Cabinet Office

Savings Methodology Commercial Relationships

Overview

1. This note seeks to provide guidance in defining a saving and the categories of saving which can be claimed.

Principles

2. In line with Cabinet Office guidance on savings, regardless of its source, a saving must:

    a. Release cash, net of dis-benefits i.e. savings must elicit cash without causing unintended consequential costs elsewhere in the department.[1]
    b. Not just relocate or defer costs. Cost reallocation or deferral takes place where there is a simple movement in cash across a year end which does not in fact relate to a total net reduction in waste or inefficiency when the two years are taken together. For example, where a project is delayed by six months and therefore, there is a cash positive impact on the current year, at the cost of future years, this is not a saving. There are some grey areas around cash deferral, for example, a project is cancelled this year, but it is possible that in future years, departments may return to the same issue. In these cases it may be possible to claim an in-year saving depending on the circumstances, and it is best to consult first the Commercial Relationships Team ('CRT') and ultimately the Performance and Management Information ('PMI') team and their auditors to get expert views before making claims.
    c. Relate to activity that has already happened – i.e., claimed savings cannot be projections or forecasts that are yet to occur;
    d. Be fairly calculated and clearly positioned, i.e., not only must the saving be accurately calculated but the quality of activity from which it arises should also be described clearly and fairly;
    e. Be captured in year and accrue within period, i.e.,
        a. the savings must arise from in-year payments;
        b. it should be calculated against an appropriate baseline, if possible 2009/10;
        c. accumulate over the period of the spending Review or be a one-off saving which is not repeated each year;
        d. it should not be compounded over multiple years;
    f. Be net of any double counting between Efficiency and Reform Group ('ERG') teams when reporting publicly; and,

[1] Applied within reason

g. Be understood and seen as reasonable by an impartial third party.

3. Savings should be real and represent genuine reductions in cost (releasing 'folding cash'). Where the saving is accrued over the year, this can be counted. Anyone claiming a saving should be ready to defend it to the National Audit Office ('NAO') and independent auditors and be confident it is well evidenced by third party documentation or audited financial accounts.
4. ERG's usual scope will apply with a particular focus on central civil government. Where specific reforms deliver savings in other areas (e.g. police), departments should engage with the PMI team in the Cabinet Office via the CRT to agree a sensible approach.
5. The saving is calculated as the difference between the baseline price and the final price. For example, if a contract was originally structured to increase annually with the RPI and this clause was removed, this can be claimed as a saving.
6. The nature of the saving should be clear, for example, identifying those savings that relate to procurement and those that relate to pay.

Counting across departments

7. The Efficiency and Reform agenda exists to support departments in achieving savings and reforming services. All savings are achieved by individual departments supported to some extent by central policies, guidance and resources. Having been achieved and scored by the department, data is aggregated by the Cabinet Office to enable cross-government reporting of savings.
8. Savings must not be double counted when reporting publicly; any overlap between ERG teams should be netted off transparently. The Cabinet Office will take responsibility for this process and departments are asked to flag instances where they have concerns that such overlaps could exist.

Sources

9. The three main sources of savings are:
   (i) MoU commitments and similar historical agreements;
   (ii) Application of the controls processes and departmental engagement; and
   (iii) Additional commitments from ongoing engagement.

Savings categories

10. For a saving to be claimed, some 'output metrics' may decrease but core outcome must not be adversely affected. For example, in a prison:

(i) The core outcome is to securely house X number of people at security category Y (and increasingly to support rehabilitation and avoid reoffending).

(ii) If a decision is taken to replace prison TVs every six years rather than every five, this may result in an increase in broken TVs but the Ministry of Justice may well decide that in a time of austerity, goal (i) is not affected.

(iii) Equally, when recompeting the contract to manage the prison, the Ministry of Justice might agree to only paint the walls every two years not every year which could conceivably be seen by some as a 'service reduction' but not one that affects goal (i).

11. There are a number of ways in which savings could be delivered:

Category 1 – Volume or scope reduction

Savings secured by a supplier resulting from a reduction of planned volume or scope delivered. The reduction must not materially impact the core outcome or benefits derived.

For example, a forecast demand of 100 software licences is made either by government or by the supplier and then reduced to 80 licences following renegotiations. Assuming the core outcome is still met, the saving of the 20 licences is claimable.

Category 2 – Cancellation

Savings arising from the cancellation of a contract, net of any liabilities inherent in such an action. In these cases, savings will be calculated as the remaining whole life costs of the contract and accounted for across the remaining years of the contract. Substantive evidence that the significant net liabilities have been fully accounted for will be required for audit purposes. If a new contract is awarded to achieve the same deliverable, a saving cannot be claimed.

For example, a five year construction contract is awarded in 11/12 with a whole life cost of £500m occurring equally over the 5 years. The contract is cancelled at the beginning of 12/13. A saving of £100m is claimable for each of 12/13 and 13/14.

Category 3 – Margin reduction or rate discounts

Savings resulting from a margin reduction or discount offered by the supplier. This could take place in a number of forms including as part of a contractual renegotiation or through changes in indexation. In these cases, savings will be accounted for in the periods that the margin reduction falls.

For example, the original supplier contract was planned to cost £200m over 12/13. A 10% rate discount was agreed at mid year when £100m is remaining on the contract, resulting in the 12/13 cost reducing to £190m. A saving of £10m is claimable.

In some cases, a 'rate reduction' may be agreed via renegotiating a certain number of free services that would have otherwise been paid for. Care should be taken when attributing savings to 'free services' to ensure that robust evidence exists that the service would have been paid for to ensure it is genuinely cash releasing.

Category 4 – De-scoping

Savings that result from a de-scoping of a service requirement either from government or as suggested by the supplier. The principle outcomes and quality of deliverable must not be adversely affected as a result of the de-scoping.

For example, the 12/13 forecast development costs are £100m. The deliverable has been de-scoped, and the development cost reduced to £60m. The service requirement is still met. A saving of £40m is claimable.

Category 5 – Departmental reforms

Government spending is divided between Departmental Expenditure Limits ('DEL') and Annually Managed Expenditure ('AME'). DEL savings could include examples where a contractor introduces new technology that increases the efficiency of a process.

For example, a contractor introduces new software to increase the speed of making a benefit payment. One operator can now process five benefits payments in the time it would usually take to process one. The improved process increases utilisation of individual call centre workers so less call centre workers are required. The reduction in workers can be claimed as a pay saving.

AME savings could include examples where a contractor introduces new software to detect error in benefit statements that directly leads to the reduction of benefit payments being made. The PMI team should be consulted on any unusual cases to ensure that a sufficiently robust evidence base exists.

Category 6 – Shared 'cross government' savings or rates based reductions

Savings where a government department negotiates improved rates or charges with a supplier. These rates may then be offered to other government departments.

For example, a contractor currently charges £400-£700 as a day rate for someone of the same skills level. A reduced cross government 'day rate card' is negotiated and delivered across all departments involving reducing the day rate to £400. The saving made from the reduced day rate can be claimed (i.e., if Department X previously paid a day rate of £600, the saving would be £200 * volume).

Category 7 – Contract re-competes

In all cases, savings will arise from department expenditure and the credit for achieving this should go to departments. In many cases, there will be a very direct contribution from a Crown Representative operating on behalf of government. In some cases the contribution of a Crown Representative may not be as explicit but the saving may still have been supported by the general commercial or economic conditions. In all cases, departments and suppliers should receive the credit for their work to reduce waste; what is of paramount importance is that (a) the amounts claimed correspond to the relevant benefits standards detailed here; and (b) that all savings are transparently and appropriately recorded and claimed.

For example, a category C prison provides places to 100 inmates. The contract is re-competed at a reduced rate, the same core outcome is achieved (100 prison places) but a different, more cost efficient approach is used.

Savings considerations

12. The following cases will require a more customised approach:

AME (Annually Managed Expenditure) – All AME savings should be discussed with the PMI team before claiming. Where HM Treasury have a policy interest, such as pensions, benefits or civil service pay, the claim should be discussed with the ERG policy lead before engaging with HM Treasury at an early stage.

Disputes – Successful resolution of a dispute may well enable a department to avoid cost, saving tax payers money. In most instances, the nature of a complex legal dispute will make it challenging for departments to score this real benefit as a saving in-year. Where departments feel an exceptional case exists, they are encouraged to contact the Cabinet Office at an early opportunity to gain their advice.

Asset Sales - Where government assets are deemed to be cost inefficient and maintaining that asset would result in ongoing cost to government, the net cash benefit can be recognised as a saving. The net in-flow of cash grows commercial revenues and reduces the cost for government. They may be calculated against a counterfactual of the cost to HMG in the absence of the intervention and/or consideration received for selling equity stake in a business (participation in a business) or dividends received from a shareholding in a business.

Savings restrictions

13. Savings calculated based on a value attached to an intangible benefit cannot be claimed. For example, investment in rail infrastructure may unlock economic growth, though beneficial to the UK, this is unlikely to meet the definition of ‘folding cash’.

14. The saving should be calculated against the 9/10 baseline where it exists in a comparable form, unless there is a strong argument not to use this baseline. For example, when recompeting a contract that had yet to be let in 09/10, it may be

appropriate to use 10/11 or 11/12 as the baseline year. Where a 09/10 baseline cannot be used, teams should consult the PMI team via the CRT when setting their calculation method.

[End]