration); • Amendment of output specification	

			requirements and floor areas (achieving tighter fit between specification and requirement); • Shift from new build to refurbishment options; • Standardisation of materials products and components: bulk purchasing / category management of materials, products and components; • Introduction of Building Information Modelling (BIM): reduction of risk pricing / rework; • Certainty of funding allowing the planning and managing of work as a programme rather than as a series of discrete projects, enabling better collaboration with the supply chain to develop a more efficient delivery strategy that comes with a large and visible programme; • Improved risk and value management through portfolio risk management; • Confidence in the forward pipeline leading to the opportunity to reduce overhead and profit fee rates in awarding new construction frameworks. The overall savings figure includes construction savings achieved by the wider public sector where consistent with the above methodologies and funded or facilitated by departments.	

GDS Controls Savings & GDS Wider Savings	To reduce wasteful expenditure we implemented a review process for all upcoming Departmental investments for: • ICT with requested spend > £5.0M and • Digital with requested spend > £0.1M. (Digital is distinguished from ICT as being any external facing service delivered through the internet.) Departments also reported projects that were closed prior to undergoing these reviews. Using investment cases provided for the reviews, we centrally consolidated resulting cost reductions that Departments forecast for ICT.	£91m	The evidence for these amounts is provided by the documents produced in the review process: • Department's Business Cases and Spend Control Forms; and • the reviewed spend Ministerial Submissions and Approvals. Where an Approval is conditional upon specified Departmental activity, acceptance of any conditions is also provided. These amounts relate to spend that has been forecast to accrue to Financial Year 2013-14 including where it was cancelled prior to or during the review process. The two amounts are calculated respectively as: • Controls Savings = value of (original Spend Control Form – approved Ministerial Submission) • Wider Savings = value of (do nothing – preferred) option of investments' forecast cost. Note that these savings are based on the *forecast* spend in Financial Year 2013-14 within five year forward forecast spends, rather than *actual* spends. This is a change in basis from 2012-13 where Wider savings were not claimed.	By scrutinising ICT & Digital spend requests; the Government has reduced the forecast expenditure on approved projects over £70M. Within these scrutinised spend requests; the resulting cost reductions that Departments forecast from their investment cases was nearly £20M. The total was £91M.

GDS Transformation	The build of the new single domain, GOV.UK, has replaced content and functionality for Directgov, Businesslink and 21 Ministerial websites. This has resulted in cost savings from those websites' closure. GDS worked with DWP to revise the budget and duration of their original OJEU notice for the procurement of Identity Assurance services. Working with departments to help digital transformation: • GDS stopped DECC from spending their allocated budget on a new website to publicise their Green Deal policy. The Green Deal website is live on GOV.UK instead; • GDS helped the ERTP programme make savings using agile software development techniques and inhouse capability; • GDS helped DVLA build a database (IIAAD – Insurance Industry Access to Driver Data) at a reduced cost than the incumbent provider.	£119m	The evidence of the website closure costs (claimed as savings as the websites migrate to GOV.UK) is based on non staff and staff costs provided by departments and published in the annual report(s) on central government websites. The baseline costs have been taken from the 2009-10 annual report but where cost data was not provided the costs have been sourced from subsequent annual reports (2011-12 and 2012-13). For the DWP Identity Assurance programme the original and revised OJEU notices are provided as evidence of the savings claimed. For the savings being claimed by stopping DECC from building a new website the original and revised Business Cases and spend request are provided as evidence. For the ERTP programme savings the delegation letter against the actual spend for the year are provided as evidence of savings. For DVLA, the Preliminary Business Case and actual spend for the year are provided as evidence of savings.	Government departments have saved over £60million in 2013-14 through the building of a new single GOV.UK website. Over £40 million has been saved by DWP in 2013-14 through reducing the total cost of their Identity Assurance services. Working with departments to help digital transformation has resulted in: • £5 million savings across the DECC. • £4 million savings across the ERTP programme. • £5 million savings for DVLA.

Receipts from Asset Sales and New Commercial Models				
Property Asset Sales	Government departments have been working to consolidate and reduce the size of its estate.	£163m	Calculations by property are based on the amount departments have reported saved through the Government's property database for exit from freehold property. We have deducted a prudent estimate of the costs associated with exiting buildings and property disposals realised including any new leasehold costs arising.	By selling our land and buildings, we have generated over £160m in revenue for the taxpayer in 2013-14.
Commercial Models	We have put in place three Joint Venture companies with private sector partners and unlocked value for HMG.	£10m	'Cash receipts' are one-off payments that the Cabinet Office receives from private sector partners from unlocking commercial opportunities. Cash receipts are treated as 'savings', as they are the result of CMT intervention. We have deducted the costs associated with procurement and / or other costs incurred by HMG in achieving those savings / cash receipts. This is a new category of saving for 2013-14.	We have received cash receipts of £10m in FY2013-14 relating to a Joint Venture – Axelos - £10m.