



National Audit Office



REPORT

# Cabinet Office functional savings

Cabinet Office

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SESSION 2022-23  
25 OCTOBER 2023  
HC 1865

## Key facts

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**£3.4bn**

cash-releasing financial savings reported by the Cabinet Office each year in 2020-21 and 2021-22 in its Government Efficiency Savings publication

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**£1.0bn**

non-cash-releasing savings reported by the Cabinet Office in its 2021-22 Government Efficiency Savings publication

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**5%**

efficiency savings target required from departments over the Spending Review period, finishing 2024-25

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**2021**

Lord Maude published a review of the cross-cutting government functions and recommended that efficiency savings be published. The Cabinet Office began publishing its efficiency savings report that year

**2023**

HM Treasury published new guidance for departments on how to track programme delivery and report efficiencies

**21**

in 2023, the Government Internal Audit Agency made 21 recommendations for improving the functional savings reporting process

# Summary

## Introduction

**1** Improving efficiency means government being able to spend less to achieve the same or greater results, or to achieve better results while spending the same amount. In our 2021 report *Efficiency in government*, we noted that government can achieve efficiency gains by carrying out activities faster; with fewer resources or to a higher standard without additional resources ('technical' efficiency); or by focusing resources on those activities with the best ratio of costs to the benefits achieved ('allocative' efficiency). It is important that government has good data on efficiencies so that it can make effective decisions about where to spend public money.

**2** In the 2021 Spending Review HM Treasury set multi-year budgets for central departments, encouraging them to achieve efficiency savings of approximately 5% on their "day-to-day" budgets by 2024-25. In the Spring Budget 2023, the government committed to "continuing to identify ways to work more efficiently and reduce day-to-day running costs of government".

**3** The first government functions were formally established in 2013. They are groupings of professionals who work across government bodies to provide expert skills. By cutting across departments and arm's-length bodies, functions seek to: develop and deploy specialist expertise; set strategies for cross-government working; and set and assure standards for their area of expertise. There are now 14 government functions that cover activities such as procurement, major project delivery and finance. Through their work, functions also seek to increase the efficiency of the work undertaken by government.

**4** For the past two years, the Cabinet Office has measured and reported on financial efficiency savings and wider benefits made by cross-cutting government functions. The exercise is intended to cover savings made by central government functional teams in their work with government departments.<sup>1</sup> The exercise began following a review of the functions by Lord Maude, published in 2021, which recommended that functions be given a renewed mandate and that the functions should publish performance data to demonstrate their benefit.

<sup>1</sup> Central government functional teams are the parts of functions which sit at the centre of government, rather than being embedded within departments.

**5** The Cabinet Office is responsible for commissioning the functions to provide data on efficiency savings and for assuring that data. The Cabinet Office conducts verification checks on data received from functions and manages the overall annual reporting of efficiency savings. The Government Internal Audit Agency (GIAA) is responsible for assuring the claimed savings before publication. GIAA assesses whether the methodologies have been appropriately designed, are robust and fit for purpose. A ‘moderate’ assurance rating (a reasonable level of confidence in the savings reported) or above is required for a group of savings to be published by the Cabinet Office.

**6** In March 2022, the Cabinet Office published the efficiency savings achieved by “functions, departments, and other central government bodies” in 2020-21. The Cabinet Office reported that £3.4 billion of cash-releasing savings were produced “by improving operational efficiency and effectiveness”. The largest efficiencies in 2020-21 were attributed to the Counter Fraud function (£1.4 billion) and the Commercial function (£1.2 billion). Cabinet Office did not report non-cash-releasing savings in 2020-21. The publication also noted non-financial wider benefits from the Legal, Property, Analysis, Security and Finance functions, as well as Government Business Services and the Crown Commercial Service.

**7** In July 2023, the Cabinet Office reported that the cross-cutting central functional teams delivered £4.4 billion financial savings in 2021-22. That £4.4 billion consisted of £3.4 billion cash-releasing savings and £1 billion non-cash-releasing savings. The Counter Fraud function and the Debt Management function had the largest savings, each £1.3 billion. The report also included unaudited wider benefits from the Analysis, Property and Human Resources functions.

### **Scope of this work**

**8** In this report we:

- explain how and why functions track efficiency savings;
- examine the roles and responsibilities of the functions, the Cabinet Office and the GIAA in monitoring efficiency savings, and the limitations of the current approach; and
- discuss what lessons can be learned from this exercise for future efficiency work.

**9** We have not fully reperformed the exercise GIAA and Cabinet Office undertook to assure the savings. We have not looked at any savings departments calculate which do not form part of the functional savings.

## Key findings

Coverage and consistency of work undertaken to identify savings

**10 Cabinet Office has not consistently reported efficiency savings delivered by the functions.** The functions are of different shapes and sizes which means they have different approaches to calculating savings. Cabinet Office states in its July 2023 publication that central government functional teams (the parts of functions which sit at the centre of government, rather than in departments) delivered £4.4 billion of savings in 2021-22. However, Cabinet Office's technical note to the publication states that some £1 billion of the Counter Fraud savings that Cabinet Office included in the total were delivered by department-led activities supported by the central function, leading to inconsistency in what savings are included in the £4.4 billion figure (paragraphs 1.9 and 1.10).

**11 The functional savings report may give an incomplete picture of savings generated across all functions.** The Cabinet Office reports savings from those functions headquartered in the Cabinet Office for the period it is reporting on – 10 functions for the 2021-22 report – but savings generated by functions headquartered elsewhere in government for the period being reported on are not captured in the exercise. The Cabinet Office challenges functions headquartered in the Cabinet Office where it believes savings have been achieved but not submitted as part of the process. The Cabinet Office recognises the importance of incentivising functions to identify savings. In 2023, GIAA noted that there was a risk that efficiencies might be underreported due to the amount of support the Cabinet Office could provide to the functions during the exercise (paragraph 2.6).

**12 Functions use different approaches to calculate efficiency savings.** Each function sets their own methodology for tracking and claiming savings from their work, to reflect the different types of work they undertake. For example, the Government Communication Service compares the baseline forecast for each campaign to the final value approved through the advertising, marketing and communications (AMC) spending control process to calculate its efficiencies, whereas the Government Debt Management function monitors the additional yield it creates over and above the day-to-day activities carried out by the department. Functions are responsible for verifying the supporting data and confirming appropriate levels of governance to ensure confidence in the efficiencies before reporting (paragraph 2.3).

GIAA's assurance work on the savings

**13 The GIAA's audit looks at the processes the functions use to calculate and assure the savings claimed. It does not consider whether efficiency savings create adverse effects on other parts of government.** GIAA's methodology changed for the 2021-22 financial year. For 2020-21, GIAA provided assurance ratings for each identified saving with a focus on the evidence base supporting the claimed saving. For 2021-22, it provided a rating for a group of savings. We have previously highlighted understanding the impact of efficiencies on other parts of government as a key element of good practice in efficiency reporting. The scope of the audit does not include assurance over whether savings affect resilience planning, service user experience, or add costs to other parts of government. The Cabinet Office does not ask functions to assess whether their savings might add costs in other areas, because it considers that this is not always possible or proportionate (paragraphs 2.7 and 2.10 and Figures 5 and 7).

**14 GIAA found that most functions had clear methodologies in place and had gathered evidence to support the headline savings.** GIAA examined the processes around savings for each function, assessing the risks in relation to: methodologies and assumptions; insufficient evidence; inaccurate claimed benefits; incorrect reporting period; and insufficient verification and sign-off of claimed savings. Based on the assessment, GIAA made several recommendations to improve the functions' existing processes (paragraphs 2.10 and 2.11 and Figure 5).

**15 GIAA gave the savings a 'moderate' assurance rating in 2021-22 overall but found some weaknesses in the functions' approaches.** It noted that a lack of coordination and consistency in the current approach could lead to risks in aggregating the data as well as limiting opportunities for cross-functional learning. GIAA concluded that the current processes and reliance on the functions did not sufficiently mitigate the risk of claims being under- or overstated. In April 2022 GIAA noted that while some savings had been through an initial quality assurance process conducted by the Cabinet Office, as part of which it requested improvements, functions did not always make the requested changes (paragraphs 2.9, 2.10, 2.12 and 2.17).

Responding to challenge from the GIAA

**16 Cabinet Office and the functions have not acted on all GIAA's recommendations.** The Cabinet Office has developed an action plan to action GIAA's 2023 recommendations. We have not seen evidence of a similar plan for the previous year. In 2023 GIAA made 21 recommendations for improving the functional efficiencies reporting process. Most of those recommendations were aimed at individual functions, urging them to address specific issues in their 2021-22 submissions, but not all these were actioned before the 2021-22 report was published. Overall, Cabinet Office has deemed two recommendations to be out of scope, believes nine recommendations are completed and ten are ongoing (paragraphs 3.6 and 3.7).

**17 Our detailed review of five audited efficiency savings found GIAA's ability to audit the savings was sometimes hindered by gaps in the evidence and that it flagged some issues around the accuracy of reporting.** For instance, the GIAA raised concerns that the Government Grants Management Function did not receive sufficient assurance from departments that the data entered into the Spotlight grants due diligence tool is accurate. In terms of accuracy of reporting, in one instance Cabinet Office published a savings figure that included costs, despite GIAA's recommendation that it should deduct these, although the Cabinet Office did include a caveat stating that it included the additional costs. However, in another example from our sample the Government Communication Service did adjust its calculations in light of GIAA's advice (paragraphs 2.14 to 2.17 and Figure 6).

#### Learning and next steps

**18 The Cabinet Office does not share examples of good practice between functions, although functions would welcome this.** The quality of efficiency reporting varies across functions. Some functions have more experience than others in tracking efficiency savings. Each function sets its own methodologies for tracking and claiming savings from its work. GIAA recommended that the Cabinet Office produce "principles-based" guidance for functions about how savings should be calculated and presented and that the Cabinet Office share good practice among the functions. Functions we spoke to said they would welcome this (paragraphs 2.3, 2.11, 2.13 and 3.8).

**19 HM Treasury has issued a framework for tracking, monitoring and overseeing efficiency savings, which will run alongside the functional efficiencies' framework.** The framework provides definitions and reporting standards for efficiency savings, best practice guidance for reporting and guidance on how departments should be reporting efficiency savings to HM Treasury. HM Treasury expects departments to adopt the framework for reporting efficiency savings for the financial year 2023-24 and arm's-length bodies to do so in 2024-25. HM Treasury and the Cabinet Office expects that some convergence will occur naturally in the approaches taken to efficiency savings, as government bodies focus on efficiencies in a more standard and systematic way but HM Treasury currently does not expect functions to report to it if they do not already (paragraphs 3.11 to 3.14).

## Conclusion

**20** Government has a long-held ambition to improve the efficiency of public services, including by embedding cross-cutting functions to identify and share efficient ways of working. Creating good information around savings is essential so that government can track its return on investment and make good decisions about where to best invest limited resources in the future.

**21** The GIAA has given the Cabinet Office's efforts to measure functional efficiencies a 'moderate' assurance rating overall, but there are gaps in the assurance it is able to provide. There is no external assurance of individual savings and where recommendations are made, these are not consistently acted on. Although most functions have a clear methodology in place, some do not. Overall, functions adopt different approaches and there is limited evidence of learning across functions. The Cabinet Office is only two years into publishing efficiency savings and has learned some valuable lessons, but it has further to go to be able to robustly quantify the savings delivered by the functions.

## Recommendations

**22** For future exercises the Cabinet Office should embed a more consistent approach to reporting functional savings so that it can provide clarity and transparency about the nature of the figures it publishes. It should:

- a** be clear about what savings it is reporting, to what extent central functional teams contributed to the savings, and make sure it is consistent in its application of this approach with each function;
- b** include in its report an explanation of:
  - the challenges and limitations of calculating and reporting efficiencies,
  - how it intends to use the figures produced by functions,
  - why the different methodological approaches used are robust enough to support their intended purpose, and
  - the extent of the assurance provided by GIAA over the figures in the functional efficiency savings;
- c** set out the approach it expects functions to take in identifying and calculating efficiencies, based on the good practice set out in Figure 7 of this report and considering the *Government Efficiency Framework*;
- d** consider broadening its functional savings exercise to include all functions;
- e** work with the functions to ensure GIAA's recommendations are responded to in a timely way in accordance with GIAA's expected timescales;
- f** more broadly, as Cabinet Office continues to refine its reporting of efficiencies, it should **work with HM Treasury to make sure that their approaches align where possible and are complementary**, and that lessons learnt and good practice from both exercises are being shared across government.