



HM Treasury

Unit costing projects: Overview

September 2015

Context: The Financial Management Review recommended that finance should not just understand what we spend, but also what we get for it

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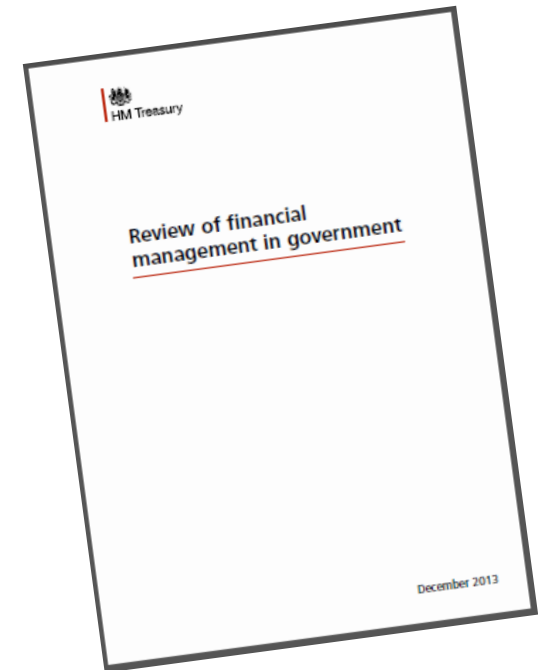
The **Review of Financial Management in Government** recommended that finance not just understand what we spend, but also what we get for it.

2

From December 2014, the Financial Management Reform team has been implementing this recommendation through a series of 'Costing Projects'.

3

These costing projects are designed to help deliver **sustainable fiscal consolidation**, while providing departments with the analysis necessary to deliver public services with fewer resources.



This pack goes through the benefits of this approach, progress so far, the methodology deployed, and sets out next steps

A thorough understanding and interrogation of spend will help meet the current fiscal challenge while continuing to deliver public services

Costing projects provide a better understanding of what public spending delivers and point toward how to transform the delivery of public services. The costing projects piloted thus far are:

Total spend 1-3

1 2 3

Providing a step change in the understanding of HMG spend by mapping financial and operational performance of public services



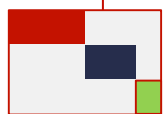
Encouraging the considering of spend across organisational boundaries to break down institutional silos and leverage x-HMG opportunities



Acting as a catalyst to identify cashable and efficiency savings to transform public services at the same or reduced level of spend



Delivering outputs in 6-8 weeks, providing sharp focus and generating momentum for change






Developing new capabilities to areas of high spend, by building HMG expertise to deliver improved financial performance.

Progress to date (1): Seven costing projects have been completed, delivering new insights and initiating change

	1 HMG at the Border £Xm	2 Further Education £10bn	3 Departures & Removals £Xm
What did we do?	<ul style="list-style-type: none"> Home Office HM Revenue & Customs NCA National Crime Agency <ul style="list-style-type: none"> First review of all multi-agency activity at the Border A second project then looked to design a target operating model to develop options likely to yield savings 	<ul style="list-style-type: none"> Department for Education Department for Business Innovation & Skills Skills Funding Agency Education Funding Agency <ul style="list-style-type: none"> Bottom-up costing of over 1200 FE providers Underpinned by visits to 20 FE providers, and detailed analysis of their financial and operational data Support from the Association of Colleges 	<ul style="list-style-type: none"> Home Office Ministry of Justice Cabinet Office THE BEHAVIOURAL INSIGHTS TEAM <ul style="list-style-type: none"> Quantified system spend on removals Looked at spend by fixed and variable activities Marginal investment analysis of best VfM for each new £1m spent
What did we find?	<ul style="list-style-type: none"> Cost data helped identify c,£200m potential savings Alerts could have improved hit rates -> save several £million 13% of passengers use e-gates -> save several £ millions by increasing this 	<ul style="list-style-type: none"> System operates at 1% profit on average, with 15% variation Most FE income is public funding, but 16% is privately sourced Teaching staff accounts for 46% of total costs, with a variation of between 33% and 59% 	<ul style="list-style-type: none"> Voluntary departures 50% cheaper than ave. unit cost of departure 'Alternative' interventions could increase Exits Length of detention by country has variance of more than ~27x
Changes?	<ul style="list-style-type: none"> Helping One Govt at the Border to deliver real return on investment 	<ul style="list-style-type: none"> Conducted departmental teach-in Informing longer-term 'Area Reviews' to transform the FE system 	<ul style="list-style-type: none"> Results will also be used to inform Task Force

Progress to date (2): Seven costing projects have been completed, delivering new insights and initiating change

	4 Criminal Justice in London £Xbn	5 Health & Social Care Int. £2bn¹	6 Mental health £Xbn
<i>What did we do?</i>	<ul style="list-style-type: none"> Full baseline from police, to courts, prisons and probation Looked at spend by activity, cost type and front/ middle/ back office to identify inefficiencies across agencies 	<ul style="list-style-type: none"> Mapping of £2bn HMG spend across the NHS, LAs and DWP on HSC in 2 local areas Deep dives on urgent & emergency care and home care Supported by on-site visits and engagement with local areas 	<ul style="list-style-type: none"> Spend baseline included mental health services across relevant NHS, OGD & non-gov't services Deep dives on secure services, impact of MH on physical care, & MH and employment 
<i>What did we find?</i>	<ul style="list-style-type: none"> Several £billion spent on Criminal Justice in London Almost 80% of London Courts sentences are for less than 12 months At 20%, back-office spend is a significant driver of costs 	<ul style="list-style-type: none"> Only 40% HMG spend has good cost visibility 75-80% homecare cost comes from non-HMG sources Cornwall 'See and Treat' unit cost is 50% lower than NEL 	<ul style="list-style-type: none"> Several £bn spent on Mental Health Significant net savings identified within spend on Secure Services ~20% of spend on treating type 2 diabetes linked to poor MH Large ESA payments spend on those with poor MH
<i>Changes?</i>	<ul style="list-style-type: none"> Being used to challenge organisations to start to work as a system 	<ul style="list-style-type: none"> Two local health economies used main findings to inform local strategic plans 	<ul style="list-style-type: none"> NHSE project to review Secure Services New DWP-DH joint unit focussing on how we can reduce costs associated with ill health and worklessness

Deep dive on Mental Health (1): Baselining of spend by linking input, output and outcome to understand where spend is going and what we get for it

Inputs

- 6 central depts. (DH, DCLG, DWP, HO, MoJ, DfE) recognise MH spend,
- MH services delivered by 56 MH Trusts, 60 Acute and Community Trusts and ~130 independent providers
- Unit costs of care varies by providers even for same service e.g. for NHS providers of inpatient substance misuse services, cost ranges for £225 to £815 per day

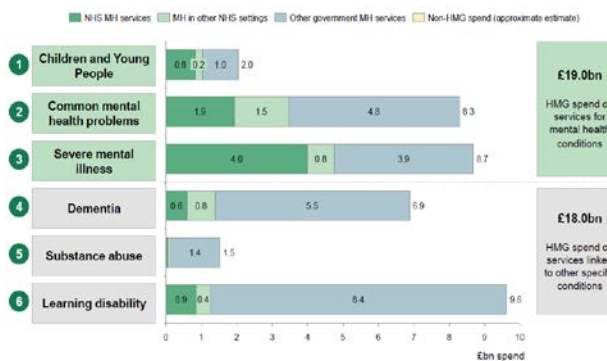
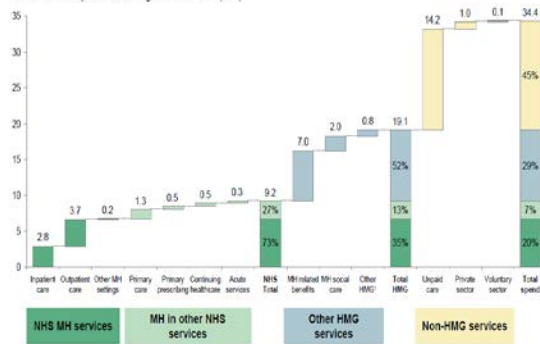
Outputs

- Out of total spend on common mental health problems – 23% is NHS MH service spend
- Out of total spend on severe mental illness – 50% is NHS MH services spend.
- ~£18bn is spent on services linked to dementia, learning disability and substance abuse

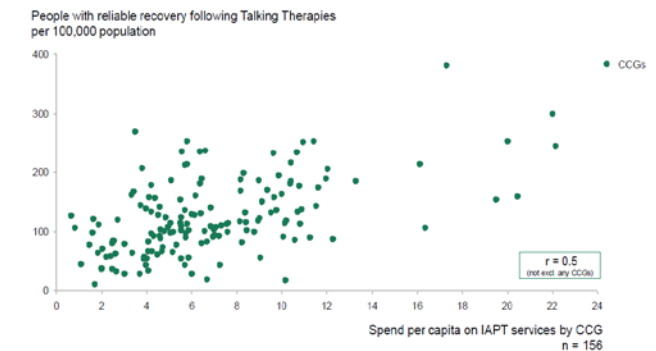
Outcomes

- HMG spend not aligned with employment and health outcomes
- Limited publication of outcomes data, but pockets of good practice
- E.g. Talking Therapies links spend, outputs and outcomes data, identifying unit cost per patient variation £800 – £5,400 but some correlation between level of investment and outcomes

Mental health expenditure in England in 2013/14 (£bn)

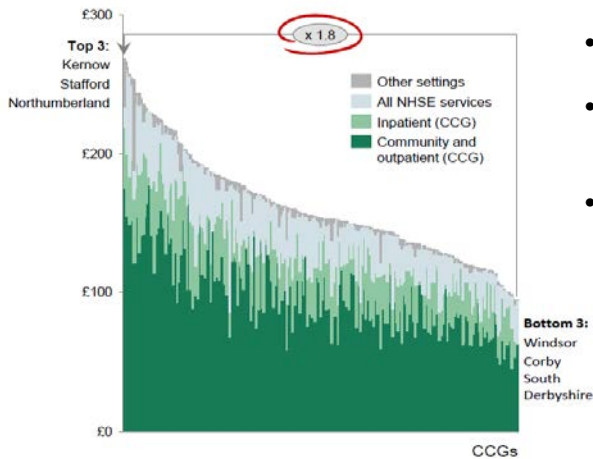


Relationship between investment in Talking Therapies and outcomes, by CCG



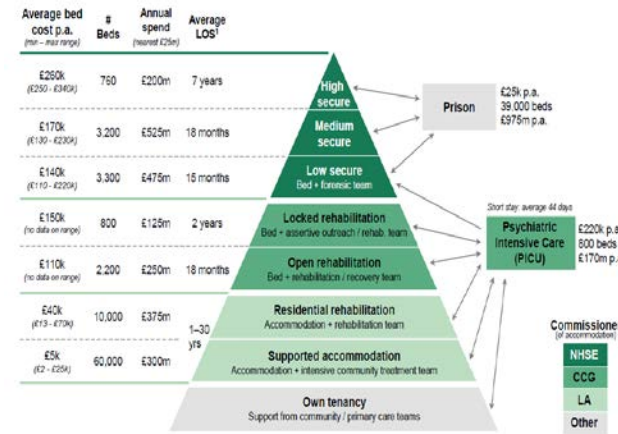
Deep dive on Mental Health (2): Three deep dives to identify specific opportunities in Secure Services, MH & Type 2 diabetes and MH & employment

1 x1.8 fold variation in per capita spend on MH across CCGs



- x5 fold variation in per capita CCG spend on MH
- Even after adjusting for underlying need, variation remains x1.8 fold
- However, ~67% of total spend on MH has little or no national cost data available

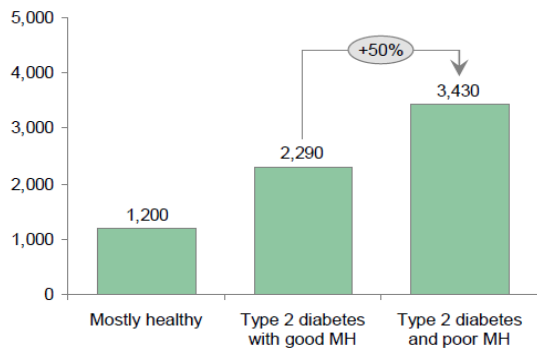
2 £115m net savings identified within £1.2bn spend on low Secure Services



- Significant variation in unit cost across providers and large cost differential between low secure (~£140k p.a.) and adjacent lower tiers (e.g. residential rehab ~£40k)
- Inappropriate inflows into low secure and significant delays to discharge - evidence of 6-9 months' delay per patient

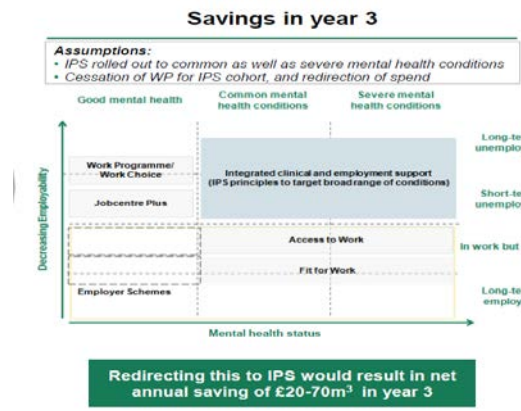
3 £1.8bn (~20%) of spend on treating type 2 diabetes can be linked to poor MH

Annual physical healthcare costs per patient, 2014/15 (£)



- 1.6m (50%) of those with type 2 diabetes suffer a co-morbidity of poor MH
- Co-morbidity increases spend per patient on physical care by 50%, from £2,300 to £3,400 pa
- Scaling up integrated support schemes provides better outcomes and could reduce spend by circa £160m pa

4 £4.2bn on ESA payments for unemployed with poor MH



- WP effective for around ~8% of those with poor MH (~29% for individuals with good MH)
- IPS interventions suggest better outcomes

Costing Centre of Excellence: Ramping up capacity to undertake more projects in the future

- In response to demand for costing projects, we are establishing a Costing Centre of Excellence
- Based in HMT, the Costing Centre will second staff in from across Whitehall and the private sector, working with departments and providing a strong training offer
- The team will continue to develop a framework and tools that can be applied to different types of spend across government

