

TECHNICAL NOTE

Savings delivered in 2012/13 in Government Departments

Summary

This report sets out the Government's assessment of the impact of actions taken by Government departments, under a Cabinet Office lead, to release cashable savings and prevent wasteful project spend in 2012/13.

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

- In May 2010 UK Gross Domestic Product (GDP) had shrunk by over 7% in the recession of 2008/9 and public spending made up 47% of GDP, a level that was considered to be unsustainable. The deficit between government revenue and public spending, including debt repayments, was the largest percentage of GDP of any developed country.
- 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.
- The Cabinet Office began programmes of work with Departments to address both these areas.
 - 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
 - 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;
 - to implement a programme of Civil Service Reform;
 - to establish a Major Projects Authority with real teeth to influence the delivery of our largest project commitments;
 - to increase government transparency; and
 - to create new forms of social investment in the voluntary and community sectors.

- For 2010/11 the Government reported savings of £3.75 billion. This figure was verified by the independent auditors and subsequently the NAO confirmed these figures in their report 'Cost reduction in central government'. 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.
- In 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 £758m, totalling £5.5bn.
- In 2012/13 the Government accelerated the savings delivery, and this report sets out our further achievements with an operational savings total of £8 billion and prevention of wasteful spend by major projects and construction of £2 billion, totalling £10bn

What do these figures represent?

- These figures represent our best assessment of the Government's progress against meeting the above objectives.
- The Government has worked hard to put in place strong benefits statements that provide as accurate an estimate as possible of the impact of our work, accurately positioned. 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.
- 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

- We have identified limited double counting between the data sets, which has been redacted.
- When formulating benefits statements, we have rounded the precise figures to the nearest £10m to reflect an appropriate level of precision.
- 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.
- Cabinet Office Internal Auditors found that the values and benefits statements below are a reasonable reflection of the savings made with only minor weaknesses in limited areas. This was based on a review of the evidence that Cabinet Office has collated in support of these assertions.

What are the figures?

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

Area	2012/13 Realised Saving (£m)
Reduction in consulting	£1,012m
Supplier renegotiation	£835m
Reduction in Temp Staff	£598m
Reduction in marketing and advertising	£378m
Savings from centralising procurement	£1,024m
Smaller civil service	£2,216m
Pensions Reform	£1,160m
Savings from telecommunications and data centres	£143m
Property portfolio optimisation	£620m
<i>Operational Efficiency Total</i>	<i>£7,986m</i>
Major projects redirected spend	£1,210m
Reducing construction costs	£447m
Better scrutiny of IT projects and moving government web services to GOV.UK	£365m
<i>Total Prevention of Wasteful Spend by Major Projects and Construction</i>	<i>£2,022 m</i>
TOTAL	£10,006m¹

¹ Excludes £2m of rounding adjustments.

Detailed breakout by area

Area	Activity description	Exact amount	Evidence Base / Calculation / Caveats	Savings Assertion
Consulting	<p>We put in place a moratorium on new consulting spend, and extensions to existing contracts.</p> <p>Where spend was considered operationally critical (for example, where it might put at risk critical services) an exception process existed for department ministers to sign off expenditure over £20,000.</p>	£1,012m	<p>Savings are calculated by subtracting total departmental reported spend on consultancy for 12/13 from total departmental reported spend on consultancy for 09/10.</p> <p>To reduce the risk of costs shifting between categories, we also monitored expenditure on other Professional Services categories, including contingent labour.</p>	<p>Departments report a significant reduction in discretionary spend:</p> <p>A reduction in spend on consulting in 2012-13 of £1,010m compared to 2009/10.</p>

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Commercial Relationships	We've renegotiated deals with some of the largest suppliers to government.	£835m	<p>The method of calculation varies according to the initiative that yields the saving, but was based on cash releasing savings against a baseline of what would have otherwise been spent. The savings compared prices originally submitted by suppliers for approval to prices agreed following Crown Supplier's intervention.</p> <p>Savings agreed with suppliers are recorded in Memoranda of Understanding as guaranteed in-year or conditional in-year savings (the latter being where departments need to take action towards achievement).</p> <p>Realised savings were subsequently tracked back to departmental verification of supplier progress reports.</p> <p>Savings are calculated, where possible, with reference to a 09/10 baseline. However, this is not always possible, for example when a good or service was not procured in the baseline year. In these cases the most appropriate baseline is used based on specific circumstances.</p>	By managing relationships with some of the largest suppliers to government, Government made savings of nearly £840m.
Contingent Labour	We significantly cut the number of temporary staff.	£598m	Savings are calculated by subtracting total departmental reported spend on contingent labour for 12/13 from total departmental reported spend on contingent labour for 09/10.	<p>Departments report a significant reduction in discretionary spend:</p> <p>A reduction in spend on temporary agency staff in 2012/13 of nearly £600m compared to 2009/10.</p>

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Advertising and Marketing	<p>We froze all new marketing spend unless it is an operational necessity.</p> <p>Where spend was proposed, Ministerial sign-off was required for £20,000 or above.</p>	£378m	<p>Calculations compare departmental spend on marketing and advertising as established through the OEP benchmarking exercise in 2009/10 with a similar exercise establishing 2012/13 spend against the same standard.</p> <p>ALBs not making returns for 2012/13 have been removed from our 09/10 baseline calculations. New or existing ALBs not included in the 09/10 OEP exercise have been discounted from our calculations</p> <p>Senior sign off has been obtained from all departments (most often the Director of Comms).</p>	By maintaining strong control of our marketing and communications spend, government has reduced spend in 2012/13 by nearly £380m compared to 2009/10
Centralising Procurement	<p>We've started to centralise spend on common goods and services to drive down prices.</p> <p>These savings derive from the 10 categories of expenditure targeted for centralisation, and relate to price savings through increased aggregation.</p> <p>In addition we have introduced policies requiring departments to reduce purchased volumes.</p>	£1,024m	<p>For each initiative, calculations are performed using individual benefit methodologies that set out how savings will be calculated. Price savings are calculated against a 09/10 market price baseline.</p> <p>Volume savings are calculated against 09/10 volumes.</p> <p>Volumes used in calculations are based on management information provided by suppliers. Prices are based on agreed contracts.</p>	By centralising spend on common goods and services and by introducing policies requiring Departments to purchase less, Government has saved over £1,020m centrally and in the wider public sector.

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Workforce Reductions	Government has taken measures to reduce the size of the civil service, including the introduction of a moratorium on Civil Service recruitment, with exemptions for certain front line services, and exception processes in place to deal with exceptions.	£2,216m	<p>Size reductions represent the fall in Civil Service employment from the baseline of Civil Service employment levels as at Q2 2010 (end of June 2010). The end of June position is taken as the baseline since this is the first quarter after the freeze on external recruitment was announced.</p> <p>Cash savings are based on the reduction in pay bill between 2009/10 and 2012/13. Savings are not net of any costs associated with departures and do not include ongoing costs.</p>	We've reduced the size of the Civil Service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in salary costs for 2012/13 of nearly £2,220m compared to 2009-10 and a reduction in size of the Civil Service of 70,000 FTEs between June 2010 and December 2012.
Common Infrastructure Programme	We've implemented a Common Infrastructure Programme.	£143m	Sustainable savings are calculated per project based on departmental reports of telecommunications and hosting spend in 2012/13 compared to 2009/10	By implementing a Common Infrastructure Programme, we saved over £140m from spend on telecommunications and hosting in 2012/13 compared to 2009/10.
Property	<p>We put in place national property controls such that signature of new property leases or lease extensions were approved centrally.</p> <p>Government departments have been working to consolidate and reduce the size of its estate.</p>	£620m	<p>Calculations are property by property 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.</p> <p>We have deducted the costs associated with exiting buildings and property disposals realised.</p>	<p>We reduced the in-year cost of our Property estate by more than £310m by exiting from leasehold and freehold properties.</p> <p>By selling our land and buildings, we have generated almost £310m in revenue for the taxpayer.</p>

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Major Projects	We reviewed the Government's biggest projects to see where 2012/13 costs could practically be reduced within contractual constraints through re-scoping, tackling waste, or wasteful projects stopped altogether.	£1,210m	<p>The method focused on 11 projects where government has confidence that savings do not relate to deferred expenditure, but focus on reducing wasteful and inefficient or back office expenditure.</p> <p>For projects in Government Major Projects Portfolio, the Q4 2012/13 expenditure forecasts by departments were compared with corresponding Q4 2011/12 budget figures.</p> <p>For projects outside of the GMPP, a similar approach was taken although the baseline varied.</p> <p>Major projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion.</p>	<p>On 11 of Government's major projects, departments report halting or curtailing wasteful spend totalling almost £890m through both improved central scrutiny by the MPA and their own action to avoid low value spend.</p> <p>Additionally, Department of Health has reported saving over £320m through a programme which has reduced the number of staff employed in non-essential administration of the NHS.</p>

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Construction	We published the Construction Strategy, setting out how we plan to monitor reductions in the costs of construction over the SR period using benchmarks.	£447m	<p>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).</p> <p>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).</p> <p>The baseline consists of the departmental construction benchmarks that were recorded during the financial year 2009/10 and which have been published.</p> <p>Construction projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion.</p>	In 2012/13 departments reported eliminating nearly £450m of costs from the planned spend on construction projects.
IT Reform and Digital Services	<p>We implemented:</p> <p>a) a moratorium on all new ICT spend above £1 million; and</p> <p>b) a review of all on-going ICT commitments.</p> <p>Departments also reported those projects that were closed before undergoing the review.</p> <p>We also reduced the costs of providing services digitally.</p>	£365m	<p>Calculations are based on departmental reports of planned reductions in the cost of ICT projects following review of ICT business cases.</p> <p>Calculations are based on departmental reports of spend that has not proceeded. Spend that has not gone ahead in 2012/13 is recorded, as a result of stopping or reducing spend.</p> <p>ICT projects cover multiple years and actual cost reductions will not be realised and confirmed until project completion</p>	By scrutinising ICT business cases and launching the GOV.UK web site government has reduced planned expenditure on approved projects and stopped spend of over £360m.

Area	Activity description	Exact amount	Evidence Base / Calculation / Caveats	Savings Assertion
Pensions Reform	We have adjusted the balance between central funding for pensions and employee contributions for Central Government, education and health sector pensions.	£1,160m	<p>The calculation method applies the average 1.28% increase across paybands, and does not apply the actual increases at different pay bands.</p> <p>£170m of central government pensions savings have been reviewed by auditors. The remaining savings arise from a reduced requirement for central funding for schools and NHS pensions; this follows the same method but is pending a full audit.</p> <p>The calculation does not take account of second order tax implications, such as the tax revenue that would have been received on pension contributions.</p>	By adjusting the balance between central funding and employee contributions, this Government saved an estimated £1,160m in 2012/13 from taxpayer contributions to pension schemes for Central Government.