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cutting through complexity

States of Guernsey
Public Accounts Committee

Financial Transformation Programme:
'Cost/Benefit' Review

March 2015

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17 March 2015

Dear Sirs

Cost/Benefit Review in relation to the States of Guernsey Financial Transformation Programme

In accordance with our engagement letter dated 3 November 2014 ("Engagement Letter"), we enclose a copy of our final report. This report is designed to highlight the key issues identified from our financial review of a sample of projects, including a review of corresponding Consultant fees, and provide a concise schedule of the Fundamental Spending Review ("FSR") Fund ("the Fund").

As stated in our Engagement Letter, you have agreed that this final written report supersedes all previous oral, draft or interim advice, reports and presentations, and that no reliance will be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk.

The agreed scope of our work is detailed in the Appendices.

The important notice should be read in conjunction with this letter.

Our report is for benefit and purpose as outlined in our Engagement Letter. We understand that you may wish to make our report publically available by means of appending to a covering PAC report ("the PAC report"). We will consent to it being appended to the PAC report on the basis that it is reproduced in its entirety. Our report should not be regarded as suitable to be used or relied on by any party beyond the context and scope for which it was prepared.

The scope of work for this report has been agreed by the addressees and to the fullest extent permitted by law we will not accept responsibility or liability to any other party (including the addressees' legal and other professional advisors) in respect of our work or the report.

Yours faithfully

KPMG Channel Islands Limited

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Important notice

Our work commenced on 17 November 2014 and our fieldwork was completed on 22 January 2015. Factual accuracy feedback was received up to 16 February 2015. We have not undertaken to update our report for events or circumstances arising after that date.

In preparing our report, our primary source has been internal management information and representations made to us by the PAC as well SoG and FTP management and staff. We do not accept responsibility for such information which remains the responsibility of the FTP management. Details of our principal information sources are set out within the document and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of our Engagement Letter. We have not, however, sought to establish the reliability of the sources by reference to other evidence. This engagement is not an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.

Contents

Glossary of terms

Agreements	The Contract, Novation, and Partnership Agreement
Approved savings	Annually recurring financial savings through General Revenue, net of ongoing costs, that have been identified and quantified by relevant Departments, and validated and signed off under the FTP
BTF	Budget Transfer Form
C&E	Commerce and Employment Department of SoG
CAGR	Cumulative annual growth rate
Capita	Capita Business Services Limited
Cash savings	The cash saving through General Revenue realised as a result of the Approved savings
CF	Cash Flow
Consultant	Capita or Tribal, as the case may be
Departments	Departments within the SoG
FBC	Full Business Case for Projects
FSR	The Fundamental Spending Review dated July 2009
FSR Fund	The fund utilised to account for FTP Approved savings, fees, expenses and capital costs
FTP/Programme	The Financial Transformation Programme
General Revenue	SoG income and expenditure position
GHSF	Guernsey Health Service Fund
Gross savings	Annually recurring financial savings through General Revenue, before ongoing costs, that have been approved under the FTP
HPR	Holding period return
HSSD	Health and Social Services Department of SoG
The Hub	SoG central shared services centre
Consultant day	Each completed working day per Consultant staff member
MoB	Management of Benefits document
Novation Agreement	The Deed of Novation of Services Contract between SoG, Tribal and Capita, dated 26 January 2012
OBC	Outline Business Case for the Projects
Partnership Agreement	The Partnership Agreement regarding FTP between SoG and Capita dated April 2013
PIR	Post Implementation Review
PMO	Programme Management Office
PSD	Public Services Department of SoG
Restructuring and Reorganisation Fund	A SoG fund that was no longer required thus renamed to the FSR Fund for the purposes of the FTP
Review Projects	The FTP projects in the scope of this review
RPI	UK Retail Price Index
RPIX	Guernsey Retail Price Index excluding mortgage interest payment item
SAP	SAP computer application software
SoG	The States of Guernsey
SSD	Social Security Department of SoG
SSP	States Strategic Plan
STSC	Shared Transactional Service Centre
T&R	Treasury and Resources Department of SoG
The Contract	The original contract regarding FTP between SoG and Tribal with the effective date 1 November 2009
The Projects	All projects that are part of the FTP
Transformation and Transition Fund	Assets and liabilities of the FSR Fund to be transferred to this fund on 31 December 2015. This fund is to be used for initiatives which demonstrate significant long-term transformation in the delivery of policy and services
Transformation Executive	The top tier programme management group established to provide strategic direction to the Programme and having authority over the PMO
Tribal	Tribal Consulting Limited
VFM	Value For Money - initiatives that aim to ensure that public money and resources are used in such a way that they deliver the stated outcomes of SoG in the most efficient and effective way

Background

The FTP was initiated in 2009 with the aim of achieving a £31m reduction in the SoG baseline revenue budget by 2015. The total Approved savings achieved as at 31 December 2014 was £28.68m

Programme Status and history

The FTP was initiated in 2009 following a 'Fundamental Spending Review' (FSR) aimed at achieving a £31 million reduction in the SoG baseline revenue budget by 2015. An external consultant (the "Consultant") was hired (Tribal, subsequently acquired by Capita) to advise on areas of transformation, assist with running the Programme Management Office ("PMO") and assist with delivering projects. The PMO consisted of both the Consultant and SoG employees and, per the Contract, its role was to undertake the following activities:

- Tracking and reporting on overall progress and on individual Projects within the Programme, including reporting on risks and issues
- Overall quality management
- Managing the Programme's information
- Supporting the project managers in managing budget
- Dealing with any change control

SoG resolved on 28 October 2009, in the Billet d'Etat No XXV, that "the States principles for the Financial Transformation Programme, on a long term and sustainable basis, will be as articulated in section 6" of the T&R report. The T&R report, section 6, recommended that a transformation programme is established, which will create "a culture of cost consciousness and shared responsibility for delivery", a change in behaviour to put "the best interest of the States and the Island first, as opposed to departmental interests", rewarding good performance, clear lines of accountability, effective management systems, and continued efficiency improvements focused on output rather than input

A contract was signed with Tribal dated 1 November 2009 which set out the obligations of the Consultant and fees payable by SoG. At this time, the PMO was a support function and the individual project boards were responsible for delivering the 107 projects which were identified through the FSR and approved by the Transformation Executive. In November 2011, following a lack of progress in delivering projects, a fundamental shift in process was agreed, whereby the respective Departments took over responsibility and authority for the delivery of projects. Departments were set targets based on the overall Approved savings identified in the FSR, supported by the PMO and Consultant staff. The relevant Departments' budgets and cash limits have been reduced annually by the FTP savings targets. This acts as a key control in ensuring that Approved savings are robust. A Partnership Agreement was subsequently agreed between SoG and the Consultant to reflect this change in approach and establish working practices, however it did not fundamentally change the terms of the Contract. Policy Council retained strategic and political oversight throughout the duration of the Programme

The Consultant's contract expired on 31 October 2014 and no fees were payable in relation to the FTP project subsequent to this date. The FTP programme concluded on 31 December 2014 having total Approved savings of £28.68m

FSR Fund

The FSR Fund was set up in 2009 in order to account for FTP Approved savings, fund Consultant fees and expenses, fund SoG PMO costs, and fund FTP capital costs. The FSR Fund replaced the Restructuring and reorganisation fund. Start up capital of £10m was allocated to the fund to cover initial expenses. Prior to 2013, transfers to General Revenue were solely to fund SSP Projects, and subsequent to this date, used additionally to repay the £10m loan and reduce the budget deficit. The FSR Fund is expected to have a limited life and should be wound up following the FTP Programme. The approved resolutions of the 2015 Budget Report include closure of the FSR Fund on 31 December 2015 with the liabilities and balance transferred to the Transformation and Transition Fund. We have provided an explanation of the mechanics of the FSR Fund on page 6 and a financial summary on page 14. The FSR Fund forms part of the SoG annual accounts which are independently audited as part of the external audit

Background (continued)

KPMG have been engaged to perform a financial review of a sample of FTP Projects, including a review of the Consultants fees and to provide a schedule summarising the financial entries of the FSR Fund

Consultant Fees

The Consultant was remunerated through a combination of the following:

- Fixed fees to assist with running the PMO
- Reward payments based on the sustainable net Approved savings
- Reimbursement of Consultant expenses

We have outlined the contractual methodology for calculating the Consultant fees on page 8. Financial models have been utilised in calculating the Approved savings of each project and resultant remuneration payable to Capita. These financial models should be based on the terms agreed with the Consultant in the original contract and novation agreement and the respective Projects' FBC

KPMG scope of work

We have been engaged to perform a financial review of a selection of FTP projects to verify that the benefits and Approved savings have been calculated in line with the financial rules, and that the supplier has been remunerated in line with the contracted terms. The Review Projects contribute £10.07m (35%) to the final Approved savings total and are listed below:

- Registry
- College Subsidy
- Air Subsidy
- Higher Education Parental Contribution
- SAP / STSC
- Voluntary Severance
- Vacancy Factor
- Visiting Consultants charged to Health Insurance Fund
- Claims Management

We have also been asked to review the FSR Fund and provide a readily understandable schedule summarising the financial entries

Work Performed

Our work has been limited to the following and does not constitute an audit:

- Inspected key project documentation including summarisations of relevant Key Billet d'Etat's; Statements and Reports from the PAC; Project Business Cases; the Contract, Novation Agreement and Partnership Agreement with the Consultant
- Held interviews with key members of the Project teams of the Review Projects to gain an understanding of the FTP process
- Performed an analysis on project financial data
- Reviewed and summarised key financial data of the FSR Fund
- Traced signed off Approved savings from the Review Projects through to the FSR Fund
- Recalculated fees payable to the Consultant

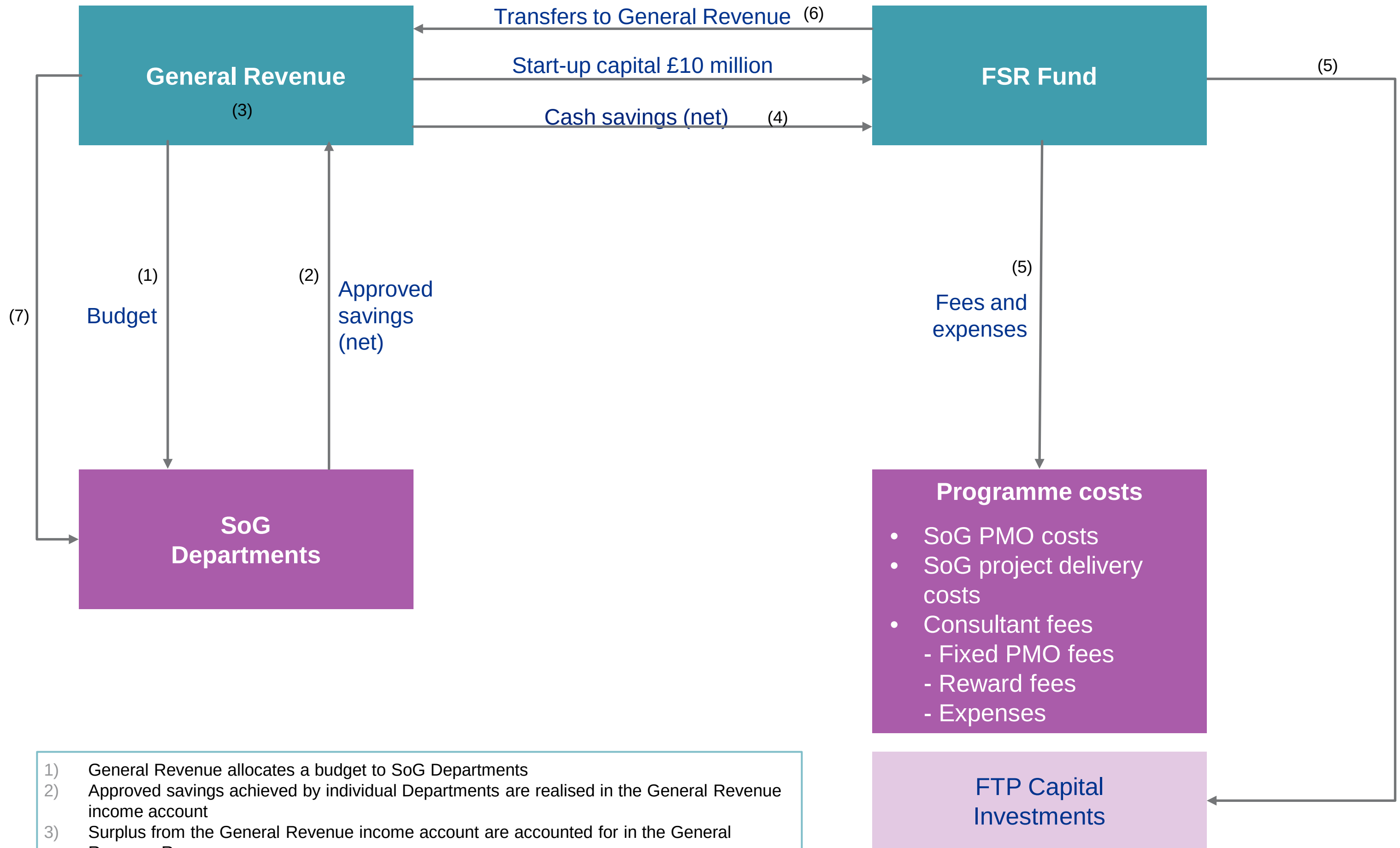
Background – FSR Fund mechanics overview

The FSR Fund is accounted for in line with SoG accounting policies and forms part of the SoG audited accounts

The FSR fund was established in 2009 to account for FTP Approved savings, fund Consultant fees and expenses, fund SoG PMO costs and fund FTP capital costs

Start up capital of £10 million was transferred in 2010 to the FSR from the General Reserve to cover initial expenses

We have prepared a financial summary on page 14 outlining the surplus generated by the FSR Fund up to the latest audited accounts (31 December 2013)



1) General Revenue allocates a budget to SoG Departments
2) Approved savings achieved by individual Departments are realised in the General Revenue income account
3) Surplus from the General Revenue income account are accounted for in the General Revenue Reserve
4) Cash savings as a result of the FTP are transferred to the FSR Fund
5) FSR Fund pays ongoing FTP fees, expenses and capital investments
6) Surplus from the FSR fund is returned to the General Revenue Reserve
7) Surplus returned to the General Revenue Reserve are distributed to SoG Departments and utilised on Service Development or on the General Revenue deficit

Background – impact of FTP on General Revenue

There are a number of external and internal factors that do not make it possible to isolate the overall effect the FTP has had on net Revenue expenditure up to December 2013. Factors affecting the net Revenue expenditure which are unrelated to FTP include and are not limited to:

- **The economic cycle**
- **Demographic changes**
- **Cyclical events, such as an election, will lead to an additional cost in that particular year**
- **Exceptional costs**
- **Inflation**

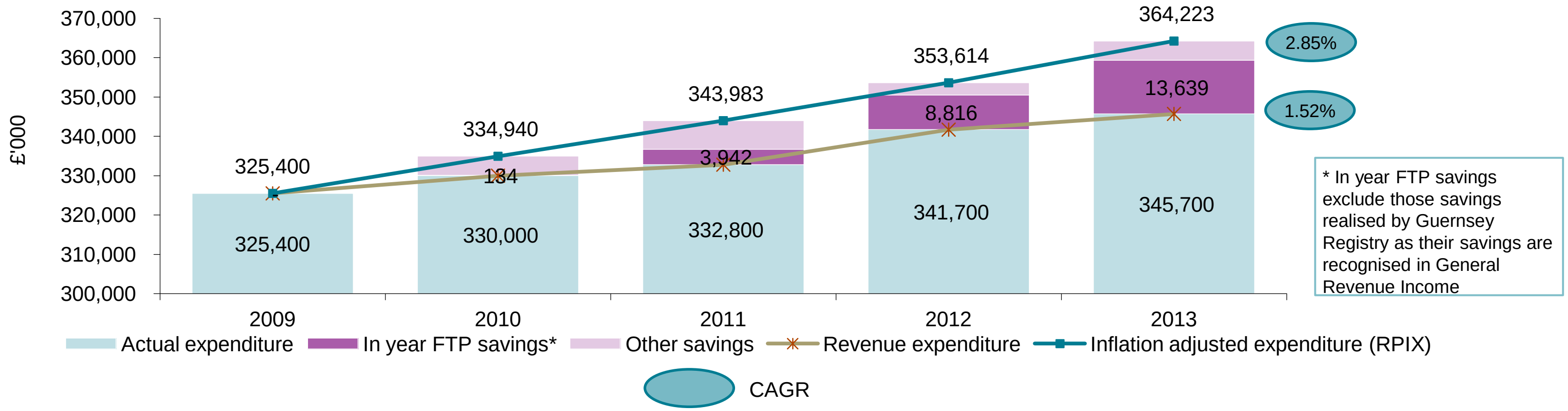
Additionally, the FSR Fund was set up to cover some FTP expenditure such as Consultant fees and expenses and capital costs which would not pass through the net Revenue expenditure account

We have analysed the increase in net Revenue expenditure from the 2009 baseline and applied only an inflationary factor. This has been compared to the actual increases in net Revenue expenditure. This analysis suggests that the Approved savings have contributed to limiting the increases in net Revenue expenditure below inflation and further assisted to reduce the budget deficit to zero

States Treasurer's Report: General Revenue Position

	2009 Actual £m	2010 Actual £m	2011 Actual £m	2012 Actual £m	2013 Actual £m	2014 Estimate £m	2015 Budget £m
General Revenue Income	341.2	330.7	346.3	362.3	361.3	381.0	406.0
Net Revenue Expenditure	**(325.4)**	**(330.0)**	**(332.8)**	**(341.7)**	**(345.7)**	**(353.0)**	**(366.0)**
Revenue Surplus/(Deficit)	15.8	0.7	13.5	20.6	15.6	28.0	40.0
Routine Capital Expenditure	(15.0)	(17.7)	(16.7)	(16.4)	(13.4)	(7.0)	(7.0)
Capital Income	0.1	0.4	0.2	1.2	10.5	1.0	-
Net Surplus/(Deficit)	0.9	(16.6)	(3.0)	5.4	12.7	22.0	33.0
Transfers:							
Capital Reserve	(20.0)	(20.6)	(21.3)	(25.4)	(34.5)	(36.0)	(37.0)
Strategic Development Fund					(3.0)		
Transfer from General Revenue Account Reserve					(3.0)		4.0
Overall Deficit	**(19.1)**	**(37.2)**	**(24.3)**	**(20.0)**	**(27.8)**	**(14.0)**	**-**

FTP cash Approved savings vs Net revenue expenditure



Background - fees to Capita

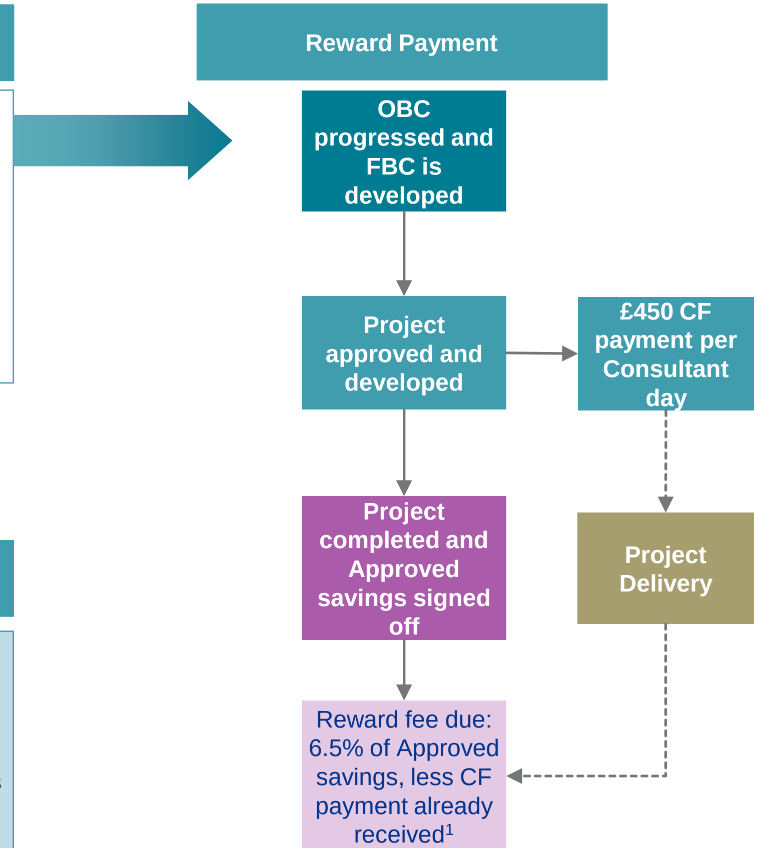
The Supplier was paid a total of £5.14m through a combination of reward payments (£1.81m), fixed PMO and executive support fees (£2.12m) and capped and other expenses (£1.21m) (see page 15 for details). The contract with the Consultant ended on 31 October 2014 and no FTP fees were accrued beyond this date

Under the contract, the Consultant was entitled to a cash flow payment for time they had spent delivering projects to which a future reward payment was expected. The agreed figure was £450 per Consultant day. The cash flow payments were then offset against the reward fee when this crystallised. We understand that this led to a significant accrued liability of c£500k being owed by the Consultant to SoG in February 2013 .This liability was settled in advance of the end of the Contract

Reward Payment

Reward = 6.5% of Approved savings, less Cash Flow Payments made

- Cash flow payments are £450 per project day
  - Project days are the number of days the Consultant spent on FBC development and project delivery and are included on their invoices, which are signed off by the PMO. These are additional days worked, over and above PMO days
  - The £450 per day is 50% of estimated costs of delivery of £900



Other Fees and Expenses to the Consultant

PMO Fees = £1.81m + RPI over 5 years

- **Contract**: Fixed fee £588k in Year 1 and £235k in Year 2, increasing by RPI in Year 3 to 5. This is based on a minimum commitment from the Consultant of 750 days in Year 1 and 300 days in Year 2 to 5. An additional £279k will be paid for 180 days of executive support throughout the FTP. The total fixed fee is therefore £1.81m plus RPI. Schedule 2, paragraph 3 allows for additional PMO fees in the event that SoG fails to provide experienced and appropriately qualified individuals to replace the Consultant's staff in years 2-5 and the Consultant continues to provide said staff to the PMO
- **Partnership agreement**: 2,311 days budgeted for at £783/day increasing by RPI. A rate of £854/day was quoted in the agreement from the start of year 4

Expenses = Maximum of £180 per Consultant day

- The Consultant will be reimbursed for all related expenses, capped at a maximum of £180 per day

Note: The contract made provision for 3 outcomes from the development of an FBC:

1. Project proceeds to delivery; the Consultant subsequently receives 6.5% of Approved savings
2. Project terminated due to insufficient benefits; no payment is made to the Consultant
3. Project terminated; benefits available but SoG chose not to pursue. The Consultant receives £900 for each authorised day invested in business case development.

As only a sample of completed projects fell under the scope of this review, no evidence has been noted of whether Capita has actually invoiced SoG for the cash flow payments related to halted or incomplete projects or not

Executive Summary

Executive Summary

Within the scope of our review we have not identified any fundamental issues which may have led to significant differences in fees paid to the Consultant on the basis of the provisions within the Contract in respect of the Review Projects

The lack of defined financial rules at the outset of the programme has led to debate over whether certain savings and related reward fees to the Consultant can be approved

We have not sought to comment on the extent of cultural reform or whether the Review Projects are transformational in nature as this is outside of our scope of work

Within the scope of our review we have not identified any fundamental issues in respect of the Review Projects which may have led to significant differences in fees paid to the Consultant on the basis of the provisions within the Contract, however the lack of defined financial rules at the outset of the Programme has led to debate as to whether certain savings, and related reward fees to the Consultant, can be approved. The Consultant has received reward fees of £626k related to the Review Projects. During our review, we have identified the following points of relevance:

Contract and Partnership Agreement

- The Contract does not clearly specify what constitutes a saving, or whether any associated costs are able to be offset, in calculating the saving banked by SoG, upon which the Consultant’s reward fee is calculated. Guidance on what constitutes a saving was given through the Chief Minister’s response to a Rule 6 question in August 2014. As part of our review we have conceptualised our understanding of the financial rules which were applied to the Programme through review of documentation and discussions with key members of the Programme team. The lack of defined financial rules at the outset of the Programme has led to uncertainty and debate as to whether certain savings and related Consultant reward fees can be approved. The uncertainties identified in respect of the Review Projects include: whether future savings may be approved, whether costs charged through non General Revenue accounts or States owned entities should be considered, and the length for which savings need to be achieved before they may be approved. Refer below for specific examples

Review Projects

Air Subsidy (£731k Approved savings, £47k reward fee)

- Costs or reductions in income suffered by other Departments as a consequence of a Project being implemented have not always been taken into account by Departments in calculating the Approved savings. During our review of the Air Subsidy Project, the savings recognised by C&E did not take into account the estimated £100k reduction in airport revenues. A loss in airport revenues would be absorbed by the Ports’ holding account, which is a non General Revenue account monitored by PSD
- There are a number of knock-on economic effects of implementing the Review Projects which have not been taken into account. For example, the original study on the effect on passenger numbers for the Air Subsidy Project concluded that passenger numbers would decrease, leading to an estimated annual loss of £100k of airport finances and £429k to the Guernsey economy. The loss to the economy could lead to a General Revenue loss of up to 20% of £429k (totalling £85.8k) to SoG through tax on dividends and income that may be forgone. These potential costs were not taken into account when net savings were quantified
- By reducing the subsidy the States may have made a General Revenue saving in line with FTP rules, however it is estimated that of the £730k Approved saving, approximately £365k can be attributed as an additional cost for Aurigny, an airline wholly owned by SoG. As such, SoG may be required to provide additional support to the airline which is historically loss-making

Claims Management (£565k Approved saving, £37k reward fee)

- No significant findings

SAP/ STSC (£673k Approved savings, £57k reward fee)

- We have identified a clause in the Contract enabling SoG the opportunity to offset some of the capital expenditure on certain projects against the savings amount to which the Consultant payments were calculated. SAP was specifically identified in Schedule 4 of the Contract as a project which could utilise this clause, however there is no evidence that SoG exercised their ability to do so. The SAP Project generated savings of £673k with an initial capital outlay of £7.9m - the Consultants were paid the full reward fee of £57k in relation to this project without a deduction for any capital expenditure incurred as part of the Project

Executive Summary

Review Projects (continued)

Higher Education Parental Contribution (£912k Approved savings, £59k reward fee)

- Savings, which are expected to be realised in the future on an incremental basis have been approved although they are yet to be achieved. The Parental Contribution project is due to make savings of £217k in 2014, however the full saving of £912k has been approved as a recurring saving despite not being fully realised as a recurring saving until 2017. The decision to allow future savings to be approved and the Consultant to be paid based on future savings was approved by Policy Council in April 2013
- The reduction in the Higher Education Subsidy of £912k may lead to some parents being unable to afford to send their children to University and as SoG are unable to provide higher education on island, this is effectively a service cut for those who are affected

Voluntary Severance (£1.5m Approved savings, £95k reward fee)

- The Approved savings by SoG have not taken into account reduced expenditure on Pension contributions or Social Security contributions, both of which would lead to a reduction in net Revenue Expenditure. A reduction in Social Security contributions by SoG would see no impact to public expenditure as a whole. Current SoG contributions are 14.1% for Pension (savings of £205k) and 6% for Social Security (savings of £87k)

Guernsey Registry (£2.3m Approved savings, £148k reward fee)

- No significant findings

College Grants (£1.2m Approved saving, £79k reward fee)

- Savings, which are expected to be realised in the future on an incremental basis have been approved although they are yet to be achieved. The College Grants project is only due to make savings of £459k in 2014, however the full saving of £1.2m has been approved despite not being fully realised as a recurring saving until 2018
- The College Grants project initially recognised costs of £114k which were offset against the £1.2m identified savings. It was anticipated that the reduction in grants would lead to additional school fees being charged by the Colleges with a possible adverse effect on the number of students attending, leading to additional demand being placed on the State school system with related increased teaching costs, and additional costs for special place holder fees. A review was completed after one year of the grant being reduced (by £157k) to identify the effect that the reduction had on student numbers. At that time, no significant reduction in student numbers was noted, and costs of £105k were subsequently reversed from the savings total. We have concern that the decision to reverse the costs was made with limited evidence - students considering attending the Colleges in 2018 will be impacted by the full £1.2 million grant reduction, which is more likely to impact College student numbers and increase pressure on the State school system at that time

Visiting Consultants (£650k Approved savings, £0 reward fee)

- The transfer of Visiting Consultant costs from HSSD General Revenue to GHSF, in itself, does not lead to a £650k saving to public expenditure as a whole, but it would reduce General Revenue budgeted expenditure of the HSSD by £650k

Vacancy Factor (£1.6m Approved savings, £104k fee)

- No significant findings

General

- We have identified Registry, Air Subsidy and Higher Education Parental Contribution as Review Projects which could benefit from ongoing monitoring in order to ensure the sustainability of Approved savings. A benefits realisation process, which includes ongoing monitoring, is an integral part of many modern programme management techniques

Executive Summary

Consultant fees

- Reward fees – we have performed a recalculation of the £1.8m reward fees received by the Consultant based on the Approved savings and not noted any significant differences. We have identified two savings which have been classified differently for the purposes of Approved savings on which the Consultant fees are based:
  - the Consultant has refunded their £42k fee relating to the £650k Visiting Consultants Approved savings. This has remained an Approved saving, forming part of the £28.6m total Approved savings
  - Approved savings of £200k have been reversed after one year in relation to staffing costs on the SAP project. The Consultant has not been requested to refund their £13k fee for this reversal.
- PMO fees, totalling £1.9m, were 17% higher than provisioned in the Contract. The Partnership Agreement allowed for additional PMO fees which we understand were required as SoG were unable to provide the resource required to cover their obligation pursuant to the Contract

Fund

- Up to 31 December 2013, the FTP had generated a surplus of £16.05m before taking into account one-off costs and time invested by SoG employees who do not form part of the PMO. Voluntary Severance is the only Review Project which incurred a significant one-off revenue outlay (£2.5m) - this has been expensed directly through the Income and Expenditure account. Through transfers to the General Revenue Reserve, the FSR fund has repaid the £10m start up capital injected in 2009
- As demonstrated in the adjacent table, full cash savings are only realised in 2018
  - Note that these figures are only for the Review Projects and not the entire FTP. The difference between cash savings and Approved savings depends on when the savings were implemented during the year. For example, if a Project became effective halfway through the year and savings are signed off, the full amount would be recognised as Approved savings, however cash savings would only be effective for the second half of the year

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2011	2,274,000	1,625,345
2012	3,886,000	2,806,000
2013	8,833,910	4,732,580
2014	8,621,688	7,407,828
2015	8,621,688	7,709,688
2016	8,621,688	8,188,688
2017	8,621,688	8,446,688
2018	8,621,688	8,621,688

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

During our review, we have also identified the following observations of relevance:

Billing process

- The cash flow payment methodology agreed in the Contract led to a significant accrued liability owed by the Consultant to the States, peaking at c£500k in February 2013. This exposed SoG to significant supplier exposure and financial risk. We understand that the liability has now been eliminated as reward fees have crystallised.

Review Projects

- Following the shift to Departmental responsibility for Project delivery in November 2011, Departments were responsible for calculating savings which were subsequently passed to T&R to be processed in the form of a budget transfer form. The key control relied on to confirm the validity of the respective Approved savings was the Department’s budgets being subsequently cut. No other key control or independent scrutiny over the validity of the Approved saving was evident during our review

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Detailed Analysis

FSR Fund Financial Summary

The FSR Fund generated a surplus of £16.05m up to 31 December 2013 before taking into account exceptional one-off Project costs. These Project costs include £2.53m of Voluntary Severance payments, and time spent delivering projects by SoG employees who did not form part of the PMO team

Cumulative transfers of £23.18m have been made to the General Revenue Reserve which has effectively repaid the initial £10m capital injection from the General reserve as well as making £13.18m available to fund SSP projects and reducing the deficit.

Financial impact of the Programme on the FSR Fund

	Fund movement (cumulative to 2013) £'000s
Financial Transformation Programme	
Cumulative FTP savings	28,612
Programme Delivery Costs	
Administration (a)	(1,528)
Programme Management Office and Executive Support (b)	(1,851)
Expenses (c)	(706)
	(4,085)
Project Delivery Costs	
Revenue Expenditure (d)	(820)
Reward Fee (e)	(1,503)
	(2,323)
Capital Projects	
Consolidation of States Websites	(73)
Developing SAP and Shared Services	(6,050)
Other	(36)
	(6,159)
Net surplus/(deficit)	**16,045**

Note: We have not agreed the FTP and Project financial data to the FSR Fund accounts below. This is due to the fact that FSR Fund financial statements are only prepared as at 31 December each year and the Consultant FTP contract period end was as at 31 October 2014, as well as the timing differences in Approved savings sign offs and realisation of Approved savings, and the limited scope of this review

Financial statements only up to 31 December 2013, to coincide with the SoG financial year, therefore it has not been possible to reconcile the total FTP Approved savings and related payments to a set of financial statements as at 31 October 2014

Source: The SoG Accounts (2010 to 2013), audited

(a) PMO expenses for SoG staff

(b) PMO and executive support fees paid to the Consultant as per the Contract

(c) Reimbursive expenses paid to the Consultant for travel, accommodation and other

(d) One off expenses incurred in implementing specific FTP Projects

(e) Reward fees paid to the Consultant

FSR Fund reconciliation until 31 December 2013 (£'000)	
* Opening balance at 1 January 2010	824
Net surplus/ (deficit)	16,045
Initial transfer from General Revenue	10,000
** Expenses relating to the Restructuring and reorganisation fund	(241)
Cumulative transfers to General Revenue	(23,177)
Net balance at 31 December 2013	**3,451**

* The FSR fund was previously called the Restructuring and Reorganizational Fund and was utilised for purposes other than the FTP. The opening balance was that carried forward from Restructuring and reorganizational fund

** Details of expenses which have been incurred, relating to the Restructuring and reorganisation fund are as follows:

Description	£'000
Environment Planning and Building IT System	(140)
Housing Control IT System	(61)
Other Expenditure	(40)
Total	**(241)**

Payments made to the Consultant

A total of £5.14m was paid to the Consultant throughout the duration of the 5 year Programme

We have performed a recalculation of the £1.81m Reward fees received by the Consultant based on the Approved savings and based on the Contract provisions and we have not noted any significant differences

PMO fees, totalling £1.85m, were 17% higher than provisioned in the Contract. The Contract and Partnership Agreement allowed for additional PMO fees which we understand were required as SoG were unable to provide resource to cover their obligation pursuant to the Contract

Expense days are charged for all Consultants working in the PMO as well as Consultants working on specific Projects, hence the greater number of expense days than PMO days

Fees as at 31 October 2014

	£	days
Reward Fee	**1,813,076**	
Expenses	**913,197**	6,402
PMO	**2,115,189**	
PMO days	1,851,652	2,280
Exec Support days	263,537	157
Other days & related expenses	**294,586**	500
Total fees	**5,136,048**	

Notes:

Reward Fee: see below KPMG reconciliation of reward fees

Expenses paid to the Consultant: as per the Contract (Schedule 3), the Consultant was provisioned to claim up to £180 per consulting day. The average expense claim was £143 per day

Expenses paid by SOG: during the initial months of the FTP, SoG paid the Consultant's expenses directly. Thereafter, expenses were paid by the Consultant and reimbursed by SoG

PMO days: The Consultant was obligated to provide experienced consultants to staff the PMO. See below Review of Programme Office Fees

Exec support days: 180 days of additional support at an executive level were contracted to be supplied by the Consultant

Other days and related expenses: this relates to expenses incurred by the Consultant regarding procurement, property and infrastructure work performed

KPMG reconciliation of reward fees	(£'000)
Savings per MoB at November 2014	**28,491**
Reconciling items:	
* FTP savings but no reward fee to the Consultant - Visiting Consultants	(650)
** Reward fee paid to the Consultant but not an FTP saving - SAP	201
Savings upon which to base the Consultant's reward fee	**28,042**
Expected reward fee	1,823
Actual reward fee	1,813
Possible over/(under) payment	**(10)**

Notes:

* Refer to page 32 and 33 for further details

** Refer to page 23 for further details

Review of Programme Office Fees

		Per Contract		Per gov.uk	Calculated	Per Capita Invoice summary	
Year	**Start of year**	**PMO days**	**PMO fees**	**RPI: October**	**PMO fees incl. RPI**	**PMO days**	**PMO fees***
1	Nov-09	750	587,500		587,500	750	587,259
2	Nov-10	300	235,000		235,000	529	414,172
3	Nov-11	300	235,000 + RPI	5.4%	247,697	392	324,425
4	Nov-12	300	235,000 + RPI	3.2%	255,623	291	247,539
5	Nov-13	300	235,000 + RPI	2.6%	262,270	318	278,257
		1,950			**1,588,090**	**2,280**	**1,851,652**

Notes:

* Refer to page 8 for further details on the clauses in the Partnership Agreement and the Contract that allow for additional PMO fees to be charged

KPMG

cutting through complexity

Project Summaries

Financial Rules for FTP Projects

The Contract does not specify what constitutes a saving or whether any associated costs are to be net off in calculating the Approved saving. Guidance on what constitutes a saving was given through the Chief Minister's response to a rule 6 question in August 2014

We have developed our understanding of the cost financial rules which were applied to the programme through review of documentation and discussions with key members of the programme team

Savings

Financial Rules

- It must enable a reduction in a general revenue budget;
- It must be an annually recurring benefit not a one off saving; and
- It must be calculated net of any associated ongoing costs

If a forecast saving does not satisfy all three criteria then it cannot be accepted as an FTP saving[1]

Expanding on the first two points, above:

- Capital savings are not allowed under the FTP. For example: renegotiating a supplier contract to purchase IT hardware at a discount is a capital saving and does not count toward FTP, but a saving on the ongoing maintenance of IT hardware would be a revenue saving and is allowed
- A reduction in general revenue can be achieved through an increase in general revenue income or a reduction of general revenue expenditure

Through discussions held with key PMO and Project staff we understand that a saving cannot be a service cut or internal transfer. Our understanding of these terms is as follows:

- Service cut: cannot stop providing a service to the public
- Internal transfer: cannot make a saving in one area but increase the budget in another area to replace the lost resource

There is nothing in the Contract that either allows or prevents internal transfers or service cuts under the FTP

Observations

The Rule 6 question contradicts our understanding, above, and states: "All benefits are classified as a cost-cutting, efficiency or income generation saving, and are categorised as an income saving, efficiency saving, grants & subsidy saving, service cut or internal transfer." [1]

Costs

Financial Rules

- Costs have not been defined as such in the contract, therefore we have outlined our understanding of 'costs' below, based on our experience gained from this review

Costs interpretation

- Ongoing or recurring revenue expenditure is netted off the gross savings to arrive at a savings figure attributable to the FTP
- One off revenue expenditure is not net off the savings amount attributable to the FTP
- Capital expenditure is not net off the savings amount attributable to the FTP

Other observations

- As per the Contract (Schedule 1, paragraph 12, Addendum: Capital Investment Costs), regarding the reward payment, the Parties shall "acting in good faith, seek to negotiate a reasonable and fair means of taking into account the capital investment costs to the States of certain projects"
- Contractually, there was scope to offset some of the capital expenditure on certain projects against the savings amount to which the Capita payments were calculated. We are not aware of this having occurred from the limited review performed

Source: 1. "Rule 6 question" Reply by the Chief Minister to a question asked pursuant to rule 6 of the rules of procedure by deputy Mike Hadley dated August 2014

Air Subsidy

FBC date: February 2012

Planned Approved savings: £500,000

Actual Approved savings: £730,711

Department: Commerce and Employment

Expected completion date: Implementation on 1 April 2012. Full £500,000 Approved savings to be realised after 12 months by 31 March 2013[1]

1. Phase 2 and 3 were not included within the original plan

Project Plan / Background

The Air Subsidy was a policy to grant financial concessions to airlines in order to strengthen Guernsey's ability to provide external transport links for the benefit of the economy. The subsidy granted was £1.05 per passenger on all long haul flights (non inter-island Channel Island flights).

The FTP business case recognised the initial reasons for implementation of the financial concessions and proposed removal of the Subsidy from the high volume air routes (Southampton and Gatwick) in order to minimize the impact on Guernsey's transport links, which forecast about £500k Approved savings per year. According to the FBC, there were approximately 350,000 and 135,000 passengers per annum flying to and from Gatwick and Southampton, respectively. At a subsidy cost of £1.05 per passenger, this equates to approximately £510k.

After the successful implementation of this, a "Phase 2" proposal was made to reduce the subsidy on other routes. Various options were considered in this proposal, including keeping the remaining subsidy, removing the subsidy totally, reducing the subsidy from £1.05 to £0.50, and keeping the remaining subsidy in winter only.

The final option was approved to keep the remaining subsidy in winter only. According to the proposal, 2011 passenger numbers were 902,000, low volume routes accounted for 30% of passenger volume compared to high volume, and summer months accounted for 48% of passenger numbers compared to winter months. This equates to approximately £130k in subsidy. Phase 2 Approved savings were estimated at £128k.

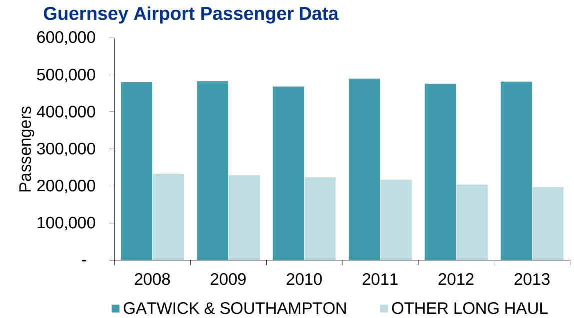
Project Implementation

The Air Subsidy Project was implemented on high volume routes and £500k was signed off as Approved savings in February 2012, as initially planned. The subsidy was removed from Gatwick and Southampton flights with effect from 1 April 2012.

Phase 2 was then proposed and it was decided to remove the subsidy from the remaining flights for the summer months, leaving only low volume, winter months flights still receiving the subsidy. This was approved and implemented, resulting in further Approved savings realised in 2013 and 2014. Phase 2 was implemented with effect from 1 May 2013.

A decision was made by the C&E Board to remove the entire remaining subsidy in December 2013 ("Phase 3").

We have not noted any evidence that the removal of the subsidy has had a significant effect on passenger numbers. There appears to be a slight decrease in 'other long haul' flights (being non Gatwick and Southampton long haul routes), however this data indicates that the decrease was occurring prior to the removal of the subsidy.



Data source: Guernsey Airport Passenger Movements: http://www.guernseytrademedia.com/files/managed/pdf/pax_by_route_and_month_2013_09-01-2014_15-08-43.pdf

Air Subsidy

Gross savings: £730,711

- **£500,000 for Southampton and Gatwick routes, February 2012**
- **£123,000 for remaining routes summer months only, March and December 2013**
- **£107,711 for remaining subsidy, January 2014**

Costs: £0

Approved savings: £730,711

Consultant reward fees: £47,496

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2012	500,000	375,000
2013	623,000	582,000
2014	730,711	730,711
2015	730,711	730,711

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

Phase 1 Approved savings of £500,000 were signed off as expected.

Phase 2 Approved savings of £123,000 were signed off in 2013 from the low volume routes over summer (of the £128,000 forecast).

An additional £118,000 Approved savings were signed off in January 2014 after the decision to remove the entire remaining subsidy.

A review of the Approved savings found that they were overestimated and resulted in a negative budget amount. An adjustment was made in September 2014 to correct this.

Financial Summary of Air Subsidy

		£
Savings signed off		
	Feb-12	500,000
	Mar-13	73,000
	Dec-13	50,000
	Jan-14	95,000
	Jan-14	23,000
	Sep-14	-10,289
Total Savings		730,711
Ongoing costs		-
Net Savings		730,711
Total reward payment (6.5%)		**47,496**

Observations

- **Costs not offset against Approved savings**: In the original study on the effect on passenger numbers undertaken by York Aviation as an external consultant, it was concluded that passenger numbers would decrease, leading to an estimated annual loss of £100,000 of airport finances and £429,000 to the Guernsey economy.
  - As the airport is owned by SoG, the £100,000 loss would be absorbed by the Ports' holding account, which is a non General Revenue account monitored by PSD. We are not aware of the extent of any attributable losses and no evidence of post-implementation monitoring has been noted.
  - The loss to the economy could lead to a General Revenue loss of up to 20% of £429,000 (totalling £85,800) to SoG through tax on dividends and income that may potentially be forgone.
- By removing the subsidy the States may have made a General Revenue saving in line with FTP rules, however it is estimated that of the £730k Approved saving, approximately £365k (£24k fee) can be attributed as an additional cost for Aurigny, an airline wholly owned by SoG. As such, SoG may be required to provide additional support to the airline which is historically loss-making.
  - The final business case ("C&E_D – Review of Air Route Financial Concession") shows the subsidy paid in the year ending Q3 2011, by airline, with 50% of the subsidy paid to Aurigny. No evidence of more recent analysis has been noted. Based on the above, we estimate 50% of the Approved savings are attributable to Aurigny.
  - We have no visibility over Aurigny's economic treatment of the removal of the subsidy. If Aurigny increased ticket prices by the same amount as the subsidy, without any impact on passenger volumes, then the Approved saving would, in fact, be valid

Claims Management

FBC date: April 2011

Planned Approved savings: £189,090

Actual Approved savings: £565,270

Department: SSD

Expected completion date: July 2013

Project Plan / Background

The Claims Management Project formed part of the wider Value-for-Money ("VFM") initiative of the FTP. This project focused on SPB-B claims (refer below for definition).

A person signed off as medically unfit to work can claim either an Incapacity Benefit ("IB") or a Supplementary Benefit ("SPB"). An IB is paid to a person with a sufficient contributions record, and is processed and actively managed by the benefits team. IBs are funded by the Social Security fund, separate from General Revenue. An SPB is a subsistence payment and is paid to a person whose contribution record does not entitle them to claim a full IB. SPBs are paid out of General Revenue, therefore fall within the FTP. SPB 'B' claims are made by people who are neither working or job-seeking. SPB 'J' claims are paid to jobseekers. Prior to implementation, SPB B-only claims were processed but not actively managed.

The overall plan was to reduce the number of people claiming SPB B-only claims and reduce the length of time that people claim these benefits for.

The total cost of SPB-B only payments was approximately £1.65m in 2009; an average of 165 recipients at any one time, each costing an average of £10k per year. The FBC estimated that up to 18% gross improvement is possible through replicating IB procedures for SPB. The net annual Approved savings expected to be realised by the end of 2014 were £189,090.

Interviews with key staff members revealed that claimants previously received benefits for the entire duration of the medical certificate without any active management by the department. The Project aimed to encourage claimants to re-enter the workforce earlier than previously experienced by establishing job seeking requirements linked to benefit payments, as well as work-focused support and guidance. Evidence would indicate that the longer someone is in receipt of a benefit, the more difficult it is to get them back into the workforce. The early intervention and active management that claims management provides are pivotal to minimising claim durations.

Project Implementation

Various workshops were held by the Project Board and SSD to identify VFM type opportunities. These took place in late 2010.

The success of the Project saw a greater requirement for administrative support, requiring an increase in staff costs of £13,500.

Actual net Approved savings realised and signed off amounted to £565,270 at the end of 2013. This significantly exceeded expectations as seen in the table below.

Claims management savings

	Estimated	Signed off
Savings	210,320	600,000
Costs	- 21,230	- 34,730
Net savings	**189,090**	**565,270**

As per discussions with key staff, ongoing monitoring of total SPB-B claims revealed that actual Approved savings has been in excess of Approved savings signed off.

Claims Management

Gross savings: £600,000

Costs: £34,730

Approved savings: £565,270

Consultant reward fees: £36,743

Cash saving vs Approved saving		
Year	**Approved saving**	**Cash saving**
2013	565,270	395,135
2014	565,270	565,270

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

Approved savings of £450,000 were identified in April 2013 and further Approved savings of £150,000 less ongoing costs of £34,730 were identified in July 2013.

Total net Approved savings signed off were £565,270 resulting in a reward fee to the Consultant at 6.5% of £36,743.

Total expenditure on SPB B-only claims was £1.65m before implementation of the project.

The Approved savings identified are based on a full 12 months of monitoring, from April 2012 to April 2013. Approved savings are measured at average weekly rates that benefits are paid, and the number of weeks that the average claimant claims benefits, based on historic averages and based on the type of claimant.

Financial Summary of Claims Management		
		£
Savings signed off		
	Oct-13	450,000
	Oct-13	150,000
		-
		-
		-
		-
Total Savings		600,000
Ongoing costs		-34,730
Net Savings		565,270
Total reward payment (6.5%)		**36,743**

Observations

- The Project significantly exceeded the initial Approved savings expectations.
- The project outcome of reducing the number of claimants and the amount of time people claim benefits before re-entering the workforce could result in additional benefits as the result of a knock-on effect, for example:
  - Additional financial benefits could include personal income tax and social security contributions paid by individuals who would not have otherwise been earning, as well as increased consumer spending. The potential value of these factors are not included in the Approved savings identified.
  - Potential soft benefits include mental health improvements of ex-claimants who are valued, contributing members of society; potential decrease in crime.
- There is the chance of a negative impact on genuine claimants. As per the Project closing memo, there have been no known instances of this.
- Benefit claims are a function of the economic cycle. Over time actual Approved savings could fluctuate accordingly as economic factors change. Approved savings signed off were based on actual observations over a previous 12 month period. The same amount will be deducted from each future budget without regard to the current economic factors.
- There is evidence of ongoing monitoring of SPB-B claims and subsequent actual Approved savings done on an overall basis, but not on a claim-by-claim basis after the initial 12 month measurement period.

SAP/ STSC

FBC date: 11 August 2011

Planned Approved savings: £1,136,000 revised to £1,700,000

Actual Approved savings: £672,707

Department: Approved savings attributed across multiple Departments

Expected completion date: December 2011, revised to December 2012

Project Plan / Background

The original OBC was put forward as part of the 107 opportunities in the 2009 FSR. The OBC outlined a plan to develop a States wide integrated business system (utilising the software system "SAP") and centralise and redesign many of the administrative and back office functions that were performed separately by various Departments at that time.

The OBC provided a two year implementation period beginning in January 2010, with go-live expected by 31 December 2011. Net revenue savings of £1,136,000 with capital expenditure of £5,250,000 were expected over the five year FTP period.

The Billet D'état XVII 2011 contains a report to the Chief Minister and Policy Council dated 11 August 2011 setting out the proposed implementation of SAP and a States wide shared service.

The report proposes the centralization of some administration staff and the extension of the existing SAP system to include HR, finance, IT and procurement.

Project cost/ benefit summary	£'m
Expected benefits	**1.9**
40% reduction of admin staff	1.9
Reduced management overheads, departmental IT systems maintenance and licencing costs	**0.2**
Additional required expenditure	**(0.4)**
- SAP staff	(0.25)
- licencing fees	(0.15)
Net revenue savings	**1.7**
Initial capital outlay	**7.9**

In addition, other FTP Projects with expected savings of £9.4m, were reliant on the successful implementation of this Project.

This Project is not specific to any particular department, and expectations were for post-implementation savings to be realised across most States Departments.

Project Implementation

On 26 October 2011 the States passed a resolution to:

- Accept the tender from Logica Plc for £3.7m to implement SAP and provide support services for five years
- Approve capital of £7.1m to fund development of the STSC and core SAP functionality, to be charged to the FSR Fund and £0.84m to fund development of the corporate Asset Management system, to be charged to the capital reserve (total £7.9m).
- Approve the one-off revenue expenditure costs for redundancies, estimated to be £1.5m, to be charged to the FSR Fund.
- The expected net savings were £1.7m

Go live was 1 January 2013, savings of £1.25m were initially signed off in April 2013.

The actual FTP savings were adjusted to £672,707 (from £1,252,640 initially signed off) with the reward fee to Capita based on savings of £873,417 (see next page).

Savings were attributed across Departments based on various factors: these included the Department's relative FTP savings target size, and estimated utilization of efficiencies, amongst others.

The majority of the savings were attributed to HSSD and T&R, with the remainder attributed between nine other departments.

Other projects with expected savings of £9.4m were reliant on the successful implementation of this project. The implementation and realisation of the savings from these other projects has not been verified as part of this Project review.

SAP/ STSC

Approved savings:

- **£672,707 banked for FTP**
- **£873,417 used for reward fee calculation**

Costs: Approved savings are shown net of ongoing costs

Consultant reward fees: £56,772

Capital costs £7.9m

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2013	1,252,640	582,278
2014	672,707	806,514
2015	672,707	672,707

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

Financial summary notes:

a.) The total net savings signed off, with related reward fee to the Consultant

b.) Adjustment made to align total net savings to the actual savings amount realised when Departmental budget reductions were calculated

c.) Recruitment budget adjustment

d.) The Hub staff budget adjustment: after an initial period of operations the Project team realised that additional staff members were necessary

e.) An amount added back to the Hub budget to cover additional staff costs. The Consultant has not been requested to refund their reward fee in relation to this Approved savings reversal

f.) Savings are shown net of ongoing revenue costs for the SAP project

Financial Summary of SAP

Savings signed off:		Savings adjustment	Approved savings	Reward fee	
May-13		1,252,640	1,252,640	81,422	a.)
Feb-14	-	137,723	1,114,917	-8,952	b.)
Mar-14	-	86,500	1,028,417	-5,623	c.)
Sep-14	-	155,000	873,417	-10,075	d.)
Sep-14	-	200,710	672,707	-	e.)
Gross savings			672,707		
Ongoing costs			-		f.)
Approved savings			672,707		
Approved savings for reward fee			873,417		
Total reward payment (6.5%)				**56,772**	

Observations

- SAP savings of £1,252,640 were initially signed off and multiple adjustments were made thereafter. The relevant Departmental budgets have been reduced by the respective allocated amount of the signed off savings.
- Budget transfer forms are not submitted for T&R. A T&R staff member makes all the transfers for the FTP Approved savings and would also be responsible for submitting the BTF's. BTF's per department have not been reconciled to net SAP savings, therefore it has not been possible to provide comfort in respect to this figure. See below for discussions with key staff.
- Savings realised were significantly below expectations. We understand that the Project team are not aware of any reason for savings to be further adjusted downwards, following this review.
- There is no evidence of capital investment expenditure being taken into account when savings were signed off in accordance with Schedule 1, paragraph 12 of the Contract, and under Schedule 4.
- The £200,710 is not deemed to be a sustainable saving, hence SoG have reversed this from the Approved savings. The Consultant has not been requested to refund their reward fee in relation to this Approved savings reversal. From our discussions with the Consultant, we understand their interpretation of the Contract is that a saving is required to be in place for more than one year for an approved reward fee to be justified non-refundable. Our view is that this definition of "Actual Project Savings" in the Contract refers to the fact that Approved savings are recurring every 12 months for the foreseeable future. We do not agree with the view taken that if a saving is in place for 12 months, a reward fee is due, regardless of whether that saving is subsequently reversed.
- We understand that some of the savings attributable to this project are as a direct result of the Hub, while others have been realised directly by Departments and accounted for separately.

Higher Education Parental Contribution

FBC date: Undefined

Planned Approved savings: £912,000

Actual Approved savings: £912,000 however the Approved savings are yet to be realised

Department: Education

Expected completion date: September 2017

Project Plan / Background

This project falls under the VFM umbrella of projects, which was initiated to order to ensure public resources are used in an efficient and effective manner with services to be delivered at a lower cost, with a maintained or improved level of service delivery.

The States provide a subsidy to Guernsey and Alderney parents of children seeking tertiary education off-island. Many universities have reached an agreement to treat Islanders as UK resident for tuition, whilst some treat islanders as foreign students. Universities generally charge a significantly higher tuition fee to non-resident students. The States calculates the parents' contribution based on their income and various other factors. The States then subsidises the remaining tuition fee of the student and this amount will vary depending on the specific university they are to attend.

This project was a departmental initiative and not part of the original 107 opportunities, therefore an OBC was not available. An FBC was also not available for this project.

Various options were discussed as per the minutes of the Education Department Higher Education Working Party Board's meeting held on 8 October 2012.

Depending on the individual's situation, students received either full support for their tuition fees as well as maintenance support, full support for tuition fees only, or partial support for tuition fees.[1]

The estimated cost of fees for the 2010/2011 academic year, including both parental and States contributions, based on 825 students is approximately £7.1 million. The total paid by parents for tuition fees was £2.7 million in 2010/11.[1]

Source: 1.) Billet D'état V12 Tuesday, 6th March 2012

Project Implementation

The Board unanimously agreed to implement a £1,000 increase in the parental contribution (reduction in the subsidy) starting in the 2013/2014 academic year and a further £1,000 in the 2014/2015 academic year. The reduction would not affect all students; the fees paid by financially constrained students would not be affected by the Project.

The Board also decided to limit the subsidy to £9,000 for universities charging Island students at higher rates. This will affect students who will attend Cambridge university.

The savings signed off have not all been realised as at closure of the FTP. The savings signed off were on the basis that as new students enter the UK higher education system from 2015 onwards, and existing students graduate each year, the States will be subsidising up to £2,000 less per student when compared to students that are already in the system. We understand that there will be little financial impact on a large number of students. The Education Department rationalised that the saving has already been provided for in the 2015-2017 budgets. The Policy Council granted the saving for the 2015-2017 years.

Minutes of the Policy Council meeting noting approval of these savings have been inspected.

According to data received from key members of staff, the actual higher education total subsidy is as follows. This shows a decline in total spend from 2010/2011 to 2014, without taking into account the effects of inflationary fee increases.

Total HE Subsidy

Year	£
2010	6,049,000
2011	5,751,000
2012	5,725,000
2013	5,761,000
2014 forecast	5,403,000

Higher Education Parental Contribution

Gross savings: £912,000

- **£217,333 realised Approved savings**
- **£694,667 future Approved savings**

Costs: £0

Approved savings: £912,000

Consultant reward fees: £59,280

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2013	652,000	58,000
2014	912,000	217,333
2015	912,000	478,000
2016	912,000	782,000
2017	912,000	912,000

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

The total savings is expected to be realised through incremental reduction of the budget over five years

Savings of £217,333 were signed off in January 2013. The Education Department's budget was adjusted by £58,000 in 2013 and then a further £159,333 in 2014 to account for the £217,333 calculated savings by the end of 2014

A further £260,667 in 2015, £304,000 in 2016 and £130,000 in 2017 will be adjusted in forthcoming years until £912,000 has been accounted for in the budget.

The estimated Approved savings calculated are based on a number of factors including factors affecting course fees and parents' income and wealth. This calculation has not been audited, however it appears reasonable based on our high level review.

Original estimate of incremental savings

Year	£
2013	58,000
2014	217,333
2015	478,000
2016	782,000
2017	912,000

Financial Summary of Higher Education Parental Contribution

		£
Savings signed off		
	Jan-13	217,333
	Apr-13	434,667
	Apr-14	260,000
Total Savings		912,000
Ongoing costs		-
Net Savings		912,000
Total reward payment (6.5%)		**59,280**

Observations

- The provision of higher education is a service provided by SoG to Guernsey residents. There is currently little alternative to off-island higher education, therefore this project could be construed as a service cut if parents are no longer able to afford to send their children to university. We understand that there will be little financial impact on a large number of students
- As existing students who entered the system prior to 2013 and 2014 graduate, the amount of the realised saving should increase. This future saving is included as part of the FTP saving amount signed off. The amount included has been taken off the Education department budget for these future years, therefore it will be a recurring revenue saving. The amount had not been taken off the budget as at the end of 2014 so a revenue saving has not yet been recognised.
  - Although the end of the FTP period is 31 December 2014, there is provision in the Contract that technically allows the savings to count toward the FTP if Policy Council resolve to do so. Policy Council resolved accordingly, and minutes of the Policy Council meeting showing approval of these savings have been inspected.
- No evidence has been noted of ongoing monitoring of actual versus expected savings. If student numbers are different to those forecast, or if the distribution of students across various courses differs, the budget adjustments might not be appropriate and the actual savings would fluctuate from those forecasted.
- The effects of the increase in parental contributions on the number of university students is not known because there are many factors that impact this number. The effects are assumed to be minimal because the increase in parental contribution will mostly affect students whose parents are higher income earners.
  - If student numbers decline as a result of this, there could be a risk of an inverse J-curve effect on tax revenues: a short term increase in tax revenue as more school leavers enter the workforce, followed by a long term decrease as average salaries decrease to compensate for the lack of skills.

Voluntary Severance

FBC date: 13 May 2013

Planned Approved savings: Undefined

Actual Approved savings: £1,455,232

Department: All departments

Expected completion date: 31 December 2013

Programme Plan / Background

In May 2013 the Policy Council decided to implement the Voluntary Severance Programme (VSP) with the purpose of reducing the budget on permanent staff costs. In addition to the financial benefit, the program would act as an enabler and provide the opportunity for restructuring of Departments with the result being improved public services and improved capability.

Staff were provided the opportunity of putting their positions forward for consideration from 1 July 2013 to 30 September 2013. If accepted for the program, their employment was terminated no later than 31 December 2013.

The aim was for all costs incurred as a result of the Project to be paid back within three years. Through a sustainable reduction in posts, it has been estimated that the target will be met in 29 months.

The VSP will enable the SoG to achieve annual benefits of £1,455,232 per year.

Programme Implementation

The VSP gave employees the opportunity to voluntarily leave their SoG employment and provided them with a financial incentive for doing so. If chosen for the VSP, employees were entitled to receive a severance payment for voluntarily leaving service.

The criteria for accepting an application for Voluntary Severance (VS) was either:

- A financial benefit with a payback period not exceeding 3 years.
- A strategic benefit, where the exit of a member of staff allows for restructuring to improve capability but does not necessarily lead to a financial saving.

Key implementation points:

- The employer would have the sole discretion in determining who is eligible to participate in such a scheme and for determining the selection process. The employer was not obliged to accept any application for inclusion in the VSP.
- For employees to be considered, they had to be permanent employees. Supply staff, bank staff, short term fixed term contract staff, seasonal, or hourly paid staff, were not eligible to participate.
- An application was considered against managerial and operational factors. This included consideration of the requirement to retain sufficient knowledge, the capacity and skill base within the service/ Department, the total cost of potential compensation payments, and the total benefit to the SoG for accepting the application, such as restructuring opportunities.
- It was permissible for staff to be approached directly.
- Notice periods were to be complied with.

Voluntary Severance

Gross savings: £1,455,232

Costs: £0

Approved savings: £1,455,232

Consultant reward fees: £94,590

One-off Costs: £2,532,178

Financial Summary

The Approved savings amounts to £1,455,232 on a yearly basis.

The costs to be incurred as a result of the program include:

- Compensation of 5 weeks basic pay for each completed year of service, up to a maximum of 100 weeks pay in line with existing redundancy provisions
- A contribution of £300 towards legal fees incurred solely in connection with the advice received by the member of staff on the terms and effect of entering into a "Compensation Agreement"

The employee remuneration cost on the FTP portion of the scheme amounted to £2,532,178. An additional one off cost of £1,816,842 was incurred as a result of the Strategic Talent Management portion of the scheme (this fell outside the scope of the FTP, with no FTP savings recognised).

Financial Summary of Voluntary severance

		£
Savings signed off		
	Dec-13	1,419,029
	Jan-14	4,108
	Feb-14	32,443
	Mar-14	-4,272
	Apr-14	3,924
Total Savings		1,455,232
Ongoing costs		-
Net Savings		1,455,232
Total reward payment (6.5%)		**94,590**

Observations

- The risk of compensating staff who will be re-employed by a different SoG department has been addressed. Staff who enter into VS agreements will not be considered for re-employment by the SoG, in any area, within 36 months of entering into the agreement, without repaying all or part of the severance package. There is a mechanism in place to prevent direct contracting with the SoG.
- Existing redundancy provisions also entitle certain staff to an uprated pension as an alternative to the cash benefit. This was not offered under the VSP.
- It is not evident if it has been considered what the impact would be if all staff who have taken part in the VS program claim Social Security Benefits. The implication being that if these staff members are now claiming unemployment benefits, they will also no longer be paying taxes, thus reducing SoG revenue and increasing SoG expenditure.
- The Approved savings by SoG have not taken into account reduced expenditure on Pension Contributions. SoG contributions are currently 14.1%, a saving of £205,188 per annum relating to the VSP population.
- The Approved savings by SoG have not taken into account reduced expenditure on Social Security Contributions. Current Social Security contributions by Guernsey employees are 6% of the Gross salary of the employee (£87,314). This would lead to a reduction in net revenue expenditure and thus could be approved as a saving, in line with FTP rules, however would not lead to an overall decrease in public expenditure.

Guernsey Registry

FBC date: January 2010

Planned Approved savings: £141,500

Actual Approved savings: £2,274,000

Department: Commerce and Employment, but separate operating entity

Expected completion date: Q4 2011

Project Plan / Background

In 2007, changes to Guernsey's tax code required amendments to the structure of charges payable by companies registered on the island. A review of Guernsey's business environment recommended that the optimal fee for the annual validation of an asset-holding company administered by a corporate service provider ("CSP") was £500. This fee structure was supported by a SoG decision.

An interpretation in the actual wording of the law allowed these companies to register in a lower fee category of £250 per annum. Initial analysis performed on the project suggested that 7,830 companies incorrectly took advantage of the lower fee category, resulting in the loss of £1.96m of fee income and uncertainty about the rules of registration; 1,005 companies remained in the higher bracket, suggesting that the rules were adhered to inconsistently.

Guernsey Registry amended its fee schedule to ensure consistent application of the law. The initial expectation of Approved savings from the Registry was approximately £141,500 pa, but after the amendment, an increase in the potential Approved savings in Registry was estimated to be £2m pa.

Project Implementation

Guernsey Registry amended its fee schedule to ensure asset-holding companies administered by CSPs are charged £500 to complete their annual validation. This assists in ensuring a consistent application across all companies. It was estimated that this will generate an additional £2m each year in fee revenue without adversely affecting the size of the Register or Guernsey's international competitiveness.

Guernsey Registry

Gross savings: £2,274,000

- **Actual revenue increases from increased fees from April 2010 – March 2011: £2,081,628**
- **Actual revenue increases from increased fees from April 2011 – August 2011: £192,372**

Costs: £0

Approved savings:

£2,274,000

Consultant reward fees:

£147,810

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2011	2,274,000	1,625,345
2012	2,274,000	2,274,000
2013	2,274,000	2,274,000

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

The Registry project forms part of the total VFM workstream and as such all payments made to the Consultant are on a net basis of all VFM projects.

There has been no significant change in the number of registered companies numbers post Project implementation, which would indicate that the revenue increase is directly attributable to the Project. The actual net fee benefit before validation of the August companies being £2,081,628.

Additional revenues were earned during a second phase due to additional companies being identified and validated after the initial phase closure in March 2011. £192,372 have been realised during the second phase (August 2011, an additional 418 companies validated).

A fee of £135,306 has been earned by the Consultant during the initial phase based on a total Approved saving of £2,081,628, with a fee of £12,504 on the second phase (based on Approved savings of £192,372).

The additional revenue is recognised as an increase in general revenue income in the SoG accounts.

Financial Summary of Guernsey Registry

		£
Savings signed off		
Phase 1	Mar-11	2,081,628
Phase 2	Aug-11	192,372
Total Savings		2,274,000
Ongoing costs		-
Net Savings		2,274,000
Total reward payment (6.5%)		**147,810**

Observations

- It was estimated during a sensitivity analysis performed by the Consultant that a small proportion (1.65%) of companies may leave Guernsey due to the change to fees, but these companies would have provided only £73,500 in fee income.
- The Registry Project was initiated with the expectation of achieving Approved savings of £141,500 pa. Actual approved Project savings achieved, on a per annum basis, are closer to £2,274,000, which significantly exceeds the anticipated Approved savings and comprises 29% of the total VFM.
- Key reasons for the project exceeding its project Approved savings threshold are:
  - Prior to exploration by the VFM team, the source of potential Approved savings was unknown. Although there was a leakage of fees being earned due to the interpretation of the legislation, this fact had not yet been highlighted
  - The Approved savings from the resultant reallocation of companies between the respective categories has resulted in increase Annual Validation income from approximately 9,000 companies
- Approved savings are based on only one year of observations. Company numbers could fluctuate depending on the economic cycle. No evidence has been noted of any regard to the effects of the economic cycle when calculating Approved savings.
- There is limited evidence of post project monitoring to assess the long term impacts that this project may have and the sustainability of the Approved savings.

College Grants

FBC date: April 2011

Planned Approved savings: £1,022,000

Actual Approved savings: £1,217,000 however £653,000 of the Approved savings are yet to be realised

Department: Policy Council led initiative / Benefits allocated to Education

Expected completion date: September 2018

Project Plan / Background

This project was part of the original 107 opportunities identified through the FSR, which was initiated by Policy Council. This later became an Education project, following the shift in the FTP to Departmental responsibility. In order to realise Approved savings, there were two opportunities identified from the current grant formula paid to the Colleges[1]:

- Reduce or cease the subsidies paid to the Colleges through the general grant (the "Grant"). A Grant is paid for each student that attends the three Colleges, reducing the fee per person
- Reduce the number of special place holders ("SPH") at the Colleges. The SPH fee is paid for high-performing students in the 11 Plus exam that choose to attend the Colleges to cover the total cost of their fees

The project was expected to identify the minimum grant or subsidy required to deliver an appropriate level of state support to the Colleges from August 2012 and produce a full business case explaining the impact this will have on SoG finances and the Education sector. The Approved savings identified in the SORs gave an indicative Approved saving of £477k on general grants and £545k on special places from reducing grant aid to the Colleges.

1.) Elizabeth College, The Ladies College and Blanchelande College

Project Implementation

Although the two projects cover two distinct elements of funding from the SoG, they were combined for the purposes of the FTP. This would enable a single recommendation to be put forward for a new grant aid settlement for the Colleges (to take effect from September 2012, when the existing seven year agreement expires). The grant of £4.88 million, made up approximately equally between the general grant and the costs of the SPH fees, was intended to be reduced by £1.11m. The impact this reduction would have on each College was considered by the Department in the business case.

Five options were explored as a part of this Project with a sixth option being put forward in the September 2011 Billet XV, as each of the options that were assessed had issues which affect their financial or operational viability. The initial five options identified were:

- Continue current Grant aid formula
- Cease all Grant aid arrangements
- Proportional reductions in current Grant aid
- Ceasing the general Grant
- Fundamental changes to funding formula

The option adopted (option six) was a blend elements of some of these options based on the greatest potential for Approved savings with the least threat to the education system, with the following three conditions required to be met:

- A reduction in the overall level of grant funding paid
- No change to the number of special places per College
- Any changes to be phased in over seven years from 2012

Timeline / dates

Option six was tabled in the Billet in September 2011, debated in the SoG and approved.

College Grants

Gross savings: £1,226,000

- **Initial sign-off: £525,000**
- **Second sign-off: £701,000**

Costs: £9,000

- **Initial sign-off: £66,000**
- **Second sign-off: £48,000**
- **Subsequent cost reversal: £105,000**

Approved savings: £1,217,000

Consultant reward fees: £79,105

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2012	1,112,000	157,000
2013	1,217,000	437,000
2014	1,217,000	564,000
2015	1,217,000	739,000
2016	1,217,000	914,000
2017	1,217,000	1,042,000
2018	1,217,000	1,217,000

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

The total Approved savings is expected to be realised through incremental reduction of the Grant over the next seven years. Original estimates indicated Approved savings of £1,112,000 with this being revised to £1,217,000 in 2014 after reviewing future cost expectations.

The year by year reductions are shown in the following table:

Original estimate of incremental savings	
2012	£157,000
2013	£332,000
2014	£459,000
2015	£634,000
2016	£809,000
2017	£937,000
2018	£1,112,000

While all figures in this table are shown for clarity and simplicity without inflation, an inflationary uplift linked to RPIX will be applied annually to the General and SPH Grants and the net Approved saving to the SoG budget.

A fee of £79,105 has been earned by the Consultant for the College Grants Project being £72,280 (£1,112,000 x 6.5%) for the original estimate of reductions on grants and £6,825 (£105,000 x 6.5%) for the revised cost reversal.

Financial Summary of College grants

		£
Savings signed off		
	Oct-11	459,000
	Nov-12	653,000
Original target savings		1,112,000
	Apr-13	105,000
Total Savings		1,217,000
Ongoing costs		-
Net Savings		1,217,000
Total reward payment (6.5%)		**79,105**

During construction of forecasts, additional expenditure for the SoG of £114,000 (£96,000 relating to additional staff requirements and £18,000 for increased SPH fees) was expected to be incurred by 2018 (£105,000 was subsequently reversed, £96,000 of the staff fees and £9,000 of the SPH increase). This additional expenditure is set against a gross Approved saving of £1.22 million, arriving at an initial forecast net Approved saving to the SoG budget of £1,112,000 by 2018 and a subsequent net Approved saving of £1,217,000.

Observations

- The combined Grant represents 50% of the total income of the Colleges in 2011, ranging from 55% at The Ladies' College, to 46% at Elizabeth College and 42% at Blanchelande College. Although this was considered by the Department prior to implementation, a reduction in the Grants could destabilize the financial continuity of these schools as they may not be able to support the operating cost requirements or afford the required capital expenditure to maintain the school facilities.
- A large increase in fees, depending on the price elasticity of education, could result in a number of students leaving the Colleges for State schools. This would further reduce the revenue being generated by the schools, as well as put pressure on the capacity of State schools. A business case has been produced by the Department to consider these effects.
- Subsequent to the results published in 2013 indicating there was not a significant reduction in pupil numbers, £105,000 of cost has been reversed (£96,000 of the staff fees and £9,000 of the SPH increase) as Grant reductions have had a smaller impact than originally anticipated. These costs have been reversed after considering the effects of fee increases to current students (who will be marginally impacted as the savings are gradually implemented). However students considering attending the colleges in 2018 will be more significantly impacted by the full £1.2 million Grant reduction, which is far more likely to result in a reduction College student numbers and increased pressure on the State school system.

Visiting Consultants

FBC date: Undefined

Planned Approved savings: £650,000

Actual Approved savings: £650,000

Department: Health and Social Services Department

Expected completion date: Undefined

Project Plan / Background

Visiting Consultant services have been developed over time to provide additional medical services on-island. The cost of these services, currently c£650k pa, has been picked up by HSSD through General Revenue. Both the SSD and HSSD Departments have now agreed that it would be more appropriate that the costs of visiting consultants be funded by the Guernsey Health Service Fund (“GHSF”).

The operating surpluses on this fund in the last three years have been £2.6m (2010), £3.3m (2011) and £4.3m (2012) which would suggest that there are sufficient surpluses to enable the transfer to take place.

Project Implementation

Both HSSD and SSD believed there was merit in moving Visiting Consultant costs from HSSD General Revenue to GHSF, which is controlled and administered by the Social Security Department. It is estimated that HSSD will have general revenue budget Approved savings of approximately c£650k pa.

Whilst the rationale for funding the MSG through the GHSF was at the time very clear, the funding and responsibility for providing the range of services between MSG, off-island services, visiting specialists and HSSD employed doctors became increasingly blurred.

SSD included a proposal to transfer the services to the GHSF in its 2011 Uprating Report although no specific recommendation to transfer funding was made at that time as “*there was insufficient surplus in the Guernsey Health Service Fund to make this move in 2011”.* Subsequently, encouraged by the FTP, HSSD has pursued this project in an attempt to meet FTP targets.

The rationale for preferring GHSF is expressed in the SSD Uprating Report, the majority of States funded on-island healthcare (including grants to Primary Care GPs and nurses) is already funded from GHSF. The services provided by Visiting Consultants would also fit within the definition of what is to be funded by “specialist medical benefit”, provided the relevant laws and ordinances could be amended to remove any provisions which limit this specifically to the MSG contract.

Visiting Consultants

Gross savings: £650,000

Costs: £0

Approved savings: £650,000

Consultant reward fees: £0

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2012	-	-
2013	650,000	270,833
2014	650,000	650,000

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

Policy council concluded that budgeted general revenue Approved savings as a result of the transfer of Visiting Consultant costs to the GHSF be counted as a FTP benefit.

As previously stated, the Consultant is contractually entitled to a 6.5% compensation of any FTP Approved savings achieved. The Consultant was originally paid and has subsequently reimbursed the SoG of the fees because of the subjectivity of interpretation of FTP Approved savings and the consequent political debate which arose over these interpretations.

Financial Summary of visiting consultants

		£
Savings signed off		
	Jul-13	650,000
Total Savings		650,000
Ongoing costs		-
Net Savings		650,000
Total reward payment (6.5%)		**-**

Observations

- This transfer in itself does not lead to a £650,000 saving to public expenditure as a whole, but it would reduce General Revenue budgeted expenditure of the HSSD by £650,000 and therefore reduce the budgeted net revenue expenditure of SoG.
- The transfer should however, lead to genuine savings as a result of better decision making as all non-SoG employed consultants would be funded from one source. It will assist rational decision making regarding the cost of bringing over consultants versus the cost and inconvenience of sending patients off-island. To make rational decision-making possible, both healthcare and health travel costs need to be funded from the same budget.
- By transferring the service from the HSSD to the SSD, it assists the HSSD in achieving their FTP target, as well as utilises the current reserves available in the GHSF.

Vacancy Factor

FBC: May 2013

Planned Approved savings: £3,000,000

Actual Approved savings: £1,600,000

Department: All

Expected completion date: October 2013

Project Plan / Background

The purpose of the Vacancy Factor Project was to assess if the budget factor (allocated budget) for established staff could be reduced in areas where the SoG had historically underspent without impacting on the Departments.

A core reason for the underspend is the reduction of staff costs due to delays in replacing outgoing staff.

A number of areas were initially highlighted that, if all were taken forward, could release approximately £3m of potential budget reductions. Historically Departments have utilized some of the budget surpluses on miscellaneous items or underspent.

Project Implementation

After an in depth scenario analysis, the SoG settled on a 5% factor adjustment (an additional adjustment was made to HSSD who already applied a 3% vacancy factor to their budget) with 40% kept in a separate reserve to assist in the event of a shortfall, effective from 2014.

It had been recognised that there could be cases where, at Departmental level, this level of vacancies does not occur. If this is the case, it has been decided that budgets will be topped up from the budget reserve which will be funded by 40% of the budget reduction. The remainder of the budget reduction (60%) will contribute towards achieving the FTP target.

Analysis has been performed to show the performance of the previous 5 years and the variance between authorised budget and actual for the established staff in SAP. The majority of Departments were annually over budgeting in this SAP line item. The 5 year average show only two departments who have had an overspend on their established staff during this period, and these were marginal amounts.

In addition, a scenario analysis has been performed whereby the impact of applying a variety of vacancy factors to the 2012 authorised budgets is demonstrated. For example, by applying a 6% vacancy factor across all departments and committees, the SoG could remove c£5m from budgets. At this level, seven Departments are likely to require assistance from a reserve fund and may require c£1.3m of funding to meet the gap that would exist. If 50% of the budgets removed were retained in a reserve fund, this would readily cover the forecast £1.3m required to fill the gap in funding within the departments.

Vacancy Factor

Gross savings: £1,600,000

- **Net Approved savings do not include those allocated to the reserve account**

Costs: £0

Approved savings:

£1,600,000

Consultant reward fees:

£104,000

Cash saving vs Approved saving

Year	Approved saving	Cash saving
2012	-	-
2013	1,600,000	133,333
2014	1,600,000	1,600,000

Note: Cash saving is an estimate based on pro-rating the Approved saving in the year it was implemented

Financial Summary

It was originally estimated that £3m could be saved as a result of the Vacancy Factor Project. On conclusion of the Project, Approved savings of £1.6m have been realised. The difference is attributed to the allocation of 40% of Approved savings in the budget reserve which will be utilised in the event of a department having a shortfall of funds. The 60% represents managements estimate of true, actual savings that will be achieved.

It is noted that there are no ongoing costs associated with the Vacancy Factor Project as the Approved saving is purely a reduction of budget allocation to individual SoG departments for established staff.

The total Consultant fees earned on the project amount to £104k, being 6.5% of the total Approved savings to the FTP.

Financial Summary of Vacancy Factor

		£
Savings signed off		
	Nov-13	1,600,000
Ongoing costs		-
Net Savings		1,600,000
Total reward payment (6.5%)		**104,000**

Observations

- To date, there have been minimal requests made by departments to Treasury for return of budget to cover shortfalls or alleviate pressures created by the introduction of the Vacancy Factor.
- The key benefit achieved through implementation of the Vacancy Factor Project is a change in the budgeting culture of individual Departments. The actual savings generated by this Project relate to the portion of miscellaneous expenditure through the staffing budget which will no longer occur. The implementation of the Vacancy Factor forced Departments to account for miscellaneous items in a transparent manner through their appropriate budget allocation, leading to challenge and justification of certain non-essential expenditure. Management have provided an estimate of this portion in order to calculate the actual savings.
- Excess funds in the reserve fund which have not been utilised in future years will be withdrawn from the fund and will not be banked as an FTP Approved saving.
- The Vacancy Factor is widely used in private sector budgeting and represents an accepted commercial practice.

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Appendices

Appendices

Appendix 1 - Detailed Scope of Work

We will be reporting solely and directly to the PAC during this engagement. The focus of our work will be a financial review on the individual Projects listed below (“the Projects”):

- Registry (Fin_S)
- Review of College Subsidy (Ed_09/23)
- Review of Air Subsidy (C&E_D)
- Higher Education Parental Contribution (VFM_A)
- SAP / STSC (SAP_A)
- Voluntary Severance (VFM_A)
- Vacancy Factor (VFM_A)
- Visiting Consultants charged to Health Insurance Fund (VFM_A A056)
- Claims Management (VFM_A)

We have outlined the agreed scope items below with corresponding procedures in relation to the Financial Transformation Programme (FTP) ‘Cost/Benefit’ Review:

- Gain an understanding of the original objectives of the project and review the Supplier contract to understand the methodology to calculate the Supplier’s remuneration
- Gain an understanding as to how benefits/savings have been measured and accepted thus far through discussions with key personnel. Compare the actual acceptance and measurement criteria of savings to the contracted criteria and to the criteria established in the original vision, aim and objectives of the programme
- Review of the costs/benefits for the Projects listed in the review specifications and a reconciliation of the remuneration to the Supplier:
  - Review and analyse each business case and related financial data to establish all approved benefits and costs are allocated to the respective Project
  - Establish the approved benefits are in line with the established criteria and financial rules
  - Review and test the models used to calculate the costs/benefits in accordance with the Supplier contract to highlight any areas of concern, particularly around the arithmetical accuracy and key assumptions used, and taking into consideration commercially accepted methodologies
  - Review the financial records and transactions of each of the projects and establish the accuracy and validity of the remuneration approved by the supplier pursuant to the contracted project terms
- An analysis of the Fund. In respect of the Projects:
  - Assist the PAC to review the relevant financial information as a whole and request explanations for any inconsistencies or variances noted
  - Select a random sample of accounts and/or journal entries for more detailed review, for example unusual and/or material items will be selected to identify whether they have been correctly accounted for
  - Check the arithmetical accuracy of the Fund
  - Prepare an easily understandable schedule summarising the financial entries into the Fund to be included in the Fund report

Appendix 2 - FSR Fund Financial Summary

Transfers to General Revenue relate to Approved savings from the FTP and are consistent with expectations based on our review of FTP Approved savings

PMO and Executive Support, Expenses, and Reward Fee are consistent with expectations based on our review of payments to the Consultant

For explanations of various line items refer to the next page

**Consistent with the reported FTP savings, we have not sought to verify these savings other than for the Review Projects*

FUNDAMENTAL SPENDING REVIEW FUND

	2010 Actual £'000s	2011 Actual £'000s	2012 Actual £'000s	2013 Actual £'000s	Total Actual £'000s	
Financial Transformation Programme						
Transfer from General Revenue - Net Revenue Benefits	134	3,942	8,816	15,720	28,612	a.)
Transfer to General Revenue - States Strategic Plan Projects and Deficit Reduction	-	(2,890)	(4,567)	(15,720)	(23,177)	b.)
Programme Delivery Costs						
Administration	(178)	(270)	(338)	(742)	(1,528)	
Programme Management Office and Executive Support	(634)	(441)	(516)	(260)	(1,851)	
Expenses	(271)	(113)	(218)	(104)	(706)	
	(1,083)	(824)	(1,072)	(1,106)	(4,085)	c.)
Project Delivery Costs						
Revenue Expenditure	(16)	(228)	(168)	(408)	(820)	d.)
Reward Fee	62	(313)	(856)	(396)	(1,503)	e.)
	46	(541)	(1,024)	(804)	(2,323)	
Other projects						
Environment Planning and Building IT System	(140)	-	-	-	(140)	
Fundamental Spending Review Phase II	-	-	-	-	-	
Housing Control IT System	(52)	(9)	-	-	(61)	
Other Expenditure	(32)	(8)	-	-	(40)	
	(224)	(17)	-	-	(241)	
Net surplus / (deficit)	**(1,127)**	**(330)**	**2,153**	**(1,910)**	**(1,214)**	
Capital Projects						
Consolidation of States Websites	-	(26)	(47)	-	(73)	
Developing SAP and Shared Services	-	(1,374)	(3,555)	(1,121)	(6,050)	
Other Capital Expenditure	(36)	-	-	-	(36)	f.)
Capital expenditure	**(36)**	**(1,400)**	**(3,602)**	**(1,121)**	**(6,159)**	
Balance at 1 January	824	9,661	7,931	6,482		
Transfer from General Revenue	10,000	-	-	-		g.)
Net surplus / (deficit) for the year	(1,127)	(330)	2,153	(1,910)		
Capital expenditure for the year	(36)	(1,400)	(3,602)	(1,121)		
Balance at 31 December	**9,661**	**7,931**	**6,482**	**3,451**		

Note: We have not agreed the FTP and project financial data to the FSR Fund accounts below. This is due to the fact that FSR Fund financial statements are only prepared as at 31 December each year and the Consultant FTP contract period end was as at 31 October 2014, as well as the timing differences in Approved savings sign offs and realisation of Approved savings, and the limited scope of this review.

Source: The SoG of Guernsey Accounts (2009 to 2013), audited

Appendix 2 - FSR Fund Financial Summary (continued)

Explanation of FSR Fund accounts on previous pages

a.) Transfers to and from General Revenue highlight the net revenue benefits being used to fund SSP projects and are now also being used to reduce the deficit. These totalled £15.7m in 2013, which differs from the total of £23.5m of FTP benefits signed off, primarily because there are a number of projects where the full benefit is not realised until after 2013

b.) Funds are transferred to General Revenue annually following the SSP debate to fund the prioritised service developments. The total cost of these service developments to date has been approximately £20m with ongoing costs of nearly £5m per annum. Current and future transfers to General Revenue will also be used to reduce the deficit

c.) Expenses incurred in running the FTP include the Consultant and SoG’s own resources. From a high level comparison to Consultant invoices, ‘the Administration' line item primarily consists of SoG costs, while the 'PMO and Executive Support' and 'Expenses' line items are primarily costs paid to the Consultant

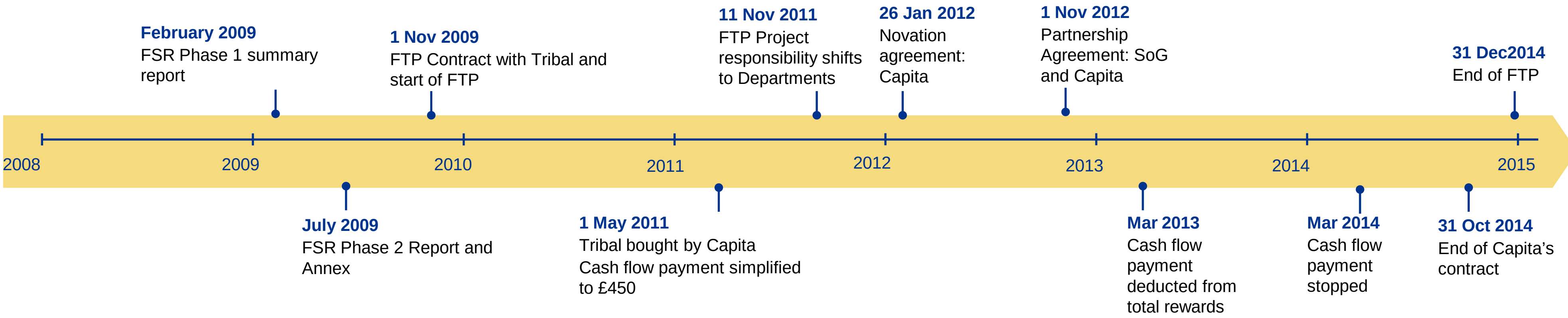
d.) Consists of costs to deliver individual projects within the FTP

e.) Reward fees paid to the Consultant

f.) The 'Developing SAP and Shared Services' capital Project had a budget of £7.1m. Total expenditure of £6.1m had been incurred by 31 December 2013 and charged to the Fund

g.) £10m ‘pump priming’ funding from General Revenue to fund the initial costs of revenue and capital Projects approved by SoG and/or the Financial Transformation Executive

Appendix 3 - Timeline of Key Events



FSR report: February 2009
Tribal Helm

FSR Phase 2 report and Annex: July 2009
Tribal

SoG debate / Billet to approve FTP: October 2009

FTP Contract: 1 November 2009
The original FTP Contract between the States of Guernsey and Tribal Consulting, effective date of 1 November 2009, setting out the services to be provided by the Consultant and the fees payable by the SoG

Responsibility shifts to Departments: 11 November 2011
Following a Policy Council meeting on 11 November 2011, and following pressure from the Departments to have more control over the respective Projects that affected them, it was decided that responsibility and authority for delivery of the FTP savings would fall on the departments. Previously responsibility had been that of the PMO, Capita, and the Project Boards. This fundamental shift in the way that the FTP was delivered continued until the end of the Programme at 31 December 2014.

Novation Agreement and purchase of Tribal by Capita: 26 January 2012
The signed Novation Agreement transferred the responsibilities and rewards of the Contract from Tribal to Capita. The Novation Agreement was worded to contract with Capita as if Capita had been the Consultant since inception of the FTP

Partnership Agreement: 1 November 2012
The original partnership agreement was effective 1 November 2012 (Note that we were given access to the latest version 1 April 2014). This agreement was put in place to provide clarity over certain aspects of the Contract, an understanding of operational areas and roles, and outlined the responsibilities of both the Consultant and SoG. This agreement was not designed to replace the Contract

Cash Flow payments
Payments were made to the Consultant for cash flow purposes and subsequently offset against the rewards payment on completion of each project. The Contract originally contained a formula for calculating cash flow payments, which was simplified to £450 per project day and eventually terminated altogether by mutual agreement in March 2014

End of Capita's Contract: 31 October 2014
As at 31 October 2014 the 5 year Contract with the Consultant ended. Any savings identified and signed off after this date will not trigger a reward payment to Capita

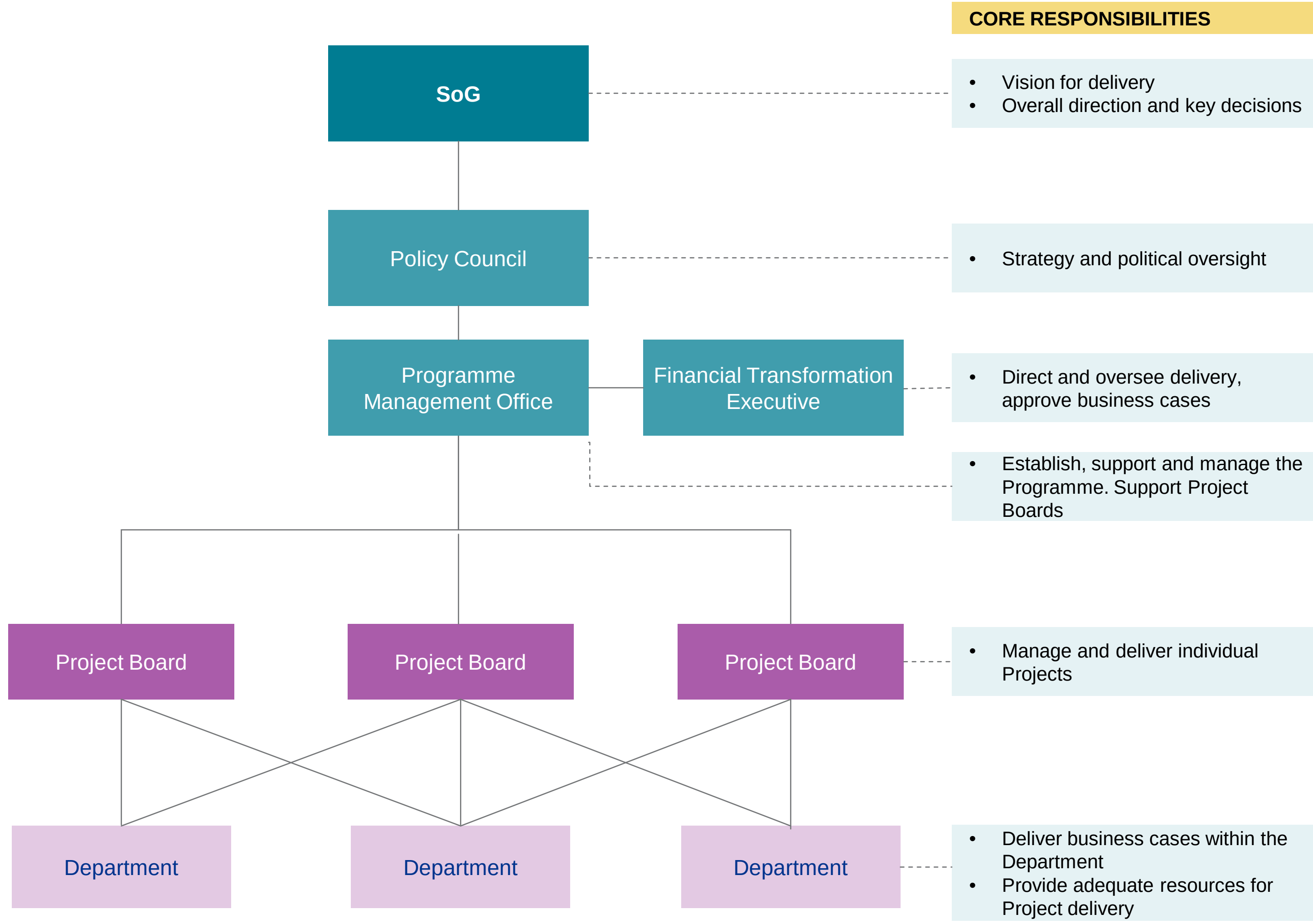
End of FTP: 31 December 2014
As at 31 December 2014 the FTP measurement period ended. Further savings made after this date will not be attributed to the original FTP target of £31.125m

Appendix 4 - Key Conditions of Contract / Partnership Agreement

Title		
	Contract	**Partnership Agreement**
Project Selection	Projects were identified by the Project Board and approved by the PMO Projects identified were from the original 107 opportunities identified in the FSR Phase 2 Annex	Projects are identified by SoG Departments based on opportunities identified within the Department. The Department could utilise the 107 opportunities already identified or furnish new ideas
Project Ownership	The PMO had responsibility to ensure the FTP Approved savings budget was met	Departments were allocated an FTP target based on a proportionate share of the total FTP Approved savings target Department has responsibility to meet targets with support from the PMO
Reward Fee	The reward fee was equal to 6.5% of net revenue Approved savings, less cash flow payments made Any Approved savings made above the FTP threshold are paid at a reduced reward fee rate of 5%	No change
Cash Flow payment	Cash flow payments were defined as 50% of the costs of developing the FBC plus 50% of the costs of project delivery	Cash flow payment was agreed at £450 per day, which is 50% of an estimated £900 per day cost
PMO Fee	Fixed fee paid to the Consultant based on number of man-days committed to the PMO each year. Per the contract this is 750 days in year 1 (£587,500), 300 days in year 2 (£235,000) and 300 days in years 3-5 (£235,000 + UK RPI).	PMO fee is £854 per day from November 2012 (start of year 4). This equates to £256,200 at 300 days for year 4, in line with RPI At November 2012 the expected total PMO days were 2,311 by the end of the Contract: being 1,663 PMO days used to date, with an expectation of 300 days in year 4 and 348 days in year 5. This exceeds the days stipulated in the Contract. As per discussions with key members of the PMO: There is provision for additional PMO days due to the need for an extra staff member from the Consultant. The SoG did not have sufficiently skilled resources to staff the PMO office, therefore the Consultant needed to retain an experienced member of staff in the PMO in later years. This has not been verified by KPMG.
Expenses	Reimbursement of actual expenses incurred capped at £180 per consulting day	No change. Expenses capped at £180 per day and paid at £135 per day based on prior year average

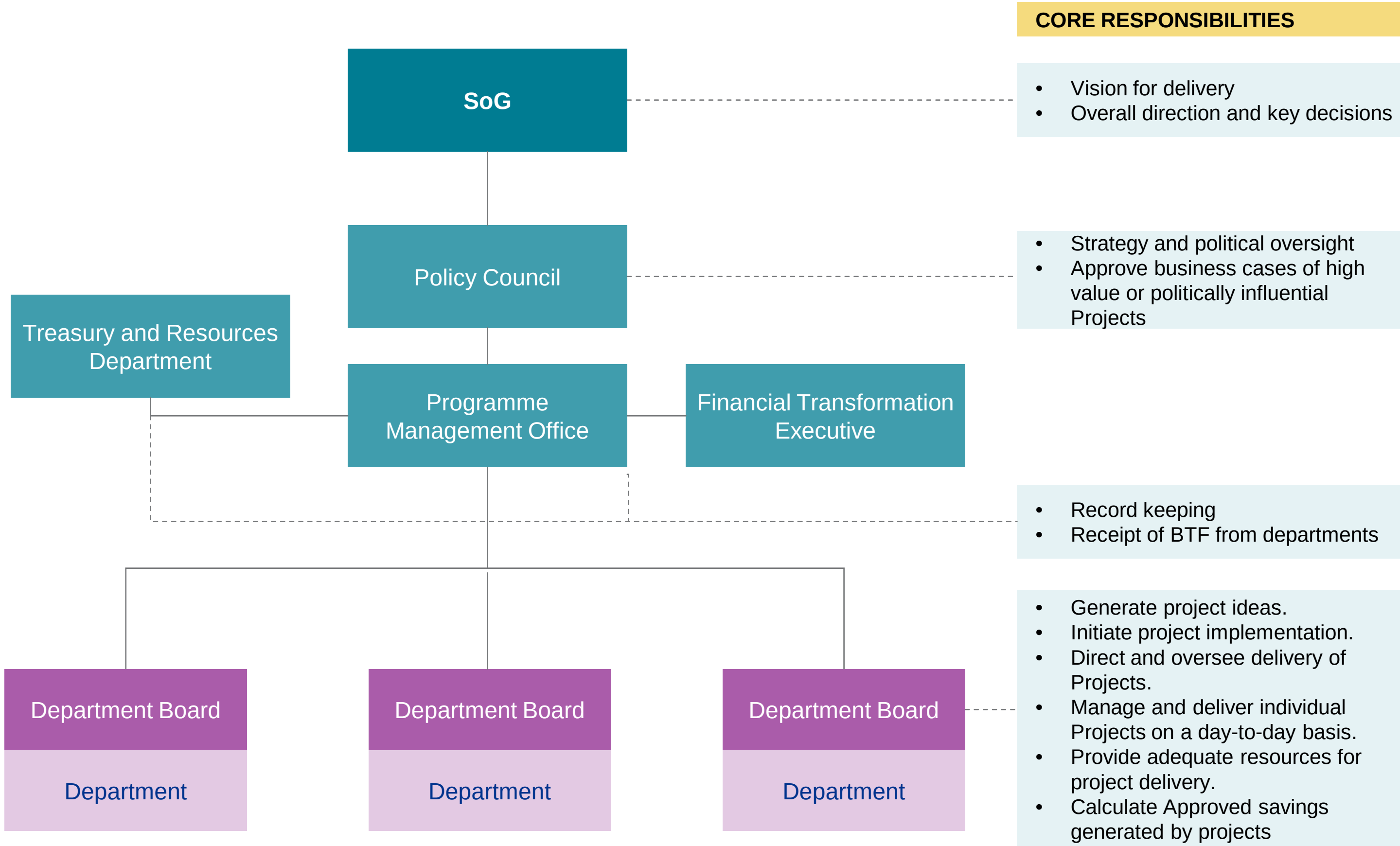
Appendix 5 - Governance Structure: pre 2011

This governance structure is adapted from the Billet D'Etat (XXV 2009, 27 October 2009) and is consistent with our understanding of the wording in the Contract and the Partnership Agreement



Appendix 6 - Governance Structure: post 2011

This governance structure outlines our understanding as to how the Review Projects were implemented in practise after the fundamental change in the FTP in November 2011 whereby responsibility for delivery of Approved savings was shifted to SoG departments



cutting through complexity