



Government  
Internal Audit  
Agency



Cabinet Office

## **Internal Audit**

# **2015/16 Savings Validation Summary Report**

**Report ref: CO 6/16**

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## 1. Introduction

- 1.1 The objective of this audit is to provide independent assurance to the Cabinet Office Accounting Officer that the processes established within the Cabinet Office to validate savings claimed as a result of efficiencies and reforms, are robust and deliver evidence based and supportable benefit claims.
- 1.2 This validation has been carried out by Cabinet Office's internal audit service at the request of the Cabinet Office. Cabinet Office's internal audit service is provided under a Memorandum of Understanding by the Government Internal Audit Agency (GIAA).

## 2. Background

- 2.1 Over the last 5 years, the Cabinet Office helped reduce the cost of government whilst supporting transformation of services. In the financial year 2014/15, they reported savings for government of £18.6 billion reported largely against a 2009/10 baseline. Over the next 5 years Cabinet Office plan to go further and continue to improve performance and capability across departments and agencies to support further public service transformation. Government has a target to make a further £10 billion annual savings by 2017/18 and £15-20 billion in 2019/20.
- 2.2 Savings are now being measured primarily against a 2014/15 baseline and so reductions in spend between 2009/10 and 2014/15 are no longer being counted in the savings figures. Savings for 2015/16 therefore appear relatively small compared to what have been reported in prior years. For some of the savings workstreams previously reported, no savings are being reported in 2015/16.
- 2.3 The validation exercise did not test the accuracy or completeness of data supplied to the Cabinet Office by government departments, only that the Cabinet Office had compiled sufficient evidence to support the savings claimed (as set out in the technical note – see Annex A), including sign off by sufficiently senior staff where applicable and that any assertions drawn were reasonable and consistent with the evidence.

## 3. Conclusion

- 3.1 We were able to provide a reasonable assurance over 6 of the workstreams and moderate assurance over 6 (see Assurance Categories at section 7). We worked with the Cabinet Office to ensure that on the basis of what had been provided to them by others, there was sufficient evidence to support the savings claimed by the Cabinet Office, and the associated assertion for each workstream.
- 3.2 In previous years we have noted that the savings across the categories vary in nature and are measured against differing baselines and that care should therefore be taken as to how any aggregate figures are represented. In establishing methodologies for 2015/16 the functions have worked independently of each other. Whilst the decisions they have made make sense in relation to the nature of each function, this has meant that the baselines and methodologies have further diverged meaning that reliance cannot be placed on any aggregate figures. Further we note that the cash effect of these savings does not always fall in 2015/16.

3.3 On the basis of the work undertaken, it is not possible to give assurance that there are no instances of double counting between categories.

#### 4. GIAA Methodology

4.1 We have provided an assurance rating against each of the savings workstreams reported on by the Cabinet Office. Our assurance ratings detail our confidence level that the Cabinet Office hold sufficient evidence to support both the savings claimed and the assertions drawn from these savings – paragraph 7.1 provides more detail.

4.2 Our assurance rating against each workstream is based on our evaluation and assessment of the evidence provided to us during audit fieldwork. We tested the evidence provided to us using the following criteria:

- **Source of Information:** Was the evidence from a credible source? (i.e. was it reasonable to assume that reliable data could be obtained from the identified supplier of the information)
- **Arithmetical:** Had the data elements produced been correctly aggregated to derive the savings figure claimed for each workstream?
- **Completeness:** Had all the evidence available for each workstream been taken into account in producing the total claimed savings and associated assertion?
- **Cut-off:** Did the data fit within the time period for the savings claims?
- **Assertion:** Did the evidence base held reasonably support the assertion being made about the savings reported by the workstream?
- **Framework:** Does the framework for reporting give a reasonable picture of overall savings?

4.3 In carrying out our validation we have used judgemental sampling to test the evidence base where appropriate; where this has been used we have skewed our testing to include high risk and/or high materiality sources of evidence.

4.4 We have not tested savings claims against external efficiency benchmarks, such as NAO's VFM criteria.

## 5. GIAA Assurance

5.1 The table below sets out GIAA assurance opinion on each savings workstream. The table lists the final savings amounts and assertions as discussed with the Cabinet Office at the end of audit fieldwork ( December). These final savings and assertions differ from the originals given to us for review, being revised as a result of our audit work.

Savings Workstream	Final Reported 2015/16 Saving*	Final Assertion (italics) and GIAA Comment*	GIAA Assurance
<b>Part 1 Operational Savings 2015/16</b>			
<i>Property Portfolio Optimisation</i>	£95m	<p><i>We reduced the in-year cost of our property estate by over £95m for 2015/16.</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base. <b>Assertion:</b> GIAA are content with the assertion The £95m savings (figure after audit adjustment) includes exits during 2014-15 and 2015/16 each measured against a baseline of the last full year of occupation. This change in basis from prior years should be made explicit in the technical note accompanying any announcement.</p>	<b>Reasonable</b>
<i>Complex Transactions</i>	£879m	<p><i>By providing specialist commercial expertise within Procurements, Negotiations and Disputes to teams across Government we have helped Departments to realise £879.3m savings.</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base and can offer reasonable assurance.</p> <p><b>Assertion:</b> GIAA are content with the assertion. However, we note that savings are calculated against a variety of baselines. An explanation of varying baselines should be made clear in the technical note accompanying any announcement.</p>	<b>Reasonable</b>
<i>Savings made through</i>	£225m - £172m	<i>The implementation of agreed savings initiatives delivered £172m of procurement benefits to central government departments. The benefits included a mix of cost reduction and cost avoidance savings.</i>	<b>Moderate</b>

Savings Workstream	Final Reported 2015/16 Saving*	Final Assertion ( <i>italics</i> ) and GIAA Comment*	GIAA Assurance
<i>Centralising Procurement for common goods and services</i>	CG - £53m NHS	<p><i>The implementation of agreed savings initiatives delivered £53m of procurement benefits to NHS customers The benefits included a mix of cost reduction and cost avoidance savings realised.</i></p> <p><b>Evidence base:</b> Our testing of the evidence base produced some items on which we could give limited assurance. These have been removed together with a further amount from the untested population calculated by extrapolation. On this basis we are able to offer Moderate assurance.</p> <p><b>Assertion:</b> GIAA is content with the assertion which highlights that savings include a mix of cost reduction and cost avoidance initiatives. This is a change from prior years which only captured cost reduction initiatives.</p>	
<b>Part 2 – Savings through identification of low priority spend on projects, leading to project cancellation, funding reprioritisation, or cost reduction; Implementation of projects to reduce revenue requirements and construction savings</b>			
<i>GDS -Savings made through intervention in departmental digital and technology projects.</i>	£339m	<p><i>Savings of £339m have been identified through controls, cancelled projects and ICT Strategy savings.</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base comprising the differences between original and revised, approved plans rather than between original plans and actual spend. We are able to offer moderate assurance.</p> <p><b>Assertion:</b> GIAA are content with the assertion that GDS Standards Assurance Savings Team savings are identified through controls, cancelled projects and ICT Strategy savings. GIAA are able to give Moderate assurance as the actual cost reductions will not be realised and confirmed until each scheme is completed and will be delivered across the period of delivery which could be more than one reporting year.</p>	<b>Moderate</b>

Savings Workstream	Final Reported 2015/16 Saving*	Final Assertion ( <i>italics</i> ) and GIAA Comment*	GIAA Assurance
<b>Part 3 – Receipts from Asset Sales and New Commercial Models</b>			
<i>Property Asset Sales</i>	£973m	<p><i>By selling our land and buildings, we have generated over £973m in capital receipts for the taxpayer in 2015/16.</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base.</p> <p><b>Assertion:</b> GIAA are content with the assertion. The £973m capital receipts are recognised when sales contracts become unconditional, and are reported as gross receipts not adjusted for disposal costs. This is a change in basis from prior years, when sales were reported net of disposal costs and were not recognised at contractual commitment, but at actual events advised by Departments, or at expected events estimated by the National Property Controls Team.</p>	Reasonable
Commercial Models	£23m	<p><i>Proceeds of £16.8m have been made from the sale of IP addresses (after deduction of commissions paid)</i></p> <p><i>We also received £6m in dividend payments</i></p> <p><b>Evidence Base:</b> GIAA are content with the evidence base.</p> <p><b>Assertion:</b> GIAA are content with the assertion however we do not consider receipts from sale of assets, included within the total, to be a good measure of savings</p>	Reasonable
<b>Part 4. Benefits from tackling fraud, error and debt in the system</b>			
<i>DWP FED</i>	£632m	<p><i>£632m realised by DWP from a range of initiatives as part of the FED programme to collect debt, administer penalties and prevent future overpayments.</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base. We are able to offer moderate assurance. We have relied on figures presented by DWP for a range of initiatives and have not audited the underlying systems or calculations. Some of the figures are based on estimates of how long overpayments would have continued</p> <p><b>Assertion:</b> GIAA are content with the assertion. Fraud Error and Debt savings result</p>	Moderate assurance

Savings Workstream	Final Reported 2015/16 Saving*	Final Assertion ( <i>italics</i> ) and GIAA Comment*	GIAA Assurance
		<p>largely from initiatives to prevent or recover overpayments as a result of fraud or error and are of a different nature to efficiency savings.</p> <p>It is unclear how these savings against a 2010/11 baseline fit in an overall announcement alongside other savings some of which have been made against a revised 2014/15 baseline.</p>	
<i>National Fraud Initiative</i>	£99m	<p><b>£99.2m</b> of savings has been achieved by improving the fraud and error prevention and detection controls of selected services across Government, and the wider public sector</p> <p><b>Evidence Base:</b> GIAA are generally content with the evidence base.</p> <p><b>Assertion:</b> GIAA note that the savings are based on the date that a saving was logged, not when the saving was actually recovered and so the cash effect in 2015/16 is unknown.</p>	<b>Moderate Assurance</b>
<i>Debt Market Integrator</i>	£69m	<p><b>£69m</b> of additional yield from using the Debt Market Integrator service to collect debts owed to government departments</p> <p><b>Evidence Base:</b> GIAA are content with the evidence base.</p> <p><b>Assertion:</b> GIAA are content with the assertion which classifies this as “yield” rather than “saving”. The yield is not all additional to that achieved with debt recovery agencies before introduction of the DMI. The additional yield is shown gross. Costs of £7.1m have not been netted off.</p>	<b>Moderate Assurance</b>
<i>Grant Administration</i>	£3m	<p><b>£3m</b> has been saved through reducing the cost of administration of intermediary-delivered grants schemes</p> <p><b>Evidence base:</b> GIAA are content with the evidence base. Moderate assurance is</p>	<b>Moderate Assurance</b>

Savings Workstream	Final Reported 2015/16 Saving*	Final Assertion ( <i>italics</i> ) and GIAA Comment*	GIAA Assurance
		<p>given as evidence is limited to sign off that budgets have not been overspent.</p> <p><b>Assertion:</b> GIAA is content with the assertion. This category of savings would sit better with commercial savings (consistent with 2014/15 treatment).</p>	
<i>Student Loans</i>	£1m	<p><i>An additional £1.3m of ineligible claims have been stopped by the Student Loan Company Counter Fraud Service performing checks on student loan applications before they are paid out compared to the 2014/15 baseline</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base. Reasonable assurance is given as the evidence base is appropriate to the materiality of the savings.</p> <p><b>Assertion:</b> GIAA have amended the assertion above to show it is against a 2014-15 baseline. It is not clear why this category alone of the fraud error and debt has adopted this baseline</p>	<b>Reasonable Assurance</b>
<i>Spend Recovery Audit</i>	£1m	<p><i>£1m of recoveries of either duplicate or overpayments to suppliers have resulted from Spend Recovery Audits undertaken by Departments on their accounts payable ledgers</i></p> <p><b>Evidence base:</b> GIAA are content with the evidence base. Reasonable assurance is given as evidence is proportionate to the materiality of the savings.</p> <p><b>Assertion:</b> GIAA is content with the assertion.</p>	<b>Reasonable Assurance</b>

\*Differences between the Final reported savings figure and figures quoted in the assertions are due to the fact that the precise figures have been rounded to the nearest £1m to reflect an appropriate level of precision.

## 6. Savings framework

- 6.1 2015/16 savings stand alone and not in continuity with prior year or future year savings. 2014/15 was the last year of reporting savings against the prior framework, where a baseline of 2009/10 was used where available. In 2015/16 functions established their methodologies independently of each other. Methodologies and baselines have diverged meaning reliance cannot be placed on aggregated figures. This extends to within the FED category where this year we have shown the figures separately. In past years, whilst recognising differences between categories of savings there was an attempt to set central criteria for counting these savings which meant that they could reasonably be included in one announcement. In the savings presented to us for 2015/16 there has been a departure from these criteria in a number of areas to include:
- Savings which are “scored” in 2015/16 but where the cash effect may fall in future years e.g.
    - Property sales are scored when the contract goes unconditional not when the actual exit event occurs which may be several years later
    - National Fraud Initiative – includes a forward forecast of how long a benefit fraud may have continued, part of which forecast may relate to 2016/17. In addition it includes historic identified fraud which may not be recovered until future years (if at all).
  - Savings measured against a wide variety of baselines e.g.
    - DWP Fraud savings – 2010/11 baseline
    - Student Loans – 2014/15 baseline
    - Property running cost savings – 2013/14 baseline for 2014/15 exits
    - Crown Commercial Services – a mix of baselines e.g.
      - 2015/16 budget
      - What would have been spent for the volume purchased in 2015/16 without price intervention (ignores demand side)
      - Savings against a pool price
  - Figures described as “savings and benefits” by Crown Commercial Service. In prior years CCS savings were cost reductions. Now they include both cost reduction and cost avoidance.
  - Savings presented gross without deducting the costs of achieving them e.g.
    - Property sales were previously counted net of exit costs and are now presented gross
    - DMI – HMRC are presenting the “yield” which is gross recoveries under DMI without deducting the profit share and commission that needs to be paid to the DMI provider. (These savings are also against an effortless baseline, so it counts all recoveries not just those which are over and above DCA recoveries before introduction of the DMI)

6.2 A new framework is being constructed for measuring savings going forward from 2016-17 onwards. The formulation of the new framework is an opportunity to improve the efficiency and effectiveness of savings measurement. We highlighted these opportunities in our report last year and repeat them as the issues identified last year have extended this year as outline above:

- **Consistency of Baselines:** In order to keep savings announcements easy to understand there is a desire to announce a single total. When a number of different baselines are used in calculating savings, as is currently the case, it means that a total which adds these figures together is necessarily a best estimate. The Technical Note is transparent and adds further explanation to what is a complicated picture. Greater consistency of baselines going forwards would improve the overall quality of savings assertions and the ability to calculate meaningful totals.
- **Consistency of Methodologies:** A wide variety of methodologies are currently in use. It may always be necessary to have some variance in methodology e.g. between counting savings on long term capital projects and counting annual running cost savings. However, a single methodology should be used for all similar savings. For example, operational running cost savings could all be measured using reported departmental accounts.
- **Embedding Tracking of Savings:** It is currently quite labour intensive both to measure savings and to collect evidence to support the published figures and then subsequently to audit these figures. Methods of tracking savings should be embedded within business as usual to minimise additional work. For example targets for savings could be embedded within budgets and measured through outcome against budget as reported in audited accounts.
- **Definition of savings:** Savings totals currently include some elements which are not as the result of efficiency or reform and are not sustainable. For example sale of land and buildings and shares in commercial models. Whilst the proceeds do help to reduce the deficit we do not consider these items a good measure of savings. Sales proceeds themselves are not evidence best value has been achieved for the taxpayer although they are indicative of the prevailing market value. Going forwards both the targets and the means by which they are measured should be clearly defined in a manner which is targeted at maximising value.
- **Risk Management:** We have recommended in prior years that a systematic approach is adopted to the identification and mitigation of risks to mis-statement and double counting of savings. This should include the review of risk registers by and documented approval of appropriate mitigation activity by senior officials throughout the year. . The design of the future regime should take into account risks to mis-statement and double counting and seek to minimise these. For example, if operational

savings are measured through departmental accounts this would eliminate double counting between operational categories of savings.

- **Timetable:** This year and last year the timetable set for publishing savings for has been more realistic than prior years allowing sufficient time for i. Collection of robust evidence from Departments ii. Sufficient checking of evidence by Executive Teams iii. Checking of evidence by the Central Team iv. Assembly of evidence for audit with a clear audit trail. Going forward this good practice should continue and timetables should be set around when the evidence e.g. audited accounts, will be readily available.
- **Assurance:** In the future regime we recommend that consideration is given to increasing the level of assurance over Departmental figures by requiring them to be audited at Departmental level. This could be done on a rolling basis throughout the year and would increase the level of assurance around savings figures and reduce the intensive year end process. Where savings are measured using departmental accounts these will already be subject to audit by the NAO and so would have a high level of assurance and would require minimal additional effort.

## 7. GIAA Assurance Categories

7.1 In communicating GIAA's confidence that Cabinet Office has compiled sufficient evidence to support both the savings claimed and the assertions drawn from these savings, GIAA has used the following assurance categories:

- **Reasonable assurance (Green):** A sound evidence base supporting the claimed savings and assertions.
- **Moderate assurance (Amber):** The evidence base supports claimed savings and assertions with some weaknesses.
- **Limited assurance (Red/Amber):** The evidence base supporting claimed savings and assertions contains significant weaknesses.
- **Nil assurance (Red):** The evidence base does not support claimed savings and/or assertions.