FY2014/15 Technical Note

Savings delivered in FY2014/15 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; receipts from asset sales and new commercial models; tackling fraud, error and debt in FY2014/15.

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. 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 savings totalling £14.3bn were achieved. This consisted of 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. These savings were verified by internal auditors. They were also subject to review by the NAO in its report 'The 2013-14 savings reported by the Efficiency and Reform Group' which confirmed that significant savings had been achieved and noted improvements to Government's calculations and reporting.[1]

- In FY 14/15 savings of £18.6bn have been achieved. This consists of operational savings of £12.4bn, reduction in low value spend by major projects, reduced revenue requirements and constructions savings of £5.1bn, receipts from asset sales and new commercial models of £0.4bn and benefits from tackling fraud, error and debt of £0.7bn. The benefits statements and values we have included in this total have been verified by our internal auditors.

What do these figures represent?

- 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,

[1] National Audit Office, *The 2013-14 savings reported by the Efficiency and Reform Group*, July 2014, p.4ff.

normally, by department reports; and they have been audited by the Government Internal Audit Agency.

- Where these reductions are "one-off" and do not recur, there is an associated programme of work to embed longer term change.

Technical presentation

- Wherever potential double counting between the data sets has been identified, this has been removed.
- The methodologies used to calculate these savings and the figures themselves have been audited by the Government Internal Audit Agency.

What are the figures?

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

Savings area	FY2014-15 realised savings £m
Advertising & Marketing	329
Centralising Procurement	1,757
Commercial Relationships[2]	2,197
Consultancy and Contingent Labour	1,595
Workforce Reductions	2,823
Pensions Reform	2,930
Property Portfolio Optimisation	635
GDS PSN Savings	103
Operational Savings Total	12,369
Major Projects	2,754
Construction	1,889
GDS controls and GDS wider savings	391
GDS Transformation	105
Savings through identification of low priority spend, leading to project cancellation, funding reprioritisation or cost reductions; implementation of projects to reduce revenue requirements and construction savings.	5,139
Asset sales	382
Commercial Models	33
Receipts from Asset Sales and New Commercial Models	415
Fraud, Error and Debt benefits[3]	742

[2] Commercial Relationships reported total savings of £2,438m for FY2014-15. Of this amount £175m related to asset sales and £68m to renegotiation of debt liability. For presentation reasons these amounts have been reported in the relevant sections of the table.

[3] £1.5m of FED savings relating to the renegotiation of contracts for the administration of grants have been reported in the section for Commercial Relationships for presentation reasons.

[4] May not sum due to rounding.

Benefits from tacking Fraud, Error and Debt in the system	742
Total[4]	**18,670**

Detailed breakout by area

Area	Activity Description	Exact amount (£)	Evidence base / calculation / caveats	Savings assertion
OPERATIONAL SAVINGS				
Advertising & Marketing	We maintained central controls and ensured Ministerial sign-off of on all planned advertising, marketing and communications spend over £100,000. The controls 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.	**£329m**	The calculation compared 12 month departmental spend on advertising, marketing and communications for 2014/15, benchmarked against the same exercise first undertaken in 2009/10. ALBs not providing returns for 2014/15 were removed from the 2009/10 baseline calculations. New or existing ALBs not included in the 2009/10 exercise were discounted from the calculations. ALBs with less than 250 staff were discounted from our 2012/13 and 2013/14 audit exercises. To be as comprehensive as possible, we have added these bodies back into the 2014/15 calculations if they supplied original data in 2009/10. 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 has saved nearly **£330m in communications expenditure** in 2014/15 against a 2009/10 baseline.

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.	**£1,757m**	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 nearly **£1,760m** centrally and in the wider public sector.

Commercial Relationships	We've improved commercial outcomes to deliver savings on contracts.	**£2,438m**	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 initiatives that yields the savings, 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.	Commercial activity across government has delivered savings and receipts of nearly **£2,440m** for FY2014/15. By better managing contracts and commercial arrangements across Government savings of **£2,195m** have been realised. Receipts from the sale of assets have realised **£175m** ; and renegotiating debt liability has realised **£68m**.

Consulting & Contingent labour	We have implemented a controls process to manage the approval of demand for Consultant and Contingent Labour (CCL) staff across departments.	**£1,595m**	Savings are calculated by subtracting the total reported department spend on Consultancy and Contingent Labour for FY2014/15 against the total reported for FY2009/10 uplifted by the relevant counterfactual (Retail Price Index excluding mortgage interest payments for consulting and Adjusted Average Weekly Earnings for contingent labour).	Departments report a significant reduction in discretionary spend: A reduction in spend on consulting in FY2014/15 of over **£1,125m** compared to FY2009/10 and a reduction in spend on temporary agency staff in FY2014/15 of over **£470**m compared to FY2009/10.

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.	**£2,823m**	Size reductions represent the fall in Civil Service employment from the baseline of Civil Service employment levels as at Q1 2010 (end of March 2010). Cash savings are based on the reduction in pay bill between 2009/10 and 2014/15. Savings are not net of any costs associated with departures and do not include ongoing costs. For FY2014/15 the baseline for reductions in Civil Service employment has been changed from the June 2010 baseline used in 2013/14 to March 2010 to align with the financial year for which the baseline for paybill has always been measured.	We've reduced the size of the Civil Service by 86,000 between March 2010 and March 2015 contributing to over £2,820m in savings in 2014/15 on pay bill 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	**£2,930m**	The approach used to estimate the yield from increasing employee contribution rates is to look at the difference in employee contribution receipts between the years in question and 2011-12. Estimated yield has been adjusted for assumed change in pensionable paybill and composition of the workforce by using employer contributions as a proxy. Figures are sourced from 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. 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.	By adjusting the balance between central funding for pensions and employee contributions for selected unfunded public service pension schemes we have saved an estimated **£2,930m** for the taxpayer in 2014/15.

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.	**£ £635m**	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 **£635m** for 2014/15.
GDS – PSN Savings	PSN savings – savings reported by some departments procuring services through the PSN framework.	**£103m**	Sustainable savings are calculated based on departmental reports of telecommunications and hosting spend in 2014/15 compared to 2009/10 or the most relevant baseline. This assertion only covers those departments on the PSN framework, which were able to provide outturn information. Further savings on PSN for some of the departments for which savings are not included here are included in other categories of savings using the methodology appropriate to that category i.e. centralised procurement and GDS controls. All calculations for PSN savings in this category are based on actual departmental spends. At the end of each quarter each department is asked to report on a baseline cost and the actual costs incurred under the PSN framework contract for the relevant service.	We saved over **£100m** from spend on telecommunications and hosting under the PSN framework in a number of departments in 2014/15 compared to 2009/10 or the most relevant baseline.
SAVINGS THROUGH IDENTIFICATION OF LOW PRIORITY SPEND, LEADING TO PROJECT CANCELLATION, FUNDING REPRIORITISATION OR COST REDUCTIONS; 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	**£2,754m**	1. Cancelled projects – savings are calculated as the difference between the amount the department planned to spend (the benchmark forecast) less the amount it	Departments have reported savings of over **£160m** in 2014/15 by cancelling low priority or wasteful projects. This saving is

	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 Treasury with a system for rating the likely success or otherwise of major projects.		spent on any or all of the retained elements of the cancelled project. .	equivalent to the amount that would have been spent had the project continued.
			2. 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.	Departments have reported savings of nearly **£580m** in 2014/15 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
			3. Savings due to specific action – 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 **£240m** in 2014/15 by taking action that resulted in a quantifiable reduction in cost of the project. The saving is the reduced project cost.
			4. Savings from the successful implementation of projects – The reduction in ongoing expenditure as a result of the successful implementation of a project or a programme 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 £1219m which measures the reduction in administration expenditure	Departments have reported savings of nearly **£1770m** in FY2014/15 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 FY2014/15 cost may be influenced by factors outside of the individual projects.

			against the 2010/11 baseline increased for inflation, after deducting DH savings included in other categories. This category includes an estimate of the proportion of the total difference in legal aid expenditure since 2010-11 from in-year accounts arising from Legal Aid reforms,	
Construction	We published the Construction Strategy, setting out how we plan to realise and monitor reductions in the costs of construction over the SR period using benchmarks. We have also reduced the level of grant per affordable housing unit.	**£1,889m**	Benchmarks are established by a specific department construction sector and asset/product e.g. the cost of a school by floor area (£/m2) or the cost of a road by kilometre run (£/km). 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). With devolved spending this will encompass reductions in Grant Allocations to deliver the same or increased level of assets. The baseline consists of the departmental construction benchmarks that were recorded during the financial year 2009/10 or beyond and which have been published. Construction projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion and Final Account Outturn. More detail on the counting method outlined above is provided at: https://www.gov.uk/government/publications/construction-costs-departmental-reductions-2010-2011	At the end of FY2014/15 the MPA-Construction Team worked with Departments to deliver, and/or record on their behalf, savings of nearly **£1,890m**. In FY2014/15 Construction savings include £936m delivered by DCLG through the GLA affordable housing programme by reducing the grant given for each completed unit in 14/15 compared to the grant for each completed unit in 2009/10. The Government successfully realised a reduction in the overall £/m2 cost of building new and refurbishing existing FE colleges in FY2014/15 compared to FY2009/10 costs, that equated to more than £56m.
GDS Controls	Reform team savings – savings made through intervention in	**£391m**	Copies of the original and revised Business Cases and stopped spend requests are given as evidence, with the variation claimed as the saving. Where available, actuals	Savings of over **£390m** have been identified through controls,

	departmental digital and technology projects.		for 2014/15 have been provided as evidence for further savings. The baseline for these savings is the original planned spend forecast for FY2014/15 from five year forward forecasts included in original business cases.	cancelled projects and ICT Strategy savings.
GDS Transformation	1. 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. 2. GDS worked with DWP to revise the budget and duration of their original OJEU notice for the procurement of Identity Assurance services. 3. Digital transformation - GDS stopped DECC from spending their allocated budget on a new website, transformed asset management for MoJ and produced a database for DVLA.	**£105m**	1. Gov.uk 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 (2010/11, 2011/12, 2012/13 and 2013/14). 2. Identity Assurance programme For the DWP Identity Assurance programme the original and revised OJEU notices are provided as evidence of the savings claimed. 3. For the savings being claimed for digital transformation, original and revised Business Cases and old and new process flow maps, etc are provided as evidence.	Government departments have saved over **£61m** through the building of a new single GOV.UK website in 2014/15 against 09/10 or the most relevant baseline. **£36m** has been saved by DWP through reducing the total cost of their Identity Assurance services in 2014/15. Working with departments to help digital transformation has resulted in **£7m** savings across the DECC, MoJ and DVLA in 2014/15.
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.	**£207m**	Calculations by property are based on the amount departments have reported saved through the	By selling our surplus land and buildings, we have generated

			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.	nearly £210m in revenue for the taxpayer in 2014/15.
Commercial Models	We transform government services to improve efficiency through the use of more effective business models. We have delivered asset sales for other government departments in the form of a new Joint Venture company with private sector partners; received dividends from joint venture arrangements put in place in 13/14 and sold equity stakes in other joint ventures, unlocking value for HMG.	**£33m**	'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. 'Cash receipts' from private partners to relevant government departments are also evidence of CMT intervention unlocking commercial opportunities. We have deducted the costs associated with procurement and / or other costs incurred by HMG in achieving those savings / cash receipts.	Transforming the business models of selected services across Government has enabled asset sales and sales of HMG equity in businesses, and increases in commercial revenue realising additional cash receipts of over **£30m** in 2014/15**.** This comprises: Framework Management Fee from Shared Services Connected of £6.6m. Payment of £4 million from the sale of government shares in the MyCSP Joint Venture. We also received a dividend payment from MyCSP of £1.5m. As Shareholder in Axelos we received a £1.18m dividend payment. £20m payment from Capita for asset sale in Defra.
BENEFITS FROM TACKLING FRAUD, ERROR AND DEBT IN THE SYSTEM				
Fraud, Error, Debt (FED)**:**	**1. DWP Fraud, Error and Debt Programme**	**£676m**	The savings and benefits from tackling fraud, error and debt have been delivered through the following initiatives: 1. DWP Fraud, Error and Debt Programme	Total savings of nearly £680m have been realised through a range of FED initiatives by DWP to collect debt, administer penalties and prevent overpayments; recoveries

	We have assessed and challenged the performance of the DWP FED Programme. **2. Spend Recovery Audits** We have overseen and challenged outputs from the implementation of Spend Recovery Audits undertaken by Departments on their accounts payable ledgers. **3. Check First: Student Loans Company** We have promoted a 'check first, pay later' culture and system within government, working with Student Loans Company to perform check on student loans before they are paid out to prevent ineligible claimants.		The programme contains 8 projects from which savings are derived in three different ways: • Prevented overpayments • Recovered debt • Fines Prevented overpayments Savings are from identifying changes to benefit awards and estimating how long those changes would have persisted into the future had the team not intervened. The baseline is the amount of benefits due to be paid that year. In cases where the overpayment found in FY2014/15 is projected to have continued in future years the savings for those years will be reported in the future year and are not reported in FY2014/15. Similarly the FY2014/15 savings include projected savings for FY2014/15 identified in prior years Recovered debt Savings are from identifying changes to benefit awards, identifying how long these have been happening for, and recovering this debt. The baseline is the level of debt identified at the start of that Financial Year. Fines Claimants are subject to three types of fines depending on the purposefulness/severity of fraud/error committed. Only two are recorded this year - both are calculated as simply the value of the fine multiplied by the volume. The cost of running the programme are deducted from the savings identified. 1. Spend Recovery Audits	of duplicate or overpayments to suppliers; and the stopping of ineligible student loan claims.

			The savings are from specific duplicates and overpayments, identified with accounts payable ledgers and recovered from suppliers in Financial Year 2014/15. They are effectively measured against a baseline of 2010/11 where this activity did not take place and is therefore assumed to be zero. Where possible the cost of conducting the spend recovery audit has been deducted from the savings. Savings have been submitted by the following Departments: DH, MOJ, MOD, DfE, DWP, HMRC, CO, HO. 3. Check First: Student Loans Company The savings are based on the total value of student funding awards blocked in Financial Year 2014/15 as recorded by Counter Fraud Services staff, based on the customer ledger and account management system. Some of these blocked loans could be released in a future year though the proportion is likely to be low. They are effectively measured against a baseline of 2010/11 where this activity did not take place and is therefore assumed to be zero.	