



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

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**8 JULY 2013**

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Cabinet Office

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

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Our public audit perspective helps Parliament hold government to account and improve public services.

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National Audit Office

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Cabinet Office

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

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

5 July 2013

This report summarises our findings on the methodologies used for calculating the savings claimed by the Efficiency and Reform Group for the period 2012-13.

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This report can be found on the National Audit Office website at [www.nao.org.uk/govt-savings-2013](http://www.nao.org.uk/govt-savings-2013)

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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.

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

**Figure 1**

Summary of our conclusions for each savings line

Saving category	Amount claimed £ million	ERG methodology provides adequate basis for savings claimed	ERG methodology is consistently applied	Assertion accurately describes saving claimed
<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		Methodology only applied to a minority of projects	Yes
	320	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

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

**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.

# Part One

## Introduction

### The savings claimed by the Efficiency and Reform Group

**1.1** The Efficiency and Reform Group (ERG) is part of the Cabinet Office and its purpose is to help spending departments achieve cost reductions. Its ambition is to identify a £20 billion reduction in central government departments' spending by 2014-15 from: reductions in waste and administrative costs; and reform. The main areas ERG targets are: staff costs; other running costs, including Information and Communications Technology (ICT); consultancy; procurement; property; advertising; construction; fraud, error and debt; and major projects.

**1.2** ERG published a summary of its 2012-13 savings in June 2013.<sup>1</sup> The published total saving made is just over £10 billion. ERG's reported savings are based on those areas in which it believes it has helped reduce government spending since 2010. Savings are broken down into four categories:

- Procurement savings, covering centralised procurement, commercial relations with major suppliers, and reducing spend on communications, consultants and temporary agency staff.
- Transformation savings, covering reform of ICT and reducing office property occupied by government.
- Project savings, covering better management of major projects and improving efficiency in construction.
- Workforce savings, reducing payroll costs and pensions (**Figure 2**).

**1.3** **Figures 3, 4, 5 and 6** (on pages 11 to 14) show how the profiles of spend in the four categories set out by ERG has changed between 2010-11 and 2012-13. The key trends are described above each figure.

<sup>1</sup> *Efficiency and Reform 2012-13 Summary Report*, produced by the ERG and available at: [www.gov.uk/government/publications/government-savings-in-2012-to-2013](http://www.gov.uk/government/publications/government-savings-in-2012-to-2013)

## Figure 2

### Savings assertions under workforce savings

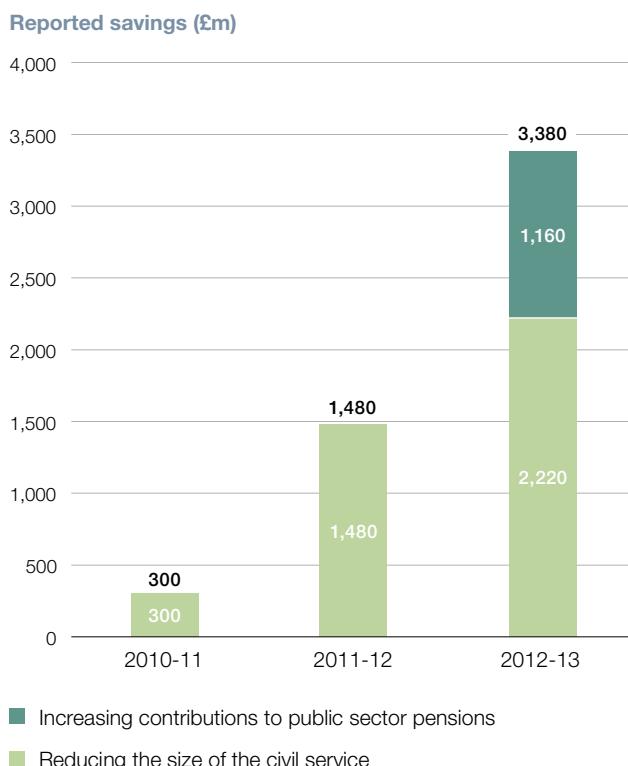
Claim made	Detailed assertion
Reducing the size of the civil service	"We've reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in salary costs for 2012-13 of nearly £2,220 million compared to 2009-10 and a reduction in the size of the civil service of 70,000 FTEs between June 2010 and December 2012."
Increasing contributions to public sector pensions	"By adjusting the balance between central funding and employee contributions, this government saved an estimated £1,160 million in 2012-13 from taxpayer contributions to pension schemes for central government."

Source: Efficiency and Reform Group published summary report and technical annex

## Figure 3

### Workforce savings reported by the ERG 2010-11 to 2012-13

Salary savings from the reduction in size of the civil service have increased year-on-year



#### NOTES

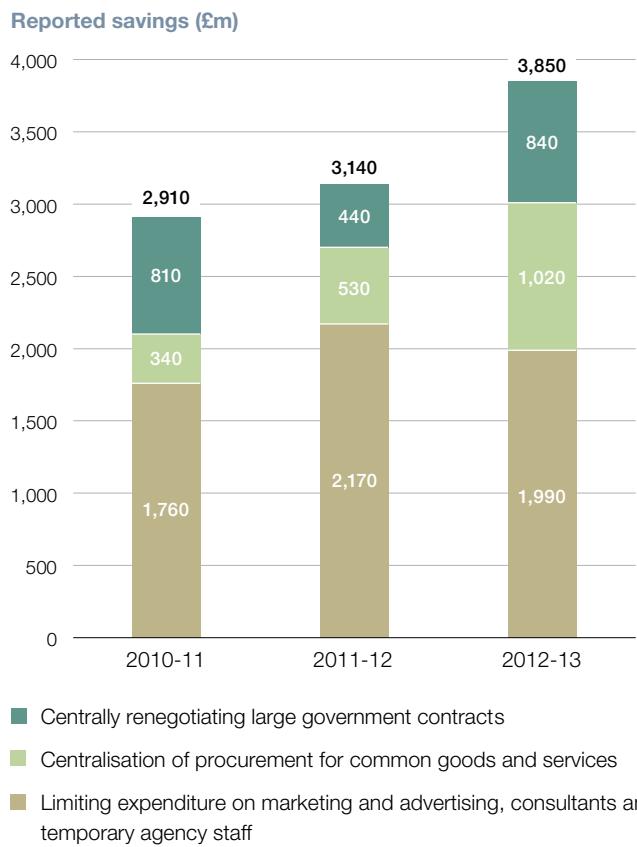
- 1 The 2011-12 and 2012-13 savings include reduction in non-civil servants employed by central government departments.
- 2 Increased pension contributions apply from 1 April 2012. Further increases will apply from 2013 and 2014.
- 3 All salary savings are in cash terms and do not include the effect of pay restraint.

Source: National Audit Office review of Efficiency and Reform Group reported savings

**Figure 4**

## Procurement savings reported by the ERG 2010-11 to 2012-13

Overall procurement savings have increased since 2011-12. For 2012-13, ERG included amounts relating to centralising procurement on wider public sector spend, which made up more than £430 million of the reported savings

**NOTES**

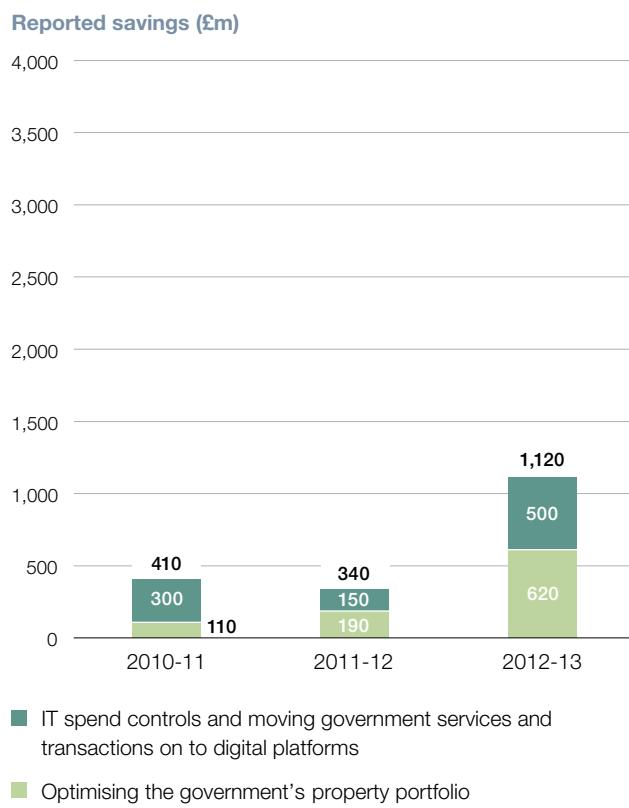
- 1 Savings on consultants, marketing and advertising are based on reductions in overall spend on these categories and may increase or reduce.
- 2 Some savings include price indexation to remove the impact of inflation.

*Source: National Audit Office review of Efficiency and Reform Group reported savings*

**Figure 5**

Transformation savings reported by the ERG 2010-11 to 2012-13

Overall reported savings from the management of the government estate and central oversight of IT spend has increased substantially in 2012-13 due to the inclusion of savings streams not previously claimed: £310 million from freehold sales and £140 million from the Common Infrastructure Programme

**NOTE**

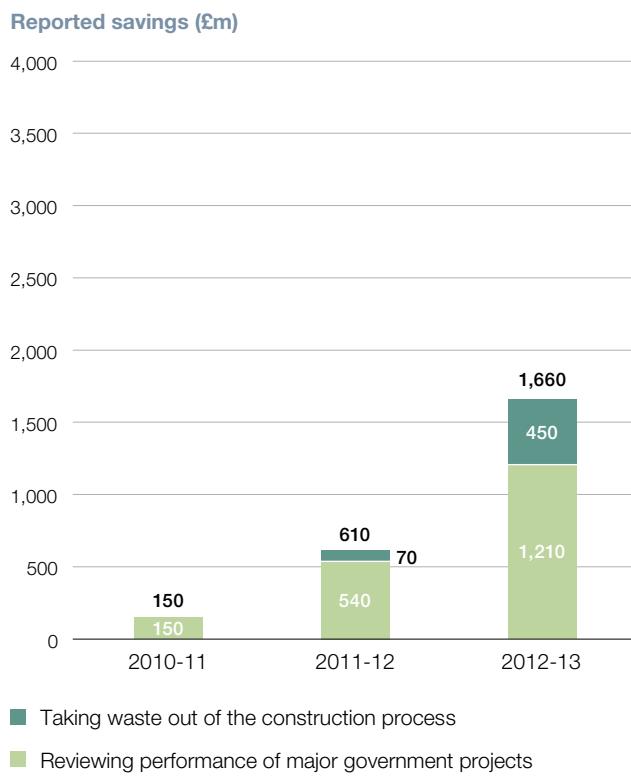
- 1 All transformation savings are in cash terms.

*Source: National Audit Office review of Efficiency and Reform Group reported savings*

### Figure 6

#### Projects savings reported by the ERG 2010-11 to 2012-13

Project-related savings have increased substantially each year since 2010-11. This mainly reflects changes in the methodology being used and the number of projects being included



■ Taking waste out of the construction process

■ Reviewing performance of major government projects

#### NOTES

1 Savings are estimated by a wide variety of methods.

2 Some Construction savings are index-linked to remove the impact of inflation.

*Source: National Audit Office review of Efficiency and Reform Group reported savings*

**1.4** The individual savings claims that ERG has claimed for 2012-13 are shown in Figure 1. Most of the savings ERG is claiming for 2012-13 cover the same areas of operation as previous years – although in some cases methodologies have been updated to provide stronger estimates of the savings. There are new savings claims for 2012-13 in the following areas:

- public sector pensions;
- sale of land and buildings (part of the overall Property claim); and
- ICT networking and hosting (part of the overall IT Reform claim).

The pensions claim is new for 2012-13 since that is when increased employee contributions came into effect. Both the sale of land and buildings and the ICT claim relate to policies which ERG has had in place for some time, but 2012-13 is the first year where evidence has been strong enough to make a claim.

**1.5** There is substantial variation between the different savings claims in terms of what they seek to capture; the nature of the saving claimed; and how figures have been calculated. This is reflected in the assertions set out in the technical annex (Appendix Three) but is not clear from the summary document published on 3 June 2013. These assertions are reproduced in full at the top of each part in the main body of this report. Figure 2 illustrates how assertions compare to the claims in the summary report.

**1.6** The technical annex also offers a different breakdown of the savings – into operational efficiency and prevention of wasteful spend. These definitions do not exactly describe the savings they cover – for example, pensions reform is included as part of operational efficiency savings when it is a transfer of cost, rather than an improvement in efficiency.

**1.7** ERG identifies savings by collating data from departments and third parties. It does this by: carrying out its own analysis of government data; and analysing data obtained from private sector suppliers to government. It has various methods in place for calculating the savings based on the data supplied. For some savings lines, ERG collates data throughout the year and in other cases it waits until the end of the year to produce a figure.

**1.8** The savings calculations are validated by ERG, which has processes in place to ensure the savings claimed are in line with its methodologies. These processes vary by line of saving.

### **Internal Audit review of the claimed savings**

**1.9** Internal Audit has reviewed the savings being claimed by ERG. Its objective was to: “Provide independent evidence to the Cabinet Office Accounting Officer that the processes established within ERG to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidenced-based and supportable benefit claims.”

**1.10** Internal Audit reviewed methodologies, draft assertions, risk identified by ERG and controls being put in place throughout the year. At year end it carried out final reviews of processes and detailed sample testing of the savings being claimed to verify the published figures.

**1.11** A summary of the Internal Audit findings is at Appendix Two.

## Previous examinations of savings by the NAO

**1.12** Our first report on ERG<sup>2</sup> set out the challenges it faced but concluded that it was too soon to reach a judgement on its success. We reviewed ERG's 2010-11 savings claims<sup>3</sup> and found that substantial savings had been made. Our second report on ERG<sup>4</sup> found that ERG's actions had helped departments deliver substantial spending reductions. In this second report we concluded that we had confidence in the £5.5 billion savings that ERG reported in 2011-12.

**1.13** Our previous reports on savings claimed by ERG were carried out under our statutory value-for-money powers and published after ERG had reported their annual savings figures. These examinations have tended to focus on the wider work of ERG in addition to analysing the savings claimed. We have also examined savings categories as part of specific value-for-money reports, for example on ICT or procurement. In some of these previous reports we have checked claimed savings against the audited accounts across government.

**1.14** To supplement this approach we have carried out an early review of ERG's systems for reporting savings for 2012-13. This was done to review the methodologies and processes used to estimate savings soon after their publication and give ERG an opportunity to strengthen these for 2013-14.

## Scope and limitations of our work

**1.15** We have examined the ERG's methodology, the application of that methodology and reported saving in each of the savings categories used to produce the 2012-13 savings claim. We have examined the methodologies and processes in ERG supporting the calculation of the saving claim.

**1.16** We have not audited the data that has been collected from 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 saving figure and only comment on the strength of the processes in place to calculate the saving.

**1.17** 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 as they are calculated on a different basis to savings reported by the departments themselves.

2 Comptroller and Auditor General, *The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 885, National Audit Office, March 2011.

3 Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2010–2012, HC 1788, National Audit Office, February 2012.

4 Comptroller and Auditor General, *The Efficiency and Reform Group*, Session 2012-13, HC 956, National Audit Office, April 2013.

## Our approach to this review

**1.18** We reviewed the documentation against a set of criteria based on ERG's own guidance and NAO's previous work assessing savings (**Figure 7**). We have modified the criteria to reflect the broader range of what ERG is claiming in 2012-13, which includes some areas of planned spend rather than realised savings, and some savings which will not be repeatable in future years.

**1.19** For each of the savings categories, we have:

- updated our understanding of the savings line by reviewing the ERG methodology and the work undertaken by Internal Audit as part of its mid-year review of ERG's 2012-13 savings process;
- reviewed ERG's evidence files;
- liaised with Internal Audit on the approach taken to the testing of individual savings lines, including the sampling of claims and reviewed the results; and
- carried out our own review of the savings claim and the underlying evidence, including checking external sources of information for verification where possible.

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### Figure 7

#### Criteria for the assessment of ERG savings methodologies

Methodology design	Methodology application	Savings assertion
Data is taken from a reliable source	Guidance clear and shared as widely as possible	Accurate description of figure
Savings calculated using an appropriate methodology	Data collected on standard templates to reduce risk of error	Baseline clearly stated
Saving is estimated net of relevant costs	Appropriate sign-off and evidence of scrutiny	
Savings calculated against a realistic baseline	Clear allocation of roles and responsibilities	
Savings are cash-releasing	Active ongoing monitoring of data	
Savings are not double counted	Double counting is identified and removed	

#### NOTE

1 See Appendix One for the previous criteria used by the National Audit Office to assess savings.

Source: *National Audit Office criteria*

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**1.20** In forming a conclusion on the savings data, we make judgements based on the three main areas:

- Methodology – does the methodology provide an adequate basis for calculating the saving that has been claimed?
- Application of the methodology – has the methodology been applied consistently to provide confidence in the saving claimed?
- Assertion – does the saving assertion in the publicly reported figures accurately describe the saving claimed?

**1.21** The rest of this report sets out our conclusion on each savings line, along with the detailed findings which underpin those conclusions.

## Part Two

### Workforce Reductions and Contingent Labour

#### **Workforce Reductions and Contingent Labour Assertions**

We've reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in salary costs for 2012-13 of nearly £2,220 million compared to 2009-10 and a reduction in size of the civil service of 70,000 FTEs between June 2010 and December 2012.

A reduction in spend on temporary agency staff in 2012-13 of nearly £600 million compared to 2009-10.

*Source: Efficiency and Reform Group*

**2.1** ERG aims to influence the reduction in civil service staff through a variety of methods, including:

- changing the Civil Service Compensation Scheme, making early departures cheaper for departments; and
- monitoring departments' recruitment of permanent staff to ensure their compliance with the freeze announced in 2010.

#### **Methodology**

**2.2** ERG calculates the workforce saving by comparing the total pay bill<sup>5</sup> in 2012-13 with baseline figures of the total workforce in March 2010 and the total 2009-10 pay bill. It calculates the reduction in staff by comparing the total number of staff in March 2013 and the number in March 2010.

**2.3** ERG calculates the temporary staff saving by comparing the total spend on temporary staff across the 17 departments and their arm's-length bodies in 2012-13 with baseline figures of the total spend in 2009-10.

**2.4** The information for both of these calculations is collected by each department and its core arm's-length bodies and reported to ERG monthly. ERG collates the monthly returns and calculates the difference between them and the baseline. The baseline is adjusted to reflect changes in government where arm's-length bodies are created, abolished, or moved between departments.

<sup>5</sup> Total pay bill includes salary costs, allowances, non-consolidated performance related payments, employer pensions contributions and employer national insurance contributions.

**2.5** ERG excludes any costs related to reductions in workforce which are not collected as part of the pay bill. For example, any additional payments made to pension funds for early retirement payments are not included. This means that the savings may be overstated. ERG believes that this limitation is clear from the wording of the assertion, which specifically covers only the reduction in salary costs.

## Application of methodology

### Data collection

**2.6** ERG issues departments with guidance and templates for monthly returns on the number and cost of the workforce for each department and their arm's-length bodies. The guidance and template that ERG issues to departments are clear and easy to follow. ERG amends the baseline and returns to reflect any changes in departments and arm's-length bodies.

**2.7** ERG relies on sign-off of the monthly returns by a senior leader in the relevant department as assurance that the figures have been correctly produced.

**2.8** Monthly processes in ERG have been enhanced over 2012-13 to include a month-on-month review of the figures each department submits. This provides ERG with additional assurance that the figures have been prepared on a consistent basis, and allows it to understand the basis of the figures provided by payroll processes within departments.

### Assurance

**2.9** Internal Audit has reviewed a sample of 25 monthly returns which contain staff and payroll figures to confirm that departmental figures have been accurately captured in ERG's analysis. In nearly 50 per cent of the returns examined by Internal Audit the expected sign-offs from senior officials were missing.

**2.10** Internal Audit noted that for one department, the returns omit most of the department's arm's-length bodies, thus understating the total saving. However, these have also been excluded from the baseline, so savings are still calculated on a consistent basis.

## Other work carried out to review the methodology

**2.11** We have reviewed previous returns and mid-year figures for total workforce against the Office for National Statistics figures on the size of the civil service to provide additional confidence that the ERG process is capturing real savings.

## Conclusion

**2.12** From our review of ERG records to support its assertion on workforce savings in 2012-13, we conclude:

- ERG's savings methodology provides an adequate basis for calculating the savings claimed;
- ERG has consistently applied the savings methodology to provide confidence in the savings claimed; and
- the assertion accurately describes the savings claimed.

**2.13** We have not examined departmental records and therefore are not able to comment on processes for producing information in departments.

## Recommendations

**2.14** We have the following recommendations for ERG:

- ERG should ensure it gets the sign-off it expects at an appropriate level of seniority within departments as assurance that figures have been correctly prepared.
- ERG should consider gaining assurance mid-year from departments. Because information is collected every month, a mid-year exercise to verify processes in departments would provide assurance over the majority of the savings figure.
- ERG could consider comparing the staff numbers and total pay bill to final audited figures as published in departmental accounts when these are available. Although this would not add assurance to the savings claim when it is announced, any differences found could be used to plan more focused assurance work for the future.

## Part Three

### Consulting

#### Consulting assertion

Departments report a significant reduction in discretionary spend:

A reduction in spend on consulting in 2012-13 of £1,010 million compared to 2009-10.

*Source: Efficiency and Reform Group*

**3.1** ERG aims to reduce government spend on consultants. ERG requires all new contracts for consultancy (other than for legal services) with a value of over £20,000 to be approved by them. ERG also works with suppliers to reduce their rates for providing consultants to the civil service.

#### Methodology

**3.2** ERG calculates the consultancy saving by comparing the total spend on consultancy across the 17 departments and their arm's-length bodies in 2012-13 with baseline figures of the total spend in 2009-10 (**Figure 8**).

#### Figure 8

ERG's breakdown of consultancy savings by main department 2012-13

Department	Consultancy saving (£m)
Home Office	182
Department for Education	133
Department of Health	123
Department for Business, Innovation & Skills	70
HM Treasury	63
Other departments	442
<b>Total</b>	<b>1,013</b>

*Source: Efficiency and Reform Group*

**3.3** Information on the total consultancy spend, the number of contracts currently and the number expected to be let in the future is collected by each department for the department itself and its core arm's-length bodies and reported to ERG monthly. ERG collates the monthly returns and calculates the difference between the monthly spend and the baseline.

## Application of methodology

### Data collection

**3.4** We have reviewed the processes in ERG for collating monthly returns and comparing them to the baseline. This includes the guidance and templates it issues to departments.

**3.5** The guidance and templates that ERG issues to departments are clear and easy to follow. Consultancy information is collected on its own return. ERG relies on sign-off of the monthly returns by a senior responsible officer in the relevant department as assurance that the figures have been correctly produced, but do not specify a particular post or grade.

**3.6** The baseline information used for the saving calculation is not complete as it does not contain information for arm's-length bodies associated with two departments, but these are also removed from the monthly returns. To ensure consistency, savings are therefore calculated only for bodies where both current and baseline data is available.

### Assurance

**3.7** Internal Audit reviewed all of the monthly consultancy returns, checking the figures collated by ERG against the documentation submitted by departments and reviewing the level of sign-off received from departments. Internal Audit found some errors and their queries also resulted in the Government Procurement Service identifying input errors resulting from inconsistent approaches to completion of returns by departments. These errors were corrected. Internal Audit found that the figures were not signed off by officials who were senior enough to provide full assurance that the figures have been correctly prepared.

## Conclusion

**3.8** From our review of ERG records to support its assertion on consultancy and temporary staff savings in 2012-13, we conclude:

- ERG's savings methodologies provide an adequate basis for calculating the savings claimed;
- ERG has consistently applied the savings methodologies to provide confidence in the savings claimed; and
- the assertions accurately describe the savings claimed.

## Recommendations

**3.9** We have the following recommendations for ERG:

- ERG should ensure it gets the sign-off it expects at an appropriate level of seniority within departments as assurance that figures have been correctly prepared.
- ERG should consider gaining assurance mid-year from departments. Because information is collected every month, a mid-year exercise to verify processes in departments would provide assurance over all of the interim savings figure.

# Part Four

## Construction

### **Construction assertion**

In 2012-13, departments reported eliminating £450 million of costs from the planned spend on construction projects.

*Source: Efficiency and Reform Group*

**4.1** ERG aims to reduce the cost of government construction projects by 15 to 20 per cent by 2014-15. The cost reductions could then be reinvested in further public projects, supporting economic growth. The initiative seeks to work with industry and public bodies to achieve a 20 per cent improvement, typically measured by a reduction in the average unit cost of delivering their programmes.

### **Methodology**

**4.2** There is a wide variety of methods and data sources used by departments to calculate the savings from construction, reflecting the wide range of construction projects included. Typically the saving methodology compared current project costs with a forecast based on 2009-10 unit costs for similar project types, either based on outputs (e.g. per square metre) or more detailed standard costs broken down into individual cost elements. In some cases, this is not possible so departments make comparisons with other estimates or budgeted expenditure on construction prior to actually realising cost savings – comparing the planned costs, rather than outturn figures, with a previous forecast.

**4.3** Monitoring and reporting on the strategy is carried out by individual departments who manage or fund substantial construction programmes (including roadworks and maintenance, schools, social housing, hospitals, prisons and flood defences). Departments monitor their contractors' performance and report savings quarterly using a standard format designed by ERG. Seven departments reported achieving savings totalling £447 million in 2012-13 ([Figure 9](#) overleaf).

**Figure 9**

ERG's breakdown of construction initiative savings 2012-13

Body	Reported savings (£m)	Percentage
Highways Agency (DfT)	278	62
Department for Education	86	19
Homes and Communities Agency (DCLG)	35	8
Environment Agency (Defra)	17	4
Department of Health	15	3
Ministry of Justice	15	3
Ministry of Defence	1	0
<b>Total</b>	<b>447</b>	<b>100</b>

**NOTES**

- 1 Departments use a variety of different methods to calculate savings.
- 2 Totals may not sum due to rounding.

*Source: Efficiency and Reform Group***Application of methodology****Data collection**

**4.4** Departments are measuring savings in construction based on unit costs over time for similar items. For example, baseline costs per m<sup>3</sup> for the specific type of building being built, or for a specific building element. However, a proportion of the savings reported do not involve the measurement of unit costs against a 2009-10 'standard' and rely instead on changes in overall spend which may reflect changes to project scope rather than cost reductions.

**Assurance**

**4.5** Internal Audit concluded that the published savings accurately reflected the information reported to the construction team but raised concerns about the complexity of methodologies used and ERG's reliance on departmental processes to assure the quality of the underlying data.

## Other work carried out to review the methodology

**4.6** We reviewed the reported savings against three NAO reports on the relevant building programmes.<sup>6</sup> We did not examine any of the individual programmes or projects in detail and our comments may not reflect any recent progress made by the departments in response to our reports.

**4.7** In previous years, we have commented that central government departments have significantly reduced their overall capital spending in comparison to 2009-10. We have not completed our audit of departments' 2012-13 accounts, to provide similar information for 2012-13.

## Conclusion

**4.8** From our review of ERG records to support its assertion on construction savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed, although it should be noted that the methodology provides for claiming planned – as well as realised – savings;
- the inherent complexity in measuring reduction in construction costs and the different methodologies used by different organisations mean there are limits to how consistently a methodology can be applied;
- the assertion accurately describes the savings claimed; and
- we have not examined departmental records and therefore are not able to comment on processes for producing information in departments.

## Recommendation

**4.9** We have the following recommendation for ERG:

- ERG should work closely with departments to ensure that they have sufficiently robust information systems for monitoring unit costs against appropriate standards.

<sup>6</sup> Comptroller and Auditor General, Department for Communities and Local Government, *The New Homes Bonus*, Session 2012-13, HC 1047, March 2013; Comptroller and Auditor General, Department for Education, *Capital funding for new school places*, Session 2012-13, HC 1042, March 2013; Comptroller and Auditor General, *Reducing costs in the Department for Transport*, Session 2010-2012, HC 1700, National Audit Office, December 2011.

# Part Five

## Property

### Property assertions

We reduced the in-year cost of our Property estate by more than £310 million by exiting from leasehold and freehold properties.

By selling our land and buildings, we have generated nearly £310 million in revenue for the taxpayer.

*Source: Efficiency and Reform Group*

**5.1** ERG aims to deliver savings in property spending through tighter control. Departments and arm's-length bodies which plan to acquire new freehold property, enter into a new lease, or extend an existing lease beyond a contractual break point, must first obtain the permission of the Government Property Unit of ERG.

### Methodology

**5.2** ERG collates the rent and other occupancy costs saved in the year from vacating leasehold property, and the receipts from the sale of freehold property. ERG monitors changes in department's holdings through an online property database (ePIMS) which contains details of all office and non-specialist property holdings.<sup>7</sup>

**5.3** For savings from exiting freehold properties, ERG calculates the saving as the rates and other operating costs, pro-rated for the proportion of the year the property has been vacated, less an estimation of the costs of exiting the property.

**5.4** Where actual data on other occupancy costs is not recorded on ePIMS, or in other information supplied routinely by departments, the methodology estimates the occupancy cost at 50 per cent of the annual rent. This was the case for 39 per cent of exits made in 2012-13. The actual average for leasehold properties where running cost data is available on ePIMS is 92 per cent, which suggests the estimate of 50 per cent understates the savings made. The methodology assumes that exit costs average 60 per cent of the annual total occupancy cost, or Private Finance Initiative charge, for all exits completed during the year.

<sup>7</sup> Known as the Civil Estate. It excludes the NHS estate, the prisons estate, the Foreign & Commonwealth Office overseas estate, the Department for Environment, Food & Rural Affairs (DEFRA) rural estate, and the Ministry of Defence (MoD) military estate which are shown as costs in department's annual accounts.

**5.5** For disposals of freehold property, ERG calculates the saving as the proceeds from the sale of the property, less an estimation of the costs of selling and exiting the property. The methodology assumes that the costs of sale for freehold buildings will be on average 7.5 per cent of the sale price. We assessed this estimate as reasonable, based on standard fees and the likely cost of removal and adjustments to alternative properties.

**5.6** ERG calculates the savings by individual department (**Figure 10**). The methodology does not include the costs of new acquisitions or rent increases on retained buildings. This means that savings may be overestimated if departments or other bodies are simply moving properties rather than reducing the number they occupy.

### Figure 10

ERG's breakdown of property-related savings 2012-13

Department	Net reduction in rent and other running costs (£m)	Net proceeds of freehold sales (£m)	Total (£m)
HM Revenue & Customs	52	–	52
Department for Work & Pensions	47	–	47
Ministry of Justice	35	46	81
Home Office	32	–	32
Department for Business, Innovation & Skills	30	3	32
Department for Transport	25	15	40
Department of Health	19	3	22
Department for Communities and Local Government	18	141	159
Ministry of Defence	16	94	110
Other departments	39	5	44
<b>Total</b>	<b>313</b>	<b>307</b>	<b>619</b>

#### NOTES

- 1 'Other department's included net increase in rent and other running costs of £1 million for Foreign & Commonwealth Office.
- 2 Totals may not sum due to rounding.

Source: *Government Property Unit*

## Application of methodology

### Data collection

**5.7** ERG has a good quality information system underpinning its estimate of savings from rent property exits and there are effective procedures for ensuring the accuracy of data. Data is entered onto ePIMS by the relevant department, who are required to sign it off as accurate. ERG also runs an annual benchmarking exercise which collects similar data.

**5.8** There is a wide variance in the costs of vacating individual leasehold buildings and relocating staff to existing buildings and these are not recorded on ePIMS or other reporting systems. ERG considers that the estimated costs of these exits in 2012-13, £85 million, are conservative. For buildings exited towards the end of the year, the assumed costs are larger than the in-year rent and running cost savings, resulting in a reduced overall annual savings total being reported.

**5.9** The rent and operating costs savings made from disposing of properties are sustainable savings which will be made year-on-year. Freehold sales are not sustainable as properties can only be sold once. ERG currently forecasts net sales proceeds of £60 million in 2013-14 compared to £308 million in 2012-13.

### Assurance

**5.10** Internal Audit reviewed a sample of savings to ensure that evidence from ePIMS had been reviewed and validated by the occupying department. Internal Audit also reviewed the savings spreadsheet calculations to ensure that data had been transcribed accurately from ePIMS or other source provided to ERG.

**5.11** Internal Audit found that the data used to calculate savings was generally consistent with the source data. Data for rental payments on ePIMS was sufficiently complete. However, data on other running costs was incomplete and often came from data supplied to the ERG for benchmarking rather than the standard ePIMs returns.

## Other work carried out to review the methodology

**5.12** Our March 2012 report on the government office estate confirmed that departments were reducing the size of their estates.<sup>8</sup> Our review of departments' 2011-12 financial accounts confirmed that the main 17 departments had reduced spending on estate running costs by some £470 million in real terms compared to 2009-10.<sup>9</sup> Excluding Defence and Health, whose estates mainly lie outside the Civil Estate, the saving falls to £326 million. Nevertheless, our analysis suggests that considerable savings are being made.

<sup>8</sup> Comptroller and Auditor General, *Cabinet Office, Improving the efficiency of central government office property, 2010-2012*, HC 1826, National Audit Office, March 2012.

<sup>9</sup> Comptroller and Auditor General, *Cabinet Office, The Efficiency and Reform Group, Session 2012-13*, HC 956, National Audit Office, April 2013, Figure 4.

**5.13** We confirmed with audit teams for a sample of eight disposals that the properties had been vacated during the year and the estimated sale proceeds, totalling £250 million, was reasonable.

## Conclusion

**5.14** From our review of ERG records to support its assertions on property in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- ERG has consistently applied the savings methodology to provide confidence in the savings claimed; and
- the assertion accurately describes the savings claimed. The assertion describes the money raised from selling property as revenue generation rather than a saving and this is accurate.

We have not examined departmental records and therefore are not able to comment on processes for producing information in departments.

## Recommendations

**5.15** We have the following recommendations for ERG:

- ERG should monitor increases in departments' holdings since 2009-10 to ensure when a department moves offices rather than making an overall reduction in holdings this is not included as a saving.
- ERG should consider adding additional explanation to their assertion to make it that sales of property do not represent sustainable cash savings.

# Part Six

## Centralising Procurement

### **Centralising Procurement assertion**

By centralising spend on common goods and services and by introducing policies requiring departments to purchase less, government has saved £1,020 million centrally and in the wider public sector.

*Source: Efficiency and Reform Group*

**6.1** By centralising procurement and maximising bulk buying, the Government Procurement Service (GPS) seeks to drive down suppliers' prices. It manages over 100 framework agreements, with over 2,000 suppliers offering services at predetermined prices. It claims savings from managing down demand, such as for civil service travel. It also works with local government, schools, NHS, emergency services, charities and other organisations to help them benefit from improved pricing and services.

### **Methodology**

**6.2** ERG has developed guidance on how to evidence and calculate savings from savings initiatives. Using this guidance, benefit methodologies have been developed for different categories of procurement. These follow a standard template and require the approval of senior ERG managers before they can be used to calculate and claim savings. ERG has over 160 approved benefit methodologies, of which over 100 were used in 2012-13 to claim savings. Each benefit methodology is specifically tailored to reflect the category of commodity, the nature and source of the savings and the data used.

**6.3** Most savings reflect one of the following basic calculations:

- Saving = (2009-10 baseline price – current price) X current volume.
- Saving = (2009-10 baseline demand – current demand) X current price.

For some commodities, the 2009-10 prices are adjusted for inflation.

**6.4** Savings are grouped into categories which refer to the type of goods or service that is being procured. **Figure 11** sets out the categories of spend with the largest saving. Methods only cover centralised spend where appropriate baseline data can be collated and ERG only claim savings where approved methods are in place and aligned with ERG guidance.

**Figure 11**

The top five savings claimed by category of spend, 2012-13

Category	Total spend (£m)
Office solutions	204
Travel	159
Energy	110
Fleet	106
Professional services	85

*Source: National Audit Office analysis of Government Procurement Service data*

**6.5** The guidance and template the Government Procurement Service (GPS) use for the procurement savings claims is clear and comprehensive. Benefit methodologies are signed off by senior staff and there is evidence that, once obsolete, they are removed from usage.

## Application of methodology

### Data collection

**6.6** Although the broad principles for claiming savings are straightforward, there are a number of factors that complicate how, in practice, savings are calculated:

- The large number of methodologies that are applied, and the year-on-year changes. GPS approved over 60 new benefit methodologies in 2012.
- ERG flexes its broad principles in some cases – for instance, using baselines other than 2009-10 where these are not available or prices are volatile (e.g. for energy); or by applying differing approaches to inflating baseline prices to current prices.
- Some benefit methods are applied to multiple framework agreements, while some frameworks have multiple benefit methods relating to them (for instance to address different products, clients or savings types). There is no clear mapping of these relationships, which means teams need to take care to apply the appropriate method. Also, there are only benefits methods in place to cover those part of centralised spend, where ERG is actively driving the process and believes it is making savings.

**6.7** Suppliers provide spend data (volumes and prices) to ERG on a monthly basis, mostly using an online tool. Category teams upload this information to a central database. They use these data to calculate savings by applying the approach in the relevant approved methodology, before recording the results in another central database.

**6.8** ERG also has a spend analytics tool that draws data monthly from departments' financial systems to give an indication of cross-government procurement spend. This provides a means of identifying procurement spend outside the GPS framework and checking whether departments' spending patterns broadly match the data provided by suppliers. It covers an estimated 85 per cent of government spend but does not cover smaller arm's-length bodies.

### Assurance

**6.9** Internal audit reviewed 19 benefit methodologies, of which 12 had been used to claim a total of £335 million savings by month 11 (33 per cent of all savings claimed). It also reviewed the latest approved 'benefit methodologies'. This exercise covered most, but not all, categories. Internal Audit noted variations in calculations used for the methods it reviewed, including:

- the use of average government-wide prices in 2009-10 for contract users who had not supplied actual baseline price data;
- variation in use of inflationary adjustment to the baseline, although a clear case has to be made for the index chosen before it can be approved; and
- baselines differing from the 2009-10 standard, although this is allowed under ERG's guidance in cases where no 2009-10 baseline is available.

**6.10** ERG carries out its own process to check the accuracy of supplier returns: in 2011-12, it sampled £209 million and identified net undeclared spend of £10.6 million. Differences in baseline data and the use by ERG of pan-government baselines mean that departments cannot sign-off the savings ERG claims and ERG cannot gain this additional assurance over savings.

**6.11** For the 2012-13 savings, Internal Audit selected a sample of 50 monthly savings lines out of a total of just over 3,700 lines for the first 11 months of reported savings, including the ten largest claims. The aim for this review was to follow the trail from supplier data through to calculation as required by the relevant benefit methodology and logging as savings. It concluded that 94 per cent by value of savings lines were sufficiently evidenced (for the remaining 6 per cent, ERG did not comply with the auditor's information request in a specified time).

**6.12** ERG has not previously reported savings from the wider public sector, which makes up more than £400 million of the total claimed.

## Other work carried out to review the methodology

**6.13** In February 2013, we reported that the quality of savings reporting was high compared with previous similar initiatives.<sup>10</sup> We tested a random sample of 40 ERG savings, with a combined value of £242 million, and concluded that, although the wide range of methods used to provide baselines made it difficult to be certain about the accuracy of valuation, overall we had confidence they represented genuine savings.

**6.14** In April 2013, we reported on the progress made by ERG generally.<sup>11</sup> We concluded that we had confidence overall in the reported savings of £426 million reported for centralised procurement in 2011-12, because it broadly matched how departments were reducing expenditure in the areas targeted by GPS.

## Conclusion

**6.15** From our review of ERG records to support its assertion on centralised procurement savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- the variation between different procurement categories makes it hard to achieve consistency; and
- the assertion accurately describes the saving claimed.

## Recommendations

**6.16** We have the following recommendations for ERG:

- ERG should work with departments to improve the data they supply for spend analytics, so they can be used as a credible double-check on supplier spend. This will provide additional assurance as well as the detailed supplier checks.
- ERG could improve the mapping of processes, so it is possible to gain an overall picture of how spend, procurement frameworks and benefit methodologies interact.
- ERG could also work to ensure that the complexities, e.g. in use of baselines and counterfactuals, is captured and summarised.

<sup>10</sup> Comptroller and Auditor General, *Improving Government Procurement*, Session 2012-13, HC 996, National Audit Office, April 2013.

<sup>11</sup> Comptroller and Auditor General, *The Efficiency and Reform Group*, Session 2012-13, HC 956, National Audit Office, April 2013.

# Part Seven

## Commercial Relationships

### **Commercial Relationships assertion**

By managing relationships with some of the largest suppliers to government, government made savings of nearly £840 million.

*Source: Efficiency and Reform Group*

**7.1** The commercial relationships team in ERG manages the relationship between government and its largest suppliers. The intention is that the centre of government acts as a single customer to key suppliers.

**7.2** Savings from this work arise as a result of:

- negotiations held in 2010 which led to memoranda of understanding between government and its key suppliers;
- controls on departmental spending – any outsourcing contract with a lifetime cost of over £5 million and certain other types of contract requires ERG approval; and
- ongoing engagement of ERG in issues affecting government's largest suppliers.

### **Methodology**

**7.3** ERG has developed a methodology for 2012-13 onwards, which describes in detail the principles for what can, and cannot, be counted as a saving and seven broad categories of savings from purchases.

**7.4** The methodology expects savings to be calculated as the difference between actual costs in 2012-13 compared to a 2009-10 baseline or an alternative counterfactual that is agreed within ERG to be appropriate.

## Application of methodology

### Data collection

**7.5** Savings data is collated by ERG which identifies all possible savings from each of the sources listed overleaf and maintains the information centrally. For a saving to be claimed it has to pass through a checking process where the department confirms the saving has occurred and confirms that it holds evidence to substantiate the saving.

**7.6** ERG has made significant progress in improving the clarity and quantity of supporting documentation for the savings compared to 2011-12. However, for four large items that we examined, it was not clear that they were being compared to a 2009-10 baseline as required by the methodology.<sup>12</sup>

**7.7** These savings are complex and data is collated outside ERG, either by suppliers or by departments. Given this, ERG could be more proactive in circulating the methodology, which has not yet been circulated outside the commercial relations board, on which sit senior commercial representatives from most major government departments. Further, ERG could do more to ensure that departments and suppliers are applying the methodology consistently; including giving examples of how savings should be calculated in particular scenarios.

**7.8** In 2011-12, we had concerns about double counting within the commercial relationships savings. ERG has taken steps to identify and remove double counting this year and has excluded £101 million of possible savings as a result.

### Assurance

**7.9** ERG has developed a ‘double-green gateway’ to substantiate savings in 2012-13. A process was run in the final few months of 2012-13 to ascertain whether the ‘double-green gateway’ standard was met:

- ERG first sense-checked the data and then contacted suppliers to request confirmation and alteration.
- This revised list was sent to departments who confirmed (or amended) savings and confirmed what evidence they have to support the saving. This sign-off was typically by a senior official within the relevant department.
- ERG may query significant changes with the department.

**7.10** This is a significant improvement on 2011-12 and sets a clear standard of what is required to make a savings claim. This standard was fully achieved for almost £820 million of the claimed savings.

<sup>12</sup> Strictly the methodology requires a comparison to a 2009-10 baseline or another baseline as agreed with ERG. We could find no evidence of an agreement to use an alternative baseline.

**7.11** In 2012-13, the verification exercise was run as a year-end process and the reported savings therefore grew significantly from £388 million at the end of February 2013 to £840 million in the final claim. This required Internal Audit to carry out sufficient sample-testing after the end of the year to have assurance over the whole reported figure.

**7.12** The review by Internal Audit of a sample of individual savings claims identified a few minor errors which ERG has corrected. Internal Audit also found minor issues over the evidence underpinning a few savings claims.

### Other work carried out to review the methodology

**7.13** Our report on ICT savings considered the 2011-12 commercial relationships savings.<sup>13</sup> We found that ERG's work was helping departments reform their supplier relationships but that savings needed to be built on firmer evidence. This work recognised that ERG was taking steps to improve data for 2012-13.

### Conclusion

**7.14** From our review of ERG records to support its assertion on commercial relations savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- the savings methodology has been consistently applied except for a small proportion of the savings where either the required departmental sign-off or supplier data was available, but not both. ERG has substantially improved its processes in this area since our previous assessment, but the process needs to be started earlier, to ensure that departments and suppliers are understanding and applying the methodology consistently; and
- the assertion accurately describes the savings claimed.

### Recommendations

**7.15** We have the following recommendations for ERG:

- ERG should introduce controls to mitigate the risk that departments and suppliers are applying the saving methodology inconsistently when calculating savings. Such controls may include: distributing the methodology more widely; providing more guidance and worked examples on how to apply the methodology; holding workshops or similar with departments to help them understand the methodology; or auditing departmental evidence and controls over a number of years.
- ERG should embed its process throughout the year, to identify any issues and allow increased assurance before the year end.

<sup>13</sup> Comptroller and Auditor General, *The Cabinet Office: The impact of Government's ICT savings initiatives*, Session 2012-13, HC 887, National Audit Office, January 2013.

# Part Eight

## Common Infrastructure Programme

### Common Infrastructure Programme assertions

By implementing a Common Infrastructure Programme, we saved over £140 million from spend on telecommunications and hosting in 2012-13 compared to 2009-10.

*Source: Efficiency and Reform Group*

**8.1** ERG aim to generate saving in government by developing a common infrastructure. This consists of two categories of savings:

- Savings of £127 million from the public services network, which is a new approach to procuring and providing ICT networking and telecommunications infrastructure within the public sector.
- Savings of £16 million from the hosting programme which seeks to reduce, by consolidation, the number of ICT servers and data centres in central government.

### Methodology

**8.2** The methodology for the public services network savings is calculated by comparing the difference between what departments paid in 2012-13 to 2009-10. Departments are required to provide details of actual spending in 2012-13, in a common format, to a project team within ERG along with sign-off from within the department. The project team collates the savings and reports them, along with sign-off from the senior responsible officer for the programme.

**8.3** ERG has not presented us with any documentation to describe the methodology used for hosting savings.

### Application of methodology

#### Data collection

**8.4** ERG reported savings in 2012-13 as a result of the public services network being introduced in 11 departments. For six of these departments, full-year expenditure data was not available to the timetable set by ERG. As a result, claims are on the basis of nine months of actual spend and three months of forecast spend.

**8.5** In the light of the available evidence this seems like a reasonable approach. ERG had initially claimed a further £13 million relating to public services network savings from 2011-12, which were not reported in that year due to these timing differences. Internal Audit advised ERG these should not be described as 2012-13 savings and they were subsequently removed from the claim. 2012-13 is the first year that ERG has claimed savings from the hosting programme. Initially, ERG claimed £117 million of savings against this programme.

### Assurance

**8.6** Internal Audit reviewed the savings recorded by departments. They found no issues with the trail from departmental submission to recorded ERG savings. Internal Audit's review of the hosting savings identified that £101 million (86 per cent) should not be claimed for a variety of reasons.

### Other work carried out to review the methodology

**8.7** We reviewed the 2011-12 ICT business case savings in our report *The impact of government's ICT savings initiatives*.<sup>14</sup> We found in that report that 89 per cent of the 2011-12 savings met our criteria, although we had concerns about the evidence base for the remaining savings.

### Conclusion

**8.8** From our review of ERG records to support its assertion on common infrastructure programme savings in 2012-13, we conclude:

For the public services network:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- ERG has consistently applied the savings methodology to provide confidence in the savings claimed; and
- the assertion accurately describes the savings claimed.

The £16 million claimed for hosting is not material in the context of the overall level of savings claimed by ERG and we have therefore not sought to conclude on it.

<sup>14</sup> Comptroller and Auditor General, The Cabinet Office, *The impact of government's ICT savings initiatives*, Session 2012-13, HC 887, National Audit Office, January 2013.

## Recommendations

**8.9** We have the following recommendations for ERG:

- ERG should work with departments to help them report spend under the public services network initiative on a more timely basis, though this needs to be proportionate to cost. This will enable more accurate reporting of savings in year and eliminate the use of estimates.
- ERG needs to produce a methodology for hosting savings and substantially improve its application. This was the first year that savings have been reported from the hosting programme and the large number of amendments required by Internal Audit indicates that processes are still very immature.

# Part Nine

## Advertising and Marketing

### **Advertising and Marketing assertion**

By maintaining strong control of our marketing and communication spend, government has reduced spend in 2012-13 by nearly £380 million compared to 2009-10.

*Source: Efficiency and Reform Group*

**9.1** ERG has put in place greater control on spend on advertising and marketing by government departments. In particular, any advertising, media or marketing campaign with a budget of over £100,000 must obtain ERG approval.

### **Methodology**

**9.2** In 2012-13, ERG has set out a new methodology for calculating the advertising and marketing saving, by comparing the total spend in 2012-13 with baseline figures of the total spend in 2009-10. This methodology, which is comparable to that used for workforce and consultants, is a strong basis for calculating the saving.

**9.3** The 2009-10 data was collected as part of the Operational Efficiency Programme and published alongside data from other sources. In creating the baseline for the 2012-13 data, ERG went back to the original returns and only examined departments and arm's-length bodies with more than 250 members of staff.

**9.4** ERG went back to the originator of the returns to allow them to break down the information they collected into two types of communications spend – operational and proactive. Operational costs include areas which are likely to be double counted with other savings lines (such as staff costs and consultants) and therefore have been excluded from both the baseline and the 2012-13 figures. Proactive spend covers more external costs, such as marketing and advertising, as well as press office functions and internal communications. **Figure 12** shows the breakdown of savings by department.

**Figure 12**

ERG's breakdown of advertising and marketing savings 2012-13

Department	Reported savings 2012-13 (£m)
Department for Education	90
Department of Health	73
Department for Work & Pensions	48
Department for Transport	45
Department for Communities and Local Government	20
Other departments	104
<b>Total</b>	<b>378</b>

**NOTE**

1 Totals may not sum due to rounding.

*Source: Efficiency and Reform Group*

## Application of methodology

### Data collection

**9.5** ERG sent out a template to each department for them to complete and return on behalf of themselves and their key arm's-length bodies, consisting of those with more than 250 employees. The arm's-length bodies for which ERG expected data were listed on the return (and were the ones for which they had 2009-10 data). The return was issued with the same guidance as the 2009-10 survey and contained the baseline data for comparison and to allow departments to check the figures.

### Assurance

**9.6** Returns were signed off by directors of communications. There is evidence that the information has been followed up, and any key changes to arm's-length bodies since 2009-10 have been appropriately dealt with.

**9.7** ERG did not start this process until after year end. This meant that they were unable to give departments a long time to fill out returns, and that Internal Audit had little time to review the returns once they had been finalised. Internal Audit did not find any discrepancies between the returns and the data collated, and the saving had been calculated as expected.

## Conclusion

**9.8** From our review of ERG records to support its assertion on advertising and marketing savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- ERG has consistently applied the savings methodology to provide confidence in the savings claimed; and
- the assertion describes the savings claimed.

## Recommendation

**9.9** We have the following recommendation for ERG:

- ERG should consider having a mid-year process, to identify any issues and allow increased assurance before the year end.

# Part Ten

## IT Reform and Digital Services

### **IT Reform and Digital Services assertion**

By scrutinising ICT business cases and launching the GOV.UK website government has reduced planned expenditure on approved projects and stopped spend of over £360 million.

*Source: Efficiency and Reform Group*

**10.1** ERG has targeted savings through tighter control of government digital services. Savings under this heading come from two distinct sources:

- ERG scrutiny and approval, or refusal, of departmental requests to spend over £5 million (£1 million for back-office/administrative systems) on ICT projects.
- Savings resulting from digital projects which the Government Digital Service has substantially amended or stopped.

### **Methodology**

**10.2** For the first of these, the savings methodology is based on recording the difference between a submitted and approved business case. The methodology includes a requirement that a saving is only valid if it results in the business need continuing to be met for less cost. The saving will not necessarily result in reduced spend unless overall budgets are being reduced. This weakness is explicit in the assertion, which clearly states it is the difference between planned and approved budgets. However, care needs to be taken when presenting these savings publicly as the basis of calculating them is different to other savings, making it potentially inappropriate to add them together.

**10.3** For the second of these, savings result from three discrete projects that have either been stopped or substantially amended. The saving is calculated as the difference between the amount that would have been spent in 2012-13 had the project been allowed to proceed and the amount that is being spent, if anything.

## Application of methodology

### Data collection

**10.4** In 2012-13, ERG operated a new process to agree savings with departments. The results of this process were mixed and ERG did not get a full response from all departments. This data check is, however, stronger than in previous years.

### Assurance

**10.5** Internal Audit found a number of errors in the evidence base for these savings. These included:

- insufficient evidence to justify the amount of saving reported; and
- incorrect profiling of savings between different years.

**10.6** In light of Internal Audit's findings on a sample of savings, ERG reduced the overall savings claim by 25 per cent based on an extrapolation of the audit results in order to remove likely incidence of error from the claim.

### Other work carried out to review the methodology

**10.7** We reviewed the 2011-12 ICT business case savings in our report *The impact of government's ICT savings initiatives*.<sup>15</sup> We found in that report that 89 per cent of the 2011-12 savings met our criteria, although we had concerns about the evidence base for the remaining savings. In our report on the Efficiency and Reform Group we found substantial evidence that in 2011-12 the measures covered under this savings line were leading to real terms reductions in actual spend.<sup>16</sup>

**10.8** Due to the timing of our review we cannot, unlike in previous years, verify that the business case measures have led to real-terms reductions in spend in 2012-13.

### Conclusion

**10.9** From our review of ERG records to support its assertion on IT reform and digital services savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed except that the methodology measures reductions in planned spend rather than actual spend;

<sup>15</sup> See footnote 14.

<sup>16</sup> Comptroller and Auditor General, The Cabinet Office, *The Efficiency and Reform Group*, Session 2012-13, HC 956, National Audit Office, April 2013.

- the high level of errors found by Internal Audit, and removed, suggests that ERG has not consistently applied the savings methodology thus reducing confidence in the savings claimed; and
- the assertion accurately describes the saving claimed. The fact that the methodology impacts on planned spend only is clearly reported.

## Recommendations

**10.10** We have the following recommendations for ERG:

- ERG should take further steps to identify whether savings are leading to real-terms reductions. ERG could draw on other evidence sources, such as accounts or the spending database maintained by the Government Procurement Service, to better demonstrate the impact of these measures on historic spend.
- ERG should work with Internal Audit to identify the underlying reasons for errors in 2012-13 and make improvements to the control environment. Such improvement is likely, as a minimum, to include more training for staff recording savings and more scrutiny of recorded savings.
- ERG needs to embed the departmental agreement process more fully in its work and seek to get full agreement of claimed savings with departments.

# Part Eleven

## Major Projects

### Major Projects assertions

On 11 of government's major projects, departments report halting or curtailing wasteful spend totalling almost £890 million through both improved central scrutiny by the MPA and their own action to avoid low value spend.

Additionally, the Department of Health has reported saving over £320 million through a programme which has reduced the number of staff employed in non-essential administration of the NHS.

*Source: Efficiency and Reform Group*

**11.1** In 2011, the government established the Major Projects Authority within ERG. The role of the Authority was to oversee some 190 of the highest risk projects across central government to address the poor performance which has led to the failure of government projects in the past.

### Methodology

**11.2** In order to estimate the impact of changes made in individual projects, ERG compares the most recent forecast of 2012-13 spending with earlier budgets. It reports savings where both:

- estimated outturn spend for 2012-13 was less than forecast for the year; and
- lifetime budget has reduced (i.e. the reduced 2012-13 spend is not simply the result of delays or rescheduling of expenditure).

**11.3** We have no information on the overall cost performance of all projects being subject to assurance by the Authority in 2012-13. The methodology used by ERG to evaluate savings on ongoing projects is selective: only those projects which can demonstrate a reduction in spending against original plan in 2012-13 and in overall lifetime forecast are counted. It therefore provides only a partial view of cost across the project portfolio as it does not take into account projects whose estimated cost is increasing, for example reported increases in cost of some defence or transport projects.

**11.4** It is not possible for all of the savings to follow the same methodology, and there is a range in the evidence or explanation from departments for how the reported saving was achieved. This weakens the credibility of the overall saving claimed.

## Application of methodology

### Data collection

**11.5** Since March 2012, the Authority has monitored departments' cost forecasts on all of its ongoing projects four times a year. For its 2012-13 savings, it has assessed each of the 190 projects against the department's lifetime forecast as at March 2012. It identified seven projects which met its criteria. However, the bulk of savings claimed by ERG are on three major projects cancelled or re-scope since 2010, and on a range of smaller initiatives within the health sector which the department argues reduced staff numbers (see **Figure 13**).

**Figure 13**

Savings reported on major projects 2012 by department and project title

Area	Project description	Value (£m)
Department of Health	Cancellation/curtailment of The National Programme for IT	455
Department of Health	Various projects enabling reductions in non-civil service health workforce	324
Department for Transport	Reductions in Crossrail project	145
Home Office	Cancellation of the National ID Cards Programme	86
Ministry of Defence	Forecast savings in Type 45 destroyer programme cost <sup>1</sup>	72
Department of Health	Forecast savings in the Interventional Management of Stroke project (IMS 3) <sup>1</sup>	40
Home Office	Forecast savings in Costs of the Communications Capabilities Directorate (CCD) <sup>1</sup>	58
Department of Health	Forecast savings on the London Programme for IT <sup>1</sup>	15
Department of Health	Forecast savings in East and North Herts Lister NHS Trust Capital Scheme <sup>1</sup>	10
Office for National Statistics	Savings in Census 2011 <sup>1</sup>	5
Overseas	Forecast savings in Tel Aviv Embassy construction	1
<b>Total</b>		<b>1,210</b>

#### NOTES

- 1 Savings are calculated from quarterly project estimates provided by departments. Other savings are assessed using different methodologies agreed with the managing department.
- 2 Totals may not sum due to rounding.

Source: Major Projects Authority

## Assurance

**11.6** Internal Audit reviewed the quarterly reporting process, checked the calculation of the savings and confirmed that ERG held sufficient evidence from the department supporting its savings claim. Its review found errors in the amounts originally claimed and areas with insufficient supporting evidence leading to a reduction of £123 million in the savings claimed. Internal Audit identified the risk that subsequent slippage and cost increases on some major projects may offset some of the reported savings.

## Other work carried out to review the methodology

**11.7** The methodology was not designed to take into account the costs of replacement projects: the reported saving on NHS Programme for IT includes £269 million from the cancellation in 2011 of the chosen electronic patient record system. In future, local health trusts are free to choose this or alternative systems. The likely cost of these IT systems has not been deducted from the reported saving.

## Conclusion

**11.8** From our review of ERG records to support its assertion on major projects savings in 2012-13, we conclude:

- the savings methodology provides an adequate basis for calculating the savings claimed;
- the methodology has been applied to only a small proportion of projects – there is no data to provide an overall view of which projects have savings and which do not, partly due to the inherently complex nature of measuring major project savings; and
- the assertion accurately describes the savings claimed.

## Recommendations

**11.9** We have the following recommendations for ERG:

- In order to demonstrate that improvements in project management are real and sustainable rather than representing normal variation in budgeted costs, the ERG should:
  - further develop its approach to show that overall cost management has improved across its portfolio;
  - provide additional material explaining how individual savings were achieved; and
  - invite departments to provide estimates of the costs of any significant successor projects which replace projects reduced in scope or cancelled.

# Part Twelve

## Pensions Reform

### **Pensions Reform assertion**

By adjusting the balance between central funding and employee contributions, this government saved an estimated £1,160 million in 2012-13 from taxpayer contributions to pension schemes for central government.

*Source: Efficiency and Reform Group*

**12.1** ERG aims to reduce the spending by the state on public sector pensions. Cabinet Office and other bodies responsible for pension schemes have renegotiated the terms of their schemes so that staff pay a larger contribution. This leads to a reduction in the amount of public sector money needed to support people drawing their public sector pension.

### **Methodology**

**12.2** ERG calculates the saving by taking the figure calculated by HM Treasury as the basis for the 2010 Spending Review forecast of the effects of Annual Managed Expenditure policy measures. This 2010 figure of £160 million is cumulative on the Pre-Budget Report 2009 promise to save £1 billion a year from 2012-13 onwards from reforms to public service pensions. The two, taken together, make up the published £1,160 million claimed by ERG.

**12.3** ERG has not provided any additional evidence on how this figure of £1,160 million was calculated. We therefore cannot conclude on whether the methodology is reasonable.

**12.4** The calculation does not take into account the reduced income tax received as pension contributions are not part of taxable income. This is not set out in the assertion and is an important caveat on the net effect to the Exchequer.

**12.5** This saving is qualitatively different in nature to the others claimed by ERG. The impact of Cabinet Office's work is to transfer the burden of the pension cost from the taxpayer to public sector workers. The saving assertion makes this clear.

## Application of methodology

### Data collection

**12.6** The savings figure has not been updated to reflect the actual changes in pension contributions. These may differ from the forecast because of:

- changes in public sector employment rates affecting the number of people, and grade mix, making contributions;
- changes in the average pay affecting the amount people contribute, especially since the rate of increase depended on pay; and
- changes to the pension scheme which may cause more people to opt out, thereby changing the number of people making contributions.

**12.7** The Principal Civil Service Pension Scheme (PCSPS) is the one line where the actual increase in 2012-13 due to increased pension contributions has been calculated, using data on employer and employee contributions for 2012-13 taken from the pensions finance team in Cabinet Office, who collate the information across all employers and employees using the PCSPS. This calculation was based on an average contribution increase of 1.28 per cent rather than more detailed data on actual contribution increases which varied across pay bands. The recalculated saving was £173 million, instead of the £163 million claimed.

### Assurance

**12.8** Internal Audit reviewed the methodology and the data underpinning the calculation for the PCSPS. It found no errors in the data and recommended that in future the calculation be done on the basis of actual changes in contribution rates rather than average rates. Information on the other pension schemes was not available in time for Internal Audit to review them.

## Other work carried out to review the methodology

**12.9** We have compared the reported figures for the PCSPS pay bill and pension contributions to other sources of information on pensions, including the departmental returns which are the basis for the workforce savings estimate, to provide additional assurance that the figures are in line with our expectations.

**12.10** We confirmed with our financial audit team that the Superannuation Fund does show increased receipts from employee contributions, so we can have confidence that there are savings to the public purse.

## Conclusion

**12.11** From our review of ERG records to support its assertion on pensions savings in 2012-13, we conclude:

- ERG's savings methodology is limited as a basis for calculating the savings claimed because it is based on estimated not actual savings;
- ERG has consistently applied the savings methodology, subject to the limitation that it is based on estimates; and
- the assertion accurately describes the savings claimed, and the technical annex makes clear that the effect on income tax receipts has not been calculated.

## Recommendations

**12.12** We have the following recommendations for ERG:

- ERG calculates the actual increase in 2012-13, using the methodology it used for the PCSPS for all other pension schemes and uses this as the future basis for reporting.
- ERG carries out this calculation using detailed pay band data when it becomes available.
- ERG calculates the effect on tax revenue due to the increased pension contribution and plan to net it off in future years.
- ERG set out more clearly when reporting savings in aggregate that the net benefit to the Exchequer does not come from improved efficiency or reduction in administrative overheads, but from a transfer of costs.

# Appendix One

## Our audit approach

**1** We examined the processes used by the Efficiency and Reform Group (ERG) to produce their savings claims for 2012-13. We reviewed:

- methodology used to calculate the saving;
- application of the methodology to generate the saving figure; and
- assertion that explains the saving claimed.

**2** We reviewed the processes and documents that were held by ERG used to support the 11 categories of saving. We also examined the work carried out by internal audit. We judged the savings line against the criteria in **Figure 14**.

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**Figure 14**

Criteria for evaluating the savings lines

<b>Methodology design</b>	<b>Methodology application</b>	<b>Savings assertion</b>
Data is taken from a reliable source	Guidance clear and shared as widely as possible	Fair description of figure calculated
Savings calculated using an appropriate methodology	Data collected on standard templates to reduce risk of error	Baseline clearly stated
Saving is estimated net of relevant costs	Appropriate sign-off and evidence of scrutiny	
Savings calculated against a realistic baseline	Clear allocation of roles and responsibilities	
Savings are cash-releasing	Active ongoing monitoring of data	
Savings are not double counted	Double counting is identified and removed	

*Source: National Audit Office*

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**3** Our criteria are based on those we have used to examine previous ERG savings reports.<sup>17</sup> We have modified them to reflect the broader range of what ERG is claiming in 2012-13, which includes some areas of planned spend rather than realised savings, and some savings which will not be repeatable in future years (**Figures 15** and **16** overleaf).

### Figure 15

Previous criteria for reviewing savings used by the NAO

#### Criteria used in the report on 2011-12 savings

Risk	Comment
Data quality	Data on quantity and unit costs should be taken from a reliable source, or cautious estimates used.
Properly calculated	Savings should be calculated using an appropriate economic or cost-accounting methodology and checked internally before publication.
Net of costs	All transitional costs and any additional ongoing costs should be netted off from savings reported in the year in which the costs are incurred. Adverse effects on other programmes should also be recognised.
Impact on services	Any adverse effect on service quality should be reported. Any reductions in planned activity/outputs should be demonstrated not to have a material impact on overall outcomes.
Calculated against a realistic baseline	Baseline should be a realistic forecast rather than a worst-case scenario. Ideally, departments should compare actual spending against previously approved spending plans, e.g. at the beginning of the spending review period (the counterfactual).
Costs have not been reallocated	Savings should not be reported if spending has been reallocated to another similar activity either internally or in another publicly-funded body. However, savings may be used for approved new services which would otherwise have been funded by Parliament.
Cash-releasing	Financial or cash-releasing savings will reduce departments' annual expenditure. Efficiency savings should represent the same output at less cost. Non cash-releasing savings and other benefits, e.g. increased output or reductions in services, should be clearly distinguished.
Realised	Reported savings should clearly distinguish between savings achieved to date and those anticipated in the future. It should be possible to reconcile the saving to budgets and to financial or management accounts, after allowing for planned new services.
Sustainable	One-off or time-limited savings should be reported separately from ongoing reductions in annual spend. One-off savings may be sustainable if they are part of an ongoing programme of similar savings.
Scored only once	Savings should not be double counted under separate categories or by different bodies. Savings reported under previous initiatives should not normally be reported again.

Source: National Audit Office

<sup>17</sup> Good practice for accurate public reporting of savings as set out in the Comptroller and Auditor General, *The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 887, National Audit Office, March 2011.

**Figure 16**

Relationship between 2012-13 criteria and 2011-12 criteria

<b>2011-12 criteria</b>	<b>Methodology design</b>	<b>Methodology application</b>	<b>Savings assertion</b>
Data quality	Data is taken from a reliable source	Data collected on standard templates to reduce risk of error  Active, ongoing monitoring by ERG of data received	
Properly calculated	Savings calculated using an appropriate methodology		Fair description of figure calculated
Net of costs	Savings reported net of relevant costs	Methodology is clear and communicated	
Costs have not been reallocated		Appropriate sign-off and evidence of scrutiny	
Cash-releasing	Savings are cash-releasing		
Calculated against a realistic baseline	Savings calculated against a realistic baseline		Baseline clearly stated
Scored only once	Savings are not double counted	Double counting is identified and removed	
Impact on services	Criteria excluded from the review		
Realised	Criteria excluded from the review (not required by ERG)		
Sustainable	Criteria excluded from the review (not required by ERG)		

Source: National Audit Office

## Appendix Two

### Internal Audit findings

- 1** The Cross Departmental Internal Audit Service was asked to provide independent assurance to the Cabinet Office Accounting Officer that the processes established within the ERG to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidenced-based and supportable benefit claims.
- 2** Internal audit carried out a detailed review of all 13 savings assertions. The work did not test the accuracy nor completeness of data supplied to ERG by government departments, only that ERG had compiled sufficient evidence to support the savings claimed, and that any assertions drawn were reasonable and consistent with the evidence.
- 3** Internal Audit was able to provide a reasonable assurance over nine of the thirteen work streams and moderate assurance over four using the following criteria:

  - Reasonable assurance: a sound evidence base supporting the savings and assertions reported by ERG.
  - Moderate assurance: The evidence base supports claimed savings and assertions with some weaknesses.
- 4** A summary of Internal Audit's findings is at [Figure 17](#) overleaf.

**Figure 17**

## Summary of Internal Audit findings

ERG Savings Work stream	ERG Reported 2012-13 Saving <sup>1</sup>	ERG Assertion (bold) and Cross Departmental Internal Audit Service Comment <sup>1</sup>	Internal Audit Assurance
<b>Part One – Cashable Savings 2012-13</b>			
Workforce	£2,216 million	<p><b>We've reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in salary costs for 2012-13 of nearly £2,220 million compared to 2009-10, and a reduction in size of the civil service of 70,000 between June 2010 and December 2012.</b></p> <p>Evidence Base: Internal Audit 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: Internal Audit are content with the assertion.</p>	Reasonable
Pensions	£170 million <sup>2</sup>	<p><b>By adjusting the balance between central funding and employee contributions, this government saved an extra £170 million in 2012-13 from taxpayer contributions to pension schemes for central government. The saving does not take account of second order tax implications.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. Calculations are based on an average increase of 1.28 per cent rather than the actual increase in each pay band, but any difference is unlikely to be material.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable
Consulting	£1,012 million	<p>Departments report a significant reduction in discretionary spend:</p> <p><b>A reduction in spend on consulting in 2012-13 of £1,010 million compared to 2009-10.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. Controls over document management relating to the departmental returns need to be improved as the absence of a consistent approach has led to errors in initial reporting of savings for the second year in a row. Departments need to be reminded of the need to provide senior level validation of their submissions.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable
Contingent Labour	£598 million	<p>Departments report a significant reduction in discretionary spend:</p> <p><b>A reduction in spend on temporary agency staff in 2012-13 of nearly £600 million compared to 2009-10.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. The process could be enhanced by introducing periodic reconciliations between the Saving Reporter data with that held by the Analysis and Insight Team and Departmental Workforce Returns. Departments should be reminded of the requirement to provide senior level sign-off on their Workforce Returns.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable

**Figure 17 continued**

## Summary of Internal Audit findings

<b>ERG Savings Work stream</b>	<b>ERG Reported 2012-13 Saving<sup>1</sup></b>	<b>ERG Assertion (bold) and Cross Departmental Internal Audit Service Comment<sup>1</sup></b>	<b>Internal Audit Assurance</b>
<b>Part One – Cashable Savings 2012-13 continued</b>			
Centralising Procurement	£1,024 million	<p><b>By centralising spend on common goods and services and by introducing policies requiring departments to purchase less, government has saved £1,020 million centrally and in the wider public sector.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. Savings are based on individual benefit methodologies for each category of spend. A variety of baselines are used in these methodologies. Benefit methodologies do not cover all centralised procurement spend.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable
Commercial Relationships	£835 million	<p><b>By managing relationships with some of the largest suppliers to government, we've made savings of nearly £840 million.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. Some savings were not compliant with the methodology claimed initially and these have been removed. Only savings that are compliant with the savings methodology should be claimed. Risk management activity to prevent double counting should be formalised and embedded within the activity of the team throughout the coming year.</p> <p>Assertion: Internal Audit are content with the assertion. Some of the deals were negotiated under the previous administration and savings relate to activity under the current administration.</p>	Reasonable
Property Exits	£310 million	<p><b>We reduced the in-year cost of our property estate by £310 million by exiting from leasehold and freehold properties.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable
Advertising and Marketing	£378 million	<p><b>By maintaining strong control of our marketing spend, we have reduced spend in 2012-13 by nearly £380 million compared to 2009-10.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base.</p> <p>Assertion: Internal Audit are content with the assertion.</p>	Reasonable
Common Infrastructure and Hosting	£143 million	<p><b>By implementing a Common Infrastructure Programme, we saved £140 million from spend on telecommunications and hosting in 2012-13 compared to 2009-10.</b></p> <p>Evidence Base: Internal Audit are content with the evidence base. We are able to offer moderate assurance as the savings for the final quarter are estimated for those departments where ERG is awaiting a final return.</p> <p>Assertion: Internal Audit are content with the assertion. Hosting savings relate specifically to costs of running DWP existing estate through data centres. Wider hosting costs e.g. cloud hosting are not considered.</p>	Moderate

**Figure 17 continued**

## Summary of Internal Audit findings

ERG Savings Work stream	ERG Reported 2012-13 Saving <sup>1</sup>	ERG Assertion (bold) and Cross Departmental Internal Audit Service Comment <sup>1</sup>	Internal Audit Assurance
<b>Part Two – Prevention of wasteful project spend</b>			
Major Projects Authority	£886 million	<b>On 11 of government's major projects, departments' report halting or curtailing wasteful spend totalling almost £890 million through both improved central scrutiny by the Major Projects Authority and their own actions to avoid low value spend.</b>  <b>Additionally, Department of Health has reported saving £320 million through a programme which has reduced the number of staff employed in non-essential administration of the NHS.</b>	Moderate
	£324 million	Evidence Base: Internal Audit are content with the evidence base. A number of errors (instances where the evidence did not support the assertion) were found during our review and the total adjusted accordingly. Enhanced control is required to ensure savings are supported by robust evidence.  Assertion: Internal Audit 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.	
<hr/>			
IT Reform and Digital Services	£365 million	<b>By scrutinising ICT business cases and launching the GOV. UK website, government has reduced planned expenditure on approved projects and stopped spend of over £360 million.</b>  Evidence Base: Internal Audit are content with the evidence base. We are able to offer moderate assurance as a number of errors (instances where the evidence did not support the assertion) were found during our review and these were extrapolated and the total adjusted accordingly. Enhanced control is required to ensure savings are supported by robust evidence.  Assertion: Internal Audit are content with the assertion. We are able to offer moderate assurance as some of the savings are based on reduction in planned expenditure. 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 financial/calendar year. In addition, no review was conducted with departments to see if the original planned profile was being adhered to.	Moderate

**Figure 17** continued

## Summary of Internal Audit findings

<b>ERG Savings Work stream</b>	<b>ERG Reported 2012-13 Saving<sup>1</sup></b>	<b>ERG Assertion (bold) and Cross Departmental Internal Audit Service Comment<sup>1</sup></b>	<b>Internal Audit Assurance</b>
<b>Part Two – Prevention of wasteful project spend continued</b>			
Construction Projects	£447 million	<b>In 2012-13, departments reported eliminating nearly £450 million of costs from the planned spend on construction projects.</b>  Evidence Base: Internal Audit are content with the evidence base. We are able to offer moderate assurance as the evidence base provided to ERG by departments does not provide a full audit trail.  Assertion: Internal Audit are content with the assertion. We are able to offer moderate assurance as a variety of methodologies are used by departments and some savings are calculated on a notional basis at programme level. In addition there is a risk that whole life savings on construction projects will not be realised.	Moderate
<b>Part Three – Sales proceeds</b>			
Property Sales	£308 million	<b>By selling our land and buildings, we have generated nearly £310 million in revenue for the taxpayer.</b>  Evidence Base: Internal Audit are content with the evidence base.  Assertion: Internal Audit are content with the assertion, however we do not consider income generated from sales to be a saving.	Reasonable

**NOTES**

- 1 £47 million of the total relates to the launching of GOV.UK – this is a cashable saving but is reported here in line with how ERG intend to claim the saving.
- 2 Internal Audit have only reviewed the initial central government claim of £170 million and not the wider public sector saving which gives an aggregate saving of £1,160 million.

Source: Cross Department Internal Audit Service

# Appendix Three

## Cabinet Office's Technical Note – Savings 2012-13

**This is Cabinet Office's text that accompanies the Efficiency and Reform Group's savings for 2012-13.**

### Summary

**1** This report sets out the Government's assessment of the impact of actions taken by Government departments, under a Cabinet Office lead, to release cashable savings and prevent wasteful project spend in 2012-13.

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

**2** In May 2010 UK Gross Domestic Product (GDP) had shrunk by over 7 per cent in the recession of 2008-09 and public spending made up 47 per cent of GDP, a level that was considered to be unsustainable. The deficit between government revenue and public spending, including debt repayments, was the largest percentage of GDP of any developed country.

**3** 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.

**4** 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 with real teeth to influence the delivery of our largest project commitments;
- to increase government transparency; and
- to create new forms of social investment in the voluntary and community sectors.

**5** For 2010-11 the Government reported savings of £3.75 billion. This figure was verified by the independent auditors and subsequently the NAO confirmed these figures in their report ‘Cost reduction in central government’. 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.

**6** In 2011-12 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 £758 million, totalling £5.5 billion.

**7** In 2012-13 the Government accelerated the savings delivery, and this report sets out our further achievements with an operational savings total of £8 billion and prevention of wasteful spend by major projects and construction of £2 billion, totalling £10 billion.

## 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 strong benefits statements that provide as accurate an estimate as possible of the impact of our work, accurately positioned. 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.
- 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.

## Technical presentation

- We have identified limited double counting between the data sets, which has been redacted.
- When formulating benefits statements, we have rounded the precise figures to the nearest £10 million 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 only minor weaknesses in limited areas. 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	2012-13 Realised Saving (£m)
Reduction in consulting	1,012
Supplier renegotiation	835
Reduction in Temp Staff	598
Reduction in marketing and advertising	378
Savings from centralising procurement	1,024
Smaller civil service	2,216
Pensions Reform	1,160
Savings from telecommunications and data centres	143
Property portfolio optimisation	620
<b>Operational Efficiency Total</b>	<b>7,986</b>
Major projects redirected spend	1,210
Reducing construction costs	447
Better scrutiny of IT projects and moving government web services to GOV.UK	365
<b>Total Prevention of Wasteful Spend by Major Projects and Construction</b>	<b>2,022</b>
<b>Total</b>	<b>10,006<sup>1</sup></b>

**NOTE**

1 Excludes £2 million of rounding adjustments.

## Detailed breakout by area

<b>Area</b>	<b>Activity description</b>	<b>Exact amount (£m)</b>	<b>Evidence Base/Calculation /Caveats</b>	<b>Savings Assertion</b>
Consulting	We put in place a moratorium on new consulting spend, and extensions to existing contracts.	1,012	Savings are calculated by subtracting total departmental reported spend on consultancy for 2012-13 from total departmental reported spend on consultancy for 2009-10.	Departments report a significant reduction in discretionary spend:
	Where spend was considered operationally critical (for example, where it might put at risk critical services) an exception process existed for department ministers to sign off expenditure over £20,000.		To reduce the risk of costs shifting between categories, we also monitored expenditure on other Professional Services categories, including contingent labour.	A reduction in spend on consulting in 2012-13 of £1,010 million compared to 2009-10.
Commercial Relationships	We've renegotiated deals with some of the largest suppliers to government.	835	<p>The method of calculation varies according to the initiative that yields the saving, but was based on cash releasing savings against a baseline of what would have otherwise been spent. The savings compared prices originally submitted by suppliers for approval to prices agreed following Crown Supplier's intervention.</p> <p>Savings agreed with suppliers are recorded in Memoranda of Understanding as guaranteed in-year or conditional in-year savings (the latter being where departments need to take action towards achievement).</p> <p>Realised savings were subsequently tracked back to departmental verification of supplier progress reports.</p> <p>Savings are calculated, where possible, with reference to a 2009-10 baseline. However, this is not always possible, for example when a good or service was not procured in the baseline year. In these cases the most appropriate baseline is used based on specific circumstances.</p>	By managing relationships with some of the largest suppliers to government, Government made savings of nearly £840 million.
Contingent Labour	We significantly cut the number of temporary staff.	598	Savings are calculated by subtracting total departmental reported spend on contingent labour for 2012-13 from total departmental reported spend on contingent labour for 2009-10.	Departments report a significant reduction in discretionary spend:
				A reduction in spend on temporary agency staff in 2012-13 of nearly £600 million compared to 2009-10.

Area	Activity description	Exact amount (£m)	Evidence Base/Calculation /Caveats	Savings Assertion
Advertising and Marketing	<p>We froze all new marketing spend unless it is an operational necessity.</p> <p>Where spend was proposed, Ministerial sign-off was required for £20,000 or above.</p>	378	<p>Calculations compare departmental spend on marketing and advertising as established through the OEP benchmarking exercise in 2009-10 with a similar exercise establishing 2012-13 spend against the same standard.</p> <p>ALBs not making returns for 2012-13 have been removed from our 2009-10 baseline calculations. New or existing ALBs not included in the 2009-10 OEP exercise have been discounted from our calculations</p> <p>Senior sign off has been obtained from all departments (most often the Director of Comms).</p>	<p>By maintaining strong control of our marketing and communications spend, government has reduced spend in 2012-13 by nearly £380 million compared to 2009-10.</p>
Centralising Procurement	<p>We've started to centralise spend on common goods and services to drive down prices.</p> <p>These savings derive from the 10 categories of expenditure targeted for centralisation, and relate to price savings through increased aggregation.</p> <p>In addition we have introduced policies requiring departments to reduce purchased volumes.</p>	1,024	<p>For each initiative, calculations are performed using individual benefit methodologies that set out how savings will be calculated. Price savings are calculated against a 2009-10 market price baseline.</p> <p>Volume savings are calculated against 2009-10 volumes.</p> <p>Volumes used in calculations are based on management information provided by suppliers. Prices are based on agreed contracts.</p>	<p>By centralising spend on common goods and services and by introducing policies requiring Departments to purchase less, Government has saved over £1,020 million centrally and in the wider public sector.</p>
Workforce Reductions	<p>Government has taken measures to reduce the size of the civil service, including the introduction of a moratorium on Civil Service recruitment, with exemptions for certain front line services, and exception processes in place to deal with exceptions.</p>	2,216	<p>Size reductions represent the fall in Civil Service employment from the baseline of Civil Service employment levels as at Q2 2010 (end of June 2010). The end of June position is taken as the baseline since this is the first quarter after the freeze on external recruitment was announced.</p> <p>Cash savings are based on the reduction in pay bill between 2009-10 and 2012-13. Savings are not net of any costs associated with departures and do not include ongoing costs.</p>	<p>We've reduced the size of the Civil Service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in salary costs for 2012-13 of nearly £2,220 million compared to 2009-10 and a reduction in size of the Civil Service of 70,000 FTEs between June 2010 and December 2012.</p>
Common Infrastructure Programme	<p>We've implemented a Common Infrastructure Programme.</p>	143	<p>Sustainable savings are calculated per project based on departmental reports of telecommunications and hosting spend in 2012-13 compared to 2009-10.</p>	<p>By implementing a Common Infrastructure Programme, we saved over £140 million from spend on telecommunications and hosting in 2012-13 compared to 2009-10.</p>

<b>Area</b>	<b>Activity description</b>	<b>Exact amount  (£m)</b>	<b>Evidence Base/Calculation  /Caveats</b>	<b>Savings Assertion</b>
Property	<p>We put in place national property controls such that signature of new property leases or lease extensions were approved centrally.</p> <p>Government departments have been working to consolidate and reduce the size of its estate.</p>	620	<p>Calculations are property by property 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.</p> <p>We have deducted the costs associated with exiting buildings and property disposals realised.</p>	<p>We reduced the in-year cost of our Property estate by more than £310 million by exiting from leasehold and freehold properties.</p> <p>By selling our land and buildings, we have generated almost £310 million in revenue for the taxpayer.</p>
Major Projects	We reviewed the Government's biggest projects to see where 2012-13 costs could practically be reduced within contractual constraints through re-scoping, tackling waste, or wasteful projects stopped altogether.	1,210	<p>The method focused on 11 projects where government has confidence that savings do not relate to deferred expenditure, but focus on reducing wasteful and inefficient or back office expenditure.</p> <p>For projects in Government Major Projects Portfolio, the Q4 2012-13 expenditure forecasts by departments were compared with corresponding Q4 2011-12 budget figures.</p> <p>For projects outside of the GMPP, a similar approach was taken although the baseline varied.</p> <p>Major projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion.</p>	<p>On 11 of Government's major projects, departments report halting or curtailing wasteful spend totalling almost £890 million through both improved central scrutiny by the MPA and their own action to avoid low value spend.</p> <p>Additionally, Department of Health has reported saving over £320 million through a programme which has reduced the number of staff employed in non-essential administration of the NHS.</p>
Construction	We published the Construction Strategy, setting out how we plan to monitor reductions in the costs of construction over the SR period using benchmarks.	447	<p>Benchmarks are established by department and product e.g. the cost of a school by floor area (£/m<sup>2</sup>) or the cost of a road by kilometre run (£/km).</p> <p>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).</p> <p>The baseline consists of the departmental construction benchmarks that were recorded during the financial year 2009-10 and which have been published.</p> <p>Construction projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion.</p>	In 2012-13 departments reported eliminating nearly £450 million of costs from the planned spend on construction projects.

Area	Activity description	Exact amount (£m)	Evidence Base/Calculation /Caveats	Savings Assertion
IT Reform and Digital Services	<p>We implemented:</p> <ul style="list-style-type: none"> <li>● a moratorium on all new ICT spend above £1 million; and</li> <li>● a review of all on-going ICT commitments.</li> </ul> <p>Departments also reported those projects that were closed before undergoing the review.</p> <p>We also reduced the costs of providing services digitally.</p>	365	<p>Calculations are based on departmental reports of planned reductions in the cost of ICT projects following review of ICT business cases.</p> <p>Calculations are based on departmental reports of spend that has not proceeded. Spend that has not gone ahead in 2012-13 is recorded, as a result of stopping or reducing spend.</p> <p>ICT projects cover multiple years and actual cost reductions will not be realised and confirmed until project completion.</p>	<p>By scrutinising ICT business cases and launching the GOV.UK web site government has reduced planned expenditure on approved projects and stopped spend of over £360 million.</p>
Pensions Reform	<p>We have adjusted the balance between central funding for pensions and employee contributions for Central Government, education and health sector pensions.</p>	1,160	<p>The calculation method applies the average 1.28 per cent increase across paybands, and does not apply the actual increases at different pay bands.</p> <p>£170 million of central government pensions savings have been reviewed by auditors. The remaining savings arise from a reduced requirement for central funding for schools and NHS pensions; this follows the same method but is pending a full audit.</p> <p>The calculation does not take account of second order tax implications, such as the tax revenue that would have been received on pension contributions.</p>	<p>By adjusting the balance between central funding and employee contributions, this Government saved an estimated £1,160 million in 2012-13 from taxpayer contributions to pension schemes for Central Government.</p>



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