National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 86
SESSION 2009–2010

16 DECEMBER 2009

Independent Reviews of reported CSR07 Value for Money savings

Our vision is to help the nation spend wisely.

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: at least £9 for every £1 spent running the Office.

Independent Reviews of reported CSR07 Value for Money savings

Ordered by the House of Commons
to be printed on 14 December 2009

Report by the Comptroller and Auditor General
HC 86 Session 2009–2010
16 December 2009

London: The Stationery Office
£14.35

This report has been prepared under section 6 of the 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

9 December 2009

The Comprehensive Spending Review, which covers the period 2008-09 to 2010-11, requires departments to achieve annual value for money savings totalling £35 billion by 2010-11 against total planned current spending of £645 billion. This represents annual savings of around three per cent of expenditure.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
P002337291 12/09 77240

Contents

These reviews were conducted by:

Daniel Fairhead, Sandy Gordon, Matthew Hemsley, Peter Jones, Hannah Marks, James McGraw, Polly Meeks and Tom Wallace, under the direction of Keith Davis.

This report can be found on the National Audit Office website at www.nao.org.uk/0910/csr07

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Foreword

I set out here the background to our reviews of departments' value for money savings, and put the work in the context of the new pressures on public spending that have emerged over the past year or so. My thoughts on the challenges ahead are derived from work by the National Audit Office across all departments over a number of years, and not specifically from these reviews on the Department for Transport and the Home Office.

The Comprehensive Spending Review, which covers the period 2008-09 to 2010-11, requires departments to achieve annual value for money savings totalling £35 billion by 2010-11 against total planned current spending of £645 billion. This represents annual savings of around three per cent of expenditure.

The National Audit Office agreed in 2007 to review the value for money savings reported by all major departments during this period, and this report is one of a series we plan to produce on reviews of the savings. Next year, when we have completed another three departmental reviews, we will report on the programme as a whole, including on the Treasury's role in setting the parameters of departmental value for money programmes, the appropriateness of the measures used and the extent to which they create the right incentives, and whether departments are likely to meet the overall savings target for the spending period.

The programme is based on the principle that the planned savings have already been removed from departments' budgets. Departments therefore have to deliver savings to release cash to meet their spending plans. If savings are not made, departments effectively have to reduce activity compared with the planned level. This does not necessarily mean an absolute reduction in spending, but rather a reduction against the assumed spending without any value for money improvements.

Clearly the fiscal position is now very different to that prevailing at the time the savings programme was launched, and departments will be required in the coming years to make significant reductions in their levels of spending. In the 2009 Budget, the Treasury announced two further initiatives to identify additional savings from 2010-11, the Operational Efficiency Programme and Public Value Programme. These programmes aim to find future efficiencies and are not part of the savings reviewed in this report.

The ratings we have given in this report and in previous reports on the 2004-08 efficiency programme show that departments find it difficult to demonstrate that all the savings they claim represent real improvements in value for money. This is partly the result of measurement weaknesses, with many departments not having the robust data systems needed to evidence improvements in value for money.

Departments are typically seeking savings by: improving working methods to increase productivity; reducing budgets in low priority areas; re-allocating funds from lower to higher priority areas; and reducing contract costs through procurement action. These kinds of value for money improvement are important and will need to continue but, to achieve more significant budgetary reductions, departments will need a more structured and rigorous approach to examining the cost-effectiveness of their activities. This will involve better mechanisms for the prioritisation of activity, identifying and stopping activities which do not contribute enough value; and require departments to look at new ways of delivering services and programmes – many of which will not be self-financing in the short term – as well as continuing to seek incremental improvements in value for money.

Budgetary reductions will need to be underpinned by much better use of information about cost-effectiveness. Decisions about the best delivery mechanism for achieving a particular policy goal are often not based on a thorough analysis of costs, benefits and risks. Departments must ensure that decisions about starting new programmes, and about continuing with existing programmes in their current form, are much more strongly evidence-based.

Our work has shown that departments often do not have a good grip on the costs of their activities. It is quite rare to see good information on the unit costs of outputs. Without this it is difficult to see how departments can make rational choices about what to stop, what to change, and what to continue.

While the current fiscal problems are clearly very unwelcome, they do present an opportunity to make real improvement to the management and cost disciplines in the public sector.

Amyas C E Morse

Comptroller and Auditor General

Part One

Value for Money savings under CSR07

1.1 The Comprehensive Spending Review 2007 (CSR07) Value for Money Savings Programme builds on previous programmes designed to improve the efficiency and effectiveness of government operations. During the 2004-05 – 2007-08 spending period, an efficiency programme across government aimed to secure £21.5 billion of annual efficiency gains, reduce the civil service by 70,600 posts and reallocate 13,500 posts to the front line of public services, and embed efficiency into the culture of the public sector.

1.2 Settlements made to departments under the CSR07 required departments to commit to achieving further value for money savings equivalent to at least three per cent of their near-cash Departmental Expenditure Limits by 2010-11. In total, these savings are anticipated to amount to £30 billion across government and local authorities. An additional £5 billion savings target was announced in the 2008 Pre-Budget Report, bringing the total anticipated savings to £35 billion.

1.3 Under the CSR07 Programme, departments are required to identify projects and programmes that will generate cash-releasing savings. Savings must be calculated net of the resources invested in the projects or programmes that led to their generation. **Box 1** defines some key terms.

1.4 Departments must report their progress in achieving savings at six monthly intervals, in annual departmental reports and autumn performance reports. Departments are also required to publicise Value for Money Delivery Agreements, which set out the initiatives they plan to put in place to deliver cash-releasing savings.

1.5 Departments are required by Treasury to have in place robust governance arrangements that provide assurance over the achievement of the programme and the validity of publicly reported savings. Departments must describe their governance arrangements in their Value for Money Delivery Agreements.

Box 1
Definitions of key terms

Value for Money savings represent lasting improvements to the way public money is spent. They are:

- **Sustainable.** Savings are the result of a considered change in the way a department does its business and must exist at least for the current year, and continue at the same or a higher level for two subsequent financial years. This is because one-off savings, or savings which delay expenditure, do not help departments live within spending allocations in future years.
- **Neutral to service quality.** Departments need to demonstrate that reforms have not impacted adversely on the quality of public services at the level of their strategic objectives and public service agreements.
- **Cashable.** Cashable gains involve reducing inputs without affecting service quality. Non-cashable gains, in which outputs are increased for a given level of input, cannot be reported. Departments are permitted to reinvest cash savings in other services, so in most cases cash that is released cannot be observed directly in reduced budgets.
- **Realised.** Savings have materialised at the point at which they are reported.
- **Net of costs.** The upfront and investment costs and additional ongoing or running costs associated with the generation of savings must be subtracted from the value of the benefit.

Part Two

Department for Transport – overall conclusions

2.1 The Department for Transport was allocated an additional £1.9 billion over the three years to 2010-11, but set a target to realise value for money (VFM) savings of just under £1.8 billion. In the 2009 Budget, the Department agreed to find further savings of £200 million. If these savings are not made, departments have to cut other expenditure to live within their budgets.

2.2 We have reviewed the Department for Transport's reported savings at 31 March 2009, as reported in its 2009 Annual Report. The terms under which we undertook this work and the methods used are set out in Appendix 1. We used a series of audit criteria (set out in full in Appendix 2) to assess whether the reported savings fairly represent realised cash savings (**Green**); may represent realised cash savings, but with some uncertainty in one or more areas (**Amber**); or do not represent, or significantly overstate savings made (**Red**). The uncertainty partly relates to measurement difficulties, as departments do not generally have established systems which provide evidence across the range of criteria we have used to assess savings.

Summary of opinions on reported savings

2.3 The Department has reported VFM cash releasing savings totalling £892 million in 2008-09. The reported saving was made up of six separate initiatives detailed in **Figure 1. We have rated £585 million of the savings as Green or Amber; but have significant concerns over £307 million (34 per cent) of the claim to date** (**Figure 2**).

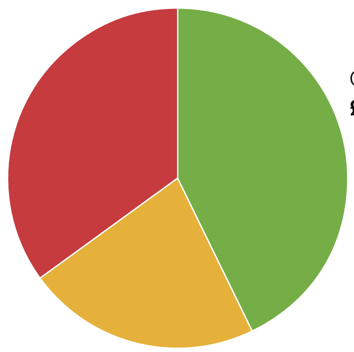
2.4 **We concluded that elements of the Department for Transport's governance arrangements for the programme are good** but that the Department's lack of control over and visibility of third party grant recipients reduces its ability to gain or provide assurance on savings reported in these areas. Our areas of concern with the savings reported mainly relate to the calculation of baselines, rather than the governance arrangements.

Figure 1
National Audit Office ratings of Department for Transport's reported 2008-09 VFM savings

Strand	NAO rating for reported savings (£m)			Brief description of saving
	Green	Amber	Red	
Support for Passenger Rail Services	65	135	80	Decrease in the net subsidy paid to Train Operating Companies.
Network Rail Grant	224	0	227	Reduction of the grant paid to Network Rail.
Transport for London	0	28	0	Back office savings, procurement savings.
Highways Agency	71	35	0	Project management changes, procurement savings.
Administration	14	0	0	Prioritisation of most important elements of work to realise cash spend reductions.
Motoring and Freight Services	13	0	0	Initiatives including increased staff productivity and contract re-negotiation.
Total	**387**	**198**	**307**	**Total savings examined £892 million**

Source: National Audit Office analysis

Figure 2
Summary of National Audit Office findings on the Department for Transport's savings



Source: National Audit Office anlaysis

NOTES

Green – Figures fairly represent realised cash savings and meet the other criteria set out in Appendix 2 to this report. Nothing has come to our attention that causes us to believe that the savings are not sustainable or will impact adversely on strategic objectives.

Amber – There may be realised cash savings which meet the criteria set out in Appendix 2, but there are areas where we either could not obtain sufficient evidence or were not satisfied that certain criteria had been fully met.

Red – Reported figures may significantly overstate savings made. Savings do not meet one or more criteria or the department was unable to provide evidence across a range of criteria to support the saving.

2.5 The majority of the reported savings (80 per cent) relate to the two rail workstreams in the Department's programme. These were derived from a decrease in support for passenger rail services (the net subsidy paid to Train Operating Companies) and from a reduction in the grant for Network Rail. We consider the starting baseline for Network Rail should be revised to reflect actual 2007-08 expenditure. This would significantly reduce the saving made in 2008-09. We therefore rated the element that we consider represents an overstatement Red with the remaining element rated as Green.

2.6 We rated £80 million of the Support for Passenger Rail Services saving of £280 million as Red as we consider that the starting baseline against which the value of the saving was measured should be altered downwards to reflect actual spend for 2007-08, after allowing for early VFM action. This would result in a lower saving being reported in 2008-09. We also concluded that there is a risk that large elements of the saving are not sustainable in all CSR07 years owing to the impact of the economic downturn on passenger revenues. The Department recognises that there is a risk to sustainability, although it has pointed out that this did not fully materialise until after the annual report figures were finalised.

Recommendations

Recalculate rail baselines and savings. We recommend that the Department recalculates its Rail savings in the light of the most accurate information available. The savings were based on the difference between the estimate of spend without VFM reform (counterfactual) and the actual spend. We recommend that the baseline is recalculated such that it represents 2007-08 spend for Network Rail, and the re-examination the Department has undertaken of expenditure on Support for Passenger Rail Services, and should obtain Treasury's agreement to these recalculations.

Review of all reported savings prior to publication. We recommend that as well as the Internal Audit review of reporting systems required by Treasury guidelines, the Department needs to ensure that all significant savings, are real and are publicly defensible. If possible this review should take place before the figures are published in annual and autumn reports.

Part Three

Home Office – overall conclusions

3.1 In the 2007 Comprehensive Spending Review (CSR07) the Home Office (the Department) was allocated an additional £0.9 billion for each year to 2010-11, an increase of about one per cent a year in real terms. However, the Department is also expected to increase expenditure on priority frontline services, including combating international terrorism, improving neighbourhood policing and the investigation of serious violent crime, by making £1.7 billion of net cash-releasing VFM savings by 2010-11, including five per cent annual reductions in administrative costs.

3.2 We reviewed the Home Office's reported savings at 31 March 2009, as detailed in its 2009 Annual Report. The terms under which we undertook this work and the methods used are set out in Appendix 1. We used a series of audit criteria (set out in full in Appendix 2) to assess whether the reported savings fairly represent realised cash savings (**Green**); may represent realised cash savings, but with some uncertainty in one or more areas (**Amber**); or do not represent, or significantly overstate savings made (**Red**). The uncertainty partly relates to measurement difficulties, as departments do not generally have established systems which provide evidence across the range of criteria we have used to assess savings.

Summary of opinions on reported savings

3.3 The Department has reported VFM cash releasing savings totalling £544 million in 2008-09, of which £404 million are new savings and £140 million represents over-delivery of efficiency targets by police forces in 2007-08 that we did not review in detail. Taking into account delays in reporting police savings, the Department is broadly on course to meet its target of £1.7 billion by 2010-11 if it can sustain the present level of savings generation. The reported savings were comprised of a number of separate strands, four of which we examined in detail. These four strands reported new savings of £338 million (**Figure 3** overleaf) – comprising 83 per cent of the Department's new reported savings. **We have rated £280 million of the sampled savings as Green or Amber; but have significant concerns over £58 million (17 per cent) of the sampled savings** (**Figure 4** overleaf).

Figure 3

National Audit Office ratings of sample of Home Office's reported 2008-09 VFM savings

Strand	NAO rating for reported savings (£m)			Nature of the problems
	Green	Amber	Red	
Police Grant	70	44	3	Not all of the efficiency savings can be shown to have been cash releasing or reallocated to high priority spending.
UK Border Agency	124	17	10	Claimed staff savings have not reduced expenditure by the planned amount.
Procurement[1]	1	17	36	Savings are mainly one-off and the Department is unable to demonstrate the impact on overall contract spend
Human Resources[1]	5	2	9	Costs of early severance programme wrongly counted as a saving
Totals	**200**	**80**	**58**	**Total savings examined £338 million**

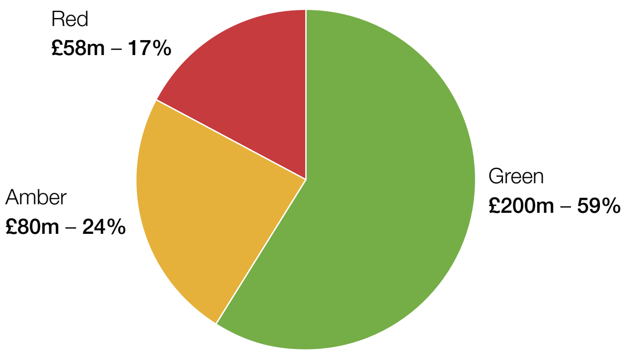
Source: National Audit Office analysis

NOTE

1 Results from random samples of savings have been extrapolated across the reported saving.

Figure 4

Summary of National Audit Office findings on the Home Office savings we examined



Source: National Audit Office analysis

NOTES

Green – Figures fairly represent savings which in all material respects meet the criteria set out in Appendix 2 to this report. Nothing has come to our attention that causes us to believe that the savings are not sustainable or will impact adversely on strategic objectives.

Amber – There may be realised cash savings which meet the criteria set out in Appendix 2, but there are areas where we either could not obtain sufficient evidence or were not satisfied that certain criteria had been fully met.

Red – Reported figures may significantly overstate savings made. Savings do not meet one or more criteria or the department was unable to provide evidence across a range of criteria to support the saving.

3.4 We have assessed the Home Office's overall governance arrangements for its Value for Money Savings programme as strong, and welcome its proposals to involve its internal audit service more closely in future. However, reporting of individual savings in 2008-09 was in insufficient detail to allow Home Office centrally to effectively challenge individual savings claims with the result that a significant proportion did not meet our criteria.

3.5 The main reasons for our Amber and Red assessments were that:

- Procurement savings of £54 million were reported by the Department. The Treasury has issued further guidance on measuring the sustainability of procurement savings. The Department expects that a substantial proportion of its reported savings in future will comply with the revised rules. However, we assessed three quarters of the procurement savings we examined as Red because the claimed savings represent one-off actions such as resisting extra contractual claims for which no budgetary provision had been made, or were not new annual savings as the procurement actions had been taken in prior years. The Department believes that although many of the savings claimed are individually one-off savings, they are typical of the savings being generated by the more commercial style adopted by its procurement staff. However, in our view, the Department is unable to establish a suitable baseline against which to measure improved overall performance, or to establish that the savings were cash releasing, for instance, that the contracts on which the individual savings were claimed had been delivered below budget.
- Police forces report savings as either cash releasing reductions in annual budget for units, or non-cash releasing savings where operational units reinvest efficiency savings in priority areas. We have no serious concerns about the overall standard of reporting of police savings. We assessed many of the non-cash releasing savings as Amber, as forces were not always able to demonstrate a clear link between the reported efficiency savings and increased spending on priority areas. In addition, the non-cash releasing savings we examined also contributed to the savings being claimed through budgetary reductions and may partly be double counted.
- We assessed some £20 million of other savings as Red because they were double counted due to the same savings having been claimed by different units or, for example, because savings on staff were also claimed through reductions in average case costs. A small proportion of police savings for example were one-off savings, or were not cash releasing in 2008-09 as resources had been reinvested in improving support services rather than releasing cash or improving front line services.

Recommendations

Reported savings should clearly distinguish between savings meeting the Treasury's criteria and other improvements in value for money to give credit to activities which do not count towards the CSR07 target but are nevertheless worthwhile. The Home Office wishes to incentivise activities which improve efficiency but which do not necessarily contribute to its savings target, because they do not release resources in the short term. Better use of police time which does not allow redeployment and innovative procurement of long-term contracts are two such areas highlighted in this report.

Issue further guidance for police forces on the difference between cash releasing savings and service improvements, and rules covering the carry-over of savings made in previous years. A substantial proportion of police savings result from efficiency measures that do not release cash but enable key resources to be reallocated to priority frontline services. To distinguish these savings from more qualitative improvements, forces should be specific in how savings are being reinvested.

Review of all reported savings prior to publication. We recommend that as well as the Internal Audit review of reporting systems required by Treasury guidelines, the Department needs to ensure that all significant savings, including those made by police forces and other arms length bodies, are real and are publicly defensible. If possible this review should take place before the figures are published in annual and autumn reports.

Establish clear budgetary baselines for evaluating major procurement projects and administrative spending. In order to demonstrate that reported savings have released cash as claimed, and is meeting the five per cent target for administrative spending, the Department should be able to reconcile actual spending to a defensible counterfactual based on its spend in 2007-08.

Annex A

The Value for Money savings reported by the Department for Transport

The Department for Transport's Value for Money savings target

A1 The work of the Department for Transport (the Department) centres around five strategic objectives.

- To support national economic competitiveness and growth, by delivering reliable and efficient transport networks.
- To reduce transport's emissions of carbon dioxide and other greenhouse gases, with the desired outcome of avoiding dangerous climate change.
- To contribute to better safety, security and health and longer life expectancy through reducing the risk of death, injury or illness arising from transport, and through promoting travel modes beneficial to health.
- To promote greater equality of opportunity for all citizens, with the desired outcome of achieving a fairer society.
- To improve quality of life for transport users and non-transport users, and to promote a healthy natural environment.

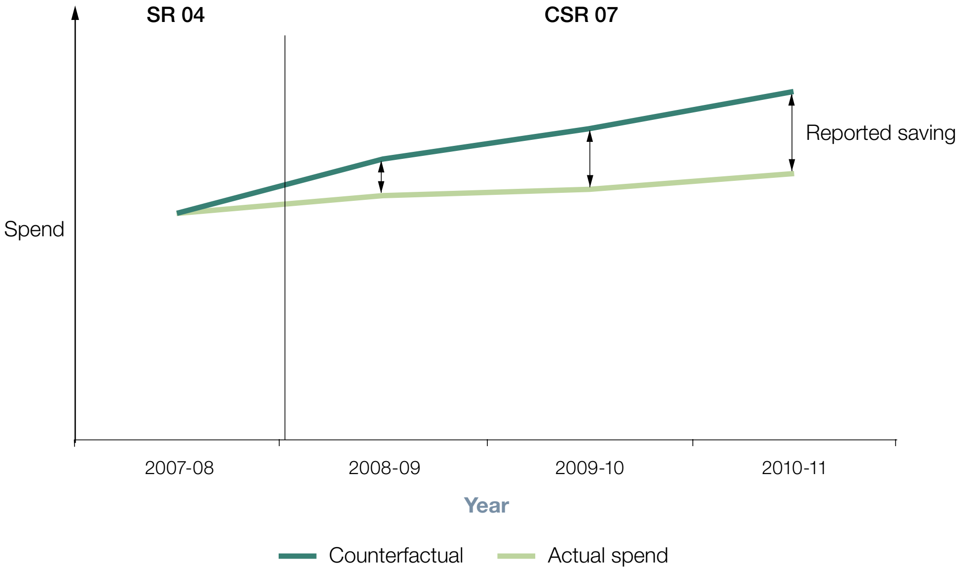
A2 Much of the Department's work is delivered by its four executive agencies and three trading funds. The agency which spends the most is the Highways Agency, which operates, maintains, improves, and ensures the safety of the strategic network of motorways and major trunk roads in England. As well as agencies and trading funds, there are also other public and private sector organisations to which the Department provides funding to achieve its objectives. The Department spends over a quarter of its funding on railways. Network Rail and Train Operating Companies were paid subsidies by the Department totalling approximately £4 billion in 2008-09.

A3 In accordance with Treasury guidelines, the Department developed an estimate of the level of spend for 2008-09 (and the subsequent two years of the CSR07 VFM programme) that there would have been without VFM reform. This is known in Treasury guidance as the counterfactual. The reported saving is then the difference between the reported spend and the counterfactual (**Figure 5** overleaf). The Department agreed all counterfactuals with the Treasury, and included these in its VFM delivery plan, which was submitted to Treasury as part of the Department's overall CSR07 submission.

Figure 5

Explanation of a counterfactual and its use in calculating a VFM saving

Predicted spending without VFM additional initiatives



Source: National Audit Office

A4 The reported cash-releasing saving in 2008-09 was significant in comparison to the Department's overall cash spend. The reported saving of £892 million was over seven per cent of the Department's total net cash requirement in the year (£12.3 billion). The Department's overall target to deliver £1.8 billion annually cash releasing value for money savings by 2010-11 is also significant as it equates to annual gains of approximately five per cent, which is in excess of the three per cent target set for Departments by the Treasury as part of the CSR07.

A5 The Department has broken down its target into milestones for each year of the programme. The annually cash-releasing amount achieved by 2010-11 will comprise of initiatives which first deliver savings in 2008-09 which continue over the period of the programme as well as new initiatives commencing in later years.

A6 The Department has reported new VFM savings of £892 million at 31 March 2009 against its planned delivery of £680 million for the period. The majority of the savings within the CSR07 VFM programme relate to expenditure on rail (**Figure 6**). These are derived from a decreasing overall subsidy for Train Operating Companies and through a reduction in the Network Rail grant. The Department did not report any procurement savings in 2008-09.

Figure 6
Savings by initiative

Area and initiative	Savings reported in 2008-09 (£m)	Target savings by 2010-11[1] (£m)
Support for Passenger Rail Services	280	700
Network Rail Grant	451	538
Transport for London	28	233
Highways Agency	106	144
Procurement	–	84
Administration	14	43
Motoring and Freight Services	13	20
Total VFM Savings	**892**	**1,762**

Source: Department for Transport

NOTE
1 These figures do not include the additional savings target announced in the 2009 Budget.

Detailed conclusions

A7 This section sets out our detailed conclusions regarding the Department's governance of its value for money programme and the savings that we examined.

Governance arrangements

A8 We have assessed the Department's governance structures as good in many respects. There were many examples of good governance activity (**Figure 7** overleaf) including board oversight of the programme and a clear delivery plan. The majority of the savings reported by the Department relate to payments to Train Operating Companies and Network Rail. The Department has an arms-length relationship with these bodies and does not control their activities.

A9 The baselines from which counterfactuals against which the saving would be calculated were agreed with the Treasury in 2006 as part of the Department's CSR 07 submission, and there was a lack of clear visibility over how the baseline for Network Rail was agreed between the Department and Treasury as part of the CSR 07 discussions.

Figure 7
Evidence of governance activity

Governance area	Evidence of governance activity
Oversight and leadership	• A programme board has been established and meets quarterly. • The programme board is chaired by the Finance Director. • There is a clear Overall Programme Delivery Plan.
Risk management	• A programme risk register has been established which details overall risks and specific risks related to the different savings work streams. • Mitigating actions for the identified risks have been agreed upon and these have been clearly assigned. • Internal Audit has completed a systems audit for the programme.
Structures, roles and reporting lines	• Each of the different strands of savings has a named Senior Responsible Owner and Manager. • The roles and responsibilities of staff working on the programme and work streams have been clearly defined within the Terms of Reference. • Clear reporting lines are detailed within an organisational chart for the programme.
Guidance and training	• The delivery plan provides clear guidance regarding governance, risk management and roles and responsibilities for those reporting the savings. • Internal Audit has undertaken work to assess whether Treasury guidance is being followed. • Workshops were held in summer 2008 for work-stream teams.
Monitoring	• The regular programme board meetings consider progress against project milestones for each of the specific work streams. • Priority Project reporting is being done in accordance with Treasury requirements.

General	• Internal Audit systems audit report of May 2009 assessed that:
	  • governance procedures had been adequately defined;
	  • individual work streams had established governance processes; and
	  • acceptable governance procedures were in place.

Source: National Audit Office analysis

Savings overview

A10 The Department's reported savings for 2008-09 were made up of six different initiatives (**Figure 8**). This section sets out our detailed conclusions for the different initiatives, particularly with regard to savings that have been rated Amber or Red.

Rail savings

A11 The Department reported savings against its expenditure on rail of £731 million in 2008-09. This saving is based on a decreasing grant for Network Rail and through the reduction of 'Support for Passenger Rail Services' (SPRS), which is the Department's net subsidy for Train Operating Companies. The rail savings amount to over 80 per cent of the reported savings to date and account for over two thirds of the Department's VFM target for 2010-11.

Figure 8
Summary of NAO opinion on claimed savings to 31 March 2009

Strand	Savings rated (£m)			Nature of the problems
	Green	Amber	Red	
Support for Rail Passenger Services	65	135	80	There is a risk that a significant proportion of the saving will not be sustained in 2009-10. The baseline against which the saving was calculated appears to be overstated compared to actual 2007-08 expenditure.
Network Rail Grant	224	0	227	We consider that the original baseline was overstated when compared to actual 2007-08 expenditure and that this has resulted in an overstatement of the saving.
Transport for London	0	28	0	Although savings may have been made we have be unable to review them in sufficient detail.
Highways Agency	71	35	0	There is uncertainty about whether some savings are sustainable or cash releasing.
Administration	14	0	0	Savings assessed as meeting all criteria.
Motoring and Freight Services	13	0	0	Savings assessed as meeting all criteria.
Totals	**387**	**198**	**307**	**Total examined £892 million**

Source: Department for Transport, National Audit Office analysis

NOTES

Green – Figures fairly represent realised cash savings and meet the other criteria set out in Appendix 2 to this report. Nothing has come to our attention that causes us to believe that the savings are not sustainable.

Amber – There may be realised cash savings which meet the criteria set out in Appendix 2, but there are areas where we either could not obtain sufficient evidence or were not satisfied that certain criteria had been met.

Red – Reported figures may significantly overstate savings made. Savings do not meet one or more criteria or the department was unable to provide evidence across a range of criteria to support the saving.

A12 The Treasury's guidance to departments states that:

"In line with the SR04 approach, to measure an efficiency gain, departments need:

- *A baseline that captures the initial level of spend as at 2007-08.*
- *A counterfactual expenditure profile that provides an evidence-based view of the likely evolution of cost pressures in the absence of any VFM reform."*

A13 We understand that the Department agreed baselines and the counterfactual profiles with Treasury as part of the negotiations for agreeing the CSR07 submission, of which the Value for Money Delivery Plan formed part. These discussions were ongoing throughout 2006-07. This resulted in a Value for Money savings target of £1.8 billion for the CSR07 period. If a lower baseline had been agreed with Treasury, the original VFM savings target may have been lower, but once set, the savings target is fixed. Our review requires us to evaluate the reasonableness of both the reported spend and the counterfactual as the reported saving is the difference between these two figures.

A14 The Department calculated the savings by comparing its actual spend on Support for Rail Passenger Services and the Network Rail Grant in 2008-09 with its counterfactual estimate of what the spend would have been if there had been no value for money activity. The counterfactuals for both the rail savings were derived from forecasts for the 2007-08 spend which were then increased for inflation. The savings were therefore based on a real terms decrease in expenditure from the 2007-08 baseline. The reported saving is the difference between the counterfactual and the reported spend (**Figure 9**).

Figure 9

Department's reported Rail VFM savings to 31 March 2009

Rail savings 2008-09	Support for Rail Passenger Services (£m)	Network Rail Grant (£m)
Counterfactual (estimate of spend without any VFM activity)	1,648	2,850
Reported spend	1,368[1]	2,399[1]
DfT reported VFM saving	**280**	**451**

Source: Department for Transport

NOTE

1 The Support for Passenger Rail Services (SPRS) figures are net figures reflecting payments made to Train Operating Companies and income received from them.

Rail – Support for Passenger Rail Services

A15 We have assessed £80 million of the saving reported for Support for Passenger Rail Services as **Red** as we consider that the Department's calculation overstates the saving made. There are risks that parts of the remaining saving are not sustainable, and we have therefore rated £135 million as **Amber**. The remaining £65 million consists of clearly sustainable improvements, which we have rated **Green**.

A16 The reported SPRS savings for 2008-09 of £280 million were entirely derived from the reduction in overall net support payable by the Department to Train Operating Companies as part of their franchise agreements. Some franchise owners receive payments from the Department, whereas others make payments to the Department. Overall, a net subsidy is paid to Train Operating Companies. The Department has forecast that over the long term this net subsidy paid to train operators will reduce significantly.

A17 The net subsidy for Train Operating Companies may decrease due to growing passenger demand or passenger fare increases above inflation. *National Rail Trends* published by the Office of Rail Regulation shows that on average all tickets (regulated and unregulated) increased by over 7 per cent in real terms between January 2008 and 2009[1]. This is consistent with Government policy confirmed in the 2007 White Paper "Delivering a Sustainable Railway", that the balance of funding between taxpayer and fare payer should be realigned over time, so that the burden on taxpayers should ease.

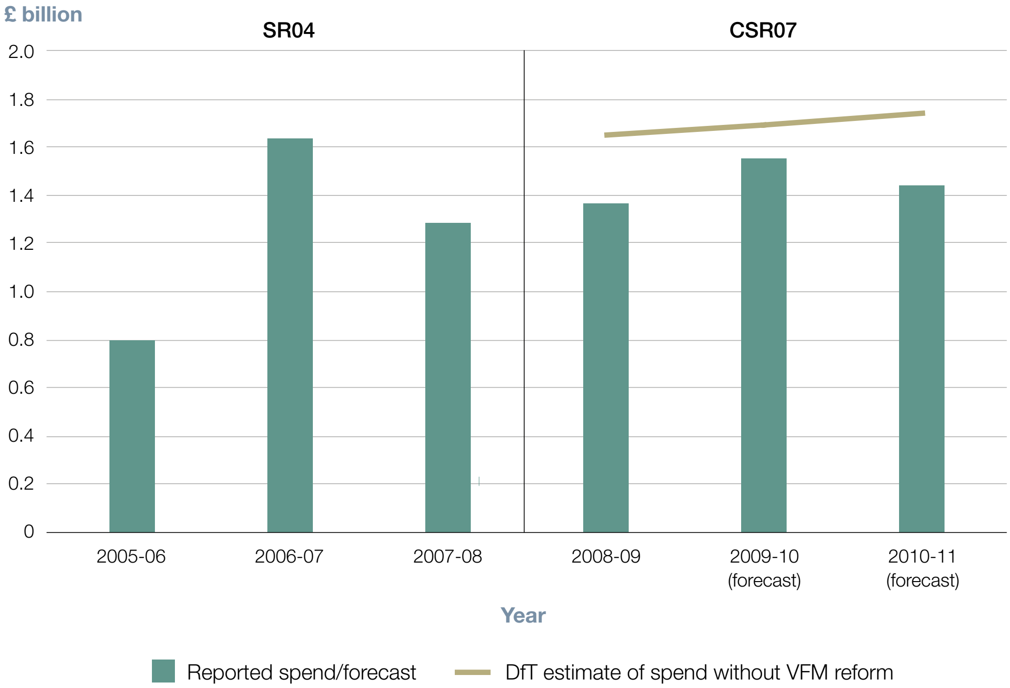
A18 Rail franchise agreements generally run for between 7 and 10 years. Train Operating Companies are incentivised to maximise revenue and minimise subsidy through revenue sharing agreements with the Department. The Department regularly monitors financial data from Train Operating Companies and is able to update its financial forecasts accordingly.

A19 The Department had to construct its counterfactual baseline in 2006-07 as part of its CSR07 submission, and therefore before the actual spend for 2007-08 was available. A forecast for 2007-08 spend was used which was then inflated, in line with Treasury guidance, to provide the 2008-09 counterfactual. The 2007-08 SPRS spend forecast was £321 million greater than the actual SPRS spend in that year (**Figure 10** overleaf).

A20 The Department was able to demonstrate that outturn in 2007-08 varied from the baseline mainly because it had achieved improved terms for franchises renewed in 2007-08, although a smaller part of the difference was due to other reductions which, although they arose from franchise agreements, would not have met all of the criteria to qualify as VFM gains. If the baseline had been adjusted to remove the unexpected gains, a saving of £200 million would have been reported. We have therefore rated £80 million as **Red**.

1 Office of Rail Regulation, National Rail Trends – Chapter 5: Fares Price Index, 30 July 2009.

Figure 10
Graph of reported spend/forecast and counterfactual for Support for Passenger Rail Services



Department for Transport

A21 We accept that as franchise agreements are the Department's mechanism for improving value for money, the remainder of its actions can be scored as value for money improvements under CSR07. However, we have concerns that the remaining element of the reported SPRS saving may not be sustainable. The Department's method of calculating savings looks at all elements of SPRS, and forecasts of rail revenue are highly sensitive to economic growth. The Department stated in its Annual Report that the economic downturn and subsequent fall in passenger revenues may adversely affect the SPRS savings target as the Department's support for Train Operating Companies will have to increase in real terms.

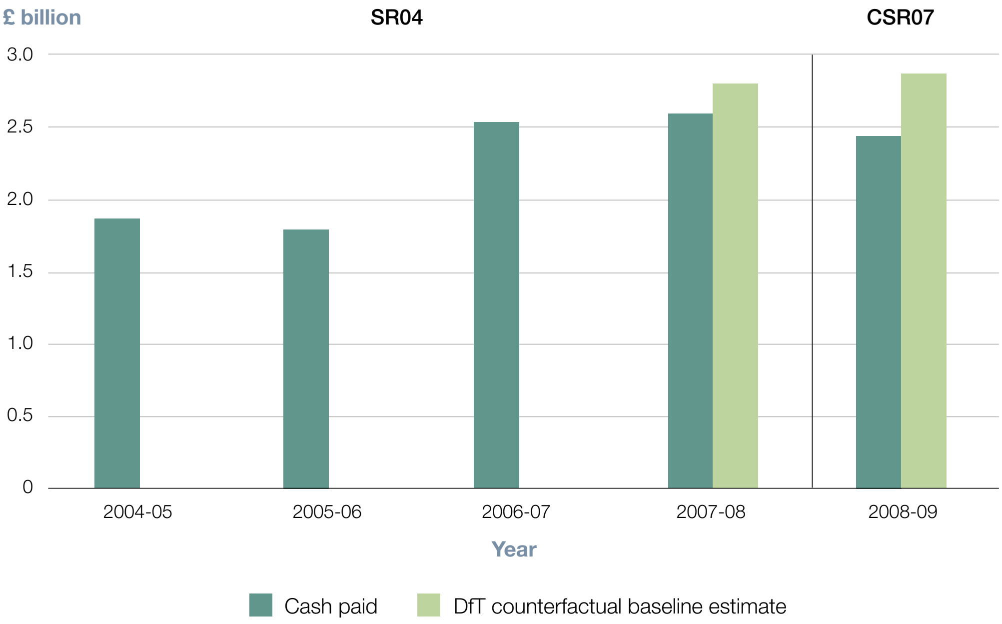
A22 The Department was able to demonstrate that that by separating out the elements of franchise agreements that are affected by the economic situation, there would be clear VFM gains to the end of the period and beyond. Of the total saving in 2008-09, £65 million relates to changes in three franchises negotiated in 2007 where we can identify fixed payments which will continue at this level to at least 2010-11, and we have rated these as **Green**. We have rated the remainder as **Amber**, where it is less clear that there is a separately identifiable sustainable saving.

Rail – Network Rail Grant

A23 We consider the original baseline for the Network Rail Grant is overstated compared with actual expenditure in 2007-08 and that this has resulted in an overstatement of gains claimed for 2008-09. We have therefore rated £227 million as **Red**, and the remainder of £224 million as **Green**. The Department's expenditure has reduced compared with the baseline agreed with Treasury, but has fallen less compared with the baseline we consider appropriate.

A24 The Department's reported saving for Network Rail consists of a reduction in a cash grant that the Department pays to Network Rail, a 'not for dividend, not for profit' company limited by guarantee. Network Rail owns and operates Britain's rail infrastructure and receives funding directly from the Department as well as earning revenue from Train Operating Companies and its own commercial activities. Every five years the Office of Rail Regulation determines the annual grant payable by the Department to Network Rail, although changes were made in April 2006 owing to the transfer of railway funding responsibilities for Scotland (**Figure 11**).

Figure 11
Network Rail 5-year revenue grant agreement (cash paid)



Source: Network Rail grant agreement and Department for Transport estimates

A25 The reported saving is the difference between the revenue grant paid in 2008-09 and the agreed counterfactual (Figure 8). The Department used an estimate of the 2006-07 Network Rail revenue grant to calculate the 2007-08 baseline. However, the Department knew the 2007-08 grant level in real terms in April 2006, and by the end of 2006 could have computed the exact grant as the relevant RPI figures were available. The Department has explained that in 2006-07, at the time of constructing its CSR 07 submission, the rail industry was extremely volatile and there was a risk that the grant settlement might be re-opened. As such, it was thought prudent to base the 2007-08 estimate on the most recent available actual information for 2006-07. The Department's approach resulted in a baseline over £200 million higher than the 2007-08 spend, resulting in a reported saving £227 million greater than would have been reported when measured against actual 2007-08 expenditure. We have therefore rated this element of the saving as **Red**.

A26 In real terms, the Network Rail revenue grant fell by £227 million in 2008-09. In future years, the Department has calculated that the revenue element of the Network Rail grant is to reduce further so the saving should be sustainable for at least two subsequent years.

Highways Agency

A27 The Highways Agency operates, maintains, improves, and ensures the safety of the strategic network of motorways and major trunk roads in England. In 2008-09 its cash spend was £2.6 billion. The Agency contributed £106 million of the total reported savings in 2008-09 through a number of different savings initiatives (see **Figure 12**). We cannot say to what extent the reported savings affect the Highways Agency's overall cash expenditure, because savings can be spent within the project or on other projects, but individual project costs are likely to have been higher if these measures had not been undertaken.

A28 The Agency has reported savings related to Major Projects of £66 million, arising as a result of the use of 'Cost Challenge Workshops' where unnecessary elements of work are excluded, or innovative solutions are identified, at the planning stage (between 2004 and 2006) to reduce the cost. As the projects span a number of years, it is difficult to identify where costs avoided would have fallen, and the Agency has therefore apportioned savings over the length of the relevant projects.

A29 In the circumstances this is a reasonable approach. Nevertheless, we have rated £19 million of this saving as **Amber** as the Department cannot yet demonstrate that the individual initiatives have released cash at the programme level. The Agency has introduced new project management disciplines since the National Audit Office 2007 Report *Estimating and monitoring the costs of building roads in England*.[2] The Agency was able to demonstrate that for projects with savings valued at £46 million in 2008-09, there had been no cost increases since the Cost Challenge Workshops. For the projects accounting for the remaining £19 million, costs had increased significantly since savings were identified in the 'Cost Challenge Workshops'. For these projects, we were unable to obtain assurance that the savings from work excluded at the Workshops were not later spent on other aspects of the project, or to offset cost overruns.

2 C&AG's report, HC 321 Session 2006-07.

Figure 12
Highways Agency reported VFM savings to 2008-09

Highways Agency – saving initiatives reported in 2008-09	Savings value (£m)	NAO rating	Reason for rating
Major Projects	47 19	Green Amber	The Agency cannot demonstrate that the claimed savings on some projects have released cash.
Process, Design & Delivery of renewal and improvement schemes	16	Amber	There is a risk that the savings may not be cash releasing or sustainable.
Routine and Winter Maintenance Contract Renewals	23	Green	All criteria were rated Green.
IT Contract	1	Green	All criteria were rated Green.
Total	**106**	**Green** **Amber** **Red**	**67%** **33%** **0%**

Source: Highways Agency, National Audit Office analysis

A30 The Highways Agency has reported 'Process, Design and Delivery' savings of £16 million in 2008-09. These are savings due to efficiencies made by its contractors in the design and delivery of short-term renewal and improvement schemes. The Agency's Managing Agent Contractors (MAC) identify savings in their area, which are then validated by quantity surveyors. The Agency asserts that these savings have been achieved as they have lived within their CSR07 settlement for 2008-09. We have evaluated this saving as **Amber** as we are not satisfied that it meets the cash releasing and sustainability criteria. The Highways Agency is using unit cost analysis to evaluate savings generated, which should help to determine whether the saving meets the criteria. But it has been unable to demonstrate to date that unit costs (e.g. cost per kilometre of road surface renewed) have reduced,[3] or that savings identified can be sustained in future years.

A31 We have assessed the reduction in payments for contract renewals of £23 million and an IT contract of £1 million as **Green** as we consider that they meet the criteria in all material respects. The contract renewals savings were valued as the reduction in total expenditure in 2008-09 compared to 2007-08 due to new MAC contracts. The IT contract saving was derived by comparing the cost of providing the IT services internally with a new lower cost contract with an external provider. Since reporting these savings to the Department, the Agency has identified minor corrections to the amount claimed for both savings. We consider these amounts to be immaterial and therefore this has not affected the overall rating of both savings.

3 C&AG's Report, Highways Agency: Contracting for highways maintenance, HC 959, 2008-09.

Transport for London

A32 The Department has always recognised in its risk management processes that its arms length relationship with Transport for London (TfL) means that it lacks direct control over TfL spending. TfL does have its own efficiency programme which pre-dates both the current VfM programme and the Spending Review 2004 efficiency programme. The Department agreed with Treasury during the Spending Review that it would be appropriate for the Department to claim 40 per cent of the savings from TfL's programme (which met the CSR07 criteria) as this reflects the proportion of TfL's funding provided by the Department. We have rated the TfL saving as **Amber**, as although it is clear that TfL has made savings within its own programme, we do not have sufficient evidence to assess the savings against all our audit criteria. Efficiency improvements at TfL do not affect the cash paid by the Department but failure to achieve savings may constrain TfL's ability to deliver services.

A33 Due to differences in reporting timetables between the Department and TfL, the Department's Annual Report included gains made by TfL only up to the end of the third quarter of financial year 2008-09. At that point, TfL had reported savings of £70 million to the Department, which was multiplied by 40 per cent to arrive at the reported £28 million for 2008-09. Savings which might have been reported in previous years and costs incurred were excluded from the £70 million reported. The figures included in the Annual Report had not been audited. The information held by the Department is insufficient for us to verify that the items making up the reported saving meet all our audit criteria.

A34 The baseline spend against which the saving has been calculated is the main grant for TfL from the Department. This grant and the agreed future grants are detailed in **Figure 13**. The Department also provides other grants for capital work, London Overground and Metronet. These are separate and have not been included within the total. We consider that excluding these more variable elements is an appropriate approach.

A35 The cash grant to TfL from the Department at the end of the CSR07 savings period will increase from £2.5 billion in 2007-08 to nearly £3 billion in 2010-11, which is an average increase of over five per cent per annum. This above-inflation increase in the grant may not automatically mean that cash releasing savings have not been realised as its increase may have needed to be even higher if TfL had not found savings.

Figure 13
DfT main grant for Transport for London in CSR07 savings period

	2007-08 baseline (£m)	2008-09 (£m)	2009-10 (£m)	2010-11 (£m)
TfL grant	2,544	2,528	2,651	2,975

Source: Transport for London 2007-08 Annual Report & CSR07 settlement letter

Administration

A36 The Department's cash element of its administrative savings budget decreased by five per cent in real terms from 2007-08. We are satisfied that the saving has met all of the criteria and it has therefore been rated as **Green**. The baseline spend in 2007-08 which was used to calculate the saving had to be increased due to budgetary changes in that year. We are satisfied that these adjustments produced a baseline which accurately captured the level of spend in 2007-08.

A37 The Department has identified that the full target for the CSR07 administrative savings may be challenging to achieve, however, we are only reviewing the savings that have been reported in the year and these are considered to be sustainable.

Motoring and Freight Services

A38 Motoring and Freight Services reported savings of over £13 million in 2008-09. Of this, £12 million was reported by the Driver and Vehicle Licensing Agency (DVLA). We therefore only reviewed the DVLA savings in detail. We have assessed the Motoring and Freight Services savings as **Green** as we consider that they meet the criteria in all material respects.

A39 The reported savings comprise of a number of initiatives which included:

- improved staff productivity resulting in a reduction in staff numbers in some areas;
- re-negotiation of contracts for wheel clamping and IT services;
- increased take up of Electronic Vehicle Licensing which has a lower unit cost than other application methods; and
- use of debt collectors rather than more costly court proceedings.

Annex B

The Value for Money savings reported by the Home Office

Home Office Value for Money savings target

B1 The Home Office (the Department) is the lead government department responsible for police, counter-terrorism, immigration, passports and combating illegal drugs. The Departmental strategic objectives are:

- Help people feel secure in their homes and local communities.
- Cut crime, especially violent crime, and crime related to drugs and alcohol.
- Lead visible, responsive and accountable policing.
- Protect the public from terrorism.
- Safeguard people's identity and the privileges of citizenship.
- Support the efficient and effective delivery of justice.

B2 For 2008-09, the Home Office had a gross budget of £11.8 billion. Around 70 per cent is passed on in the form of grants to partner organisations, principally police authorities. The remainder funds a range of bodies, such as the UK Border Agency (£1.9 billion); the Identity and Passport Service (£0.5 billion) and the Criminal Records Bureau (£0.1 billion), plus the Department's own running costs (£0.9 billion). The Department also receives £1.4 billion a year from fees and charges, principally by passport and visa applicants.

B3 The government has increased spending on public order and safety by over 50 per cent in real terms over the last decade. Over the CSR07 period, Home Office spending is planned to increase by one per cent a year in real terms by 2010-11, with further resources of three per cent a year being provided through value for money improvements. The main priority areas over the CSR07 period are:

- investment in neighbourhood policing;
- serious violence;
- a new National Fraud Strategic Authority and National Fraud Reporting Centre;
- international terrorism, an additional £220 million a year;

- introducing a new points-based migration system for skilled migrants; and
- improving the prevention and treatment for alcohol and abuse.

The projected increase in expenditure resulting from inflation and new spending decisions, in the absence of any actions to contain the costs, is known in Treasury guidance as the counterfactual. The reportable value for money saving is then the difference between the actual in year spend and the counterfactual for that year (Figure 5).

B4 The Department is required to deliver £1.7 billion net cash-releasing Value for Money (VFM) savings by 2010-11. The Department aims to achieve these savings through a number of different work streams. Savings achieved by the 43 police authorities in England and Wales were planned to form 80 per cent of the Home Office's total reported savings. The remainder is to be provided by the Home Office's executive agencies and internally by various cross departmental work streams, including for example the Procurement Directorate and the Human Resources Directorate.

B5 The Department reported VFM savings of £544 million in its Annual Report for 2008-09 which break down as shown in **Figure 14**. This is less than a third of the target of £1.7 billion, but is based on 11 months data on savings for executive agencies, and on six months data from 22 of the 43 police forces. The report stated that all savings remained estimated until the full year impact could be measured.

Figure 14
Home Office reported VFM savings 2008-09

Strand	Reported savings (£m)	Percentage
Police forces	255.0	47
UK Border Agency	148.0	27
Cross Departmental Procurement	53.5	10
Crime and Policing Group	45.7	8
Human Resource Directorate	18.5	3
Identity & Passport Service	15.0	3
Security and Counter-Terrorism	5.0	1
Finance & Commercial	2.8	1
Strategy & Reform Directorate	0.4	0
Communications Directorate	0.1	0
Total	**544.0**	**100**

Source: Home Office

Governance arrangements

B6 Using our standard framework for assessing governance (Appendix 3), we assessed the Home Office's overall governance arrangements for its VFM Savings programme as strong. The Home Secretary has himself undertaken the role of the Department's VFM minister – a new requirement announced during Budget 2009 for all departments. He and the Permanent Secretary are members of the VFM Board which meets regularly to review progress. The Department has a substantial Value for Money and Productivity Unit, which has been proactive in promoting efficiency both in internal units and in arms-length agencies such as police forces (see paragraphs B11-B13 below).

B7 Building on arrangements put in place for the previous spending round (SR04), each business unit (operating division) was required to put forward annual plans for savings which were rated by the Department's central VFM team according to their likelihood of success. The business units were then required to identify additional measures to cover the potential shortfalls, and to manage the delivery of the savings. The Department's published VFM Delivery Agreement does not detail specific timescales for individual savings: rather the Department assumes that one-third of new savings will be delivered each year. The Department told us that individual business areas have detailed VFM plans that cover timescales for expected savings, which are monitored by the VFM central team but are not consolidated into a single plan. As all reported savings are expected to be sustainable, the annually cash-releasing amount achieved by 2010-11 will comprise initiatives commenced in 2008-09, 2009-10 and 2010-11.

B8 However, in our recent report on the Department's financial management[4], we concluded that the Department does not yet fully understand the impact of funding decisions on performance outcomes because of the complex range of factors that impact on outcomes. At a national level, increases in funding for priority outcomes, such as reducing crime, have been accompanied by improved performance, but the causal links have not been established firmly. We also concluded that savings reported by delivery partners and internal business areas lacked supporting detail and had not been subject to rigorous review, with the result that published savings overstate the actual performance to date. The Department proposes to involve its Internal Audit service more closely in the measurement and reporting of savings.

Detailed conclusions – police forces

B9 The largest expenditure area for the Home Office is the 43 local police forces in England and Wales, which represents over half of the Department's annual expenditure. In 2008-09, the Home Office made general and specific grants totalling £5.7 billion to local police authorities, with a further £3.5 billion funded through the Department of Communities and Local Government. Savings reported by police forces constitute close to half of the Department's overall savings to date.

4 http://www.nao.org.uk/publications/0809/financial_management_in_the_ho.aspx

B10 The overall amount of police direct grant paid by the Home Office since 2004-05 is shown in **Figure 15**. A further £1.2 billion was provided in grants for specific projects in 2008-09. Police grant has generally been increasing in real terms since 2006, and will increase by around four per cent over the current spending review period. The increases agreed by the Home Office assume that forces will also be making annual VFM savings of around three per cent to offset some of the pressures on the police during the period. Forces can seek to make cash-releasing savings in some areas in order to fund new initiatives and expand priority areas.

B11 Police grant is assessed according to a needs formula, with the result that some forces are allocated increases in direct grant that are below inflation. There is a minimum increase of 2.5 per cent per year in this spending review period, which is funded by the redistribution of grant from forces with above minimum increases – with the result that the redistribution is broadly neutral in budget terms.

The role of the Home Office in improving police efficiency

B12 Since the establishment of local police authorities in the mid-1990s, the Home Office has increasingly taken a more strategic role in the management of the police service. In July 2008 the Green Paper, *From the Neighbourhood to the National: policing our communities together*, announced the replacement of all existing centrally set numerical targets, with a single target based on how confident local people are that the police and local councils are tackling crime and anti-social behaviour. Individual police authorities are now responsible for setting detailed targets and monitoring local forces' performance, including on efficiency and value for money savings.

B13 The Department seeks to enable individual police forces to improve efficiency by issuing national guidance, by maintaining national performance data and coordinating national initiatives. An efficiency and productivity strategy has been agreed by the Home Office, the Association of Police Authorities and the Association of Chief Police Officers. The strategy contains 14 major initiatives including, for example:

- Operation Quest which seeks to improve police processes and efficiency through the application of "LEAN" techniques, for example, to identify duplicated and low value activities.

Figure 15

General Grant to police forces in England and Wales 2004-05 to 2010-11

	SR04			CSR07		
2004-05 Outturn (£m)	2005-06 Outturn (£m)	2006-07 Outturn (£m)	2007-08 Outturn (£m)	2008-09 Estimated (£m)	2009-10 Planned (£m)	2010-11 Planned (£m)
4,380	4,574	4,336	4,433	4,560	4,683	4,809

Source: Home Office Annual Report 2008-09

- An independent Reducing Bureaucracy Advocate (Jan Berry) was appointed in October 2008.
- A National Policing Improvement Agency was set up in 2007-08 as a newly constituted body which aims to support self-improvement across the police service, and has a key role to play in supporting the Service to deliver efficiencies in resource use, processes and procurement.

B14 The Department no longer checks that individual police savings comply with Treasury or its own published guidelines. The Department considers that it is the responsibility of police authorities and HM Inspector of Constabulary to review value for money in the forces, and its responsibility is only to report the total savings centrally. Although the Department has issued guidance on the role of authorities and additional guidance on measuring value for money in the challenging circumstances of the police service, there is currently no independent review of individual claimed savings outside the force.

Our findings – police force savings

B15 The Department reported police savings of £255 million in its Annual Report for 2008-09. This figure is likely to significantly understate savings achieved to date, as it is based on returns covering the first six months of 2008-09 from only 22 of the 43 police authorities in England and Wales. From 2009-10, the Association of Police Authorities will carry out a six-monthly survey of its members on behalf of the Department. Some £140 million of these savings represented claimed over-delivery against savings targets in 2007-08 and earlier years. We did not review individual over-delivery savings as this would have required us to sample closed years for which different rules applied on which savings could be counted.

B16 In order to assess whether the reported figures for new savings of £115 million met the requirements for CSR07 VFM savings, we visited six police forces covering a range of sizes and types, which together make up 64 per cent of the total savings reported by all forces. We reviewed 43 of the largest savings reported by these forces covering some 80 per cent by value of all new savings reported by these forces in 2008-09. By extrapolating our findings from this sample, we estimate that £70 million of the Department's reported savings are Green, £41 million Amber, and we have significant concerns over £3 million that we rated as Red.

B17 The Home Office recently removed the requirement for forces to produce a separate annual efficiency plan. However, most police authorities continue to produce such plans, and to set local efficiency targets. We found widespread agreement amongst police authorities and senior officers that the process of planning for and implementing VFM savings was a useful management tool for ensuring that the force was responsive to changing demands on its limited resources, and made full use of opportunities to improve efficiency through innovation. During our visits to six police forces we saw much to commend in each force, for example, through:

- uptake of new technologies, such as Blackberries by North Wales Police to record stop-and-search more quickly;
- reduced bureaucracy, for example, the use of tape recordings rather than written evidence for minor offences leading to a written warning; and
- more flexible use of staff (**Figure 16**).

B18 We assessed some 60 per cent of the savings we examined as Green. Each force develops an annual efficiency plan, agreed with the police authority, and progress was closely monitored by senior police officers and staff. Many of these savings were evidenced by reductions in the annual budget of major units. Outturn was closely monitored during the year by the force's finance staff and by the police authority to ensure that quality of service was unaffected.

B19 Although we assessed the majority of budgetary savings as Green, there are issues which the Department should be aware of. As overall police budgets are increasing in real terms, a reduction in the budget of a particular unit, may, for example, represent the internal reorganisation of work within the force, or natural variations in workload, rather than an efficiency saving. The Department relies on police authorities to monitor the savings claimed. However, members of police authorities we interviewed expressed doubts as to whether they could effectively challenge the operational judgements of the chief constable and whether his proposed initiatives represented better value for money. The Chief Constable of Surrey, which had the lowest grant increase of any force in 2008-09, told us that whether a proposed initiative was an efficiency measure or a cut was often the subject of much disagreement amongst his senior officers. He therefore required them to replace any initiative with which they disagreed with an alternative saving.

Figure 16
Example of efficiencies in burglary investigations in Surrey Police

Surrey analysed the activities of its specialist burglary squad using LEAN techniques to identify wasteful tasks and bottlenecks in its processes. The team identified that many relatively low skilled tasks were being performed by highly trained investigators. The Force established a number of mixed teams, including civilian staff and general patrol officers, under the direction of a burglary specialist who would perform the more challenging tasks such as interviewing suspects. Initially these changes did not release cash as the Chief Constable chose instead to increase the Force's investigation capacity in order to improve its burglary detection rates. However, similar techniques being applied across the Force, are now releasing cash savings which are expected to help the Force overall to live within an increasingly challenging financial position.

Source: Surrey Police

B20 We assessed 35 per cent of the savings as Amber where we had more specific concerns. A substantial proportion of the reported police savings are described by the forces as non-cash releasing as any savings are spent by the unit making the saving. Forces could invariably argue persuasively that the individual initiatives we examined were creating genuine improvements in their capability, service to the public or overall performance. In addition, they all pointed to reducing crime and increasing public satisfaction as evidence of increasing effectiveness. However, forces were not always able to demonstrate a clear link between the reported efficiency savings and increased spending on priority areas. Some efficiencies led to an increase in the number of prosecutions. Whilst desirable this does not produce financial savings. In addition, non-cash releasing savings may already be contributing to the budgetary reductions discussed above, which we assessed as Green – however, it was not possible to identify the extent of this potential double counting.

B21 We estimated that some five per cent of the reported savings would be Red: for example, because they were one-off savings, or where resources had been reinvested in support services rather than in high priority services and therefore did not meet the cash releasing requirement for CSR07 savings. We do not consider that this level of inappropriate savings gives rise to serious concerns about the overall standard of reporting of savings by police forces.

Detailed conclusions – other savings

B22 The Home Office reported savings totalling £244 million in its executive agencies and internal directorates. We examined savings reported by the following bodies:

- UK Border Agency.
- Procurement Directorate.
- Human Resources Directorate.

UK Border Agency savings

B23 The UK Border Agency (the Agency) was formed on 1 April 2008, bringing together work formerly performed by the Border and Immigration Agency, customs detection work performed by HMRC, and the UK Visa Services from the Foreign & Commonwealth Office (FCO). The Agency has three main objectives:

- To protect UK borders and national interests.
- To tackle border tax fraud, smuggling and immigration crime.
- To implement fast and fair decisions on asylum, visa applications, work permits and other nationality issues.

B24 The Agency has a total of 18,200 staff located in 135 countries worldwide. Revenue expenditure by the Agency and its constituent parts has reduced in real terms since 2004-05 but this has been offset by increases in capital investment (**Figure 17**).

Figure 17
UK Border Agency Expenditure 2004-05 to 2010-11

		SR04			CSR07		
	2004-05 Outturn (£m)	2005-06 Outturn (£m)	2006-07 Outturn (£m)	2007-08 Outturn (£m)	2008-09 Estimated (£m)	2009-10 Planned (£m)	2010-11 Planned (£m)
Revenue	1,614	1,528	1,463	1,439	1,418	1,363	1,424
Capital	75	19	44	102	206	152	96
Total	**1,689**	**1,547**	**1,507**	**1,541**	**1,624**	**1,515**	**1,520**

Source: Departmental Report 2009

B25 The Agency reported savings totalling £153 million in 2008-09 (**Figure 18** overleaf).

B26 The Agency reported savings of £102 million as a result of introducing new procedures for processing asylum applications in 2006. Long-standing cases were passed to a new Legacy Team established by the Agency in 2006[5]. In 2007-08 the Agency targeted mainly families whose cases had been open for at least four years, where there was judged to be a low probability of successful deportation. Most of these asylum applicants would therefore have continued to be entitled to welfare support from the Agency in 2008-09 had the Department's Legacy Team not taken over the case.

B27 The Department has reduced its overall support payments to Legacy Team cases by £100 million in 2008-09 compared to 2007-08. We therefore assessed the Legacy saving as Green. However, there are potential costs and benefits for other public bodies arising from the changing status of asylum applicants. The Agency has not assessed these, but research on migration generally[6] supports the Department's view that the benefits are likely to outweigh the costs.

B28 The Agency has reduced its overall staff numbers, saving a reported total of £32.5 million in 2008-09. This represents the estimated full year effect of staff released in 2007-08, and the in-year savings from posts released during 2008-09. However, the Agency's monthly management accounting reports suggest that the reductions in posts have not been fully reflected in the cash outturn for the year. After allowing for changes in the Agency's responsibilities, and allowing for a 2.7 per cent increase in average salary, the Department can demonstrate cash savings of £20 million by comparing actual expenditure in 2008-09 with 2007-08. We assessed the remaining £12 million of the reported reductions as Amber as the Department are currently unable to demonstrate that the posts have not been refilled, or how any change in role represents improved value for money.

5 See C&AG's report *Management of Asylum Applications by the UK Border Agency*, HC 124, Session 2008-09.
6 *The Economic And Fiscal Impact Of Immigration,* Cm 7237, October 2007.

Figure 18
Assessment of UKBA savings reported for 2008-09

Activity	Reported saving (£m)	NAO assessment	Comment
Asylum casework (Legacy cases)	102	Green	Savings have been realised for the Department. There are likely to be both costs and benefits for other public bodies.
Headcount reductions	20	Green	Agency spend in 2008-09 was £20.1 million less than 2007-08.
	12	Amber	Saving not fully realised. Outturn spend for 2008-09 does not reflect the claimed reductions.
International Group savings	5	Amber	Saving not fully realised. Locally employed staff in visa sections reduced from 2,100 to 1,700. However, the cash value of the saving has been largely offset by exchange rate fluctuations and increase in overheads recharged to UKBA.
Reduced overtime and weekend working	3	Red	Saving scored twice as already included in Headcount reductions above.
Policy restructuring to align with regional delivery	3	Red	Saving scored twice as already included in Headcount reductions above.
Business-led initiatives and package of cross-cutting initiatives	2	Green	Reduction in number of computers being maintained under service contract.
Intelligence Project	2	Red	Saving scored twice as already included in Headcount reductions above.
Facilities Management Contract	2	Red	Saving scored twice as contract is managed centrally and savings also claimed by Commercial Directorate.
Other	2	Not examined	Various other planned savings.
Total	**153**	**Green** **Amber** **Red**	**82%** **11%** **7%**

Source: National Audit Office

B29 The Department estimates that it saved £5 million in 2008-09 by reducing staffing levels in its overseas visa sections to 1,700 posts in 2008-09 from 2,100 posts in 2007-08. The costs of locally employed visa staff at UK embassies and High Commissions overseas are met initially by the FCO, and are recharged to the UK Border Agency. However, the Agency told us that the charge made by the FCO for 2008-09 had increased due to exchange rate fluctuations and previous underestimation of overhead costs by the FCO. At the time of our review, the Agency was in discussion with the FCO, and it was not possible for us to reach a conclusion on whether the Department's estimate of the saving was reasonable, and whether this saving was also being claimed by the FCO. The cost of operating visa departments are normally recovered through fees charged on applicants for visas. Savings therefore will mainly benefit overseas applicants rather then UK tax payers.

B30 The remaining savings were classified as Red as they consisted mainly of staff reductions which are already included in the Agency's overall headcount reductions (paragraph B28 above).

Procurement Savings

B31 The Department spends around £2.6 billion a year on goods and services from external suppliers. The Commercial Directorate aims to improve value for money by bringing major programmes under professional procurement staff. Contracts managed directly by the Directorate represent some 60 per cent of the Department's procurement spend. The Commercial Directorate includes teams responsible for:

- major capital projects and programmes;
- Information Technology strategy and related contracts;
- estates and building services strategy and related contracts;
- consultants and other professional services; and
- procurement guidance and standards.

B32 A procurement capability review by the Office of Government Commerce (OGC) carried out in May and June 2008 found that there had been a significant improvement in the Department's commercial capability and performance, and that its leadership was impressive, with a clear strategy supported by the Board[7]. However, there remained issues on the accessibility and accuracy of spend data. Data was produced manually and there were significant levels of uncategorised spend. In response, the Department recently introduced a 'Procurement & Commercial Toolset' (Emptoris) to ensure that for each major procurement there is a formal contract, including an agreed governance and engagement structure, and active management of contractor performance, including the tracking and reporting of savings. The Department has launched a Value Optimisation Programme with the aim of reducing procurement costs. In November 2009, it renegotiated two major IT contracts with predicted savings of £100 million over six years. The Department told us that supplier feedback confirmed that there has been a significant and positive change in the capability and performance of the commercial function.

7 http://www.ogc.gov.uk/documents/HO_Report.pdf

B33 For 2008-09, the Commercial Directorate reported savings of £54 million from some 130 procurement actions. The Home Office believes that the savings reported for 2008-09 comply with guidelines from the OGC issued for the Spending Review 2004 (Gershon savings). For CSR07, Treasury decided that the onus for providing assurance of value for money calculations against the guidance published by Treasury should rest with departments rather than the OGC. In February 2009, the OGC published further guidance in line with the criteria for CSR07 VFM which has more restricted rules on cash releasing savings. The OGC is currently reviewing this guidance. The Treasury has recently issued additional guidance on assessing the sustainability of savings made on capital programmes including major IT procurements. The Department believes that many of the savings claimed in 2008-09 will qualify under the revised rules.

B34 In the summer of 2009, the Department introduced an improved management information system for procurement (Emptoris). However, for 2008-09 savings individual teams reported procurement actions which they believed had reduced costs or avoided potential cost increases. The resulting list was used to calculate the reported CSR07 procurement savings. As only positive variations in cost are being reported, these savings could potentially be negated as a result of overspends on the same or other contracts.

B35 We selected ten contracts representing 44 per cent of the reported procurement savings for further investigation. We assessed the majority of the savings as Red or Amber (**Figure 19**).

- Fifty eight per cent of the reported savings were based on contracts let during the previous spending review period and should not therefore be counted as new savings.
- Eighteen per cent of the savings were of a one-off nature.

Whilst these actions were invariably beneficial, such savings do not count towards the Department's CSR07 target, which requires departments to permanently reduce expenditure against a 2007-08 baseline.

Figure 19
Assessment of Commercial Directorate savings reported for 2008-09

Activity	Reported saving (£m)	NAO assessment	Comment
Telephone Interpreting Services	7.5	Red	Saving not new to the period as contract let in 2006. New savings of £300,000 were achieved in 2008-09, but mainly accrue to other departments.
IT Services	5.6	Red	Savings not new to the period. Contract was let in 2004 with annual savings of £5.6 million achieved over eight years.
Credit from supplier to be reused on other projects	3.1	Amber	This saving may not be sustainable as is dependent on demand, and is not fully cash-releasing as it is spent on other services from the supplier.
Additional costs claim refused	2.8	Red	Although the Department successfully resisted this claim, no cash releasing saving was made against its 2008-09 budget.
Reduction in facilities management (accommodation related) charges	1.9	Amber	Department has reduced the number of contracts from over 200 to six contracts with two suppliers. Substantial savings are predicted, but the Home Office is currently unable to demonstrate that less was spent overall during 2008-09.
Reduction in charge for software upgrade	1.0	Red	This is a one-off saving that will not be repeatable during the CSR07 period.
Savings on air bookings	0.9	Amber	Average cost of air tickets purchased has reduced, but does not justify the reported figure. The Home Office is unable to demonstrate that less has been spent on air travel overall.
Claim for extra contractual payments refused	0.5	Red	Although the Department successfully resisted this claim, no cash releasing saving made against 2008-09 budget as no contractual obligation to pay these claims.
Reduction in annual payment for technical documentation	0.4	Red	Reduction achieved during 2006 – saving is not new to the period.
Savings on IT contractors	0.2	Green	Reduction in daily rate paid to an IT contractor.
Reduced cost of tracking prisoners	0.1	Green	Department negotiated a substantial discount on an existing contract.
Poor performance damages from contractor	0.0	Red	Not a cash releasing saving as this small benefit absorbed by the cost overruns on the contract.
Other	30.0	Not examined	Various other savings.
Total	**54.0**	**Green** **Amber** **Red**	**1%** **25%** **74%**

Source: National Audit Office review of a sample of procurement savings

B36 The two largest savings were assessed as Red as they were not new savings. The largest single saving, £7 million on a telephone interpreting contract negotiated by the Department, is mainly savings made across government rather than by the Home Office. Treasury's guidance requires such savings to be claimed by the spending department only, as departments' targets are set against their own expenditure. In addition, the contract was let in 2005 and the savings should therefore be included in the CSR07 baseline.

B37 We found that the current reporting system for CSR07 savings does not provide adequate information on which to assess whether reported savings meet our nine criteria. We analysed the limited information available on some 130 savings recorded on the Department's standard reporting spreadsheet for CSR07 savings. The list does not give sufficient detail to allow the validity of the savings to be assessed. For example:

- £22 million of the 2008-09 savings (43 per cent) contained no details of the actual price paid, or the baseline used in the calculation.
- Only £10 million of the total savings in 2008-09 had both details of the baseline, and projected savings in 2010-11. However, there is no data on the date of the contract to allow us to assess whether the saving is new.

B38 Much of the procurement activity of the Commercial Directorate is on major capital works or complex IT projects where there are no directly comparable purchases in previous years, and savings are likely to accrue over the life of the contract rather than in a single year. In such cases, value for money improvements can only be demonstrated by comparing the final outturn on a contract against the approved budget or a well researched business case, and the savings allocated across the life of the project. In order to demonstrate the cash-releasing nature of claimed savings, reported savings should be capable of being returned to the Home Office centrally for reallocation.

B39 Many of the other sampled savings represent one-off savings or avoidance of claims made by contractors for additional payments. The Department believes that although many of the savings claimed are individually one-off savings, they are typical of the savings being generated by the more commercial style adopted by its procurement staff. The Department has a large and complex IT programme which is subject to constant change due to new demands and technical changes in existing projects. This makes it difficult to establish a clear expenditure baseline to establish that the claimed savings are cash-releasing overall.

B40 The Commercial Directorate believes that the CSR07 rules do not capture the benefits of its recent improvements in procurement capability. In addition, the Home Office does not currently report savings arising from the use of cross government contracts, as it believed that these savings were also being reported by the department responsible for managing the contract.

Human Resources Directorate savings

B41 The Human Resources Directorate is responsible for personnel management at the Home Office including teams dealing with:

- Recruitment.
- Career Development and Assessment.
- Departmental Security.
- Pay and Pensions.

B42 The Directorate reported savings totalling £18.5 million in 2008-09 on 16 projects (**Figure 20**).

Figure 20
Assessment of Human Resources Directorate savings reported for 2008-09

Activity	Reported saving (£m)	NAO assessment	Comment
Recruit permanent staff to replace expensive long-term consultancies	4.0	Red	Savings not realised. Reductions in consultancy spend are expected only in 2009-10.
Early retirement costs funded by Interest on Working Capital Credit	3.0	Red	These are costs rather than cashable savings.
External Diversity Awareness courses replaced by E-training	2.1	Amber	Mainly reduction in staff time attending external courses. May not be cash-releasing.
	0.9	Green	Saving of cash cost of external courses.
Early Departures funded by Interest on Capital Credit	1.8	Red	Not cash-releasing – a change in accounting treatment only.
New Training Provider framework contracts	1.4	Green	Estimated savings in payments to external training providers.
Reduction in overpayments of salary	1.4	Green	Reductions in overpayments of salary due to improved reporting of staff resignations to payroll.
Staff savings from common services, and other efficiencies	0.9	Green	Estimated reductions in staff.
Shared Service Centre	0.4	Green	Estimated reductions in staff.
Other savings	2.6	Not examined	Various other planned savings.
Total	**18.5**	**Green** **Amber** **Red**	**32%** **13%** **55%**

Source: National Audit Office

B43 We assessed 55 per cent of the reported savings as Red, because, for example:

- £4 million of savings related to the replacement of contractors with permanent staff have still to be realised, and will mainly be a saving for 2009-10 and beyond.
- The cost of early redundancy for surplus staff totalling £3.0 million were claimed as a VFM saving. These are in reality the costs associated with future savings in salary.

B44 £3.0 million was claimed as staff time savings from carrying out diversity training by computer rather than by external courses. We assessed £2.1 million of this saving as Amber as it is not clear how the staff time released has been utilised through improved productivity. The remainder was assessed as Green as it represented cash savings on the costs of external training providers.

B45 We sought further evidence that the savings reported were cash releasing by comparing overall expenditure by the Human Resources Directorate in 2008-09 with 2007-08. During CSR07 the Department is expected to produce administrative savings of some five per cent per annum. Overall the Human Resources Department spent £38.5 million in 2008-09 compared to £40.6 million in 2007-08 after allowing for resources transferred during the year to the Ministry for Justice. We estimated that including inflation, this represents a saving of 7.4 per cent. The majority of the £5 million savings which we assessed as Green fall to other Home Office budget holders – suggesting that there may be other cash-releasing savings which were not reported.

Appendix One

Terms under which we undertook these engagements

The National Audit Office has agreed to review departments' reported value for money (VFM) savings during the 2008-2011 spending period. Departments are responsible for delivering savings in accordance with targets agreed with Treasury, and must report progress in annual departmental reports and autumn performance reports.

We have reviewed the savings reported by the Department for Transport and the Home Office at 31 March 2009, as reported in their 2009 Annual Reports. Our reviews have involved an examination of the evidence supporting the savings against the criteria set out in Appendix 2 to this report. These criteria are based on Treasury's guidelines on what can and cannot be reported, and have been agreed with the Treasury. We have not concluded on whether the Departments are delivering value for money in the round with all their resources. Rather, our reviews are specifically focused on the savings the Departments have reported in the period, and the risk that these do not meet the criteria established by Treasury. Our review is based on historic information, and we have not assessed in detail the likelihood of the department meeting its overall savings target for the spending period.

We have conducted this review in accordance with the principles set out in the International Framework for Assurance Engagements. We have performed sufficient work to provide reasonable assurance over the extent to which departments' reported VFM savings meet the criteria. Our conclusions are stated in the main report.

What we did

Our approach to reviewing reported savings has been to:

- review and assess the calculation, methodology and audit evidence behind the 2008-09 reported savings of each initiative against the criteria set out in Appendix 2, taking into consideration the size of the saving with regard to the detail of the work performed;
- assess the Departments' governance of the programme, including a review of the controls in place to ensure that savings are properly calculated and meet all other criteria;
- examine financial information within the Departments' resource accounts and other relevant reports to check for consistency; and

- understand the Departments' design of their programmes for generating VFM savings over the three-year period, through interviews and document review.

Within some of the savings initiatives, the reported saving comprised of several smaller savings. In these cases, we firstly evaluated the calculation and overall methodology and then looked in more detail at the evidence supporting individual savings where this was necessary to come to a conclusion on the overall saving.

As the savings reported by the Department for Transport in respect of rail industry savings relate to an overall net cash subsidy and grant reduction, it was possible to consider them fully and not necessary to examine the saving on a sample basis.

We examined a selection of the Home Office's reported savings, including samples of savings reported by:

- six police forces in England and Wales;
- the UK Border Agency (UKBA), which was created as a shadow agency on 1 April 2008 and became a full Executive Agency on 1 April 2009;
- Cross-Departmental Procurement; and
- Human Resources Directorate.

These bodies represent 86 per cent of the total reported savings by value. The specific savings examined were a mix of high value items and randomly sampled items.

Appendix Two

The criteria against which reported savings were evaluated

Treasury has set out guidance for departments on how to calculate VFM savings and rules about what can and cannot be counted towards the £35 billion target. We have translated this guidance into a series of criteria which savings must meet. This list has been agreed with Treasury. In summary, reported savings must meet the following criteria:

- Properly calculated.
- Net of costs.
- Quality neutral in high priority and strategically important areas.
- New to the period.
- Costs have not been reallocated.
- Cash releasing.
- Realised.
- Sustainable.
- Scored only once.

Criteria	Explanation of criteria
Properly calculated	Savings must be accurately calculated. The calculation is likely to be based on baseline cost information, a counterfactual spending profile (which may well involve estimates and assumptions) and outturn spending data.
Net of costs	All upfront and investment costs and additional ongoing or running costs have to be netted off from VFM savings.
Quality neutral in high priority and strategically important areas	Savings must not adversely impact on the achievement of a department's strategic priorities, as set out in Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs). Departments should be able to demonstrate and explain that as a result of their VFM reforms, the department and sector is delivering better VFM overall. Departments are responsible for explaining how VFM reforms relate to improved overall effectiveness in high priority areas and delivery of PSA outcomes.
New to the period	Savings must be the result of changes in the way a department does its business compared with the previous spending period. They should be new to the period and not already reflected in the baseline, except for up to ten per cent of the CSR07 savings target, which can be met through over-delivery against SR04 targets where this has been agreed in advance with the Treasury.
Costs have not been reallocated to another part of the organisation or the public sector	Savings cannot be scored if spend on a particular activity or initiative has simply been reallocated to another similar activity or initiative, which is not adding more value.
Cash releasing	Savings must increase budgetary flexibility by releasing near-cash resources that can, if desired, be redeployed to meet other pressures. Non-cashable gains are not being counted towards the CSR07 VFM savings target. Departments are encouraged to explain how they are making non-cashable and service improvement gains, but these should be separately presented in savings reports.
Realised	Savings must have been realised by the point at which they are reported.
Sustainable	Savings must be sustainable and the result of a considered change in the way a department does its business. They should not be the result of simply shifting expenditure from one year to another. A VFM saving must exist at least for the current year, and continue at the same or a higher level for two subsequent financial years.
Scored only once	Savings cannot be double-counted under separate categories or initiatives.

Appendix Three

The framework used for assessing governance

We examined six areas of the Department's governance, to assess the controls that they had in place to provide assurance that:

- reported savings meet the criteria set out in Appendix 2; and
- the Department's planned savings programme will be delivered and the Department's target for 2010-11 will be met.

The six areas of examination are:

- Oversight and leadership.
- Delivery plan and targets.
- Risk management.
- Structures, roles and reporting lines.
- Guidance and training.
- Monitoring.

This framework has been designed to reflect Treasury's guidance to departments on governance in relation to the CSR07 VFM savings programme and the principles of the Chartered Institute of Public Finance and Accountancy's Good Governance Standards for Public Services.

Governance area	Weak governance	→ Strong governance
Oversight and leadership	There is no board overseeing the VFM programme. A board exists but meets infrequently and/or does not scrutinise delivery and risks to delivery. There are no sufficiently senior members of staff on the board. Senior managers have not demonstrated their commitment to the programme.	A senior management team, supported by skilled advisors, oversees the VFM programme. A programme board has been established and meets regularly. The programme board is chaired by an appropriately senior member of staff (e.g. Finance Director). Senior managers demonstrate their commitment to the programme.
Delivery plan and targets	There is no overall plan bringing together details of how the target will be achieved. A plan exists but does not give any detail about savings initiatives/projects. The programme is not sufficient to meet the department's target. No contingency is built into the plan. The programme cannot be reconciled to the department's overall settlement.	An overall plan brings together details of how the target will be achieved. The programme is sufficient to meet the department's target. An appropriate level of contingency is built in. For each initiative or body responsible for delivering savings, the timetable for delivery, governance arrangements, risks and measurement issues are set out. Planned CSR07 savings can be reconciled back to overall resource allocations.
Risk management	The department has no explicit risk management processes in place. Risks have been identified, but there are no plans for their mitigation and/or inadequate monitoring against them. Lessons have not been learned from the results of previous assessments. There is no recognition of the critical projects for achieving the department's target. There is no recognition or management of risks relating to double-counting. There is no recognition or management of risks relating to adverse impacts on strategically important/high priority outcomes. The role for Internal Audit has not been considered.	There is risk management at the programme-level and for individual component projects. Each risk has a documented plan for mitigation. Results of previous assessments of efficiency savings have been factored into the risk analysis and lessons from SR04 have been learnt. Double-counting risks have been explicitly recognised and addressed at a programme-level. Priority or critical projects have been identified. There is explicit recognition of the risk that strategically important/high priority outcomes may be adversely impacted and monitoring and management of this. The role for Internal Audit in managing and mitigating risks has been considered.

Governance area	Weak governance →	Strong governance
Structures, roles and reporting lines	Roles and responsibilities for delivering savings and progress reporting are unclear. Reporting on progress is done on an ad hoc basis, and no clear guidelines have been set for how it should be done.	There are named individuals responsible for delivering component projects. There are clear arrangements for reporting progress against plans to senior management, including: savings delivered vs. forecast savings; projections for the year; explanations of major variances; and proposed actions to address variances.
Guidance and training	No or limited guidance has been provided to those responsible for delivering savings. The Treasury's criteria for CSR07 VFM savings have not been properly interpreted or not fully communicated. Those at the centre have not checked understanding at a local level about responsibilities and interpretation of guidance. No guidance has been provided on how to identify savings.	Clear guidance has been provided to those responsible for delivering savings about: appropriate governance structures; risk management; how savings should be reported; and the Treasury's criteria. The Treasury's criteria for CSR07 VFM savings have been properly interpreted in the context of the department and clearly communicated. Those at the centre have checked understanding at a local level about responsibilities and interpretation of guidance. Where appropriate, guidance has been provided on how to identify savings. Training has been provided as necessary.
Monitoring	There is no or limited monitoring of progress against targets. Evidence suggests that more frequent monitoring would have alerted the department to delivery or measurement problems. Internal Audit's role in assessing progress against targets and compliance with criteria has not been considered.	There is regular monitoring of progress against targets. The frequency of monitoring takes into account the assessment of risks to the programme. Priority Project reporting is being done in accordance with Treasury requirements. The role for Internal Audit in assessing progress against targets and compliance with criteria has been considered.

Design and Production by
NAO Marketing & Communications Team
DP Ref: 009196-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation this ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http//www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents
Customers can also order publications from:

TSO Ireland
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401

£14.35

ISBN 978-0-10-296336-6

9 780102 963366