National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

The 2013-14 savings reported by the Efficiency and Reform Group

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This report examines the Efficiency and Reform Group's processes to produce their savings claims for 2013-14. We reviewed: their methods to calculate the savings; how they used those methods to make the savings figures; and their assertions to explain the savings claimed.

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Contents

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Summary

Introduction

1 The Efficiency and Reform Group (ERG) is part of the Cabinet Office and works to help government departments make savings. Since 2010, ERG has reported annually on government savings, in the areas where it aims to influence spending in departments, and, increasingly, the wider public sector. In doing so, it has raised the profile of and injected a sense of pace into, the efficiency agenda.

2 As in 2012-13, we have reviewed ERG's performance as it collated and announced the savings in 2013-14. This report shows our findings on ERG's methods for calculating the savings it claimed this year, and how ERG has presented them to the public.

Our remit

3 We reviewed ERG's methods, and how it used them to calculate savings for the 14 categories of savings that they claimed for government during 2013-14.

4 We reviewed the individual savings categories and assessed the evidence to support ERG's savings' claim against criteria to examine if:

- its methods are adequate, to support the savings they claimed;
- it used the methods consistently; and
- its assertion accurately describes the savings.

5 Our review has focused on ERG's methods and processes to calculate its 2013-14 savings claim. We also considered the Cabinet Office internal auditor's work to assure those processes.

6 We have not:

- tested departments' data or their processes (or their suppliers' processes) to produce this data; or
- assessed the accuracy of the claimed savings figures – we only comment on how ERG calculates the savings.

Key findings

7 **Figure 1** sets out a summary of our findings.

Figure 1
Summary of each savings line

Saving category	Amount claimed (£m)	Does the method provide adequate basis for saving?	Is the method applied consistently?	Does the assertion accurately describe saving?	Internal audit rating
Operational savings					
Advertising and marketing	378	Yes	Yes	Yes	Reasonable
Centralising procurement	1,490	Yes	Variation between categories of procurement makes consistent application difficult	Yes, although they may be understated as supplier data may be incomplete	Reasonable
Commercial relationships	1,809	Yes	There are variations in the evidence provided	Yes	Reasonable
Consulting and contingent labour	1,615	Yes	Yes	Yes, although inflation of baseline is new this year	Reasonable
Common infrastructure programme	116	Yes	Yes	Yes	Reasonable
Workforce reductions	2,392	Yes	Yes	Yes	Reasonable
Pensions	2,340	Yes	Yes	Yes. However, the saving is different in nature to other operational savings	Moderate
Property portfolio optimisation	461	Yes	Savings data is taken from multiple sources	Yes	Reasonable
Projects and construction					
Major projects	2,749	Yes, but does not capture full work of Major Projects Authority	Inherent complexity has led to variable methods for different types of saving and evidence bases are not uniformly strong	Yes, subject to comments on method basis and application	Moderate
Construction	840	Yes	Inherent complexity has led to variations between departments in what the exact method is	Yes, subject to comments on method basis and application	Moderate
Government Digital Service controls savings and Government Digital Service wider savings	91	Yes, the saving is based on forecast spend but this is made clear	Variations in the evidence available. Internal audit identified several errors in the calculation of savings which were removed from the final saving	Yes, subject to comments on method basis and application	Moderate
Government Digital Service transformation	119	Yes	Yes	Yes	Reasonable

Figure 1 *continued*

Summary of each savings line

Saving category	Amount claimed (£m)	Does the method provide adequate basis for saving?	Is the method applied consistently?	Does the assertion accurately describe saving?	Internal audit rating
Receipts from asset sales and new commercial models					
Asset sales	163	Yes	Yes	Yes	Reasonable
Commercial models	10	Yes	Yes – there is only a single project included this year	Yes	Reasonable

Notes

1 Figures from ERG's published technical note, available at www.gov.uk/government/publications/government-savings-in-2013-to-2014.

2 We have not examined departmental records and do not comment on departments' processes for producing information.

3 In ERG's published summary all savings have been rounded to the nearest £100 million.

4 Internal audit defines their ratings as set out below. For more detail see Appendix Five.

5 Reasonable assurance: a sound evidence base supporting the claimed savings and assertions reported by ERG.

6 Moderate assurance: The evidence base supports claimed savings and assertions with some weaknesses.

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

8 **Of the 14 savings lines, nine have strong methods and evidence.** The savings lines where evidence (and the ERG process) is strongest are those where the evidence comes from operational data and its production and review is embedded into ERG's way of working.

9 **In the remaining five savings lines, the methods are less strong but significant savings are still likely to have been achieved.** Commercial models is a new category this year. While the current method is adequate to support the one saving reported in 2014-15, ERG will need to develop this process as more savings are claimed in future. In both commercial relationships and construction, although there was a formal process in place, we found some inconsistencies in the level of evidence provided. In major projects and Government Digital Service (GDS) controls savings, the internal processes were less strong overall. Some poorly-evidenced savings were identified and removed from the savings claim before publication. ERG should embed information gathering for each of these lines into standard business-as-usual processes, to strengthen the quality of evidence. This will also ensure that the data is gathered throughout the year and not as a one-off year-end exercise, and allow more time for review by ERG, the internal auditor and the NAO.

10 ERG has improved its calculations and reporting in 2013-14. ERG has responded to our, and internal audit's, recommendations in 2012-13. ERG set up a formal audit improvement process, to act on our recommendations. ERG has improved the savings lines we identified as weaker in 2012-13. For example, it has standardised how it calculates pensions contributions and improved how it collates construction evidence. ERG has also improved how it discloses the savings figures to the public, issuing the technical note with the savings announcement.

11 There are some areas where we identified issues in 2012-13 and they remain of concern. We identified savings lines that needed improvement in 2012-13: GDS controls; construction; and major projects. Although some improvements have been made in 2013-14, these areas continue to have weaker methods. ERG has not acted on our recommendation that they gain additional assurance by reconciling estimated figures used in some lines with outturn, except for pensions. ERG has also not tried to reconcile departments' information on some key lines, for example workforce savings, with their audited annual accounts when these are available. This would give ERG extra assurance over future savings claims.

12 ERG is acting prudently to remove double counting. Where there is potential overlap between different savings lines, it takes a prudent approach to removing double counting wherever the risk is identified. However, given the range of activity it is not possible to check this exhaustively and some risk remains.

13 The savings announced are now much wider than originally reported in 2010-11 as ERG's engagement has broadened. The first announced savings focused on those areas where ERG had worked directly with central government. However, some savings areas, particularly centralising procurement and pensions, now also include ERG's less direct influence on the wider public sector. ERG should explain more clearly the impact of the change in scope, of some savings areas but not others, on the savings over time.

14 ERG's public reporting now clarifies the range of savings it includes. The calculation uses many separate savings methods. These differ in what they set out to measure, and how; what baselines they use; what sort of evidence they expect; and where the data comes from. The savings are therefore different in nature, and care needs to be taken not to aggregate them inappropriately. In its reporting for 2013-14, ERG has improved how it shows the savings, splitting the types clearly.

Recommendations

15 Appendix Three shows our recommendations from 2012-13 and how far ERG has acted on them. ERG has worked to strengthen its own processes. It has acted on most, but not all of our recommendations which were designed to increase assurance throughout the year, including after the announcement has been made.

16 During our 2013-14 review, we have also made several new recommendations. We set these out against the specific savings lines in the main body of this report. Our recommendations are in three categories:

- **Process improvements**

  Particularly gathering more evidence throughout the year, or allowing additional time at year-end to review evidence in depth.

- **Detailed review**

  More detailed review within ERG, and working with departments to understand what assurance they have over their data.

- **Everyday information-gathering**

  Putting information-gathering into ERG's day-to-day work, to link government activities clearly to the savings they are claiming.

17 These recommendations come from our observations of where savings are strongest. Our recommendations aim to show how ERG can apply that good practice into areas where evidence is weaker.

Part One

Savings process

1.1 The Efficiency and Reform Group (ERG) is part of Cabinet Office. Its purpose is to help departments reduce their costs. Its ambition is to identify a £20 billion reduction in central government departments' spending by 2014-15 by: reductions in waste and administrative costs; fraud, error and debt; and government reform.

1.2 ERG identifies savings by collating data from departments and third parties. It analyses that government data, and data from private sector suppliers to government. It has various methods for calculating the savings, based on what data departments supply. For some savings lines, ERG collates data throughout the year. For some it waits until year-end to produce a figure.

1.3 ERG validates the savings calculations. It has processes to ensure the savings claimed match its methods. These processes vary by line of saving. There is also variation between the different savings claims in: what they seek to capture; the nature of the saving claimed; and how ERG calculates those figures.

Changes in 2013-14

Public reporting

1.4 ERG announced the savings on 10 June 2014. They published a detailed Technical Note with the announcement, in response to our recommendation last year.[1]

1.5 In the Technical Note, ERG has broken the savings into three areas:

- **Operational savings**

  These are mostly for day-to-day expenditure. The savings come from certain controls on spending. They mostly reduce spending, compared with 2009-10 baselines.

- **Savings through identification of low priority spend on projects, leading to project cancellation, funding re-prioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings**

  These savings mainly relate to project spend in departments. There may not be a clear reduction in spend, compared with spend in 2009-10, as project funding varies year-on-year.

1 The announcement and Technical Note are both on Cabinet Office website: www.gov.uk/government/publications/government-savings-in-2013-to-2014

- **Receipts from asset sales and new commercial models**

  These are cash payments to the Exchequer this year. They come from the sale of assets, for example a building or piece of intellectual property.

1.6 The announcement uses a separate breakdown, into:

- procurement and commercial savings;
- transformation savings;
- projects savings; and
- workforce reform and pensions savings.

1.7 ERG has separated the different types of savings in the main announcement in a different way to how they appear in the Technical Note. However, there is a summary of some of the main issues that affect how ERG measures the savings, and clear signposting that there is extra detail in the Technical Note.

1.8 The announcement also mentions three specific additional savings that are not included in the savings total:

- £1.1 billion workforce savings by constraining wage inflation.
- Nearly £250 million savings from rail network repair.
- Over £400 million savings from tackling fraud, error and debt in the welfare system and student loan applications.

1.9 We do not review these savings in this report, and there is no extra information about them in the Technical Note.

Method changes

1.10 ERG set up a formal audit improvement process this year to address our, and internal audit's, recommendations. Its responses to our recommendations on detailed savings lines are in Appendix Three. **Figure 2** sets out our main recommendations in 2012-13 and how ERG has responded to them.

Figure 2
ERG's response to our main recommendations in 2012-13

Recommendation	Commentary on ERG's response
The need for additional assurance that savings have been realised, and on the quality of data coming from departments and suppliers, with better sign-off and, where appropriate, review by department's own internal audit. This might include: • using outturn when available to substantiate claims that were originally based on estimates; • making greater use of other sources, such as departmental financial statements once they are available; and • asking departments to sign-off the departmental breakdown of the final savings claim.	ERG has only acted on part of this recommendation. In general, it feels that since outturn data and audited financial statements are only available after it has made the savings announcement, they add little value to the in-year process. We maintain that an exercise will help to increase assurance in future years that ERG prepares savings reasonably. For example, ERG bases pensions savings on estimated receipts. It compared last year's estimate to outturn and the difference was less than 1 per cent. This gives extra assurance that the estimate is a good proxy for spend, and that assurance will increase as comparison data for more years becomes available. ERG has not routinely asked departments to agree departmental savings breakdowns across all savings lines. It feels that departments may not recognise the savings figures without explanation of ERG's methodologies and choice of baselines. We believe that this exercise would improve understanding in departments, and increase assurance for future years.
ERG's own assurance process should seek, as far as possible, to ensure that savings are identified and verified as they happen and reduce the pressure on ERG and internal audit to verify substantial amounts quickly at the end of the financial year.	ERG asked internal audit to carry out a half-year review on key savings lines, and fed comments into the year-end process. While the process at year end was smoother than previous years, there was still substantial weighting towards year-end, and it was still an intensive process.
In some savings lines – wider government pensions, construction, IT reform and major projects – ERG needs to do more work to bring the quality in line with the rest of the savings claims.	ERG has responded to our comments. Teams have done the following: • standardised how they calculate pensions savings, and given more robust evidence; • changed the methods on major projects and GDS controls. However, ERG could do more to collate consistent and sufficient evidence for savings; and • worked to set up a framework for reporting construction savings, although there were still some gaps and inconsistencies.
ERG should publish, at the same time as any summary, a technical annex explaining the savings in more detail to allow taxpayers to understand the savings more fully and any assumptions used.	ERG has published a detailed Technical Note alongside this year's savings announcement. This breaks down the savings, separates capital receipts, and gives the reader more detail on how ERG calculates individual savings lines.

Note

1 Recommendations come from the summary of our report, Comptroller and Auditor General, *The 2012-13 savings reported by the Efficiency and Reform Group*, Session 2013-14, HC 126, National Audit Office, July 2013.

Source: National Audit Office analysis

1.11 ERG has also updated some methods to give new estimates of the savings. These changes have substantially affected the savings claims in the following areas:

- **Major projects**

  There are new methods for ERG to measure savings from cancelled and re-scoped projects, and to measure the reduced expenditure from successful projects, as well as lower actual project costs.

- **Consulting and contingent labour**

  ERG has decided that it should inflate the baseline 2009-10 expenditure, as a more accurate counterfactual for current spend.

1.12 Over the four years that ERG has reported savings, it has extended the remit of what it includes:

- **Extra areas of savings**

  In 2011-12, ERG included savings from the construction process for the first time. In 2012-13, ERG introduced savings on pensions, sale of land and buildings and ICT networking. There is a new savings claim in 2013-14 for commercial models.

- **Including the wider public sector**

  The remit of three savings areas has changed over time to include the NHS and local authorities as well as central government. More than £500 million of the centralising procurement savings line this year comes from bodies in the wider public sector – where it is known that they use government procurement frameworks. The increase in pension contributions includes teachers, firefighters and NHS staff as well as civil servants. The major projects saving from modernising health also includes savings across the NHS. None of the other eleven savings areas include savings from the wider public sector, even where ERG could calculate them. For example, the construction savings line includes projects such as further education colleges and road repairs where costs are shared with local authorities. The 2013-14 claimed saving for construction includes just the central government share of the overall project saving, based on cost contributions.

1.13 ERG is right to wait until it has reliable evidence before claiming savings. However, it could do more to highlight changes in savings, particularly when showing savings trends. It should also explain how it has changed the basis and scope for the savings in its year-on-year comparisons. As the savings broaden into the wider public sector there are risks of selective reporting, because the information on wider public sector spend is less complete. ERG may not have captured overspends or cost movements and netted them off against the savings claimed.

Other review of savings

1.14 Internal audit has reviewed the savings that ERG claims. Its objective was to: "Provide independent assurance to the Cabinet Office Accounting Officer that the processes established within ERG to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidenced-based and supportable benefit claims."

1.15 Internal audit reviewed methods, processes, draft assertions, and risks that ERG identified. It conducted detailed sample testing of savings claimed, to verify the published figures.

1.16 A summary of the internal audit findings is at Appendix Five.

1.17 Our first report on ERG explained its challenges but concluded it was too soon to judge its success.[2] We reviewed ERG's 2010-11 savings claims and found that substantial savings had been made.[3] Our second report on ERG found that ERG had helped departments make substantial spending cuts.[4] In this second report we concluded that we have confidence in the £5.5 billion savings that ERG reported in 2011-12.

1.18 In 2012-13, we did an early review of ERG's systems for reporting savings.[5] We found ERG had made significant improvements to its measurement of savings. However, there were several types of saving in the combined figure, which ERG could have explained better to the public. There were also significant differences in how ERG used methods, and weaknesses in how it managed, and gave assurance over, the process to estimate savings. We did not review the departments' processes, nor did we assess the accuracy of the claimed savings figures.

Scope and approach

1.19 We have examined ERG's methods, how it used that method and reported savings in each of the savings categories used to produce the 2013-14 savings claim. We reviewed the documentation against the same criteria we used in 2012-13. These are based on ERG's own guidance and our previous work assessing savings. Our criteria, and how they fit with previous work, are in Appendix One. Appendix Two shows what we reviewed, and how.

1.20 In the following parts we give detail on our work on individual savings lines. Part Two covers those savings lines where there is a strong process in ERG for calculating the savings. Part Three sets out those savings lines where ERG could improve its process.

2 Comptroller and Auditor General, *The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 887, National Audit Office, March 2011.

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

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

5 Comptroller and Auditor General, *The 2012-13 savings reported by the Efficiency and Reform Group*, Session 2013-14, HC 126, National Audit Office, July 2013.

Part Two

Savings lines with stronger methods

2.1 ERG is improving how it calculates and evidences savings. This section shows the savings lines with stronger methods, as set out in **Figure 3**.

2.2 Most of these savings areas have used the same methods and sources of data as previous years to calculate the savings. All data sources are clear and well-evidenced. Neither we nor internal audit found any significant errors. ERG has also improved some key areas, particularly in centralising procurement. There, the evidence brings together the complex range of methods used more clearly.

2.3 Data sources remain the same. However, ERG has updated some methods where it felt improvements were necessary to accurately capture the saving. For example, adding inflation to the baseline for the savings in consulting and contingent labour, which has increased the saving by £277 million.

Line-by-line detail

Workforce

2.4 Cabinet Office has frozen recruitment for central government departments, and encouraged departments to reduce staff numbers. The saving is calculated by comparing the total 2009-10 paybill with the current paybill. Departments give ERG monthly data for themselves and their arm's-length bodies, and this should be signed off by a senior member of staff in the department. ERG adjusts the two sets of data to reflect changes in government. For example, when arm's-length bodies are formed, abolished or moved between departments.

2.5 The baseline data is consistent with that used in 2012-13 and ERG has correctly altered it for changes in how government is organised. Internal audit reviewed a sample of 24 monthly returns and confirmed that their data had been accurately included in the calculation. However, in around a third of their sample, there was no evidence for the expected senior sign-off from the department. This is an important part of the assurance process. The rate has improved from last year, but ERG should ensure that data is signed-off.

Figure 3

Savings areas where ERG's processes are strong

Area	ERG assertion
Workforce	We have reduced the size of the civil service by 76,000 between June 2010 and December 2013 contributing to over £2,390 million in savings in 2013-14 on paybill costs compared to 2009-10.
Pensions	By adjusting the balance between central funding and employee contributions, this government saved an estimated £2,340 million in 2013-14 from taxpayer contributions to selected unfunded public service pension schemes.
Consulting and contingent labour	Departments report a significant reduction in discretionary spend: A reduction in spend on consulting in 2013-14 of over £1,110 million compared to 2009-10. A reduction in spend on temporary agency staff in 2013-14 of over £500 million compared to 2009-10.
Centralising procurement	By centralising spend on common goods and services and by introducing policies requiring departments to purchase less, government has saved nearly £1,490 million centrally and in the wider public sector.
Common infrastructure programme	By implementing a Common Infrastructure Programme, we saved nearly £120 million from spend on telecommunications and hosting in a number of departments in 2013-14 compared to 2009-10.
Advertising and marketing	By maintaining strong control of the advertising, marketing and communications spend, government saved nearly £380 million in 2013-14 from 2009-10.
Property portfolio optimisation	We reduced the in-year cost of our property estate by over £460 million for 2013-14.
Property asset sales	By selling our land and buildings, we have generated over £160 million in revenue for the taxpayer in 2013-14.
GDS transformation	Government departments have saved over £60 million in 2013-14 through the building of a new single GOV.UK website. Over £40 million has been saved by DWP in 2013-14 through reducing the total cost of their Identity Assurance services. Working with departments to help digital transformation has resulted in: • £5 million savings across DECC • £4 million savings across the Electoral Registration Transformation Programme • £5 million savings for DVLA.

Source: ERG Technical Note

2.6 We tried to match the staff figures and payroll costs reported to ERG in 2012-13 to those published in departmental annual reports. For many departments, the bodies included in departmental accounts differed to that included for calculating the saving and figures could not be matched exactly. There has been a downward trend which gives general assurance that departments have made savings. We recommend that ERG considers a detailed one-off exercise to reconcile the two published data sources and give extra assurance over the savings figures. This would sit alongside the work it currently does to reconcile the data to information published by the Office for National Statistics.

Pensions

2.7 Over the last two years Cabinet Office and other bodies responsible for public sector pension schemes have renegotiated scheme terms. Staff now pay a larger contribution. This reduces the public money needed, for people drawing their public sector pension. ERG calculates this saving by estimating what the staff contribution would have been based on employer contributions, which have remained fixed. It compares that to the Office of Budgetary Responsibility's latest estimate of actual contributions.

2.8 We have reviewed ERG's evidence, which it bases largely on information from the Office of Budgetary Responsibility. The Office of Budgetary Responsibility produced the data for the Budget Statement in March and it is an estimate of the total contributions in 2013-14. ERG has compared the 2012-13 forecast to actual receipts and over the pension schemes included the difference was less than 1 per cent.

Centralising procurement and the common infrastructure programme

2.9 The Government Procurement Service (GPS – now part of the Crown Commercial Service) seeks to drive down prices and demand by bulk-buying goods across government. GPS has developed guidance on how to evidence and calculate savings from savings initiatives. Using this guidance, GPS has developed benefit methodologies for different categories of procurement. These follow a standard template and require senior managers to approve them, before they can be used to calculate and claim savings. Over 100 benefit methodologies were used in 2013-14 to claim savings. Each benefit methodology is specifically tailored to reflect the type of commodity, the nature and source of the savings and the data used.

2.10 Most savings reflect one of the following basic calculations:

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

2.11 The 2009-10 prices are adjusted for inflation for those commodities where inflation has had a significant impact on the baseline price.

2.12 The data for savings calculations comes from spend data, which suppliers provide monthly using an online tool. GPS's own internal audit department periodically reviews suppliers to check the figures supplied.

2.13 We reviewed a sample of the benefit methodologies, covering more than £500 million of the claimed savings. The benefit methodologies all followed the same underlying logic. But there were differences in what data GPS used as a baseline and whether it had inflated it over time, depending on what they thought was most appropriate. GPS updates methodologies when they think it is necessary – the methodologies reviewed varied in start date from 2010 to 2013.

2.14 We examine supplier data as part of the audit of GPS. In general we found that the data held was accurate. We could not be sure that GPS had captured all spend with suppliers – this would lead to savings being under-reported. Internal audit has also reviewed a sample of transactions to check that the savings made were as expected. Internal audit identified some minor errors but they came to less than 1 per cent of the total sample value checked and do not indicate significant weaknesses in the process.

Consulting and contingent labour

2.15 Cabinet Office has reduced government's spend on consultancy and on contingent labour, using restrictions on departments putting new contracts in place. Savings are calculated using two specific benefits methodologies within GPS, which compare expenditure in 2013-14 to expenditure in 2009-10. The benefit methodologies have been updated in 2013-14 to take account of inflation. This has increased the saving by £277 million. This contrasts with the workforce savings where ERG decided not to inflate the baseline in this year's claimed savings. The announcement did set out the effect this would have had on the saving, which was to increase it by over £1 billion.

2.16 Information on spend comes from specific returns from departments. Contingent labour is included in the same returns as workforce information (see paragraphs 2.4 to 2.6 above). The same issues around lack of senior sign-off and inconsistency with the audited accounts are applicable here. Internal audit reviewed a sample of the consultancy returns. It found that senior departmental sign-off was either missing or unclear in almost half of their sample. Again, this is a key control over data quality so ERG should ensure that departments provide it.

Marketing

2.17 Cabinet Office has introduced tighter controls over departmental spending on advertising, marketing and communications. They measure the success of these by comparing spend in 2013-14 with a published baseline of spend in 2009-10. They include all major departments and arm's-length bodies with more than 250 staff in the survey. ERG separates the data into operational spend, which includes staff costs, and proactive spend, which focuses on external costs. ERG shows savings on proactive spend only, to reduce the risk of double counting with other savings areas.

2.18 We reviewed the departments' data, the level of sign-off provided, and the baseline data used for comparison. ERG sends out a standard template, for consistent data collection and ease of calculation, which strengthens the process. They require the Director of Communications (or equivalent) to sign-off the data for each department and its arm's-length bodies. Departments do this after year-end. This increases the risk that ERG may not receive data in time for review. This year, ERG received the final pieces of data more than two weeks after it first presented a savings figure for audit, which increased the burden on internal audit to review it in time.

Property portfolio optimisation and asset sales

2.19 Cabinet Office is reducing spending on property. Departments must work with the Government Property Unit (the Unit) when they want to buy new freehold property, sign a new lease, or extend a lease past a contract breakpoint. The Unit keeps information on departments' office and non-specialist property on two databases: an online database for all property called e-PIMS, and a specific National Property Controls management database. The data in the databases comes from various sources, including uploads directly by departments, specific data requests and annual benchmarking information.

2.20 The Unit takes the benefits from assets sales directly from the data, minus a standard 7.5 per cent of the proceeds for the costs of selling the property. Savings from exits are built up from several years. For exits in 2010-11, 2011-12 and 2012-13, the saving is the total annual costs as recorded on e-PIMS. For exits in 2013-14, the saving is estimated as the occupancy costs unpaid for the year, less exit costs estimated at 60 per cent of the annual occupancy costs.

2.21 We reviewed the basis of the calculation for property portfolio optimisation. The Unit calculated the savings according to its stated methods. We found that savings from exits in previous years were higher than reported previously. The Unit has made additions to its databases when departments have told them about historic exits of properties.

2.22 We tried to reconcile savings to our knowledge of in-year costs for a sample of exits. This was difficult because of the number of properties where the Unit took savings from sources other than in-year cost figures. Internal audit's review of a sample of items did not find significant errors, but found that data came from several sources.

2.23 We reviewed several sales for the year, to check that asset sales figures were as expected. We matched proceeds to departmental records more easily than exits of leasehold properties. The figure announced for asset sales does not take into account whether the sale maximised the value of the property, it simply reflects the amount received.

GDS transformation

2.24 The Government Digital Service (GDS) has built a single GOV.UK website to replace many departmental websites. GDS has worked with departments on digital transformation work, such as building databases and using agile software development techniques.

2.25 GDS uses staff and other costs that departments provide and publish in annual report(s) on central government websites as evidence of website closure costs claimed as savings. GDS takes most baseline costs from the 2009-10 annual report, with others sourced from subsequent annual reports where that was not possible. The other transformation savings are calculated based on the difference between actual cost data and data from the original plans or budgets.

2.26 We reviewed the evidence and the baseline data that GDS used to compare each of the different savings that made up the total. We found that all were well documented and supported, and used reasonable baselines. Almost all savings based on the website used 2009-10 numbers, which had been reported at the time. The definition of the savings was reasonable in all cases except one smaller saving, which GDS removed from the final figure.

Part Three

Savings lines with scope for improvement

3.1 There are several savings areas where Cabinet Office needs to improve their processes and strengthen the evidence collected as set out in **Figure 4**. We raised many of these areas in 2012-13 and ERG has made some improvements based on our recommendations. However, our work this year shows that more work is still needed.

3.2 The detailed findings for individual savings areas are set out below. There are several common issues that underpin our findings, and which ERG should address:

- In most of these spending areas, the data ERG collected for the savings figure is not used directly as part of other business processes. This means that there is little pressure to improve or understand the data, and is a clear contrast with stronger savings lines, such as centralising procurement, where the savings are based on key information used to manage the business. This is the case for commercial models, GDS controls, and major projects.
- Most data collection within ERG for the savings calculations happens only at the end of the financial year. Because of the tight time frame between this and the announcement, there is little opportunity for detailed review within ERG, or by internal audit, before figures must be finalised. Some genuine savings may not be counted because they cannot be evidenced.

3.3 Some savings attempt to capture work done in inherently complex areas. Particularly major projects or commercial relations, where Cabinet Office is trying to change working practices across government. These savings will always be more difficult to capture and evidence consistently than more straightforward areas. However, ERG could do more to show its processes and what it expects from departments, and to review what it receives so it is adequate.

3.4 We believe that departments are making genuine savings in these areas. However, ERG should improve its process for quantifying these savings, both their own processes and sometimes what they receive from departments.

Figure 4
Savings areas where ERG could improve

Area	ERG assertion
Commercial models	We have received cash receipts of £10 million in FY 2013-14 relating to a Joint Venture – Axelos.
GDS controls savings and GDS wider savings	By scrutinising ICT & digital spend requests; the government has reduced the forecast expenditure on approved projects over £70 million. Within these scrutinised spend requests, the resulting cost reductions that departments forecast from their investment cases was nearly £20 million. The total was £91 million.
Major projects	**Cancelled Projects.** Departments have reported savings of nearly £220 million in 2013-14 by cancelling low priority or wasteful projects. This saving is the equivalent to the amount that would have been spent had the project continued. **Re-scoped projects.** Departments have reported savings of nearly £270 million in 2013-14 by removing low priority elements from the scope of their major projects. This saving is the amount that would have been spent on lower priority elements. **Reduction in project costs.** Departments have reported savings of over £430 million in 2013-14 by taking action that resulted in a quantifiable reduction in cost of the project. This saving is the reduced project cost. **Reduction in service provision cost.** Departments have reported savings of nearly £1,560 million in 2013-14 following successful implementation of projects and programmes. The saving is the difference between the cost prior to project delivery, and the cost following successful implementation of the project (where possible, net of the cost of the project). The 2013-14 cost may be influenced by factors outside of the individual projects.
Construction	Departments reported eliminating over £820 million from the planned costs of construction projects in 2013-14. The government successfully realised a reduction in the overall £/m^2 cost of refurbishment activities of Further Education colleges in 2013-14 compared to 2009-10 costs, that equated to nearly £20 million.
Commercial relationships	By better managing contracts and commercial arrangements, government has saved nearly £1,810 million in 2013-14. This includes nearly £200 million recovered from suppliers.

Source: ERG Technical Note

Line-by-line detail

Commercial models

3.5 Commercial models is a new savings area this year. ERG expects savings to come from the government's joint ventures, or other ways of providing public services which make extra value to what government would make alone. The benefits to government may come from capital receipts, increased income or reduced costs. According to the Technical Note, government has set up three joint ventures this year. One of which – AXELOS – has made an evidenced benefit: a £10 million capital receipt for setting up a joint venture to take advantage of Cabinet Office's intellectual property. It is a receipt in addition to the regular income stream, which replaces the direct income Cabinet Office used to receive from the intellectual property.

3.6 We reviewed the broad principles ERG uses to calculate benefits from commercial models. The principles used to calculate benefits are in line with ERG's rules for calculating savings, and allow ERG to include one-off cash payments. This has been made clear in the Technical Note this year.

3.7 We reviewed information on the pipeline of projects the commercial models team is examining, and the detailed evidence for the figure actually claimed. The information provided across all the projects was specific to each project and could be hard to follow. The government will increase the number of joint ventures and have more new ways of working. ERG should give more detailed guidance now on how to evidence benefits across the work, to ensure that the information is consistent as the number of projects increases. This does not affect the specific figure claimed in 2013-14, which matches the evidence provided and what we have seen in our financial audit.

GDS controls

3.8 The Government Digital Service (GDS) operates controls on certain types of ICT and digital spending at the business case stage. It calculates savings based on cases where it directly enforces a change in plans and cancels or reduces costs, and also where its intervention changes a project, which results in lower costs. The method is largely the same as that used in 2012-13. GDS compares the revised and approved spend forecast to the original spend forecast submitted for approval. GDS counts cancelled projects as having savings, and deducts additional short-term costs from the cancellation from those savings.

3.9 We reviewed GDS's planned method for the controls savings. We then reviewed internal audit's work and a sample of the evidence that supported the calculated savings.

3.10 The evidence for savings is hard to follow. There was uncertainty over some numbers with aspects of the cases still being removed or evidenced well past year-end. There were also cases where the evidence did not support the decision on whether some savings-related activities were a cancellation of previous activity or a continuation of previous activity. While GDS's business model is based on an 'agile' approach, developing proposals flexibly, it still needs to ensure that it gathers sufficient robust evidence to support savings claims.

3.11 In many cases, GDS did not calculate savings correctly in accordance with the guidance and method. In some cases, not all relevant costs were included. For example, in one contract, the business case included costs for customised software support for the chosen option but they were not initially deducted from the savings.

3.12 GDS corrected the savings figure to account for all the errors identified. However we reported similar issues in 2012-13. Since the data and the process are entirely within Cabinet Office, GDS could have made more progress to resolve them.

Major projects

3.13 There are four different types of savings under the major projects banner this year, three of which are new in 2013-14. The first two are cancelled and re-scoped projects. This is where departments have identified projects of limited value or low value for money and decided to either stop the project or eliminate specific elements. ERG calculated the savings by comparing the actual in-year cost of the project with the latest forecast from before the re-scoping or cancellation. The other new set of savings comes from implemented projects, which have reduced the costs of service provision. ERG measures the savings by comparing the cost of running the service before the project was carried out with the current costs of running the service and implementing the project. The final type of savings comes from reducing the cost of carrying out major projects. ERG measures these by comparing initial and current forecasts of project costs.

3.14 We reviewed the detailed evidence for each department that presented savings figures. A full list is in **Figure 5** overleaf. This included examining how ERG calculates the savings, to ensure it was consistent with Cabinet Office's method. We also reviewed ERG's detailed calculations underpinning savings figures and any assurance departments provided. Where possible we reviewed the reported savings against our reports on the relevant projects.[6]

6 These included the following reports: Comptroller and Auditor General, *Crossrail*, Session 2013-14, HC 965, National Audit Office, January 2014; *Assurance of reported savings at Sellafield*, Session 2013-14, HC 778, National Audit Office, October 2013; *Managing the transition to the reformed health system*, Session 2013-14, HC 537, National Audit Office, July 2013; *Restructuring of the National Offender Management Service*, Session 2012-13, HC 593, National Audit Office, September 2012.

Figure 5
Breakdown of major projects savings, 2013-14

Body	Reported savings (£m)
Department of Health	1,070
Ministry of Justice	480
Department for Transport	402
Ministry of Defence	267
Department for Energy & Climate Change	145
Home Office	61
Department for Work & Pensions	52
Total	**2,479**

Notes
1 Figures taken from Cabinet Office evidence to support published savings figure.
2 Totals may not sum due to rounding.

Source: National Audit Office analysis of Cabinet Office data

3.15 ERG sought to improve its methods in 2013-14 and calculated over £2 billion of the savings using new methods. These methods try to capture savings that are wider than the day-to-day management of major projects. More than 20 of the almost 200 projects which the Major Projects Authority listed in its annual report were put forward for savings, and the final figure includes seven.[7] The final claimed savings also covers seven of the seventeen major government departments, although some other departments put forward savings which did not make it into the final figure. Cabinet Office should consider how it can better capture the impact of the Major Projects Authority on the projects they scrutinise and support.

3.16 The nature of the savings on cancelled and re-scoped projects means it is also challenging for departments to evidence and explain them. Most departments relied on sign-off from senior officials. ERG could give little additional evidence to prove that projects had been cancelled or re-scoped because they were wasteful or low priority as implicit in ERG's assertions. It was also difficult to get assurance that spending on cancelled or re-scoped projects had not reappeared elsewhere, outside the project.

7 Cabinet Office, *Major Projects Authority Annual Report 2013-14*, May 2014, available at: www.gov.uk/government/publications/major-projects-authority-annual-report-2014

3.17 There was also no standardised way for departments to evidence the reductions in ongoing expenditure after implementing projects. Departments provided poor evidence, and double counting was highly likely as projects reduced staff or estates requirements. Therefore, to be prudent ERG only included five projects, out of the 16 initially put forward, in the final savings figure.

Construction

3.18 Departments that carry out construction have been working to reduce the cost of that work. ERG has measured cost reductions by looking at the cost of standard elements in 2009-10 and comparing them to the cost in 2013-14. In some departments, this analysis is done at the beginning of a project and fed into the price agreed with contractors. Some departments calculate savings for every project they carried out. Others examine costs on a subset of projects and extrapolate out to their whole work programme.

3.19 We reviewed the detailed evidence for each department that presented savings figures. A full list is in **Figure 6** overleaf. This included examining how savings were calculated to check it was consistent with Cabinet Office's standards. We also reviewed the detailed calculations underpinning savings figures and any assurance departments provided. Where possible we reviewed the reported savings against our reports on the relevant building programmes.[8]

3.20 The complexity of construction savings is reflected in the diverse nature of the evidence provided and how ERG calculates the savings. ERG is trying to improve how it collates the evidence, by introducing a standard framing format to collate evidence from departments. However, it was still difficult to follow the figures and calculations between individual documents. For example, in a number of cases, savings were apportioned between years, but the basis of the apportionment was not explained. Although the evidence issues were eventually overcome, more review within ERG would be valuable in strengthening the process.

3.21 ERG collates most of the information for the savings at year-end. Internal audit carried out a mid-year review of seven of the savings areas, but there were substantial gaps in the evidence provided in some areas. ERG also provided additional supporting evidence needed for some savings lines very late at year-end. This made it difficult for internal audit to review it in time for the announcement.

8 Comptroller and Auditor General, *Maintaining Strategic Infrastructure: Roads*, Session 2014-15, HC 169, National Audit Office, June 2014.

Figure 6

Breakdown of construction savings, 2013-14

Body	Reported savings (£m)
Highways Agency – major projects	380
Education Funding Agency	127
Highways Agency – network delivery and development	119
Department of Health	60
Skills Funding Agency	58
Homes and Communities Agency	42
Ministry of Justice	25
Environment Agency	21
Ministry of Defence	8
Total	**840**

Note

1 Figures taken from Cabinet Office evidence to support published savings figure.

Source: National Audit Office analysis of Cabinet Office data

Commercial relations

3.22 The government has changed its approach to managing contracts, and is trying to save money as a result. ERG calculates the savings largely using department verifications of savings, backed up by documentary evidence. Sometimes the savings data does not originate from departments, so ERG uses other evidence such as documented negotiations carried out within Cabinet Office. ERG calculates savings against a 2009-10 baseline where possible, or subsequent years where procurements began later on.

3.23 We reviewed the overall method and process for the savings. We also reviewed internal audit's work and looked at the full evidence supporting a sample of savings claimed.

3.24 ERG has changed its control process from last year. It no longer tries to confirm savings from suppliers where the evidence comes from the department.

3.25 Both internal audit and our review found cases of insufficient evidence to back up the savings claim. In addition, ERG added a large savings item for various projects rather than a single contract late in the process, and removed it when it could not be evidenced. The effect was to reduce the savings claimed by £218 million.

3.26 Some claims seemed to relate to normal business practice rather than making extra savings, compared with baseline activity. For example, ERG includes savings based on compensation for over-billing for electronic monitoring contracts. This is government getting back money that it should not have paid initially, rather than getting the same service for less money.

Appendix One

Our audit approach

1 We examined ERG's processes to produce their savings claims for 2013-14. We reviewed:

- their methods to calculate the savings;
- how they used those methods to make the savings figures; and
- their assertions to explain the savings claimed.

2 We judged the savings line against the criteria in **Figure 7**. Our criteria are the same as those used to evaluate the 2012-13 savings figures.

3 They are based on those we have used to examine previous ERG savings reports.[9] We have modified them to reflect the broader range of what ERG is claiming. This includes some areas of planned spend rather than realised savings, and some one-off savings (**Figure 8** and **Figure 9** on page 30).

4 Our evidence base is described in Appendix Two.

Figure 7
Criteria to assess ERG savings methods

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

Source: National Audit Office criteria

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

Figure 8
Our previous criteria for reviewing savings

Criteria used in our report on 2011-12 savings

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

Source: National Audit Office

Figure 9
Relationship between 2013-14 criteria and 2011-12 criteria

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

Source: National Audit Office

Appendix Two

Our evidence base

1 We reached our independent conclusions on the savings ERG claimed after analysing evidence we collected between March and June 2014.

2 We used criteria that consider the ideal way to measure savings. Our audit approach is outlined in Appendix One.

3 **We assessed whether the methods ERG used to calculate the savings gave an adequate basis for the saving claimed.**

- We reviewed the principles for savings, as set out by Cabinet Office.
- We reviewed the individual savings methods for each line, which set out the detail of how ERG calculates each saving.
- We reviewed savings calculations in practice, to check that ERG made them according to those methods.

4 **We assessed whether ERG consistently applied those methods to make the savings figures.**

- We reviewed the detailed evidence that Cabinet Office gave internal audit for their review.
- We worked with internal audit to understand their work in sampling and testing individual saving items – and did extra testing, where we felt this was necessary.
- We used evidence from our other work, either previous VFM reports or the work of our financial audit teams, to verify that savings were genuine.

5 **We assessed whether ERG's assertions accurately described the savings claimed.**

- We reviewed the Technical Note and announcement made by Cabinet Office.

Appendix Three

Follow-up on 2012-13 recommendations

Savings line	Our recommendation
Advertising and marketing	ERG should consider having a mid-year process, to identify any issues and allow increased assurance before the year-end.
Centralising procurement	ERG should work with departments to improve the data they supply for spend analytics, so they can be used as a credible double-check on supplier spend. This will give additional assurance as well as the detailed supplier checks. ERG could improve the mapping of processes, so it is possible to gain an overall picture of how spend, procurement frameworks and benefit methods interact. ERG could also work to ensure that the complexities, for example in use of baselines and counterfactuals, is captured and summarised.
Commercial relationships	ERG should introduce controls to mitigate the risk that departments and suppliers are applying the saving method inconsistently when calculating savings. Such controls may include: distributing the method more widely; providing more guidance and worked examples on how to apply the method; holding workshops or similar with departments to help them understand the method; or auditing departmental evidence and controls over several years. ERG should embed its process throughout the year, to identify any issues and allow increased assurance before the year-end.

ERG response	Our comments
We've considered and discounted this, given: • end-of-year is the most practical time to collect information; • mid-year audit will not precisely capture 'half the spend'; • communications spend can be front- or back-loaded during year; and • departments will resist doing this intensive process twice.	Again there were delays to the year-end process this year, which increase pressure on internal audit to review savings.
Work with departments to improve data submitted for spend analytics, until credible double-check is possible. Remap spend analytics' United Nations Standard Products and Services Code coding to better match departments mapping.	We have seen no evidence that Cabinet Office has used departmental spend analytics as a double-check on supplier spend.
Add spend data to summary table of procurement frameworks and methods in development. Ensure summary table is simple to understand.	Data has been provided in a summary format, which is easier to follow.
Finish method summaries.	We have not seen this, and there is no mention of the complexity in the Technical Note, but the mapping above provides a useful stepping stone.
Publish and promulgate methods. Improve communication and introduce controls, such as: • distribute methods to departments and suppliers; and • give guidance and worked examples on how to apply methods.	Cabinet Office has prepared a method. Errors this year were fewer and less widespread across departments, but there is still more work to do.
Start process earlier to ensure departments and suppliers understand and apply the method consistently. Support mid-year audit.	Reporting at the end of February was better, since it included all possible savings. There was as expected a considerable movement in the amount claimed at the end of March. Of more concern was introducing new savings.

Savings line	Our recommendation
Construction	ERG should work closely with departments to ensure that they have sufficiently robust information systems for monitoring unit costs against appropriate standards.
Consulting and contingent labour	ERG should ensure it gets the sign-off it expects at an appropriate level of seniority within departments as assurance that figures have been correctly prepared. ERG should consider gaining assurance mid-year from departments. Because information is collected every month, a mid-year exercise to verify processes in departments would provide assurance over all of the interim savings figure. ERG could consider comparing the staff numbers and total pay bill to final audited figures as published in departmental accounts when these are available. Although this would not add assurance to the savings claim when it is announced, any differences found could be used to plan more focused assurance work for the future.
GDS and ICT reform	ERG should work to identify whether savings are leading to real-terms reductions. ERG could draw on other evidence sources, such as accounts or the spending database maintained by the Government Procurement Service, to better show the impact of these measures on historic spend. ERG should work with internal audit to identify the underlying reasons for errors in 2012-13 and improve the controls. Such improvement is likely, as a minimum, to include more training for staff recording savings and more scrutiny of recorded savings. ERG needs to embed the departmental agreement process more fully in its work and seek to get full agreement of claimed savings with departments.
Major projects	In order to demonstrate that improvements in project management are real and sustainable rather than representing normal variation in budgeted costs, ERG should: • further develop its approach to show that overall cost management has improved across its portfolio; • provide additional material explaining how individual savings were achieved; and • invite departments to provide estimates of the costs of any significant successor projects which replace projects reduced in scope or cancelled.

ERG response	Our comments
a) Initially, and only for specific lines we will: • Further develop explanation to show that departmental differences are an outcome of the granularity with which the method is implemented and reflects what is appropriate. This will be shown in the departmental storyboard. • Consider whether specific methods are required. • If appropriate, update published method to incorporate new explanations. b) Construction team to also visit departments and gain more detailed knowledge of information systems, identifying any areas for improvement. c) Construction team to then walk NAO through the evidence acquired and determine whether any further action required (subject to NAO agreement).	We have engaged earlier with the construction team over producing the savings figures. More granularity has been provided and it has been easier to see the process build up, although this has been undermined by being unable to follow evidence trails between documents.
Work with departments to ensure that assurance figures are correctly signed off. New cover sheet implemented for 2013-14.	In internal audit's 2013-14 sample, 8 of the 25 items did not have senior sign-off.
Support performance and planning team with any mid-year audit process. Quarterly reconciliation and sign-off by departments of monthly spend and savings.	Not included in internal audit's mid-year work as considered lower risk.
None – Audited departmental accounts are not available before assurance of ERG announcements.	Not carried out this year. Could be done post announcement to provide retrospective assurance, as with pensions.
Not clear how this would be done: departments would not recognise the estimates of cost as a baseline for which to calculate a saving. I suggest this is the job of those auditing departments' spend.	Not carried out this year.
Meet with internal audit to review reasons for underlying errors in 2012-13. Identify any controls improvements that would have real impact. Improve controls including as a minimum: • more training for staff recording savings; and • better scrutiny of savings recording.	ERG has tried to improve the method and discussed the underlying evidence, but this was another area where errors were still found in 2013-14.
	No evidence seen this year.
There is wide agreement that the vast majority (two-thirds) of major projects in all sectors overspend against their budgets or under-deliver benefits. The Major Projects Authority's (MPA's) true impact needs to be measured against this baseline. It is not possible to give sufficient evidence of no overspend or under delivery, or to provide a robust baseline to set these against. We therefore concentrate our efforts on what we can evidence to auditable standard where projects actually underspend against their budget. MPA will agree with the central Management Information team how to approach NAO on this matter. This is already done but will explain more explicitly in methods.	The Major Projects Authority has carried out a more radical overhaul of its methods this year which has sought to address these issues. However, some concerns remain, particularly around the evidence for projects savings and successors.

Savings line	Our recommendation
Pensions	ERG calculates the actual increase in 2012-13, using the methodology it used for the PCSPS for all other pension schemes and uses this as the future basis for reporting. ERG carries out this calculation using detailed pay band data when it becomes available. ERG calculates the effect on tax revenue due to the increased pension contribution and plan to net it off in future years. ERG set out more clearly when reporting savings in aggregate that the net benefit to the Exchequer does not come from improved efficiency or reduction in administrative overheads, but from a transfer of costs.
Property	ERG should monitor increases in departments' holdings since 2009-10 to ensure when a department moves offices rather than making an overall reduction in holdings this is not included as a saving. ERG should consider adding additional explanation to their assertion to make it clear that sales of property do not represent sustainable cash savings.
Common infrastructure programme	For six out of the eleven departments, full year expenditure was not available due to the timetable set by ERG. As a result claims are on the basis of nine months of actual spend and three months of forecast spend. ERG needs to produce a methodology for hosting savings and substantially improve its application. This was the first year that savings have been reported from the hosting programme and the large number of amendments required by internal audit indicates that processes are still very immature.
Workforce	ERG should ensure it gets the sign-off it expects at an appropriate level of seniority within departments as assurance that figures have been correctly prepared. ERG should consider gaining assurance mid-year from departments. Because information is collected every month, a mid-year exercise to verify processes in departments would provide assurance over the majority of the savings figure. ERG could consider comparing the staff numbers and total pay bill to final audited figures as published in departmental accounts when these are available. Although this would not add assurance to the savings claim when it is announced, any differences found could be used to plan more focused assurance work for the future.

ERG response	Our comments
Please see the updated methods note.	Methods have been updated as expected.
Because we use a top-down approach, due to the data comparability issues associated with bottom-up, it is appropriate to use the average employer contribution rate as calculated by the scheme actuary. We therefore do not believe any changes are required.	Changes not made, but due to source of data, detailed pay band information unlikely to be available for all pension schemes.
We do not believe second order tax issues are relevant nor do we believe that savings should be reported net of tax effect. In terms of reducing the yield from this measure, any tax effects will be implicitly picked up by future modelling of tax forecasts. To include them within this estimate here would be double counting.	Not included, but clearly set out in the Technical Note that they are not included.
Yes to suggested solution.	Included under operational savings in the Technical Note, and combined with workforce in the announcement.
Moving forward we will seek to identify where exits with recorded savings can be matched to new acquisitions to the estate. We will aim to incorporate this in Q2 reporting for office moves since the start of the 2013-14 financial year.	Have provided evidence this year of specific exits which have not been included on this basis.
Disposal receipts are being segregated in the benefits announcement. The methodology document will make clear that sales of property are not treated as sustainable cash savings.	Exits and sales are clearly separated in the Technical Note; it is not clear where property sales are included in the announcement.
In the medium term, more MI will be available monthly in arrears as departments adopt the Public Services Network (PSN) framework. The PSN team's levers with departments beyond this are very limited. Ensure performance and planning team deadlines are understood early and secure actual spend (where possible).	Departments where full-year outturn data was not available have not been included in the savings announcement.
	Hosting not included this year.
	In internal audit's 2013-14 sample, 8 of the 24 items did not have senior sign-off.
We will support the mid-year assurance process with the performance and planning team.	Not included in internal audit's mid-year work as considered lower risk.
We have considered this, however, departmental accounts do not provide sufficiently comparable assurance to our figures for a number of reasons: • audited accounts are normally available long after the savings have been finalised and announced; • accounts are not necessarily consistent with our workforce figures or with other departments: • they may contain other costs; and • coverage of the staff may differ, that is contingent labour, machinery of government changes and most importantly the scope is not always clear – it can be difficult to unpick what parts of the organisation are actually included in accounts. This is the reason why we are using the management information data and do not believe any changes are required.	Not carried out this year.

Appendix Four

Technical Note

1 This is Cabinet Office's text that accompanies the Efficiency and Reform Group's savings for 2013-14.

Summary

2 This report sets out the government's assessment of the impact of actions taken by government departments, supported by the Cabinet Office, to release cashable savings, to identify savings through identification of low priority spend on projects, leading to project cancellation, funding re-prioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings and gain receipts from asset sales and new commercial models in FY 2013-14.

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

3 In May 2010, UK Gross Domestic Product (GDP) had shrunk by almost 5 per cent in the recession of 2008-09 and public spending made up 47 per cent of GDP, a level that was considered by all major political parties to be unsustainable. The deficit between government revenue and public spending, including debt repayments, was the largest percentage of GDP of any developed country.

4 The government embarked on a programme of spending cuts aiming to reduce this fiscal deficit over the lifetime of the current Parliament. The June 2010 Budget removed £6.2 billion from in-year public spending, £3.2 billion of which came from central government budgets.

5 The Cabinet Office began programmes of work with departments to address both these areas.

6 Immediate steps included:

- starting a programme to centralise procurement of common goods and services and renegotiating deals with some of the largest suppliers;
- putting in place moratoria governing;
  - non-essential recruitment;
  - new ICT projects;

- marketing and advertising spend;
- potentially wasteful expenditure on consultants and temporary agency staff; and

- performing a review of major government projects, and of existing ICT projects to identify where spend could be curtailed in-year.

7 Longer-term programmes of reform to embed sustainable change across the public sector, included measures to:

- reconsider the delivery models for public service and establishing employee owned mutuals;
- implement a programme of civil service reform;
- establish a Major Projects Authority to provide appropriate governance to influence delivery of our largest project commitments;
- improve government transparency; and
- create new forms of social investment in the voluntary and community sectors.

8 For FY 2010-11 the government reported savings of £3.75 billion. The benefits statements and values we have included in this figure were verified by the independent auditors and subsequently the NAO confirmed savings of this scale had been made in their report *Cost reduction in central government*.[10] The PAC welcomed the form with which these savings were reported and commended to government to continue with its work on improving efficiency and bringing about reform.

9 In FY 2011-12 the government built on this success delivering an operational savings total of £4.8 billion, and prevention of wasteful spend by major projects and construction of £758 million, totalling £5.5 billion. The benefits statements and values we have included in this total were again verified by the independent auditors.

10 In FY 2012-13 the government accelerated the savings delivery, delivering an operational savings total of £8 billion, and prevention of wasteful spend by major projects and construction of £2 billion, totalling £10 billion. Again the benefits statements and values we have included in this total were verified by the independent auditors.

11 In FY 2013-14, further savings have been achieved. This report sets out operational savings of £10.6 billion, prevention of wasteful spend by major projects, reduced revenue requirements and construction of £3.5 billion and receipts from asset sales and new commercial models of £0.1 billion, totalling £14.3 billion.[11]

10 Comptroller and Auditor General, Cabinet Office and HM Treasury, *Cost reduction in central government: summary of progress*, Session 2010–2012, HC 1788, National Audit Office, February 2012. The report states, "In July 2011, the Cabinet Office's Efficiency and Reform Group reported to the Public Accounts Committee that it had helped save some £3.75 billion through these initiatives. Our analysis of the audited accounts of the 17 main departments confirms that spending in the areas targeted was reduced on this scale."

11 Figures may not sum due to rounding.

What do these figures represent?

12 These figures represent our best assessment of the government's progress against meeting the above objectives.

13 The government has worked hard to put in place robust savings assertions using detailed savings methodologies that provide as accurate an estimate as possible of the impact of our work. However, these savings figures are not national or official statistics; they are management information evidenced, normally, by department reports; and they have been assured by our internal auditors, and scrutinised by the NAO.

14 Where these reductions are 'one-off' and do not recur, there is an associated programme of work to embed longer-term change throughout this Parliament.

Technical presentation

15 Wherever potential double counting between the datasets has been identified, this has been removed.

16 When formulating benefits statements, we have rounded the precise figures to the nearest £10 million to reflect an appropriate level of precision.

17 Throughout the year we have discussed this approach with the NAO, and at the year-end we invited independent verification of our work from our internal auditors.

18 Cabinet Office internal auditors found that the values and benefits statements below are a reasonable reflection of the savings made with no significant weaknesses. This was based on a review of the evidence that Cabinet Office has collated in support of these assertions.

What are the figures?

19 The figures that have been verified by our internal auditors are as follows:

Area	FY 2013-14 Realised saving (£m)
Advertising and marketing	378
Centralising procurement	1,490
Commercial relationships	1,809
Consulting and contingent labour	1,615
Common infrastructure programme	116
Workforce reductions	2,392
Pensions reform	2,340
Property portfolio optimisation	461
Operational savings total	**10,601**
Major projects	2,479
Construction	840
GDS controls savings and GDS wider savings	91
GDS transformation	119
Savings through identification of low priority spend on projects, leading to project cancellation, funding re-prioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings	**3,529**
Property asset sales	163
Commercial models	10
Receipt from asset sales and new commercial models	**173**
Total	**14,303**[1]

Note

1 Excludes £3.5 million of rounding adjustments.

Area	Activity description	Exact amount (£m)
Advertising and marketing	We have maintained central controls and ensured ministerial sign-off on all planned advertising, marketing and communications spend over £100,000. The control improved the effectiveness and efficiency of all expenditure, thus delivered better outcomes and value for money. We also ensured government expenditure was transparent, professionally managed and better coordinated across government.	378
Centralising procurement	We have established, and maintain a range of framework agreements across multiple categories for commodity products and services. Aggregation of spend and optimisation of OJEU procurement processes have released savings across central government and the wider public sector.	1,490
Commercial relationships	We have improved commercial outcomes to deliver savings on contracts.	1,809
Consulting & contingent labour	We have implemented a controls process to manage the approval of demand for Consultant and Contingent Labour (CCL) staff across departments.	1,615
Common infrastructure programme	We have implemented a common infrastructure programme	116
Workforce reductions	We have restructured the civil service, implemented stronger controls on non-essential recruitment, a two-year pay freeze followed by a continued period of pay restraint.	2,392

Evidence base/Calculation/Caveats	Savings assertion
The calculation compared 12 months departmental spend on advertising, marketing and communications for 2013-14, benchmarked against the same exercise first undertaken in 2009-10. Arm's-length bodies (ALBs) not providing returns for 2013-14 were removed from the 2009-10 baseline calculations. New or existing ALBs not included in the 2009-10 exercise were discounted from the calculations. Senior sign-off was obtained from all departments (most often the Director of Communications).	By maintaining strong control of the advertising, marketing and communications spend, government saved nearly £380 million in 2013-14 from 2009-10.
Benefit methodologies have been developed for the different categories of procurement. These follow a standard template and require the approval of senior managers who review them against the approved ERG approach, including the use of any counterfactuals, before they can be used to calculate and claim savings. Savings are calculated based either on the invoiced value of products/services provided or a comparison of a representative selection of products/services. Spend is reported by suppliers as required under the terms of the framework agreements.	By centralising spend on common goods and services and by introducing policies requiring departments to purchase less, government has saved £1,490 million centrally and in the wider public sector.
Evidence base is derived from department verification of savings. Departments submitted savings information to the Cabinet Office. Where savings were not directly reported by departments they are tracked back to departmental verification from i) supplier reports, ii) savings derived from spend controls managed by the Cabinet Office or iii) negotiations involving the Cabinet Office. The method of calculation varies according to the initiative that yields the saving but are generally based on a saving against a baseline of what would have otherwise been spent. The savings compare original and revised agreed/contracted prices. Savings are calculated, where possible, with reference to a 2009-10 baseline. However, this is not always possible, for example when i) a good or service was not procured in the baseline year, ii) baseline spend data is not available, or iii) cash-releasing negotiations or profit/gain share agreements do not require a baseline. In these cases the most appropriate baseline, or no baseline, is used based on specific circumstances.	By better managing contracts and commercial arrangements, government has saved nearly £1,810 million in 2013-14. This includes nearly £200 million recovered from suppliers.
Savings are calculated by subtracting the total reported department spend on Consultancy and Contingent Labour for 2013-14 against the total reported for 2009-10 uplifted by the relevant counterfactual (Retail Price Index excluding mortgage interest payments for Consulting and Adjusted Average Weekly Earnings for contingent labour). This is a change in basis from 2012-13 where no counterfactual was applied.	Departments report a significant reduction in discretionary spend: A reduction in spend on consulting in 2013-14 of over £1,110 million compared to 2009-10. A reduction in spend on temporary agency staff in 2013-14 of over £500 million compared to 2009-10.
Sustainable savings are calculated per project based on departmental reports of telecommunications and hosting spend in 2013-14 compared to 2009-10. This assertion only covers those departments on the Public Sector Network framework, which were able to provide ERG with outturn information.	By implementing a common infrastructure programme, we saved nearly £120 million from spend on telecommunications and hosting in a number of departments in 2013-14 compared to 2009-10.
Savings were calculated by subtracting the total reported departmental spend on payroll staff for 2013-14 against the total reported for 2009-10.	we've reduced the size of the civil service by 76,000 between June 2010 and December 2013 contributing to over £2,390 million in savings in 2013-14 on pay bill costs compared to 2009-10.

Area	Activity description	Exact amount (£m)
Pensions reform	We have adjusted the balance between central funding for pensions and employee contributions for selected unfunded public service pension schemes: • Principal civil service pension scheme • NHS pension scheme • Teachers' pension scheme • NHS and Teachers' pension schemes in Scotland • Northern Ireland Executive pension schemes • LG Police Force pension schemes • LG Firefighters' pension schemes in England. Please note the following: • This is based on forecast information. • The net benefit to the Exchequer does not come from improved efficiency or reduction in administrative overheads, but from a transfer of costs. • The calculation does not take account of second order tax revenue implications.	2,340
Property portfolio optimisation	We have put in place national property controls such that signature of new property leases or lease extensions were approved centrally. Government departments have been working to consolidate and reduce the size of its estate.	461

Evidence base/Calculation/Caveats	Savings assertion
The formula used to estimate the yield from increasing employee contribution rates is as follows: A = E – (B * C/D) Where: A = expected yield B = employee contributions for baseline year C = employer contributions for target year D = employer contributions for baseline year E = employee contributions for target year Source: Table 2.18 from the Supplementary Fiscal Tables to the Office for Budget Responsibility's Budget 2013 Economic and Fiscal Outlook published in March and December, but with unrounded figures supplied directly by OBR officials.	By adjusting the balance between central funding and employee contributions, this government saved an estimated £2,340 million in 2013-14 from taxpayer contributions to selected unfunded public service pension schemes.
Calculations by property are based on the amount departments have reported saved through the government's property database by non-renewal of property leases at lease breaks or upon lease expiry or exit from freehold property. We have deducted a prudent estimate of the costs associated with exiting buildings and property disposals realised including any new leasehold costs arising.	We reduced the in-year cost of our property estate by over £460 million for 2013-14.

Area	Activity description	Exact amount (£m)
Major projects	Responding to the government's determination to reduce the deficit, the majority of departments have had to conduct their activities with budgets that, in real terms, are lower than those in 2010. Departments have cancelled lower priority projects and re-scoped other projects to remove less essential elements. They have also found ways of removing cost from some project activities and successfully implemented projects that have reduced their revenue requirements. The Major Projects Authority has successfully introduced a suite of reviews and other activities that provide departments, their project teams and HM Treasury with a system for rating the likely success or otherwise of major projects.	2,479

Evidence base/Calculation/Caveats	Savings assertion
Cancelled projects The saving is the difference between the amount that a department had planned to spend (the benchmark forecast) and the amount it spent on any and all retained elements of the cancelled project. The benchmark for measuring the saving is the latest forecast profiling expenditure on the project prior to the review that led to the cancellation.	Departments have reported savings of nearly £220 million in 2013-14 by cancelling low priority or wasteful projects. This saving is equivalent to the amount that would have been spent had the project continued.
Re-scoped projects The saving is the difference between the amount that a department had planned to spend (the benchmark forecast) and the amount it spent on the revised project. The benchmark for measuring the saving is the latest forecast profiling expenditure on the project prior to the review that led to the re-scoping.	Departments have reported savings of nearly £270 million in 2013-14 by removing low priority elements from the scope of their major projects. This saving is the amount which would have been spent on lower priority elements.
Cost reductions from specific actions by the project team The saving is the difference between the forecast cost of the relevant stage of the project at the start of the stage and the actual cost when the difference is attributable to a specific action commissioned by a department's project team.	Departments have reported savings of over £430 million in 2013-14 by taking action that resulted in a quantifiable reduction in cost of the project. The saving is the reduced project cost.
Reductions in ongoing expenditure requirements from successfully implemented projects The saving is measured only if the project has a positive net present value when measured using the outturn cost. The reductions in ongoing expenditure requirement flowing from the new service are the basis of the saving. This category includes the Department of Health (DH) modernisation programme saving of £1,070 million which measures the reduction in administration expenditure against the 2009-10 baseline increased for inflation, after deducting DH savings included in other categories. This category includes the total difference in legal aid expenditure since 2010-11 from in-year accounts, adjusted to allow for known changes in legal aid volumes since the start of 2013-14. The estimate included may change in the event of end-year accounting adjustments.	Departments have reported savings of nearly £1,560 million in 2013-14 following successful implementation of projects and programmes. The saving is the difference between the cost prior to project delivery, and the cost following successful implementation of the project (where possible, net of the cost of the project). The 2013-14 cost may be influenced by factors outside of the individual projects.

Area	Activity description	Exact amount (£m)
Construction	We published the Government Construction Strategy (GCS), setting out how we plan to realise and monitor reductions in the costs of construction over the spending review period using benchmarks. We set up a cross-government Data & Cost Benchmarking Task Group to publish benchmarks and measure progress against delivery of annual savings targets. We have worked with departments to implement initiatives that deliver cost reductions and are proposed by the GCS.	840

Evidence base/Calculation/Caveats	Savings assertion
Each department has confirmed that a 2009-10, or thereafter, baseline has been used in calculating any savings. Benchmarks are established by department and product e.g. the cost of a school by floor area (£/m²) or the cost of a road by kilometre run (£/km). Type 1 Benchmarks (Spatial Measures): Encompass the most common formats used by clients and industry to benchmark total construction costs, for example: £/m, £/m², £/m³. They are related to throughput (quantity) in the sense, for example, of square metres of accommodation delivered by a project. Type 2 Benchmarks (Functional Measures): Encompass a range of more department specific benchmarks, which address business outcomes per £ for example: £/Place; Flood Damage Avoided £/Investment £. Type 3 Benchmarks: Address a range of more department specific benchmarks but where business outcomes are related only indirectly to the benchmark, for example: ratio of product cost (or alternatively development cost) to total construction cost. Type 4 Benchmarks: Similar to Type 1 benchmarks but applied at an elemental throughput (quantity) level, for example: foundation costs £/m, £/m² or £/m³. Cost reductions reported by departments are derived by comparing current benchmarks with baseline benchmarks multiplied by the volume of activity (overall spend or creation of area or length by department). The baseline consists of the departmental construction benchmarks that were recorded during the financial year 2009-10 and which have been published. Savings for construction of road improvements include de-scoping aspects of projects while still maintaining the integrity of the network. Construction projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion. More detail on the counting method outlined above is provided at: www.gov.uk/government/publications/construction-costs-departmental-reductions-2010-2011	Departments reported eliminating over £820 million from the planned costs of construction projects in 2013-14. The government successfully realised a reduction in the overall £/m² cost of refurbishment activities of Further Education colleges in 2013-14 compared to 2009-10 costs, that equated to nearly £20 million.

Area	Activity description	Exact amount (£m)
Construction *continued*		
GDS controls savings and GDS wider savings	To reduce wasteful expenditure we implemented a review process for all upcoming departmental investments for: • ICT with requested spend > £5.0 million; and • Digital with requested spend > £0.1 million (Digital is distinguished from ICT as being any external facing service delivered through the internet). Departments also reported projects that were closed prior to undergoing these reviews. Using investment cases provided for the reviews, we centrally consolidated resulting cost reductions that departments forecast for ICT.	91

Evidence base/Calculation/Caveats	Savings assertion
The following list from Table 8 of the cross-government ‘Cost Reduction Validation Method’ identifies typical ways in which public clients are reducing the cost of construction: • Different approaches to packaging of projects and procurement (including introduction of mini competitions on frameworks; commercial/improved cost targeting). • Streamlining project development and approvals processes. • Value engineering using innovation and alternative methods to deliver the same outcome more efficiently. • Improved delivery process/contractor efficiencies through reducing waste/increasing productivity. • Lean initiatives to increase the proportion of spend on the end product and a corresponding reduction in non productive costs (particularly those related to up front design and site overhead costs/schedule duration). • Amendment of output specification requirements and floor areas (achieving tighter fit between specification and requirement). • Standardisation of materials products and components: bulk purchasing/category management of materials, products and components. • Introduction of Building Information Modelling (BIM): reduction of risk pricing/rework. • Certainty of funding allowing the planning and managing of work as a programme rather than as a series of discrete projects, enabling better collaboration with the supply chain to develop a more efficient delivery strategy that comes with a large and visible programme. • Improved risk and value management through portfolio risk management. • Confidence in the forward pipeline leading to the opportunity to reduce overhead and profit fee rates in awarding new construction frameworks. The overall savings figure includes construction savings achieved by the wider public sector where consistent with the above methodologies and funded or facilitated by departments.	
The evidence for these amounts is provided by the documents produced in the review process: • Department’s business cases and spend control forms; and • the reviewed spend ministerial submissions and approvals. Where an approval is conditional upon specified departmental activity, acceptance of any conditions is also provided. These amounts relate to spend that has been forecast to accrue to Financial Year 2013-14 including where it was cancelled prior to or during the review process. The two amounts are calculated respectively as: • **Controls savings** = value of (original spend control form – approved ministerial submission). • **Wider savings** = value of (do nothing – preferred) option of investments’ forecast cost. Note that these savings are based on the *forecast* spend in Financial Year 2013-14 within five-year forward forecast spends, rather than *actual* spends. This is a change in basis from 2012-13 where wider savings were not claimed.	By scrutinising ICT & digital spend requests; the government has reduced the forecast expenditure on approved projects over £70 million. Within these scrutinised spend requests; the resulting cost reductions that departments forecast from their investment cases was nearly £20 million. The total was £91 million.

Area	Activity description	Exact amount (£m)
GDS transformation	The build of the new single domain, GOV.UK, has replaced content and functionality for Directgov, Businesslink and 21 ministerial websites. This has resulted in cost savings from those websites' closure. GDS worked with DWP to revise the budget and duration of their original OJEU notice for the procurement of Identity Assurance services. Working with departments to help digital transformation: • GDS stopped DECC from spending their allocated budget on a new website to publicise their Green Deal policy. The Green Deal website is live on GOV.UK instead; • GDS helped the ERTP programme make savings using agile software development techniques and in-house capability; and • GDS helped DVLA build a database (IIAAD – Insurance Industry Access to Driver Data) at a reduced cost than the incumbent provider.	119
Property asset sales	Government departments have been working to consolidate and reduce the size of its estate.	163
Commercial models	We have put in place three joint venture companies with private sector partners and unlocked value for the government.	10

Evidence base/Calculation/Caveats	Savings assertion
The evidence of the website closure costs (claimed as savings as the websites migrate to GOV.UK) is based on non staff and staff costs provided by departments and published in the annual report(s) on central government websites. The baseline costs have been taken from the 2009-10 annual report but where cost data was not provided the costs have been sourced from subsequent annual reports (2011-12 and 2012-13). For the DWP Identity Assurance programme the original and revised OJEU notices are provided as evidence of the savings claimed. For the savings being claimed by stopping DECC from building a new website the original and revised business cases and spend request are provided as evidence. For the ERTP programme savings the delegation letter against the actual spend for the year are provided as evidence of savings. For DVLA, the Preliminary Business Case and actual spend for the year are provided as evidence of savings.	Government departments have saved over £60 million in 2013-14 through the building of a new single GOV.UK website. Over £40 million has been saved by DWP in 2013-14 through reducing the total cost of their Identity Assurance services. Working with departments to help digital transformation has resulted in: • £5 million savings across the DECC. • £4 million savings across the ERTP programme. • £5 million savings for DVLA.
Calculations by property are based on the amount departments have reported saved through the government's property database for exit from freehold property. We have deducted a prudent estimate of the costs associated with exiting buildings and property disposals realised including any new leasehold costs arising.	By selling our land and buildings, we have generated over £160 million in revenue for the taxpayer in 2013-14.
'Cash receipts' are one-off payments that the Cabinet Office receives from private sector partners from unlocking commercial opportunities. Cash receipts are treated as 'savings', as they are the result of Commercial Models Team intervention. We have deducted the costs associated with procurement and/or other costs incurred by the government in achieving those savings/cash receipts. This is a new category of saving for 2013-14.	We have received cash receipts of £10 million in FY2013-14 relating to a Joint Venture – Axelos – £10 million.

Appendix Five

Internal Audit findings

1 The cross-departmental internal audit service was asked to provide independent assurance to the Cabinet Office Accounting Officer that the processes established within ERG to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidence-based and supportable benefit claims.

2 Internal audit carried out a detailed review of all 14 savings assertions. The work did not test the accuracy nor completeness of data supplied to ERG by government departments, only that ERG had compiled sufficient evidence to support the savings claimed, and that any assertions drawn were reasonable and consistent with the evidence.

3 Internal audit was able to provide a reasonable assurance over ten of the fourteen work streams and moderate assurance over four using the following criteria:

- **Reasonable assurance.** A sound evidence base supporting the claimed savings and assertions reported by ERG.
- **Moderate assurance.** The evidence base supports claimed savings and assertions with some weaknesses.

4 A summary of internal audit's findings is at **Figure 10**.

Figure 10

Summary of internal audit's findings

ERG savings work stream	Final ERG reported 2013-14 saving (£m)	Final ERG Assertion and internal audit comment	Internal audit assurance
Operational Savings			
Advertising and marketing	378	By maintaining strong control of the advertising, marketing and communications spend, government saved nearly £380 million in 2013-14 from 2009-10. Evidence Base: The Cross-Departmental Internal Audit Service (XDIAS) are content with the evidence base. Assertion: XDIAS are content with the assertion.	Reasonable
Centralising procurement	1,490	By centralising spend on common goods and services and by introducing policies requiring departments to purchase less, government has saved £1,490 million centrally and in the wider public sector. Evidence Base: XDIAS are content with the evidence base. Savings are based on individual benefit methodologies for each category of spend. Due to the complexity of the area, a variety of baselines are used in these methodologies. Benefit methodologies do not cover all centralised procurement spend. Assertion: XDIAS are content with the assertion.	Reasonable
Commercial relationships	1,809	By better managing contracts and commercial arrangements, government has saved nearly £1,810 million in 2013-14. This includes nearly £200 million recovered from suppliers. Evidence Base: XDIAS are content with the evidence base. Some savings were presented late and an element of these was not compliant with the methodology and have been removed. Only savings that are compliant with the savings methodology should be claimed. Assertion: XDIAS are content with the assertion. Some of the deals were negotiated under the previous administration and savings relate to activity under the current administration.	Reasonable
Consulting and contingent labour	1,615	Departments report a significant reduction in discretionary spend: A reduction in spend on consulting in 2013-14 of over £1,110 million compared to 2009-10. A reduction in spend on temporary agency staff in 2013-14 of over £500 million compared to 2009-10. Evidence Base: XDIAS are content with the evidence base. Departments should be reminded of the need to demonstrate senior level engagement with their submissions. Assertion: XDIAS are content with the assertion.	Reasonable
Common infrastructure programme	116	By implementing a common infrastructure programme, we saved nearly £120 million from spend on telecommunications and hosting in a number of departments in 2013-14 compared to 2009-10. Evidence Base: XDIAS are content with the evidence base. Assertion: XDIAS are content with the assertion.	Reasonable

Figure 10 *continued*
Summary of internal audit's findings

ERG savings work stream	Final ERG reported 2013-14 saving (£m)	Final ERG Assertion and internal audit comment	Internal audit assurance
Workforce reductions	2,392	We've reduced the size of the civil service by 76,000 between June 2010 and December 2013 contributing to over £2,390 million in savings in 2013-14 pay bill costs compared to 2009-10. Evidence Base: XDIAS are content with the evidence base. Departments need to be reminded of the need to provide senior level validation of their submissions. Care should be taken in placing the saving figure as it does not take account of the costs of early exits. Assertion: XDIAS are content with the assertion.	Reasonable
Pensions reform	2,340	By adjusting the balance between central funding and employee contributions, this government saved an estimated £2,340 million in 2013-14 from taxpayer contributions to selected unfunded public sector pension schemes. Evidence Base: XDIAS are content with the evidence base. Our opinion is moderate as savings figures are based on forecasts rather than actual contributions. The methodology is sound, although reliance is placed on approximating a counterfactual level of employee contributions through using the change in related employer contributions. The saving does not take account of second order tax implications. Assertion: XDIAS are content with the assertion. We do not consider these to be 'operational' savings in the same sense as other savings in this category. These savings represent a transfer of costs to employees.	Moderate
Property portfolio optimisation	461	We reduced the in-year cost of our property estate by over £460 million for 2013-14. Evidence Base: XDIAS are content with the evidence base. Assertion: XDIAS are content with the assertion.	Reasonable
Savings through identification of low priority spend on projects, leading to project cancellation, funding re-prioritisation, or cost reduction; implementation of projects to reduce revenue requirements and construction savings			
Major projects	2,479	Departments have reported savings of nearly £220 million in 2013-14 by cancelling low priority or wasteful projects. This saving is equivalent to the amount that would have been spent had the project continued. Departments have reported savings of nearly £270 million in 2013-14 by removing low priority elements from the scope of their major projects. This saving is the amount which would have been spent on lower priority elements. Departments have reported savings of over £430 million in 2013-14 by taking action that resulted in a quantifiable reduction in cost of the project. The saving is the reduced project cost. Departments have reported savings of nearly £1,560 million in 2013-14 following successful implementation of projects and programmes. The saving is the difference between the cost prior to project delivery, and the cost following successful implementation of the project (where possible, net of the cost of the project). The 2013-14 cost may be influenced by factors outside of the individual projects.	Moderate

Figure 10 *continued*

Summary of internal audit's findings

ERG savings work stream	Final ERG reported 2013-14 saving (£m)	Final ERG Assertion and internal audit comment	Internal audit assurance
Major projects – *continued*		Evidence Base: XDIAS are content with the evidence base. Evidence for major projects savings was presented late. A number of errors (instances where the evidence did not support the assertion) were found during our review and the totals adjusted accordingly. Enhanced control is required to ensure savings are supported by robust evidence. In addition, a number of savings were double counted with other savings categories and these have now been removed. Assertion: XDIAS are content with the assertion. We are able to offer moderate assurance due to the variety of methodologies used to calculate these savings and the risk that whole life savings will not be realised.	
Construction	840	Departments reported eliminating over £820 million of costs from the planned spend on construction projects in 2013-14. The Government successfully realised a reduction in the overall £/m^2 cost of refurbishment activities of FE colleges in 2013-14 compared to 2009-10 costs, that equated to nearly £20 million. Evidence Base: XDIAS are content with the evidence base. Evidence for some construction savings was presented late. On 3 out of 10 savings lines errors (instances where the evidence did not support the assertion) were found during our review and the totals adjusted accordingly. While the process went smoothly for the remaining 7 lines, enhanced control is required to ensure all savings lines are supported by robust evidence. We are able to offer moderate assurance. The evidence base provided to ERG by departments does not always enable us to follow the calculations back to the detailed systems from which they are derived and supporting project documentation. Assertion: XDIAS are content with the assertion. We are able to offer moderate assurance. Due to the complexity of the area, within the overall published method, a variety of methodologies are used by departments and some savings are calculated on a notional basis at programme level. In addition there is a risk that whole life savings on construction projects will not be realised.	Moderate
GDS controls savings & GDS wider savings	91	By scrutinising ICT & digital spend requests; the government has reduced the forecast expenditure on approved projects over £70 million. Within these scrutinised spend requests; the resulting cost reductions that departments forecast from their investment cases was nearly £20 million. Evidence Base: XDIAS are content with the evidence base. We are able to offer moderate assurance as a number of errors (instances where the evidence did not support the assertion) were found during our review and these were extrapolated and the total adjusted accordingly. Enhanced control is required to ensure savings are supported by robust evidence. Assertion: XDIAS are content with the assertion. We are able to offer moderate assurance as some of the savings are based on reduction in planned expenditure. The actual cost reductions will not be realised and confirmed until each scheme has completed and will be delivered across the period of delivery which could be more than one financial/calendar year. In addition, no review was conducted with departments to see if the original planned profile was being adhered to.	Moderate

Figure 10 *continued*
Summary of internal audit's findings

ERG savings work stream	**Final ERG reported 2013-14 saving (£m)**	**Final ERG Assertion and internal audit comment**	**Internal audit assurance**
GDS transformation	119	Government departments have saved over £60 million in 2013-14 through the building of a new single GOV.UK website. Over £40 million has been saved by DWP in 2013-14 through reducing the total cost of their Identity Assurance services. Working with departments to help digital transformation has resulted in: • £5 million savings across the DECC. • £4 million savings across the ERTP programme. • £5 million savings for DVLA. Evidence Base: XDIAS are content with the evidence base. Assertion: XDIAS are content with the assertion.	Reasonable
Receipts from asset sales and new commercial models			
Property asset sales	163	By selling our land and buildings, we have generated nearly £160 million in revenue for the taxpayer in 2013-14. Evidence Base: XDIAS are content with the evidence base. Assertion: XDIAS are content with the assertion, however, we do not consider income generated from sales to be a good measure of savings.	Reasonable
Commercial models	10	We have received cash receipts of £10 million in FY2013-14 relating to a Joint Venture – Axelos. Evidence Base: XDIAS are content with the evidence base. Assertion: XDIAS are content with the assertion, however, we do not consider these receipts to be a good measure of savings.	Reasonable

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