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# The 2012-13 savings reported by the Efficiency and Reform Group

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# Summary

## Introduction

1 The Efficiency and Reform Group (ERG), which is part of the Cabinet Office, is tasked with helping government departments achieve savings. Since 2010, ERG has reported annually on the savings made by government in the areas that it has targeted. Previously, we have examined these savings as part of value-for-money studies on the progress made by the ERG or specific reports on individual savings areas. This report summarises our findings on the methodologies used for calculating the savings claimed by ERG for the period 2012-13.

## Our work and limitations

2 We have reviewed the ERG's methodologies and how these have been applied to calculate savings for the 13 categories of savings that have been claimed by ERG during 2012-13. The 13 savings categories are: Workforce Reductions; Contingent Labour (temporary staff); Consulting; Construction; Property Exits; Property Disposals; Centralising Procurement; Commercial Relationships; Common Infrastructure; Advertising and Marketing; IT Reform and Digital Services; Major Projects and Pensions Reform.

3 We reviewed the individual savings categories and assessed the evidence to support the savings claim against a set of criteria to examine if:

- the methodology provides an adequate basis for the savings claimed;
- the methodology is applied consistently; and
- the assertion accurately describes the savings claimed.

4 Our review has focused on the methodologies and processes in ERG used to validate the 2012-13 savings claim. The review has taken account of the work undertaken by Internal Audit to assure those processes.

5 For previous years' reported savings, we have reviewed departments' audited financial statements to obtain evidence that the savings claimed have been realised. These are not yet available for 2012-13, but will offer the potential for additional assurance in due course.

**6** We have not tested data held by individual departments or the processes used by departments or suppliers to produce this data. We therefore do not make an assessment on the accuracy of the claimed savings figures and only comment on the strength of the processes in place to calculate the savings.

**7** Our review is of ERG's methodology, not of any separate processes departments may have to calculate savings. The departmental savings included in this report were calculated by ERG and may not always be recognised by departments.

### **Key findings**

**8** ERG has taken the calculation and reporting of savings seriously and methodologies and their application within ERG are improving year-on-year. It has strengthened the approval process for some savings; for example, savings on renegotiating contracts with suppliers must be agreed and evidenced by both the supplier and the department. While we have found improvements in the methods used by ERG for calculating some savings, methodologies for some complex areas need further development, for example for Major Projects and Construction.

**9** Savings in 2012-13 are substantially more than those claimed for 2011-12. The £10 billion reported for 2012-13 reflects both the introduction of new areas of savings, such as pension reform, and increases in most areas where there were savings in 2011-12. The increases reflect not only the work done by ERG and across government to secure reductions in spend, but also the work done by ERG to better evidence the savings achieved.

**10** The aggregate savings claim is made up of different types of saving, calculated using different methodologies. The savings claimed include reductions in cash spend, reductions against planned expenditure and other benefits to the taxpayer. We have set out the basis for individual savings lines alongside our findings in **Figure 1** overleaf. For £7 billion of the savings claims, across nine lines, the methodologies capture the reduction in cash spent on activities in 2012-13. The £1.6 billion savings claims – on Major Projects, and the Government Digital Service – capture changes in planned spend, therefore there is greater uncertainty over whether these savings will be realised. The £1.5 billion saving claims for pensions and property disposals represent a net benefit to the Exchequer either by transferring costs away from the taxpayer or by selling assets.

**Figure 1**  
Summary of our conclusions for each savings line

<b>Saving category</b>	<b>Amount claimed £ million</b>	<b>ERG methodology provides adequate basis for savings claimed</b>	<b>ERG methodology is consistently applied</b>	<b>Assertion accurately describes saving claimed</b>
<b>2012-13 Actual savings</b>				
Workforce Reductions	2,220	Yes	Yes	Yes
Contingent Labour	600	Yes	Yes	Yes
Consulting	1,010	Yes	Yes	Yes
Construction	450	Yes but based on a mix between planned and actual spend	Diversity of data sources makes consistent application difficult	Yes
Property Exits	310	Yes	Yes	Yes
Centralising Procurement	1,020	Yes	Variation between categories of procurement makes consistent application difficult	Yes
Commercial Relationships	840	Yes	Improvements introduced in 2012-13 need to be embedded	Yes
Common Infrastructure	140	Yes	Yes	Yes
Advertising and Marketing	380	Yes	Yes	Yes
<b>Total</b>	<b>6,970</b>			
<b>2012-13 Reduction in planned spend or estimated outturn</b>				
IT Reform and Digital Services	360	Yes but based on planned not actual spend	Errors identified by internal audit and removed	Yes
Major projects and NHS administration	890 320	Yes	Methodology only applied to a minority of projects	Yes
<b>Total</b>	<b>1,570</b>			
<b>2012-13 Other Exchequer benefit</b>				
Pensions	1,160	Methodology relies on previous estimates	Yes – subject to the methodology's limitation	Yes
Property disposals	310	Yes	Yes	Yes
<b>Total</b>	<b>1,470</b>			
<b>Overall total</b>	<b>10,010</b>			

**NOTES**

- 1 The National Audit Office has not examined departmental records and is therefore not able to comment on processes for producing information in departments.
- 2 In the Efficiency and Reform Group's published summary all savings have been rounded to the nearest £100 million.

Source: Efficiency and Reform Group published savings claims and National Audit Office conclusions

**11 ERG's initial reporting of the aggregate 2012-13 savings does not make clear that they comprise different types of saving.** The summary reporting of the 2012-13 savings does not set out the variation in the nature of the savings or how they are calculated. ERG's separate technical annex provides helpful detail on the nature of the savings and their limitations. Though this annex is integral to understanding the savings it is not signposted from the summary report and, unlike in previous years, was not published at the time of the summary report. We have based our work on the more detailed assertions in the technical annex.

**12 We found that most savings are underpinned by methodologies that provide an adequate basis for the savings claimed.** Most methodologies have a clear logic that set out cash-realising savings against a baseline. Some methodologies are less strong, due to either the inherent complexities in what they are trying to measure or their reliance on estimated, rather than actual, spend. Due to the wide range of savings types, limitations in information sources available, and the inherent complexity of measuring savings in some areas, it is sometimes difficult to standardise methodologies without incurring unreasonable cost.

**13 In some savings categories there are significant differences in how the methodologies are applied.** We found that some departments calculate construction savings by comparing costs to benchmarks while others reported changes in spending plans. The Major Projects Authority oversees 190 projects but is making savings claims on only 11 – it is not possible to tell if this is because other projects have not made savings or if there is insufficient evidence of savings.

**14 Despite improvements there remain weaknesses in the management and assurance of the process to estimate savings.** ERG has improved its processes for checking of data and use of Internal Audit to assess independently the evidence base in support of each savings claim. ERG's continuing willingness to seek independent challenge to its numbers is welcome. An interim internal audit was carried out for the first time this year. However, the significant downward revision of claims on IT Reform following Internal Audit's examination indicates that management review within ERG is not as effective as it should be. While there had been an intention throughout the year to report savings from wider public service pensions the final figure was produced at a late stage and the final evidence was not covered by Internal Audit's review.

**15 ERG's assurance processes do not extend to the data quality processes within departments.** ERG relies on departmental sign-off as verification that the information it receives is accurate. In some savings lines the sign-off was either missing or not provided at an appropriate level of seniority. Internal Audit's examination of the savings claims focuses on ERG processes and there is no process to independently assure savings against underlying data in departments.

**16 Processes to identify and eliminate double counting have improved but some risk of double counting savings remains.** We found evidence that many savings claims had been removed as part of the assurance process since they might be double counted. However, weaknesses in data mean that we cannot be confident that all possible double counts have been eliminated.

## Conclusion

**17** Previous work by the NAO has provided evidence of reductions to administration spend in government in previous years which helps demonstrate the scale of the savings made. In reviewing the 2012-13 savings, we have not had the same opportunity to examine departmental financial statements but no evidence has come to light that savings will not be realised as expected. Our 2012-13 review has been restricted to information processes within ERG and we therefore do not make an assessment on the accuracy of the claimed savings figures.

**18** We recognise the work that has been done by ERG to improve the calculation and assurance of individual saving categories and if the improvements continue we may be in a position to provide formal assurance of the savings figure in the future. At present ERG does not have an approach in place to independently assure savings against underlying data in departments. Individually, the savings assertions accurately describe the savings claimed and the subsequently-published technical annex provides comprehensive explanation of the nature of the savings.

**19** However, we are concerned at the way these savings are presented in the initial summary, without explanation, as an aggregate figure. While our other work is generally able to confirm that material savings have been achieved for the Exchequer, it is important for stakeholders to understand that the savings comprise a mix of reduced spending, plans to reduce spending, one-off receipts and costs transferred to others.

## Recommendations

**20** We have made a number of detailed recommendations on the basis of the work which will help strengthen ERG's assurance of the savings that it has claimed. These are set out against the specific savings lines in the main body of this report. Our recommendations fall broadly into four main areas:

- The need for additional assurance that savings have been realised, and on the quality of data coming from departments and suppliers, with better sign-off and, where appropriate, review by department's own internal audit. This might include:
  - using outturn when available to substantiate claims that were originally based on estimates;
  - making greater use of other sources, such as departmental financial statements once they are available; and
  - asking departments to sign-off the departmental breakdown of the final savings claim.

- ERG's own assurance process should seek, as far as possible, to ensure that savings are identified and verified as they happen and reduce the pressure on ERG and Internal Audit to verify substantial amounts quickly at the end of the financial year.
- In some savings lines – Wider Government Pensions, Construction, IT Reform and Major Projects – ERG needs to do more work to bring the quality in line with the rest of the savings claims.
- ERG should publish, at the same time as any summary, a technical annex explaining the savings in more detail to allow taxpayers to understand the savings more fully and any assumptions used.