



National Audit Office

# Reducing costs in the Department for Transport

## Methodology

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**DECEMBER 2011**

# Methodology

## Study scope

1 This report is one of a series examining cost reduction in government departments, arising as a result of the cross-government 2010 emergency budget and spending review. The spending review covers the four year period 2011-12 to 2014-15.

2 Our examination is based on fieldwork which took place between February and August 2011 and covers:

- the Department's cost reduction plans;
- how the Department identified and assessed cost reduction measures; and
- the Department's progress and risks in implementing the measures.

## Criteria

3 The methodology adopted for this study drew on the principles outlined in the National Audit Office's '*A short guide to structured cost reduction*'.<sup>1</sup> The guide highlights key issues for public bodies to consider when facing the challenge of adopting a more structured approach to cost reduction. When assessing how the Department identified, assessed and delivered its cost reduction measures, we used the following criteria to see if the Department:

- had set out a clear **Target Operating Model** – a vision for how the Department will operate in future to deliver its objectives at a sustainable lower cost;
- had **clear objectives for the spending review** and used these to prioritise cost reduction measures;
- had a strong understanding of the current and likely future **cost and value** of activities;
- had identified **sustainable cost reductions**;
- appropriately **monitors and oversees arrangements** for achieving cost reductions; and
- is managing **risks when implementing cost reduction plans**.

1 [http://www.nao.org.uk/publications/1011/structured\\_cost\\_reduction.aspx](http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx)

4 Our detailed methodologies are set out below.

### Process mapping

5 We spoke to departmental officials and reviewed a range of documentary evidence to understand and map out the process followed by the Department during the emergency budget and the spending review.

### Semi-structured interviews

6 We held interviews with: the Directors of each of the Department's key spending areas; members of the Department's central finance team and officials at the Treasury. We explored:

- the Department's operational goals and how these linked to the strategic planning of cost reduction measures;
- the decision making process that underpinned its spending review cost reduction programme;
- the Department's understanding of its cost base and how this related to the identification of potential cost reduction measures;
- how the Department identified potential savings; and
- the delivery and oversight arrangements for the cost reduction programme, including how the Department will deal with variations from agreed plans.

### Document review

7 We identified and reviewed a number of documents underpinning the approach followed and decisions taken. We reviewed these documents against the key issues contained within the National Audit Office's short guide to structured cost reduction. The key issues included:

- a vision for what future work priorities/work programme might be;
- the existence and application of appropriate cost information;
- an assessment of risk to the individual budget areas and to the implementation of agreed reductions;

- an assessment of impacts;
- a quality assurance process; and
- the monitoring of the delivery of cost reduction measures.

**8** We also reviewed the Department's leadership and governance arrangements for implementing its cost reduction measures, along with the arrangements for managing the overall cost reduction programme.

### Financial and quantitative analysis

**9** We examined:

- the Department's spending review settlement up to 2014-15, the 2010-11 baseline budget, previous indicative budgets and the changes made to these in order to reach the final settlement;
- the reduction measures adopted; and
- the impact of projected inflation on the Department's total budget.

### Case studies

**10** In order to understand the quality of decision making in the Department, we conducted a detailed review of a sample of 15 of the Department's individual budget lines:

- The five largest budget reductions by nominal cash value, over the spending review period, compared to the Department's planned spend.
- The five largest budgets (in cash terms) over the spending review period.
- The five smallest programmes (as defined by the Department) with the biggest percentage reduction over the spending review period.

**11** In each case we met with the departmental staff and examined documentary evidence to identify the budget reductions made to reach the settlement, the extent to which costs and values and risk were considered, the oversight and governance of programmes, quality assurance and the completeness of work undertaken.

**12** Our sample covered the following areas:

Highways Agency	Highways Agency road schemes Regional funding for road schemes Road maintenance
Transport for London	General grant Investment grant
Rail	Network Rail grant Passenger Rail Crossrail
Local authorities	Road maintenance Concessionary fares
Small Programmes	General Lighthouse Authority ship lease Trust ports Ultra low carbon cars Air traffic management safety Road safety

**Review of Previous National Audit Office work**

**13** We drew upon the National Audit Office's recent financial audit work and a number of our recent value for money studies including:

- Regulating Network Rail's efficiency;
- Increasing passenger rail capacity;
- Contracting for highways maintenance; and
- The failure of Metronet.

**14** Copies of the National Audit Office reports are available on our website ([www.nao.org.uk/publications](http://www.nao.org.uk/publications)). Our observations on the Department's annual accounts can be viewed along with the accounts through the Department's website ([www.dft.gov.uk](http://www.dft.gov.uk)).