



Government
Internal Audit
Agency



Cabinet Office

Internal Audit

2014-15 Savings Validation Summary Report

Report Ref: 1/15

Date of Issue: 17th July 2015

1. Introduction

- 1.1 The objective of this audit is to provide independent assurance to the Cabinet Office Accounting Officer that the processes established within the Cabinet Office to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidence based and supportable benefit claims.
- 1.2 This validation has been carried out by Cabinet Office's internal audit service at the request of the Cabinet Office. Cabinet Office's internal audit service is provided under a Memorandum of Understanding by the Government Internal Audit Agency (GIAA).

2. Background

- 2.1 The Budget in March 2012 continued the Government's drive to cut public spending. To help achieve this, Cabinet Office was given a remit to make Government more efficient: reducing operational overheads to give taxpayers better value and allow resources to be focused on key priorities. Cabinet Office has a number of units which work with government departments and their Arms-Length Bodies to secure savings. For example, the Crown Commercial Service which helps the Government and the wider public sector to achieve savings by centralising procurement; the Government Property Unit (GPU) which helps rationalise the Government Estate and the Major Projects Authority (MPA) which has oversight of efficient delivery of major projects.
- 2.2 The validation exercise did not test the accuracy or completeness of data supplied to the Cabinet Office by government departments, only that the Cabinet Office had compiled sufficient evidence to support the savings claimed (as set out in the technical note – see Annex B), including sign off by Finance Directors where applicable and that any assertions drawn were reasonable and consistent with the evidence.

3. Conclusion

- 3.1 We were able to provide a reasonable assurance over 11 of the 15 workstreams and moderate assurance over 4 (see Assurance Categories at section 7). We worked with the Cabinet Office to ensure that on the basis of what had been provided to them by others, there was sufficient evidence to support the savings claimed by the Cabinet Office, and the associated assertion for each workstream.
- 3.2 We note that the savings across the categories vary in nature and are measured against differing baselines and that care should therefore be taken as to how any aggregate figures are represented.
- 3.3 The Cabinet Office were prudent in eliminating many instances of double counting before submitting savings for validation. Further instances of double counting identified during our work have also been eliminated. However, on the basis of the work undertaken, it is not possible to give assurance that there are no further instances of double counting between categories.

4. GIAA Methodology

- 4.1 We have provided an assurance rating against each of the 15 savings workstreams reported on by the Cabinet Office. Our assurance ratings detail our confidence level that the Cabinet Office hold sufficient evidence to support both the savings claimed and the assertions drawn from these savings – paragraph 7.1 provides more detail.
- 4.2 Our assurance rating against each workstream is based on our evaluation and assessment of the evidence provided to us during audit fieldwork. We tested the evidence provided to us using the following criteria:
- **Source of Information:** Was the evidence from a credible source? (i.e. was it reasonable to assume that reliable data could be obtained from the identified supplier of the information)
 - **Arithmetical:** Had the data elements produced been correctly aggregated to derive the savings figure claimed for each workstream?
 - **Completeness:** Had all the evidence available for each workstream been taken into account in producing the total claimed savings and associated assertion?
 - **Cut-off:** Did the data fit within the time period for the savings claims?
 - **Assertion:** Did the evidence base held reasonably support the assertion being made about the savings reported by the workstream?
 - **Framework:** Does the framework for reporting give a reasonable picture of overall savings?
- 4.3 In carrying out our validation we have used judgemental sampling to test the evidence base where appropriate; where this has been used we have skewed our testing to include high risk and/or high materiality sources of evidence.
- 4.4 We have not tested savings claims against external efficiency benchmarks, such as NAO's VFM criteria.

5. GIAA Assurance

5.1 The table below sets out GIAA assurance opinion on each savings workstream. The table lists the final savings amounts and assertions as discussed with the Cabinet Office at the end of audit fieldwork (26 June). These final savings and assertions differ from the originals given to us for review, being revised as a result of our audit work.

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (<i>italics</i>) and GIAA Comment*	GIAA Assurance
Part 1 Operational Savings 2014/15			
Advertising and Marketing	£329m	<p><i>By maintaining strong control of the advertising, marketing and communications spend, government saved nearly £330m in 2014/15 against a 2009/10.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: <i>GIAA are content with the assertion.</i></p>	Reasonable
Centralising Procurement	£1,757m	<p><i>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.</i></p> <p>Evidence Base: GIAA are content with the evidence base. Savings are based on individual benefit methodologies for each category of spend. Due to the complexity of the area a variety of baselines are used in these methodologies. Benefit methodologies do not cover all centralised procurement spend.</p> <p>Assertion: GIAA are content with the assertion.</p>	Reasonable
Commercial Relationships	£2,438m	<p><i>Commercial activity across government has delivered savings and receipts of nearly £2,440m for FY2014/15.</i></p> <p><i>By better managing contracts and commercial arrangements across Government savings of £2,195m have been realised.</i></p> <p><i>Receipts from the sale of assets have realised £175m ; and renegotiating debt liability has realised £68m.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion.</p>	Reasonable

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (<i>italics</i>) and GIAA Comment*	GIAA Assurance
Consulting and Contingent Labour	£1,595m	<p><i>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. A reduction in spend on temporary agency staff in 2014/15 of over £470m compared to FY2009/10.</i></p> <p>Evidence Base: GIAA are content with the evidence base. Departments should be reminded of the need to demonstrate senior level engagement with their submissions.</p> <p>Assertion: GIAA are content with the assertion.</p>	Reasonable
Workforce Reductions	£2,823m	<p><i>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 paybill compared to 2009/10</i></p> <p>Evidence Base: GIAA are content with the evidence base. Departments need to be reminded of the need to provide senior level validation of their submissions. Care should be taken in placing the saving figure as it does not take account of the costs of early exits.</p> <p>Assertion: GIAA are content with the assertion.</p>	Reasonable
Pensions Reform	£2,930m	<p><i>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.</i></p> <p>Evidence Base: GIAA are content with the evidence base. The savings figures are based on forecasts rather than actual contributions but forecasts for the past 2 years have proved accurate. The methodology is sound, although reliance is placed on approximating a counterfactual level of employee contributions through using the change in related employer contributions. The saving does not take account of second order tax implications.</p> <p>Assertion: GIAA are content with the assertion. These savings represent a transfer of costs to employees.</p>	Reasonable
Property Portfolio Optimisation	£635m	<p><i>We reduced the in-year cost of our Property estate by over £635m for 2014/15</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion.</p>	Reasonable
GDS – PSN Savings	£103m	<p><i>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.</i></p>	Reasonable

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (italics) and GIAA Comment*	GIAA Assurance
		<p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion.</p>	
Part 2 – 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	£2,754m	<p><i>Departments have reported savings of over £160m in 2014/15 by cancelling low priority or wasteful projects. This saving is equivalent to the amount that would have been spent had the project continued.</i></p> <p><i>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.</i></p> <p><i>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.</i></p> <p><i>Departments have reported savings of nearly £1,770 m in 2014/15 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 FY14/15 cost may be influenced by factors outside of the individual projects.</i></p> <p>Evidence Base: GIAA are content with the evidence base. We are able to offer moderate assurance as the data reported is reliant on good reporting from Departments.</p> <p>Assertion: GIAA are content with the assertion. We are able to offer moderate assurance due to the variety of methodologies used to calculate these savings and the risk that whole life savings will not be realised.</p>	Moderate
Construction	£1,889m	<p><i>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.</i></p>	Moderate

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (<i>italics</i>) and GIAA Comment*	GIAA Assurance
		<p><i>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.</i></p> <p><i>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.</i></p> <p>Evidence Base: GIAA are content with the evidence base.. We are able to offer Moderate assurance. The Audit trails are complex due to the nature of the projects/programmes and volume of activity undertaken and our testing does not attempt to follow the full audit trail.</p> <p>Assertion: GIAA are content with the assertion. We are able to offer Moderate assurance. Within the overall counting method, the application of the CO methodology differs between departments due to the difference in project/programme types. A few of the saving submissions are calculated on the basis of extrapolation at programme level, from the application of unit cost benchmarks applied across thousands of projects Construction projects cover multiple years and final actual outturn cost reductions cannot always be realised and confirmed until project completion..</p>	
GDS Controls	£391m	<p><i>Savings of over £390m have been identified in 2014/15 through controls, cancelled projects and ICT Strategy savings.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion. We are able to offer Moderate assurance as the actual cost reductions will not be realised and confirmed until each scheme has completed and will be delivered across the period of delivery which could be more than one reporting year. In addition evidence is based on the differences between original and revised, approved plans rather than between original plans and actual spend.</p>	Moderate
GDS Transformation	£105m	<p><i>Government departments have saved over £61m in 2014/15 through the building of a new single GOV.UK website.</i></p> <p><i>£36m has been saved by DWP in 2014/15 through reducing the total cost of their Identity Assurance services.</i></p>	Reasonable

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (<i>italics</i>) and GIAA Comment*	GIAA Assurance
		<p><i>Working with departments to help digital transformation has resulted in:£7m savings in 2014/15 across DECC, MOJ and DVLA.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion</p>	
Part 3 – Receipts from Asset Sales and New Commercial Models			
Property Asset Sales	£207m	<p><i>By selling our surplus land and buildings, we have generated nearly £210m in revenue for the taxpayer in 2014/15.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion however we do not consider income generated from sales to be a good measure of savings</p>	Reasonable
Commercial Models	£33m	<p><i>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.</i></p> <p><i>This comprises:</i></p> <p><i>Framework Management Fee from Shared Services Connected of £6.6m.</i></p> <p><i>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.</i></p> <p><i>As Shareholder in Axelos we received a £1.18m dividend payment.</i></p> <p><i>£20m payment from Capita for asset sale in Defra.</i></p> <p>Evidence Base: GIAA are content with the evidence base.</p> <p>Assertion: GIAA are content with the assertion however we do not consider receipts from sale of shares and assets, included within the total, to be a good measure of savings</p>	Reasonable
<p><i>N.B. £175m is included in this section in the Technical Note relating to sale of assets which is shown under the Commercial Relationships workstream in this table.</i></p>			

Savings Workstream	Final Reported 2014/15 Saving*	Final Assertion (<i>italics</i>) and GIAA Comment*	GIAA Assurance
Part 4. Benefits from tackling fraud, error and debt in the system			
Fraud, Error and Debt	£676m	<p><i>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 of duplicate or overpayments to suppliers; and the stopping of ineligible student loan claims</i></p> <p>Evidence base: GIAA are content with the evidence base. We are able to offer moderate assurance. We have relied on figures presented by DWP for a range of initiatives and have not audited the underlying systems or calculations. Some of the figures are based on estimates of how long overpayments would have continued. Some of the blocked student loans could be released in future years.</p> <p>Assertion: GIAA are content with the assertion. Fraud Error and Debt savings result largely from initiatives to prevent or recover overpayments as a result of fraud or error and are of a different nature to efficiency savings.</p>	Moderate
N.B. £68m is included in this section in the Technical Note relating to sale of assets which is shown under the Commercial Relationships workstream in this table			

*Differences between the Final reported savings figure and figures quoted in the assertions are due to the fact that the precise figures have been rounded to the nearest £10m to reflect an appropriate level of precision.

6. Future framework

6.1 2014/15 is the last year of reporting savings against the current framework, where a baseline of 2009/10 was used where available. A new framework is being constructed for measuring savings going forward. We have seen a steady improvement in the way evidence is collated and presented but there are a number of issues remaining, which have meant that we have always cautioned against adding up different categories of savings. The formulation of the new framework is an opportunity to address these issues and improve the efficiency and effectiveness of savings measurement:

- **Consistency of Baselines:** In order to keep savings announcements easy to understand there is a desire to announce a single total. When a number of different baselines are used in calculating savings, as is currently the case, it means that a total which adds these figures together is necessarily a best estimate. The Technical Note is transparent and adds further explanation to what is a complicated picture. Greater consistency of baselines going forwards would improve the overall quality of savings assertions and the ability to calculate meaningful totals.
- **Consistency of Methodologies:** A wide variety of methodologies are currently in use. It may always be necessary to have some variance in methodology e.g. between counting savings on long term capital projects and counting annual running cost savings. However, a single methodology should be used for all similar savings. For example, operational running cost savings could all be measured using reported departmental accounts.
- **Embedding Tracking of Savings:** It is currently quite labour intensive both to measure savings and to collect evidence to support the published figures and then subsequently to audit these figures. Methods of tracking savings should be embedded within business as usual to minimise additional work. For example targets for savings could be embedded within budgets in the spending review and measured through outcome against budget as reported in audited accounts.
- **Definition of savings:** Savings totals currently include some elements which are not as the result of efficiency or reform and are not sustainable. For example sale of land and buildings and shares in commercial models. Whilst the proceeds do help to reduce the deficit we do not consider these items a good measure of savings. Sales proceeds themselves are not evidence best value has been achieved for the taxpayer although they are indicative of the prevailing market value. Going forwards both the targets and the means by which they are measured should be clearly defined in a manner which is targeted at maximising value.
- **Risk Management:** We have recommended in prior years that a systematic approach is adopted to the identification and mitigation of risks to mis-statement and double counting of savings. This should include the review of risk registers by and documented approval of appropriate mitigation activity by senior officials throughout the year. Double counting workshops were held this year which identified and removed a number of double counts before the audit. However, further double counting was identified during the audit. The design of the future regime should take into account risks to mis-

statement and double counting and seek to minimise these. For example, if operational savings are measured through departmental accounts this would eliminate double counting between operational categories of savings.

- **Timetable:** This year the timetable set for publishing savings for 2014/15 has been more realistic than prior years allowing sufficient time for i. Collection of robust evidence from Departments ii. Sufficient checking of evidence by Executive Teams iii. Sufficient checking of evidence by the Central Team iv. Assembly of evidence for audit with a clear audit trail. Going forward this good practice should continue and timetables should be set around when the evidence e.g. audited accounts, will be readily available.

Assurance: In the future regime we recommend that consideration is given to increasing the level of assurance over Departmental figures by requiring them to be audited at Departmental level. This could be done on a rolling basis throughout the year and would increase the level of assurance around savings figures and reduce the intensive year end process. Where savings are measured using departmental accounts these will already be subject to audit by the NAO and so would have a high level of assurance and would require minimal additional effort.

7. GIAA Assurance Categories

7.1 In communicating GIAA's confidence that Cabinet Office has compiled sufficient evidence to support both the savings claimed and the assertions drawn from these savings, GIAA has used the following assurance categories:

- **Reasonable assurance (Green):** A sound evidence base supporting the claimed savings and assertions.
- **Moderate assurance (Amber):** The evidence base supports claimed savings and assertions with some weaknesses.
- **Limited assurance (Red/Amber):** The evidence base supporting claimed savings and assertions contains significant weaknesses.
- **Nil assurance (Red):** The evidence base does not support claimed savings and/or assertions.