

**TECHNICAL NOTE****Methodologies supporting savings delivered in H1 2013/14 in Government Departments****Summary**

This report sets out the underlying methodologies and calculations used by the Government to calculate the impact of actions taken by Government departments, under a Cabinet Office lead, to release cashable savings and prevent wasteful project spend in the first six months of 2013/14.

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

- In May 2010 UK Gross Domestic Product (GDP) had shrunk by almost 5% 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 controls 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 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 Public Accounts Committee (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, with an operational savings total of £8 billion and prevention of wasteful spend by major projects and construction of £2 billion, totalling £10bn.
- In the first half of 2013/14 the Government delivered £4.7bn in operational savings and prevented £0.7m of wasteful spend by major projects and construction, totalling £5.4bn.

#### 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.
- 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 programmes of work, which has been redacted.
- The methodologies used to calculate these savings have been assured by internal auditors, although the figures themselves will only be fully audited at the end of the year.

### Detailed breakout by area

Area	Activity description	Evidence Base / Calculation / Caveats
Consulting	<p>We put in place controls 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>	<p>Savings are calculated by subtracting total departmental reported spend on consultancy for H1 13/14 from total departmental reported spend on consultancy for H1 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>
Commercial Models	<p>We have transformed government services to improve efficiency through the use of more effective business models.</p>	<p>Savings are the change in the cost to Government as a result of the intervention. These are calculated by subtracting the actual net cash cost of a service following intervention from the expected net cash cost in the absence of an intervention.</p> <p>The type of evidence base will vary depending on the types of savings within projects. For example, it is relatively easy to verify the cash released for selling an equity stake in a business. Estimating of the cost in the absence of the intervention, however, will undergo a robust assurance process to ensure that the saving is accurately calculated.</p>
Commercial Relationships	<p>We've renegotiated deals with some of the largest suppliers to government.</p>	<p>The method of calculation varies according to the initiative that yields the saving, but is 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 are 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>

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Contingent Labour	We significantly cut the number of temporary staff.	Savings are calculated by subtracting total departmental reported spend on contingent labour for H1 13/14 from total departmental reported spend on contingent labour for H1 09/10.
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>	<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>
Workforce Reductions	Government has taken measures to reduce the size of the civil service, including the introduction of controls on Civil Service recruitment, with exemptions for certain front line services, and exception processes in place to deal with exceptions.	<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 H1 2013/14. Savings are not net of any costs associated with departures and do not include ongoing costs.</p>
Pensions reform	<p>We have adjusted the balance between central funding for pensions and employee contributions for selected unfunded public service pension schemes:</p> <ul style="list-style-type: none"> <li>• Principal Civil Service Pension Scheme</li> <li>• NHS Pension Scheme</li> <li>• Teachers' Pension Scheme</li> <li>• NHS and Teachers' Pension Schemes in Scotland</li> <li>• Northern Ireland Executive Pension Schemes</li> <li>• LG Police Force Pension Schemes</li> <li>• LG Firefighters' Pension Schemes in England</li> </ul>	The approach used to estimate the yield from increasing employee contribution rates is to look at the difference in employee contribution recipients between the years in question and 2011-12. Estimated yield has been adjusted for assumed change in pensionable pay bill and composition of the workforce by using employer contributions as a proxy.

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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>	<p>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.</p> <p>We have deducted the costs associated with exiting buildings and property disposals realised.</p>
Major Projects	<p>We reviewed the Government's biggest projects to see where 2013/14 costs could practically be reduced within contractual constraints through re-scoping, tackling waste, or wasteful projects stopped altogether.</p>	<p>The method focused on 26 specific projects/programmes and 2 bundles of smaller projects where the government has confidence that savings do not relate to deferred expenditure, but focus on reducing wasteful, inefficient or back office expenditure.</p> <p>For savings in the first half of 2013/14, we applied two similar methods in calculating our figures:</p> <ul style="list-style-type: none"> <li>• We examined savings generated from major projects that were stopped or re-scoped in 2010. The calculated savings were the difference between the amounts forecast in 2009/10 to be spent in 2013/14 and the current forecasts of expenditure on residual elements of the projects.</li> <li>• We examined savings claimed by five major spending departments from non GMPP projects that they stopped or re-scoped. The calculation of each saving was based on the same principles as described in the first bullet point, although the baselines varied between departments.</li> </ul> <p>Major projects cover multiple years and final actual cost reductions will not be realised and confirmed until project completion.</p>

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Construction	We published the Construction Strategy, setting out how we plan to realise and monitor reductions in the costs of construction over the SR period using benchmarks.	<p>Benchmarks are established by department and product e.g. the cost of a school by floor area (£/m<sup>2</sup>) 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> <p>More detail on the counting method outlined above is provided at:  <a href="https://www.gov.uk/government/publications/construction-costs-departmental-reductions-2010-2011">https://www.gov.uk/government/publications/construction-costs-departmental-reductions-2010-2011</a></p>

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Government Digital Services	<p>Our activities cover 2 main areas:</p> <p>1) Reducing the cost of providing services digitally.</p> <p>2) IT controls</p> <p>a) controls on all new ICT spend above £1 million; and</p> <p>b) a review of all on-going ICT commitments.</p>	<p>1) Using the data that departments have published on the transactions explorer website as both the baseline and current cost of which the saving has been based upon.</p> <p>Using the hosting and infrastructure costs of government websites (as of 2009-10 - where available) as a baseline once the site has been moved onto GOV.UK and fully closed.</p> <p>Reductions in spend based on previous budgets, prior to GDS intervention.</p> <p>2) 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 H1 2013/14 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>