National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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HM Treasury

Progress with VFM savings and lessons for cost reduction programmes

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HM Treasury

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Amyas Morse
Comptroller and Auditor General

National Audit Office

15 July 2010

Departments have committed to deliver £35 billion of value for money savings between 2008-09 and 2010-11.

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Summary

1 The Treasury is responsible for the Government's financial and economic policy, which includes agreeing spending commitments and priorities with departments. One of its objectives is to improve the quality and value for money of public services. The Treasury has targeted improvements in value for money through a number of programmes, most recently the Value for Money Savings Programme (the VFM Programme) which runs from 2008-09 to 2010-11 and was a requirement of the 2007 Comprehensive Spending Review (CSR07). This report summarises the progress to date, examines the design of the VFM Programme and the resulting incentives for value for money, and the lessons for securing value for money and cost reduction in future.

2 Departments and local authorities have reported annual savings of £10 billion towards the government-wide target of savings totalling £30 billion in 2010-11 (later increased to £35 billion). This represented a saving of at least 3 per cent of departments' expenditure at the start of the period. The required savings were removed from departments' approved CSR07 budgets. Departments therefore needed to make cash-releasing savings in order to deliver their agreed programme within approved spending plans. This does not necessarily mean a reduction in overall spending – the budgets of 11 of the 17 main departments increased in real terms between 2007-08 and 2010-11.

3 CSR07 savings were intended to represent lasting improvements in the way public money is spent. The programme also sought to relate savings more closely with departments' three year spending settlement and day-to-day financial management. The Treasury set out specific criteria which CSR07 savings should meet – they must be new, release cash, be reported net of any in-year implementation costs and be sustainable (see Appendix Three). All CSR07 savings which meet the Treasury's criteria can be described as value for money improvements. However, the concept of value for money is broader than the CSR07 savings definition, and some improvements cannot be counted against the target but can be reported separately as qualitative improvements. CSR07 savings are not the same as efficiency savings, as reported under previous efficiency programmes, which could include improvements in output which did not release cash. However, unlike previous programmes, CSR07 savings can include service reductions in low priority areas.

4 The current financial environment is fundamentally different from the position when the Programme was launched in 2007, with substantial cash reductions required over the next four years by most departments. Not all cost reductions can be reported as CSR07 savings, as the latter are required to be sustainable improvements. However, it remains essential for departments to demonstrate that they have improved value for money and to accurately measure the cost and impact of savings measures.

Key findings

5 Departments have made some progress in their management of their value for money programmes compared with previous spending periods. They have set up or strengthened structures to identify possible future savings and monitor progress. The CSR07 programme addresses some of the weaknesses we reported in previous programmes: targets cover all departmental activity, savings are reported net of costs and the principle that cash should be released has focused attention on reducing costs.

6 However, departments' management of their programmes could have been improved. In particular:

- Departments' planned programmes did not contain sufficient contingency, and at this halfway point only one major department had reported savings of more than 50 per cent of its 2010-11 target. This suggests that while some departments are broadly on course to meet their targets, departments may have difficulty in delivering the overall £35 billion target in 2010-11.
- Savings have not been subject to sufficient internal quality control prior to external reporting.

7 To date we have reviewed savings totalling some £2.8 billion from five major departments which are to deliver around 40 per cent of the total across central government. We concluded that:

- 38 per cent fairly represented sustainable savings;
- 44 per cent may represent savings, but with some uncertainty; and
- 18 per cent do not represent, or significantly overstate, savings.

8 Departments have not fully addressed weaknesses we highlighted with previous programmes to improve efficiency. These problems include the use of unsuitable baselines for the calculation of savings, a lack of transparency over arms-length bodies' reporting processes, and difficulties in demonstrating links between savings and performance. This is partly the result of measurement weaknesses, with many departments not having the robust data systems needed to substantiate improvements in value for money. For example, departments were not required to reconcile reported savings to their CSR07 spending agreement or to their annual audited accounts, and were often unable to do so. Those departments which spend much of their budgets through arms-length bodies face additional challenges demonstrating their savings comply with the VFM Programme. Departments did not always have systems to identify what the arms-length bodies were doing to save money, making it difficult to determine whether savings had been realised.

9 A quarter of the savings resulted from changes to business processes, which may allow staff reductions through improved efficiency, with the remainder drawn from a wide range of areas including accommodation, IT and other procurement. Many reported savings resulted from the continuation of initiatives started in the previous spending period. While this shows that departments were taking sustained action to make savings, further cost reduction will require more innovation and fundamental changes to the way services are delivered. The Programme has focused departments' attention on a narrow set of incentives for savings. Some real improvements which would fall within wider definitions of value for money are not rewarded by the Programme. For example, longer-term reforms which can be costly in the short term and fundamental changes to how services are delivered which would have been difficult to deliver in the three-year timeframe of the CSR07 programme.

Conclusion on value for money

10 The CSR07 savings programme builds on previous initiatives, and addresses some of their weaknesses. Of the reported savings we have examined to date, 38 per cent represent clear improvements to value for money. However, there are uncertainties around a further 44 per cent, which indicates that departments do not have the information on cost and performance to fully demonstrate that savings have been made. The remaining 18 per cent do not represent sustainable improvements in value for money. These results, and the rate of savings reported to date, mean it is unlikely that departments will deliver £35 billion of savings which fully meet the CSR07 criteria. The proportion of savings which do not meet those criteria is evidence that the Programme was not well enough understood across government and of insufficient quality control within departments before savings were reported publicly.

11 Few of the savings made under the Programme represent major departures from previous practice. The Programme did not create sufficient incentive for departments to make wider improvements to value for money, or to reduce their costs. The scale of savings now needed means that departments will have to think more radically about how to reduce costs and how to sustain this in the longer term.

Recommendations

For the Treasury

a **The Treasury set rules for the Programme to ensure savings represented sustainable cash-releasing improvements, but departments reported many savings which did not meet these criteria.** Targets set in terms of cost reduction may be easier to track using existing financial systems than CSR07 savings, but robust criteria for calculating savings will remain relevant. For future savings programmes or similar initiatives, the Treasury should:

- ensure that the technical rules have been widely consulted on, are published and made readily available to working level departmental staff before the commencement of the programme;
- ensure that training has been provided to departments; and
- clarify the benefits for departments and senior officials who are able to demonstrate improved value for money, and the potential consequences for departments which under perform.

b **Departments have reported few savings from major or long-term changes to their business.** To encourage long-term thinking, the Treasury should consider an on-going programme for value for money, rather than just for the three years of a spending period, and set milestones for improvements in systems for delivering value for money, as set out in Part Four of this report (Figure 11). The Treasury should facilitate cooperation between departments, for example on collective purchasing for some standard items, and should support improvement by sharing best practice, benchmarking data and peer review.

For departments

c **Departments do not have sufficient data on cost and performance to evidence all the reported savings.** To reduce the risk that savings cannot be substantiated, departments need to improve their financial systems so that they can identify unit cost of activities and identify better proxies for current performance in areas where the measures used for their key objectives are subject to uncertainty or long delays. Good information will be needed to support planning for cost reduction:

- to ensure strategic decisions about what to stop, change or continue are based on the best possible evidence;
- to understand the effect of potential cost cuts on outputs and outcomes; and
- to track whether benefits are being realised.

d **Some departments are unlikely to realise sufficient cash-releasing savings to meet the cross-government target.** If departments are to find savings which reduce costs without compromising value for money, they need to plan for measures which exceed their target, based on an assessment of the risk of non-delivery which in our experience averages some 20 per cent of annual savings.

e **In many cases, departments could not produce evidence that activities in delegated areas had produced sustainable cash-releasing savings.** If departments are accountable for specific objectives relating to this expenditure, they need sufficient information about local actions to show whether performance is on track and identify variations. Where this is not the case and delivery bodies have discretion about how to operate, these bodies should have direct responsibility for delivering savings. Departments should not report savings in activities which they do not control, and should not be asked to do so.

f **The Programme did not generally require expenditure to be reduced at a departmental level, but this will be needed in future.** Departments will need to plan systematically for cost reduction. This will involve reviewing strategic priorities, evaluating the cost-effectiveness of existing activities and identifying:

- activities which do not contribute enough value and can be stopped; and
- where to innovate and look elsewhere for new ways of delivering services and programmes.

Taking this approach will require major change programmes in departments, for which departments will need change management capability. The longer term goal should be for cost management and continuous improvement to be part of day-to-day business.

Part One

Introduction

The scope of this report

1.1 This report considers how effectively the Treasury's savings programme introduced in the 2007 Comprehensive Spending Review has improved value for money across government.

1.2 Our findings are based on evidence from our independent reviews of savings reported by five major departments (Department for Transport, Home Office, HM Revenue & Customs, Ministry of Defence and the Department for Education[1]), unaudited information published by other departments and interviews with Treasury and senior departmental officials involved in the Programme. We also draw on our previous work on the programme's predecessor, the Efficiency Programme,[2] and other work by the National Audit Office examining the value for money obtained by departments. A summary of the methods we used is set out in Appendix One.

1.3 This report:

- outlines the current Treasury-led savings programme and puts it in the context of the Treasury's other programmes to improve value for money (Part One);
- summarises the progress reported by departments to date and likelihood of delivering the planned savings (Part Two);
- reviews the Treasury's design of the Programme and the resulting incentives for improving value for money (Part Three); and
- examines the lessons for securing value for money and cost reduction in the future (Part Four).

1 Comptroller and Auditor General, *Independent reviews of reported CSR07 value for money savings*, Session 2009-10, HC 86, National Audit Office, December 2009; Comptroller and Auditor General, *Ministry of Defence: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 292, National Audit Office, July 2010; and, Comptroller and Auditor General, *HM Revenue and Customs: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 293, National Audit Office, July 2010; and, Comptroller and Auditor General, *Department for Education: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 294, National Audit Office, July 2010.

2 Comptroller and Auditor General, *Progress in improving government efficiency,* HC 802-I and 802-II, Session 2005-06, National Audit Office, February 2006, and Comptroller and Auditor General, *The Efficiency Programme: A second review of progress*, HC 156-I and 156-II, Session 2006-07, National Audit Office, February 2007.

The Treasury's objectives for value for money

1.4 The Treasury is responsible for formulating and implementing the Government's financial and economic policy, which includes agreeing spending commitments and priorities with departments (known as spending reviews). The Treasury has an objective to improve the quality and value for money of public services:

> "Departments are responsible for ensuring delivery of their Public Service Agreements and Value for Money commitments. The Treasury's role is one of support and challenge in helping spending departments to deliver their objectives."[3]

1.5 The Treasury has separate initiatives to improve the quality of public services and value for money that departments deliver. Since 1998, the **quality of public services** has been measured by Public Service Agreements (PSAs) where departments agree to deliver key outcomes such as reducing child poverty, tackling climate change, or improving healthcare in return for funding. **Value for money improvements** in departments have been targeted through Treasury-led savings programmes – most recently the Value for Money Savings Programme during the 2007 Comprehensive Spending Review period (CSR07, from 2008-09 to 2010-11) and the Efficiency Programme (also known as the Gershon programme) during the 2004 Spending Review period (SR04, from 2005-06 to 2007-08). We reported to Parliament on the Efficiency Programme twice.[1,2] Appendix Two summarises the Treasury's response to the recommendations we made in our 2007 report.

1.6 The fiscal environment in which the next spending review will take place is very different to that in 2007. That review, which will take place in Autumn 2010 and cover a four year period beginning in April 2011, will include cash reductions in departments' budgets. Whether or not the review includes a programme to improve value for money, the recommendations of this report remain relevant as it remains essential to understand the impact of cost reductions on the quality of public services, and to accurately measure the cost and impact of improvements to value for money.

The Treasury's programmes to improve value for money

1.7 The Treasury currently has three programmes to improve value for money – the Value for Money Savings Programme (the VFM Programme), the Operational Efficiency Programme and the Public Value Programme (**Figure 1**). Savings from the Operational Efficiency Programme and the Public Value Programme will not be realised until the last year of this spending period, 2010-11. This report is about the VFM Programme which has been running since 2008-09. **Figure 2** explains the links between these three programmes, and their predecessor, the Efficiency Programme. **Figure 3** on page 12 sets out the key events and savings that have been announced since 2004 in relation to the Treasury's programmes to improve value for money.

3 Extract from the Treasury's Departmental Strategic Objectives 2008-11.

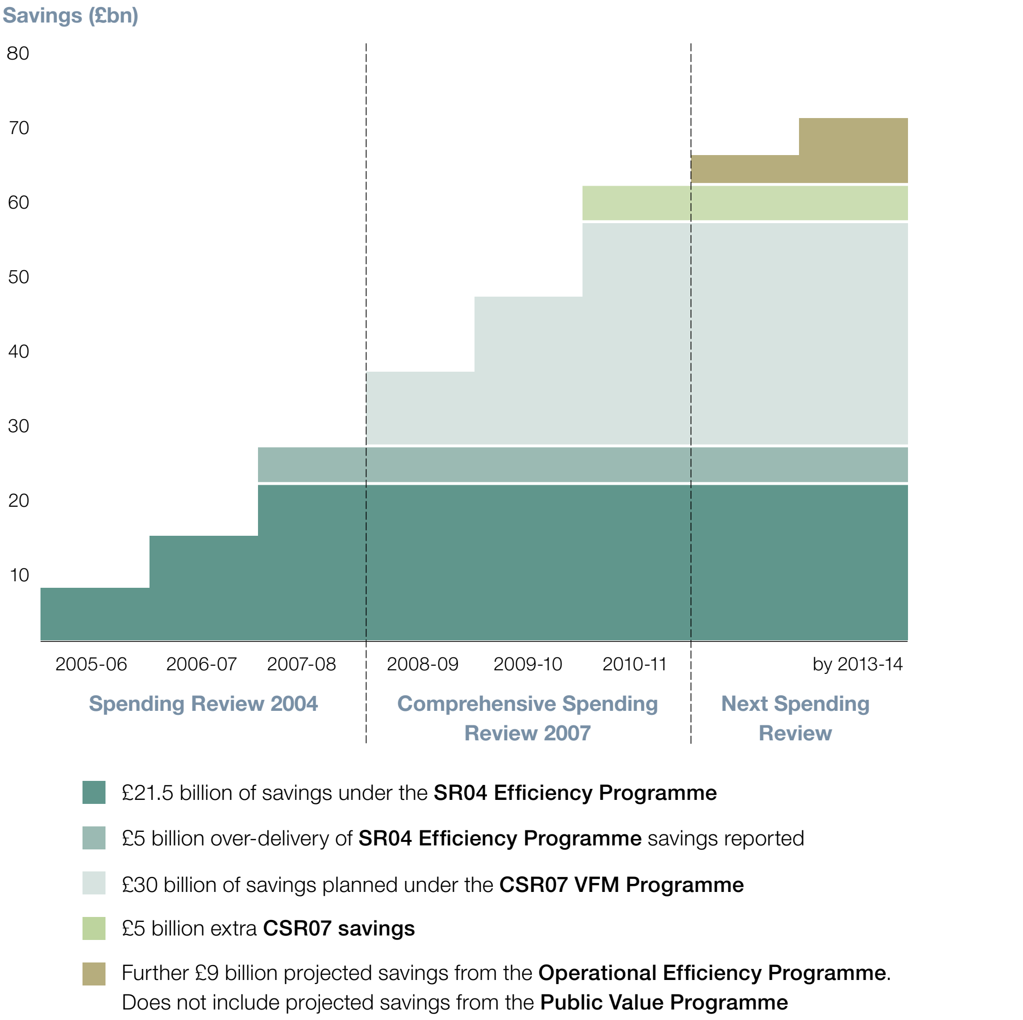
Figure 1
The Treasury's other value for money programmes

The **Operational Efficiency Programme** has identified areas for improvement in five areas of operational efficiency, based on advice from external experts. Parts of the programme already underway include departments, agencies and other government bodies publicly benchmarking their operational performance, such as the ratio of human resources staff to employees. However, the bulk of the savings are expected after 2010-11.

The **Public Value Programme** is a series of reviews of major areas of spending which aims to identify scope for value for money improvements, including changes to policy. The Treasury and departments together review a minimum of 50 per cent of a department's spending for areas of spend achieving limited value or poor value for money.

Source: National Audit Office

Figure 2
£ billion saved or planned by Treasury value for money programmes



Source: National Audit Office

Figure 3
Timeline of key events relating to initiatives to improve value for money across government

July 2004	The Government accepted the recommendations of the *Gershon Review*[1] and announced an **Efficiency Programme** for SR04 to achieve efficiency gains of **£21.5 billion** per year by 2007-08 (approximately 2.5 per cent of total expenditure across government).
March 2008	The Treasury announced the **CSR07 Value for Money Savings Programme** with a target of **£30 billion** savings across government by 2010-11. Two other programmes to improve value for money across government, the **Operational Efficiency Programme** and **Public Value Programme,** were also announced, with detailed plans to be revealed later in the year.
November 2008	In its final report on the Efficiency Programme, the Government announced the efficiency savings target had been exceeded, with **£26.5 billion** savings achieved by 2007-08. [2] The CSR07 savings target was increased by £5 billion to **£35 billion** by 2010-11. Further detail was published about the Operational Efficiency Programme and the Public Value Programme, but no detail on the value of savings from these programmes.
April 2009	The first progress report on the CSR07 savings programme gave some detail of savings reported by departments for the first year of the programme. [3] The detail of planned savings from the Operational Efficiency Programme was announced: **£6 billion** by 2010-11, which could contribute to the £35 billion target, and a further **£9 billion** by 2013-14.
December 2009	**£12 billion** future savings from streamlining central government were announced.[4] Some £3 billion of the £12 billion are new savings that had not already been announced through one of the Treasury's other programmes to improve value for money.
March 2010	The Government reported that **£10.8 billion** of CSR07 savings had been achieved so far (based on reports from departments covering the first 18 months of the programme, or the first 12 months for some where there were time-lags in reporting savings).
May 2010	The new Government announced £6.2 billion of additional reductions in departmental budgets in 2010-11.

NOTES

1 P. Gershon, *Releasing resources to the front line: independent review of public sector efficiency*, HM Treasury, 2004.

2 *2004 Spending review: final report on the efficiency programme*, HM Treasury, November 2008.

3 *2009 Value for money update*, HM Government, April 2009.

4 *Putting the frontline first: smarter government*, HM Government, December 2009.

Source: Unless otherwise referenced, sources are Budget and Pre-Budget Reports from 2004 to 2010

1.8 The VFM Programme required departments to achieve savings of £30 billion in the three years to 2010-11. This represented savings of at least 3 per cent a year in departmental expenditure, excluding annually managed expenditure such as benefits and tax credits.[4] The 2008 Pre-Budget Report increased the Government's target by £5 billion to £35 billion and the 2009 Budget allocated this across departments for 2010-11 (Figure 3).

Key features of the VFM Programme

1.9 The Treasury sought to align the VFM Programme with day-to-day financial management in departments, and the overall spending review settlement. All savings were therefore to be new, cash-releasing, reported net of costs incurred in-year and sustainable. They should represent lasting improvements to the way public money is spent. Value for money savings reported during the CSR07 period (known in this report as **'CSR07 savings'**) are savings which meet specific criteria set out by the Treasury for the purposes of this Programme (**Figure 4** overleaf and Appendix Three).

1.10 The CSR07 criteria set out a common definition of value for money, providing a framework within which departments can report savings. All CSR07 savings which meet the Treasury's criteria represent value for money improvements. However, value for money as a concept is much broader than the CSR07 criteria. Some categories of efficiency savings and qualitative improvements cannot be claimed (**Figure 5** on page 15).

1.11 The VFM Programme built on the earlier Efficiency Programme which had followed a review by Sir Peter Gershon.[5] We examine the improvements the Treasury has made in developing the VFM Programme in detail in paragraph 3.3 (page 24). Key differences between the VFM Programme and the Efficiency Programme include:

- the requirement that CSR07 savings release cash and be reported net of any costs;
- there are no specific headcount targets for CSR07. Instead, reductions in administrative budgets of 5 per cent per annum were required, contributing towards the overall savings target of 3 per cent per annum; and,
- savings can be reported from reductions in the quality or volume of service in low priority areas, even where the cash released has been reinvested in a priority area (known as 'allocative savings'). During the previous period, no saving could be claimed which resulted in a reduction in a front line service.

4 A 3 per cent reduction was applied to the 2007-08 near-cash Departmental Expenditure Limits (including capital and resource expenditure but excluding annually managed expenditure) for each department. As part of this reduction, departments were also required to reduce administration budgets by 5 per cent a year. In addition, in some circumstances, departments could carry savings forward from SR04. Each department's final target was therefore a different proportion of its total expenditure.

5 P. Gershon, *Releasing resources to the front line: independent review of public sector efficiency*, HM Treasury, 2004.

Figure 4
The Treasury's definition of CSR07 savings

Sustainable. Savings must exist at least for the current year and continue at the same or a higher level for two subsequent financial years. One-off savings, or savings which delay expenditure, do not help departments live within spending allocations in future years.

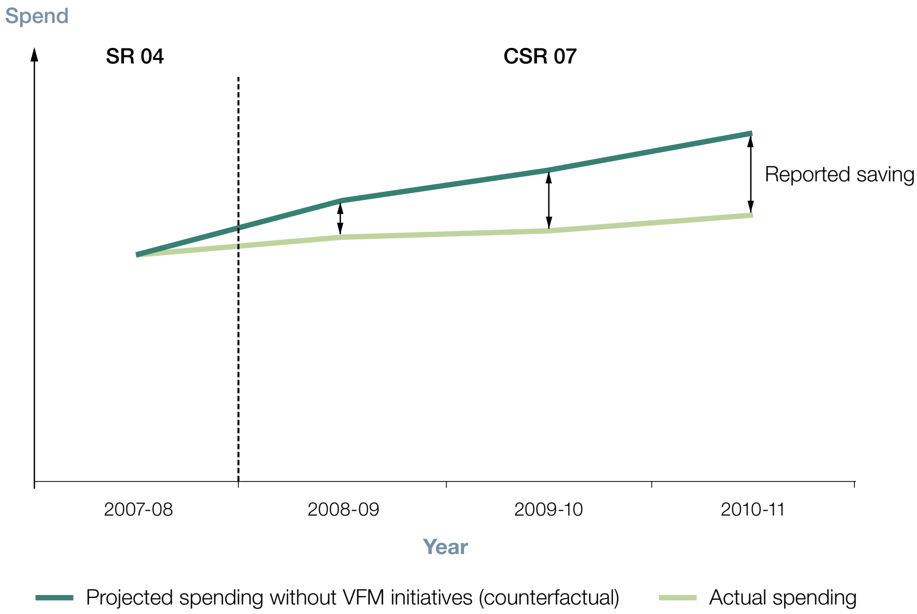
Neutral to service quality. Departments need to demonstrate that reforms have not reduced the overall quality of public services at the level of their strategic objectives and public service agreements. This is to ensure that the savings do not simply represent cuts in services.

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 may reinvest cash savings in higher priority services, so in most cases savings cannot be observed directly in reduced budgets.

Realised. Savings must have materialised in the year in which they are reported in order to have impacted on overall spending. Future savings cannot be anticipated.

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 to show the overall improvement to the taxpayer.

Compared to robust cost baseline. Savings must be calculated in reference to projected spend if value for money initiatives had not been introduced. This is known as a counterfactual (see diagram below).



Source: National Audit Office

Figure 5
Examples of CSR07 savings

CSR07 Saving	Not a CSR07 Saving
Spending reduced from year to year (at least three years) whilst maintaining or improving services	One-off savings Delayed expenditure Costs shifted to other parts of the public sector via departmental reorganisations
Resources transferred from back-office/low priority tasks to priority front line services	Improved performance at same cost in low priority areas
Reduction in spend and service levels in low priority activities	Spending cuts which compromise objectives
Reductions in subsidies or losses	Increases in surpluses from fees and charges to the public
Reductions in staff (after netting off costs)	Time savings in administration, which do not reduce overall number of posts

Source: National Audit Office

Part Two

Summary of our findings on departments' reported savings

2.1 This Part reviews the overall progress reported to date across central and local government and summarises our findings on a sample of individual savings reported by five major departments. We also examine departments' management of their own savings programme.

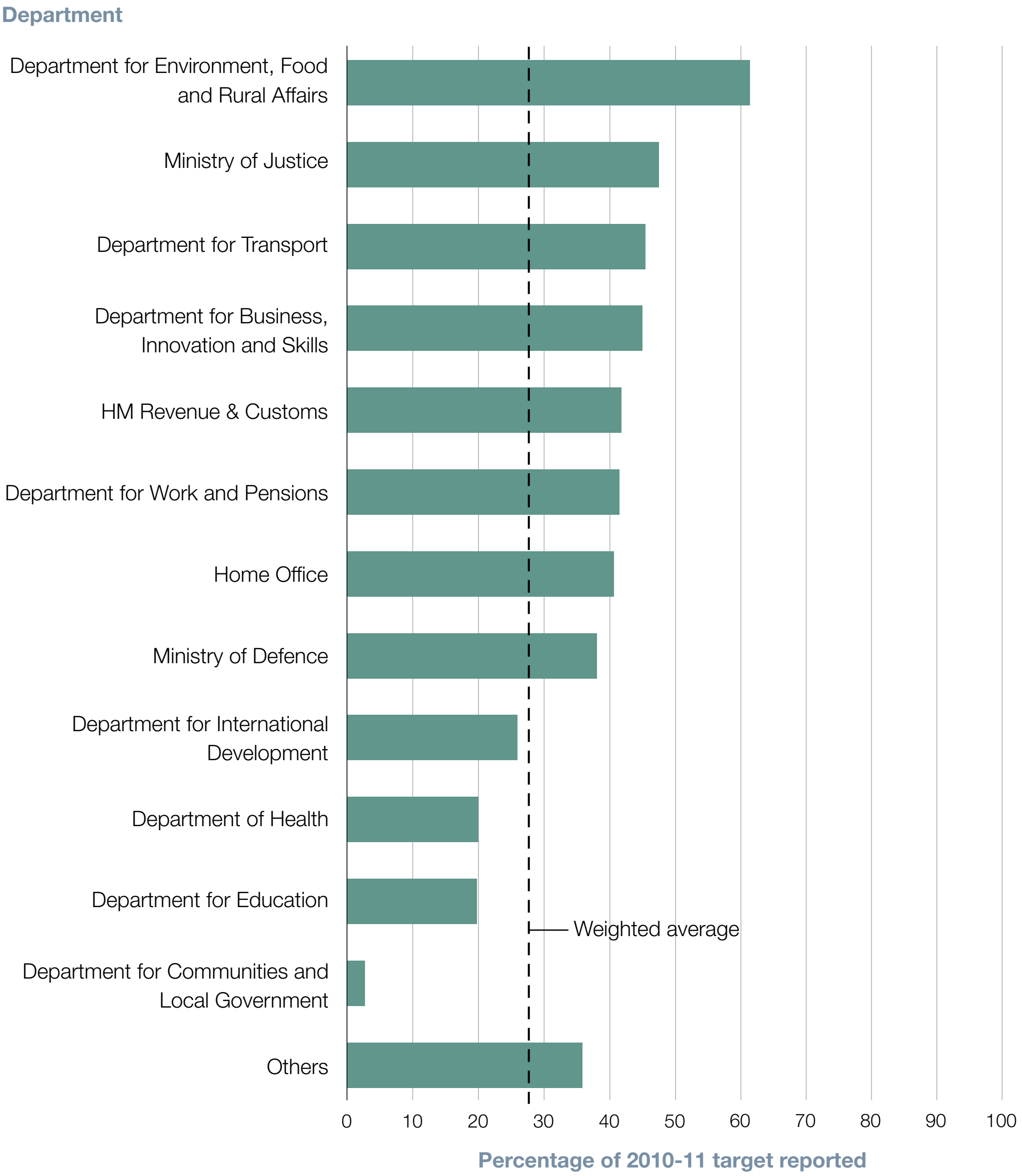
Overall progress reported by departments to September 2009

2.2 Departments are now planning to deliver much of their savings in the final year of the programme, 2010-11. Departments initially planned to deliver new savings at a constant rate to meet the CSR07 ambition of a 3 per cent per annum improvement in value for money. However, by September 2009, government departments and local authorities have reported annual savings totalling £10.8 billion, 31 per cent of the target of £35 billion of annual savings by 2010-11 (**Figure 6**). At the same stage in the previous three year efficiency programme, departments were reporting that they had achieved 62 per cent of their target. However, the reporting requirements for CSR07 were more demanding and there are significant differences in the way CSR07 savings are considered to have been realised. Only one of the twelve major departments required to deliver 98 per cent of the central government savings target, the Department for Environment, Food and Rural Affairs, had reported savings of more than 50 per cent of its 2010-11 target at the halfway point. This is in part a reflection of significant data lags in the measures for savings reported by large departments including the Department for Education, the Home Office, the Department of Health and the Ministry of Defence, and these departments are likely to generate higher savings in the second half of the Programme.

2.3 Nevertheless, progress reported to date does suggest that some departments may struggle to deliver their savings targets. Most departments had identified potential savings sufficient to exceed their initial CSR07 target. However:

- The £5 billion increase in departmental targets announced in the Pre-Budget report 2008 and Budget 2009, reduced the available contingency as many departments needed to identify additional savings in order to meet their increased target.
- Scrutiny by internal audit of some reported savings resulted in potential savings being removed where the technical requirements were not met, including some £500 million by the Ministry of Defence. In this case, the Department considered it had sufficient contingency in place to allow it to cover the shortfall.

Figure 6
Progress reported by departments against 2010-11 savings targets



NOTES

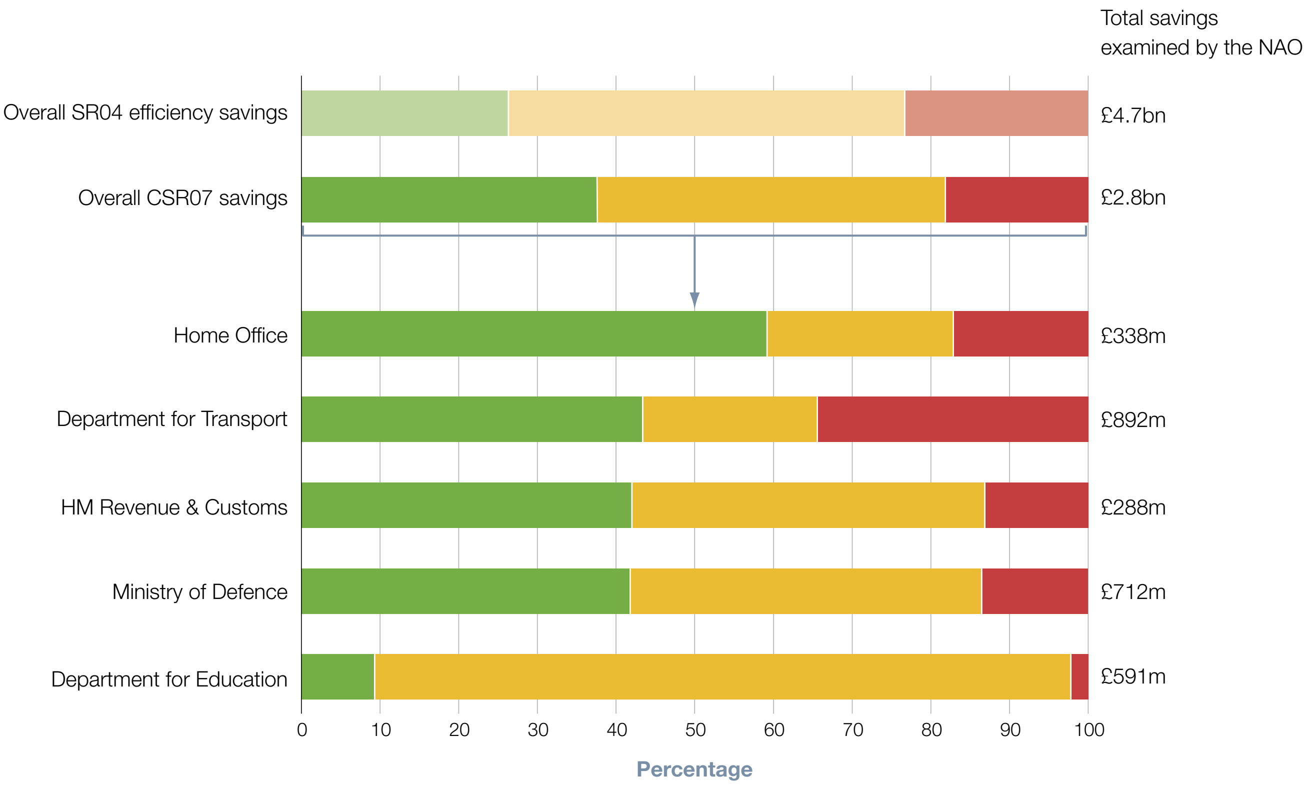
1 Where reported, figures were taken from a department's Autumn Performance Report 2009. Owing to time-lags in obtaining relevant data, some departments had only reported 12 months savings at this stage. Where departments did not report savings in the Autumn Performance Report the savings figure reported in the Departmental Report 2009 was used.

2 'Others' includes local government and several smaller departments (Cabinet Office, Department of Energy and Climate Change, Department for Culture, Media and Sport, HM Treasury and Foreign and Commonwealth Office) which have reported savings of over 50 per cent of their target.

Source: National Audit Office analysis of 2009 Autumn Performance Reports and 2008-09 Departmental Reports

2.4 We have reviewed savings totalling £2.8 billion reported by five major departments (around 23 per cent of the total reported to September 2009). The results are shown in **Figure 7**. We have significant concerns about £512 million (18 per cent – Red), and some reservations about a further £1,240 million (44 per cent – Amber).

Figure 7
Summary of NAO assessments of reported savings



NOTE

1 **Green:** Figures fairly represent realised cash savings and meet the other criteria set out in Appendix Three 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 Three, 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.

Slightly different definitions of Red, Amber and Green apply to the SR04 Efficiency Programme than to the CSR07 Savings Programme.

Source: National Audit Office independent reviews of CSR07 value for money savings. Comptroller and Auditor General, The Efficiency Programme: A second review of progress, Session 2006-07, HC 156-I, National Audit Office, February 2007

2.5 Our reservations include some specific large items:

- We assessed £307 million of reported savings from support to the rail industry as Red because the CSR07 baseline used in negotiations with Treasury was based on estimated spending in 2007-08 which proved to be overstated. The Department for Transport has accepted our recommendation to calculate savings in future reports based on actual 2007-08 spending.
- A further £307 million of savings rated Amber relates to a 1 per cent reduction in grants to schools, where the Department for Education is unable to provide evidence that schools had used the funding thereby released for personalised learning as intended, rather than substituting for the reduction in grants.

2.6 We found some good practice in each of the five departments we have reviewed and concluded that £1.1 billion of the reported improvements met the programme criteria. However, we found a number of problems with departments' reported savings. A common issue was that departments tended to lack established systems to provide evidence across the full range of the Programme criteria (see Appendix Three). **Figure 8** explains the main reasons why we rated savings from five major departments Red or Amber.

Figure 8

Summary of main problems by department

Department	Nature of problems with reported savings
HM Revenue & Customs	**Red (£38 million):** Savings not new to the period; reported savings did not take into account the cost of a replacement contract; and savings not evidenced. **Amber (£129 million):** Significant one-off investment costs not reported. Full savings likely to be realised going forward.
Ministry of Defence	**Red (£96 million):** Reported savings were not realised, double counted and not properly calculated. Internal reporting mechanisms had already identified the majority of these errors. **Amber (£318 million):** Savings were a continuation from the previous spending review and there was insufficient evidence to determine whether the planned saving took the manner intended.
Home Office	**Red (£58 million):** Reported savings which were not new to the period or have been double counted with other savings. **Amber (£80 million):** Mainly unclear whether cash released – savings have been reinvested in the same area.
Department for Education	**Red (£13 million):** The Department has revised the calculation of savings which was based on estimated data. Using actual data led to a reduction compared to the reported saving. **Amber (£523 million):** The Department cannot demonstrate that schools have reinvested savings in priority areas. Limited evidence that savings release cash.
Department for Transport	**Red (£307 million):** Actual 2007-08 expenditure on rail, once known, transpired to be lower than the baselines estimated during the Spending Review. The Department has recalculated its counterfactuals based on actual expenditure. **Amber (£198 million):** Some rail savings might not be sustainable due to the general economic downturn. The recalculation of rail savings will resolve this issue. There was uncertainty over whether a minority of Highways Agency savings was cash-releasing.

Source: National Audit Office reviews of CSR07 value for money savings

2.7 Departments are able to count over-delivery of Efficiency Programme savings towards up to 10 per cent of their VFM Programme target. Just over £2 billion of savings planned for CSR07 are as a result of improvements made before the period began. Such over-delivery accounted for £411 million (11 per cent) of the total savings reported to date for the five departments we examined in detail. We could not assess these savings as, in practice, the departments had not monitored whether the savings were continuing at the same or higher level or met the additional criteria required for CSR07 savings.

2.8 The proportion of savings meeting all Treasury criteria (Green) shows some improvement on what we found at a similar point in the previous spending review period (Figure 7, page 18). Problems we highlighted on the Efficiency Programme in SR04 persist in CSR07: the use of unsuitable baselines for the calculation of savings; a lack of transparency over delivery partners' reporting processes; taking into account costs; and difficulties in demonstrating links between savings and performance.

2.9 Public confidence in savings reported can be damaged when they do not stand up to external scrutiny. Departments which have high proportions of savings rated Red or Amber will struggle to meet their CSR07 savings target and to demonstrate that they have improved value for money. Our recurring concerns and the slower than expected progress reported to date mean it is unlikely that departments will deliver £35 billion of savings which fully meet the CSR07 criteria.

Measuring savings

2.10 All CSR07 savings are calculated by comparing actual expenditure with what would probably have happened in the absence of any value for money reform – known as the counterfactual. Although the terminology used in Treasury guidance was specific to the VFM Programme, the underlying concept is commonly used in financial and management accounting, for example, to analyse outturn against annual budgets or other cost estimates. The guidance stressed that departments were responsible for constructing a plausible counterfactual and that they should expect to have to defend the underlying assumptions. The default baseline for calculating a CSR07 saving is the planned expenditure in 2007-08 – the last year of the previous spending review period, which is adjusted for domestic inflation (as measured by the Treasury's GDP Deflator figures) and any known or planned changes.

2.11 CSR07 savings were integrated into the Comprehensive Spending Review process as the target was removed from departments' financial settlements covering the three year period. In theory, departments could demonstrate that they had met their savings targets by delivering the agreed programme whilst living within their overall financial settlement, as adjusted through the annual parliamentary supply process.

2.12 In practice, departments were not required to reconcile reported savings to their CSR07 financial settlement or to their annual audited accounts, and were often unable to do so. The detailed planning assumptions used to negotiate a department's overall spending could not easily be applied at the level of individual savings. CSR07 settlements often represented a compromise between a department's detailed assessment of needs and the Treasury's view on affordability. The impact on the overall savings target of agreements between the Treasury and departments on specific areas of expenditure was not made explicit. For example, on the basis of a significant stream of savings expected by the Ministry of Defence and the Treasury, the Ministry of Defence used a baseline from an earlier year.

2.13 Savings of some 15 per cent in departments' annual administration costs are required by the end of the CSR07 period. Our review of the audited accounts of 18 major departments in 2008-09 suggests that overall they are on course to deliver the target, but there are wide variances between departments. Where departments have made savings by reducing staff numbers, they have incurred substantial early severance costs which have offset the administrative savings reported in the first 18 months of the CSR07 period. The one-off investment costs will, however, enable reductions in staffing levels and the reported salary savings will be achieved in full in future years.

2.14 The absence of unit costs or other output measures for departments makes it difficult to determine whether savings have affected performance. CSR07 savings can be made by reducing outputs and expenditure in low priority areas to help fund other activities, and in other areas as long as the department continues to make overall progress towards its strategic objectives. However, the intended outputs and outcomes from public expenditure are often difficult to define or measure. We have explored this issue in our recent report on Public Service Agreements and Departmental Strategic Objectives.[6]

Governance of departments' savings programmes

2.15 Treasury guidance requires departments to have robust governance arrangements that provide assurance over the achievement of the VFM Programme and the validity of publicly reported savings. Effective implementation of CSR07 savings requires that departments make adequate plans to deliver their target savings, monitor implementation and report savings made.

2.16 We found that departments have made some progress in integrating considerations of value for money into their decision-making processes. For example, most departments have now established efficiency teams reporting directly to a working group, or the main board, on their progress against CSR07 targets. However, we concluded that further improvements are possible. In particular, our ratings of savings indicate that they could have been subject to greater scrutiny before being reported publicly, or that departments did not have sufficient information to determine whether savings measures represented lasting improvements.

6 Comptroller and Auditor General, *Taking the Measure of Government Performance,* Session 2010-11, HC 284, National Audit Office, July 2010.

2.17 Where departments have performed well overall, it is generally because they have been able to build on successful existing departmental initiatives, rather than designing new reporting systems and technical rules. Examples of building on successful practice include the HM Revenue & Customs' reporting arrangements for its departmental transformation programme set up in 2005 and the Home Office's efficiency and productivity strategy for the police. Our overall assessments of each department's savings are shown in Figure 7 on page 18. Departments which mainly deliver services through agencies or by grants to other delivery bodies have typically experienced more difficulty in demonstrating that their reported savings meet the Treasury's requirements for CSR07.

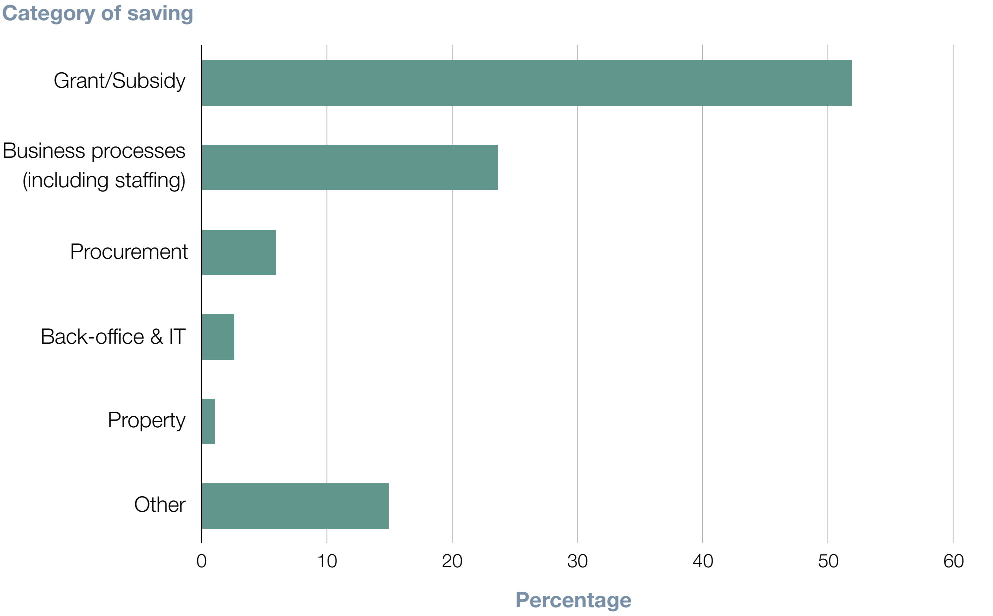
2.18 Figure 9 analyses the types of saving being reported. The most significant element is from bodies funded by grant and subsidies, where we were often unable to break savings down further. The remaining types of saving comprised:

- A quarter of the savings we reviewed resulted from changes to internal business processes which led, for example, to staff reductions through improved efficiency and reductions in other support costs.
- Ten per cent of the savings were from the three areas targeted by the Operational Efficiency Programme (paragraph 1.7). Procurement initiatives accounted for 6 per cent of the total savings, back-office and IT contributed 4 per cent and estates 1 per cent.
- Other staff savings were not related to specific internal business processes for example, reductions in the military and civilian support to the Northern Ireland police.
- The remaining 16 per cent came from a wide range of savings including annual exercises to identify incremental reductions in budgets.

2.19 Over half of departments' reported savings to date have been delivered by an arms-length body funded by grant or subsidy rather than by the core department (**Figure 10**). Savings were claimed under two scenarios:

- Departments reported some savings made by delivery bodies whose funding had increased. Departments could not always provide details about the savings being claimed by these bodies. In some cases delivery bodies were unaware of the technical requirements for CSR07 savings and continued to apply existing internal reporting rules.
- Where the overall grant had been reduced, it was still not always clear that a saving had been made.

Figure 9
Source of savings by category



Source: National Audit Office analysis of departmental savings

Figure 10
CSR07 savings relating to delivery bodies

Body	Saving (£m)	Percentage of total savings reviewed
Schools	577	20
Network Rail	451	16
Train operating companies	280	10
Police authorities	117	4
Transport for London	28	1
Other	7	–
Total devolved delivery	**1,460**	**52**
Total savings reviewed	**2,820**	

Source: National Audit Office analysis of departmental savings

Part Three

The design of the VFM Programme

3.1 This part of the report examines the Treasury's design of the Programme, including its own role managing it, and the impact of the design on value for money.

Treasury's design of the programme

Responsibility for savings

3.2 Responsibility for savings reported under the Programme is split between the Treasury and departments. The **Treasury** is responsible for agreeing departments' savings targets, setting the framework within which savings are reported and reporting to the public about progress on the Programme as a whole. The framework includes the principles of the Programme, such as what reported savings must demonstrate to qualify as a CSR07 saving (paragraphs 3.3-3.4 below), how departments should provide assurance over savings reported and how and when savings are reported. While it selected a small number of savings projects to monitor in more detail, for the majority of departments' savings the Treasury delegated responsibility to **departments.** These responsibilities included delivering their savings target, measuring savings in compliance with the principles of the Programme, public reporting of delivery plans for savings and six-monthly public reporting of savings delivered. Treasury staff did review and approve all publicly reported savings, but these checks were intended to ensure consistency of reporting, not to provide the public with substantive assurance.

Principles of the design

3.3 The Programme was designed on the principle that departments' savings targets had already been removed from agreed spending plans for the CSR07 spending period. Departments therefore had to deliver savings that release cash to meet their spending plans whilst also ensuring that service quality in priority areas is maintained. The Treasury framework lists a number of attributes a CSR07 saving must demonstrate (Figure 4, page 14). The design made some improvements on the Efficiency Programme:

- The principle that cash should be released makes savings more credible and relates the programme to the overall spending settlement and financial management.
- Savings are reported net of costs.
- Departments are responsible for delivering savings from within their budgets.
- The Programme recognises that cuts can be made in low priority areas if departmental objectives are not compromised.

3.4 Because the Programme allows cash released by savings to be reinvested in higher priority areas of spend, departments' costs did not generally reduce overall. Eleven out of the 17 main departments had greater than inflation settlements in CSR07.[7] Only six had a reduction in real terms. The total increase in departments' budgets for CSR07 was £21.3 billion; a 2.4 per cent per year increase in real terms. The Department for Work and Pensions, the Treasury Group and HM Revenue & Customs faced the largest reductions in their budget, with spend reduced by 16 per cent, 14.5 per cent and 14 per cent over the three-year period respectively.

How departments' targets were determined

3.5 CSR07 savings targets were agreed with each department as part of the overall Comprehensive Spending Review negotiations with a minimum of 3 per cent as the starting point for negotiations (paragraph 1.8).[8] As savings must be sustained for at least three years, this amounts to about a 9 per cent saving on 2007-08 levels by the third year of the spending period. Within this target, the Treasury also required departments to make annual savings of 5 per cent on administrative expenditure.

7 We have excluded the Law Officer's Departments, the Northern Ireland Office and Local Government from the main government departments.
8 See footnote 4 on page 10.

The Treasury's role supporting departments

3.6 While some departments welcomed the Treasury's lighter-touch approach to managing the programme and reduced bureaucracy of reporting, which was a contrast to the approach taken during SR04, most also pointed to challenges in delegating responsibility to departments for delivering a programme devised and led by the Treasury. The Treasury is jointly responsible with departments, through its design of the Programme and its responsibility for clearly communicating this, for successes and failures to deliver accurate and robust savings. Successful delegation requires a clear understanding about who is responsible for what, timely and clear technical guidance, ongoing support from the Treasury to departments, and sufficient mechanisms for challenging reported savings.

3.7 Neither the Treasury's nor departments' review of savings provided sufficient challenge to prevent savings which were not accurate or robust being reported publicly. There has been limited improvement in the quality of departments' reported savings (paragraph 2.8 and Figure 7, page 18). The Treasury's review of departments' savings before publication was largely administrative, in line with responsibility for savings programmes resting with departments. However, as a result the Treasury's review did not include checks on whether savings had been correctly calculated or robustly measured, or act as a check that savings reported were defensible. As a general rule, the Treasury did not get involved in approving departments' savings, other than agreeing targets before the spending period started, relying on departments to minimise the risk of public reporting of savings which would not stand up to scrutiny.

3.8 Issues with some reported savings can be attributed to lack of clarity over the Programme design, late changes to technical specifications or misinterpretations of technical guidance. The Programme design has evolved, in part because the Treasury had to respond to lack of clarity in the original Programme guidance issued to departments. However, for some specific types of savings, for example savings from capital spending, the Treasury did not issue authoritative guidance until 18 months into the programme. Even then, some departments were not confident that the Treasury's approved methodology for measuring capital savings would be defensible. Treasury guidance for departments focused on how savings should be measured and reported, rather than how value for money improvements could be identified, or how programmes to improve value for money are best run.

3.9 The Treasury formed a working group to support those responsible for savings programmes in departments. All departments we consulted agreed that the group had worked very well. The working group identified areas where further clarification about technical issues was needed, such as where different approaches to measuring procurement savings had been taken, and allowed departments to share experiences about running the Programme. The Treasury also provided a small team of three value for money specialists to support departments in addition to support provided by Treasury spending teams. Departments valued this specialist support and advice although most agreed that the central team was under-resourced. In contrast a dedicated unit of some 30 people had been in place to support departments in delivering the earlier Efficiency Programme.

Impact of the programme design on value for money

3.10 The robust criteria which define a CSR07 saving mean that savings reported have to meet a more challenging standard than savings reported under previous programmes. The VFM Programme has provided a framework for reporting savings that is more robust and defensible than earlier versions because of its focus on cash-releasing savings reported net of costs. The Treasury considers that departmental targets are useful tools to drive change in departments and hold them to account.

3.11 However, the Programme criteria have focused departments' attention on this narrow set of incentives for value for money. Consequently, savings which would fall within wider definitions of value for money, representing real improvements, are not rewarded and have therefore been de-prioritised. When improvements in value for money are not recorded because they do not meet the criteria, this can be frustrating and de-motivating for staff. Several departments told us that longer-term savings were disincentivised because CSR07 savings must release cash within three years and effectively pay back any investment within three years. This may discourage the longer-term investment often needed to drive step changes in value for money.

3.12 The CSR07 savings criteria apply to all departments regardless of the different ways in which services are delivered. Departments' savings targets are at least 3 per cent a year of expenditure, including spending passed on in the form of grants and subsidies to arms-length bodies. Those departments which spend much of their budgets through arms-length bodies face different challenges demonstrating that their savings meet Treasury criteria, compared with those where most spending is within the department itself. This is because access to information is often limited (paragraph 2.19), and it can be costly to redesign systems to capture new kinds of information.

3.13 We found little evidence that suggestions from the front line played a significant role in departments' savings programmes. Staff responsible for departmental programmes told us that although some departments had encouraged staff suggestions for improvements in value for money, the Programme's complex and sometimes counter-intuitive criteria may have inhibited proposals coming forward. For example, one-off savings do not count against the department's target because they are not sustainable in the long term.

3.14 The VFM Programme has not made a significant impact on how departments do their business. Many large savings originated from action taken in earlier efficiency programmes and would have occurred even if the CSR07 target had not existed. Despite the Programme, some departments expressed concern that business decisions were taken in the absence of information about value for money. For most departments we consulted, identifying and reporting savings for the Programme was an add-on to their existing activities to improve value for money.

Part Four

Implications for future cost reduction

4.1 The VFM Programme was launched when total government expenditure was expected to rise in real terms. Most departments were expected to make savings which were reinvested in services. The financial situation is now different, with substantial cash reductions required over the next four years by most departments. This Part draws out lessons from the savings programme for this new context.

Meeting the cost reduction challenges of the next Spending Review

4.2 The requirement for CSR07 savings to release cash and be reported net of costs has started to focus efforts on cost reduction. We found, however, that not all savings reported in CSR07 released cash, and where savings were recycled into services, it was sometimes unclear that savings had been delivered (Figure 8). It may be easier to demonstrate that targets for cost reduction have been met using existing financial systems. However, this report shows there are challenges for departments in reducing costs:

- The CSR07 Programme focused departments on meeting their own savings target. Although the Public Service Agreements used to measure quality cut across departments, we found few examples of departments working together to find areas of duplication or making significant savings through collaboration.
- The three-year savings target meant that departments planned for changes that could be delivered within the three-year period. These included changes to grant funding and continuation of existing efficiency programmes, procurement savings when contracts came up for renewal, and process changes which could be implemented quickly (paragraph 2.18). They did not plan wide-ranging changes to their delivery models, which would have taken more than three years to deliver savings.
- Where major changes have been made, they can require up-front investment to deliver savings. Most of the savings sought by HM Revenue & Customs involved reducing staff numbers, and early severance costs amounted to 55 per cent of the savings reported for 2008-09, although this investment will deliver substantial ongoing reductions in departmental expenditure in future years.
- Departments also responded to the VFM Programme by delegating savings to the bodies they fund (paragraph 2.18). Departments did not always obtain routine information from delivery bodies about how money was being spent, and therefore could not demonstrate that savings had been delivered (paragraphs 2.17-2.19). Even where savings were made within the department, information systems

could not always identify changes in expenditure and output clearly (Figure 8, on page 19). This lack of information about costs and outputs makes it difficult for departments to assess the cost-effectiveness of their activities. There is therefore a risk that cost reductions will create unintended impacts on services.

- Where a department's delivery model involves long-term relationships with another body, for instance, in some procurement contracts or, in the case of rail franchises, it can be difficult to determine a credible baseline or realise savings that clearly fall within the three-year period of the CSR. The long-term nature of spending on education, where student attainment is the result of several years of expenditure, poses similar problems in identifying when improvements have been realised. The examples in **Figures 12 and 13** (page 31) show that savings programmes have run over longer timescales elsewhere.

- The design of the Programme did not make it easy for individual staff to contribute ideas for improvement and moved the focus from improving value for money to delivering specific programmes (paragraphs 3.13-3.14). Moving to a culture where making improvements to efficiency are part of day-to-day business will require greater staff support for and participation in cost reduction programmes.

4.3 We found few examples where departments had systematically examined all their activities to identify opportunities to improve value for money in the short, medium and long term. Instead departments' CSR07 delivery plans focused on short-term opportunities which could deliver within the period and without major investment. Analysing a department's cost base more strategically could save significant sums in the medium to long term by transforming how the department operates. **Figure 11** overleaf indicates the relationship between implementation time, costs and sustainability for different strategies to reduce costs.

Comparison with savings programmes in other countries

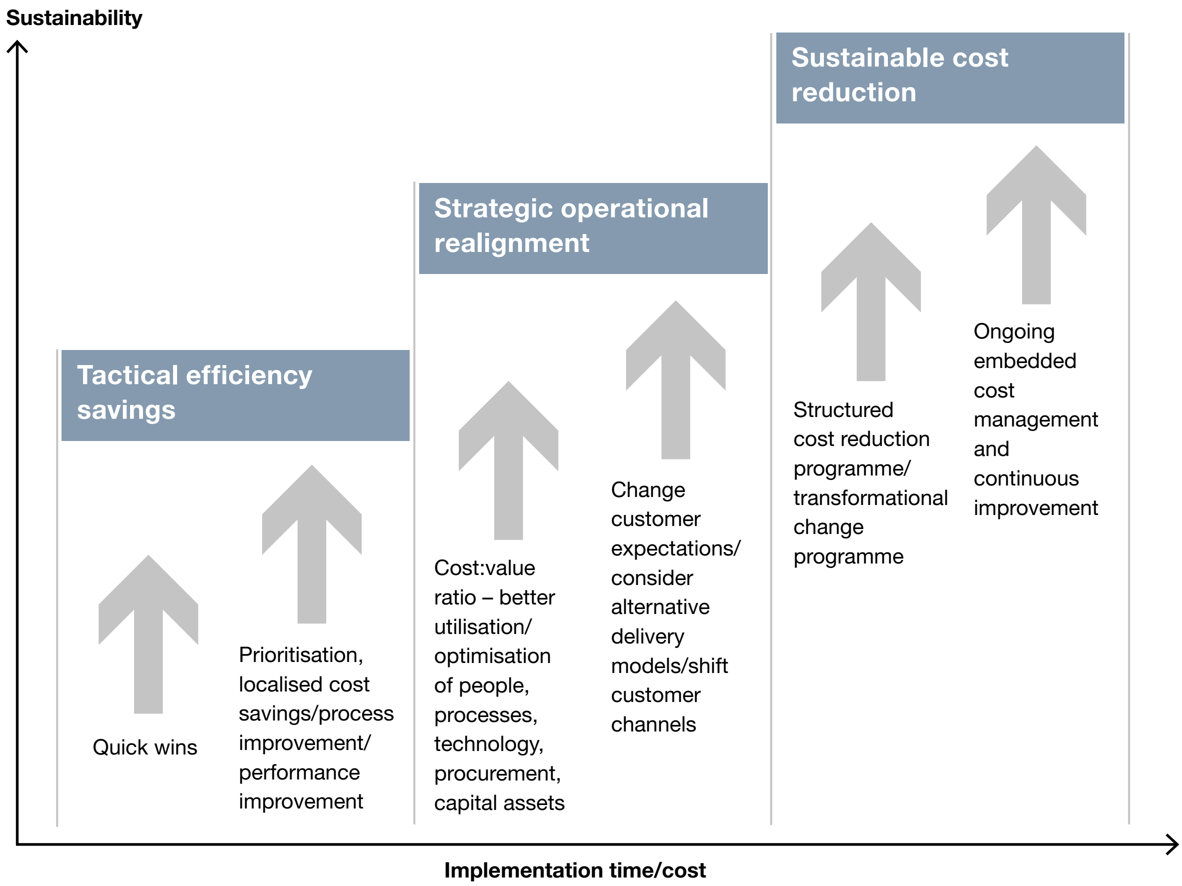
4.4 A number of countries are currently implementing a programme of substantial cuts in government spending in response to the global economic climate and the resulting fiscal pressures. These initiatives differ from the CSR07 VFM programme which was not linked to a reduction in overall government spending (paragraph 3.4). The Canadian Government's action to reduce its deficit in the 1990s is often cited as a case study of spending reductions in response to fiscal pressures. In recent years other countries have introduced programmes with similar features to the CSR07 VFM programme:

- In 2005, Canada introduced a programme aimed at reducing government debt, but also allowing savings to be reallocated to improve services (Figure 12, on page 31).

- In 2007, the French Government announced a programme to change the culture of public bodies and modernise financial management (Figure 13, on page 31).

4.5 These initiatives were less ambitious than CSR07 in the scale of the targeted savings. Nevertheless, key distinguishing features of both are longer timescales and strong central leadership. We have not audited the success of these initiatives.

Figure 11
Stages of cost reduction



Source: National Audit Office

Figure 12
Case example: Canada's savings programme from 2005

Time frame	2005-2013
Programmes	Budget 2005, Advantage Canada.
Programme Objective	To eliminate the federal debt and reduce taxes on individuals by reviewing all government activities for efficient and effective delivery and to ensure that they are suited to the government's role and priorities.
Quantified Targets	To save $11 billion from measures outlined in Budget 2005. $1 billion in savings under Advantage Canada from 2006-08 plus an annual reduction of the government debt by $3 billion.
Key Features	All departments were asked to identify savings of a fixed percentage of discretionary expenditure. The Government reinvested savings in higher priority areas. A central committee reviews and agrees savings suggested by departments. The Treasury takes an active role in scrutinising departmental and agency spending to identify the most appropriate savings. Savings are generated by a combination of centralised and departmental initiatives. Departments had to identify savings that amounted to 5 per cent of their discretionary spending.

Source: National Audit Office review of Advantage Canada documents

Figure 13
Case example: How France has identified cost reductions

Time frame	2007-2012
Programmes	Révue Générale des Politiques Publiques (General Review of Public Policies).
Programme Objective	To bring about a long term cultural change in the public sector in order to "do better with less" and modernise government's financial management.
Quantified Targets	To save €7.7bn by 2012. To reduce the civil service by only replacing 1 in 2 retirees.
Key Features	The Review took place over a year, during which time cuts were identified by ministers from their departmental spending. A central committee evaluated all suggested cuts and made recommendations to the Review Council (chaired by the President) which made the final decision as to which measures to adopt. The second stage introduced France's first multi-year budget (2009-11) which incorporated 374 spending cuts. Each minister meets the central committee on a quarterly basis to discuss progress and the Budget Minister also reports quarterly on progress across the Government.

Source: National Audit Office review of Révision Générale des Politiques Publiques documents

Appendix One

Study methods

Method	Use in the report
Financial and non-financial analysis of the National Audit Office's five independent reviews of departments' reported CSR07 savings (Department for Transport, Home Office, HM Revenue & Customs, Ministry of Defence and the Department for Education).[9]	To identify common issues departments faced in reporting savings and how departments approached improving value for money. This material underpins the whole report, but in particular Parts 2 and 3.
Interviews with Treasury officials involved in designing and managing the VFM Programme.	Contextual material, particularly in Parts 1 and 3.
Review of published information about departments' planned and reported CSR07 savings.	To summarise what departments have reported about their CSR07 savings. Used in Part 2.
Consulting with representatives of six departments who had implemented the VFM Programme (Department for Transport, Home Office, HM Revenue & Customs, the Department for Culture, Media and Sport, the Department of Health and the Department for Education).[9]	A qualitative analysis was carried out to identify common issues and themes, and triangulate these with quantitative data. Used mainly in Parts 3 and 4.
Review of published literature about other countries' approaches to improving value for money, efficiency and cost reduction.	To gain an understanding of how the UK's initiatives to improve value for money across government compares to those adopted in other countries. Used in Part 4.

9 Comptroller and Auditor General, *Independent reviews of reported CSR07 value for money savings*, Session 2009-10, HC 86, National Audit Office, December 2009; Comptroller and Auditor General, *Ministry of Defence: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 292, National Audit Office, July 2010; and, Comptroller and Auditor General, *HM Revenue and Customs: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 293, National Audit Office, July 2010; and, Comptroller and Auditor General, *Department for Education: Independent review of reported CSR07 value for money savings*, Session 2010-11, HC 294, National Audit Office, July 2010.

Appendix Two

Action on our recommendations on the Efficiency Programme

1 The Report by the Comptroller and Auditor General, *The Efficiency programme: a second review of progress,* (HC 156, Session 2006-07) made the following recommendations.

National Audit Office recommendation about the Efficiency Programme	How addressed by the VFM Programme
1 Make progress across the programme more transparent.	Departments are responsible for reporting savings twice annually, in their annual and autumn performance reports. The Treasury has provided guidance on the content of these reports.
2 Enable stronger challenge to departments on whether their efficiency gains meet good practice.	The central challenge function within the Treasury has been reduced. Savings continue to be insufficiently challenged before they are reported by departments.
3 Improve measurement of efficiency gains.	There continue to be issues with reliability of data, reliance on estimates, inconsistency in the treatment of costs and supporting evidence but the proportion of robust savings has increased.
4 Report headcount reductions with greater transparency.	Departments continue to seek savings through staff reductions but there is no separate headcount reduction target. Defining and evidencing staff savings continues to be problematic where they are recycled into higher priority activities.
5 Focus on the efficiency of all aspects of departments' business, not just those covered by efficiency projects.	Department-wide savings targets have been set which cover all of departments' spending. A wider range of savings has been reported but there is limited evidence of departments conducting fundamental reviews of the value for money of their business.
6 Do more to encourage staff to put forward ideas for improving efficiency.	There is little evidence of savings reported being influenced by the ideas of front-line staff.

Appendix Three

The criteria CSR07 savings should meet

1 Treasury has set out guidance for departments on how to calculate CSR07 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 the 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 CSR07 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 DSOs and 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 10 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 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 CSR07 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.

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